

# CORPORATE GOVERNANCE

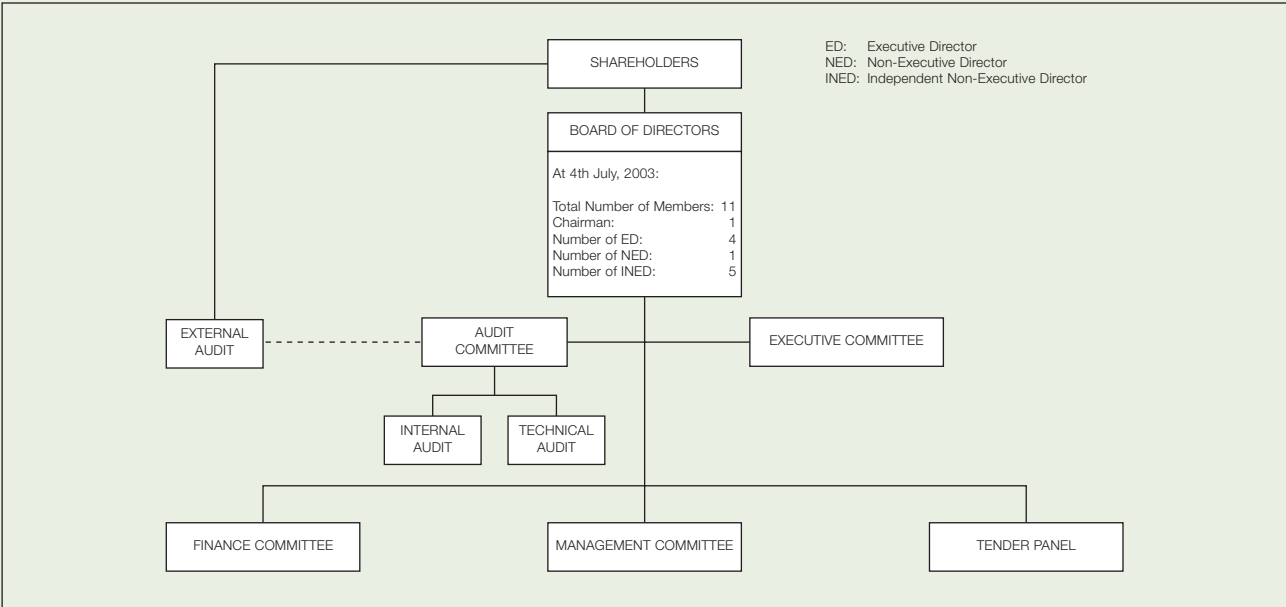
Corporate governance is the system by which Hsin Chong Construction Group Ltd. (“Hsin Chong”) is directed and controlled. Hsin Chong’s Board of Directors (“Board”) is fully aware of its importance to the shareholders and has developed a rigorous system of checks and balances which, at the same time, 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. 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.

## CORPORATE GOVERNANCE STRUCTURE

An overview of Hsin Chong’s corporate governance structure is shown in the chart below.



The Board has ultimate oversight of Hsin Chong’s activities. Hsin Chong’s shareholders believe and have elected a Board comprised 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.

Presently, apart from the Chairman, the Board contains four executive directors, five independent non-executive directors (“INEDs”) and one non-executive director. With a high percentage of INEDs in the Board, their views which play a check and balance role are able to carry significant weight in the Board’s decision. In addition, Hsin Chong has segregated the roles of Chairman and Chief Executive Officer.

The INEDs during the year and up to the date of this report include (a) Mr. Ho-ming Herbert Hui, a well-known respectable finance executive and former deputy chief executive of The Stock Exchange of Hong Kong Limited (“SEHK”); (b) Mr. Kin-fung Jeffrey Lam, a respectable merchant (*appointed on 24th August, 2002*); (c) Mr. Kwok-kuen Peter Lau, the chairman of Giordano International Limited, listed company in Hong Kong (*appointed on 24th August, 2002*); (d) Mr. Anthony Francis Rademeyer who is the Head of Corporate, Investment Banking and Markets, Asia-Pacific of The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) (*appointed on 18th March, 2003*); (e) Mr. Tobias Josef Brown who is the managing director of UCL Asia Limited, which is one of the largest direct investment groups in terms of liquid capital in Hong Kong (*appointed on 13th June, 2003*); (f) Mr. Yao Kang, an experienced executive in management from the Swire Group (*retired on 1st July, 2002*); (g) Mr. David Wylie Gairns who was previously the senior partner of KPMG, Hong Kong and president of the Hong Kong Society of Accountants (*retired on 1st September, 2002*); (h) Mr. Richard Paul Margolis who has extensive experience in investment banking and is a respectable senior executive (*appointed on 24th August, 2002 and resigned on 28th February, 2003 as he has taken up a new position with Rolls Royce Plc., based in Beijing and was obliged to give up his directorship in Hsin Chong*); and (i) Mr. Brian Robertson who was the Head of Corporate and Institutional Banking of the HSBC in Hong Kong (*resigned on 18th March, 2003 as he has taken up a new position with the HSBC in New York*).

Full board meetings, led by the Chairman, are held at least quarterly in which Hsin Chong’s strategies, operations and significant issues are thoroughly discussed and significant company actions are approved. Summary of attendance record of the directors of the Board meetings are set out below.

Date of Meeting	Attendance Record (Number of Members Attended/ Total Number of Members)				Percentage of Attendance
	Executive Director	Non-Executive Director	Independent Non-Executive Director	Total	Total
11th April, 2002	6/6	1/1	3/4	10/11	91%
5th July, 2002	6/6	1/1	3/3	10/10	100%
20th September, 2002	5/5	0/1	4/5	9/11	82%
6th December, 2002	5/5	0/1	3/5	8/11	73%
4th April, 2003	5/5	0/1	4/4	9/10	90%
4th July, 2003	5/5	0/1	5/5	10/11	91%

Hsin Chong complies with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules of the SEHK throughout the year.

Pursuant to Hsin Chong's Bye-Law No. 101(B), any newly appointed director by the Board shall hold office only until the next following annual general meeting ("AGM") and shall be eligible for re-election. Pursuant to Bye-Law No. 98, one-third of the directors excluding the Chairman and the Managing Director for the time being shall retire from office by rotation at each AGM. The retiring directors shall be eligible for re-election.

### 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.

Before retirement of Mr. David Wylie Gairns on 1st September, 2002, the committee comprised Mr. Gairns as the Chairman and Mr. Ho-ming Herbert Hui, both INEDs. On 20th September, 2002, Mr. Richard Paul Margolis and Mr. Kin-fung Jeffrey Lam, both INEDs, were appointed as the Chairman and member of the committee respectively. Upon the resignation of Mr. Margolis on 28th February, 2003 and appointment of Mr. Tobias Josef Brown as the Chairman of the committee on 13th June, 2003, the committee comprises Messrs. Brown, Hui and Lam.

The committee met twice a year and has been satisfied with Hsin Chong's internal controls so far. Summary of attendance record of the members of the Audit Committee meetings are set out below.

Date of Meeting	Attendance Record (Number of Members Attended/ Total Number of Members)	Percentage of Attendance
	Independent Non-Executive Director	Total
25th June, 2002	2/2	100%
28th November, 2002	3/3	100%
24th June, 2003	3/3	100%

On 24th June, 2003, the Audit Committee resolved that the committee would meet four times a year in conjunction with the Board meeting.

### **INTERNAL AUDIT**

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

Since 1999, Hsin Chong has engaged PwC to provide an objective evaluation of its operational, information and control systems. In 2001, PwC formulated a 4-year cycle internal audit plan (“4-Year Plan”) covering the years from 2002 to 2005 on key business areas, including planning, tendering, procurement, project monitoring and control, certificates and payments, joint ventures and finance. The 4-Year Plan was approved by the Audit Committee. Audit plan (“Annual Plan”) is prepared annually at the beginning of each year by PwC after taking into consideration Hsin Chong’s new development and with reference to the rotation plan set out in the 4-Year Plan. The auditors visit Hsin Chong twice a year to carry out the internal audit work as well as follow-up on the implementation of the recommendations made in previous visits.

### **TECHNICAL AUDIT**

To enhance the technical performance of critical construction operations on sites, Hsin Chong has implemented technical audit since early 2002. The audit plan is formulated by Technical Department which is independent of site operation and the audit is carried out by outside consulting engineers and in-house engineers who are independent of the sites being audited. The results of technical audit are reported to the Management Committee quarterly and to the Audit Committee bi-annually.

### **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 and the executive directors of the Company. 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 consists of key senior executives and is chaired by the Managing Director. The committee is responsible for the oversight and management of Hsin Chong’s day-to-day operations. The committee meets once a month to review and discuss Hsin Chong’s performance against budget, progress of construction project, business strategy and matters relating to environmental, health and safety, human resources and information technology.

Members of the 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 are reserved for members of the Management Committee.

### **TENDER PANEL**

The Tender Panel, comprising the Managing Director and three other executives, was established in early 2002. The responsibility of the panel is to review business opportunities and their associated risks, formulate viable business models and decide on the strategy and tactic towards each opportunity. Panel meeting is held weekly to review and discuss business proposals submitted from various business divisions.

### **FINANCE COMMITTEE**

A Finance Committee led by the 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, based on Hsin Chong's existing workload and business forecast.

### **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.

### **BEST CORPORATE GOVERNANCE DISCLOSURE AWARD FROM THE HONG KONG SOCIETY OF ACCOUNTANTS ("HKSA")**

Hsin Chong is pleased to receive the Platinum Award (Non-Hang Seng Index Category) of Best Corporate Governance Disclosure Awards from the HKSA in two consecutive years (2002 and 2001). Hsin Chong's management would like to share with the shareholders the Judges' commendations on Hsin Chong's 2001/02's Annual Report as follows:

- (i) It contains a frank and comprehensive overview of Hsin Chong's operations and a clear presentation of its operating and financial position with well-integrated charts, tables and photographs.
- (ii) It contains a thoughtful analysis of Hsin Chong's philosophy and practice on professional management, culture change and human capital investment, with a detailed terms of reference for the Audit Committee and good biographical data of the directors with extensive information on directors' interests.
- (iii) Hsin Chong has separated the functions of Chairman and Chief Executive Officer and the board contains more than the minimum number of the INEDs who are separately identified.

**PROPOSED NEW LISTING RULES RELATING TO CORPORATE GOVERNANCE ISSUES**

As stated in the Consultation Conclusions on Proposed Amendments to the Listing Rules Relating to Corporate Governance Issues ("Consultation Proposals") issued by the SEHK in January 2003, the Listing Rules will be amended to ensure effective implementation of the Consultation Proposals. In view of this, the Board will carry out a full review on Hsin Chong's corporate governance to comply with the new requirements of the Listing Rules and the Code of Best Practice.