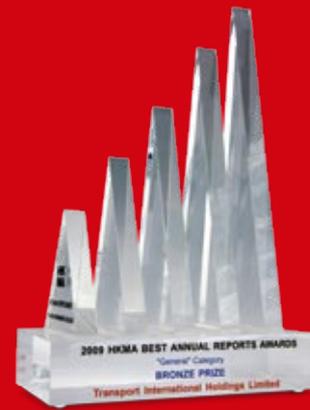


# Corporate Governance Report

**Sustainable accomplishment of the corporate mission and vision by leveraging our core strengths and upholding our corporate values is crucial to the Company's accountability to the stakeholders. We adopt a comprehensive Corporate Governance Framework to translate our planning into action and to evaluate the results against our intentions and expectations, as well as to enrich our corporate values.**



## **CORPORATE GOVERNANCE FRAMEWORK**

Our Corporate Governance Framework (the “Framework”) is designed to enable our Board of Directors and management to operate and conduct the Group’s businesses with a view to achieving long term strategic goals that meet the expectations of our various stakeholders, including shareholders, customers, employees, creditors, suppliers, while also complying with the legal and regulatory requirements as well as meeting the environmental and local community needs. Key elements of good corporate governance principles include responsibility and accountability, transparency, honesty, integrity, openness, performance orientation, mutual respect, and commitment. We ensure that all these elements are embodied in the design of the Framework, and that sound, efficient and effective management policies and practices are adopted and observed at all levels throughout the Group’s businesses. We are committed to maintaining the highest standards of corporate governance and to constantly enhancing and benchmarking our Framework against local regulatory changes and international developments in a timely manner.

We achieve our corporate governance objectives primarily through implementation of the following measures:

- Optimal board composition, efficient management reporting systems and effective internal control procedures are in place to ensure that the Directors and management alike are able to make informed decisions in the best interests of our stakeholders;
- Internal audit and control systems are established to provide safeguards against risk and protect the Group’s assets as well as to ensure that its policies and management practices are executed as planned, with any deviations identified and corrected on a timely basis; and
- A variety of communication channels have been established to ensure that our affairs are transparent to shareholders, customers and other stakeholders.

We realise that good corporate governance is the key to sustainable business success and are committed to continuing to improve our governance standards. Our management will continue to devote every effort to enhancing our current practices to ensure compliance

with new regulatory developments and to finding ways to mitigate risk in every feasible way. In this Corporate Governance Report, we set out in detail the policies and practices in respect of corporate governance that have been applied throughout the Group for the management of our businesses.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

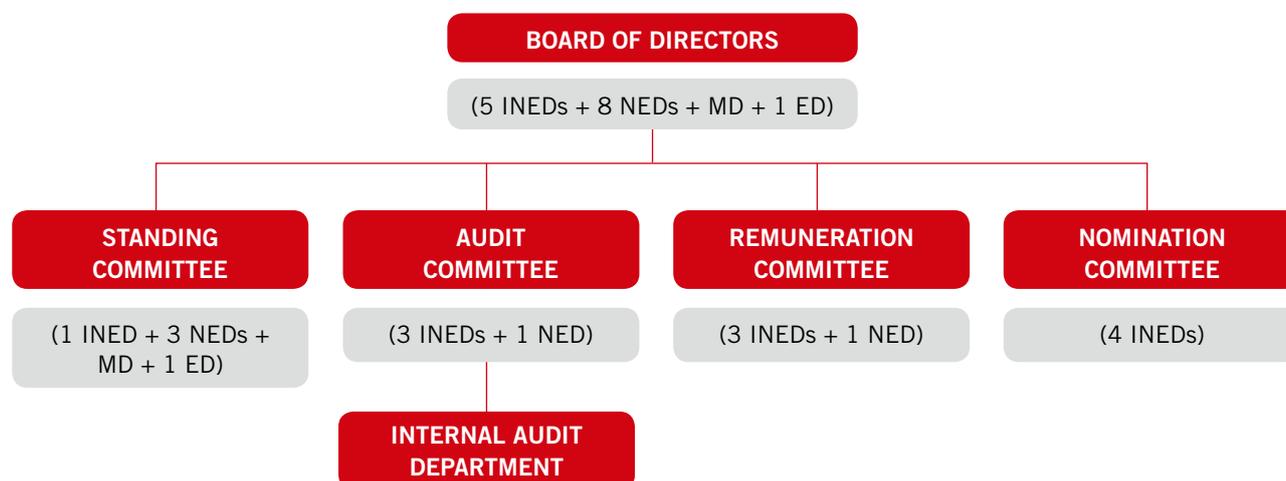
The Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), which was first introduced in 2005, provides a comprehensive guide by means of which listed issuers in Hong Kong can evaluate and improve their corporate governance practices. The CG Code provides two levels of recommendations: the “Code Provisions”, with which issuers are expected to comply but from which they may choose to deviate provided they give considered reasons for non-compliance; and the “Recommended Best Practices”, which are provided for guidance only. The

Listing Rules in relation to certain corporate governance issues and continuing listing obligations were amended in December 2008 and became effective on 1 January 2009.

Throughout the year ended 31 December 2009, the Group fully complied with the Code Provisions set forth in the CG Code contained in Appendix 14 of the Listing Rules and their relevant amendments.

## BOARDROOM FRAMEWORK

The Company’s Board comprises 15 members, of which five are Independent Non-executive Directors, eight are Non-executive Directors and two are Executive Directors. Day-to-day management of the Group’s businesses is delegated to four designated Board Committees, namely, the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee, as well as the Executive Directors and senior management of the Company. The Company’s boardroom framework is outlined below:



INED : Independent Non-executive Director

NED : Non-executive Director

MD : Managing Director

ED : Executive Director

# Corporate Governance Report

## BOARD OF DIRECTORS

### Composition of the Board of Directors

The Board of Directors is responsible for steering and supervising the Group's affairs in a responsible, impartial and effective manner and for running its businesses in the best interests of the stakeholders.

The primary areas of responsibilities of the Board include the following:

- Formulation of the Group's objectives, strategies, policies, business plans and corporate values
- Monitoring of management performance
- Major financing arrangements
- Material acquisitions and disposals
- Connected transactions
- Dividend policy
- Ensuring the integrity of the Group's accounting and financial reporting system and public announcements
- Internal control and risk management
- Overseeing the management of relationships with stakeholders, including shareholders, customers, the HKSAR Government, suppliers, employees and the community.

The Board has a composition of executive and non-executive directors (including independent non-executive

directors) with a diversity of experience from different business backgrounds, which ensures that there is a strong independent element on the Board that can effectively exercise independent judgement. Throughout 2009, the Company had five Independent Non-executive Directors, which complies with the Recommended Best Practice A.3.2 of the Listing Rules that at least one-third of the Board members should be Independent Non-executive Directors, and also exceeded the minimum requirements of Rules 3.10(1) and (2) of the Listing Rules, which stipulate that there should be at least three Independent Non-executive Directors, of whom at least one must have appropriate professional qualifications or accounting or related financial management expertise. The Independent Non-executive Directors ensure that connected transactions and other major issues are subject to objective and thorough consideration by the Board and that the interests of the shareholders as a whole are fully and impartially taken care of.

As at the date of this Annual Report, written confirmation of independence has been submitted by each of the Independent Non-executive Directors to The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Company in accordance with the requirement of Rule 3.13 of the Listing Rules, and the Company considers each of the Independent Non-executive Directors to be independent.

Directors of the Company as at the date of this Annual Report are:

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, JP 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) Dr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin as alternate (Note)) Mr NG Siu Chan (with Ms Winnie NG as alternate) Mr William LOUEY Lai Kuen Dr John CHAN Cho Chak, GBS, JP Ms Winnie NG Mr George CHIEN Yuan Hwei Mr John Anthony MILLER, SBS, OBE
Executive Directors	Mr Charles LUI Chung Yuen, M.H. Mr Edmond HO Tat Man (Managing Director)

Note: Mr So Wai Kei, Godwin, was appointed as an Alternate Director to Dr Kwok Ping-sheung, Walter, JP with effect from 25 February 2009 in place of Ms Wong On Ning, Orlena.

Detailed biographies of the Directors are set out on pages 112 to 117 of this Annual Report in accordance with the Listing Rules. Information provided includes name, age, positions held with the Company and its subsidiaries, length of service with the Company and the Group and such other information (which may include business experience) of which shareholders should be aware, relationship with other Directors or senior management, as well as the particulars of other directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas, and other major appointments and professional qualifications. All Directors have a service term of directorship of not longer than three years.

### Responsibilities of Directors

Senior management and corporate executives provide accurate, adequate and detailed financial and operational information to the Board of Directors to keep them abreast of the latest developments of the Group and enable them to make informed decisions and discharge their responsibilities effectively. The Company Secretary is charged with the responsibility of providing comprehensive induction programmes, briefings, and other training courses to develop and refresh new and existing Directors' knowledge and skills and enhance their awareness of good corporate governance. Directors are also encouraged to participate in continuous professional development programmes organised by qualified institutions.

### Code of Conduct

The Company has drawn up a written Code of Conduct (the "Code") for Directors and employees. The Code provides guidance on personal conduct, relations with suppliers and contractors, responsibilities to shareholders, relations with customers, employment practices and responsibilities to the community, as well as procedures for monitoring of compliance and means of enforcement. The Code emphasises ethical values and conscience in business activities. Directors and employees are required to adhere to the Code when they discharge their delegated duties.

### Securities Transactions by Directors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct to regulate the Director's securities transactions concerning the Company. All Directors, upon specific enquiry by the Company, confirmed that they had complied with the required standard of dealings set out in the Model Code regarding their securities transactions throughout 2009.

Details of the shareholding interests held by the Directors in the Company and its indirect non-wholly-owned subsidiary, RoadShow Holdings Limited, as at 31 December 2009 are set out on pages 123 and 124 of this Annual Report.

### Appointment, Re-election and Removal of Directors

In 2009, the following appointments were effected with the endorsement of the Nomination Committee and appropriate announcements were published in accordance with the requirement of Rule 2.07 of the Listing Rules:

- Mr So Wai Kei, Godwin was appointed as Alternate Director to Dr Kwok Ping-sheung, Walter of the Company, KMB and LWB with effect from 25 February 2009, in place of Ms Orlena Wong On Ning; and
- Mr Siu Kwing-chue, Gordon, who has been an Independent Non-executive Director of the Company since 26 October 2004, was appointed a member of the Audit Committee of the Company with effect from 18 September 2009.

### Rotation of Directors

In compliance with the requirement of the Listing Rules and the Company's Bye-laws, all Directors of the Company are appointed for a specific term and they are subject to retirement by rotation and to re-election at the Company's annual general meeting at least once every three years. All Directors appointed to fill out casual vacancies of the Board are subject to election by the shareholders of the Company at the following general meeting after their appointment.

# Corporate Governance Report

At the annual general meeting of the Company held on 21 May 2009, five 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 by rotation and were re-elected as Directors of the Company.

Dr Norman Leung Nai Pang, Dr Kwok Ping-sheung, Walter, Mr William Louey Lai Kuen and Mr George Chien Yuan Hwei will retire as Directors of the Company upon conclusion of the annual general meeting to be held on 20 May 2010 (the "2010 AGM"). All these retiring Directors have been nominated by the Nomination Committee and recommended by the Board to stand for re-election at the 2010 AGM.

## Distinctive Roles of the Chairman and the Managing Director

The posts of Chairman and Managing Director are held separately by The Hon Sir Sze-yuen Chung and Mr Edmond Ho Tat Man respectively, neither of whom have any financial, business, family or other relationship with each other. This separation ensures that there is a clear distinction between the roles and the responsibilities of the Chairman and the Managing Director. The respective roles and duties of the Chairman and the Managing Director have been clearly defined in writing and are summarised as follows:

### Chairman

#### Responsibilities

- Chairing the Board and shareholders' meetings
- Ensuring the operations of the Board are managed effectively
- Ensuring all key and appropriate issues are discussed by the Board in a timely and constructive manner
- Ensuring good corporate governance practices are followed

### Managing Director

#### Responsibilities

- Managing the Group's day-to-day businesses
- Implementing the Group's policies and strategies as set out by the Board

The Chairman also meets once a year with the Non-executive Directors in the absence of the Managing Director and Executive Director(s) to discuss the Group's business affairs. This meeting was held on 20 August 2009.

## Board Meetings

The full Board normally meets once a month to discuss and decide on major corporate strategic and operational issues, as well as to evaluate major investment opportunities. Board meetings are conducted according to the procedures set out in the Company's Bye-laws and the recommended best practices in the CG Code, as summarised below:

- The annual schedule for regular Board meetings is provided to the Board members at the start of each year;
- Directors may request inclusion of items in the agenda of the Board meetings;
- Notice of Board meeting is normally sent to the Directors one month in advance, with the agenda and discussion papers for the Board meeting circulated one week in advance to ensure Directors have sufficient time to attend to the affairs to be discussed and make informed decisions in the best interest of the company;

- Draft minutes of all Board meetings, which record in details the matters considered by the Board and decisions reached as well as any concerns raised or dissenting views expressed by the Directors, are taken by the Company Secretary and circulated to all Directors for comment within a reasonable time after the meeting. The final version of the draft minutes are submitted to the Board at the subsequent meeting for formal adoption. The adopted minutes are kept by the Company Secretary and are open for inspection by all Directors;
- At each of the Board meeting, the Directors are requested to declare their interests, if any, in any transaction, arrangement or other issues proposed to be discussed at the Board meeting and to abstain from voting on the relevant resolutions if they have conflict of interests or a material interest in the proposed transactions. Directors with interests so declared would not be counted in the quorum of the meeting for the passing of the relevant resolutions; and
- Independent Non-executive Directors, together with the other Board members, ensure that connected transactions are entered in the ordinary and usual course of business of the Group and the terms are on normal commercial terms which were arrived at on arm's length basis and are fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole. The Company Secretary is responsible to ensure that all connected transactions entered are in compliance with the Listing Rules. In 2009, the Company had entered into five continuing connected transactions and three connected transactions, details of which are disclosed on pages 108 to 111 of this Annual Report.

## DELEGATION BY THE BOARD OF DIRECTORS

The Board has established four designated Board Committees, namely Standing Committee, Audit Committee, Remuneration Committee and Nomination Committee, to oversee particular aspects of the Group's affairs. Each of the Committees has proper terms of references and adequate authority and resources to discharge their duties.

## Standing Committee

The Standing Committee comprises six members, namely Dr Norman Leung Nai Pang (chairman of the committee), Mr Kwok Ping-luen, Raymond, Dr John Chan Cho Chak, Ms Winnie Ng, Mr Charles Lui Chung Yuen and Mr Edmond Ho Tat Man. The Standing Committee was set up by the Board with specific terms of reference to advise and assist the Board in formulating policies, and to monitor their implementation by management. The Standing Committee meets with senior management regularly on a monthly basis to review and discuss financial, operational and strategic issues in relation to current businesses as well as potential investment opportunities of the Group, and reports findings and makes recommendations to the Board directly.

## Audit Committee

The Audit Committee comprises four members, namely Dr Eric Li Ka Cheung (chairman of the committee), Dr Kung Ziang Mien, James, Mr Siu Kwing-chue, Gordon, and Mr George Chien Yuan Hwei, of whom the first three are Independent Non-executive Directors and the other one is a Non-executive Director. Dr Li is a certified public accountant, with the appropriate professional qualifications and accounting expertise required by the Listing Rules. The Chairman and the other members of the Audit Committee have a wide range of experience in various business and professional fields as described in the Directors' biographies set out on pages 112 to 117 of this Annual Report. None of the Audit Committee members is a former or existing partner of the external auditor of the Company. The Audit Committee's terms of reference are largely based on the recommendations laid down in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and updated with reference to the CG Code of the Listing Rules. Under its term of reference, the Audit Committee oversees the Company's financial reporting process, internal control procedures and risk management system and its relationship with the external auditor.

# Corporate Governance Report

In 2009, two Audit Committee meetings were held together with senior management and the external auditors. At the end of each meeting, the external auditors were invited to discuss in private with the Audit Committee members issues arising from the audit and any other matters which they might wish to discuss without the presence of senior management. The Chairman of the Audit Committee reported to the Board and gave a briefing on all significant issues after the meetings.

The major work performed by the Audit Committee during the year included:

- (a) Review of the Company's financial reporting process, internal control and risk management systems
- Reviewed 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;
- Reviewed with the external auditors the effectiveness of the audit procedures and their findings concerning the interim and annual financial statements and results announcements;
- Discussed and reviewed the audit reports prepared by the Head of the Internal Audit Department. These reports cover internal audit aspects, including audit objectives, audit approach, audit work done and findings. The qualifications and experience of staff carrying out accounting and financial reporting, as well as adequacy of resources, training programmes and budgets for such staff are examined, together with internal control functions;
- Provided guidance to internal auditors and senior management to ensure that the accounting policies and practices adopted by the Group are consistently applied in line with the applicable accounting standards and legal requirements; and
- Conducted reviews with the external auditors and/or senior management to ensure that connected transactions were properly disclosed in accordance with the requirements of the Listing Rules.

Based on the conclusions drawn from the above reviews and discussions, the Audit Committee has recommended the Board to approve the unaudited interim financial report of the Company for the six months ended 30 June 2009 and the annual financial statements for the

year ended 31 December 2009. The Audit Committee concluded that, in general, the Group continues to operate in a sound control environment with a control system that effectively monitors and corrects non-compliance. The Board, following the Audit Committee's annual review of the Group's internal control system, is satisfied that the Group has fully complied with the Code Provision on internal controls in 2009.

(b) Management of the relationship with the external auditors

- Reviewed the independence of the external auditors and considered the terms of engagement and audit fee proposal to ensure that there is no impairment to their independence; and
- Ensured that the external auditors have duly conducted their audit and non-audit services in an effective manner.

Based on the conclusions drawn from the above review, the Audit Committee has recommended to the Board the re-appointment of KPMG, the existing external auditors, as auditors of the Company in respect of the financial statements for the year ending 31 December 2010.

## Remuneration Committee

The Remuneration Committee comprises four members, namely Dr Norman Leung Nai Pang (chairman of the committee), Dr Kung Ziang Mien, James, Dr Eric Li Ka Cheung and Dr John Chan Cho Chak. 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-based bonuses, and reviews and makes recommendations on human resources-related policies to the Board by reference to the goals and objectives of the Group. Details of the terms of reference, remuneration policies and work done by the Remuneration Committee in 2009 are set out in the Remuneration Report on pages 38 to 41 of this Annual Report.

## Nomination Committee

The Nomination Committee comprises four members, namely, Dr Norman Leung Nai Pang (chairman of the committee), Dr Kung Ziang Mien, James, Dr Eric Li Ka Cheung and Mr Siu Kwing-chue, Gordon, all of whom are

Independent Non-executive Directors. The Nomination Committee is charged with the responsibility to identify appropriate candidates with suitable skills and experience for consideration by the Board. The objective is to ensure that the appointment of Directors undergoes formal, stringent and transparent procedures. The principal terms of reference of the Nomination Committee include:

- formulating nomination policy for consideration by 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 on succession planning for Directors, in particular, the Chairman and the Managing Director; and
- assessing the independence of Independent Non-executive Directors.

In 2009, no physical meeting was held by the Nomination Committee, but written resolution and discussion paper were circulated to all members of the Nomination Committee members for review and approval on 19 March 2009.

The overall attendance record of the Directors at Board Meetings and Committee Meetings in 2009 is tabulated below:

Member of the Board of Directors	Meetings Attended / Held				
	Board	Standing Committee	Audit Committee	Remuneration Committee	Nomination Committee
<b>Independent Non-executive Directors</b>					
The Hon Sir Sze-yuen CHUNG, GBM, GBE, JP (Chairman)	12/12				
Dr Norman LEUNG Nai Pang, GBS, JP (Deputy Chairman)	12/12	12/12		2/2	1/1
Dr KUNG Ziang Mien, James, GBS, OBE (with Mr KUNG Lin Cheng, Leo, JP as alternate)	10/12		1/2	1/2	1/1
Dr Eric LI Ka Cheung, GBS, OBE, JP	12/12		2/2	2/2	1/1
Mr SIU Kwing-chue, Gordon, GBS, CBE, JP	12/12		Note		1/1
<b>Non-executive Directors</b>					
Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate)	12/12	10/12			
Dr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin as alternate)	11/12				
Mr NG Siu Chan (with Ms Winnie NG as alternate)	12/12				
Mr William LOUEY Lai Kuen	10/12				
Dr John CHAN Cho Chak, GBS, JP	12/12	12/12		2/2	
Ms Winnie NG	12/12	9/12			
Mr George CHIEN Yuan Hwei	12/12		2/2		
Mr John Anthony MILLER, SBS, OBE	12/12				
<b>Executive Directors</b>					
Mr Charles LUI Chung Yuen, M.H.	9/12	9/12			
Mr Edmond HO Tat Man (Managing Director)	12/12	12/12			

Note: Appointed as a member of the Audit Committee with effect from 18 September 2009.

# Corporate Governance Report

## **Delegation of Responsibilities to Senior Management**

The day-to-day management of the Group's businesses is delegated to senior management and corporate executives under the guidance and supervision of the relevant Board Committees. This facilitates prompt response to a rapidly changing market environment. The Company's senior management and corporate executives have wide experience and expertise in different areas. Brief particulars of the senior management and corporate executives of the Group are set out on pages 118 and 119 of this Annual Report.

## **ACCOUNTABILITY AND AUDIT**

### **Financial Reporting**

The Directors are responsible for the preparation, and the true and fair presentation, of the financial statement of the Company and the Group. This responsibility covers the interim and annual reports, the "price-sensitive" announcements and other financial disclosures required under the Listing Rules, as well as reports to regulators and information required to be disclosed pursuant to the statutory requirements.

Based on the financial statements that have been audited or reviewed by the Company's external auditors, the Company publishes its interim and annual results within three months of the end of the respective accounting periods.

The financial statements of the Company and the Group for the year ended 31 December 2009 on pages 131 to 203 of this Annual Report are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and the Group, and the results and cash flow for the year. These financial statements are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute

of Certified Public Accountants (the "HKICPA"). Suitable accounting policies are selected and consistently applied and accounting estimates are made on a prudent and reasonable basis. The responsibilities of the external auditors, KPMG, are set out in the auditors' report on page 130 of this Annual Report.

### **Internal Controls and Risk Management**

The Board recognises its responsibility to ensure that an effective system of internal control is in place. This is to safeguard the assets of the Group, minimise risk of failure in operational systems and prevent material misstatement of information (both financial and non-financial). Stringent internal control measures are adopted extensively at all levels of the Group to monitor the performance of the Group's day-to-day operations.

### **Control Environment**

#### **Clearly defined Organisation Structure, Authority and Responsibility Framework**

The Group has a clear organisational structure with delineated lines of authority and control responsibility, which are clearly defined in writing and documented in the form of organisation charts and job manuals for each of the operating and business units. In general, senior management and corporate executives are primarily responsible for the design, implementation and maintenance of internal controls, formulation of operational plans and preparation of financial budgets which set out the resources to be allocated in accordance with the identified and prioritised business opportunities, while the Board and the Audit Committee oversee the management performance and assess the effectiveness of these controls. Specialised committees are also established from time to time to deal with specific issues. The Group's Internal Control Framework is built on the following components:

### The Board

- establishes high ethical and moral standards and monitor management's compliance with those standards
- maintains a sound and effective internal control system
- monitors and oversees performances of the Internal Control Framework

### Audit Committee

- oversees the Internal Control Framework
- provides directives for the design and implementation of a sound and effective internal control system
- ensures the independence and transparency of the internal audit function
- facilitates the coordination between the internal and external auditors
- approves audit plans and ensures findings of the Internal Audit Department are properly addressed by management
- reports to the Board about the performance of the Company's internal control environment

### Internal Audit Department

- formulates action plans to monitor the effectiveness of the internal control system
- coordinates with various operating units and monitors their compliance with internal control practices
- conducts robust reviews and rigorous testing of the internal control system and makes recommendations for improvement
- reports directly to the Audit Committee on a periodic basis
- provides independent and objective assurance that the internal control practices are effective

### Management

- designs, implements and maintains an effective internal control system
- supervises staff to ensure that they perform according to the requirements of internal control practices
- cooperates with and supports the work of the Internal Audit Department
- plays the central role in monitoring the Group's Quality Management System

## Business Ethics

The Group's internal control environment is built on the culture of moral consciousness, high ethical values and management integrity. The Code of Conduct (the "Code") and the Staff Handbook set down the rules and policies to which all Directors and staff are expected to adhere. These guidelines spell out the behaviour expected in all aspects of administrative and operational activities, including relationships with customers, suppliers, competitors and fellow staff, and underscore the social responsibilities of the Group. The Code also emphasises transparency, objectivity, integrity and reliability in financial information handling and disclosure in financial reports.

## Enterprise Risk Management

Our businesses are exposed to various types of risks, such as financial and operational risks. We have developed and implemented policies and procedures to manage these risks by adopting the "Internal Control – Integrated Framework" model recommended by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO").

This framework helps the Group identify risks that may have an impact on fulfilling its objectives, assess the risks using appropriate quantitative and qualitative techniques, and manage the risks in a systematic and hierarchical way. The process covers a range of areas, from the devising of strategies to the setting of related objectives for day-to-day activities, across the whole organisation. The implementation of ISO-based Quality Management System ("QMS") is one of the proactive control practices adopted to respond to the risk inherent in our bus operation, which is the core business of the Group. In 2009, under the direction of the Audit Committee, the Internal Audit Department reviewed in detail the process of KMB's enterprise risk management based on the framework of COSO to ensure KMB's risk management is properly conducted. The review covered KMB's control environment, objective setting, event identification and risk assessment, risk response and control activities, information and communication, and monitoring process. The level of risks inherent in various processes has been duly prioritised and identified with each risk item properly

# Corporate Governance Report

measured and controlled, and potential improvements or follow-up measures put in place to minimise the risk exposure. No material deficiency was noted in this review.

## Control Effectiveness

The internal control effectiveness of the Group is overseen by the Audit Committee with the support of the Company's Internal Audit Department and the external auditors.

Details of composition, terms of reference and the work done by the Audit Committee in 2009 are set out under the section headed "Audit Committee" on pages 29 and 30 of this Annual Report.

## Effective and Efficient Quality Management System ("QMS")

The Group has implemented an effective and efficient Quality Management System, which is based on the benchmarks required by the International Organisation for Standardisation ("ISO"), for its two major subsidiaries, KMB and Sun Bus Limited ("SB"). The implementation of QMS in KMB was recognised by the ISO 9001:1994 accreditation for quality management system achieved on a company-wide basis in 1999, and ISO 14001 accreditation for environmental management system obtained at two major bus depots in 2003. The Group also implemented QMS for SB in July 2008, and it was accredited with ISO 9001:2000 certification for the provision of non-franchised bus services in November 2008. In 2009, new ISO 9001:2008 certificates were issued to KMB and SB upon the completion of the upgrading audits.

The operation of QMS in KMB and SB is closely monitored by trained internal quality auditors. Under ISO requirements, all major financial and operational procedures and instructions, including illustrative flow charts, need to be clearly documented and approved by authorised persons before release. This documentation covers KMB and SB's major operational processes, and responsible persons and their respective duties are well defined. The ISO documentation is constantly reviewed and updated to ensure compliance with change in the work process. Management meetings are held every three months at KMB and every two months at SB to review the effectiveness and compliance of the respective QMS. Preventive and corrective measures, if any cases of non-conformity are detected, as well as continuous improvement plans are implemented accordingly.

Each year, an external ISO certification organisation, the Hong Kong Quality Assurance Agency ("HKQAA"), carries out an independent audit of the respective QMS of KMB and SB to ensure its effectiveness, efficiency and conformity. Recommendations are made for follow-up action when areas of improvement are identified during the ISO audit.

The adoption of QMS has enhanced cooperation between our staff, with everyone directed towards achieving the same goal and meeting the required ISO standards. A well-structured and systematic documentation model facilitates the Group's development of strategic and operational plans and serves as a performance indicator so that each business unit can obtain concrete measurement of its effectiveness.

## Business Continuity Plan

As an integral part of risk management, KMB has formulated and documented a Business Continuity Plan ("BCP"), which is updated from time to time as conditions change. The BCP enables senior management to preserve stakeholder value in the event of a crisis by responding promptly to the situation and resuming KMB's critical business functions within the maximum tolerable limits. In the BCP, major risks and the business functions affected are identified and evaluated, responsibilities, recovery time objectives and resources required are defined, and responses are outlined. Walkthrough tests or drills are carried out to ensure that the responses are feasible and viable.

## Advanced Management Information System

The Group adopts a comprehensive Enterprise Resources Planning ("ERP") system, including SAP e-business Software, to provide a tailor-made solution which transforms large amounts of operational and financial data systematically to help senior management and the Board make informed strategic business decisions on the basis of updated, reliable and relevant information and measure management performance against budget.

## Establishment of a Comprehensive Internal Audit Function

The Internal Audit Department plays a crucial role in monitoring the internal governance of the Group. The Department is responsible for independently reviewing the risks and controls of the Group, and for providing reasonable assurance to senior management and the Audit Committee that the internal control systems are

effective in achieving their objectives, and that any risks and internal control weaknesses have been identified and adequately addressed. The Head of the Internal Audit Department is responsible for supervising the conduct of comprehensive audits, and reviewing the financial and operational procedures and practices of the Group on both a regular and an ad hoc basis.

To ensure the independence of the internal audit function of the Group, the Head of the Internal Audit Department reports directly to the Managing Director and the Audit Committee.

In 2009, the major work undertaken by the Internal Audit Department included:

- conducting systematic audits of various aspects of the Group's operations according to the audit rolling plan, and reporting findings and recommending follow-up action to the relevant operating units, the Managing Director and the Audit Committee;
- independently reviewing the risks and controls of the Group, and ensuring that the risks and internal control weaknesses had been adequately addressed; and
- specially reviewing critical areas of concern identified by senior management or the Audit Committee.

Based on the report of the Internal Audit Department, the Audit Committee concluded that the Group continues to operate in a sound control environment with a control system that effectively monitors and corrects non-compliance in all significant areas. The Board, following the Audit Committee's annual review of the Group's internal control system, is satisfied that the Group has fully complied with the Code Provision on internal controls in 2009.

### Control Practices for Handling and Disseminating Price-sensitive Information

The Company is aware of its obligations under the Listing Rules and has established proper procedures and internal controls for handling and disseminating price-sensitive information. The Board and nominated managers with access to price-sensitive and/or specific information are bound by the Model Code for Securities Transactions under the Listing Rules. In addition, all staff are required by the Code of Conduct and the Staff Handbook to keep unpublished price-sensitive information strictly confidential.

## External Audit

The external auditors play a key role in ensuring the integrity of the disclosure of financial information. The management letters, which report the external auditors' major findings relating to the Company's interim and annual published financial statements, are addressed directly to the Audit Committee and the Board. The external auditors are invited to attend meetings of the Audit Committee as well as the Annual General Meeting.

KPMG were engaged as external auditors to review and audit the interim and annual financial statements of the Company for 2009. The audit and non-audit related services provided by KPMG are subject to the review of the Audit Committee, and a policy is in place to ensure that the engagement of KPMG in other non-audit services will not impair their independence to act as external auditors.

The fees for services provided to the Group by KPMG for the year ended 31 December 2009 are set out below:

	HK\$ million
Audit related services	5.5
Non-audit related services	0.1
<b>Total</b>	<b>5.6</b>

## COMMUNICATION WITH STAKEHOLDERS

### Communication with Shareholders

The Group fully understands its corporate responsibility to provide shareholders with the information necessary for them to evaluate the Group's performance. Press releases, interim and final results announcements, interim and annual reports, and other information of interest to shareholders are uploaded to the Stock Exchange's website and the Company's corporate website [www.tih.hk](http://www.tih.hk). The interim and annual reports are also sent to shareholders within the respective deadlines stipulated by the Listing Rules.

The Company's 2008 annual report won four awards in 2009:

- Best of Hong Kong – traditional format in the International ARC Awards
- Gold Award for Overall Annual Report and Bronze Award for Chairman's Letter in the International ARC Awards
- Bronze Award in the Hong Kong Management Association ("HKMA") Best Annual Reports Awards

# Corporate Governance Report



*Directors meet with the shareholders at the 2009 Annual General Meeting of the Company*

These awards are recognition of the Company's efforts in maintaining transparency and good corporate governance as well as in ensuring an excellent level of disclosure across all aspects of our businesses.

The Board regards the general meetings as important opportunities for direct communication with shareholders. The annual general meetings or other general meetings are normally attended by all Directors and senior management. Shareholders are invited to raise questions to the Directors during the meetings, or email their enquiries to the Directors through the Company's email address "director@tih.hk". The Company Secretary is responsible for attending to these enquiries in the first instance.

All shareholders have the right to vote at general meetings. Since 2007, the Company has conducted voting by poll at general meetings so that each share is entitled to one vote. At the general meetings, separate resolutions are proposed for each distinctive issue, including the election of each individual Director. A circular containing the notice of the annual general meeting, proposed resolutions, biographies of each of the Directors standing for election at the annual general meeting, and information on poll voting procedures is despatched to shareholders together with the annual report. The circular for the 2009 Annual General Meeting ("2009 AGM") was despatched to shareholders at least 21 days prior to the 2009 AGM date in accordance with the Listing Rules then prevailing. The circular for the 2010 Annual General Meeting ("2010 AGM") will be despatched to shareholders at least 20 clear business days prior to the 2010 AGM date to comply with the latest amended Listing Rules.

The 2009 AGM was held on 21 May 2009 and the matters resolved are summarised below:

- Approval of the audited financial statements and reports of the Directors and Auditors for the year ended 31 December 2008
- Approval of an ordinary final dividend of HK\$1.05 per share for the year ended 31 December 2008
- Re-election of Mr Kwok Ping-luen, Raymond, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung and Mr Edmond Ho Tat Man as Directors of the Company
- Re-appointment of KPMG as auditors of the Company and authorisation of the Directors to fix their remuneration
- Granting of a general mandate to the Directors to issue shares not exceeding 20% of the issued share capital
- Granting of a general mandate to the Directors to exercise powers of the Company to purchase its own shares not exceeding 10% of the issued share capital
- Granting of a general mandate to the Directors to extend the share issue mandate granted to the Directors not exceeding 10% of the issued share capital

The details and poll voting results of the 2009 AGM were published on the websites of the Company and of the Stock Exchange on 21 May 2009.

The 2010 Financial Calendar of the Company is set out as follows:

Announcement of 2009 final results	18 March 2010
Despatch of 2009 Annual Report and accompanying Circular to shareholders	21 April 2010
Last day to register for 2009 ordinary final dividend and 2009 special dividend	11 May 2010
Book closure period	12-20 May 2010
Date of 2010 AGM	20 May 2010
Payment of 2009 ordinary final dividend and 2009 special dividend	24 May 2010
Announcement of 2010 interim results	mid-September 2010
Payment of 2010 interim dividend	mid-October 2010
Financial year end date	31 December 2010

## Communication with the General Public

**Website** – The Company's corporate website [www.tih.hk](http://www.tih.hk) provides a wide range of information about the Group and its various businesses. To respond to the changing needs of its stakeholders, in November 2009, KMB launched a revamped corporate website to provide a more user-friendly and informative online experience to its customers.

**Media** – To enhance the public's understanding of the bus services of KMB and LWB, two of the Company's major subsidiaries, regular press sessions are held to keep the media informed about the latest developments of the bus companies in areas including services, facilities, safety and environmental protection.

**Publications** – To enhance transparency and strengthen communication with the general public, KMB and LWB, periodically distribute various publications to keep customers and the community updated on their services and operations.

These publications include:

- More about KMB
- More about Long Win
- KMB Corporate Social Responsibility Charter
- Long Win Corporate Social Responsibility Report

- KMB Passenger Liaison Group Report
- Long Win Passenger Liaison Group Report
- KMB's Efforts in Environmental Protection
- KMB Today (a monthly magazine)

In 2009, two of KMB's publications, namely the 2008 Passenger Liaison Group Report and the 2009 Environmental Protection Booklet, received the Grand Award and the Award of Excellence respectively in the Apex Awards for Publication Excellence, organised by Communications Concepts. In addition, the Passenger Liaison Group Report and KMB's Corporate Social Responsibility Charter won Awards of Excellence in the Communicator Awards, sanctioned and judged by the International Academy of the Visual Arts. KMB's publications are available on its website [www.kmb.hk](http://www.kmb.hk), together with corporate, financial and press information pertaining to the Group, which is regularly updated and uploaded.

## Communication with Employees

Effective communication between management and our 13,000 staff members is vital to our success as well as a means of helping develop teamwork and efficiency.

To enhance mutual understanding and promote cooperation at all levels, six joint consultative committees of KMB and LWB have been established to provide channels for management and staff to discuss matters such as safety and the work environment, as well as issues relating to staff welfare.

The Group also maintains a staff website through which staff can conveniently access relevant management announcements and information on staff matters including payroll information, details of staff events and activities, etc. Online orientation training courses, e-learning programmes and a staff forum are also made available through the website. Periodic VCDs and the monthly magazine, KMB Today, are produced on a regular basis to keep our employees, particularly frontline staff, informed of news and events relating to the Group and the industry. To further enhance communication between management and staff, a new column "Message from the Managing Director" has been introduced in KMB Today.

The Staff Handbook provides clear guidelines for all staff to follow, as well as setting out the company's human resources policies. The Handbook can be accessed via our staff website.