

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable efforts to formalizing and putting best practices in place.

THE BOARD OF DIRECTORS

The Company's overall management is vested in its board of directors (the "Board"), which now comprises seven members, coming from diverse businesses and professional backgrounds as shown in biographical details set out on pages 20 to 23 in this annual report. The Board comprises non-executive director Mr. Yang Ho Sung (Chairman), executive directors Mr. Yang Jai Sung, Mr. Kim Sun Cheol and Mr. Woo Nam Jin, and independent non-executive directors Dr. Kim Chung Kweon, Dr. Han Byung Joon and Mr. Kim Chan Su.

The Board meets in person at least four times annually to review business development and overall strategic policies. The attendance record of individual board members during the year is set out in the table on page 18 of this report.

To facilitate the operation of the Board, the Board has a schedule of matters reserved for its approval. The specific responsibilities reserved for the Board include: setting Group's strategy and dividend policy, approving budgets, reviewing operational and financial performance, approving major investments and divestments, reviewing the Group's systems of internal controls, ensuring appropriate management development and succession plans in place, approving appointments of and remuneration policy for directors and other senior executives, approving corporate social responsibility policies and ensuring effective communication with shareholders.

For the financial reporting accountability, the Board has an ultimate responsibility for preparing the financial statements. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made. Moreover, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

As part of good corporate governance practice, a number of board committees have been established. These committees include three corporate governance related committees namely Executive Committee, Remuneration Committee and Audit Committee as well as an ad hoc Independent Board Committee for advising on matters in relation to the

continuing connected transactions. Each committee operates within defined terms of reference; these terms of reference are posted on the Company's website at www.kse.com.hk. Board committees report regularly to the Board on their work and findings.

EXECUTIVE COMMITTEE

The Board has delegated certain authorities and responsibilities to the executive directors, the development of strategic plans for consideration by the Board, implementation of the strategies and policies of the Group as determined by the Board, monitoring of the operating and financial results against plans and budgets, guiding the Company in various corporate affairs. The Executive Committee, formed by all the executive directors and chaired by the Chief Executive Officer, came to effect by the end of the review period, and it will meet from time to time when committee chairman requires.

REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company comprises three independent non-executive directors namely Dr. Han Byung Joon (Chairman), Dr. Kim Chung Kweon and Mr. Kim Chan Su, and one executive director namely Mr. Yang Jai Sung.

During the review period, the Remuneration Committee met four times with the attendance record of individual committee members is set out in the table on page 18 of this report.

The committee's principal responsibilities are reviewing remuneration packages of directors and senior management and making recommendations to the Board on the remuneration structure. It also regularly reviews and guides the formulation of the Group's remuneration policy for directors and senior management attributable to performance-driven compensation commitment as well as market trend and industry norms.

No director takes part in any discussion about his or her own remuneration.

During the review period, Remuneration Committee formulated the Group's philosophy and developed the Group's employment policy, nomination policy, remuneration policy, training and development policy and communication policy; and all have been formally approved by the Board as of the Latest Practicable Date.

NOMINATION OF DIRECTORS

The Company does not have a separate nomination committee. The nomination and appointment of new directors is administered by the Remuneration Committee under the Company's director nomination policy regarding the selection criteria and evaluation processes, as developed during the review period and formally approved by the Board as of the Latest Practicable Date.

企業管治常規守則

本公司致力維持高水準企業管治，以符合股東利益，並投入相當資源編製及推行最佳常規。

董事會

本公司之整體管理由董事會（「董事會」）負責，董事會目前由七名成員組成，彼等擁有不同行業及專業背景，詳情請參見載於本年報20至23頁之履歷詳情。董事會包括非執行董事梁皓星先生（主席）、執行董事梁在星先生、金善哲先生及禹南珍先生，獨立非執行董事金正權博士、韓丙濬博士及金鑽洙先生。

董事會每年最少親身開會四次，以檢討業務發展及整體策略政策。個別董事會成員之出席記錄載於本報告第19頁之表內。

為方便董事會運作，董事會制定了一份項目清單並保留其決定權。董事會之指定責任包括：制定本集團整體策略及股息政策、通過預算案、檢討營運及財務表現、批准重大投資及出售項目、檢討本集團內部控制系統、確保有適當管理發展及延續計劃、通過委任董事及其他高級行政人員並釐訂彼等之薪酬政策、批准企業社會責任政策及確保與股東進行有效溝通。

就財務申報之問責性而言，董事會有編製財務報表之最終責任。在編製財務報表時，香港公認之會計準則已予採納，適當會計政策已予使用及貫徹應用，而合理及審慎之判斷和估算已予作出。此外，董事會並不知悉有任何重大不明確因素致使本集團持續經營之能力存在的疑問。為此，董事會在編製財務報表時繼續採用持續經營基準。

作為良好企業管治之部份措施，本公司已成立多個董事會轄下委員會。該等委員會包括三個與企業管治有關的委員會，即執行委員會、薪酬委員會和審核委員會，以及就持續關連交易提供意見之特設獨立董事委員會。每個委員會均按指定職

權範圍操作；該等職權範圍載於本公司網站 www.kse.com.hk。董事委員會定期向董事會匯報彼等之工作及發現。

執行委員會

董事會已授出若干權力及責任予執行董事，發展策略性計劃以供董事會考慮、實施董事會決定之本集團策略及政策；監管營運表現及財務業績以對比計劃及預算中的情況；指導多方面的企業事務。執行委員會由所有執行董事組成，由行政總裁擔當主席一職。執行委員會於回顧年度末開始運作，並按委員會主席要求不時召開會議。

薪酬委員會

本公司薪酬委員會由三名獨立非執行董事（韓丙濬博士（主席）、金正權博士及金鑽洙先生）及一名執行董事（梁在星先生）組成。

於回顧年度，薪酬委員會召開了四次會議，個別委員會成員之出席記錄載於本報告第19頁之表內。

該委員會之主要責任為檢討董事及高級管理層之薪酬組合及就薪酬架構向董事會作出建議。委員會定期開會檢討及指導本集團董事及高級管理層之薪酬政策之編製。薪酬政策乃根據與表現掛鉤之報酬承諾特性，並參考市場趨勢及行業慣例釐訂。

並無董事參與關於自己的薪酬之討論。

於回顧年度，薪酬委員會制訂本集團理念及發展本集團聘用政策、提名政策、薪酬政策、培訓及發展政策及溝通政策；於最後可行日期，所有該等政策已獲董事會正式通過。

提名董事

本公司並無單獨存在之提名委員會。提名及委任新董事由薪酬委員會根據本公司董事提名政策進行。甄選準則及評核過程於回顧年度制定，於最後可行日期，已由董事會正式通過。

The policy's objective is to ensure that the Board is properly constituted with a balanced mix of skills, qualifications and experiences to meet its fiduciary obligations to the Company and its shareholders as well as to face the Company's current and emerging operating and strategic challenges and opportunities.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors namely Mr. Kim Chan Su (Chairman), Dr. Kim Chung Kweon and Dr. Han Byung Joon, and one non-executive director namely Mr. Yang Ho Sung.

During the review period, the Audit Committee met twice with the external auditors with no executive directors present. The complete attendance record of individual committee members is set out in the table on page 18 of this report.

The Committee's principal responsibilities are monitoring the integrity of financial reporting, reviewing the internal control and risk management systems, and reviewing the corporate governance of the Company.

During the review period, the Audit Committee reviewed the 2004 annual report and accounts and the 2005 interim report and accounts, had oversight of the financial reporting and audit processes, reviewed the Group's financial controls, internal control and risk management systems and agreed the scope of internal control review for 2005, discussed internal audit reports, conducted discussions with the external auditors on financial reporting, compliance, and reported all relevant matters to the Board.

AUDITORS

The financial reporting responsibilities of the auditors are set out on page 42 of this annual report.

During the year ended 31 December 2005, the fees paid/payable to the auditors in respect of audit and non-audit services provided by the auditors to the Group were as follows:-

Nature of services	HK\$'000
Audit services	483
Non-audit services	
Interim review	147
Taxation services	41

INDEPENDENT BOARD COMMITTEE

The Board is committed to looking after the interests of shareholders of the Company. For this purpose, an ad hoc independent committee of the Board (the "Independent Committee"), chaired by Mr. Kim Chan Su, together with Dr. Han Byung Joon and Dr. Kim Chung Kweon, has been established to consider and review matters relating to the

continuing connected transactions of the Group and to advise independent shareholders whether the transactions are fair and reasonable. All members of the Independent Committee are independent non-executive directors of the Company.

THE SEPARATE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The division of responsibilities between the Chairman of the Board, Mr. Yang Ho Sung and the Chief Executive Officer, Mr. Yang Jai Sung is clearly defined and has been approved by the Board. The Chairman provides leadership for the Board and ensures the effective operation of the Board; while the Chief Executive Officer, as head of the executive directorate, is responsible for managing the business of the Company.

DIRECTORS AND DIRECTORS' INDEPENDENCE

There are no financial, business, family or other material/relevant relationship(s) among members of the Board except that Mr. Yang Jai Sung is the younger brother of Mr. Yang Ho Sung, while Mr. Kim Sun Cheol is the younger brother of Mr. Yang Ho Sung's wife.

The directors are given access to independent professional advice at the Group's expense, when the Directors deem it is necessary in order for them to carry out their responsibilities.

The Board also ensures the participation of non-executive director and independent non-executive directors in board committees to safeguard objectivity and independence.

Non-executive directors are appointed for specific terms. Mr. Yang Ho Sung has his appointment with the Company as non-executive director renewed effective 1 March 2005 for another two years, and Dr. Kim Chung Kweon, Dr. Han Byung Joon and Mr. Kim Chan Su, have their appointments with the Company as independent non-executive directors renewed effective 11 October 2004 for another two years, all subject to the retirement and the re-election of their directorship in the Company as set in the Company's Articles of Association.

The Company has received, from each of the independent non-executive directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive directors are independent.

INTERNAL CONTROLS

The Board is responsible for the internal control system of the Group and for reviewing its effectiveness through a program of internal control and risk management. The scope and the program of the review are determined and

該政策之目標為確保董事會由具備不同技能、資格及經驗的人士均衡組成，從而向本公司及其股東履行其受委託之責任，以及面對現時及可能出現的營運及策略上的挑戰及機會。

審核委員會

本公司審核委員會由三名獨立非執行董事（金鑽洙先生（主席）、金正權博士及韓丙濬博士）及一名非執行董事（梁皓星先生）組成。

於回顧期內，審核委員會在並無執行董事參與的情況下與外聘核數師舉行了三次會議。個別委員會成員之出席記錄載於本報告第 19 頁之表內。

委員會主要職責為監察本公司財務報告之完整性、檢討內部監控及風險管理措施及檢討本公司之企業管治。

於回顧年度，審核委員會已審閱二零零四年年報及賬目與二零零五年中期報告及賬目，並監察財務報告及審核程序、檢討本集團之財務監控、內部監控及風險管理系統及議定二零零五年內部監控檢討的範疇、討論內部核數報告、與外聘核數師就財務報告、遵守規則進行商討，以及向董事會匯報所有相關事項。

核數師

核數師之財務申報責任載於本年報第 43 頁。

於截至二零零五年十二月三十一日止年度，就核數師向本集團提供核數及非核數服務之已支付／應付予核數師費用如下：

服務性質	千港元
核數服務	483
非核數服務	
中期審閱	147
稅項服務	41

獨立董事委員會

董事會致力確保本公司股東之利益。就此而言，本公司已成立特設獨立董事委員會（「獨立董事委員會」）由金鑽洙先生擔任主席，成員包括韓丙濬博士及金正權博士。獨立董事委員會會考慮

及檢討有關本集團持續關連交易之事宜，並就交易是否公平合理向獨立股東提供意見。獨立董事委員會全部成員均為本公司獨立非執行董事。

區分主席及行政總裁職能

董事會主席梁皓星先生及行政總裁梁在星先生兩人之責任已清楚劃分，並已獲董事會批准。主席負責領導董事會及確保董事會有效運作；而行政總裁為執行董事之首，負責管理本公司業務。

董事及董事之獨立性

除梁在星先生為梁皓星先生之弟及金善哲先生為梁皓星先生之妻舅，董事會成員間並無財務、業務、家族或其他重大／相關關係。

倘董事認為必須尋求獨立專業顧問之意見以協助履行彼等之職責，有關費用由本集團支付。

董事會亦確保非執行董事及獨立非執行董事參與董事委員會，從而達致客觀及獨立。

非執行董事獲委以指定任期。梁皓星先生擔任本公司非執行董事之委任於二零零五年三月一日重續及生效，任期為兩年；金正權博士、韓丙濬博士及金鑽洙先生擔任本公司獨立非執行董事之委任於二零零四年十月十一日重續及生效，任期均為兩年。彼等均須根據本公司章程細則退任董事及重選。

本公司已按上市規則第 3.13 條接獲每位獨立非執行董事之獨立身份確認函件。本公司認為所有獨立非執行董事均屬獨立性。

內部監控

董事會負責本集團內部監控系統及透過一套內部監控系統及風險管理計劃檢討其是否有效。檢討之範疇及計劃由審核委員會決定推薦，並每年由

recommended by the Audit Committee and approved by the Board annually. The review covers all material controls, including financial, operational and compliance controls and risks management functions. The internal audit function reports directly to the Chairman of the Audit Committee. Regular internal control review reports are circulated to the Audit Committee members and the Board in accordance with the approved program.

For the review period, the Audit Committee is satisfied that the internal control system maintained by the Group is sufficient to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and proper accounting records are maintained.

Based on the assessment made by Audit Committee and the external auditors in the year of 2005, the Board confirms that the provision C.2.1 of Code on Corporate Practices has been complied with and no finding of a material nature requires the attention of shareholders.

COMPLIANCE OF CORPORATE GOVERNANCE CODE

Throughout the review period, the Company has adopted and complied with all provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company, having made specific enquiry, confirms that all directors complied throughout the year with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The relevant employees who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

INVESTOR RELATIONS

The Board recognizes the importance of maintaining effective communications with shareholders. Annual reports and interim reports provide shareholders with comprehensive information of the Group's operational and financial performances while general meetings offer a platform for shareholders to state and exchange views with the Board directly.

The management communicates continually with analysts and institutional investors and provides them with up-to-date and comprehensive information regarding the Company's development. The Company practices timely dissemination of information and makes sure its website www.kse.com.hk contains the most current information, including annual reports, interim reports, announcements and press releases, and is updated in a timely manner to ensure transparency.

ATTENDANCE RECORD FOR THE BOARD AND BOARD COMMITTEE MEETINGS IN 2005

The number of Board and board committee meetings attended by each director for the year ended 31 December 2005

	Board meetings	Remuneration Committee meetings	Audit Committee meetings
Number of meetings in 2005	4	4	3
Non-executive director			
Mr. Yang Ho Sung	4	n/a	3
Executive directors			
Mr. Yang Jai Sung	4	4	n/a
Mr. Kim Sun Cheol	4	n/a	n/a
Mr. Woo Nam Jin	4	n/a	n/a
Independent non-executive directors			
Dr. Kim Chung Kweon	4	4	3
Dr. Han Byung Joon	4	4	3
Mr. Kim Chan Su	4	4	3

董事會批准。檢討涵蓋所有重大監控方面，包括財務、營運及遵例監控及風險管理功能。內部審核職能直接向審核委員會主席報告。根據已批准之計劃，定期將內部監控檢討報告傳送予審核委員會成員及董事會。

於回顧年度，審核委員會滿意本集團實施之內部監控系統足以提供合理但非絕對之保證，保障本集團資產不因未授權使用或出售而蒙受虧損、交易已經適當授權及有保存適當會計記錄。

根據審核委員會及外聘核數師於二零零五年作出之評估，董事會確認本公司已遵守企業管治常規守則第C.2.1條，亦無性質屬重大之發現須知會股東。

遵守企業管治守則

於回顧期間內，本公司已採納並一直遵守香港聯合交易所有限公司證券上市規則（「上市規則」）附錄十四所載之企業管治常規守則。

董事進行證券交易標準守則

本公司經具體查詢後確認，所有董事於年內均有遵守上市規則附錄十所載之董事進行證券交易的標準守則（「標準守則」）。而彼等由於在本公司之職務而可能擁有未公開價格敏感資料之有關僱員已被要求遵守同樣之標準守則。

投資者關係

董事會重視與股東維持有效溝通。年報及中期報告向股東提供本集團營運及財務表現之詳盡資料，而股東大會則提供平台讓股東表達意見及與董事會直接交換意見。

管理層持續與分析員及機構投資者溝通，並向彼等提供有關本公司發展之最新及詳盡之資料。本公司實行及時通佈資料之措施及確保其網站 www.kse.com.hk 載有最新資料，包括年報、中期報告、公佈及新聞公佈，並經常更新以確保透明度。

二零零五年董事會及董事委員會會議之出席記錄

截至二零零五年十二月三十一日止年度各董事所出席之董事會及董事委員會會議記錄

	董事會會議	薪酬委員會會議	審核委員會會議
二零零五年會議次數	4	4	3
非執行董事			
梁皓星先生	4	不適用	3
執行董事			
梁在星先生	4	4	不適用
金善哲先生	4	不適用	不適用
禹南珍先生	4	不適用	不適用
獨立非執行董事			
金正權博士	4	4	3
韓丙濬博士	4	4	3
金鑽洙先生	4	4	3