

# Corporate Governance Report

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

Throughout the year 2005, the Group complied with the Code on Corporate Governance Practices

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.

During 2004, The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) issued the Code on Corporate Governance Practices (the “Code”), which became effective for any accounting year commencing on or after 1 January 2005. The Code provides a comprehensive guide for listed issuers in Hong Kong to evaluate and improve their corporate governance practices. The Code, which contains two levels of recommendations — the Code Provisions and the Recommended Best Practices, sets out the principles of good corporate governance in the following areas:

- Board of Directors
- Delegation by the Board of Directors
- Remuneration of Directors and Senior Management
- Accountability and Audit
- Communication with Stakeholders

Throughout the year ended 31 December 2005, the Group complied with the Code Provisions as set out in this report.

## Board of Directors

### Composition of the Board of Directors

The Board has a balance of skills and experience appropriate to the requirements of the business of the Group and also consists of a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that independent judgment can be effectively exercised.

The Company’s Board of Directors has a balance of skills and experience appropriate to the requirements of the Group’s business

The Company’s Board of Directors, whose profiles are presented on pages 92 to 97 of this Annual Report, currently comprises 16 Directors, five of whom are Independent Non-executive Directors. During the year, the Group fully complied with Rules 3.10(1) and (2) of the Rules Governing the Listing of Securities on the Stock Exchange (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. The Company has received confirmation from each Independent Non-executive Director about his independence under the Listing Rules, and continues to consider each of them to be independent. The Independent Non-executive Directors are explicitly identified in all corporate communications.

Directors of the Company at 16 March 2006 are:

<b>Independent Non-executive Directors</b>	<p>The Hon Sir Sze-yuen CHUNG, <i>GBM, GBE, PhD, FEng, JP</i> (Chairman)</p> <p>Dr Norman LEUNG Nai Pang, <i>GBS, JP</i> (Deputy Chairman)#</p> <p>Dr KUNG Ziang Mien, James, <i>GBS, OBE</i> (with Mr KUNG Lin Cheng, Leo as alternate)</p> <p>Dr Eric LI Ka Cheung, <i>GBS, OBE, JP</i></p> <p>Mr SIU Kwing-chue, Gordon, <i>GBS, CBE, JP</i></p>
<b>Non-executive Directors</b>	<p>Mr KWOK Ping-luen, Raymond, <i>JP</i> (with Mr YUNG Wing Chung as alternate)</p> <p>Mr KWOK Ping-sheung, Walter, <i>JP</i> (with Ms Susanna LAU Shung Oi as alternate)</p> <p>Mr YU Shu Chuen</p> <p>Mr NG Siu Chan</p> <p>Mr William LOUEY Lai Kuen</p> <p>Mr George CHIEN Yuan Hwei</p>
<b>Executive Directors</b>	<p>Mr John CHAN Cho Chak, <i>GBS, JP</i> (Managing Director)</p> <p>Mr Charles LUI Chung Yuen, <i>M.H.</i></p> <p>Ms Winnie NG</p> <p>Mr LUI Pochiu</p> <p>Mr Edmond HO Tat Man (Deputy Managing Director)</p>

# Dr Norman Leung Nai Pang was formerly a Non-executive Director of the Company and has become an Independent Non-executive Director with effect from 1 February 2006.

## Board Committees

Board committees have been formed with specific written terms of reference that deal with their authorities and duties.

The Board currently has four committees — the Standing Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. These committees play a key role in overseeing various aspects of the Group. Members of the above committees are appointed by the Board with reference to their respective terms of reference. Details of each of the above committees are set out in the relevant sections below.

## Appointment, Re-election and Removal of Directors

Formal, considered and transparent procedures have been established for the appointment, re-election and removal of Directors.

Established by the Board in November 2005, the Nomination Committee currently comprises four Independent Non-executive Directors, namely Dr Norman Leung Nai Pang, Dr Kung Ziang Mien, James, Dr Eric Li Ka Cheung and Mr Siu Kwing-chue, Gordon. The Nomination Committee is chaired by Dr Norman Leung Nai Pang. The principal functions of the Nomination Committee include:

- reviewing and monitoring the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board regarding any proposed changes;
- identifying and nominating for the approval of the Board suitably qualified candidates for appointment as directors;
- making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Managing Director; and
- assessing the independence of Independent Non-executive Directors.

As of the date of this Annual Report, one meeting has been held by the Nomination Committee.

All Directors appointed to fill casual vacancies are subject to election by shareholders at the first general meeting after their appointment. Each Director, including each Non-executive and Independent Non-executive Directors of the Company, is appointed for specific term and is subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with the Listing Rules and the Bye-laws. Accordingly, five of the Directors, namely Mr Kwok Ping-luen, Raymond, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung and Mr Edmond Ho Tat Man, will retire and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting of the Company.

### Responsibilities of Directors

All Directors (including Non-executive Directors) have kept abreast of their responsibilities as directors of a listed issuer and of the conduct, business activities and development of the Group.

The senior management and corporate executives provide appropriate and sufficient information to the Board of Directors in a timely manner to keep them apprised of the latest developments of the Group and to enable them to discharge their responsibilities. Induction programmes are organised for new Directors to help them familiarise with the Group's management, business and governance practices. The Company also encourages the Directors to participate in continuous professional development organised by qualified institutions to ensure that they continually update their skills and knowledge on the latest development of, or changes in, rules and regulations that are relevant to their responsibilities.

A written Code of Conduct for Directors and employees has been drawn up and is updated from time to time to take into account changes in legislation and the business environment. The Code of Conduct provides guidance on the personal conduct of Directors and employees, relations with suppliers and contractors, responsibilities to shareholders and the financial community, relations with customers, employment practices and responsibilities to the community, as well as procedures for monitoring of compliance and means of enforcement.

The Group has adopted the Model Code for Securities Transactions as set out in Appendix 10 to the Listing Rules during the year and all Directors have confirmed that they have complied with the required standard of dealings set out therein.

The details of the share interests held by the Directors and senior management in the Company and its indirect non-wholly owned subsidiary, RoadShow Holdings Limited, are set out on pages 103 to 105 of this Annual Report.

### Distinctive Roles of the Chairman and the Managing Director

A clear division of responsibilities between the separate offices of the Chairman and the Managing Director have been maintained to ensure balance of power and authority.

The Chairman of the Board, The Hon Sir Sze-yuen Chung, is an Independent Non-executive Director of the Company, who is responsible for chairing the meetings and managing the operations of the Board, and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. The Managing Director of the Company, Mr John Chan Cho Chak, is delegated with the authority and responsibility

for running the Group's businesses and implementing the Group's strategy to achieve the business goals. The roles and duties of the Chairman and the Managing Director of the Company, which are distinct and carried out by different individuals, have been clearly defined in writing.

## Board Meetings

The Board has assumed responsibility for leadership and control of the Group as well as directing and supervising its business affairs.

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 Directors may request inclusion of items in the agenda of the Board meetings. The notice of a Board meeting is normally served to the Directors one month in advance with the agenda and discussion papers for the Board meeting circulated at least 7 days prior to such meeting. Minutes of all Board meetings, which record the matters considered by the Board and decisions reached, are kept by the Company Secretary of the Company and are open for inspection by all Directors.

There were 12 Board meetings held during the year ended 31 December 2005. The following table shows the attendance records of the Directors of the Company during the year 2005:

Directors	Attendance of individual Directors at Board Meeting in 2005
The Hon Sir Sze-yuen CHUNG (Chairman)	12/12
Dr Norman LEUNG Nai Pang (Deputy Chairman)	9/12
Mr KWOK Ping-luen, Raymond (with Mr YUNG Wing Chung as alternate)	9/12
Mr KWOK Ping-sheung, Walter (with Ms Susanna LAU Shung Oi as alternate)	10/12
Mr YU Shu Chuen	5/12
Mr NG Siu Chan	9/12
Mr William LOUEY Lai Kuen	12/12
Mr John CHAN Cho Chak (Managing Director)	12/12
Mr Charles LUI Chung Yuen	8/12
Ms Winnie NG	9/12
Dr KUNG Ziang Mien, James (with Mr KUNG Lin Cheng, Leo as alternate)	12/12
Mr George CHIEN Yuan Hwei	12/12
Dr Eric LI Ka Cheung	10/12
Mr LUI Pochiu	11/12
Mr Edmond HO Tat Man (Deputy Managing Director)	12/12
Mr SIU Kwing-chue, Gordon	12/12
Mr Rafael HUI	4 / 4 (note)

Note: Mr Rafael Hui resigned as a Director of the Company on 1 May 2005.

The Group has a formal schedule of delegations of responsibilities to the Board Committees and senior management

## Delegation by the Board of Directors

### Delegation of Responsibilities to Senior Management

The Group has a formal schedule of delegations of responsibilities to the Board Committees and to senior management, as well as of matters reserved to the Board for its decision. The Board has given clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Group.

In general, the Board makes decisions on overall strategy, major operational and financial affairs as well as investments. It also monitors the overall operating results. The general management and day-to-day administrative decisions are delegated to the senior management and corporate executives under the instruction or supervision of the relevant Board Committees. This facilitates a prompt response to a rapidly changing market environment. All the Independent Non-executive Directors and Non-executive Directors of the Company are not involved in the day-to-day management of the Group's affairs and therefore are able to analyse management issues with different perspectives during decision-making processes. All material transactions or transactions where there is a conflict of interest are reserved for the Board's decision.

### Standing Committee

The Board has set up the Standing Committee to review and monitor the financial, operational and strategic issues of the Group.

The Standing Committee was set up in December 2005 and has replaced and taken over the functions of the former Executive Committee, starting from January 2006.

During 2005, the former Executive Committee consisted of the following members who normally met with the senior management once a month to review and discuss financial, operational and strategic issues in relation to current businesses and potential investment opportunities. It reported its findings and recommendations to the Board of Directors directly. The attendance record of the members of the Executive Committee for 2005 is set out below:

Directors	Attendance of individual members at Executive Committee Meeting in 2005
Dr Norman LEUNG Nai Pang	7/7 (note 1)
Mr KWOK Ping-luen, Raymond	11/11
Mr NG Siu Chan	11/11
Mr John CHAN Cho Chak	11/11
Mr Charles LUI Chung Yuen	9/11
Mr Rafael HUI	4/4 (note 2)

Notes: 1 Dr Norman Leung Nai Pang was appointed a member of the Executive Committee with effect from 7 May 2005.

2 Mr Rafael Hui resigned as a Director of the Company and ceased to be a member of the Executive Committee with effect from 1 May 2005.

The Remuneration Committee is responsible for formulating policies on remuneration of Directors and employees of the Group

The Standing Committee consists of five Directors, namely Dr Norman Leung Nai Pang, Mr Kwok Ping-luen, Raymond, Mr Ng Siu Chan, Mr John Chan Cho Chak and Mr Charles Lui Chung Yuen. It has been established with clearly written terms of reference to advise and assist the Board in formulating policies and to monitor the performance of management in carrying out and implementing the policies laid down by the Board for the Group. The Standing Committee aims to meet once a month or as and when the Committee considers appropriate. The first meeting of the Standing Committee was held in January 2006.

## Remuneration of Directors and Senior Management

### Remuneration Committee

A formal and transparent procedure has been established for formulating policies on remuneration of the Directors and the employees of the Group. No Director is involved in deciding his or her own remuneration.

The Group's Remuneration Committee, established in December 2003, comprises three Independent Non-executive Directors, namely Dr Norman Leung Nai Pang, Dr Kung Ziang Mien, James and Dr Eric Li Ka Cheung. This committee is chaired by Dr Norman Leung Nai Pang who became an Independent Non-executive Director with effect from 1 February 2006. The role of the Remuneration Committee is to formulate policies on remuneration, including establishing guidelines to determine terms and conditions of employment, remuneration and retirement benefits of Directors and employees of the Group. It also sets appropriate criteria for performance-related bonuses, and reviews and makes recommendations on human resources related policies to the Board of Directors by reference to the goals and objectives of the Group. No Director or member of the senior management can determine his or her own remuneration. The terms of reference of the Remuneration Committee comply with the Code Provisions.

The following is a summary of the work performed by the Remuneration Committee during 2005:

- review of the remuneration policy for 2005 and 2006;
- review of the remuneration of Executive and Non-executive Directors;
- review of the annual performance-related bonuses for the employees of the Group, having regard to their achievements against the assessment criteria and by reference to the market norms; and
- examination of employees' wage and salary increments in 2005.

Details of the remuneration of each of the Directors for the year ended 31 December 2005 are set out in note 7 to the consolidated financial statements.

Two Remuneration Committee meetings were held during the year 2005. The attendance record of the members of the Remuneration Committee for 2005 is set out below:

Non-executive Directors	Attendance of individual members at Remuneration Committee Meeting in 2005
Dr Norman LEUNG Nai Pang	2/2
Dr KUNG Ziang Mien, James	2/2
Dr Eric LI Ka Cheung	2/2

## Accountability and Audit

### Financial Reporting

The Board has presented a balanced, clear and comprehensible assessment of the Group's performance, position and prospects.

The Directors acknowledge their responsibility for preparing the Group's financial statements. This responsibility extends to annual and interim reports, other "price-sensitive" announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements. The responsibility of the external auditors for the audit of the financial statements of the Company for the year ended 31 December 2005 is set out in the auditors' report on page 109 of this Annual Report.

The Board receives management accounts, explanations and relevant information both on a monthly and as-needed basis which enable the Board to make an informed assessment of the financial and other information of the Group put before the Board for approval.

### Internal Controls

The Board has maintained a sound and effective internal control system to safeguard the shareholders' investment and the Group's assets.

A sound and effective internal control system has been maintained to safeguard the assets of the Group

The internal control system of the Group is designed to safeguard the assets of the Group, to manage risks of failure in operational systems and to provide reasonable assurance against material misstatement of information. The key procedures that the Board has established to provide effective internal controls include:

- the implementation of an effective and efficient Quality Management System in the Group's flagship subsidiary company, KMB, in accordance with the requirements of the International Organisation for Standardisation (ISO) 9001:2000 system for quality management on a company-wide basis and ISO 14001:1996 for environmental management at two bus depots. Under the ISO requirements, all major financial and operational procedures and instructions with illustrative flow charts are clearly documented. Responsible persons and their respective functions and responsibilities are also well defined. Compliance with the procedures and instructions is closely monitored on an ongoing basis by internal quality auditors under the supervision of the Head of Internal Audit Department. Each year, an external ISO certification organisation, the Hong Kong Quality Assurance Agency (HKQAA), carries out an independent audit on the Quality Management System to ensure the effectiveness and efficiency of the ISO systems. Recommendations are made for follow-up actions when areas for improvement are identified during the course of the ISO audit. KMB's 12,000 strong workforce is highly aware of the need for quality and integrity and they are required to work towards achieving or even exceeding the ISO standards;
- the design of a clear and distinct organisational structure with defined lines of authority and control responsibilities. The senior management and corporate executives are responsible for the preparation of the operational plans and financial budgets on an annual basis;
- the deployment of a comprehensive management accounting system which provides financial and operational performance measurement indicators for day-to-day monitoring, and relevant financial information for reporting and disclosure purposes. Variances against budgets are analysed and explained, and appropriate and timely actions are taken, if necessary, to rectify deficiencies noted;

- the implementation of systems and procedures to identify, measure, manage and control risks; and
- independent reviews of the Internal Audit Department of risks and internal controls to provide reasonable assurance to management and the Audit Committee that any such risks and internal control weaknesses have been adequately addressed.

To ensure the independence of the internal audit function of the Group, the Head of Internal Audit Department, who supervises the implementation of comprehensive audits and reviews on the financial and operational procedures and practices of the Group on both regular and ad-hoc basis, reports directly to the Managing Director and the Audit Committee.

### Audit Committee

The Audit Committee has a set of clearly written terms of reference, including arrangements for considering how it applies the financial reporting and internal controls principles and maintains an appropriate relationship with the Company's auditors.

The Group's Audit Committee comprises three Non-executive Directors, namely Dr Eric Li Ka Cheung, Dr Kung Ziang Mien, James and Mr George Chien Yuan Hwei, of whom the first two are Independent Non-executive Directors. The Audit Committee is chaired by Dr Eric Li Ka Cheung, who is a certified public accountant with appropriate professional qualifications as required under the Listing Rules. As can be seen from the Directors' biographical details on pages 92 to 97 of this Annual Report, the Chairman and all the other members of the Audit Committee have a wide range of experience in various business and professional fields. None of the Audit Committee members is a former or existing partner of the external auditors of the Company. 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. The tasks performed by the Audit Committee during the year included, but were not limited to, the following:

- review with senior management of 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 works;
- review and discuss with management regarding the effectiveness of internal controls and practices of the Group;
- ensure the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- review and approve the remuneration and terms of engagement of the external auditors;
- meet with the external auditors and review of their work and findings relating to interim and annual published financial statements; and
- recommend to the Board the re-appointment of the existing external auditors for 2006.

Two Audit Committee meetings were held together with the senior management and the external auditors during 2005. After the Audit Committee meetings, the external auditors were also invited to discuss with the Audit Committee members on issues arising from the audit and other matters which they may wish to discuss without the presence of the senior management. After each meeting, the Chairman of the Audit Committee submitted a report to the Board of Directors and gave a briefing on all significant issues.



Non-executive Directors	Attendance of individual members at Audit Committee Meeting in 2005
Dr Eric LI Ka Cheung	2/2
Dr KUNG Ziang Mien, James	2/2
Mr George CHIEN Yuan Hwei	2/2

## External Audit

The Audit Committee is responsible for making recommendations to the Board on the appointment, resignation and dismissal of external auditors.

KPMG was the Company's external auditors in respect of its financial statements for the year ended 31 December 2005. The Audit Committee monitors the audit and non-audit services rendered to the Group by its external auditors, and has developed a formal policy to ensure that the engagement of the external auditors in other non-audit services will not impair their audit independence or objectivity. The external auditors are also required to review their relationship with the Group and furnish independence confirmation to the Audit Committee confirming their independence status.

For the year ended 31 December 2005, the fees for services provided by KPMG to the Group are set out below:

	HK\$ million
Audit related services	5.2
Non-audit related services	0.6
Total	<u>5.8</u>

An independence confirmation has been obtained from KPMG which confirms that for the year ended 31 December 2005 and thereafter to the date of this Annual Report, KPMG is independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

In accordance with the recommendation of the Audit Committee, the Board has proposed to re-appoint KPMG as the external auditors of the Company in respect of the financial statements for the year ending 31 December 2006. Such proposal will be presented for approval by the shareholders of the Company at the upcoming annual general meeting.

## Communication with Stakeholders

### Communication with the Shareholders

The Board has endeavoured to maintain an ongoing dialogue with shareholders and in particular, use the annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

The Board recognises the importance of transparency and provides information relating to the Group to the shareholders on a regular basis through press releases, publication of interim and final results announcements in the newspapers, and circulation of the Group's interim and annual reports to the shareholders. The financial reports released to

The Group endeavours to maintain an ongoing dialogue with shareholders, the general public and employees

the shareholders as set out in the Company's 2005 interim and final results announcements and 2005 Interim and Annual Reports have been reviewed by the Audit Committee and the external auditors, and are in full compliance with the relevant statutory requirements.

The annual general meetings or other general meetings are normally attended by all Directors. Shareholders are invited to ask questions during the meetings. Besides, shareholders and investors may email their enquiries to the Board of Directors through the Group's email address "director@tih.hk", to which the Company Secretary of the Company will attend.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors. Circulars containing the relevant details such as proposed resolutions, particulars of the biography of each of the Directors standing for election at the annual general meeting, and poll voting procedures and rights of shareholders to demand a poll, are despatched to the shareholders together with the annual reports.

A wide range of information which is of interest to the shareholders, including the Group's press releases, announcements, and financial reports, is conveniently placed in the Group's corporate website "www.tih.hk" which is updated on a regular basis.

During 2005, the following meetings were held with the Company's shareholders:

2005 Annual General Meeting	19 May 2005
Special General Meeting for proposed change of name of the Company	24 November 2005

The details and results of the above meetings have been published in newspapers and on the Stock Exchange's website.

The 2006 Financial Calendar of the Company is as follows:

Announcement of 2005 final results	16 March 2006
2005 Annual Report dispatch to shareholders	26 April 2006
Last day to register for 2005 final dividend	8 May 2006
Book closure period	9 May – 18 May 2006
2006 Annual General Meeting	18 May 2006
Payment of 2005 final dividend	19 May 2006
Announcement of 2006 interim results	mid-September 2006
Payment of 2006 interim dividend	mid-October 2006
Financial year end date	31 December 2006

## Communication with the General Public

The Group has maintained good communication channels with the general public to enhance their understanding of the Group's businesses.

The Group publishes reports and brochures that focus on specific aspects of operations from time to time. KMB and LWB, two of the Company's major subsidiaries, 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 the corporate website of KMB, [www.kmb.hk](http://www.kmb.hk), for public information.

- More about KMB
- More about Long Win
- KMB Service Charter
- KMB Performance Pledge
- KMB Corporate Social Responsibility Report
- Long Win Corporate Social Responsibility Report
- KMB/Long Win Passenger Liaison Group Report
- KMB — The Green Transporter
- KMB's Efforts in Environmental Protection
- KMB Today (a monthly magazine)
- Introduction on KMB's four bus depots

Other corporate and financial information of the Group are made available on the Company's corporate website, which is updated regularly.

## Communication with the Employees

The Group has efficient communication channels to enhance mutual understanding and promote cooperation between the management and the staff.

The Group has maintained various communication channels to promote two-way communications between the management and the staff, including the establishment of various joint consultative committees through which the management and the staff representatives can freely discuss and exchange views on matters that affect their daily operations. The Group also maintains a staff website where relevant management announcements and information on staff affairs are placed and updated on a timely basis. The website also incorporates on-line orientation training courses and e-learning programmes. A forum has also been introduced to strengthen the communication channel with our staff. Periodic video compact discs and a monthly in-house magazine are published to keep each of our field staff informed of developments within both the Group and the industry.