

Corporate governance is the system by which Hsin Chong Construction Group Ltd. (“Hsin Chong”) is directed and controlled. Hsin Chong’s Board of Directors (“Board”) is fully aware of its importance to the shareholders and has developed a rigorous system of checks and balances which, at the same time, would allow management the ability to be responsive to the strategic directions approved by the Board. The Board believes that a well-balanced corporate governance system will enable Hsin Chong to achieve business excellence and fulfill Hsin Chong’s mission of “Building Trust and Value”.

## **CORPORATE CODE OF CONDUCT**

At the heart of any organization are its core values and integrity is the foundation of Hsin Chong’s core values. Hsin Chong published its Corporate Code of Conduct in 1995 for distribution to all staff in order to educate and reinforce Hsin Chong’s commitment to the highest standards of business ethics and the seriousness with which the Board treats such matters. The Corporate Code of Conduct is a living document and is periodically updated to incorporate comments and suggestions from the Independent Commission Against Corruption and the other regulating authorities in Hong Kong.

## **BOARD OF DIRECTORS**

The Board has ultimate oversight of Hsin Chong’s activities. Hsin Chong’s shareholders believe and have elected a Board comprised of professionals from various disciplines, including construction, finance, banking and accounting, so that management can benefit from the expertise and experience of those inside and outside the construction industry.

During the year, the Board contained six executive directors, one non-executive director and four independent non-executive directors. The independent non-executive directors included (a) Mr. David Wylie Cairns who was previously the senior partner of KPMG, Hong Kong and president of the Hong Kong

Society of Accountants, (b) Mr. Ho-ming Herbert Hui, a well-known respectable finance executive and former Deputy Chief Executive of The Stock Exchange of Hong Kong Limited, (c) Mr. Yao Kang, an experienced executive in management from the Swire Group and (d) Mr. Brian Robertson who is presently Head of Corporate and Institutional Banking of The Hongkong and Shanghai Banking Corporation Limited (“HSBC”). A member of HSBC’s senior management has been on the Board since Hsin Chong’s initial public offering in 1991.

Full Board meetings, led by the Chairman, are held at least quarterly in which the Hsin Chong’s strategies, operations and significant issues are thoroughly discussed and significant company actions are approved. Hsin Chong complies with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year.

## **EXECUTIVE COMMITTEE**

The Executive Committee was established in 1991 pursuant to Hsin Chong’s Bye-Law No. 124. The committee’s members include the Chairman, the Deputy Chairman and one or more of Hsin Chong’s executive directors. The primary duties of the committee are to administer Hsin Chong’s routine written resolutions and deal with ad hoc matters as may be delegated by the Board.

## **MANAGEMENT COMMITTEE**

As part of Hsin Chong’s culture change efforts and to further develop the management and strategy implementation skills of its senior executives, the Board set up a Management Committee with effect from 1st April, 2001. The committee currently consists of nine senior executives and is chaired by the Managing Director. It is responsible for the oversight and management of Hsin Chong’s day-to-day operations.

Members of the Management Committee need to have a thorough understanding of the Board's expectations and strategic vision in order to fulfill its responsibilities. Therefore, seats on the Board of Directors are reserved for members of the Management Committee.

### **AUDIT COMMITTEE**

Hsin Chong established an Audit Committee in November 1998 to assist the Board by providing an independent and objective review of the financial reporting process, internal controls, audit function and addressing specific management needs with emphasis on:

- (i) Appraising the quality of the audit effort of Hsin Chong's internal and external auditors;
- (ii) Serving as an independent and objective party to review the financial information presented by management to shareholders, regulators and the general public;
- (iii) Ascertaining the adequacy of Hsin Chong's system of internal controls; and
- (iv) Serving as an useful channel of communication between the Board and the external and internal auditors on audit matters.

The Audit Committee comprises of Mr. David Wylie Gairns as the Chairman and Mr. Ho-ming Herbert Hui, both independent non-executive directors. The committee has appointed an independent firm, PricewaterhouseCoopers ("PwC"), to perform internal audit functions to ascertain and evaluate the effectiveness of controls over key areas of Hsin Chong's business on a 4-year strategic plan cycle. The Audit Committee meets twice a year and has been satisfied with the internal controls already audited.

### **FINANCE COMMITTEE**

A Finance Committee led by the Deputy Chairman was established in 1996. The other members of the committee include experienced professional and qualified accountants. The objective of the committee is to formulate financial strategies and policies, and resolve the financial issues. The committee meets regularly to review and discuss Hsin Chong's cash flow, capital structure and financial capability, including the working capital requirements stipulated by the Works Bureau and Hong Kong Housing Authority, based on Hsin Chong's existing workload and business forecast.

### **INTERNAL AUDIT**

To enhance the independence and objectivity of the internal audit function, Hsin Chong outsourced its internal audit function to PwC, which, in turn, reports directly to the Audit Committee (see above).

In 1999, Hsin Chong engaged PwC to provide an objective evaluation of its operational, information and control systems. This internal audit included key business areas, including planning, tendering, procurement, project monitoring and control, certificates and payments, joint ventures and finance.

### **REMUNERATION COMMITTEE**

The establishment of remuneration committee was discussed in the Board meeting held on 11th April, 2002. The Board remains satisfied with the current system of reviewing directors' remuneration and therefore the establishment of remuneration committee was not considered necessary.