

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “Board”) believes that corporate governance is essential to the sustainable success of the Company and trust that all stakeholders of the Company can benefit from better transparency and accountability of a high standard of corporate governance.

In the opinion of the Board, the Company has applied the principles and complied with the code provisions contained in the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “SEHK”) during the year ended 31 December 2006.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors’ securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules. All the directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

BOARD OF DIRECTORS

As at 31 December 2006, the Board consisted of five executive directors, namely Mr. Kyoo Yoon Choi (Chairman), Mrs. Shin Hee Cha (Vice President), Mr. Tae Sub Choi (Vice President and Chief Operation Officer), Mr. Young M. Lee (Executive Managing Director and Chief Financial Officer) and Mr. James Wang, and three independent non-executive directors (“INEDs”) (collectively the “Directors”), namely Mr. Valiant Kin Piu Cheung, Professor Cheong Heon Yi and Dr. Yoo Chan. There is no financial, business, family or other material

relevant relationship between the Directors except that Mrs. Shin Hee Cha is Mr. Kyoo Yoon Choi’s sister-in-law. The principal functions of the Board are to supervise the management of the business and affairs; to approve the strategic plans, investment and funding decision; and to review the Group’s financial performance and operative initiatives. The role of INEDs is to bring an independent and objective view to the Board’s deliberations and decisions. Mr. Valiant Cheung was a retired audit partner of KPMG and Professor Yi is currently teaching financial accounting and corporate governance in the Accountancy Faculty of the Hong Kong Polytechnic University. While Dr. Yoo is running his own management consultancy firm which has no business with the Group. The Board considers both of them have profound professional qualifications and expertise in accounting and financial management so that they are of sufficient caliber and number for their independent views to carry weight. The Company has received from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

The Company has arranged for appropriate liability insurance since 2002 to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The Board will conduct meeting on a regular basis and on an ad hoc basis so far as the business required. The Board held a total of four board meetings during the year. The INEDs may take independent professional advice at the Company’s expense in carrying out their functions. The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each regular board meeting. At least 14 days notice of a regular board meeting is given to all directors to give them the opportunity to attend. Board papers are dispatched to the directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting.

Directors' attendance at the Board meetings held during the year:

Name of director	Number of attendance
Kyoo Yoon Choi (<i>Chairman</i>)	1/4
Shin Hee Cha (<i>appointed on 24 January 2006</i>)	1/4
Tae Sub Choi	4/4
Young M. Lee	4/4
James Wang	4/4
Valiant, Kin Piu Cheung	4/4
Cheong Heon Yi	4/4
Chan Yoo	4/4

DELEGATION BY THE BOARD

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions where there is conflict of interests, considered as being notifiable or connected transactions with meaning ascribed to by the Listing Rules from time to time should be reserved to the decision of the Board.

The Board has delegated functions that are necessary and incidence to carry out the decision of the Board or to facilitate the day-to-day operation of the Group in ordinary course of business to the executive management and divisional heads of different business units under the instruction or supervision of Chief Executive Officer, Chief Financial Officer and Chief Operation Officer. The Board and the management will also seek advice from the Audit Committee and Remuneration Committee. These committees are mainly composed of and chaired by INEDs. In case of urgency, executive management is empowered to make any decisions in prompt response to the any opportunities and threats that might arise from time to time. However, those emergency decisions or any

other exceptional decisions made by management should be reported back to the Board for ratification as soon as practical.

The three independent non-executive directors are persons of high calibre, with academic and professional qualifications in the fields of finance, accounting, consulting and business management. With their experience gained from senior positions held in other companies, they provide valuable support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules. These three INEDs comprise the Audit and Remuneration Committees formed by the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The post of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman of the Board, Mr. Kyoo Yoon Choi, is responsible formulating the strategic planning, business development, overall leadership and effective running of the Board, by ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner.

The post of CEO, supported by other chief executives, is delegated with the authority and responsible for running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives. Upon the resignation of Mr. Chul Hong Min on 31 December 2005, the current duties of the CEO is temporarily shared by other executive directors and key executives except the Chairman until a suitable successor is found by the Company.

NOMINATION, APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the general meeting, either to fill a casual vacancy or as an addition to the existing directors.

Those directors appointed by the Board during the year shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. The circular dispatched to the shareholders before the general meeting contains, inter alia, detailed information on election of directors including detailed biographies of all directors standing for election or re-election to ensure shareholders to make an informed decision on their election.

The Company has specified the term of two years appointment for independent non-executive directors (“INEDs”) who are the only non-executive directors of the Company. None of the INEDs has entered into any service contracts with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. Moreover, they are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association.

At the annual general meeting of the Company held on 26 May 2006, special resolution in respect of the amendments to the provision of the Articles of Association of the Company has been passed to conform with the CG Code so that (i) any director appointed to fill a casual vacancy shall be subject to re-election by Shareholders at the Company’s next following general meeting after the appointment rather than the Company’s next following annual general meeting after the appointment, (ii) every director shall be subject to retirement by rotation at least once every three years and directors holding office as the Chairman of the Board or the Managing Director shall also be subject to retirement by rotation and (iii) the Company may remove any Director by an ordinary resolution instead of special resolution.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises one executive director and three INEDs. The Remuneration Committee was formed in January 2005 and meetings shall be held at least once a year. Two meetings were held in 2006. The attendance of each member is set out as follows:

Directors’ attendance at the Remuneration Committee meetings held during the year:

Name of director	Number of attendance
Chan Yoo (<i>Chairman</i>)	2/2
Valiant, Kin Piu Cheung	2/2
Cheong Heon Yi	2/2
Young M. Lee	2/2



At the meetings held during the year, the retirement compensation and incentive bonus for directors were reviewed and discussed. The Company has adopted a share option scheme on 22 January 2002, which serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Details of the share option scheme are set out in Note 15 to the financial statements. The emolument payable to directors will depend on their respective contractual terms and nature under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in Note 24 to the financial statements. The major roles and functions of the Group's Remuneration Committee are as follows:

- 1 To review annually and recommend to the Board the overall remuneration policy for the directors and key senior management officers;
- 2 To review annually the performance of the executive directors and key senior management officers and recommend to the Board specific adjustments and remuneration and/or reward payments;
- 3 To ensure that the level of remuneration for Non-executive Directors and INEDs are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board of the respective companies in the Group; and
- 4 To ensure that no director is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee are posted on the Company's website.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the approval by the Board.

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders in a timely manner. In preparing the financial statements for the year ended 31 December 2006, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRS") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The auditor's responsibilities are set out in the Independent Auditor's Report.



AUDIT COMMITTEE

The Audit Committee of the Company comprises three INEDs. The Audit Committee shall meet at least twice a year. Three meetings were held during the year. Brief report of the major findings raised in Audit Committee meeting are presented by the Chairman of the Audit Committee to the Board immediately in the subsequent Board meeting. The minutes of the Audit Committee meetings were circulated to the Board for information and for action by the Board where appropriate. Both the INEDs and external auditors clearly expressed that no meeting without the presence of the management was required. The executive director Mr. Young M. Lee was invited to attend the meetings as the chief financial officer. The attendance of each member is set out as follows:

Directors' attendance at the Audit Committee meetings held during the year:

Name of director	Number of attendance
Cheong Heon Yi (<i>Chairman</i>)	2/2
Valiant, Kin Piu Cheung	2/2
Chan Yoo	2/2
Young M. Lee	2/2

During the year ended 31 December 2006, the Audit Committee had performed the following work:

- (i) reviewed the interim financial report for the six months ended 30 June 2006 and the annual financial report for the year ended 31 December 2006;
- (ii) reviewed the major impact of the changes in accounting policies and practices and the Listing Rules on the accounting treatment and the financial reporting of the Company;

- (iii) reviewed the effectiveness of internal control system;
- (iv) discussed the nature and scope of the external audit and reporting obligations and reviewed the external auditors' statutory audit plan;
- (v) reviewed the findings and recommendations of the management letter from the external auditors in relation to the interim review and audit of the Group;
- (vi) reviewed and recommended for approval by the Board the 2006 audit scope, fee and supply of any non-audit services; and
- (vii) reviewed the connected transactions entered into by the Group during the year.

The major roles and functions of the Audit Committee are as follows:

- 1 To consider the appointment of the external auditor, the audit fees, and any questions of resignation or dismissal of the external auditor of the Group.
- 2 To discuss with the internal and external auditors the nature and scope of the audit.
- 3 To review the interim and annual financial statements before submission to the Board.
- 4 To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.
- 5 To review the external auditor's management letters and management's response.



- 6 To supervise the performance of the internal auditor's review on the Group companies' financial control, internal control and risk management systems.
- 7 To consider the major findings of internal investigations and management's response.

The terms of reference of the Audit Committee are posted on the Company's website.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditor, PricewaterhouseCoopers, is set out as follows:

Service rendered	Fees paid/ payable HK\$'000
Audit services	3,000
Non-audit services	135
	3,135

INTERNAL CONTROLS

The Company set up an internal audit department in May 2006. The head of internal audit department was appointed by the Board to head the review of the effectiveness of the internal control system of the Group which cover all material controls, including financial, operational and compliance controls as well as risk management functions. The internal auditor has performed review of the internal control system of the Group for the year ended 31 December 2006 and the

relevant review report has been submitted to the Audit Committee in April 2007 for consideration. The Board, through the reviews made by the internal auditor and the Audit Committee, considers that the Group's internal control system has implemented effectively.

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairmen of the Audit and Remuneration Committees together with the external auditors are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the annual general meeting and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published in the newspapers and on the Company's website.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced all its price-sensitive information, announcements, interim and annual results in a timely manner in compliance with the Listing Rules.



VOTING BY POLL

The Company informs the shareholders (in its circulars convening a general meeting) the procedures for voting by poll and the rights of shareholders to demand a poll to ensure compliance with the requirements on the poll voting procedures. In accordance to provision 73 of Article of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

- i) the chairman; or
- ii) at least three shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- iii) any shareholder or shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the rights to vote at the meeting; or
- iv) a shareholder or shareholders present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The Company should count all proxy votes, and except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The issuer should ensure that votes cast are properly counted and recorded.

The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of:

- i) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and
- ii) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

