

**Good corporate governance principles, including honesty, openness, accountability, mutual respect and commitment to the organisation, are key to the Group's performance. Board members and staff alike follow a set of policies, procedures and rules to ensure that they meet the relevant statutory and regulatory requirements.**

## CORPORATE GOVERNANCE FRAMEWORK

We are committed to conducting our businesses in the interest of our shareholders and in full compliance with the regulatory requirements, as well as with an acute awareness of community expectations. This dedication to maintaining the highest standards of corporate governance is attested by constant benchmarking against local regulatory changes and international developments. At the same time, the Group ensures that accountability, transparency, honesty and integrity, the pillars of corporate governance, are observed at all levels throughout its businesses. The adoption of sound policies, procedures and rules assures all stakeholders that our businesses are built on, and grow from, the firmest foundations.

The Group has put a number of measures in place to achieve its corporate governance objectives. Internal audit and control systems provide safeguards against risks and protect the Group's assets as well as ensuring that its policies and management practices are implemented as planned, with any change identified and approved. The Group's major operations are monitored by using an effective and efficient Quality Management System



("QMS") in accordance with the requirements of the International Organisation for Standardisation ("ISO"). We have also established a variety of communication channels to ensure that our affairs are transparent to shareholders, customers and other stakeholders.

## 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 ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") sets out the principles of good corporate governance and two levels of recommendations: (i) the "Code Provisions", with which issuers are expected to comply unless they give considered reasons for non-compliance; and (ii) the "Recommended Best Practices", which are provided for guidance only.

The corporate governance principles, Code Provisions and Recommended Best Practices 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 Group complied with the Code Provisions set forth in the CG Code throughout the year ended 31 December 2008.

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. All relevant amendments have been complied with by the Group.

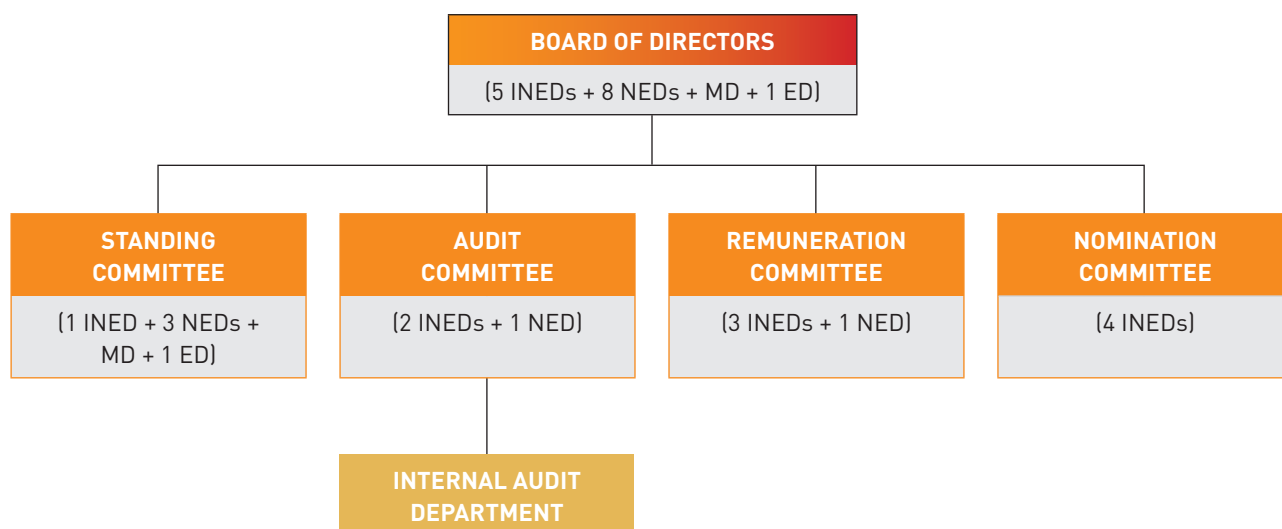
The Board and Senior Management work together to develop a model of governance that aligns the values of all corporate participants. This model, incorporating corporate governance mechanisms and controls, is evaluated periodically for its effectiveness.

# CORPORATE GOVERNANCE REPORT

## 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. Daily management of the Group's businesses is delegated to designated Board Committees (namely the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee), the Executive Directors and senior management.

The majority of the members of the Board Committees are either Independent Non-executive Directors or Non-executive Directors. Each of the committees has its specific terms of reference. The Company's boardroom framework is outlined below:



INED : Independent Non-executive Director

NED : Non-executive Director

MD : Managing Director

ED : Executive Director

## BOARD OF DIRECTORS

### (1) Composition of the Board of Directors

The Board is charged with responsibility for promoting the success of the Group by directing and supervising its affairs in a responsible and effective manner. The primary responsibility of the Board is to oversee the following key areas:

- Formulation of the Group's objectives, strategies, policies, business plans and corporate values
- Monitoring 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

Throughout 2008, the Company had five Independent Non-executive Directors, and 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 hold 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 to both the Stock Exchange and the Company written confirmation of their independence in accordance with Rule 3.13 of the Listing Rules, and the Company considers each of them to be independent.

Their designation as Independent Non-executive Directors is explicitly given in all corporate communications of the Company.

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

<b>Independent Non-executive Directors</b>	<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 KUNG Ziang Mien, James, GBS, OBE (with Mr KUNG Lin Cheng, Leo as alternate)</p> <p>Dr Eric LI Ka Cheung, GBS, OBE, JP</p> <p>Mr SIU Kwing-chue, Gordon, GBS, CBE, JP</p>
<b>Non-executive Directors</b>	<p>Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate)</p> <p>Mr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin as alternate (Note))</p> <p>Mr NG Siu Chan (with Ms Winnie NG as alternate)</p> <p>Mr William LOUEY Lai Kuen</p> <p>Mr John CHAN Cho Chak, GBS, JP</p> <p>Ms Winnie NG</p> <p>Mr George CHIEN Yuan Hwei</p> <p>Mr John Anthony MILLER, SBS, OBE</p>
<b>Executive Directors</b>	<p>Mr Charles LUI Chung Yuen, M.H.</p> <p>Mr Edmond HO Tat Man (Managing Director)</p>

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

# CORPORATE GOVERNANCE REPORT

TIH's Board members bring a diversity of business and professional experience to the Board. Detailed biographies of the Directors are set out on pages 120 to 125 of this Annual Report in accordance with the Listing Rules. Information provided includes the relationships (financial, business, family and other relevant relationships) between members of the Board, 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. All Directors have a service term of directorship of not longer than three years. The Independent Non-executive Directors ensure that all major issues and connected transactions have been subject to open and thorough discussion in Board meetings and that the interests of all shareholders are fully and impartially taken into account.

## **(2) 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 up to date with the latest developments of the Group and enable them to make informed decisions and discharge their responsibilities appropriately. Through the Company Secretary, the Company provides comprehensive induction programmes, briefings and other training courses to develop and refresh 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 a written Code of Conduct for the guidance of Directors and employees (the "Code"). The Code provides guidelines on personal conduct, relations with suppliers and contractors, responsibilities to shareholders and the financial community, relations with customers, employment practices and responsibilities to the community, as well as procedures for monitoring of compliance and means of enforcement. The Code is reviewed and amended from time to time to take into account changes in legislation and the business environment.

### **Securities Transactions by Directors**

The Group had adopted 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 regarding the Directors' securities transactions. In response to the Company's specific enquiry, all Directors confirmed that they had complied throughout 2008 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 2008 are set out on pages 131 and 132 of this Annual Report.

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

The Group adopts formal, stringent and transparent procedures for the appointment of new Directors to the Board.

#### Nomination Committee

The Nomination Committee of the Company is responsible for identifying appropriate candidates with suitable skills and experience for consideration by the Board. Established by the Board in November 2005, the Nomination Committee comprises four Independent Non-executive Directors, namely, Dr Norman Leung Nai Pang (chairman), Dr Kung Ziang Mien, James, Dr Eric Li Ka Cheung and Mr Siu Kwing-chue, Gordon. 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 2008, one meeting was held by the Nomination Committee and the attendance of each member was as follows:

Attendance of individual members at Nomination Committee Meeting in 2008		
Dr Norman LEUNG Nai Pang (chairman)	1/1	100%
Dr KUNG Ziang Mien, James	0/1	0%
Dr Eric LI Ka Cheung	1/1	100%
Mr SIU Kwing-chue, Gordon	1/1	100%

# CORPORATE GOVERNANCE REPORT

## Appointment and Re-designation of Directors

Based on the recommendation of the Nomination Committee, the following appointments and re-designations were effected and the appropriate announcements published in accordance with Rule 2.07 of the Listing Rules:

- Mr John Anthony Miller was appointed as Non-executive Director with effect from 1 March 2008;
- Mr John Chan Cho Chak, retired as Managing Director of the Company and was redesignated as Non-executive Director with effect from 8 April 2008;
- Mr Edmond Ho Tat Man, former Deputy Managing Director of the Company, was appointed as Managing Director with effect from 8 April 2008; and
- Ms Winnie Ng, former Executive Director of the Company, was redesignated as Non-executive Director with effect from 13 October 2008.

## Rotation of Directors

Pursuant to the Listing Rules and the Company's Bye-laws, each Director, including each Non-executive and Independent Non-executive Director of the Company, is appointed for a specific term and is subject to retirement by rotation and to re-election at the Company's annual general meeting at least once every three years. In addition, all Directors appointed to fill casual vacancies are subject to election by shareholders at the first general meeting after their appointment.

At the annual general meeting of the Company held on 29 May 2008, six Directors, namely The Hon Sir Sze-yuen Chung, Mr Ng Siu Chan, Mr John Chan Cho Chak, Dr Kung Ziang Mien, James, Mr Siu Kwing-chue, Gordon and Mr John Anthony Miller retired by rotation and, being eligible, all of them were re-elected as Directors of the Company.

At the conclusion of the forthcoming annual general meeting to be held on 21 May 2009 ("2009 Annual General Meeting"), Mr Kwok Ping-luen, Raymond, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung and Mr Edmond Ho Tat Man will retire by rotation as Directors of the Company. All of these retiring Directors, being eligible, have been nominated by the Nomination Committee and recommended by the Board to stand for re-election at the 2009 Annual General Meeting. The election of each Director will be subject to the vote of shareholders by separate resolution.

#### (4) 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. This separation ensures that there is a clear distinction between 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:

##### 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:

- Running 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 November 2008.

#### (5) Board Meetings

Board meetings are normally held each month to discuss and decide on major corporate, strategic and operational issues, as well as to evaluate major investment opportunities. The Directors may request inclusion of items on the agenda of the Board meetings. The notice of a Board meeting is normally sent to the Directors one month in advance, with the agenda and discussion papers for the Board meeting circulated at least seven days in advance to ensure Directors have sufficient time to attend to the affairs to be discussed and make informed decisions in the best interests of the Company. The procedures of the Board meetings are defined in the Company's Bye-laws and follow all the recommended best practices in the CG Code.



# CORPORATE GOVERNANCE REPORT

Directors are requested to declare their interests, if material, in any proposed transactions or issues for discussion at Board meetings. Directors who declare a conflict of interests or a material interest in a proposed transaction will abstain from voting on the relevant transaction and will not count towards the quorum of the meeting according to the Company's Bye-laws. The consent of the Board is normally given by majority vote at Board meetings. The Company Secretary ensures that all connected transactions so identified are properly disclosed in accordance with the Listing Rules.

Draft minutes of all Board meetings are taken by the Company Secretary and circulated to all Directors for their comments within a reasonable time after the meeting. The final version of the draft minutes, which record the matters considered by the Board and decisions reached, as well as any concerns raised or dissenting views expressed by the Directors, are submitted to the Board at the subsequent meeting for formal adoption. The adopted minutes are then kept by the Company Secretary and are open for inspection by all Directors.

12 Board meetings were held in 2008 and the average attendance rate of Directors was 91% (2007: 91%). The attendance record of the Directors of the Company in 2008 is set out below:

Attendance of individual Directors at Board Meetings in 2008		
<b>Independent Non-executive Directors</b>		
The Hon Sir Sze-yuen CHUNG (Chairman)	12/12	100%
Dr Norman LEUNG Nai Pang (Deputy Chairman)	10/12	83%
Dr KUNG Ziang Mien, James (with Mr KUNG Lin Cheng, Leo as alternate)	10/12	83%
Dr Eric LI Ka Cheung	11/12	92%
Mr SIU Kwing-chue, Gordon	11/12	92%
<b>Non-executive Directors</b>		
Mr KWOK Ping-luen, Raymond (with Mr YUNG Wing Chung as alternate)	11/12	92%
Mr KWOK Ping-sheung, Walter (with Ms WONG On Ning, Orlena as alternate)	11/12	92%
Mr NG Siu Chan (with Ms Winnie NG as alternate)	11/12	92%
Mr William LOUEY Lai Kuen	11/12	92%
Mr John CHAN Cho Chak	12/12	100%
Ms Winnie NG	11/12	92%
Mr George CHIEN Yuan Hwei	12/12	100%
Mr John Anthony MILLER (appointed on 1 March 2008)	8/11	73%
<b>Executive Directors</b>		
Mr Charles LUI Chung Yuen	10/12	83%
Mr Edmond HO Tat Man (Managing Director)	12/12	100%

## DELEGATION BY THE BOARD OF DIRECTORS

### (1) 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. Brief particulars of the senior management and corporate executives of the Group are set out on pages 126 and 127 of this Annual Report.

### (2) Standing Committee

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. As at the date of this Annual Report, the Standing Committee's members are Dr Norman Leung Nai Pang (chairman), Mr Kwok Ping-luen, Raymond, Mr John Chan Cho Chak, Mr Charles Lui Chung Yuen, Mr Edmond Ho Tat Man and Ms Winnie Ng. The Standing Committee meets with senior management on a monthly basis to review and discuss financial, operational and strategic issues in relation to current businesses as well as potential investment opportunities, and reports findings and makes recommendations to the Board. The attendance record of the members of the Standing Committee in 2008 is summarised below:

Attendance of individual members at Standing Committee Meetings in 2008		
Dr Norman LEUNG Nai Pang (chairman)	10/10	100%
Mr KWOK Ping-luen, Raymond	8/10	80%
Mr NG Siu Chan (resigned as a Standing Committee member on 22 October 2008)	0/8	0%
Mr John CHAN Cho Chak	8/10	80%
Mr Charles LUI Chung Yuen	7/10	70%
Mr Edmond HO Tat Man (appointed on 8 April 2008)	8/8	100%
Ms Winnie NG (appointed on 23 October 2008)	2/2	100%

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### Remuneration Committee

Established in 2003, the Remuneration Committee comprises four Directors, namely Dr Norman Leung Nai Pang (chairman), Dr Kung Ziang Mien, James, Dr Eric Li Ka Cheung and Mr John Chan Cho Chak. The first three members are Independent Non-executive Directors, while Mr Chan is a Non-executive Director.

# CORPORATE GOVERNANCE REPORT

The Remuneration Committee is responsible for formulating remuneration policies, including the basis of remuneration, the establishment of guidelines to determine terms and conditions of employment, and retirement benefits for Directors and employees. It also lays down criteria for performance-based bonuses, as well as reviewing and making recommendations to the Board on major human resources related policies. The aim is to ensure that the Company applies properly structured and fair remuneration policies, which align the interests of Directors and employees with those of the Company and its other stakeholders. No Director or member of the senior management is allowed to decide his or her own remuneration. The Remuneration Committee has clear written terms of reference, which fully comply with the Code Provisions.

In 2008, the Remuneration Committee:

- reviewed the remuneration policy for 2008 and 2009;
- reviewed the remuneration of Executive and Non-executive Directors, benchmarking it against the level of remuneration of certain listed companies in terms of workload, scale and complexity of business;
- reviewed the annual performance-related bonuses for the employees of the Group, having regard to their achievements, against the assessment criteria and by reference to the market norms; and
- examined employees' wage and salary increments in 2008.

The remuneration package of each Director, on a named basis, for the year ended 31 December 2008, together with the 2007 figures, are given in note 6 to the consolidated financial statements on pages 164 and 165 of this Annual Report. Additionally, the remuneration for Directors joining the Company, or being redesignated, and the basis for determining their remuneration, is also given in the announcement of the appointment or re-designation of the Directors according to the Listing Rules.

Four Remuneration Committee meetings were held in 2008. The attendance record of the members of the Remuneration Committee was as follows:

Attendance of individual members at Remuneration Committee Meetings in 2008		
Dr Norman LEUNG Nai Pang (chairman)	4/4	100%
Dr KUNG Ziang Mien, James	1/4	25%
Dr Eric LI Ka Cheung	4/4	100%
Mr John CHAN Cho Chak (appointed on 8 April 2008)	3/3	100%

## ACCOUNTABILITY AND AUDIT

### (1) Financial Reporting

By receiving management accounts, explanations and relevant information on a monthly and an as-needed basis, the Board is able to make an informed assessment of financial, operational and other relevant reports submitted for approval.

The Directors are responsible for the preparation and the true and fair presentation of the financial statements of the Company and the Group. This responsibility covers the annual and interim reports, “price-sensitive” announcements and other financial disclosures required under the Listing Rules, as well as reports to regulators and any information that must be disclosed by statutory requirement. Based on the financial statements that have been audited or reviewed by the Company’s external auditor, the Company publishes its interim and annual results within three months of the end of the respective accounting periods.

The audited consolidated financial statements of the Company for the year ended 31 December 2008 are set out on pages 139 to 199 of this Annual Report. In preparing these statements, suitable accounting policies have been selected and consistently applied, and accounting judgements and estimations made on a prudent and reasonable basis. The consolidated financial statements present a true and fair view of the state of affairs of the Company and the Group as at 31 December 2008 and of the Group’s profit and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. The responsibility of the external auditor, KPMG, is set out in the auditor’s report on page 138 of this Annual Report.

### (2) Audit Committee

The Audit Committee consists of three Non-executive Directors, namely Dr Eric Li Ka Cheung (chairman), Dr Kung Ziang Mien, James, and Mr George Chien Yuan Hwei, of whom the first two are Independent Non-executive Directors. Dr Li is a certified public accountant, with the appropriate professional qualifications and accounting expertise required by the Listing Rules. As indicated in the Directors’ biographical details on pages 120 to 125 of this Annual Report, both of the other members of the Audit Committee have a broad range of experience in various business and professional sectors. None of the Audit Committee members is a former or existing partner of the external auditor of the Company. Under its terms of reference, the Audit Committee oversees the Company’s financial reporting process;

# CORPORATE GOVERNANCE REPORT

it also reviews the Company's internal control and risk management systems and its relationship with the external auditor. These terms of reference meet the recommendations set out in the "Guide for Effective Audit Committees" issued by the HKICPA.

In 2008, the duties performed by the Audit Committee included:

- reviewing the independence and objectivity of the external auditor, considering its terms of engagement and remuneration, and recommending to the Board the re-appointment of the existing external auditor;
- reviewing with the external auditor the effectiveness of the audit procedures and the findings relating to the submission of the interim and annual financial statements to the Board and the publication of the financial results to the shareholders and the public;
- reviewing with senior management and the external auditor ways 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;
- ensuring that the connected transactions were properly disclosed in announcements and reported in the annual report;
- reviewing the Group's internal audit plan for 2008 with areas of emphasis identified; and
- evaluating with Management the effectiveness of the internal controls and practices of the Group.

In 2008, the Audit Committee together with the Company's senior management held two meetings with the external auditor. At the end of the meetings, the external auditor was invited to discuss in private with members of the Audit Committee issues arising from the audit and any other matters they might wish to bring up. Following each meeting, the Chairman of the Audit Committee submitted a formal report to the Board of Directors and gave a briefing on all significant issues that arose.

The attendance record of the members of the Audit Committee for 2008 was as follows:

Attendance of individual members at Audit Committee Meetings in 2008		
Dr Eric LI Ka Cheung (chairman)	2/2	100%
Dr KUNG Ziang Mien, James	1/2	50%
Mr George CHIEN Yuan Hwei	2/2	100%

### (3) Internal Controls and Risk Management

The Board recognises its responsibility to maintain a sound and effective internal control system to protect the assets of the Group, minimise operational system risks, and provide reasonable assurance against material misstatement of information (both financial and non-financial).

#### ■ Effective and Efficient Quality Management System

In order to establish an effective and efficient quality management system commensurate with international standards, KMB, the Group's flagship subsidiary company, has implemented a sophisticated Quality Management System ("QMS"). The System is based on ISO 9001:2000 accreditation for quality management systems, achieved on a company-wide basis, and ISO 14001:2004 accreditation for environmental management systems, obtained at two major bus depots. Sun Bus Limited ("SB"), the flagship company of the Group's Non-franchised Transport Operations Division, has also since 1 July 2008 implemented QMS, which is based on the requirements of ISO 9001:2000 for quality management systems. In November, SB successfully obtained ISO 9001:2000 certification for the provision of non-franchised bus services.

The operation of the QMS in KMB and SB is closely monitored by trained internal quality auditors. All major financial and operational procedures and instructions, including illustrative flow charts, are documented and approved by responsible persons before issuance. The ISO documentation is constantly reviewed and modified to ensure compliance with changes in the work process. It covers the entire operational flow within KMB and SB, and responsible persons and their respective functions and responsibilities are well defined. New employees of KMB, as well as those of SB, must receive on-the-job or off-field training from experienced supervisors.

Management plays the central role in the monitoring of the QMS, designing quality policy and setting appropriate quality objectives. Being committed to the development and implementation of the QMS according to the Group's mission, business objectives and regulatory requirements, management meetings are held every three months at KMB and every two months at SB to review the effectiveness of the respective QMS and compliance with it. Among items reviewed are the results of the internal and external audits of the QMS, process and service performance, any reports on non-conformity, corrective and preventive action, and continual improvement. KMB and SB staff are fully aware of the need for quality, integrity and hard work in order to achieve, or even exceed, the established standards.

# CORPORATE GOVERNANCE REPORT

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 and efficiency. Recommendations are made for follow-up action when areas of improvement are identified during the course of the ISO audit. In 2008, no non-conformity in the QMS was found in the ISO certification audits of KMB and SB.

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

## ■ Clearly Defined Organisational Structure, Authority and Responsibility Framework

The Group has a clear organisation structure with delineated lines of authority and control responsibilities which are all clearly defined in writing. Senior management and corporate executives annually formulate operational plans and prepare financial budgets which set out the resources to be allocated in accordance with the identified and prioritised business opportunities. The approved plans and budgets are used as the benchmarks for monitoring the implementation results.

## ■ Advanced Management Information System

Successful internal controls are built on the smooth circulation of information through effective communication channels. Making the best use of advanced information technologies, the Group adopts a comprehensive Enterprise Resource Planning ("ERP") system, including SAP e-business Software, to analyse large amounts of operational data in a systematic way. This powerful and reliable tool enables senior management to retrieve information on which business strategy formation, budgeting and performance monitoring are based. All necessary information can then be passed on to staff via the Intranet, with comments fed back to management through the same channel.

Formal systems and procedures are implemented at all levels to identify, measure, manage and control risks that may have an impact on the business, and to enable staff to perform according to properly laid down operational procedures.

## ■ Comprehensive Review of Internal Control Effectiveness

- Control Environment

Senior management is primarily responsible for the design, implementation and maintenance of internal controls, while the Board and the Audit Committee oversee the implementation and assess the effectiveness of these controls. The Group's control environment is built on the culture of high ethical values, management integrity and staff competency, with the duties of different parties clearly separated and responsibility devolved to specialised committees. The Internal Audit Department conducts robust reviews and rigorous testing of the internal control systems.

The Code of Conduct and Staff Handbook set down the rules and policies to which all Directors and employees are expected to adhere. As well as 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.

- Control Effectiveness

As early as 2006, the Board, through the Audit Committee, asked the Internal Audit Department to conduct a comprehensive review of the overall effectiveness of the internal control system of KMB, the Company's major subsidiary, based on the framework issued by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"). With the support of a professional consulting firm, the review consisted of a high-level risk assessment of KMB's major financial and operational processes and its systems security, and detailed analysis of its internal control system with reference to the internal control framework recommended by COSO. All the areas identified by the COSO analysis, namely control environment, risk assessment, control activities, and information and communications, as well as the monitoring functions, showed no material suspected fraud, irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations, both in the review itself and in the subsequent testing of internal controls carried out by the Internal Audit Department. A three-year risk-based internal audit rolling plan has been formulated to monitor the effectiveness of the Group's internal control system.

**The Group's control environment is built on the culture of high ethical values, management integrity and staff competency**



# CORPORATE GOVERNANCE REPORT

## ■ Enterprise Risk Management

Our activities are exposed to various types of risks, such as financial risks 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 effectively. As to KMB, its risk management process aims to identify the risks that may have an effect on fulfilling its objectives, assess the risks using appropriate quantitative and qualitative techniques, and manage the risks at the desired level of risk appetite. The process applies across a range of areas, from strategies and the setting of related objectives to day-to-day activities, across the whole organisation.

In 2008, the Audit Committee asked the Internal Audit Department to carry out a review of the process of KMB's enterprise risk management. The review was based on the framework recommended by COSO. It covered KMB's control environment, objective setting, event identification and risk assessment, risk response and control activities, information and communication, and monitoring. In this review, no material deficiency was noted in KMB's enterprise risk management process.

## ■ Business Continuity Plan

As part of its 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 realistic and practicable.

## ■ Establishment of a Comprehensive Internal Audit Function

The Internal Audit Department plays a crucial role in monitoring the internal governance of the Group. The Internal Audit 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 any risks and internal control weaknesses have been adequately addressed. The Head of the Internal Audit Department supervises the implementation of comprehensive audits, and reviews the financial and operational procedures and practices of the Group on both a regular and 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 2008, the major work undertaken by the Internal Audit Department included:

- independently reviewing the risks and controls of the Group, and ensuring that the risks and internal control weaknesses had been adequately addressed;
- reviewing the financial and operational procedures and practices of the Group on a regular and an ad hoc basis;
- specially reviewing critical areas of concern identified by senior management or the Audit Committee; and
- 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.

Based on the report of the Internal Audit Department, 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 2008.

#### ■ Internal Controls 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. Further, every employee is required to keep unpublished price-sensitive information strictly confidential, as set down in the Code of Conduct and the Staff Handbook.

#### (4) External Audit

The external auditor plays an important role in assuring the integrity of the disclosure of financial information. The external auditor addresses directly to the Audit Committee and the Board the management letters that report its major findings relating to the Company's interim and annual published financial statements. The external auditor is also invited to attend meetings of the Audit Committee, as well as the Annual General Meeting.

**The Board is satisfied that the Group has fully complied with the Code Provision on internal controls in 2008**

# CORPORATE GOVERNANCE REPORT

The Company engaged KPMG as external auditor to audit the financial statements of the Company for the year ended 31 December 2008. The Audit Committee is charged with monitoring the audit and non-audit related services provided by the external auditor. A policy is in place to ensure that the engagement of KPMG in other non-audit services does not impair its independence or objectivity. KPMG formally confirmed in writing to the Audit Committee that for the year ended 31 December 2008 and up to the date of this Annual Report, it was independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The fees for services provided to the Group by KPMG for the year ended 31 December 2008 are set out below:

	HK\$ million
Audit related services	6.4
Non-audit related services	0.1
<b>Total</b>	<b>6.5</b>

As recommended by the Audit Committee, the Board has proposed to re-appoint KPMG as the external auditor of the Company in respect of the financial statements for the year ending 31 December 2009. This proposal will be put to the shareholders for approval at the 2009 Annual General Meeting.

## COMMUNICATION WITH STAKEHOLDERS

### (1) Communication with Shareholders

The Group takes seriously its corporate responsibility to provide shareholders with the information necessary to form an informed opinion of 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 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 financial reports released to shareholders in the Company's 2008 interim and final results announcements and in the interim and annual reports were reviewed by the Audit Committee and examined by KPMG, the external auditor of the Company, and are in full compliance with the relevant statutory requirements.

The Company's good practice in corporate governance disclosure in its 2007 annual report was recognised by the HKICPA, who granted a Gold Award (Non-Hang Seng Index Category) to the Company for the second successive year. The 2007 annual report won four further awards in 2008:

- Bronze Award in the Hong Kong Management Association ("HKMA") Best Annual Reports Awards
- Silver Award for Financial Data, Bronze Award for Chairman's Letter and Honors Award for Written Text in the International ARC Awards

The Board of Directors regards the annual general meetings and other general meetings as important opportunities for direct communication with shareholders. Normally, all Directors and senior management will attend the annual general meeting and other general meetings, where they are available to respond to shareholders' questions. Recognising that not all shareholders are able to attend general meetings, the Company provides an alternative email channel "director@tih.hk" for shareholders and investors to put their enquiries to the Board. 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. Resolutions are proposed on each substantially separate issue, including the election of individual Directors. A circular comprising notice of the annual general meeting, proposed resolutions, detailed biographies of each person standing for election as Director at the annual general meeting, and information on poll voting procedures and the right of shareholders to demand a poll, is despatched to shareholders together with the annual report. The circular for the 2008 Annual General Meeting ("2008 AGM") was despatched to shareholders at least 21 days prior to the 2008 AGM date in accordance with the Listing Rules then prevailing. In compliance with the latest amended Listing Rules, the circular for the 2009 Annual General Meeting ("2009 AGM") will be despatched to shareholders at least 20 clear business days prior to the 2009 AGM date.

The 2008 AGM was held on 29 May 2008 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 2007
- Approval of an ordinary final dividend of HK\$1.58 per share and a special final dividend of HK\$2.00 per share for the year ended 31 December 2007
- Re-election of The Hon Sir Sze-yuen Chung, Mr Ng Siu Chan, Mr John Chan Cho Chak, Dr Kung Ziang Mien, James, Mr Siu Kwing-chue, Gordon and Mr John Anthony Miller as Directors of the Company

# CORPORATE GOVERNANCE REPORT

- Re-appointment of KPMG as auditors of the Company and authorisation of the Directors to fix their remuneration
- Approval of the Directors' fees for 2008 and thereafter
- 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 2008 AGM were published on the websites of the Company and of the Stock Exchange on 29 May 2008.



Press conference held by Senior Management after the 2008 AGM

The 2009 Financial Calendar of the Company is set out as follows:

Announcement of 2008 final results	19 March 2009
2008 Annual Report despatch to shareholders	20 April 2009
Last day to register for 2008 final dividend	12 May 2009
Book closure period	13-21 May 2009
2009 Annual General Meeting	21 May 2009
Payment of 2008 final dividend	22 May 2009
Announcement of 2009 interim results	mid-September 2009
Payment of 2009 interim dividend	mid-October 2009
Financial year end date	31 December 2009

## (2) Communication with the General Public

The Company's website [www.tih.hk](http://www.tih.hk) provides a wide range of information about the individual businesses of the Company and its major subsidiaries. In addition, from time to time, the Group publishes reports and information brochures which set out specific aspects of the Group's operations for the general public. KMB and LWB, two of the Company's major subsidiaries, publish and distribute the following reports and brochures to keep customers and the community in general up to speed on their bus services and operations:

- 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 2008, two of KMB's publications, namely the Ride KMB for Fun booklet and the KMB 2007 Passenger Liaison Group Report, received the Award of Excellence in the Apex Awards for Publication Excellence, organised by Communications Concepts. Our corporate magazine KMB Today won the Award of Distinction in the 2008 Communicator Awards, sanctioned and judged by the International Academy of the Visual Arts. KMB's publications are also available on its website [www.kmb.hk](http://www.kmb.hk). Corporate, financial and press information pertaining to the Group is updated regularly and uploaded on the internet.

## (3) Communication with Employees

Excellent communications underpin the Company's successful staff relations. 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 broader issues relating to staff welfare. The Company also maintains a staff website, which provides management announcements, details of upcoming activities and reports on staff events. On-line orientation training courses, e-learning programmes and a staff forum are made available through the website. Periodic VCDs and the monthly magazine KMB Today are also produced to keep our employees, particularly frontline staff, informed of Group news, as well as industry-wide developments.