

Corporate Governance Report

Corporate governance is the system by which Hsin Chong Construction Group Ltd. (the “Company”) is directed and controlled. The Board of Directors (“Board”) of the Company 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 the Company to achieve business excellence and fulfill the Company’s mission of “Building Trust and Value.”

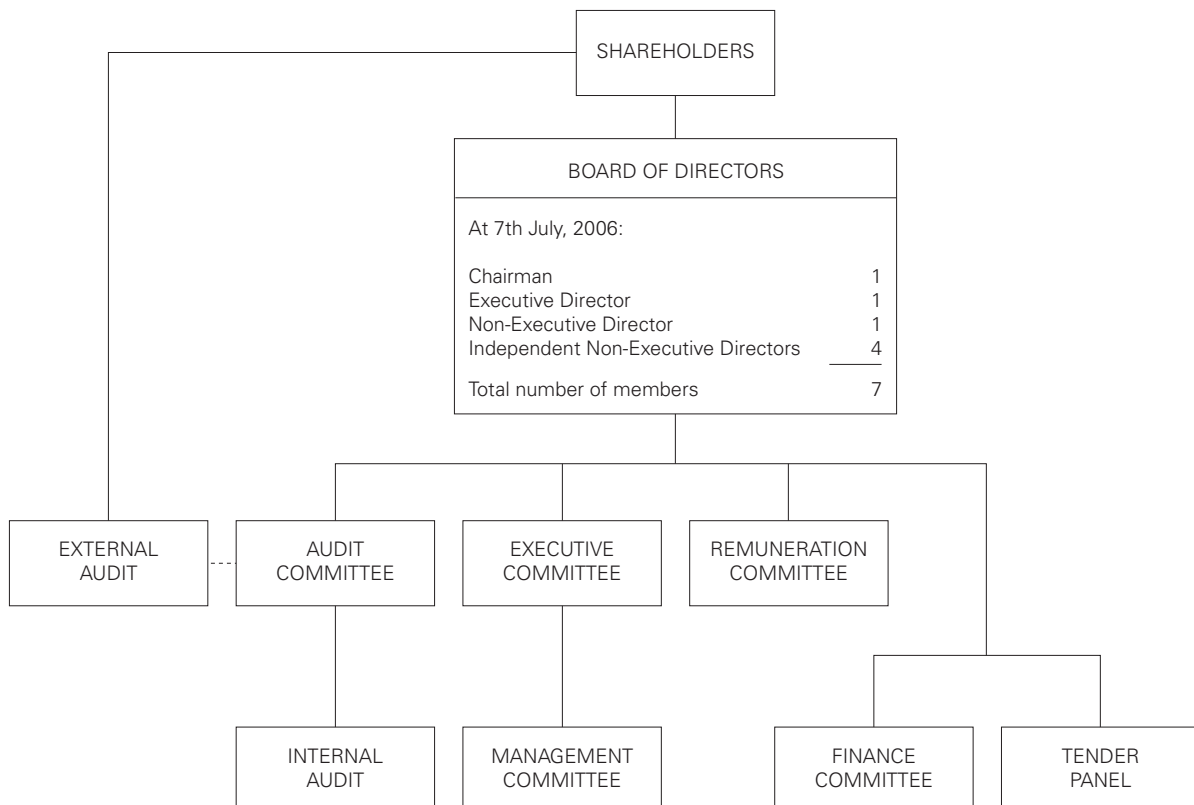
Long before implementing the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), the Company has taken the initiative to disclose its corporate governance practices in annual reports starting from the financial year 2000/2001.

Corporate Code of Conduct

Organizations are driven by their core values which for the Company, integrity is the most important core value. Since 1995, the Company has published and distributed its Corporate Code of Conduct to all staff to educate and reinforce the Company’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 the Company’s corporate governance structure is shown in the chart below.



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Corporate Governance Practices

The Company has applied the principles and complied with all the applicable code provisions and has adopted certain recommended best practices of the CG Code contained in Appendix 14 of the Listing Rules for the financial year ended 31st March, 2006 ("Financial Year"), save for the exceptions explained in the following relevant paragraphs.

Model Code for Securities Transactions

The Company 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 as its own code of conduct regarding securities transactions by Directors of the Company.

Having made specific enquiry of all Directors, they have confirmed that they complied with the required standard set out in the Model Code throughout the Financial Year.

Board of Directors

Composition, Roles and Functions

The Board has ultimate oversight of the Company's activities. The Company'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 the Company'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. Mr. V-nee YEH is the Chairman of the Board and he has also appointed an alternate director (Mr. Barry John BUTTIFANT). Other than the Chairman, the Board has one executive director, Mr. Rodney Gordon FRANKS, who also acts as the Managing Director of the Company, four INEDs and one non-executive director. Such a high percentage of INEDs in the Board ensures their views carry significant weight. In addition, the Company segregates the roles of Chairman from the Managing Director. 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.

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; and (d) 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 the Company. Biographies of all Directors are set out on pages 28 to 29 of this report.

Each of the INEDs have confirmed their independence to the Company and the Company also considers that the INED are independent under the definition of the Listing Rules.

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Attendance Record of Board Meetings

Full board meetings, led by the Chairman, are held at least quarterly in which the Company's strategies, operations and significant issues are thoroughly discussed and significant company actions are approved. In addition, the Board also fully appreciates its responsibilities regarding preparation of financial statements.

Attendance record of the Directors of the board meetings for the Financial Year and up to the date of this report are set out below.

Director	Date of Meeting/Attendance Record					
	19/04/2005	08/07/2005	09/09/2005	02/12/2005	12/04/2006	07/07/2006
Chairman						
V-nee YEH	✓	✓	✓	✓	✓	✓
Executive Director						
Rodney Gordon FRANKS	✓	✓	✓	✓	✓	✓
Non-Executive Director						
Ki-chi KWONG	✓	✓	–	✓	✓	✓
Independent Non-Executive Directors						
Tobias Josef BROWN	✓	✓	–	✓	✓	–
Ho-ming Herbert HUI	✓	–	–	✓	✓	✓
Kin-fung Jeffrey LAM	✓	✓	✓	–	✓	✓
Kwok-kuen Peter LAU	✓	✓	✓	✓	✓	✓
Attendance in total	7/7	6/7	4/7	6/7	7/7	6/7
Percentage of Attendance in total	100%	86%	57%	86%	100%	86%

Appointments, Re-election and Removal of Directors

All non-executive directors are appointed for a term of two years subject to retirement by rotation pursuant to the Bye-Laws of the Company.

Pursuant to the Company's Bye-Laws nos. 101(A) and 101(B), any newly appointed director by the Company or by the Board shall hold office only until the next following annual general meeting ("AGM") after his/her appointment and shall be eligible for re-election. Every newly appointed director will be given an introduction of regulatory requirements.

The Company has complied with the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the year, save for the code provision under A.4.2 that all directors should be subject to retirement by rotation at least once every three years. Under the existing Company's Bye-Laws nos. 98(A) and 182 (iv), one-third of the directors of the Company for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire by rotation at each annual general meeting of the Company, except the chairman and managing director who are not subject to retirement by rotation and re-election at annual general meetings. For compliance of the relevant code provision and bringing the Company's Bye-Laws in line with other recent changes of the Listing Rules, it is proposed to put forward to shareholders for passing a special resolution at the forthcoming AGM of the Company to amend the relevant provisions in the Bye-Laws of the Company such that (1) every director (including chairman and the managing director of the Company) shall be subject to re-election at least once every three years; and (2) the Company may remove any directors by an ordinary resolution.

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Delegation by the Board

The Board has delegated authority and responsibility to the management for managing the Company within the control and authority framework set by the Board. The Board has also delegated various responsibilities to the committees as set out below. As the full Board is responsible for selection and approval of candidates for appointment to the Board, therefore the Company has not established a Nomination Committee.

Supply of and Access to Information

All Directors have full and timely access to all relevant information, including regular reports from the Board committees and briefings on significant legal, regulatory or accounting issues affecting the Company and its group of companies ("Group").

The Company Secretary assists the Chairman in drawing the agenda of each Board meeting and each director may request inclusion of matters in the agenda. Generally, at least 14 days notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all directors at least 3 days before the intended date of a Board meeting.

The Company Secretary is responsible for taking minutes of the Board and Board committee meetings, drafts and final versions of which would be sent to directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting view (if any) expressed. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection by any director or committee member.

All Directors have access to the Company Secretary who is responsible for ensuring that board procedures are complied with and all applicable rules and regulations are followed.

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expense. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a board meeting will be held instead of by way of circulation.

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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 INEDs of the Company constitute the majority of the committee.

The committee's terms of reference are summarized as follows:

- (i) Conduct regular review of the remuneration policy and procedures regarding the Company's directors and senior management's compensation.
- (ii) Make recommendations to the Board on the Company's policy and structure of all remuneration of the Company's directors and senior management and on the 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) Approve remuneration packages of senior management proposed by the Managing Director of the Company.
- (v) Review and determine performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.
- (vi) Review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment.
- (vii) Review and approve compensation arrangement relating to dismissal or removal of the Company's Directors for misconduct in accordance with relevant contractual terms.
- (viii) Advise shareholders on how to vote with respect to any service contracts of Directors that require shareholders' approval under the Listing Rules.

All members were present at the Remuneration Committee meeting held on 27th June, 2006 and reported to the Board on its proceedings and made recommendations to the Board according to its terms of reference.

Management Remuneration Committees

Two management remuneration committees were also established in year 2005. 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.

The remuneration policies for the Company as well as the directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position, the Group's overall performance and individual performance.

Details of emoluments of each Director are set out in note 9 to the accounts on pages 119 to 120.

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Auditors' Remuneration

The remuneration paid to Messrs. PricewaterhouseCoopers, the Company's principal auditors, for the financial year ended 31st March, 2006, is set out as follows:

Services rendered	Fee paid HK\$'000
Audit services	1,375
Non-audit services: Taxation	268
	1,643

Audit Committee

An Audit Committee has been in place since 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 the Company'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 the Company's system of internal controls.
- (iv) Serving as a 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, all are INEDs.

The committee met four times during the Financial Year in conjunction with the Board meetings. The committee has been satisfied with the Company's internal controls so far.

Attendance record of the members of the Audit Committee meetings during the Financial Year and up to the date of this report are set out in the table below.

Member of Audit Committee	Date of Meeting/Attendance Record					
	19/04/2005	27/06/2005	09/09/2005	24/11/2005	12/04/06	27/06/06
Tobias Josef BROWN (<i>Chairman of the Committee</i>)	✓	✓	–	✓	✓	✓
Ho-ming Herbert HUI	✓	✓	✓	✓	✓	✓
Kin-fung Jeffrey LAM	✓	✓	✓	✓	✓	✓
Attendance in total	3/3	3/3	2/3	3/3	3/3	3/3
Percentage of Attendance in total	100%	100%	67%	100%	100%	100%

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

- (i) Review of draft 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. The review covered all material controls, including financial, operational and compliance controls and risk management functions.

Internal Audit

In 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 the Company and to quickly respond to the management's concerns and identify problem areas. The internal audit assignments for the year 2005/2006 include (i) review on corporate control of China and Macau operations; (ii) follow-up of the suggestions made by PricewaterhouseCoopers in the past; and (iii) ongoing review of different operating cycles in construction industry and for assessing adequacy and effectiveness of each control area. The Audit Committee was satisfied with the internal audit works completed during the year.

Technical Audit

To enhance the technical performance of critical construction operations on sites, the Company 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 the Company'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 three executive directors of the Group authorized by the Board. The primary duties of the committee are to administer the Company's routine written resolutions, determine matters of policy and deal with ad hoc matters as may be delegated by the Board.

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Management Committees

As part of the Company'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 the Group's day-to-day operations. The committee meets once a month to review and discuss the Group'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 and regular meetings have been held on monthly basis.

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 objective of the committee is to formulate financial strategies and policies as well as resolve the financial issues. The committee meets regularly to review and discuss the Group's cash flow, capital structure and financial capability, including the working capital requirements stipulated by the Environment, Transport and Works Bureau, based on the Group's existing workload and business forecast.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company which give a true and fair view of the state of affairs of the Company on a going concern basis and presenting the interim and annual financial statements, announcements and other financial disclosure required under the Listing Rules. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Company.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Auditors' Report on page 86 to 87.