

Corporate Governance

The Group works to maintain the highest standards of corporate governance by implementing a range of sound policies, procedures and rules that are followed by staff and board members alike in a culture of integrity. Business is conducted in the interest of shareholders but with an acute awareness of community expectations.

To achieve our corporate governance objectives we ensure that the processes of corporate decision-making, internal audit and controls, disclosure of information and communication with shareholders, are conducted in accordance with sound management practices and in full compliance with regulatory standards.

Staff members and our Board of Directors understand the importance of their roles to the Group's success. Our adoption of internationally recognised quality standards through ISO certification, gives us a strong sense of quality management in all aspects of our day-to-day operations. This enhances the performance and value of the Group.

Board of Directors

The Company's Board of Directors, whose profiles are presented on pages 78 to 83 of this Annual Report, comprises 17 Directors, four of whom are Independent Non-executive Directors. During the year, the Group has fully complied with Rules 3.10(1) and (2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") regarding the number of independent non-executive directors and the requirement that at least one of these directors must hold appropriate professional qualifications.

Directors at 17 March 2005 are:

Independent Non-executive Directors

The Hon Sir Sze-yuen CHUNG, *GBM, GBE, PhD, FREng, JP* (Chairman)
Dr KUNG Ziang Mien, James, *GBS, OBE* (with Mr KUNG Lin Cheng, Leo as alternate)
Dr Eric LI Ka Cheung, *GBS, OBE, JP*
Mr SIU Kwing-chue, Gordon, *GBS, CBE, JP*

Non-executive Directors

Dr Norman LEUNG Nai Pang, *GBS, JP* (Deputy Chairman)
Mr KWOK Ping-luen, Raymond (with Mr SHAM Yat Wah as alternate)
Mr KWOK Ping-sheung, Walter, *JP* (with Ms Susanna LAU Shung Oi as alternate)
Mr YU Shu Chuen
Mr NG Siu Chan
Mr William LOUEY Lai Kuen
Mr George CHIEN Yuan Hwei
Mr Rafael HUI, *GBS, JP*

Executive Directors

Mr John CHAN Cho Chak, *GBS, JP* (Managing Director)
Mr Charles LUI Chung Yuen, *M.H.*
Ms Winnie NG
Mr LUI Pochiu
Mr Edmond HO Tat Man (Deputy Managing Director)

In our Group, the roles of the Chairman and the Managing Director are segregated. The Chairmanship is held by The Hon Sir Sze-yuen Chung, an Independent Non-executive Director. The Chairman is responsible for managing the operations of the Board while the Managing Director, Mr John Chan Cho Chak, oversees the Group's businesses.

The Board is responsible for steering the Group and endeavours to enhance its share value. Each Director has a specific role and is aware of his or her duty to act in the best interest of the Group and in good faith.

As well as being accountable to shareholders, the Directors also manage and monitor the relationship between the Group and its customers, its creditors, the community and the HKSAR Government.

The respective Boards of Directors of The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited (“LWB”), which are wholly owned subsidiaries of the Company, comprise a total of 19 Directors including the Company’s 17 Directors and two Directors nominated by the HKSAR Government. Currently, these two Directors are the Commissioner for Transport and the Deputy Secretary for the Environment, Transport and Works.

Board Meetings

Board meetings are normally held monthly to discuss and decide on major corporate, strategic and operational issues as well as evaluate major investment opportunities. The four Independent Non-executive Directors and the other eight Non-executive Directors of the Board are not involved in the day-to-day management of the Group and therefore are able to analyse the Group’s management issues with different perspectives during decision-making processes. In general, the Board makes decisions on major operational and financial affairs as well as investments. The general management and day-to-day administrative decisions are delegated to the management team. This facilitates a prompt response to a rapidly changing market environment.



The Company’s Board of Directors reports the affairs of the Group to the shareholders at the 2004 Annual General Meeting

“ Good corporate governance produces collaborative management and sound partnerships with stakeholders. ”

Board Committees

The Board has three committees — the Executive Committee, the Audit Committee and the Remuneration Committee which play a key role in overseeing various aspects of the Company.

Executive Committee

The Executive Committee consists of five Directors, namely Mr John Chan Cho Chak, Mr Kwok Ping-luen, Raymond, Mr Rafael Hui, Mr Ng Siu Chan and Mr Charles Lui Chung Yuen. It normally meets with senior management once a month to review and discuss financial, operational and strategic issues in relation to current businesses and potential investment opportunities. It reports to the Board of Directors.

Audit Committee

The Group's Audit Committee comprises three Non-executive Directors — Dr Eric Li Ka Cheung (Chairman), Dr Kung Ziang Mien, James and Mr George Chien Yuan Hwei, of whom the first two Directors are Independent Non-executive Directors. The responsibilities of the Audit Committee are largely based on the recommendations provided in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Such responsibilities include but are not limited to:

- meeting as required to review with senior management the accounting principles and practices adopted by the Group, the accuracy and fairness of the financial statements, and the scope of both internal and external audit work;
- meeting with external auditors and reviewing their work and findings relating to interim and final published financial statements;
- reviewing the effectiveness of internal controls and practices; and
- recommending re-appointment, dismissal, remuneration and replacement of external auditors to the Board subject to approval by the shareholders at the Company's annual general meetings.

Two meetings were held during 2004. After each meeting, the Chairman of the committee submitted a report to the Board of Directors and gave a briefing on significant issues.

Remuneration Committee

The Group's Remuneration Committee, first established in December 2003, comprises three Non-executive Directors, namely Dr Norman Leung Nai Pang (Chairman), Dr Eric Li Ka Cheung and Dr Kung Ziang Mien, James, of whom the latter two are Independent Non-executive Directors. The committee formulates policies on remuneration, including establishing guidelines to determine terms and conditions of employment, remuneration and retirement benefits. It also sets appropriate criteria for performance-related bonuses and reviews and makes recommendations on human resources related policies to the Board of Directors. Two meetings were held to review the Group's remuneration structures including Directors' remuneration for 2004.

The following table shows the attendance records of the Directors of the Company during the year 2004:

Directors	Attendance of individual Directors at Board/Committee Meetings in 2004			
	Board Meeting	Executive Committee Meeting	Audit Committee Meeting	Remuneration Committee Meeting
The Hon Sir Sze-yuen CHUNG (Chairman)	10/10			
Dr Norman LEUNG Nai Pang (Deputy Chairman)	9/10	1/1 (note 1)		2/2
Mr KWOK Ping-luen, Raymond (with Mr SHAM Yat Wah as alternate)	9/10	12/12		
Mr KWOK Ping-sheung, Walter (with Ms Susanna LAU Shung Oi as alternate)	5/10			
Mr YU Shu Chuen	9/10			
Mr NG Siu Chan	8/10	11/12		
Mr William LOUEY Lai Kuen	9/10			
Mr John CHAN Cho Chak (Managing Director)	10/10	12/12		
Mr Charles LUI Chung Yuen	6/10	11/12		
Ms Winnie NG	9/10			
Dr KUNG Ziang Mien, James (with Mr KUNG Lin Cheng, Leo as alternate)	7/10		2/2	2/2
Mr George CHIEN Yuan Hwei	10/10		2/2	
Dr Eric LI Ka Cheung	8/10		2/2	2/2
Mr LUI Pochiu	10/10			
Mr Edmond HO Tat Man (Deputy Managing Director)	10/10			
Mr Rafael HUI	8 /10 (note 2)	11/11 (note 2)		
Mr SIU Kwing-chue, Gordon	1/2 (note 3)			

- Notes:**
1. Dr Norman Leung Nai Pang ceased to be a member of the Executive Committee since 1 February 2004.
 2. Mr Rafael Hui was appointed as a Non-executive Director of the Company and a member of the Executive Committee with effect from 1 February 2004.
 3. Mr Siu Kwing-chue, Gordon was appointed as an Independent Non-executive Director of the Company with effect from 26 October 2004.

Internal Audit

The Head of the Internal Audit Department, who reports directly to the Managing Director and the Audit Committee, supervises the implementation of comprehensive audits and reviews of financial and operational procedures and practices of the Group on both a regular and an ad-hoc basis. He is also responsible for ensuring that the procedures and practices comply with the relevant requirements of ISO 9001:2000 and ISO 14001:1996. Under the ISO systems, individual staff members are highly aware of the need for quality and integrity and they are required to work towards achieving or even exceeding the ISO standards. This enhances the total quality performance of the Group.

External Auditors

In line with the sound practice that the independence of external auditors should not be impaired by other non-audit assignments, we ensure that assignments other than statutory audits undertaken by external auditors should not have an adverse impact on their independence. For the year ended 31 December 2004, KPMG, our external auditors, received fees from the Group for the following services:

	HK\$ million
Audit services	3.7
Non-audit services	2.4
Total	6.1

Code of Conduct

Our Code of Conduct for Directors and Employees (the “Code”) has long been published to ensure that both our Directors and employees are keep abreast of and fulfil a set of defined ethical obligations and appropriate behaviours when conducting businesses and/or performing their duties. The Code also provides guidance on responsibility to our shareholders, customers and the community. Any member in breach of the Code is subject to disciplinary actions. The Code is updated from time to time, taking into account changes in the relevant legislations and the business environment.

Communications

Financial Reporting

It is our objective to prepare financial statements that provide a true and fair representation of the Group’s financial position and its prospects in a clear and concise manner. We prepare interim and annual announcements and financial reports with full compliance to relevant statutory requirements.

Reporting in relation to services and operations

The Group publishes reports and brochures that focus on specific aspects of operations from time to time. The two major subsidiaries of the Company, KMB and LWB, publish and distribute the following reports and brochures to enhance our customers’ and the community’s understanding of our services and operations. The reports and brochures are also available on our website for public information.

- More about KMB
- KMB Service Charter
- Introduction on KMB’s four bus depots
- KMB / Long Win Passenger Liaison Group Report
- More about Long Win
- KMB Performance Pledge
- KMB’s Efforts in Environmental Protection
- KMB Today (a monthly magazine)

Enhanced Shareholder Value

The Group conducts its businesses based on the highest standards of corporate governance. The corporate decision-making process is carried out in a professional, open and systematic manner to inspire investor confidence in the Group’s management and internal controls and enhance shareholder value.