

Corporate Governance Report



The Board of Directors (the "Board") recognizes that good corporate governance is fundamental to the smooth and effective operation of the Group and enhances the shareholder value. The Board is committed to maintaining a good corporate governance practice and procedures so as to increase its transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has applied and complied with all the code provisions and some recommended best practices set out in the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2006.

During the year, the Board reviewed the Articles of Association of the Company (the "Articles") and made the following amendment to the Articles to ensure that the Articles are no deviations from the Listing Rules:

- (a) Article 86(3) of the Articles amended so that all directors appointed to fill a casual vacancy shall hold office until the next following general meeting, instead of the next annual general meeting, to reflect the provisions of Code A.4.2 of Appendix 14 to the Listing Rules.
- (b) Article 86(5) of the Articles amended to allow members, by ordinary resolution, to remove a Director at any time before the expiration of his period of office to reflect the provisions of paragraph 4(3) of Appendix 3 to the Listing Rules.

The amendments were approved by the shareholders of the Company on 26 June 2006. Since then, the Articles has complied with the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code on securities transactions by directors ("Securities Code") with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. After making enquiries by the Company, all directors confirmed that they have complied with the Securities Code during the year.

BOARD OF DIRECTORS

During the year, the Board held four meetings. The composition of the Board and the record of attendance of each director is as follows:

	Attended/ Eligible to Attend
<i>Non-executive Director</i>	
Kong Qingping (<i>Chairman</i>)	4/4
<i>Executive Director</i>	
Zhou Yong (<i>Vice-chairman and Chief Executive Officer</i>)	4/4
Yip Chung Nam	4/4
Fu He	4/4
Zhou Hancheng	4/4
Cheong Chit Sun	4/4
<i>Independent Non-executive Director</i>	
Raymond Ho Chung Tai	3/4
Adrian David Li Man Kiu	4/4
Raymond Leung Hai Ming	2/4
Lee Shing See	4/4

The Group (the Company and its subsidiaries) is governed by the Board. The Board is responsible for leading and controlling the Group. The Board focuses on the overall strategic, policies and business plan of the Group, monitor the financial performance and internal controls of the Group.

Independent non-executive directors possess appropriate professional qualifications and experience or appropriate accounting or relevant financial management expertise. All independent non-executive directors comply with the Independence Guideline of Rule 3.13 of the Listing Rules and have submitted annual confirmations of their independence to the Board pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent.

There is no family or other material relationships among members of the Board.

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Kong Qingping is chairman and non-executive director of the Company and is responsible for leading the Board and ensures all directors are provided with appropriate and sufficient information before board meetings so that the Board can operate effectively and perform its duties.

Mr. Zhou Yong is vice-chairman and chief executive officer of the Company and is responsible for the operations of the Group. The chief executive officer and executive directors jointly implement the policy adopted by the Board and are responsible to the Board for the overall operation and administration of the Group.

There is clear division on the roles of chairman and chief executive officer, which are performed by different individuals. This ensures balanced distribution of power and authority so as to avoid concentration of power on the same individual.

NON-EXECUTIVE DIRECTORS' TERM OF OFFICE

Non-executive directors are appointed on a term of three years. All directors (including non-executive directors) are subject to retirement by rotation pursuant to the Articles. Directors appointed to fill casual vacancies shall be elected by shareholders at the first general meeting following their appointment.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee on 9 June 2005. The major responsibilities of the Remuneration Committee include giving advice to the board on the overall remuneration policy of the Group, reviewing and approving the remuneration of directors and senior management of the Company, and ensuring that no director participates in the discussion on his own remuneration. The Board has adopted written terms of reference for the Remuneration Committee, which defined the role, authority and function of the Remuneration Committee. The terms of reference are posted on the Company's web site.

During the year, the Remuneration Committee held one meeting and the individual attendance of each director is set out below:

	Attended/ Eligible to Attend
Kong Qingping (<i>Chairman</i>)	1/1
Raymond Ho Chung Tai	1/1
Adrian David Li Man Kiu	1/1
Raymond Leung Hai Ming	1/1
Lee Shing See	1/1

Chief Executive Officer assisted by the Human Resources Department in reviewing the remuneration data of the market and proposed the remuneration policy of the Group before proposing to the Remuneration Committee for consideration and seek approval. The remuneration of directors and senior management of the Company is determined with reference to the remuneration policy of the Group and based on individual skills, knowledge, performance and contribution, the overall performance of the Group, the prevailing economic environment and the market trend.

NOMINATION COMMITTEE

The Company has established a Nomination Committee on 20 March 2006. The responsibilities of the Nomination Committee include reviewing the structure and the composition of the Board, and making recommendation to the Board on matters relating to directors' nomination, appointment or re-appointment and succession on regular basis. The Company has adopted written terms of reference for the Nomination Committee, which defined the role, authority and function of the Nomination Committee. The terms of reference are posted on the Company's web site.



The Group offers training programmes on corporate governance to its directors and senior management.



The board of directors holds meetings from time to time to supervise the overall strategy, policy and business operation and to supervise the Group's financial performance and internal control.

During the year, the Nomination Committee held one meeting and the individual attendance of each director is set out below:

	Attended/ Eligible to Attend
Kong Qingping (<i>Chairman</i>)	1/1
Zhou Yong	1/1
Fu He	1/1
Raymond Ho Chung Tai	0/1
Adrian David Li Man Kiu	1/1
Raymond Leung Hai Ming	0/1
Lee Shing See	1/1

During the year, no new appointment of director, all the existing directors retired and re-elected in the Company's 2006 Annual General Meeting. The Nomination Committee evaluated the structure and composition of the Board, and evaluated the independence of the independent non-executive directors.

AUDITORS' REMUNERATION

For the year ended 31 December 2006, the audit fees received by the auditors of the Company totalled approximately HK\$3.28 million, including audit service fees of the Company of approximate HK\$2.60 million and audit service fees of HK\$0.68 million in respect of the acquisition of China Construction Engineering (Macau) Company Limited in May 2006.

AUDIT COMMITTEE

The Company has established an Audit Committee on 1 June 2005. The major responsibilities of the Audit Committee include reviewing and overseeing the financial information of the Company, regulating the

financial reporting system, the internal control procedure and the risk management system of the Company, and reviewing the relationship between the Company and auditors. The Board has adopted written terms of reference for the Audit Committee, which defined the role, authority and function of the Audit Committee. The terms of reference are posted on the Company's web site.

During the year, the Audit Committee held four meetings and the individual attendance of each director is set out below:

	Attended/ Eligible to Attend
Raymond Ho Chung Tai (<i>Chairman</i>)	3/4
Adrian David Li Man Kiu	4/4
Raymond Leung Hai Ming	2/4
Lee Shing See	4/4

During the meetings, the Audit Committee reviewed and considered the annual report for the year ended 31 December 2005, the re-appointment of auditors, the interim report for the six months ended 30 June 2006 and the internal control report.

INTERNAL CONTROL

The Group has established a stable, sound and effective internal control system to ensure the Group can withstand changes in its operations and the external environment in aspects of finance, operation and risk management so as to protect shareholders' investment and the Company's assets.

The Group has established a Management Audit Committee which is independent of all business lines and is responsible to the executive director so as to

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ensure the neutrality of control. The Committee makes construction site as a unit and take turn to visit individual construction site for inspection and investigation. All audit reports are sent to the senior management for their perusal and follow-up, if necessary so as to ensure proper management of risks, thereby achieving the business objectives of the Group.

In order to further improve the standard of services provided, the quality of management, enhance the communication with customers and the competitive strengths, the Group launched a "China State Construction Quality Service Campaign 2006". Customer satisfaction research was conducted and independent professional consultant also appointed to review and report the finding. In line with the research, the Company employed external professional training consultant to organize "Customer Satisfaction Management System Training" for the staffs. The Group's safety and health policy, environment protection management procedure, quality and technology policy, and suppliers assessment policy were reviewed and improved accordingly. The Group also set up a customer relationship management team for long term purpose to improve its customer services. The Campaign not only ameliorates the Company's customer relationship but also further strengthens the Group's brand quality.

During the year, the Audit Committee reviewed the internal control report and the internal control system of the Company.

DIRECTORS' RESPONSIBILITY FOR PREPARING ACCOUNTS

The Directors acknowledge their responsibility to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Group.

AUDITORS' REPORTING RESPONSIBILITIES

The reporting responsibilities of Deloitte Touche Tohmatsu, Certified Public Accountants, the Auditor of the Company, are stated in the Independent Auditor's Report of the Company's 2006 Annual Report.

COMPLIANCE ADVISER

Pursuant to Rule 3A.19 of the Listing Rules, ICEA Capital Limited acted as the compliance adviser of the Company throughout the financial year.

STAFF DISCIPLINE

The Company has placed much emphasis on the discipline of its staff as well as business ethics and integrity.

The Company has formulated a series of standards on staff discipline and code which are set out in the "Employee Handbook" and displayed in each worksite. All staff must comply with these standards which are included as one of the important subjects in the orientation course for new recruits. No staff is allowed to ask for or receive any benefits while doing business on behalf of the Group in Hong Kong or other places. To this end, the Company has established a mechanism pursuant to which staff can proceed with reporting if they have any recommendations, doubts or find out any violations. This ensures employees have the highest integrity, determination and professionalism to perform their duties and commit themselves to providing services of the highest quality in accordance with the operating principles of the Group.

INVESTOR RELATIONS

The Company has been striving to maintain high transparency and communicate with shareholders and investors through diversified communication channels. The Company hold press conferences and analyst briefing sessions from time to time to provide the latest business information of the Company to investors. The chairman gives sufficient time to shareholders at general meeting to provide them opportunity to raise questions and express their opinions. The web site of the Company contains the latest data and information on the Group so that shareholders, investors and the public can inspect the information about the Company in a timely manner. The Company's web site: <http://www.csci.com.hk>