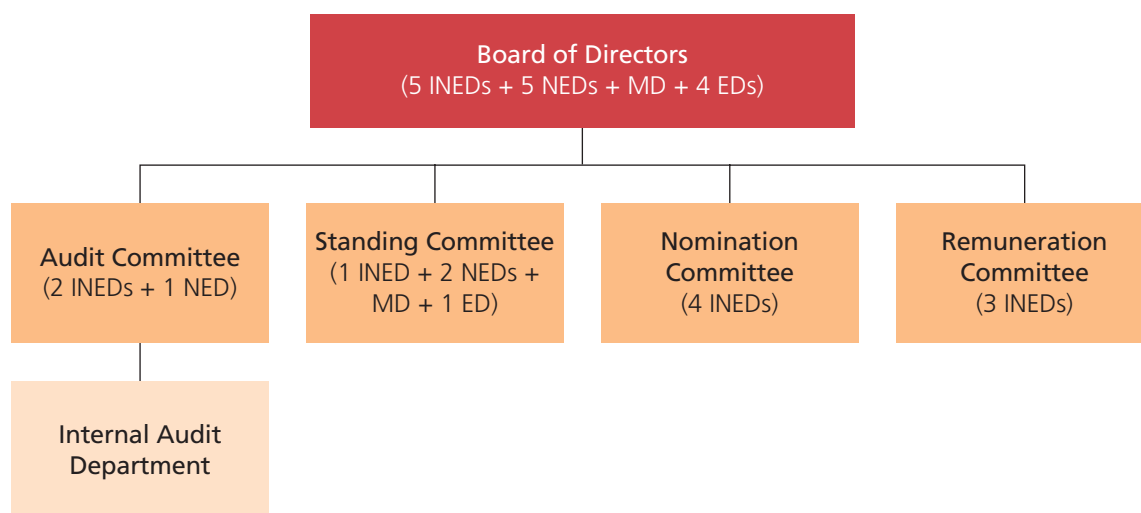


Corporate Governance Report

The Group endeavours to maintain the highest standards of corporate governance and to meet the requisite statutory and regulatory requirements by adopting a range of sound policies, procedures and rules that are followed by board members and staff alike within an ongoing culture of integrity. Our 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 stakeholders are conducted in accordance with sound management practices and in full compliance with regulatory standards. The current governance structure of the Company is outlined below:



INED : Independent Non-executive Director
NED : Non-executive Director
MD : Managing Director
ED : Executive Director

committed to
transparency

Throughout the year ended 31 December 2006, the Group complied with the Code Provisions

The Code on Corporate Governance Practices (the “CG Code”), which was issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in 2005, provides a comprehensive guide for listed issuers in Hong Kong to evaluate and improve their corporate governance practices. The CG 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 2006, the Group complied with the Code Provisions as set forth in the CG Code.

Board of Directors

(1) Composition of the Board of Directors

The Board of Directors of the Company, whose profiles are presented on pages 100 to 105 of this Annual Report, currently comprises 15 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 22 March 2007 are set out below:

Independent Non-executive Directors	The Hon Sir Sze-yuen CHUNG, GBM, GBE, JP (Chairman) Dr Norman LEUNG Nai Pang, GBS, JP (Deputy 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	Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate) Mr KWOK Ping-sheung, Walter, JP (with Mr YUNG Wing Chung as alternate) Mr NG Siu Chan Mr William LOUEY Lai Kuen Mr George CHIEN Yuan Hwei
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)

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

Corporate Governance Report

(2) Board Committees

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 the functions and responsibilities of each of the above committees are set out in the relevant sections below.

(3) Appointment, Re-election and Removal of Directors

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. In regard to the terms of reference, the principal functions of the Nomination Committee include:

- formulating nomination policy for consideration of the Board and implementing the nomination policy laid down by the Board;
- 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.

In 2006, one meeting was held by the Nomination Committee and the attendance of each member is as follows:

Independent Non-executive Directors	Attendance of individual members at Nomination Committee Meeting in 2006	
Dr Norman LEUNG Nai Pang	1/1	100%
Dr KUNG Ziang Mien, James	1/1	100%
Dr Eric LI Ka Cheung	1/1	100%
Mr SIU Kwing-chue, Gordon	1/1	100%

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 Director of the Company, is appointed for a 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 Company's Bye-laws. Accordingly, five of TIH's 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, retired and were re-elected at the annual general meeting of the Company held on 18 May 2006.

The senior management and corporate executives provide appropriate and sufficient information to the Board of Directors in a timely manner

(4) Responsibilities of Directors

The senior management and corporate executives provide appropriate and sufficient information to the Board of Directors in a timely manner to keep them abreast of the latest developments of the Group and to enable them to discharge their responsibilities. The Company provides induction programmes, briefings and other training courses to develop and refresh Directors' knowledge and skills to enhance their awareness of good corporate governance practices. The Company also encourages 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, the 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. Both the Directors and employees are required to adhere to the Code of Conduct.

The Group has adopted the Model Code for Securities Transactions (the "Model Code") as set out in Appendix 10 to the Listing Rules during the year. In this regard, the Company has specifically enquired of the Directors and they have all confirmed that they have complied with the required standard of dealings set out in the Model Code regarding their securities transactions.

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 111 and 112 of this Annual Report.

(5) Distinctive roles of the Chairman and the Managing Director

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 its 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. The Chairman also meets with the Non-executive Directors once a year without the presence of the Managing Director and Executive Directors to discuss the business affairs of the Group.

Corporate Governance Report

(6) 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 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 seven 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 2006. The following table shows the attendance records of the Directors of the Company during the year 2006:

Directors	Attendance of individual Directors at Board Meetings in 2006	
The Hon Sir Sze-yuen CHUNG (Chairman)	12/12	100%
Dr Norman LEUNG Nai Pang (Deputy Chairman)	10/12	83%
Mr KWOK Ping-luen, Raymond (with Mr YUNG Wing Chung as alternate)	10/12	83%
Mr KWOK Ping-sheung, Walter (with Mr YUNG Wing Chung as alternate)	11/12	92%
Mr YU Shu Chuen	1/4 (note)	25%
Mr NG Siu Chan	9/12	75%
Mr William LOUEY Lai Kuen	11/12	92%
Mr John CHAN Cho Chak (Managing Director)	12/12	100%
Mr Charles LUI Chung Yuen	11/12	92%
Ms Winnie NG	12/12	100%
Dr KUNG Ziang Mien, James (with Mr KUNG Lin Cheng, Leo as alternate)	12/12	100%
Mr George CHIEN Yuan Hwei	11/12	92%
Dr Eric LI Ka Cheung	10/12	83%
Mr LUI Pochiu	12/12	100%
Mr Edmond HO Tat Man (Deputy Managing Director)	12/12	100%
Mr SIU Kwing-chue, Gordon	12/12	100%

Note: Mr Yu Shu Chuen resigned as a Director of the Company on 1 May 2006.

In general, the Board makes decisions on overall strategy, major operational and financial affairs as well as investments

Delegation by the Board of Directors

(1) Delegation of responsibilities to Senior Management

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 of the Group. 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.

(2) Standing Committee

The Standing Committee comprises five Directors, namely Dr Norman Leung Nai Pang (chairman of the committee), Mr Kwok Ping-luen, Raymond, Mr Ng Siu Chan, Mr John Chan Cho Chak and Mr Charles Lui Chung Yuen. During 2006, it met with senior management on a monthly basis to review and discuss the financial, operational and strategic issues in relation to current businesses and potential investment opportunities. The Standing Committee reported its findings and recommendations to the Board of Directors directly. The attendance records of the members of the Standing Committee for 2006 are summarised below:

Directors	Attendance of individual members at Standing Committee Meetings in 2006	
Dr Norman LEUNG Nai Pang	12/12	100%
Mr KWOK Ping-luen, Raymond	12/12	100%
Mr NG Siu Chan	10/12	83%
Mr John CHAN Cho Chak	12/12	100%
Mr Charles LUI Chung Yuen	12/12	100%

The Standing Committee 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.

Remuneration of Directors and Senior Management

Remuneration Committee

The Group's Remuneration Committee 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. 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

Corporate Governance Report

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 Remuneration Committee has terms of reference clearly laid down, which comply with the Code Provisions.

The following is a summary of the work performed by the Remuneration Committee during 2006:

- review of the remuneration policy for 2006 and 2007;
- 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 2006.

Details of the remuneration of each of the Directors for the year ended 31 December 2006 are set out in note 7 to the consolidated financial statements.

Two Remuneration Committee meetings were held during the year 2006. The attendance records of the members of the Remuneration Committee for 2006 are shown below:

Independent Non-executive Directors	Attendance of individual members at Remuneration Committee Meetings in 2006	
Dr Norman LEUNG Nai Pang	2/2	100%
Dr KUNG Ziang Mien, James	2/2	100%
Dr Eric LI Ka Cheung	2/2	100%

The Directors acknowledge their responsibilities for preparing the Group's financial statements

Accountability and Audit

(1) Financial Reporting

The Directors acknowledge their responsibilities 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 the statutory requirements. The responsibility of the external auditor for the audit of the financial statements of the Company for the year ended 31 December 2006 is set out in the auditor's report on page 117 of this Annual Report.

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

(2) Audit Committee

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 professional qualifications as required under the Listing Rules. The chairman and all the other members of the Audit Committee have a wide range of experience in various business and professional fields as described in the Directors biographical details on pages 100 to 105 of this Annual Report. None of the Audit Committee members is a former or existing partner of the external auditor 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 "HKICPA"). 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 auditor's 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 auditor;
- meet with the external auditor and review their work and findings relating to interim and annual published financial statements; and
- recommend to the Board the re-appointment of the existing external auditor for 2007.

Two Audit Committee meetings were held together with the senior management and the external auditor during 2006. After the Audit Committee meetings, the external auditor were also invited to discuss with the Audit Committee members issues arising from the audit and other matters that they wished to discuss without the presence of the Company's 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 that arose.

Non-executive Directors	Attendance of individual members at Audit Committee Meetings in 2006	
Dr Eric Li Ka Cheung	2/2	100%
Dr KUNG Ziang Mien, James	2/2	100%
Mr George CHIEN Yuan Hwei	2/2	100%

Corporate Governance Report

The internal control system is designed to safeguard the assets of the Group

(3) Internal Controls

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 (both financial and non-financial). 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 workforce of about 12,000 staff 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. Both the annual operational plan and financial budgets lay down the resources to be allocated in accordance with the identified and prioritised business opportunities;
- the deployment of a comprehensive management accounting system that 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 at all levels to identify, measure, manage and control risks that may have an impact on the business;
- the independent reviews of risks and controls by the Internal Audit Department to provide reasonable assurance to management and reporting to the Audit Committee that any such risks and internal control weaknesses have been adequately addressed. The Head of Internal Audit Department supervises the implementation of comprehensive audits and reviews the financial and operational procedures and practices of the Group on both a regular and ad hoc basis. To ensure the independence of the internal audit function of the Group, the Head of Internal Audit Department reports directly to the Managing Director and the Audit Committee; and

- proper procedures and internal controls for handling and dissemination of price-sensitive information. The Board and other nominated managers who have access to price-sensitive and/or specific information are bound by the Model Code for Securities Transactions under the Listing Rules. Every employee is required to follow the Code of Conduct and the Staff Handbook for keeping unpublished price-sensitive information strictly confidential.

In 2006, the Board, through the Audit Committee and with the assistance of KPMG and the Internal Audit Department, conducted a comprehensive review of the overall effectiveness of the internal control system of KMB, the Company's major subsidiary, whose scale of operations is sufficiently representative of the Group. The review comprised a high-level risk assessment of its major financial and operational processes and systems security, as well as a detailed analysis of its internal control system with reference to the internal control framework recommended by the Committee of Sponsoring Organisations of the Treadway Commission (the "COSO Analysis"). The work included interviews with senior management as well as front line staff, and a thorough evaluation of the control procedures of KMB's core businesses, its strategic management and resources management. The COSO Analysis identified KMB's control environment, risk assessment, control activities, information and communication as well as its monitoring functions. No material suspected frauds or irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations were noted during the review and the subsequent testing of internal controls carried out by the Internal Audit Department. As part of the on-going internal control monitoring process, the Internal Audit Department has also formulated a three-year risk-based internal audit rolling plan to monitor the effectiveness of the Group's internal control system.

The Board is satisfied that the Group has fully complied with the Code Provision on internal controls in 2006

In light of the above, the Audit Committee concluded that, in general, the Group has established a sound control environment and effective control system to monitor and correct non-compliance. The Board, through the review of the Audit Committee, is satisfied that the Group has fully complied with the Code Provision on internal controls in 2006.

(4) External Audit

KPMG was the Company's external auditor in respect of its financial statements for the year ended 31 December 2006. The Audit Committee monitors the audit and non-audit services rendered to the Group by its external auditor, and has developed a formal policy to ensure that the engagement of the external auditor in other non-audit services will not impair their audit independence or objectivity. The external auditor is also required to review their relationship with the Group and furnish independence confirmation to the Audit Committee confirming their independence status.

The fees for services provided by KPMG to the Group for the year ended 31 December 2006 are set out below:

	HK\$ million
Audit related services	6.5
Non-audit related services	0.3
Total	6.8

Corporate Governance Report

An independence confirmation has been obtained from KPMG to confirm that for the year ended 31 December 2006 and thereafter to the date of this Annual Report, KPMG is independent of the Group in accordance with the independence requirements of the HKICPA.

In accordance with the recommendation of the Audit Committee, the Board has proposed to re-appoint KPMG as the external auditor of the Company in respect of the financial statements for the year ending 31 December 2007. Such proposal will be presented for approval by the shareholders of the Company at the upcoming annual general meeting.

Communication with Stakeholders

(1) Communication with Shareholders

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. These press releases, announcements and financial reports, together with a wide range of other information which is of interest to shareholders, are conveniently placed and updated regularly on the Group's corporate website "www.tih.hk".

The financial reports released to the shareholders as set out in the Company's 2006 interim and final results announcements and 2006 Interim and Annual Reports have been reviewed by the Audit Committee and KPMG, the external auditor of the Company, 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 raise questions to the Directors 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", which will be handled by the Company Secretary of the Company in the first instance.

At the general meetings, separate resolutions are proposed 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 at least 21 days prior to such annual general meetings.

The 2006 Annual General Meeting was held with the Company's shareholders on 18 May 2006. The details and results of the above meeting were published in newspapers and on the Stock Exchange's website.

The 2007 Financial Calendar of the Company is as follows:

Announcement of 2006 final results	22 March 2007
2006 Annual Report dispatch to shareholders	25 April 2007
Last day to register for 2006 final dividend	7 May 2007
Book closure period	8 May to 17 May 2007
2007 Annual General Meeting	17 May 2007
Payment of 2006 final dividend	18 May 2007
Announcement of 2007 interim results	mid-September 2007
Payment of 2007 interim dividend	mid-October 2007
Financial year end date	31 December 2007

KMB and LWB publish and distribute reports and brochures to enhance their customers' and the community's understanding of their services and operations

(2) Communication with the General Public

From time to time, the Group publishes reports and brochures that focus on specific aspects of operations for the information of the general public. In particular, KMB and LWB, two of the Company's major subsidiaries, publish and distribute the following reports and brochures to enhance their customers' and the community's understanding of their services and operations:

- 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 to KMB's four bus depots
- 70th Anniversary Booklet
- KMB Corporate Profile

The brochures and publications are available on the corporate website of KMB, www.kmb.hk, for public information. Other corporate, financial and press information of the Group is also made available on the above website, which is regularly updated.

(3) Communication with Employees

The Group encourages two-way communications between the management and the staff. Various communication channels, including joint consultative committees through which the management and staff representatives can freely discuss and exchange views on matters that affect their daily operations, have been set up to enhance mutual understanding and to promote cooperation between the management and staff at different levels. The Group also maintains a staff website to disseminate relevant management announcements and information on staff affairs on a timely basis. On-line orientation training courses and e-learning programmes for staff are available on the website. There is also a forum which serves as an additional communication channel with our staff. Besides, periodic video compact discs and a monthly in-house magazine are published to keep our employees, particularly the field staff, informed of the news and events relating to both the Group and the industry.