

Corporate Governance

Corporate governance is the system by which Hsin Chong Construction Group Ltd. ("Company" or 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 allows management to respond to the strategic directions approved by the Board. The Board believes that a well-balanced corporate governance system enables Hsin Chong to achieve business excellence and fulfill Hsin Chong's mission of "Building Trust and Value".

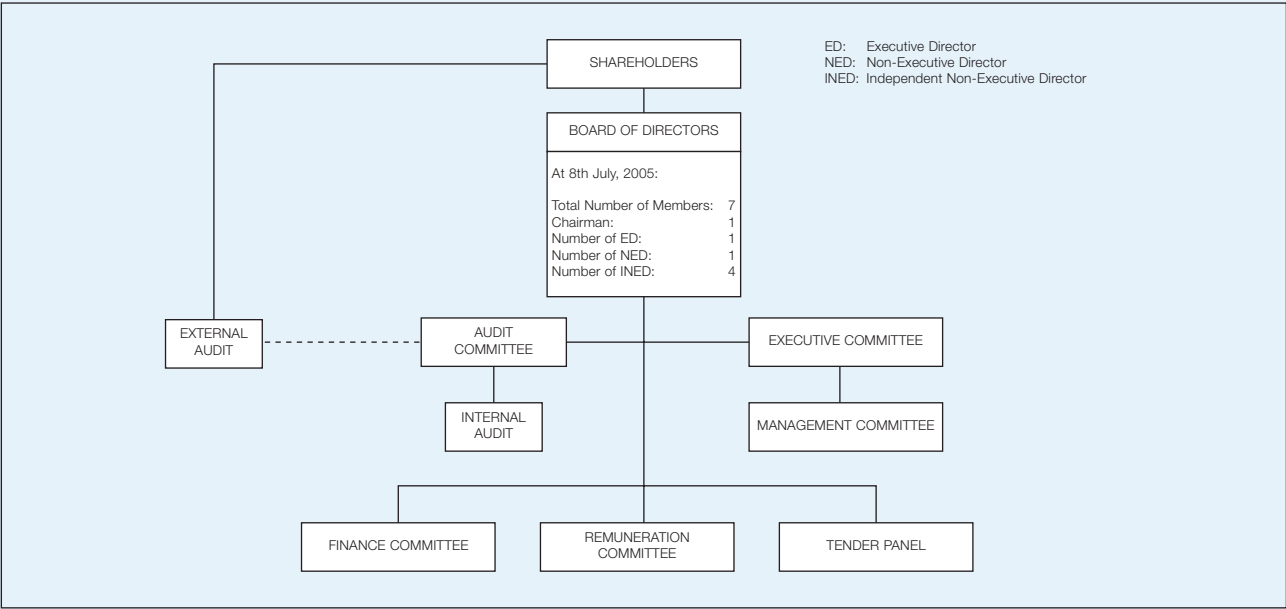
Long before implementing the new Code on Corporate Governance Practices under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") ("Listing Rules"), Hsin Chong has taken the initiative to disclose its corporate governance practices in annual reports starting from the year 2000/2001.

Corporate Code of Conduct

Organizations are driven by their core values, which for Hsin Chong, integrity is the most important core value. Since 1995, Hsin Chong has published and distributed its Corporate Code of Conduct to all staff 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 functions primarily to help set and direct Hsin Chong's strategy and to monitor and measure management's performance. Consequently, the proportion of independent non-executive directors ("INEDs") appointed to the Board reflects such direction. Other than the Chairman (Mr. V-nee Yeh — who has also appointed an alternate director), the Board has one executive director (Mr. Rodney Gordon Franks), four INEDs and one non-executive director. Such a high percentage of INEDs in the Board ensures their views carry significant weight. In addition, Hsin Chong segregates the roles of Chairman from the Chief Executive Officer. The Chairman provides leadership to the Board in terms of approving policies and strategies, whereas the Managing Director has overall responsibility for implementing the policies and strategies approved by the Board and monitoring the operations.

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The INEDs during the year and up to the date of this report include (a) Mr. Ho-ming Herbert Hui, a well-known respected finance executive and former deputy chief executive of The Stock Exchange of Hong Kong Limited; (b) Mr. Kin-fung Jeffrey Lam, a member of the Legislative Council in Hong Kong and a respected merchant; (c) Mr. Kwok-kuen Peter Lau, the chairman of Giordano International Limited, a well established listed company in Hong Kong; (d) Mr. Anthony Francis Rademeyer, who was the Head of Corporate, Investment Banking and Markets, Asia-Pacific of The Hongkong and Shanghai Banking Corporation Limited (resigned on 18th March, 2005 as he decided to relocate to the United Kingdom); 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. The non-executive director, Mr. Ki-chi Kwong is a well-known respected finance executive and who held senior positions in the Government of Hong Kong. Mr. V-nee Yeh's alternate is Mr. Barry John Buttifant, the managing director of Hsin Chong International Holdings Limited, which is a substantial shareholder of Hsin Chong. All non-executive directors are appointed for a term of two years subject to rotation pursuant to the Bye-Laws of the Company.

The INEDs have confirmed their independence to Hsin Chong and Hsin Chong also considers that the INEDs are "independent" under the definition of the 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. The Board has delegated authority and responsibility to the management for managing Hsin Chong within the control and authority framework set by the Board. The Board has also delegated various responsibilities to the committees as set out below. In addition, the Board also fully appreciates its responsibilities regarding preparation of financial statements.

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
2nd April, 2004	2/2	0/1	3/5	5/8	63
9th July, 2004	2/2	—	5/5	7/7	100
8th September, 2004	2/2	1/1	1/5	4/8	50
3rd December, 2004	2/2	1/1	3/5	6/8	75
19th April, 2005	2/2	1/1	4/4	7/7	100
8th July, 2005	2/2	1/1	3/4	6/7	86

Pursuant to the Company'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. As the full Board is responsible for selection and approval of candidates for appointment to the Board, therefore Hsin Chong has not established a Nomination Committee.

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 of the Listing Rules throughout the year. Hsin Chong has adopted the Code Provisions and certain Recommended Best Practices set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules with effect from 1st April, 2005, save for the few exceptions which, in Hsin Chong's opinion, are inappropriate to be adopted by Hsin Chong at this stage. Further explanations will be set out in subsequent interim and annual reports.

Remuneration Committees

Remuneration Committee of the Board

A Remuneration Committee of the Board was established on 1st April, 2005, comprised of Mr. V-nee Yeh as the Chairman, Messrs. Tobias Josef Brown and Ho-ming Herbert Hui as members of the committee, both are INEDs. The committee's terms of reference are summarized as follows :

- (i) Conduct regular review of the remuneration policy and procedures regarding compensation of the Group's directors and senior management;
- (ii) Make recommendations to the Board on the policy and structure of remuneration of Hsin Chong's directors and senior management and on establishment of a formal and transparent procedure for developing remuneration policy;
- (iii) Make recommendations to the Board on remuneration packages of the Company's directors;
- (iv) Determine remuneration packages of senior management proposed by the Managing Director of the Company.

The committee will annually report to the Board on its proceedings and make recommendations to the Board according to its terms of reference.

Management Remuneration Committees

Two management remuneration committees were also established during the year. The Executive Remuneration Committee comprised of three executive members of management and the Human Resources Director, serves to consider wide issues relating to executives' salaries, grading and benefits; and considers offers of employment, promotions and salary/incentive review at senior management level.

The Management Remuneration Committee comprised of members of line management and a representative from Human Resources Department, has the responsibility to consider offers of employment, promotions and salary/incentive review for staff below manager level.

Audit Committee

An Audit Committee has been in place since 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 of Mr. Tobias Josef Brown as the Chairman, Messrs. Ho-ming Herbert Hui and Kin-fung Jeffrey Lam as members of the committee, and all are INEDs.

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The committee met four times during the year in conjunction with the board meeting. 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
2nd April, 2004	2/3	67
7th July, 2004	3/3	100
9th September, 2004	2/3	67
30th November, 2004	3/3	100
19th April, 2005	3/3	100
27th June, 2005	3/3	100

In fulfilling its responsibilities, the main works performed by the committee during the year includes the following:

- (i) Review of annual and interim financial statements and results announcements, focusing on main areas of judgment, consistency of and changes in accounting policies and adequacy of information disclosure;
- (ii) Review of the results of external audit and discussion with external auditors on any significant findings and audit issues;
- (iii) Recommendations to the Board as to the reappointment and remuneration of the external auditors;
- (iv) Review and approval of internal audit plan and review of internal audit report;
- (v) Review of the adequacy and effectiveness of internal control systems, through review of the work undertaken by the internal and external auditors.

In relation to (v) above, the full Board has taken a final review of the effectiveness of internal control systems through the discussion with the committee members on significant findings and issues.

During the year, the fees paid by Hsin Chong to the external auditors and their affiliates for audit and non-audit services amounted to HK\$1,095,000 and HK\$471,000 respectively.

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 identify problem areas. The new internal audit plan includes i) review on corporate control of China operations; ii) follow-up of the suggestions made by PwC in the past; and iii) ongoing review of different operating cycles in construction industry for assessing adequacy and effectiveness of each control area. The Audit Committee was satisfied with the internal audit plan and works completed during the year.

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 operations. On 25th November, 2003, the Audit Committee resolved that the technical audit system should be incorporated in Hsin Chong's quality management procedures to avoid duplication and improve the effectiveness of the system. The results of technical audit are reported to the Executive Committee.

Executive Committee

The Executive Committee was established in 1991 pursuant to the Company's Bye-Law No. 124. Presently, the committee's members comprised of the Managing Director of the Company, the alternate director to the Chairman and four executive directors of Hsin Chong 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 Committees

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 projects, business strategy and matters relating to environmental, health and safety, human resources and information technology. In line with the expansion of business in China and Macau, two new Management Committees responsible for day-to-day operations in these two markets were set up respectively.

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 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 objectives of the committee are to formulate financial strategies and policies as well as to 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.