

Corporate Governance Report



Accountability, transparency, honesty and integrity are crucial for upholding our corporate values and enabling the Group to achieve sustainable business success. The Group endeavours to maintain the highest standards of corporate governance by meeting all statutory and regulatory requirements and adopting sound policies, procedures and rules that are fully adhered to by board members and staff alike.

CORPORATE GOVERNANCE FRAMEWORK

We believe that a comprehensive corporate governance system enables the Company to achieve business excellence and fulfil its mission. The Company's Corporate Governance Framework (the "Framework") is designed with the aim of helping our Board of Directors and management to operate and conduct the Group's businesses according to planned strategic goals that meet the expectations of our stakeholders, including shareholders, customers, employees, creditors and suppliers. The Framework is also an indicative benchmark for evaluating the effectiveness of performance, and ensures that we are in compliance with all regulatory requirements as well as meeting environmental and local community needs. Good corporate governance principles, including responsibility, accountability, transparency, honesty, integrity, openness, performance orientation, mutual respect and commitment, are the crucial elements that guide us when we designed and planned the Framework. Efficient, effective and sound management policies and practices are implemented at every operating level throughout the Group's businesses to realise the highest standards of corporate governance. The Framework is stringent but maintains flexibility to cope with the dynamic evolutions of local regulatory requirements, market changes, social expectations and international developments in a timely manner.

Our corporate governance objectives are achieved mainly by implementing the following measures:

- Optimal board composition, a professional management team, sound management reporting systems, stringent internal control procedures in place to 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 to safeguards 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 swiftly identified and corrected; and
- Effective communication channels to ensure that the Group's affairs are made known to shareholders, customers and other stakeholders.

Our management is committed to continually devoting resources to enhance and enrich our current practices to ensure compliance with new regulatory developments and find ways to mitigate risk in every feasible way.



CORPORATE GOVERNANCE PRACTICES

The Group is constantly mindful of the recommended corporate governance practices articulated 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"). The CG Code, which provides a comprehensive guide by means of which listed issuers in Hong Kong can evaluate and improve their corporate governance practices, provides two levels of recommendations: "Code Provisions", with which issuers are expected to comply but from which they may choose to deviate provided they give considered reasons for non-compliance; and "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 2010, and closely observed the continuing listing obligations enhanced and revised from time to time by the Listing Rules. In summary, the following are the major areas in which the Company exceeds or meets the Code Provisions and Recommended Best Practices of the CG Code:

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.
✓		The Board meets once a month 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.
✓		All members of the Nomination Committee are Independent Non-executive Directors. Their independence is essential for identifying candidates of the highest 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 ("Code") applicable to all Directors and staff. The Code emphasises ethical value 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 COSO and relevant ISO Standards, which provide a comprehensive and sophisticated way to guide our good 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 19 major companies listed on The Stock Exchange of Hong Kong Limited as the base for determining the Directors' level of remuneration.
	✓	We adopt all Code Provisions of the CG Code.

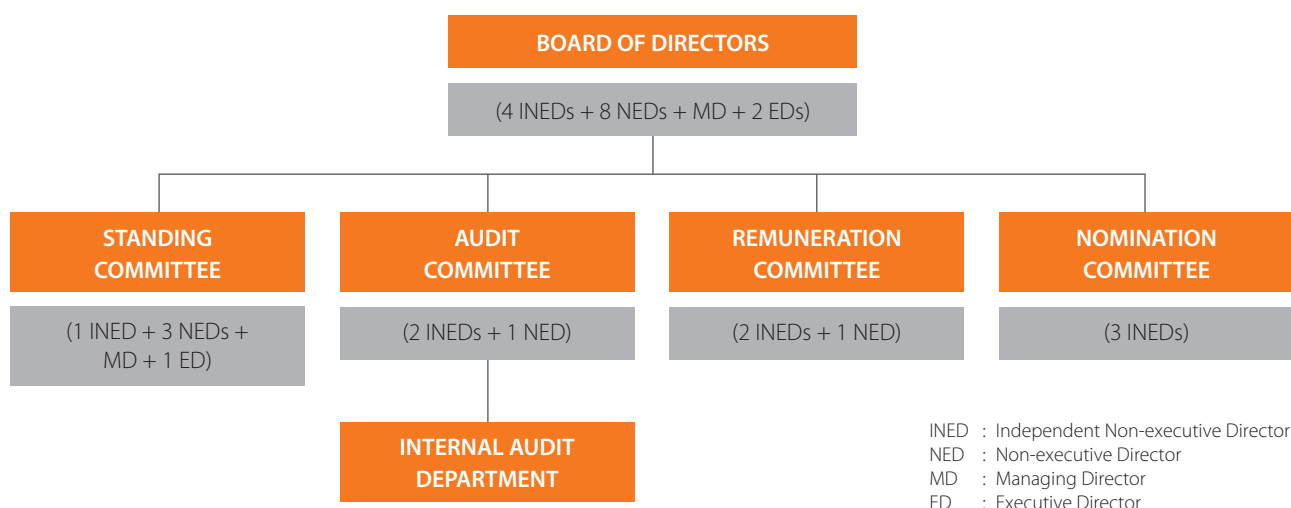
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In this Corporate Governance Report, we describe in detail the corporate governance policies and practices that have been applied throughout the Group for the management of our businesses.

BOARDROOM FRAMEWORK

The overall management of the Company's business is vested in the Board, currently consisting of 15 members, of whom four are Independent Non-executive Directors, eight are Non-executive Directors and three are Executive Directors (including the Managing Director and the Deputy Managing Director). Daily management of the Group's business is delegated to the senior management 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 outlined below:

- 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 control
- Risk management
- Overseeing the management of relationships with stakeholders, including shareholders, customers, the HKSAR Government, suppliers, employees and the community.



BOARD OF DIRECTORS

Composition of the Board of Directors

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

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 of management performance

The Board of Directors comprises Executive and Non-executive Directors (including Independent Non-executive Directors) who have diverse business and professional experience. This composition ensures that the Board possesses a balance of expertise and strong independent element allowing it to exercise independent judgement and promote the best interests of its shareholders.

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 four Independent



Non-executive Directors, the Company complies with the 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 to both the Stock Exchange and the Company written confirmation of their independence in accordance with the requirement of 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	The Hon Sir Sze-yuen CHUNG, GBM, GBE, JP (Chairman) Dr Norman LEUNG Nai Pang, GBS, JP (Deputy Chairman) Dr Eric LI Ka Cheung, GBS, OBE, JP Mr SIU Kwing-chue, Gordon, GBS, CBE, JP
Non-executive Directors	Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate) Dr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin as alternate) Mr NG Siu Chan (with Ms Winnie NG as alternate) Mr William LOUEY Lai Kuen Dr John CHAN Cho Chak, GBS, JP Ms Winnie NG Mr George CHIEN Yuan Hwei Mr John Anthony MILLER, SBS, OBE
Executive Directors	Mr Charles LUI Chung Yuen, M.H. Mr Edmond HO Tat Man (Managing Director) Mr Evan AU YANG Chi Chun (Deputy Managing Director) (Note)

Note: Appointed as Executive Director with effect from 20 May 2010.

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

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. All Directors, when asked by the Company, confirmed that they had complied with the required standard of dealings set out in the Model Code regarding their securities transactions throughout 2010.

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 2010 are set out on pages 123 to 124 of this Annual Report.

Code of Conduct

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

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Induction Briefings for Directors

The Company Secretary is charged with the responsibility for providing comprehensive induction programmes, briefings, and other training courses to develop and refresh new and existing Directors' knowledge and skills and enhance their awareness of good corporate governance. Directors are also encouraged to participate in continuous professional development programmes organised by qualified institutions.

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 upon recommendation by the Nomination Committee of the Company. All Directors are appointed for a specific term and are subject to retirement by rotation and to re-election at the Company's annual general meeting at least once every three years. Directors appointed to fill casual vacancies of the Board are subject to election by the shareholders of the Company at the following general meeting after their appointment.

Appointment and Cessation of Directors

Mr Evan AU YANG Chi Chun was appointed Executive Director of the Company, KMB and LWB with effect from 20 May 2010. Mr Evan AU YANG's appointment was effected with the endorsement of the Nomination Committee and the vote of shareholders at the Company's annual general meeting held on 20 May 2010 (the "2010 AGM").

Dr KUNG Ziang Mien, James, Independent Non-executive Director and member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company, passed away on 9 May 2010 and ceased to be a Director of the Company.

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

Rotation of Directors

At the 2010 AGM, four Directors, namely, Dr Norman LEUNG Nai Pang, Dr KWOK Ping-sheung, Walter, Mr William LOUEY Lai Kuen, and Mr George CHIEN Yuan Hwei retired by rotation and were re-elected as Directors of the Company.

At the conclusion of the forthcoming annual general meeting to be held on 19 May 2011 (the "2011 AGM"), 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 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 2011 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 of whom have any financial, business, family or other relationship with each other. This separation ensures that there is a clear distinction between the roles and responsibilities of the Chairman and the Managing Director so as to achieve a balance of power and authority.

In addition, an Independent Non-executive Chairman is able to ensure that the Board is fully engaged with strategy and can evaluate how well it is being implemented. He also helps to enhance the independent oversight of management and more closely aligns the Board with the interests of the shareholders.

The respective roles and duties of the Chairman and the Managing Director have been clearly defined in writing and are 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

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 company operations and performance
- Maintaining ongoing dialogue with the Board Chairman and other Directors
- Leading, building and developing 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 Director(s) to discuss the Group's business affairs. This meeting was held on 16 September 2010.

Board Meetings

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

- The annual schedule for regular Board meetings is provided to 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 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 decisions reached as well

as any concerns raised or dissenting views expressed by the Directors, are taken by the Company Secretary and circulated to all Directors for comment within a reasonable time after the meeting. The final version of the draft minutes is submitted to the Board at the subsequent meeting for formal adoption. The adopted minutes are kept by the Company Secretary and are opened for inspection by all Directors.

Voting on Connected Transactions

All Directors are requested to disclose to the Company twice a year the offices they hold in the 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 the relevant resolutions if they have a conflict of interests or a material interest in the proposed transactions. Directors with interests so declared would not be counted in the quorum of the meeting for the passing of the relevant resolutions.

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 2010, the Company was involved in three continuing connected transactions and entered into one connected transaction, details of which are disclosed on pages 89 to 91 of this Annual Report.

Delegation by the Board of Directors

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

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The Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee are the four designated Board Committees set up by the Board 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 Committee members of each Committee are summarised below:

Chairman and the other members of the Audit Committee have a wide range of experience in various business and professional fields as described in the Directors' biographies set out on pages 112 to 117 of this Annual Report. None of the Audit Committee members is a former or existing partner of the external auditors of the Company. The Audit Committee's terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit

Name of Directors	Standing Committee	Audit Committee	Remuneration Committee	Nomination Committee
Dr Norman LEUNG Nai Pang [^]	Chairman		Chairman	Chairman
Dr Eric LI Ka Cheung [^]		Chairman	Member	Member
Mr SIU Kwing-chue, Gordon [^]		Member		Member
Dr KUNG Ziang Mien, James [^] (Note)		Member	Member	Member
Mr KWOK Ping-luen, Raymond [#]	Member			
Dr John CHAN Cho Chak [#]	Member		Member	
Ms Winnie NG [#]	Member			
Mr George CHIEN Yuen Hwei [#]		Member		
Mr Charles LUI Chung Yuen [*]	Member			
Mr Edmond HO Tat Man [*]	Member			

[^] Independent Non-executive Director

[#] Non-executive Director

^{*} Executive Director

Note: Dr KUNG passed away on 9 May 2010.

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. 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 of the Group, and reports findings and makes 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

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 Company's financial reporting process, internal control procedures and risk management system, and its relationship with the external auditor.

In 2010, two Audit Committee meetings were held together with senior management and the Company's external auditors, KPMG. At the end of each meeting, the external auditors were invited to discuss in private with the Audit Committee members issues arising from the audit and any other matters which they might wish to discuss without the presence of senior management. 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 arose.



The major work performed by the Audit Committee in 2010 included:

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

Based on the conclusions drawn from the above reviews and discussions, the Audit Committee recommended that the Board approve the unaudited interim financial report of the Company for the six months ended 30 June 2010 and the annual financial statements for the year ended 31 December 2010. The Audit Committee concluded that, in general, the Group continues to operate within 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 2010.

(b) Management of the relationship with the external auditors

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

Based on the conclusions drawn from this review, 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 2011.

Remuneration Committee

The Remuneration Committee is delegated with the responsibility for formulating remuneration policies, including establishing guidelines to determine terms and conditions of employment, remuneration and retirement benefits of Directors and employees of the Group. It also sets appropriate criteria for performance-based bonuses, and reviews and makes recommendations on human resources related policies to the Board by reference to the goals and objectives of the Group. Details of the terms of reference, remuneration policies and work done by the Remuneration Committee in 2010 are set out in the Remuneration Report on pages 108 to 111 of this Annual Report.

Nomination Committee

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

- formulating nomination policy for consideration by the Board and implementing the nomination policy laid down by the Board;
- reviewing and monitoring the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board regarding any proposed changes;
- identifying and nominating for the approval of the Board suitably qualified candidates for appointment as Directors;

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- 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 2010, no physical meeting was held by the Nomination Committee, but a written resolution and a discussion paper were circulated to all members of the Nomination Committee for review and approval on 12 March 2010.

The overall attendance record of the Directors at Board Meetings and Committee Meetings in 2010 is tabulated below:

Member of the Board of Directors	Meetings Attended/Held			
	Board	Standing Committee	Audit Committee	Remuneration Committee
Independent Non-executive Directors				
The Hon Sir Sze-yuen CHUNG, GBM, GBE, JP (Chairman)	12/12			
Dr Norman LEUNG Nai Pang, GBS, JP (Deputy Chairman)	11/12	11/12		2/2
Dr Eric LI Ka Cheung, GBS, OBE, JP	11/12		2/2	2/2
Mr SIU Kwing-chue, Gordon, GBS, CBE, JP	12/12		2/2	
Dr KUNG Ziang Mien, James, GBS, OBE (with Mr KUNG Lin Cheng, Leo, JP, as alternate) (Note 1)	4/4		0/1	0/1
Non-executive Directors				
Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate)	12/12	11/12		
Dr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin as alternate)	12/12			
Mr NG Siu Chan (with Ms Winnie NG as alternate)	12/12			
Mr William LOUEY Lai Kuen	11/12			
Dr John CHAN Cho Chak, GBS, JP	12/12	12/12		2/2
Ms Winnie NG	12/12	12/12		
Mr George CHIEN Yuan Hwei	12/12		2/2	
Mr John Anthony MILLER, SBS, OBE	12/12			
Executive Directors				
Mr Charles LUI Chung Yuen, M.H.	9/12	9/12		
Mr Edmond HO Tat Man (Managing Director)	11/12	12/12		
Mr Evan AU YANG Chi Chun (Deputy Managing Director) (Note 2)	8/8			

Notes: 1. Dr KUNG passed away on 9 May 2010.

2. Appointed as an Executive Director with effect from 20 May 2010.



Delegation of Responsibilities to Senior Management

The daily administration of the Group's businesses is delegated to senior management and corporate executives who have wide experience and expertise in different areas under the overall supervision of the Board and the relevant Board Committees. The professional team provides accurate, adequate and detailed financial and operational information in a timely manner to the Directors to keep them abreast of the latest developments of the Group and enable them to make informed decisions and discharge their responsibilities effectively. Brief particulars of the senior management and corporate executives of the Group are set out on pages 118 to 119 of this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims at making a balanced, clear and comprehensive assessment of the Group's performance. Reports on financial results and other financial analysis are submitted to the Board for discussion and monitoring at monthly Board meetings.

The Directors fully recognise their responsibilities for the preparation and the true and fair presentation of the financial statements of the Company and the Group in accordance with Hong Kong Financial Reporting Standards ("HKFRS") 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 such information as is required to be disclosed pursuant to the 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 2010 given on pages 131 to 199 of this

Annual Report present a true and fair view of the state of affairs of the Company and the Group, and the results and cash flow for the year. These financial statements are prepared in accordance with HKFRSs issued by the HKICPA. The responsibilities of the external auditors, KPMG, are set out in the auditor's report on page 130 of this Annual Report.

Internal Controls and Risk Management

The Board understands its responsibility for having in place an effective system of internal controls to safeguard the assets of the Group, minimise risk of failure in operational systems and avoid material misstatement of information (whether financial or non-financial). Stringent internal control measures at all levels of the Group guarantee effective monitoring of its day-to-day operations.

Control Environment

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 are the keys to a sound control environment.

The Group has a clear organisational structure with its lines of authority and control responsibility clearly defined in writing and documented in organisation charts and job manuals for individual operating and business units. Senior management and corporate executives are responsible for designing, adopting and maintaining internal controls, formulating operational plans and preparing financial budgets which set out the resources to be allocated according to the identified and prioritised business opportunities. The Board and the Audit Committee oversee management performance and assess 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.

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

The Board	
<ul style="list-style-type: none"> establishes high ethical and moral standards and monitors management's compliance with those standards ensures that a sound and effective internal control environment is in place monitors and oversees performance of the Internal Control Framework 	
Audit Committee	
<ul style="list-style-type: none"> oversees the Internal Control Framework provides directives for the design and implementation of a sound and effective internal control system ensures the independence and transparency of the internal audit function facilitates coordination between the internal and external auditors approves audit plans and ensures findings of the Internal Audit Department are properly addressed by management reports to the Board about the performance of the Company's internal control system 	
Internal Audit Department	Management
<ul style="list-style-type: none"> formulates action plans to monitor the effectiveness of the internal control system coordinates with various operating units and monitors their compliance with internal control practices conducts robust reviews and rigorous testing of the internal control system and makes recommendations for improvement reports directly to the Audit Committee on a periodic basis 	<ul style="list-style-type: none"> 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 plays the central role in monitoring the Group's Quality Management System

Business Ethics

Committed to maintaining high standards of business ethics and integrity, the Group has an internal control environment which is built on high ethical values and management integrity. The Code of Conduct (the "Code") and the Staff Handbook lay down rules and policies for Directors and staff to follow, covering the behaviour expected in all administrative and operational activities, including relationships with customers, suppliers, competitors and fellow staff. The Code also stresses transparency, objectivity, integrity and reliability in the handling of financial information and full disclosure in financial reports.

Enterprise Risk Management

Our businesses are exposed to various types of risks, such as financial and operational risks. We have developed and implemented policies and procedures to manage these risks by adopting the "Internal Control – Integrated Framework" model recommended by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"). The framework involves identifying potential risks related to different business process risks that are relevant to the Group's objectives, and assessing them in terms of impact and likelihood through the deployment of appropriate quantitative and qualitative techniques. Depending on their levels of significance, the risks inherent in various business processes will be duly prioritised. Appropriate responses and controls are formulated and put in place 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 in the following flowchart:



Control Effectiveness

The Audit Committee, with the support of the Internal Audit Department, plays a key role in ensuring an effective system of internal control. The Audit Committee is appointed by the Board to oversee the Group's internal control framework and assess its effectiveness. Its composition, terms of reference and the work done in 2010 are set out under the section headed "Audit Committee" on pages 98 and 99 of this Annual Report. The Audit Committee, with the assistance of the external auditors and the Internal Audit Department, provides strong assurance regarding the quality and effectiveness of our control practices.

Effective and Efficient Quality Management System

The adoption of the ISO-based Quality Management System ("QMS") enables the Group to respond to the risks inherent in its operations through effective control practices. An effective and efficient QMS-based on the benchmarks required by the International Organisation for Standardisation ("ISO") has been implemented in its two major subsidiaries, KMB and Sun Bus Limited ("SB"). 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. SB adopted QMS in 2008 and duly received ISO 9001:2000 certification for the provision of non-franchised bus services. In 2009, both KMB and SB were ISO 9001:2008 certified after successfully completing upgrade audits.

ISO requires that all major financial and operational procedures and instructions, including illustrative flow charts, be clearly documented and approved by authorised persons before release. Such documentation covers all major operational processes, with members of staff responsible and their respective duties being clearly defined. ISO documentation is examined and updated from time to time in line with changes in the work process, and on-site audits are conducted regularly by trained internal quality auditors to ensure that daily operations are conducted according to the documented procedures. The detection of any non-conformity will result in preventive and corrective measures being taken immediately. Management meetings are held every three months to review the effectiveness and compliance of the QMS. Improvement plans are continuously formulated and implemented to improve the QMS.

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

Besides improving cooperation among staff, the adoption of QMS ensures that everyone involved in the operation process is working towards the same goal and meeting required ISO standards. A well-structured and systematic documentation model also benefits the Group's development of strategic and operational planning, while serving as a performance indicator against which each business unit can measure its effectiveness.

Corporate Governance Report

Business Continuity Plan

Being 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. An integral part of its risk management process, the BCP enables senior management to safeguard stakeholder value in any crisis by prompt response and resumption of KMB's critical business functions within the maximum tolerable limits. The BCP identifies and evaluates major risks, and business functions affected, defines responsibilities, recovery time objectives and resources required, and outlines responses to be taken. KMB performs walkthrough tests and drills to ensure that these responses are feasible and viable.

Advanced Management Information System

A comprehensive Enterprise Resources Planning ("ERP") system, including SAP e-business Software is in place to provide a tailor-made solution to analyse large amounts of operational and financial data systematically. This helps the Board and senior management make informed strategic business decisions on a timely basis and measure management performance against budget.

Establishment of a Comprehensive Internal Audit Function

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 the internal control systems are effective in achieving their objectives, and that any risks and internal control weaknesses have been identified and 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 2010, the major work undertaken by the Internal Audit Department included:

- conducting systematic audits of various aspects of the Group's operations according to the audit rolling plan, and reporting findings and recommending follow-up action to the relevant operating units, the Managing Director and the Audit Committee;

- independently reviewing the risks and controls of the Group, and ensuring that the risks and internal control weaknesses had been adequately addressed; and
- specially reviewing critical areas of concern identified by senior management or the Audit Committee.

Based on the report of the Internal Audit Department, the Audit Committee concluded that the Group continues to operate in a sound control environment with a control system that effectively monitors and corrects non-compliance in all significant areas. The Board, following the Audit Committee's annual review of the Group's internal control system, is satisfied that the Group fully complied with the Code Provision on internal controls in 2010.

Control Practices for Handling and Disseminating Price-sensitive Information

The Company fully recognises its obligations under the Listing Rules and 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. In addition, all staff are required by the Code of Conduct and the Staff Handbook to keep unpublished price-sensitive information strictly confidential.

External Audit

The external auditors play a key role in ensuring the integrity of the disclosure of financial information. Major findings in relation to the audit of the Company's interim and annual financial statements, if any, are reported directly to the Audit Committee and the Board by the Company's external auditors. The external auditors are also invited to attend meetings of the Audit Committee as well as the Annual General Meeting.

The Audit Committee is mandated to monitor 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 other non-audit services will not impair their independence on providing audit services. The external auditor is also required to review their relationship with the Group and furnish written confirmation to the Audit Committee confirming their independent status. The Company engaged KPMG as external



auditors to audit the financial statements for the Company for the year ended 31 December 2010. In this regard, KPMG has formally written to the Audit Committee confirming that for the year ended 31 December 2010 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 2010 are set out below:

	HK\$ million
Audit related services	6.4
Non-audit related services	0.2
Total	6.6

COMMUNICATION WITH STAKEHOLDERS

Communication with Shareholders

The Group takes seriously its corporate responsibility to provide shareholders with the information necessary for them to evaluate the Group's performance. Various communication means, including press releases, interim and final results announcements, and interim and annual reports and circulars, are used to convey the Group's messages. Other information of interest to shareholders is uploaded to the Stock Exchange website and the Company's corporate website www.tih.hk. The interim and annual reports, notices of general meetings and circulars in English and/or Chinese are also sent to shareholders within the respective deadlines stipulated by the Listing Rules.

The Company's efforts in building and maintaining transparent and good corporate governance practices across all aspects of its businesses were recognised by professional institutions when the Company's 2009 annual report won the following three prestigious awards in 2010:

- Platinum 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;
- Citation for Design in the Hong Kong Management Association ("HKMA") Best Annual Reports Awards; and
- Honors Award for Financial Data in the International ARC Awards.

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

All shareholders have the right to vote at general meetings. Since 2007, the Company has conducted voting by poll at general meetings so that each share is entitled to one vote. At the general meetings, separate resolutions are proposed for each distinctive matter, including the election of each individual Director. The circular containing the notice of the annual general meeting, proposed resolutions, biographies of each of the Directors standing for election at the annual general meeting, and information on poll voting procedures is despatched to shareholders together with the annual report at least 20 clear business days prior to the annual general meeting.

The 2010 AGM was held on 20 May 2010 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 2009;
- Approval of an ordinary final dividend of HK\$1.05 per share and a special dividend of HK\$1.00 per share for the year ended 31 December 2009;
- Re-election of Dr Norman LEUNG Nai Pang, Dr KWOK Ping-sheung, Walter, Mr William LOUEY Lai Kuen and Mr George CHIEN Yuan Hwei as Directors of the Company;
- Re-appointment of KPMG as auditors of the Company and authorisation of the Directors to fix their remuneration;
- Approval of additional remuneration to be payable to the Independent Non-executive Directors and Non-executive Directors of the Company who serve on the Standing Committee of the Company;
- Appointment of Mr Evan AU YANG Chi Chun as an Executive Director of the Company;
- Granting of a general mandate to the Directors to issue shares not exceeding 20% of the issued share capital;

Corporate Governance Report



Directors meet TIH shareholders at the 2010 AGM

- 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 2010 AGM were published on the websites of the Company and of the Stock Exchange on 20 May 2010.

The 2011 Financial Calendar of the Company is set out as follows:

Announcement of 2010 final results	17 March 2011
Dispatch of 2010 Annual Report and accompanying Circular to shareholders	14 April 2011
Last day to register for 2010 ordinary final dividend	11 May 2011
Book closure period	12-19 May 2011
Date of 2011 AGM	19 May 2011
Payment of 2010 final dividend	24 May 2011
Announcement of 2011 interim results	mid-August 2011
Payment of 2011 interim dividend	mid-October 2011
Financial year end date	31 December 2011

Communication with the General Public

We value communication with the community. Every effort is made to keep the general public informed on what the Group has done and how our achievements relate to them. Our communication channels include:

Websites – The Company's corporate website www.tih.hk provides a wide range of information about the Group and its various businesses. To respond to the changing needs of its browsing groups, KMB launched a revamped corporate website to provide its customers with a more user-friendly and informative online experience in 2009.

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

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



In 2010, the 2009 KMB Passenger Liaison Group Report received the Award of Excellence in the Apex Awards for Publication Excellence, organised by Communications Concepts. In addition, the KMB website and KMB Today won Awards of Excellence in the Website and Newsletter categories respectively in the Communicator Awards, sanctioned by the International Academy of the Visual Arts. KMB's publications are available on its website www.kmb.hk, together with regularly updated corporate, financial and press information pertaining to the Group.

Communication with Employees

Effective communication between management and our staff members is vital to our success as well as a means of boosting esprit de corps, loyalty and efficiency.

To enhance mutual understanding and promote cooperation at all levels, six joint consultative committees have been established for KMB and LWB to provide channels for management and staff to

discuss matters such as safety and the work environment, as well as issues relating to staff welfare.

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

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



A range of publications are available to keep the public informed of the Group's developments