

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to attaining good standard of corporate governance practices with an emphasis on a quality board, better transparency and effective accountability system in order to enhance the Shareholders' value.

The Company has adopted the code provisions of the Code on Corporate Governance Practices ("the Code") set out in Appendix 14 of the Listing Rules as its own code and has complied with the Code throughout the year ended 31 December 2008 except for the deviation from code provision A.4.1 of the Code in respect of the service term of the Directors.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2008.

## BOARD OF DIRECTORS

The Board formulates overall strategies of the Group, monitors management's performance and maintains effective oversight of execution of business strategies. The Board members are fully committed to their roles and have acted in good faith to maximise the Shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The Board is made up of nine Directors, including three Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. The Non-executive Directors and Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of construction, management, financial and accounting. All the Board members have extensive experience and knowledge in corporate management making significant contributions to the Company's strategic decision. The diverse background of the Board members ensures that they fully represent the interests of all the Shareholders. Biography and responsibility of the Directors are set out under the heading "Directors and Senior Management" of this Annual Report. The Board has delegated certain authorities to the Audit Committee and Remuneration Committee.

To the best knowledge of the Company, there is no financial, business and family relationship among members of the Board and between the Chairman and the Vice Chairman.

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## BOARD OF DIRECTORS – continued

During the year, five full board meetings were held and the attendance of each Director is set out as follows:

<b>Directors</b>	<b>Attendance/ Number of meetings</b>
<i>Executive Directors:</i>	
Zen Wei Peu, Derek ( <i>Chairman</i> )	5/5
Yu Sai Yen ( <i>Vice Chairman</i> )	5/5
Chang Kam Chuen, Desmond	3/5 (Note 1)
<i>Non-executive Directors :</i>	
David Howard Gem	3/5
Cheng Chi Pang, Leslie	5/5
Lam Wai Hon, Patrick	4/5 (Note 2)
Chan Chi Hung, Anthony	0/5 (Note 3)
<i>Independent Non-executive Directors :</i>	
Chow Ming Kuen, Joseph	5/5
Ng Chi Ming, James	4/5
Ho Tai Wai, David	5/5

Notes:

1. Two of the five board meetings were held before the appointment of Mr. Chang Kam Chuen, Desmond as an Executive Director on 1 June 2008.
2. One of the five board meetings was held after the resignation of Mr. Lam Wai Hon, Patrick as a Non-executive Director on 24 October 2008.
3. All of the five board meetings were held before the appointment of Mr. Chan Chi Hung, Anthony as a Non-executive Director on 4 December 2008.

The Board is provided with information by the senior management for the operational and financial reports before the regular board meetings. At least 14 days' notice is given to all Directors and the relevant information despatched to them at least 3 days before the meeting. Senior management who are responsible for the preparation of the Board papers are usually invited to present and to take any questions or address queries that the Board members may have. All Board members have unrestricted access to information and may seek independent professional advice where appropriate. Minutes of every board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following board meeting.

The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities.

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## CHAIRMAN AND VICE CHAIRMAN

The Chairman of the Board is Mr. Zen Wei Peu, Derek and the Vice Chairman is Mr. Yu Sai Yen. The Company does not at present have any officer with the title “Chief Executive Officer” (CEO). However, Mr. Yu Sai Yen, having been appointed as the Vice Chairman, carries out the duties of a CEO of the Company upon the completion of the restructuring in April 2004. The Company does not currently intend to re-designate the Vice Chairman as CEO of the Company. Though he is not formally designated as CEO of the Company, his duties and responsibilities are segregated from those of the Chairman's.

The segregation of duties and responsibilities between the Chairman and the Vice Chairman have been clearly established and set out in writing. The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Vice Chairman is responsible for managing the Group's business and overall operations. The day-to-day running of the Company is delegated to the management with divisional heads responsible for different aspects of the business.

## NON-EXECUTIVE DIRECTORS

None of the existing Non-executive Directors (including Independent Non-executive Directors) is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all the Directors are subject to the retirement provisions under Bye-law 111 of the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

## REMUNERATION OF DIRECTORS

The Remuneration Committee was established in February 2005 with specific written terms of reference which delineates its authority and duties. The Chairman of the Remuneration Committee is Dr. Chow Ming Kuen, Joseph, an Independent Non-executive Director, and other members include Mr. Ng Chi Ming, James, Mr. Ho Tai Wai, David and Mr. Zen Wei Peu, Derek, the majority being Independent Non-executive Directors.

The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The Remuneration Committee shall consult with the Chairman and Vice Chairman on its proposals and recommendations. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions and prevailing marketing conditions.

# Corporate Governance Report

## REMUNERATION OF DIRECTORS – continued

During the year, two meetings of the Remuneration Committee were held. Details of the attendance of the Remuneration Committee meetings are as follows:

Remuneration Committee Members	Attendance/ Number of meetings
Chow Ming Kuen, Joseph	2/2
Ng Chi Ming, James	1/2
Ho Tai Wai, David	2/2
Zen Wei Peu, Derek	2/2

During the year, the Remuneration Committee reviewed and approved the remuneration packages of the Executive Directors and senior management (as defined in the Annual Report). No member can determine his own remuneration. The terms of reference of the Remuneration Committee is published on the Company's website.

## NOMINATION OF DIRECTORS

The appointment and removal of Directors is considered and determined by the Board of Directors. The Board shall consider every proposed director's knowledge, experience and his/her possible contribution to the Company before his/her appointment as the Company's Director. During the year, Messrs. Chang Kam Chuen, Desmond and Chan Chi Hung, Anthony were appointed as an Executive Director and a Non-executive Director respectively with unanimous approval by the Board. The Directors shall retire from office in general meeting in accordance with the Bye-laws but shall be eligible for re-election at the general meeting.

According to Bye-law 111 of the Bye-laws of the Company then in effect before 12 May 2005, one-third of the Directors for the time being shall retire from the office by rotation at each annual general meeting provided that the Chairman of the Board, the Managing Director or joint Managing Director of the Company shall not be subject to retirement by rotation. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election, or those who have been longest in office since their last re-election or appointment or those who were appointed by the Board to fill casual vacancy. However, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. As the Chairman of the Board and the Managing Director of the Company are not subject to retirement by rotation under the Bye-laws of the Company, this constitutes a deviation from the code provision A.4.2 of the Code. Nevertheless, any Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall be eligible for re-election.

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## **NOMINATION OF DIRECTORS – continued**

To comply with the code provision A.4.2 of the Code, the relevant amendment to Bye-law 111 of the Bye-laws of the Company was proposed and approved by the Shareholders at the annual general meeting of Company held on 12 May 2005.

## **AUDIT COMMITTEE**

The Audit Committee was re-established upon the completion of the restructuring in April 2004. The Chairman of the Audit Committee is Mr. Ng Chi Ming, James, an Independent Non-executive Director; and other members include Dr. Chow Ming Kuen, Joseph, Mr. Ho Tai Wai, David and Mr. David Howard Gem, the majority being Independent Non-executive Directors.

The main roles and functions of the Audit Committee are as follows:

1. to consider the appointment of external auditors, the audit fees and any questions of resignation or dismissal of the external auditors;
2. to discuss with the external auditors the nature and scope of the audit;
3. to review the annual and interim financial statements before submission to the Board of Directors;
4. to discuss problems arising from the interim review and final audit;
5. to review the external auditor's management letters and management's response;
6. to review internal control systems;
7. to review the internal audit program, ensure co-ordination between the internal and external auditors; and
8. to consider the major findings of internal investigations and management's response.

The terms of reference of the Audit Committee is published on the Company's website.

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## AUDIT COMMITTEE – continued

During the year, three meetings of the Audit Committee were held. Details of the attendance of the Audit Committee meetings are as follows:

<b>Audit Committee Members</b>	<b>Attendance/ Number of meetings</b>
Ng Chi Ming, James	3/3
Chow Ming Kuen, Joseph	3/3
Ho Tai Wai, David	3/3
David Howard Gem	1/3

During the year, the Audit Committee considered the external auditors' proposed audit fees, discussed with the external auditors the nature and scope of the audit, reviewed the major findings and recommendations of the Internal Audit Team on the operations and performance of the Group, reviewed the effectiveness of internal control system, interim and annual financial statements, and reviewed the external auditors' management letter and management's responses.

## AUDITOR'S REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

<b>Services rendered</b>	<b>Fees paid/payable</b> HK\$
Audit services	2,148,000
Non-audit services (including tax advice)	<u>296,000</u>
	<u><u>2,444,000</u></u>

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## **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and ensure that the consolidated financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements of the Group.

The statement of the external auditor of the Company, Messrs. Deloitte Touche Tohamstu, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on page 37.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## **INTERNAL CONTROL**

The Board recognises its responsibility for maintaining an adequate system of internal control. To guarantee an ongoing assurance process, the Board established an internal audit team in January 2006. During the year, the Board has conducted a review of the effectiveness of the Group's internal control system. The internal audit team provides independent and objective assurance to the Chairman and Audit Committee on:

1. Integrity of financial and operational information;
2. Effectiveness and efficiency of operations;
3. Safeguarding of assets;
4. Quality of information flow; and
5. Compliance with laws, regulations, and contracts.

# Corporate Governance Report

## INTERNAL CONTROL – continued

The internal audit team carried out its mission by:

1. identifying and prioritising potential business risks;
2. performing risk-based audits;
3. evaluating effectiveness and compliance with internal policies and procedures;
4. analysing causes for errors and irregularities found;
5. recommending good internal controls to prevent unintentional mistakes, discourage fraudulent acts, and promote operational efficiency and ethical standards;
6. performing follow up procedures on corrective actions;
7. appraising the soundness and adequacy of various departments' ongoing maintenance of internal controls;
8. providing consulting and advisory services on control and related matters;
9. conducting independent investigation of situations raised by whistleblowers, if any; and
10. maintaining open communication with the chairman, audit committee, and audit management.

The system of internal control is designed to provide reasonable, but not absolute, assurance against human errors, material misstatements, losses, damages, or frauds, and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. During the year under review, no irregularity or material weakness was noted within any function or process. The Audit Committee and the external auditors were satisfied that the internal control system has functioned effectively as intended.



# Corporate Governance Report

## QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT

The Group is dedicated to excellence in Quality, Safety and Environmental Protection. Since the Year 2004, it has adopted an Integrated Management System, which is a total management and systematic approach comprising a consistent set of standards and processes, that are applied uniformly across the whole entity. This is a living system and is being constantly reviewed and amended to suit changing circumstances and new legislation. Continual monitoring and reporting at all levels is carried out together with internal and external audits to ensure full compliance. As a testament of this commitment, the Group continues to be accredited under the relevant international standards; namely: ISO9001: 2000, OHSAS18001: 1999 and ISO14001: 2004.

The persistent drive for excellence in quality, safety and the environment have resulted in the operating companies of the Group between them winning of the following awards during the year under review:

- Considerate Contractor Site Awards (Bronze) presented by the Works Branch of Development Bureau, Hong Kong SAR Government
- 2 no. Considerate Contractor Site Awards (Merit) presented by the Works Branch of Development Bureau, Hong Kong SAR Government
- Outstanding Environmental Management & Performance Grand Award (Merit) presented by the Works Branch of Development Bureau, Hong Kong SAR Government
- Hong Kong Award for Industries – Certificate of Merit in Environmental Performance presented by the Business Environment Council and Trade and Industry Department, Hong Kong SAR Government
- Construction Sites Housekeeping Award (Meritorious) presented by the Drainage Services Department, Hong Kong SAR Government
- 4 no. HKCA Environmental Merit Award presented by the Hong Kong Construction Association
- 3 no. Gold “Wastewi\$e Logo” presented by the Environmental Protection Department, Hong Kong SAR Government
- 2007/2008 Operations Division Partnering Award for Civil Works Project (Safety Classification I) presented by MTR Corporation Limited
- Grand Award of the HKCA Innovative Environmental Award presented by the Hong Kong Construction Association

# Corporate Governance Report

## **QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT**

### **– continued**

During the year, imbued with strong management commitment and professional expertise, the Group has fulfilled its duties as a responsible corporation. In the years ahead it will continue to take the lead in motivating all employees and subcontractors to make unremitting efforts to further improve the Group's performance in Quality Assurance, Safety & Health and Environmental Protection.

## **COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS**

The Board recognises the importance of good communications with all Shareholders. The Company communicates with its Shareholders through the publication of annual and interim reports in accordance to the Listing Rules. Detailed analysis of the development status of each business are set out in the Business Review and Prospects of the Interim and Annual Reports so as to enable the Shareholders to have a thorough understanding of the Company's businesses.

The Company's financial statements and each of the required disclosure of information are despatched within the prescribed period imposed by law and regulations and are all posted on the Company's website at [www.buildking.hk](http://www.buildking.hk) for the public to download.

The Company welcomes the Shareholders to attend the general meetings and express their views. The Chairman of the Board as well as other Board members together with the external auditor is available to answer Shareholders' questions.

## **COMPLIANCE**

The Company realises the importance of the corporate governance. The Board shall ensure from time to time to comply with the Code to increase their accountability and to achieve a high standard of corporate governance.