

Corporate Governance Report

The board of directors (“Board”) of the Company is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 December 2006.

CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the important role of its Board in providing effective leadership and direction to Company business, and ensuring transparency and accountability of Company operations.

The Company has applied the principles 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”).

Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, save for the deviations from code provisions A.2.1, B.1.1 and E.1.2, which are explained in the relevant paragraphs in this Report.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and CG Code and align with the latest developments.

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.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises six members, consisting of three executive directors 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 and all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

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 2006, 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.

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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.

Mr 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.

Appointment and Re-election of Directors

Each of the independent 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.

In accordance with the Company's Articles of Association which were amended by a special resolution at the annual general meeting held on 23 May 2006 for the purpose of compliance with the CG Code, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. 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 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 for 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, Mr Chan Yuk Ming and Mr Wang Jian Sheng shall retire by rotation and being eligible, offer themselves for re-election at the 2007 annual general meeting. Mr Yue Ming Wai, Bonaventure, having been appointed as independent non-executive director of the Company during the year, shall retire and decides not to offer himself for re-election at the 2007 annual general meeting due to his personal reasons.

The Board recommended the re-appointment of the directors standing for re-election at the 2007 annual general meeting of the Company.

The Company's circular dated 30 April 2007 contains detailed information of the directors standing for re-election.

Training for Directors

There is currently no arrangement in place for providing professional briefings and training programmes to directors. The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors whenever necessary.

Board Meetings

Board 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.

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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, Qualified Accountant and Company Secretary attend 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 Company Secretary 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.

The Company's Articles of Association contains 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. 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.

Directors' Attendance Records

The Board met two times during the year ended 31 December 2006 for approving the final results for the year ended 31 December 2005 and interim results for the period ended 30 June 2006.

The attendance records of each director at the Board meetings during the year ended 31 December 2006 are set out below:

| Name of Directors | Attendance/ Number of Meetings |
|--|---|
| Mr Cheung Siu Lam | 6/9 |
| Mr Chan Yuk Ming | 3/9 |
| Madam Lo Wan | 9/9 |
| Mr Yu Hei Wung, Raymond | 2/9 |
| Mr Wang Jian Sheng | 2/9 |
| Mr Chan Chun Keung | 2/9 |
| Mr Tang Tse Yee, Kennedy (<i>Note 1</i>) | 1/4 |
| Mr Yue Ming Wai, Bonaventure (<i>Note 2</i>) | 2/5 |

Notes:

1. Mr Tang Tse Yee, Kennedy resigned on 1 June 2006. There were four Board meetings held from 1 January 2006 to 31 May 2006.
2. Mr Yue Ming Wai, Bonaventure was appointed on 1 June 2006. There were five Board meetings held from 1 June 2006 to 31 December 2006.

Model Code for Securities Transactions

The Company has adopted 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 throughout the year ended 31 December 2006.

The Company also has established written guidelines on no less exacting terms 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.

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DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those 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 established the Audit Committee with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2006 are set out on page 57 in note 9 to the financial statements.

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 as the Company believes that the Board has extensive experience in the industry and is fully qualified to determine the remuneration packages of employees of the Company including directors and senior management.

During the year ended 31 December 2006, 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.

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ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

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 Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

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.

Internal Controls

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. To enable the Company to discharge its annual review responsibilities pursuant to code provision C.2.1 of the CG Code, the Company engaged BMI Appraisals Limited to conduct an independent review on its system of internal controls on several areas of activities of the Company and its subsidiaries for the year ended 31 December 2006.

Recommendations on areas of improvement were included in a report prepared by BMI Appraisals Limited and the report was reviewed by the Audit Committee at the Audit Committee meeting. The Management shall consider the recommendations from time to time in order to enhance the internal control policies, procedures and practices.

The Directors acknowledge their responsibility for the Group's internal control systems and confirm they have reviewed and are satisfied as to its effectiveness in managing risks.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr Yue Ming Wai, Bonaventure (Chairman), Mr Wang Jian Sheng and Mr Chan Chun Keung (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- 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.
- 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.
- 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 provides supervision on the internal controls system of the Group and reported to the Board on any material issues and makes recommendations to the Board.

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During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2006, the financial reporting and compliance procedures. The Audit Committee has also reviewed the internal control report prepared by BMI Appraisals Limited on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

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

The Audit Committee held three meetings during the year ended 31 December 2006 and the attendance records are set out below:

| Name of Directors | Attendance/ Number of Meetings |
|---------------------------------------|-----------------------------------|
| Mr Tang Tse Yee, Kennedy (Note 1) | 2/2 |
| Mr Wang Jian Sheng | 1/3 |
| Mr Chan Chun Keung | 2/3 |
| Mr Yue Ming Wai, Bonaventure (Note 2) | 1/1 |

Notes:

1. Mr Tang Tse Yee, Kennedy resigned on 1 June 2006. There were two Audit Committee meetings held from 1 January 2006 to 31 May 2006.
2. Mr Yue Ming Wai, Bonaventure was appointed on 1 June 2006. There was one Audit Committee meeting held from 1 June 2006 to 31 December 2006.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 26.

During the year under review, the remuneration paid to the Company's auditors, is set out below:

| Category of services | Fee paid/payable HK\$ |
|-------------------------------------|--------------------------|
| Audit service | 1,150,000 |
| Non-audit service | |
| – Consultation on major transaction | |
| – Acquisition of asset | 230,000 |
| – Consultation on major transaction | |
| – Loan agreement | 40,000 |
| Total | 1,420,000 |

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairman of the Audit Committee or, in their absence, other members of the Audit Committee, are available to answer questions at the shareholders' meetings.

To promote effective communication, the Company maintains a website at www.kpi.com.hk, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted. Investors may write directly to the Company at its registered office or via email to www.kpi.com.hk for any inquiries.

Deviation from Code Provision E.1.2 (& reasons)

Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committee (as appropriate) or in their absence, another member of such committee or his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent Board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

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Mr Cheung Siu Lam was unable to attend the 2006 annual general meeting due to some personal reasons, but one of the executive directors has been delegated to attend and answer questions on his behalf at the annual general meeting. He will use his endeavours to attend all future shareholders' meetings of the Company.

SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the Company's Articles of Association. Details of such rights to demand a poll were 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 websites of the Company and of the Stock Exchange.

On behalf of the Board

Cheung Siu Lam

Chairman and Chief Executive Officer

Hong Kong, 23 April 2007