

Corporate Governance Report

Corporate Governance Practices

The Board of Directors (the "Board") recognises 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 maintain a good corporate governance practice and procedures so as to increase its transparency.

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 2008.

The Code was amended and effected on 1 January 2009. The Company had reviewed the amendment in early January 2009 and ensured the compliance of it.

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 ("Model Code"). After making enquiries by the Company, all directors confirmed that they have complied with the Securities Code during the year.

The Directors were informed the new development of the absolute prohibitions rules and the new notification procedure of the Model Code from time to time. In March 2009, the Company had reviewed and updated the Securities Code in line with the new provision of the amended Model Code. All the directors were fully aware of the changes.

Board of Directors

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 strategies, policies and business plan of the Group, monitors the financial performance, internal controls and risk management of the Group. Senior Management is responsible for the day-to-day operations of the Group under the leadership of the Executive Directors.

The composition of the Board and the individual attendance of each director are set out below:

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

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During the year, four Board meetings were held. Throughout the year, directors also participate in the consideration and approval of non-routine issues of the Company by way of circular resolutions with supporting explanatory write-up. The vice-chairman and chief executive officer, the executive director and financial controller, and the company secretary at all time answer the non-routine issues enquiries made by the directors.

The Board convenes Board meetings regularly. The date for holding each meeting will be determined in advance with a notice of not less than 14 days so that most directors entitled to attend the meeting can spare time to attend in person and have sufficient time to include items that in the agenda for discussion. To ensure that all directors have sufficient information for discussion, the meeting documents will be submitted to all directors three days before the meeting is convened.

All directors keep contact with the company secretary and can obtain the services provided by the company secretary so as to ensure the procedure of the Board meetings, all applicable rules and regulations are complied with. In case of any changes in the governance and compliance regulations, the company secretary will release the latest information to the Board.

The company secretary is responsible for compiling and drafting the minutes of the Board and the Board committee meetings, and will send the first draft of the minutes within reasonable time after each meeting to the participated directors for advice. The minutes of the meetings are prepared with details of the decisions reached, any concerns raised and dissenting views expressed. All directors are entitled to inspect the minutes of the Board and the Board committee meetings. Directors can seek independent professional advice for performing their duties through the chairman at the expense of the Company. If the subject under discussion at a Board meeting involves the interests of substantial shareholders or directors and the Board considers that those interests are of significant interest conflicts, the Board will ensure there are sufficient independent directors participating in discussing about and voting on those resolutions. Those directors related to the interests shall abstain from voting on the resolution.

Other than non-executive directors, all executive directors are appointed on a full-time basis and have sufficient time to deal with the affairs of the Company. More than one-third of the Board are independent non-executive directors. The Company will review the Board composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Company will give an appropriate introduction about the Group's businesses and operations to each newly appointed director.

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. Independent non-executive directors are able to provide their independent judgment in respect of matters such as the Group's strategy, policy and performance at Board and Board committee meetings, and making significant contribution to the affairs of the Group.

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

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 policies 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.

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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 of Association of the Company. Directors appointed to fill casual vacancies shall be re-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 website.

During the year, one Remuneration Committee meeting was held 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	0/1
Adrian David Li Man Kiu	1/1
Raymond Leung Hai Ming	1/1
Lee Shing See	1/1

The vice-chairman and chief executive officer is assisted by the human resources division 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 major 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 Board 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 website.

During the year, one Nomination Committee meeting was held 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	1/1
Lee Shing See	1/1

During the year, the Nomination Committee evaluated the composition and structure of the Board, and reviewed the independence of the independent non-executive directors.

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Auditors' Remuneration

For the year ended 31 December 2008, the audit fees received by the auditors of the Company totaled approximately HK\$4.61 million, including audit service fees of the Company of approximate HK\$4.30 million and audit service fees of approximate HK\$0.31 million for the ad hoc projects of the Company in 2008.

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, evaluating 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 website.

During the year, four Audit Committee meetings were held 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	3/4
Raymond Leung Hai Ming	4/4
Lee Shing See	4/4

During the meetings, the Audit Committee reviewed and considered the Group accounts for the year ended 31 December 2007, the re-appointment of auditors, the Group accounts for the six month ended 30 June 2008, the connected transactions of the Group and the internal control reports. The external auditors were invited to attend one of the above meetings and they discussed various accounting issues and finding with the Audit Committee.

Internal Control and Risk Management

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

The Intendance and Audit Department is independent of all business lines and is directly responsible for the executive directors so as to ensure the neutrality of control. During the year, the Intendance and Audit Department deeply inspected, investigated and assessed totally ten subsidiaries/construction sites of the Group, and conducted one trial internal control test for the head office and three trial internal control tests for three difference construction sites. The Intendance and Audit Department reviewed and assessed the cost control system, subcontracting system, contract management procedure, procurement management procedure, inventory management system and financial and treasury management system of the Company. All reports are submitted directly to the executive directors and 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. The defects were remedial during the year and the systems were strengthened.

During the year, the Company's safety and health policy, and environmental policy were reviewed and renewed. In order to enhance the consciousness and knowledge on safety and environmental protection, and quality and technology of the Company, the Company conducted knowledge quiz and adopted incentive policy for front-line site management staff in this respect.

The Company set up a Risk Management Control Committee which focuses on business, operational and financial risks of the Company. The Committee is chaired by the vice-chairman and chief executive officer and includes executive directors and senior representatives from operation departments. The Committee aims to continually identify and strengthen the risk management of the Company.

During the second half of 2008, the Company built up a risk aware and control conscious culture throughout the Company. The Company re-determined the risk management targets and policies of the Company particular in strategic planning, treasury, cost control, credit control and accounts receivable control. Regular meetings with senior management and middle management were conducted to review and

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discuss the risk management progress on the operational and financial aspects. Regular meetings between middle management and sites management were also conducted to assess the credit control and accounts receivable issues of the employer and sub-contractors.

The Group will continue to conduct a review of the effectiveness of its internal control system and risk management policies at least once a year.

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 Auditors of the Company, are stated in the Independent Auditors' Report of the Company's 2008 Annual Report.

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 internal website and 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 possess the highest integrity, determination and professionalism to perform their duties and commit themselves to provide services with highest quality in accordance with the business objective and mission of the Group.

Shareholders

The Company has established various/a wide range of communication channels with shareholders. These include general meeting, annual report and interim report, notice, announcement and circular. In addition, the Company may update its website from time to time to keep the shareholders updated information of the Company's recent development.

The general meeting is a main channel of communication between Directors and shareholders. The Company held an annual general meeting and two extraordinary general meetings during 2008. The chairman gave sufficient time to shareholders at general meetings to provide them opportunity to raise questions and express their opinions.

The 2008 Annual General Meeting was held on 12 June 2008. The notice of meeting, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders more than 21 days prior to the meeting. The chairman of the Board attended the meeting. The chairman of the audit, remuneration and nomination committees were available to answer questions from the shareholders at the meeting. At the meeting, a separate resolution was proposed by the chairman in respect of each substantially separate issue, and voting on each resolution was conducted by poll. The procedure for demanding a poll was set out in the circular dispatched together with the Company's annual report. The results of the poll were posted on the website of the Hong Kong Exchange and the Company on the same day of the meeting.

Two extraordinary general meetings were held on 12 June 2008 and 28 November 2008 respectively. The notice of meetings and the circulars containing information on the proposed resolutions were sent to shareholders more than 14 days prior to the meetings. Chairman of the meetings and members of the independent board committee were available to answer questions from the shareholders at the meetings. At the meetings, a separate resolution was proposed by the chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The procedure for demanding a poll was set out in the circular dispatched. The results of the poll were posted on the website of the Hong Kong Exchange and the Company on the same day of the meetings.

Investor Relations and Communication

The Company has been striving to maintain high transparency and communicate with shareholders and investors through diversified communication channels. The Company holds press conferences and analyst briefing sessions from time to time to provide the latest business information of the Company to investors. The website of the Company contains the latest data and information of the Group so that shareholders, investors and the public can inspect the information about the Company in a timely manner. The Company's website: <http://www.csci.com.hk>.