

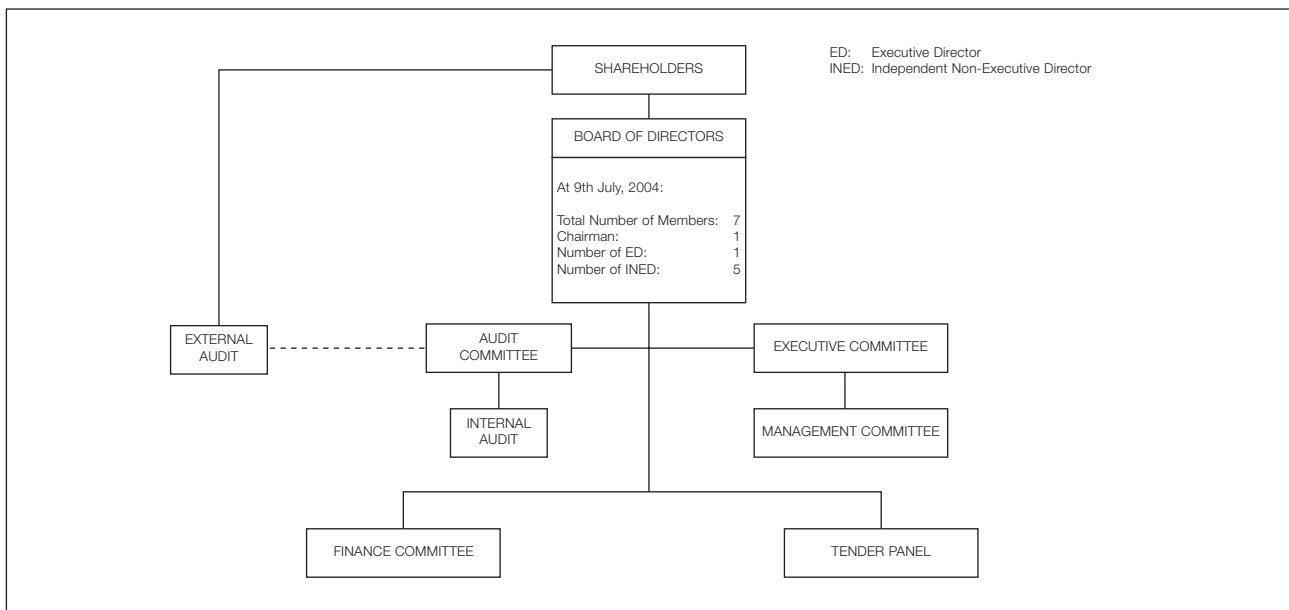
Corporate governance is the system by which Hsin Chong Construction Group Ltd. (“Hsin Chong”) is directed and controlled. Hsin Chong’s Board of Directors (“Board”) is fully aware of its importance to the shareholders and has developed a rigorous system of checks and balances which, at the same time,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

The Board believes that its function primarily is to direct Hsin Chong’s strategy and to monitor and measure management’s performance. Consequently, the proportion of independent non-executive directors (“INEDs”) appointed to serve on the Board should reflect this direction. Presently, apart from the Chairman, the Board contains one executive director and five INEDs. 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; (c) Mr. Kwok-kuen Peter Lau, the chairman of Giordano International Limited, listed company in Hong Kong; (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; and (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*).

The INEDs have confirmed their independence to Hsin Chong and Hsin Chong also considers that the INEDs are “independent” under the definition of the Rules governing the Listing of Securities on SEHK (“Listing Rules”).

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
4th April, 2003	5/5	0/1	4/4	9/10	90%
4th July, 2003	5/5	0/1	5/5	10/11	91%
5th September, 2003	5/5	0/1	5/5	10/11	91%
5th December, 2003	2/2	0/1	4/5	6/8	75%
17th March, 2004	2/2	0/1	4/5	6/8	75%
2nd April, 2004	2/2	0/1	3/5	5/8	63%
9th July, 2004	2/2	—	5/5	7/7	100%

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. 182(iv), 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.

Hsin Chong has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in the Appendix 10 of the Listing Rules and all its directors have also confirmed compliance of the Model Code.

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

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 committee comprised Mr. Tobias Josef Brown as the Chairman (*appointed on 13th June, 2003*), Messrs. Ho-ming Herbert Hui and Kin-fung Jeffrey Lam as members of the committee, all are INEDs.

The committee met twice a year before 2004. On 24th June, 2003, the committee resolved to meet four times a year in conjunction with the Board meeting, starting from 2004. The committee 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
24th June, 2003	3/3	100%
4th July, 2003	3/3	100%
25th November, 2003	3/3	100%
2nd April, 2004	2/3	67%
7th July, 2004	3/3	100%

INTERNAL AUDIT

Before 2004, the internal audit function was performed by PricewaterhouseCoopers ("PwC"). On 2nd April, 2004, the Audit Committee resolved to develop its own internal audit function, as part of the ongoing effort to focus on greater efficiency within Hsin Chong and to quickly respond to the management's concerns and identified problem areas. The suggestions made by PwC in the past would be considered and incorporated in the new internal audit system.

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 Services Department which is independent of site operation. On 25th November, 2003, the Audit Committee resolved that the technical audit system would be incorporated in Hsin Chong's quality management procedures to avoid duplication and improve the effectiveness of the system. The results of technical audit will be reported to the Executive Committee.

EXECUTIVE COMMITTEE

The Executive Committee was established in 1991 pursuant to Hsin Chong's Bye-Law No. 124. The committee's members comprised the Managing Director of Hsin Chong and two executive directors of Hsin Chong Group authorized by the Board. The primary duties of the committee are to administer Hsin Chong's routine written resolutions, determine matters of policy 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.

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 approve business proposals submitted by 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 Environment, Transport and Works Bureau, based on Hsin Chong's existing workload and business forecast.

NEW LISTING RULES RELATING TO CORPORATE GOVERNANCE ISSUES

As stated in the Draft Code on Corporate Governance Practices and Corporate Governance Report ("CG Practice") issued by the SEHK in January 2004, the Listing Rules would be amended to ensure effective implementation of the CG Practice. In view of this, a full review on Hsin Chong's corporate governance will be arranged to comply with the coming new requirements of the Listing Rules.