

Corporate Governance Report

Corporate Governance Practices

The Company acknowledges the importance of good corporate governance practices and aims at complying with, where appropriate, all Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (“Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The Company has complied with the code provisions (with the exception of Code Provision C.2 on internal controls which will apply to accounting periods commencing 1 July 2005) throughout the accounting year ended 31 December 2005, save for the few exceptions specified and explained below.

Code Provision A.2.1

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The position of the Chairman of the Board is currently held by Mr Or Wai Sheun, and the Company does not have any chief executive officer. Given the current corporate structure, there is no separation between the roles of chairman and chief executive officer. The Board considers that this structure is beneficial to the Company as it enables the Company to make prompt and efficient decisions. Moreover, all major decisions are made in consultation with members of the Board and appropriate board committees comprising of experienced and high calibre individuals. Hence, the operations of the Board and board committees ensure the balance of power and authority. The corporate governance principles of the Company emphasize the importance of a quality Board and accountability to all shareholders.

Code Provision A.4.1 and A.4.2

Code A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code 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.

In accordance with Article 105(A) of the Company's existing Articles of Association, at every annual general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, who have been longest in office since their last election shall retire from office, provided that no Director holding office as executive chairman or as a managing director shall be subject to retirement by rotation or taken into account in determining the number of Directors to retire. The retiring Directors shall be eligible for re-election.

A special resolution to replace the existing Article 105(A) in the Company's Articles of Association with a new Article 105(A) is proposed under the notice convening the forthcoming Annual General Meeting to provide that all Directors shall be elected for a term of not more than approximately three years since his last election or re-election expiring at the conclusion of the third annual general meeting of the Company after his election or re-election and shall be eligible for re-election.

Non-executive Directors of the Company do not have a specific term of appointment. However, as Non-executive Directors will be subject to re-election under the new Article 105(A), in the opinion of the Directors, the principle of Code A.4 that all directors should be subject to re-election at regular intervals has been up held.

The Company's Articles of Association provide that a Director appointed to fill a casual vacancy shall hold office until the first annual general meeting after his appointment, and shall be subject to re-election by the shareholders. This procedure complies with the requirement of Appendix 3 of the Listing Rules.

Code Provision B.1.1, C.3.3

As reported in the Company's 2005 interim report, the remuneration committee as required under Code B.1.1 was established on 20 July 2005 and the terms of reference of the Audit Committee were also revised on 20 July 2005 to reflect the duties set out in Code C.3.3.

Board of Directors

The Board comprises of four Executive Directors, being Mr Or Wai Sheun (Chairman), Ms Ng Chi Man, Mr Lai Ka Fai and Mr Or Pui Kwan; three Non-executive Directors, being Mr Keith Alan Holman (Deputy Chairman), Mr Tam Hee Chung and Mr Yeung Kwok Kwong; and four Independent Non-executive Directors, being Mr Chau Cham Son, Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy and Mr Seto Gin Chung, John. Biographical details which include relationships among members of the Board are provided in the "Profile of Directors and Senior Management" section of the Annual Report.

The role of the Board is to provide high-level guidance and oversight. Apart from exercising all the powers and authorities and discharging its duties under the law, the Board is responsible for formulating the overall strategic direction, monitoring and controlling the performance of the Group. It also reviews and approves annual budgets and major transactions. The Board delegates the power to manage and administer the day-to-day affairs of the Group to the management.

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The proceedings of the Board follow all the relevant Code Provisions. The Board meets regularly and board meetings are held at least four times a year. All Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. Draft and final versions of minutes of board meetings are sent to all Directors for their comment and records respectively. Directors or any of their associates having a material interest in a matter to be considered will not be counted in the quorum of the meeting and will abstain from voting on the relevant resolution.

Nomination of Directors

Currently, the Company does not have a nomination committee, and the Board will identify individuals suitably qualified to become board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account his experience, qualification and other relevant factors. All candidates must also meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

During a meeting held in 2005, the Board considered and approved the appointment of an additional Executive Director.

Remuneration of Directors

The Company established a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties on 20 July 2005. The role of the Remuneration Committee is to formulate remuneration policy for approval by the Board and monitor the implementation of such policy.

The Terms of Reference of the Remuneration Committee have included the specific duties set out in Code Provision B.1.3 (a) to (f) of the Code, with appropriate modifications where necessary. They have been posted to the Company's website (www.kdc.com.hk) and are also available in writing upon request to the Company Secretary.

A majority of the members of the Remuneration Committee are Independent Non-executive Directors. This Committee is chaired by Mr Seto Gin Chung, John and its other members are Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy and Mr Lai Ka Fai.

The work performed by the Remuneration Committee during the year under review included:

- reviewed the human resources and payroll system of the Company;
- considered alternative long-term incentive arrangements for the Company;
- considered the remuneration package for an additional Executive Director in consultation with the Chairman and approved the same;
- reviewed management's proposal on the amount of directors' fees payable to each Non-executive Director in 2005 and passed the same to the Board for approval; and
- ensured that no Director or any of his associates is involved in deciding his own remuneration.

Non-executive Directors of the Company are paid fees generally in line with market practice taking into account the responsibilities and time spent by the Non-executive Directors on the Company's affairs. The levels of remuneration for the Non-executive Directors are recommended by the management, reviewed by the Remuneration Committee and then submitted to the shareholders for approval at the annual general meeting or determined by the Board upon approval by the shareholders at the annual general meeting.

The remuneration structure of the Executive Directors and the senior management is determined by the Remuneration Committee in consultation with the Chairman of the Board after giving due consideration to market trend, responsibilities, performance as well as achievements of the individual with a view to attract, motivate and retain high performing individuals.

Audit Committee

The Audit Committee of the Company was established in 1998 and its role is to assist the Board in considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

The Audit Committee has specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Audit Committee have been revised in 2005 to include the duties set out in Code Provision C.3.3 (a) to (n) of the Code, with modifications where necessary. They have been posted to the Company's website (www.kdc.com.hk) and are also available in writing upon request to the Company Secretary.

A majority of the members of the Audit Committee are Independent Non-executive Directors. The Audit Committee is chaired by Mr Li Kwok Sing, Aubrey and its other members are Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr Yeung Kwok Kwong.

The work performed by the Audit Committee during the year under review included the following:

- reviewed and revised its Terms of Reference to conform to the Code;
- reviewed the audited accounts and annual results announcement for the year 2004;
- reviewed the interim report and interim results announcement for the six months ended 30 June 2005;
- met with the auditors and management of Company to discuss issues arising from the audit of annual accounts and review of interim accounts;
- considered and recommended to the Board the adoption of new accounting policies and standards;
- reviewed and approved the remuneration in respect of audit and non-audit services provided by the auditors;
- reviewed the progress on internal control documentation update;
- reviewed auditor's independence and effectiveness of the audit process; and
- developed policy on the engagement of auditors to supply non-audit services.

Attendance at Meetings of the Board, Remuneration Committee and Audit Committee

	Meetings Attended in 2005		
	Board	Remuneration Committee	Audit Committee
Number of Meetings Held in 2005	7	1	2
Executive Directors			
Or Wai Sheun (<i>Chairman</i>)	5/7		
Ng Chi Man	5/7		
Lai Ka Fai	5/7	1/1	
Or Pui Kwan (<i>appointed on 9 September 2005</i>)	1/3		
Non-executive Directors			
Keith Alan Holman (<i>Deputy Chairman</i>)	2/7		
Tam Hee Chung	4/7		
Yeung Kwok Kwong	4/7		2/2
Independent Non-executive Directors			
Chau Cham Son	5/7		
Li Kwok Sing, Aubrey	6/7	1/1	2/2
Lok Kung Chin, Hardy	5/7	1/1	2/2
Seto Gin Chung, John	6/7	1/1	2/2

Notes:

- (1) There were two Board meetings held during the year in which Mr Or Wai Sheun, Ms Ng Chi Man, Mr Or Pui Kwan, Mr Lai Ka Fai and Mr Yeung Kwok Kwong were regarded as interested directors and chose not to attend.
- (2) There was one Board meeting held in 2005 in which all Non-executive Directors were regarded as interested directors and chose not to attend.

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Financial Reporting

The Directors are responsible for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year under review, the Directors have:

- selected and applied consistently appropriate accounting policies and standards;
- made judgements and estimates that are prudent and reasonable; and
- prepared the accounts on the going concern basis.

A statement by the auditors about their reporting responsibilities is included in the Auditors' Report on page 36 of the Annual Report.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year under review and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

Auditors' Remuneration

In respect of the financial year 2005, the following remuneration was paid or is payable to the Company's auditors:

Fees for audit services — HK\$1,250,000

Fees for non-audit services — HK\$474,350 made up as follows:

- Review of interim accounts: HK\$156,150;
- Ad hoc project (review of accounts for the year ended 31 December 2004 prepared under accounting standards of the People's Republic of China): HK\$288,300; and
- Other services: HK\$29,900.

Internal Controls

The Board has the overall responsibilities of maintaining a sound and effective internal control system for the Group. The Group's system of internal control includes a defined management structure with limits of authority. The system is designed to help the Group to achieve business objectives, safeguard assets against unauthorized use, ensure the maintenance of proper accounting records for the provision of reliable financial information, and ensure compliance with relevant legislation and regulations. The system is designed to manage risks of failure in operational systems and foster achievement of corporate objectives.

Relevant documentation on the Group's system of internal control is undergoing a regular update and will be put forward to the Audit Committee for its review in due course.