

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and certain deviations from the Code Provisions in respect of Code Provisions A.1.1, A.2.1, A.4.2, B.1.1 and E.1.2, details of which will be explained below.

The Company regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The Company wishes to highlight the importance of its Board of Directors ("Board") in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board currently comprises seven members, consisting of three executive directors, one non-executive director and three independent non-executive directors.

The list of all directors is set out under "Corporate Information" which shall specify the posts e.g. Chairman and Vice Chairman, and chairman and member of committee, held by each director on page 2.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on page 16.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the non-executive directors of the Company is engaged on a service contract for a term of one year. The appointment may be terminated by not less than two months' written notice.

Deviation from Code Provision A.4.2 (& reasons):

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Articles of Association deviate from Code Provision A.4.2 of the CG Code which provides that one-third of the directors for the time being (save for the Executive Chairman/Managing Director), or if their number is not three nor a multiple of three, then the number nearest to one-third, shall retire from office and being eligible, offer themselves for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

To conform with Code Provision A.4.2 of the CG Code, Mr Cheung Siu Lam, the Chairman of the Company, has retired at the 2005 annual general meeting and a special resolution will be proposed at the 2006 annual general meeting of the Company to amend the Company's Articles of Association so that all directors will be subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Articles of Association, Madam Lo Wan and Mr Chan Chun Keung shall retire by rotation and being eligible, offer themselves for re-election at the 2006 annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the 2006 annual general meeting of the Company.

The Company's circular dated 28 April 2006 contains detailed information of the directors standing for re-election.

Training for Directors

There is no arrangement in place for providing professional briefings and training programmes to directors. The Company shall consider to engage external legal and other professional advisors for providing professional briefings and training programmes to directors on an occasional basis.

Board Meetings

Deviation from Code Provision A.1.1 (& reason):

Code Provision A.1.1 stipulates that the Company should hold at least four regular Board meetings a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

Regular Board meetings were held twice during the year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Company does not announce its quarterly results and hence not consider the holding of quarterly meeting as necessary.

Number of Meetings and Directors' Attendance

The Board met twice during the year ended 31 December 2005 for approving the final results for the year ended 31 December 2004 and interim results for the period ended 30 June 2005.

The individual attendance record of each director at the meetings of the Board and Audit Committee during the year ended 31 December 2005 is set out below:

Name of Directors	Attendance/ Number of Meetings	
	Board	Audit Committee
Mr Cheung Siu Lam	5/8	N.A.
Madam Lo Wan	5/8	N.A.
Mr Chan Yuk Ming	3/8	N.A.
Mr Yu Hei Wung, Raymond	5/8	N.A.
Mr Tang Tse Yee, Kennedy	1/8	3/3
Mr Wang Jian Sheng	0/8	2/3
Mr Chan Chun Keung	1/8	2/3

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Financial Officer attends all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The secretary of the meetings is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Deviation from Code Provision A.2.1 (& reasons):

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Ms Cheung Siu Lam is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

AUDIT COMMITTEE

The Board has established the Audit Committee and with defined written terms of reference. The terms of reference of the Audit committee are posted on the Company's website and are available to shareholders upon request.

The members of the Audit Committee are independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and the list of the chairman and members of the Audit committee is set out below:

Audit Committee

Mr Tang Tse Yee, Kennedy (*Chairman*)

Mr Wang Jian Sheng

Mr Chan Chun Keung

None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee is provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held three meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures, the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2005 has been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

Deviation from Code Provision B.1.1 (& reasons):

Code Provision B.1.1 stipulates that the Company should establish a remuneration committee with specific written terms of reference.

The Company has not established a remuneration committee and arrangements are being taken place for setting up of a remuneration committee of the Company comprising a majority of members of independent non-executive directors.

During the year ended 31 December 2005, the Board as a whole is responsible for making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Board is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her

own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Board normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Board for consideration. The Board shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Board met three times during the year ended 31 December 2005 and reviewed the remuneration policy and structure of the Company and remuneration packages of the directors and the senior management for the year under review.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its Own Code of conduct (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code and the Own Code throughout the year ended 31 December 2005.

The Company also has established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 25.

The external auditors have not rendered non-audit services to the Company for the year ended 31 December 2005. The remuneration paid to the external auditors of the Company in respect of audit services and for the year ended 31 December 2005 amounted to HK\$200,000.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Company and of the Stock Exchange.

Deviation from Code Provision E.1.2 (& reason):

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting. The Chairman did not attend the annual general meeting held on 24 May 2005 as he had other business engagement in the PRC.

The Board recognizes that the general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board, or at his absence, an executive director of the Company, as well as chairman of the Audit Committee, or in their absence, members of the Audit Committee, and where applicable, the independent Board committee, will be available to answer questions at future shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.kpi.com.hk, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

On behalf of the Board

Cheung Siu Lam

Chairman and Chief Executive Officer



The Group has realigned its business direction and allocated more resources on retailing, food supply chain and modern logistic business.

Capturing Growth Opportunities

