

Corporate Governance Report

Corporate Governance Practices

The Company recognizes the importance of and benefit from good corporate governance practices which assist the Company in effective supervision and further enhance the corporate and shareholders value, by making continuous improvement to promoting corporate governance and 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 throughout the accounting year ended 31 December 2006, save for the exceptions specified and explained below.

Code Provision A.2.1 –

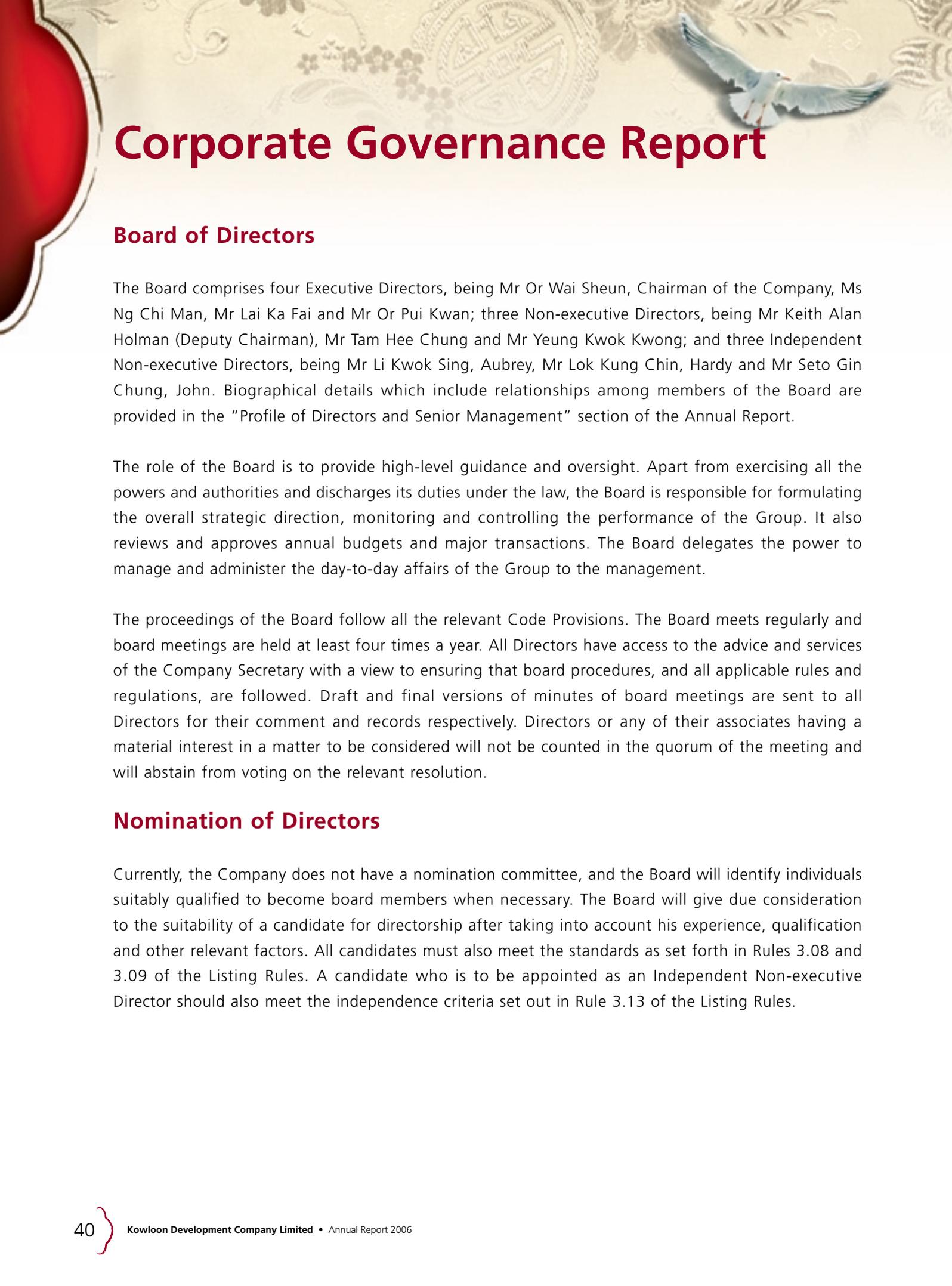
This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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 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 –

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

Non-executive Directors of the Company do not have a specific term of appointment. However, they are subject to retirement by rotation and re-election at the conclusion of the third annual general meeting of the Company after his election or re-election according to the Company’s Articles of Association. As such, 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.



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Board of Directors

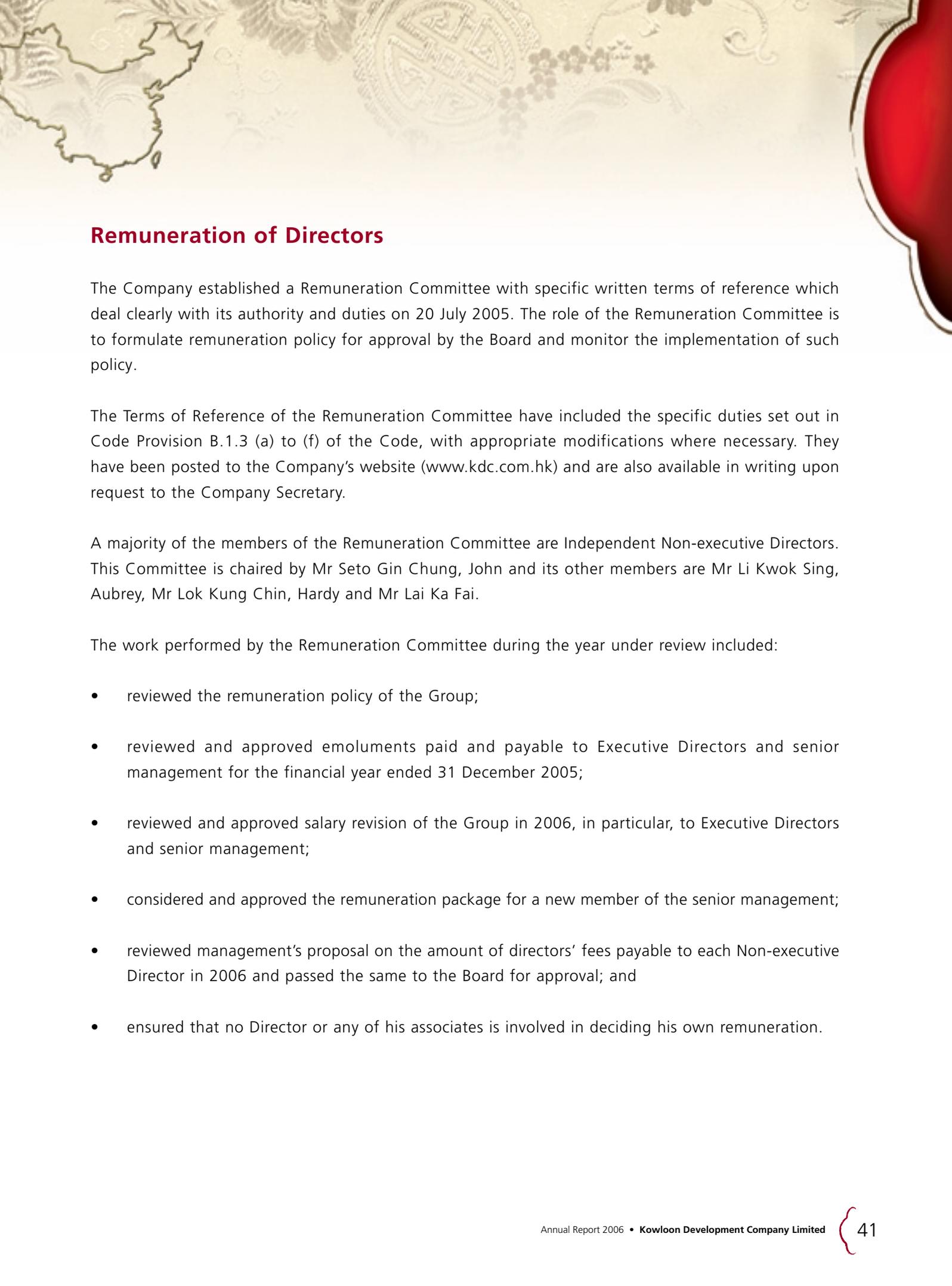
The Board comprises four Executive Directors, being Mr Or Wai Sheun, Chairman of the Company, Ms Ng Chi Man, Mr Lai Ka Fai and Mr Or Pui Kwan; three Non-executive Directors, being Mr Keith Alan Holman (Deputy Chairman), Mr Tam Hee Chung and Mr Yeung Kwok Kwong; and three Independent Non-executive Directors, being 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 discharges 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.

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.



Remuneration of Directors

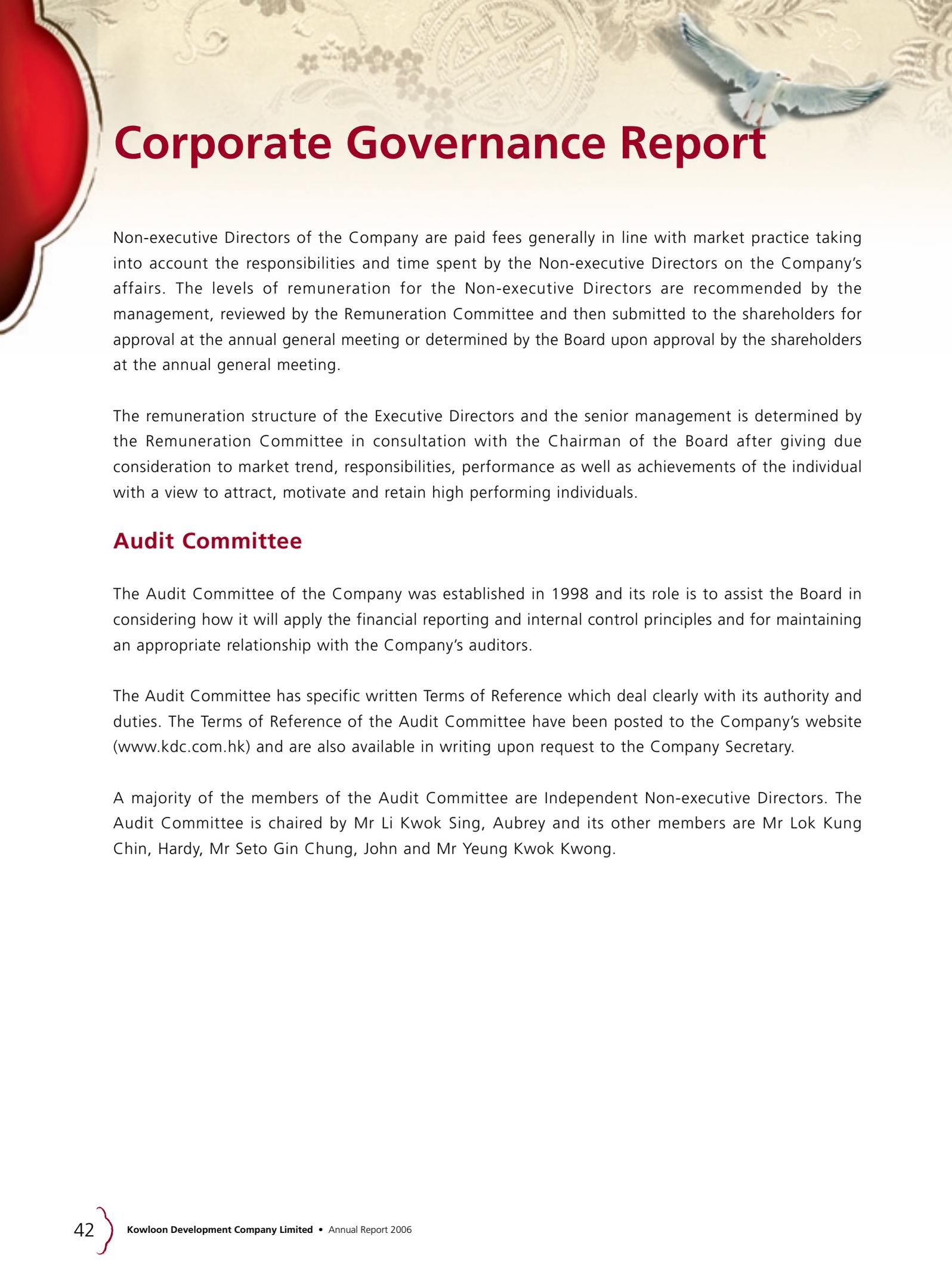
The Company established a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties on 20 July 2005. The role of the Remuneration Committee is to formulate remuneration policy for approval by the Board and monitor the implementation of such policy.

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 remuneration policy of the Group;
- reviewed and approved emoluments paid and payable to Executive Directors and senior management for the financial year ended 31 December 2005;
- reviewed and approved salary revision of the Group in 2006, in particular, to Executive Directors and senior management;
- considered and approved the remuneration package for a new member of the senior management;
- reviewed management's proposal on the amount of directors' fees payable to each Non-executive Director in 2006 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.



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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.

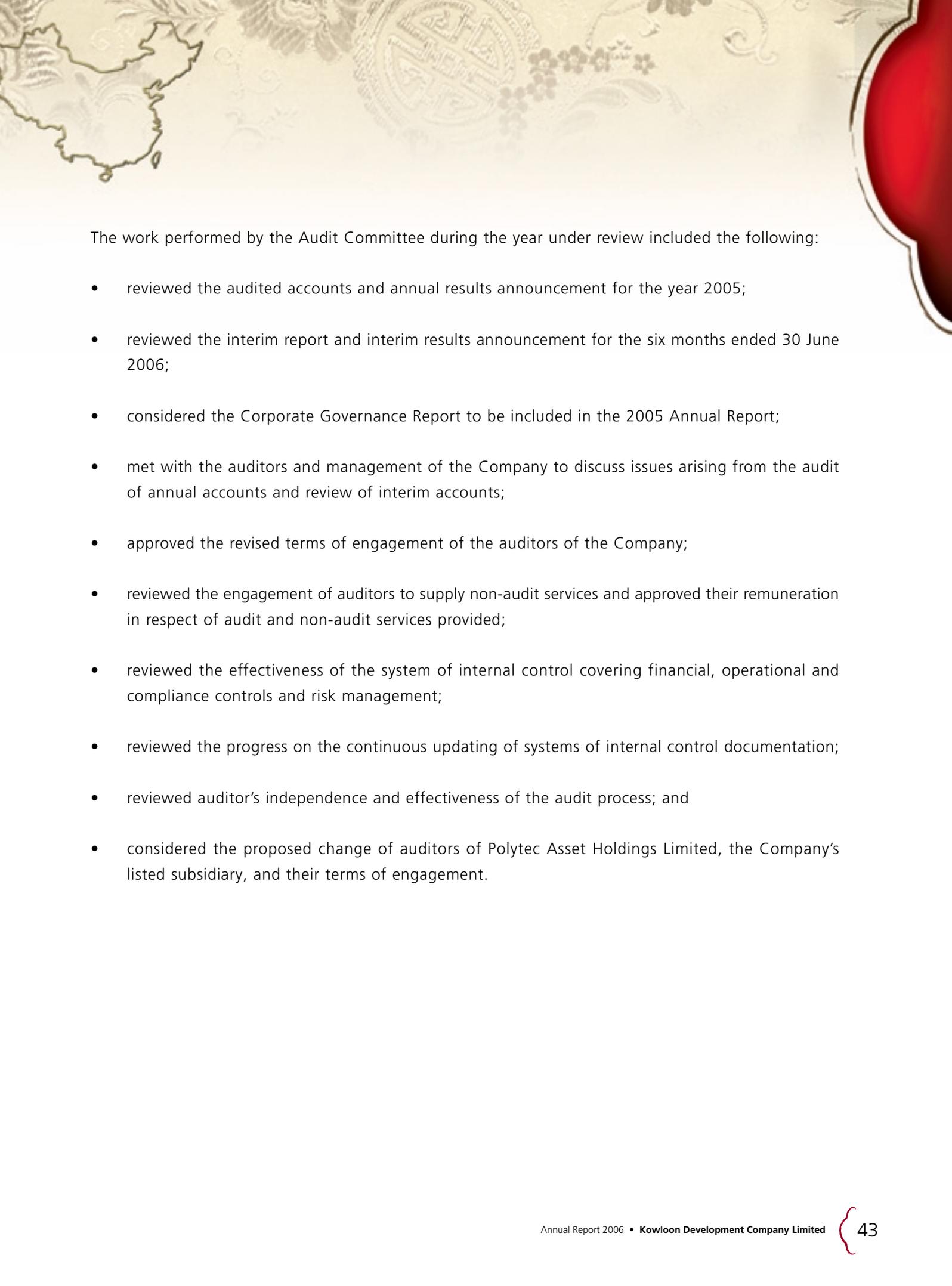
The remuneration structure of the Executive Directors and the senior management is determined by the Remuneration Committee in consultation with the Chairman of the Board after giving due consideration to market trend, responsibilities, performance as well as achievements of the individual with a view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

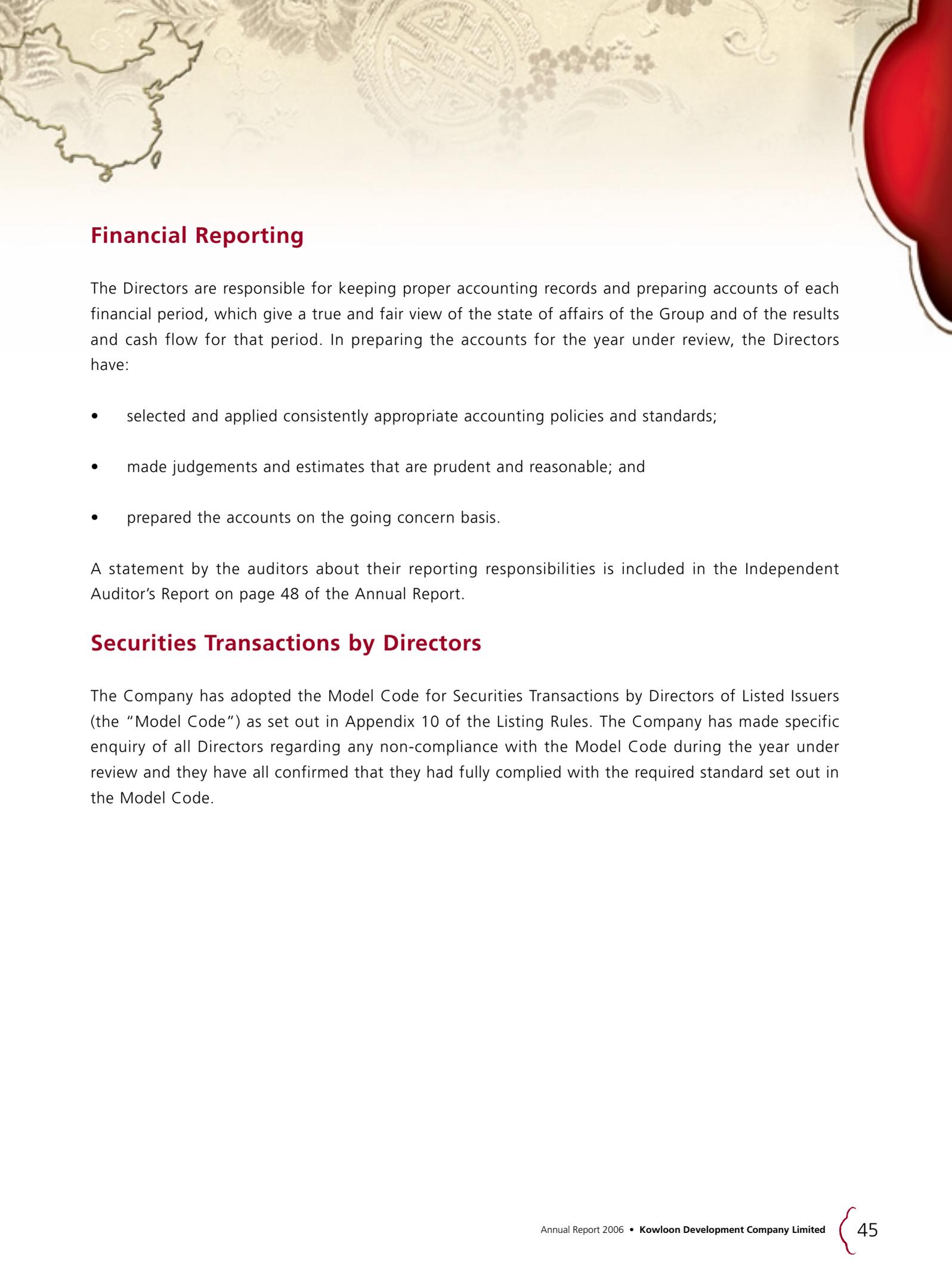
- reviewed the audited accounts and annual results announcement for the year 2005;
- reviewed the interim report and interim results announcement for the six months ended 30 June 2006;
- considered the Corporate Governance Report to be included in the 2005 Annual Report;
- met with the auditors and management of the Company to discuss issues arising from the audit of annual accounts and review of interim accounts;
- approved the revised terms of engagement of the auditors of the Company;
- reviewed the engagement of auditors to supply non-audit services and approved their remuneration in respect of audit and non-audit services provided;
- reviewed the effectiveness of the system of internal control covering financial, operational and compliance controls and risk management;
- reviewed the progress on the continuous updating of systems of internal control documentation;
- reviewed auditor's independence and effectiveness of the audit process; and
- considered the proposed change of auditors of Polytec Asset Holdings Limited, the Company's listed subsidiary, and their terms of engagement.

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Directors' Attendance Records

For meetings held during the financial year ended 31 December 2006

	Number of meetings attended/held		
	Board	Remuneration Committee	Audit Committee
Executive Directors			
Or Wai Sheun (<i>Chairman</i>)	4/4	N/A	N/A
Ng Chi Man	3/4	N/A	N/A
Lai Ka Fai	4/4	3/3	N/A
Or Pui Kwan	4/4	N/A	N/A
Non-executive Directors			
Keith Alan Holman (<i>Deputy Chairman</i>)	3/4	N/A	N/A
Tam Hee Chung	3/4	N/A	N/A
Yeung Kwok Kwong	4/4	N/A	4/4
Independent Non-executive Directors			
Chau Cham Son (<i>retired on 8 May 2006</i>)	2/4	N/A	N/A
Li Kwok Sing, Aubrey	4/4	3/3	4/4
Lok Kung Chin, Hardy	4/4	3/3	4/4
Seto Gin Chung, John	4/4	3/3	4/4
Total Number of Meetings Held in 2006	4	3	4



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 Independent Auditor's Report on page 48 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.

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Auditors' Remuneration

In respect of the financial year 2006, the following remuneration was paid or is payable to the Company's auditors after unification of auditors of Polytec Asset, a listed subsidiary of the Company, in 2006:

	HK\$	HK\$
Fees for audit services		2,040,000
Fees for non-audit services		928,431
<i>Review of interim accounts</i>	420,170	
<i>Ad hoc project (the issuance of the circular in respect of the proposed acquisition of a subsidiary)</i>	406,300	
<i>Other services</i>	101,961	
		2,968,431

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 subject to continuous update and be put forward to the Audit Committee for its review.



Shareholders' Rights and Investors Relation

The Company's articles of association contain the rights of shareholders to demand and the procedures for a poll voting on resolutions at shareholders' meeting. Details of such rights to demand a poll and the poll procedures are included in all circulars in relation to shareholders' meetings and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of The Stock Exchange of Hong Kong Limited and the Company.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board and the Chairmen of all the committees, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meeting.

As a channel to further promote effective communication, the Company maintains a website (www.kdc.com.hk) where announcements, business developments and operations, financial information, corporate governance practices and other information are posted.