

Corporate Governance Report



Accountability, transparency, honesty and integrity are the four cornerstones on which the Board has formulated our corporate governance policies to guide the Company in directing and conducting its businesses. We strive to maintain the highest standards of corporate governance by meeting all statutory and regulatory requirements and by adopting sound policies, procedures and rules that are fully adhered to by board members and staff.

CORPORATE GOVERNANCE FRAMEWORK

We firmly believe that a strong corporate governance system enables the Company to fulfil its mission and attain business excellence. The Company's Corporate Governance Framework (the "Framework") is designed to help our Board of Directors and management conduct the Group's businesses in line with planned strategic goals which meet the expectations of our stakeholders, including shareholders, customers, employees, creditors and suppliers. Besides ensuring that we are in compliance with all regulatory requirements as well as meeting environmental and local community needs, the Framework acts as a benchmark for evaluating the effectiveness of our performance. Good corporate governance principles, including accountability, transparency, honesty, integrity, openness, performance orientation, mutual respect and commitment, are the basis for the design and planning of the Framework. Sound management policies and practices have been adopted at all levels of operation throughout the Group's businesses to obtain the highest standards of corporate governance. While the Framework is stringent, it maintains the necessary flexibility to handle the evolving dynamics of local regulatory requirements, market changes, social expectations and international developments.

We achieve our corporate governance objectives by implementing the following measures:

- Optimal board composition, a professional management team, sound management reporting systems and stringent internal control procedures, which ensure that the Directors and management are able to make informed decisions in the best interests of our stakeholders;
- Effective internal audit and control systems, which safeguard against risk, protect the Group's assets and ensure that its policies and management practices are executed as planned, with any irregularities, deviations and abuses being swiftly identified and corrected; and
- Effective communication channels, which ensure that the Group's affairs are made known to shareholders, customers and other stakeholders in a timely manner.

Our management team is committed to continuous enhancement and enrichment of our current practices to ensure compliance with new regulatory developments and find ways to mitigate risk in every practicable way. In this Corporate Governance Report, we describe in detail the

corporate governance policies and practices that have been applied throughout the Group for the management of our businesses.

CORPORATE GOVERNANCE PRACTICES

The Group is constantly mindful of the recommended corporate governance practices set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the revised CG Code set out in the Consultation Conclusions on Review of the Corporate Governance Code and Associated Listing Rules. The CG Code enables listed issuers in Hong Kong to evaluate and improve their corporate governance practices by providing two levels of recommendations: "Code Provisions", with which issuers are expected to comply but from which they may choose to deviate so long as they give considered reasons for non-compliance; and "Recommended Best

Practices", which are provided for guidance only.

The corporate governance principles mainly cover the following areas:

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

The Company fully complied with and in certain areas exceeded the Code Provisions set forth in the CG Code throughout the year ended 31 December 2011, and closely observed the continuing listing obligations revised from time to time in the Listing Rules. The Company exceeds or meets the Code Provisions and Recommended Best Practices of the CG Code in these major areas:

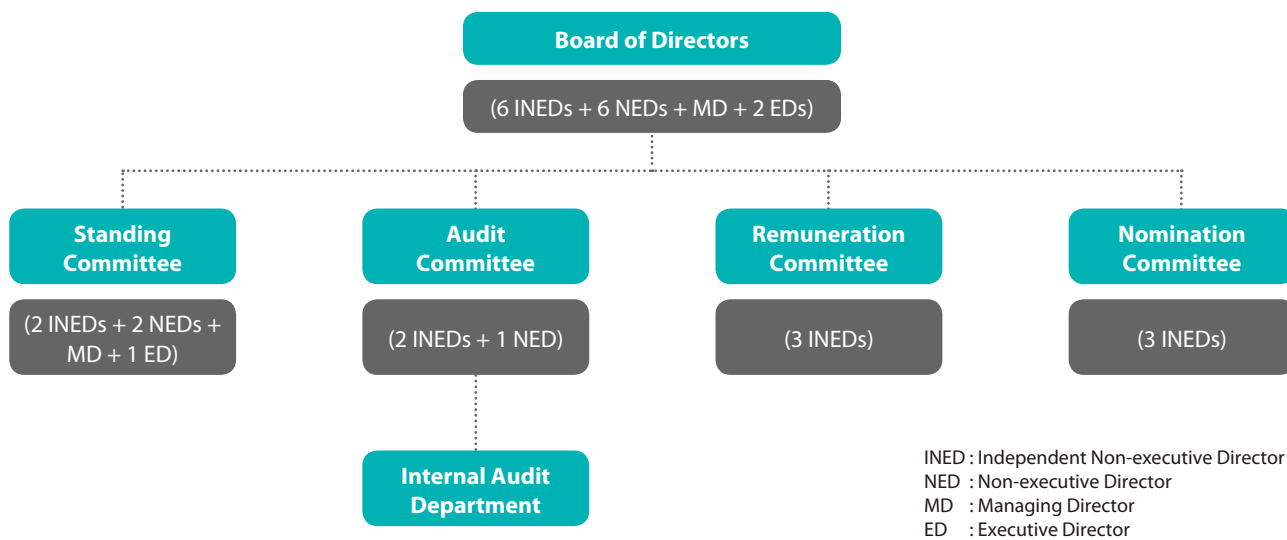
Exceed	Meet	Particulars
✓		We have established a comprehensive Corporate Governance Framework to ensure that the best corporate governance practices are identified and conducted throughout the Group in the best interests of its stakeholders.
✓		One-third of the Board is represented by Independent Non-executive Directors.
✓		The Board meets regularly (11 times in 2011) to discuss major corporate strategic and operational issues.
✓		The Chairman and the Managing Director have no financial, business, family or other relationship with each other. This ensures the independence of key personnel holding their distinctive role separately.
✓		We have four Corporate Governance-related Committees, namely, the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. The Audit, Nomination and Remuneration Committees have a majority of Independent Non-executive Directors.
✓		The Audit Committee meets the external auditors twice a year without the presence of senior management.
✓		External auditors attend the annual general meeting to answer questions from shareholders.
✓		All members of the Nomination Committee are Independent Non-executive Directors. Their independence is essential for identifying candidates of high calibre in an objective way and in the best interests of the Company and its shareholders.
✓		We have drawn up a written Code of Conduct (the "Code") applicable to all Directors and staff. The Code emphasises the role of ethical values and conscience in business activities.
✓		In addition to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, we have a Code of Conduct and a Staff Handbook to regulate the handling and dissemination of price-sensitive information.
✓		Our Internal Control and Risk Management Framework conforms with the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission and relevant ISO Standards, which together provide comprehensive guidance for our corporate governance practices.
✓		We issue a separate Remuneration Report, which sets out the remuneration policy, terms of reference and methodologies adopted for determination of the remuneration of Directors.
✓		We use Higgs Methodology and conduct a desk-top survey on the remuneration of the directors of 20 major companies listed on the Stock Exchange as the base for determining the Directors' level of remuneration.
	✓	We adopt all Code Provisions of the CG Code.

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BOARDROOM FRAMEWORK

The overall management of the Company's businesses is vested in the Board, which currently comprises 15 members, of whom six are Independent Non-executive Directors, six are Non-executive Directors and three are Executive Directors (including the Managing Director and the Deputy Managing Director). Daily management of the

Group's businesses is delegated to the senior management, who are the Executive Directors of the Company, under the supervision of four designated Board Committees (namely, the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee). The Company's boardroom framework is given below:



BOARD OF DIRECTORS

Composition of the Board of Directors

The Board is responsible for leading the Group's development, setting the Group's strategic goals, ensuring the availability of the necessary resources for the Group to achieve its pre-determined strategic goals and for running the Group's businesses in the best interests of the stakeholders.

The primary responsibilities of the Board include the following:

- Formulating the Group's objectives, strategies, policies, business plans and corporate values
- Monitoring management performance
- Dividend policy
- Major financing arrangements
- Material acquisitions and disposals
- Connected transactions
- Ensuring the integrity of the Group's accounting and financial reporting system and public announcements
- Internal controls
- Risk management

- Overseeing the management of relationships with stakeholders, including shareholders, customers, the HKSAR Government, suppliers, employees and the community
- Assessing and evaluating the skills and expertise needed on the Board.

The Board of Directors comprises Executive and Non-executive Directors (including Independent Non-executive Directors) who have diverse business and professional experience. This mix ensures that the Board possesses a balance of expertise and a strong independent element allowing it to effectively exercise independent judgement and promote the best interests of its shareholders. The list of Directors, including their biographies and their respective terms of office, is available on the websites of the Company and the Stock Exchange.

The Independent Non-executive Directors (whose designations as Independent Non-executive Directors are explicitly given in all corporate communications of the Company) contribute to ensuring that major issues and connected transactions 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 into consideration. Currently having six Independent Non-executive Directors, the Company complies with the Recommended Best Practice A.3.2 of the Listing Rules (which will become a Code Provision with effect from 1 April 2012) that at least one-third of Board members should be Independent Non-executive Directors, and exceeds the minimum requirements of Rules 3.10(1) and (2) of the Listing Rules that every listed company should have at

least three Independent Non-executive Directors, one of whom must have appropriate professional qualifications or accounting or related financial management expertise.

As at the date of this Annual Report, all Independent Non-executive Directors had submitted written confirmation of their independence to both the Stock Exchange and the Company in line with Rule 3.13 of the Listing Rules, and the Company considers each of them to be independent.

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

Independent Non-executive Directors	<p>The Hon Sir Sze-yuen CHUNG, GBM, GBE, JP (Chairman)</p> <p>Dr Norman LEUNG Nai Pang, GBS, JP (Deputy Chairman)</p> <p>Dr John CHAN Cho Chak, GBS, JP (Note 1)</p> <p>Dr Eric LI Ka Cheung, GBS, OBE, JP</p> <p>Mr SIU Kwing-chue, Gordon, GBS, CBE, JP</p> <p>Professor LIU Pak-wai, SBS, JP (Note 2)</p>
Non-executive Directors	<p>Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate)</p> <p>Dr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin as alternate)</p> <p>Mr NG Siu Chan (with Ms Winnie NG as alternate)</p> <p>Mr William LOUEY Lai Kuen</p> <p>Ms Winnie NG</p> <p>Mr John Anthony MILLER, SBS, OBE</p>
Executive Directors	<p>Mr Charles LUI Chung Yuen, M.H.</p> <p>Mr Edmond HO Tat Man (Managing Director)</p> <p>Mr Evan AU YANG Chi Chun (Deputy Managing Director)</p>

Notes:

1. Re-designated from Non-executive Director to Independent Non-executive Director with effect from 4 January 2012.
2. Appointed as an Independent Non-executive Director with effect from 1 September 2011.

Detailed biographies of the Directors are set out on pages 116 to 122 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 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 term of office of not longer than three years.

Obligations of Directors

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 Directors' securities transactions concerning the Company. In response to the Company's specific enquiry, all Directors confirmed that they had complied throughout 2011 with the required standard of dealings as set out in the Model Code.

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 2011 are set out on pages 127 and 128 of this Annual Report.

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Code of Conduct

The Company has a written Code of Conduct (the “Code”) for the guidance of Directors and employees. The Code provides guidelines 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 the requirement for ethical values and conscience in business activities. Directors and employees are required to adhere to the Code when they discharge their delegated duties.

Induction and Professional Development

To ensure that Directors’ contributions to the Board remain informed and relevant, the Company Secretary is charged with the responsibility of providing comprehensive, formal and tailored induction programmes, briefings and other training courses for new and existing Directors. In this way, Directors’ knowledge and skills, as well as their awareness of the best corporate governance practices are enhanced in a timely manner. Directors are also encouraged to participate in continuous professional development programmes organised by qualified institutions and are requested to provide a record to the Company of any training they undertake.

Appointment, Re-election, Cessation and Rotation of Directors

A person may be appointed a member of the Board at any time either by the shareholders in general meeting or by the Board to fill a casual vacancy on the Board on the recommendation of the Nomination Committee. All Directors are appointed for a specific term and are subject to retirement by rotation and re-election at the Company’s annual general meeting at least once every three years. Directors appointed to fill casual vacancies of the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. The shareholders may also remove a Director before the expiration of his period of office by special resolution in general meeting properly convened in accordance with the Bye-laws of the Company for such purpose.

In the interests of independence, any appointment of an Independent Non-executive Director who has served the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. The Company will provide an explanation in the circular it sends to shareholders giving notice of the annual general meeting why it considers that any such Independent Non-executive Director continues to be independent and why it recommends that shareholders vote in favour of his or her re-election.

Procedures for Making Proposals to Nominate a Person for Election as a Director

If a shareholder wishes to propose for election as a Director at a general meeting a person other than a Director who is due to retire, the shareholder should lodge at the head office of the Company at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong for the attention of the Company Secretary a notice signed by the shareholder, who is other than the person to be proposed and is duly qualified to attend and vote at the meeting for which such notice is given, of his or her intention to propose such person for election. The shareholder should also lodge a notice signed by the person to be proposed of his or her willingness to be elected. The length of the period during which the aforesaid notices may be given will be at least seven days, commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such general meeting. In order for the Company to inform the shareholders of the proposal, the written notice must give the full name of the person proposed for election as a Director, and the person’s biographical details as required to be disclosed under Rule 13.51(2) of the Listing Rules, as well as the person’s written consent to the publication of his/her personal data. The procedures for shareholders to propose a person for election as a director is published on the Company’s website.

Appointment and Cessation of Directors

Professor LIU Pak-wai was appointed as an Independent Non-executive Director of the Company and a Director of KMB and LWB with effect from 1 September 2011. Professor LIU, as a Director appointed by the Board to fill the casual

vacancy occasioned by the resignation of Mr George CHIEN Yuan Hwei on 1 July 2011, will hold office as Director until the next annual general meeting of the Company to be held on 17 May 2012. Professor LIU will then be eligible for re-election and subject to retirement by rotation and re-election at subsequent annual general meetings of the Company.

Mr George CHIEN Yuan Hwei resigned as Director of the Company, KMB and LWB with effect from 1 July 2011.

Appropriate announcements of the appointment, re-election and cessation of directorships were published in accordance with the requirement of Rule 2.07 of the Listing Rules.

Rotation of Directors

At the 2011 AGM, six Directors, namely, the Hon Sir Sze-yuen CHUNG, Mr NG Siu Chan, Dr John CHAN Cho Chak, Mr SIU Kwing-chue, Gordon, Mr John Anthony MILLER and Mr Evan AU YANG Chi Chun retired by rotation and were re-elected as Directors of the Company. (Note: As disclosed in the Company's circular dated 14 April 2011, the Hon Sir Sze-yuen CHUNG offered himself for re-election at the 2011 AGM for a term of one year only.)

At the forthcoming annual general meeting to be held on 17 May 2012 (the "2012 AGM"), Mr KWOK Ping-luen, Raymond, Mr Charles LUI Chung Yuen, Ms Winnie NG, Dr Eric LI Ka Cheung, Mr Edmond HO Tat Man and Professor LIU Pak-wai will retire as Directors of the Company. All these retiring Directors, being eligible, have been nominated by the Nomination Committee and recommended by the Board to stand for re-election at the 2012 AGM. The election of each Director will be subject to the vote of shareholders by a separate resolution.

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, an Independent Non-executive Director, and Mr Edmond HO Tat Man, an Executive Director, respectively. Neither has any financial, business, family or other relationship with the other, thus ensuring better governance through the clear separation of the roles and responsibilities of the Chairman and the Managing Director.

With an Independent Non-executive Chairman, the Company is able to ensure that the Board is fully engaged with strategy and can evaluate how well it is being implemented. He also provides independent oversight of management while ensuring that the Board remains closely aligned with the interests of shareholders.

The respective roles and responsibilities of the Chairman and the Managing Director are clearly defined in writing and may be summarised as follows:

Responsibilities of the Chairman

- 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
- Taking appropriate steps to provide effective communication with shareholders and to ensure that shareholders' views are communicated to the Board as a whole

Responsibilities of the Managing Director

- Developing, recommending and implementing the Group's policies and strategies reflecting long-term objectives and priorities approved by the Board
- Assuming full accountability to the Board for all aspects of the Group's operations and performance
- Maintaining ongoing dialogue with the Board Chairman and other Directors
- Developing and leading an effective executive team
- Putting adequate operational, planning and financial-control systems in place
- Closely monitoring operational and financial results in accordance with plans and budgets
- Representing the Company and managing the Group's day-to-day businesses

The Chairman also meets once a year with the Non-executive Directors, in the absence of the Managing Director and the Executive Directors, to discuss the Group's business affairs. This meeting was held on 24 October 2011.

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Board Meetings

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

- The annual schedule for regular Board meetings is provided to Board members at the start of each year;
- Directors may request inclusion of items in the agenda of Board meetings;
- The draft agenda for regular Board meetings is prepared by the Company Secretary and approved by the Chairman of the Company;
- Notice of Board meetings 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 that Directors have sufficient time to attend to the affairs to be discussed and make informed decisions in the best interests of the Company;
- Senior management report to the Board on the operations and financial performance of various business areas; and
- Draft minutes of all Board meetings, which record in detail the matters considered by the Board and the decisions reached as well as any concerns raised or dissenting views expressed by the Directors, are taken by the Company Secretary and circulated to the Directors for comment within a reasonable time after the meeting. The final version of the draft minutes is submitted to the Board at the subsequent meeting for formal adoption. The adopted minutes are kept by the Company Secretary and are available for inspection by the Directors.

Voting on Connected Transactions

Directors are requested to disclose to the Company twice a year the offices they hold in other public companies or organisations. Pursuant to the Company's Bye-laws, Directors are required to declare their interests, if any, in

any transaction, arrangement or other issue proposed to be discussed at the Board meeting and to abstain from voting on relevant resolutions if they have a conflict of interest or a material interest in the proposed transaction. Directors with an interest so declared would not count towards the quorum for the meeting in respect of the passing of the relevant resolutions.

Independent Non-executive Directors, together with the other Board members, ensure that connected transactions are entered into in the ordinary and usual course of the Group's business and on normal commercial terms arrived at on an arm's length basis, and that they 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 for ensuring that all connected transactions entered into are in compliance with the Listing Rules. In 2011, the Company was involved in two continuing connected transactions, details of which are disclosed on pages 94 to 95 of this Annual Report.

Directors' Indemnities and Protections

The Company has arranged appropriate insurance cover in respect of legal action against the Directors of the Company, which indemnifies the Directors for liabilities incurred in connection with the Company's activities.

DELEGATION BY THE BOARD OF DIRECTORS

Senior management and the key corporate executives provide accurate, adequate and detailed financial and operational information in a timely manner to the Board of Directors to keep them informed of the latest developments of the Group and enable them to make informed decisions and discharge their responsibilities effectively.

The Board has established the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee as the four designated Board Committees to oversee particular aspects of the Group's affairs. Each of the Committees has written terms of reference and adequate authority and resources to discharge their duties. The terms of reference explaining the role and the authority delegated by the Board to the Board Committees are available on the websites of the Company and the Stock Exchange.

The membership of each Committee is shown below:

Name of Directors	Standing Committee	Audit Committee	Remuneration Committee	Nomination Committee
Dr Norman LEUNG Nai Pang GBS, JP [^]	Chairman		Chairman	Chairman
Dr Eric LI Ka Cheung GBS, OBE, JP [^]		Chairman	Member	Member
Mr SIU Kwing-chue, Gordon GBS, CBE, JP [^]		Member		Member
Mr KWOK Ping-luen, Raymond JP [#]	Member			
Dr John CHAN Cho Chak GBS, JP [^] (Note 1)	Member		Member	
Ms Winnie NG [#]	Member			
Mr George CHIEN Yuen Hwei [#]		ex-Member (Note 2)		
Mr John Anthony MILLER SBS, OBE [#]		Member (Note 3)		
Mr Charles LUI Chung Yuen M.H. [*]	Member			
Mr Edmond HO Tat Man [*]	Member			

[^] Independent Non-executive Director

[#] Non-executive Director

^{*} Executive Director

Notes:

1. Re-designated from Non-executive Director to Independent Non-executive Director with effect from 4 January 2012.

2. Resigned as a member of the Audit Committee with effect from 1 July 2011.

3. Appointed as a member of the Audit Committee with effect from 1 July 2011.

Standing Committee

The Standing Committee was set up by the Board to advise and assist the Board in formulating policies, and to monitor their implementation by management. In 2011, the Standing Committee met with senior management 11 times to review and discuss financial, operational and strategic issues in relation to current businesses as well as potential investment opportunities for the Group, and reported findings and made recommendations to the Board directly.

Audit Committee

The Chairman of the Audit Committee, Dr Eric LI Ka Cheung, an Independent Non-executive Director of the Company, is a certified public accountant, with the appropriate professional qualifications and accounting expertise required by the Listing Rules. The Chairman and other members of the Audit Committee have a wide range of experience in various business and professional fields as set down in the Directors' biographies on pages 116 to 122 of this Annual Report. None of the Audit Committee members is a former or existing partner of the external auditors of the Company. The Audit Committee's terms of reference are in line with the recommendations set out 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. The Audit Committee is delegated with the responsibility

for overseeing the financial reporting process, internal control procedures and risk management system of the Company, and its relationship with the external auditor.

In 2011, the Audit Committee together with the senior management held two meetings with the Company's external auditors, KPMG, in which the Company's financial reports, internal control and other relevant matters were thoroughly reviewed and discussed. 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 bring up to the Audit Committee in the absence of senior management. Following 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 had arisen.

The major work performed by the Audit Committee in 2011 included:

(a) Review of the Company's Financial Reporting Process, and Internal Control and Risk Management Systems

- The accounting principles and practices adopted by the Group, the financial results of the Company and of its major subsidiaries, the accuracy and fairness of the financial statements and the scope of both internal and external audit work were reviewed with senior management;

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- Revised accounting standards and prospective changes to accounting standards, and their impact on the financial reporting of the Company and the Group, were reviewed;
- The effectiveness of the audit procedures and the external auditors' findings concerning the unaudited interim financial report and audited annual financial statements, and results announcements were reviewed with the external auditors;
- The audit reports prepared by the Head of the Internal Audit Department covering internal audit aspects, including audit objectives, audit approach, audit work done and findings, were discussed and reviewed. The qualifications and experience of staff carrying out accounting and financial reporting, as well as the adequacy of resources, training programmes and budgets for such staff, were examined, together with internal control functions;
- Guidance was provided to internal auditors and senior management to ensure that the accounting policies and practices adopted by the Group were consistently applied in line with the relevant accounting standards and legal requirements; and
- Reviews were conducted with the external auditors and 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 these reviews and discussions, the Audit Committee recommended the Board to approve the unaudited interim financial report of the Company for the six months ended 30 June 2011 and the annual financial statements for the year ended 31 December 2011.

(b) Management of Relationship with External Auditors

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

Based on the conclusions drawn from these reviews, the Audit Committee recommended to the Board that KPMG, the existing external auditors, be re-appointed as auditors of the Company in respect of the financial statements for the year ending 31 December 2012.

Remuneration Committee

The Remuneration Committee is designated with the responsibility for formulating remuneration policies, including the establishment of 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 to the Board on human resources related policies in line with the Group's goals and objectives. Details of the terms of reference, remuneration policies and work done by the Remuneration Committee in 2011 are set out in the Remuneration Report on pages 112 to 115 of this Annual Report.

Nomination Committee

All members, including the chairman, of the Nomination Committee are Independent Non-executive Directors of the Company. The role of the Nomination Committee is to identify appropriate candidates with suitable skills and experience for consideration by the Board and 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.

The overall attendance record of the Directors at the Annual General Meeting, Board Meetings and Committee Meetings in 2011 is given below:

Members of the Board of Directors	Meetings Attended/Held					
	2011 AGM	Board	Standing Committee	Audit Committee	Remuneration Committee	Nomination Committee
Independent Non-executive Directors						
The Hon Sir Sze-yuen CHUNG, GBM, GBE, JP (Chairman)	1/1	11/11				
Dr Norman LEUNG Nai Pang, GBS, JP (Deputy Chairman)	1/1	11/11	10/11		3/3	2/2
Dr John CHAN Cho Chak, GBS, JP (Note 1)	1/1	11/11	11/11		3/3	
Dr Eric LI Ka Cheung, GBS, OBE, JP	1/1	11/11		2/2	3/3	1/2
Mr SIU Kwing-chue, Gordon, GBS, CBE, JP	1/1	11/11		2/2		2/2
Professor LIU Pak-wai, SBS, JP (Note 2)		4/4				
Non-executive Directors						
Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate)	1/1	11/11	11/11			
Dr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin as alternate)	1/1	10/11				
Mr NG Siu Chan (with Ms Winnie NG as alternate)	1/1	11/11				
Mr William LOUEY Lai Kuen	1/1	11/11				
Ms Winnie NG	1/1	11/11	10/11			
Mr George CHIEN Yuan Hwei (Note 3)	1/1	5/5		1/1		
Mr John Anthony MILLER, SBS, OBE (Note 4)	1/1	11/11		1/1		
Executive Directors						
Mr Charles LUI Chung Yuen, M.H.	1/1	8/11	9/11			
Mr Edmond HO Tat Man (Managing Director)	1/1	11/11	11/11			
Mr Evan AU YANG Chi Chun (Deputy Managing Director)	1/1	11/11				

Notes:

1. Re-designated from Non-executive Director to Independent Non-executive Director with effect from 4 January 2012.
2. Appointed as an Independent Non-executive Director with effect from 1 September 2011.
3. Resigned as a Director and ceased to be a member of the Audit Committee with effect from 1 July 2011.
4. Appointed as a member of the Audit Committee with effect from 1 July 2011.

Delegation of Responsibilities to Senior Management

The daily management of the Group's businesses is delegated to senior management, comprising Executive Directors of the Company, and its management team who have wide experience and expertise in different areas under the supervision of the Board and the relevant Board Committees. Our professional team provides accurate, adequate and detailed financial and operational information in a timely manner to the Directors to keep them up to date on the latest developments of the Group, enabling them to make informed decisions and discharge their responsibilities effectively.

Company Secretary

The Company Secretary of the Company is Miss Lana Woo, who is a member of The Hong Kong Institute of Chartered Secretaries. She reports to the Managing Director of the Company and is responsible for advising the Board on governance matters and facilitating the induction and professional development of Directors.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors recognise their responsibility for the preparation of financial statements of the Company and the Group which give a true and fair view in accordance with the Hong Kong Financial Reporting Standards ("HKFRS")

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issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility covers the interim and annual reports, “price-sensitive” announcements and other financial disclosures required under the Listing Rules, reports to regulators, and any information that needs to be disclosed to satisfy statutory requirements.

The Company announced its interim and annual financial results in a timely manner within the limits of two and three months respectively after the end of the respective accounting periods.

The financial statements of the Company and the Group for the year ended 31 December 2011 given on pages 135 to 203 of this Annual Report represent a true and fair view of the state of affairs of the Company and the Group, and the results and cash flows for the year. These financial statements are prepared according to the HKFRSs issued by the HKICPA. The responsibilities of the external auditors, KPMG, are set out in the auditors’ report on page 134 of this Annual Report.

The Group’s Internal Control Framework is built on the following elements:

The Board

- establishes high ethical and moral standards and monitors management compliance with these standards
- ensures that sound and effective internal control measures are in place
- monitors and oversees the performance 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
- promotes 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 on the performance of the Company’s internal control system

Internal Audit Department

- formulates action plans to monitor the effectiveness of the internal control system
- works with various operating units and monitors their compliance with internal control practices
- conducts robust reviews and stringent 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 of the effectiveness of the internal control practices

Internal Controls and Risk Management

The Board recognises its responsibility to maintain a sound and effective internal control system to safeguard the assets of the Group, minimise operational system risks, and provide reasonable assurance against material misstatement of information (whether financial or non-financial). Rigorous internal control measures are in place at all levels of the Group to ensure effective monitoring of its day-to-day operations.

The Audit Committee, which is appointed by the Board to oversee the Group’s internal control framework and assess its effectiveness, plays a key role in ensuring an effective system of internal control. With the assistance of the external auditors and the Internal Audit Department, the Audit Committee provides strong assurance regarding the quality and effectiveness of our control practices.

Control Environment

The Group is able to ensure a sound control environment by means of a well-structured organisational framework with clearly defined authority and responsibility, a culture of high moral standards at both management and staff levels, and an effective risk management system.

Management

- designs, implements and maintains an effective internal control system
- supervises staff to ensure that they carry out their duties in accordance with the requirements of internal control practices
- cooperates with and supports the work of the Internal Audit Department
- performs the central role in monitoring the Group’s Quality Management System

The Group has a clear organisational structure with delineated lines of authority and control responsibilities which are clearly defined in writing and documented in organisation charts and job manuals for individual operating and business units. Management is responsible for designing, adopting and maintaining internal controls, formulating operational plans and preparing financial budgets setting out the resources to be allocated according to the identified and prioritised business opportunities. The approved plans and budgets are used as the benchmarks for monitoring the implementation results. The Board and the Audit Committee oversee management performance and monitor the effectiveness of the internal controls. Specialised Board committees and cross-departmental working committees are set up from time to time to deal with specific issues.

Business Ethics

The Group's internal control environment is built on 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. Besides covering all aspects of administrative and operational activities, including relationships with customers, suppliers, competitors and fellow staff, these guidelines 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, which may prevent us from achieving or enhancing our corporate values. We have developed and implemented policies and procedures to manage these risks based on the framework issued by the Committee of Sponsoring Organisations of the Treadway Commission. The framework involves identifying potential risks related to different business processes that are relevant to the Group's objectives, and assessing them in terms of impact and likelihood by deploying appropriate quantitative and qualitative techniques. The risks inherent in various business processes will be duly prioritised according to their level of significance. Appropriate responses and controls are formulated and implemented to minimise the risk exposure. Relevant information is generated and communicated to management to monitor the effectiveness of the risk management process.

The risk management process is illustrated as follows:



Effective and Efficient Quality Management System

An effective and efficient Quality Management System ("QMS"), based on the benchmarks required by the International Organisation for Standardisation ("ISO"), has been implemented in two of the Company's major subsidiaries, KMB and Sun Bus Limited ("SBL"). KMB's adoption of QMS in 1999 was recognised by company-wide ISO 9001:1994 accreditation, and in 2003, two major KMB bus depots were ISO 14001 certified for their environmental management systems. In 2008, SBL was awarded ISO 9001:2000 certification for the provision of non-franchised bus services, and in 2009, both KMB and SBL were ISO 9001:2008 certified after successfully completing upgrade audits.

In our QMS, all major financial and operational procedures and instructions, including illustrative flow charts, are clearly documented and approved by authorised persons before release. Such documentation, covering all major operational processes together with members of staff responsible and their respective duties, is examined and updated from time to time in line with changes in the work process. Trained internal quality auditors regularly conduct on-site audits to ensure that daily operations are performed according to the documented procedures. If any non-conformity is detected, preventive and corrective measures will be taken immediately. Management meetings are held every three months to review the effectiveness and compliance of the QMS, and improvement plans continuously formulated and implemented to enhance its standard.

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Each year, the Hong Kong Quality Assurance Agency ("HKQAA"), an external ISO certification organisation, carries out an independent audit of the QMS to ensure its effectiveness, efficiency and conformity. Recommendations are made for follow-up action when areas for improvement are identified during the course of the ISO audit. In 2011, no non-conformity in the QMS was found in the ISO certification audits of KMB and SBL.

The adoption of QMS has enhanced cooperation between staff, and ensures that everyone involved in the operation process is 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 planning. It sets out the performance indicators against which a business unit may measure its effectiveness.

Business Continuity Plan

As the core subsidiary of the Group, KMB has formulated and documented a Business Continuity Plan ("BCP"), which is updated from time to time according to changes in circumstances. The BCP, an integral part of the risk management process, enables management to safeguard stakeholder value in a crisis by prompt response and resumption of KMB's critical business functions at an acceptable pre-defined level. It identifies and evaluates major risks of business functions affected, defines responsibilities, recovery time objectives and resources required, and outlines the necessary responses. KMB performs walk-through tests and drills periodically to ensure that these responses are practicable.

Enterprise Resources Planning System

A comprehensive Enterprise Resources Planning system, including SAP e-business Software is in place to provide a tailor-made solution for the systematic analysis of large amounts of operational and financial data. This assists the Board and senior management in making informed strategic business decisions on a timely basis and measuring 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. It 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 adequately addressed.

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 2011, the major work undertaken by the Internal Audit Department included:

- conducting systematic audits of various aspects of the Group's operations according to the rolling audit plan, and reporting findings and recommending follow-up actions 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 were 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 has 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. Following the Audit Committee's annual review of the Group's internal control system, the Board is satisfied that the Group fully complied with the Code Provision on internal controls in 2011.

Control Practices for Handling and Disseminating Price-sensitive Information

Recognising its obligations under the Listing Rules, the Company has established proper procedures and internal controls for handling and disseminating price-sensitive information. The Board, senior management and nominated executives who have access to price-sensitive and/or specific information are bound by the Model Code for Securities Transactions under the Listing Rules. Additionally, 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 an important role in assuring the integrity of the disclosure of financial information. The Company's external auditors report directly to the Audit Committee and the Board of the Company on major

findings, if any, which are noted during the course of the review of the Company's interim financial report and audit of its annual financial statements. The external auditors are also invited to attend meetings of the Audit Committee, as well as the Annual General Meeting.

The Audit Committee is charged with monitoring the audit and non-audit services rendered to the Group by its external auditors. A formal policy is set to ensure that the engagement of the external auditors in non-audit services will not impair their independence in providing audit services. The external auditor is also required to review annually their relationship with the Group and give written confirmation to the Audit Committee of their independent status. The Company has engaged KPMG as external auditors to audit the financial statements for the Company for the year ended 31 December 2011. In this regard, KPMG has formally written to the Audit Committee confirming that for the year ended 31 December 2011 and up to the date of this Annual Report, it is independent of the Group in accordance with the independence requirements of the HKICPA.

The fees for services rendered by KPMG to the Group for the year ended 31 December 2011 are set out below:

	HK\$ million
Audit related services	5.9
Non-audit related services	1.1
Total	7.0

COMMUNICATION WITH STAKEHOLDERS

Communication with Shareholders

Mindful of its responsibility to provide shareholders with the information necessary to evaluate its performance, the Board has established a Shareholder's Communication Policy which is posted on the Company's website and will be reviewed on a regular basis to ensure its effectiveness. The Group uses various communication means, including press releases, interim and final results announcements, interim and annual reports, and circulars, to convey its messages. Other information of interest to shareholders is available on the Company's corporate website www.tih.hk as well as the Stock Exchange website. The interim and annual reports, notices of general meetings and circulars in English and/or Chinese are sent to shareholders within the respective deadlines stipulated by the Listing Rules.

The Company's success in building and maintaining excellent corporate governance practices across all aspects of its businesses was recognised by professional institutions when the Company's 2010 annual report won the following six prestigious awards in 2011:

- Gold Award – Non-Hang Seng Index (Large Market Capitalisation) Category in the Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants;
- Honourable Mention in the Hong Kong Management Association ("HKMA") Best Annual Reports Awards; and
- Gold Award for Interior Design, Bronze Award for Chairman's Letter, Bronze Award for Financial Data and Bronze Award for Written Text, in the International ARC Awards;

The Company's general meetings are regarded by the Board 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 so that they can respond to any comments or questions raised by shareholders.

Procedure for Sending Enquiries to the Board

In addition to the meetings, shareholders are welcome to send their enquiries to the Board. All enquiries should be addressed to the Board or Company Secretary of the Company and served to the head office of the Company at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong. Shareholders may also email their enquiries to the Directors at the Company's email address director@tih.hk. The Company Secretary is responsible for attending to these enquiries in the first instance.

Shareholders' Right

Shareholders holding not less than one-tenth of the paid-up capital of the Company and carrying the right of voting at general meetings of the Company may request the Board to convene a special general meeting ("SGM") for the transaction of business specified in the request. The request must be in written form with the purpose of the meeting stated therein and deposited at the head office of the Company at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong. The request must be signed by the shareholders concerned and may consist of two or more documents in like form, each signed by one or more of those shareholders. Upon receipt of the confirmation of the Company's Share Registrars that the request is valid, the Company Secretary will arrange to convene a SGM by

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Directors meet TIH shareholders at the 2011 AGM

serving sufficient notice in accordance with the Company's Bye-laws and the statutory requirements to all the registered shareholders.

Procedures for Making Proposals at General Meetings

Shareholders holding not less than one-twentieth of the total voting rights of those shareholders having the right to vote at the general meetings or not less than 100 shareholders holding shares in the Company may submit a written request to move a resolution at general meetings. The written request must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution. It must be signed by all the shareholders concerned and may consist of two or more documents in like form, which between them contain the signatures of all the shareholders concerned. The request must be deposited at the head office of the Company at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution and not less than one week in the case of any other requisition. The request will be verified with the Company's Share Registrars and upon their confirmation that it is proper and in order, the Company Secretary will arrange to include the resolution in the agenda for the general meeting provided that the shareholders concerned have deposited a sum of money reasonably sufficient, but not less than HK\$2,000, to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders. If, however, the request has been verified as not in order or the shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the

said purposes, the shareholders concerned will be advised of this outcome and the proposed resolution will not be included in the agenda for the general meeting.

Annual General Meeting

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. Separate resolutions are proposed for each distinctive matter, including the election of individual Directors. The circular containing the notice of the annual general meeting, proposed resolutions, biographies of Directors standing for election and information on poll voting procedures is sent to shareholders with the annual report at least 20 clear business days before the annual general meeting.

The 2011 AGM was held on 19 May 2011 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 2010;
- Approval of an ordinary final dividend of HK\$1.05 per share for the year ended 31 December 2010;
- Re-election of the Hon Sir Sze-yuen CHUNG, Mr NG Siu Chan, Dr John CHAN Cho Chak, Mr SIU Kwing-chue, Gordon, Mr John Anthony MILLER and Mr Evan AU YANG Chi Chun 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; and

- 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 2011 AGM were published on the websites of the Company and the Stock Exchange on 19 May 2011.

The 2012 Financial Calendar of the Company is set out as follows:

Announcement of 2011 final results	15 March 2012
Dispatch of 2011 Annual Report and accompanying Circular to shareholders	17 April 2012
Last day to register transfer to qualify for attending and voting at the 2012 AGM	9 May 2012
Book closure for 2012 AGM	10-17 May 2012 (both dates inclusive)
Date of 2012 AGM	17 May 2012
Last day to register transfer to qualify for 2011 final dividend	22 May 2012
Book closure for 2011 final dividend	23 May 2012
Payment of 2011 final dividend	1 June 2012
Announcement of 2012 interim results	mid-August 2012
Payment of 2012 interim dividend	mid-October 2012
Financial year end date	31 December 2012

Constitutional Documents

An updated and consolidated version of the Bye-laws of the Company is published on the websites of the Company and the Stock Exchange. There was no change to the Company's Bye-laws in 2011.

Communication with the General Public

We strive to keep the general public informed on what the Group has done and how our achievements relate to them, making use of the following communication channels:

Website – The Company's website www.tih.hk provides a wide range of information about the Group and its various businesses for shareholders and other interested parties.

Media – To keep the public up to speed on the bus services of KMB and LWB, the two major subsidiaries of

the Group, regular press sessions are held at which the media are introduced to the latest developments of the bus companies in terms of services, facilities, safety and environmental protection.

Publications – KMB and LWB publish a number of booklets and leaflets which keep the travelling public updated about their services and operations.

In 2011, the KMB website won the Diamond Prize in the 2010 Web Care Award organised by the Internet Professional Association, the Meritorious Website Award in the 2010 Meritorious Websites Contest organised by the Television and Entertainment Licensing Authority, and the Merit Prize for Corporate Group in the 2010 Top 10 .hk Website Competition organised by the Hong Kong Internet Registration Corporation Limited.

KMB's publications may be downloaded from its website www.kmb.hk, which also features regularly updated corporate, financial and media information relating to the Group.

Communication with Employees

Strong two-way communication between management and staff is not only essential to our success; it is also the most effective way of boosting loyalty and efficiency.

One key to the furtherance of mutual understanding and the promotion of cooperation at all levels is the establishment of six joint consultative committees at which KMB and LWB management and staff are able to discuss matters such as safety and the work environment, as well as staff welfare matters.

The Group maintains a staff website which enables staff to access relevant management announcements and information on issues that concern them such as payroll and staff events and activities. Online orientation training courses, e-learning programmes and a staff forum are also available on the website. Periodic VCDs and the monthly corporate magazine, KMB Today, keep our employees, especially frontline staff, informed on news and events relating to the Group and the industry. The monthly column "Message from the Managing Director" in KMB Today is an important tool for enhanced communication between management and staff.

The Staff Handbook, accessible via the staff website, provides clear guidelines for staff at all levels to follow, as well as setting out the company's human resources policies.