

# Corporate Governance Report

Good corporate governance is the foundation for business success as it provides the basis for stakeholders' confidence and shareholders' sustainable returns. To achieve such goal, the Board members and staff observe a set of sound policies, procedures and rules. The Group also takes into account the interests of the stakeholders when setting long term business goals.

## Corporate Governance Framework

The Group's Corporate Governance Framework (the "Framework") is built on principles of accountability, transparency and integrity, with the aim of identifying all the key participants in good governance, their correlation and their contribution to the application of effective governance policies and processes.

The Board and senior management use the Framework as a performance-oriented benchmark in evaluating the achievement of the Group's business goals. In response to changes in regulatory requirements, environmental needs, social expectations and international relations, the Group regularly reviews the Framework, updates its management policies and practices and ensures the same are closely followed at all levels throughout the Group.

The corporate governance objectives are achieved primarily through implementation of the following measures:

- Maintenance of a diverse and optimal board composition, establishment of efficient management reporting systems and retention of a professional management team to ensure that the Directors are sufficiently informed prior to making decisions in the best interests of the stakeholders;
- Establishment of thorough internal audit and control systems to safeguard against risks, protect the assets of the Group and ensure that its policies and management practices are executed as planned, and any irregularities, deviations, material mis-statements and instances of malpractice are swiftly identified and rectified; and
- Establishment of transparent and effective communication channels to ensure that the Group's affairs are brought to the attention of shareholders, customers and other stakeholders.

## Corporate Governance Code Compliance

The Company abides by the corporate governance principles contained in the Corporate Governance Code (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The CG Code sets out the principles of good corporate governance with two levels of recommendations: (a) "Code Provisions" and (b) "Recommended Best Practices".

The Company complied with all applicable Code Provisions throughout the year ended 31 December 2018, except that four Directors of the Company were unable to attend the Annual General Meeting of the Company held on 17 May 2018 (the "2018 AGM") as provided for in Code Provision A.6.7 owing to other engagement.

## The Board of Directors

### Board Composition

The composition of the Board represents a balance of high calibre executive and non-executive directors possessing relevant skills, industry knowledge, first-hand experience and a diversity of perspectives which are essential to the businesses of the Group. Mr Edmond HO Tat Man retired as a Non-executive Director with effect from the conclusion of the 2018 AGM. Mr TSANG Wai Hung, *GBS, PDSM, JP* was appointed as an Independent Non-executive Director, Dr CHEUNG Wing Yui, *BBS* and Mr LEE Luen Fai, *JP* were appointed as Non-executive Directors with effect from 1 January 2018 respectively and Mr LUNG Po Kwan was appointed as a Non-executive Director with effect from 1 July 2018. Subsequent to the retirement of Mr HO and the appointments of Mr TSANG, Dr CHEUNG, Mr LEE and Mr LUNG, as at 31 December 2018, the Board comprised 15 members, including 5 Independent Non-executive Directors, 9 Non-executive Directors and 1 Executive Director. Day-to-day management of the Group's businesses is delegated to the senior management under the supervision of four designated Board Committees: the Standing Committee, the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee. The Board of Directors and the Board Committees are chaired by Independent Non-executive Directors. The compositions of the Board and Board Committees at 31 December 2018 are stated below:

	Independent Non-executive Directors	Non-executive Directors	Executive Director	Total
Board of Directors	5	9	1*	15
Board Committees:				
Standing Committee	3	4	1*	8
Audit and Risk Management Committee	3	1	–	4
Remuneration Committee	3	1	–	4
Nomination Committee	2	1	–	3

\* The Managing Director

While the Non-executive Directors are not involved in day-to-day management of the Group's businesses, they serve as custodians of the governance process by scrutinising the management's performance in meeting agreed corporate goals and objectives. Their contribution is made, among other ways, by attending Board meetings at which they provide independent views on various matters relating to the Group's strategy, policy, performance, accountability, resources, key appointments and standards of conduct. The term of appointment of Non-executive Directors is for a period of three years.

Independent Non-executive Directors review issues that come before the Board critically and objectively. In particular, they ensure that the general interests of shareholders are fully considered by the Board. They also see that connected transactions and other issues are subject to impartial and thorough contemplation by the Board.

Independent Non-executive Directors are identified in all corporate communications. Pursuant to Rule 3.13 of the Listing Rules, the Company considers all Independent Non-executive Directors to be independent, as all of them have confirmed their independence in writing to both the Stock Exchange and the Company. The Company complies with the requirement in the Listing Rules that at least one-third of the Board members should be Independent Non-executive Directors.

In accordance with Code Provision I(h) of Appendix 14 of the Listing Rules, the relationship between members of the Board is disclosed in Directors' Profiles in the Annual Report.

### Board Diversity

Diverse board composition ensures a wide range of business and professional experience on the Board, so that the decision-making process includes different perspectives and supports the achievement of the Company's strategic objectives. All Board appointments are merit-based. The Company has adopted a Board Diversity Policy that takes into account, among other aspects, each candidate's gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All candidates are considered against these criteria.

The Executive and Non-executive Directors have a diverse background. Each of them possesses the depth of relevant experience and expertise to oversee the businesses of the Group. The current mix of the Board members represents a balance of business, academia and the professions, which helps to deliver sustainable value and safeguard shareholders' interests.

The age group and gender diversity of the Board of Directors as at 31 December 2018 are set out below:

Age Group	Male	Female
41-50	1	0
51-60	3	1
61-70	5	0
Over 70	5	0
Total	14	1

### The Role of the Board

The Board promotes the success of the Group by directing and supervising its affairs in a responsible and effective manner. The primary responsibilities of the Board are as follows:

- setting the Group's values and standards;
- giving the management objectives and directions;
- monitoring management performance;
- managing relationships with stakeholders, including shareholders, the HKSAR Government, employees and the community;
- establishing appropriate policies to manage risks in pursuit of the Group's strategic objectives;
- reviewing the effectiveness of internal controls and risk management procedures;
- reviewing and approving the accounts of the Group;
- ensuring the integrity of the Group's financial reporting system and public announcements;
- approving major financing arrangements;
- evaluating major acquisitions, disposals and material contracts; and
- setting dividend policy.

### The Roles of Chairman and Managing Director

The Chairman and the Managing Director are two distinct posts, separately held by Dr Norman LEUNG Nai Pang, *GBS, JP*, an Independent Non-executive Director, and Mr Roger LEE Chak Cheong, an Executive Director, and neither of whom have any financial, business, family or other relationship with each other.

There is a clear distinction between the roles of the Chairman and the Managing Director. The responsibilities of the Chairman and the Managing Director are defined in writing and summarised below:

Responsibilities of the Chairman:

- chairing the Board and shareholders' meetings (ensuring that the views and concerns of Board members and shareholders are expressed at these meetings);
- ensuring that the operations of the Board are managed effectively by discussing all principal and appropriate issues in a timely manner;
- ensuring that all Directors receive adequate, accurate, clear, complete and reliable information in a timely manner;
- facilitating effective communication with shareholders and ensuring that shareholders' views are adequately reflected to the Board; and
- ensuring that all corporate governance practices adopted by the Board are implemented.

Responsibilities of the Managing Director:

- reflecting the long-term objectives and priorities set by the Board by developing and implementing the Group's policies and strategies;
- providing salient, accurate, timely and succinct information for the Board to monitor the performance of the management;
- leading an effective and professional executive team in the management of the Group's day-to-day businesses;
- closely monitoring operational and financial results in accordance with plans and budgets;
- maintaining regular dialogue with the Chairman on important and strategic issues faced by the Group, and bringing the same to the Board's attention;
- putting adequate operational, planning, legal and financial-control systems in place; and
- managing the Company's relationships with its diverse stakeholders.

The Chairman also meets once a year with the Non-executive Directors (including Independent Non-executive Directors), in the absence of the Executive Director, to discuss the Group's business affairs. For 2018, the meeting was held on 20 December 2018.

## Board Proceedings

### Board Meetings

A Board meeting is generally held every other month, where Board members meet to discuss major corporate, strategic and operational matters and evaluate investment opportunities. All Board meetings are conducted according to the procedures laid down in the Company's Bye-laws and the Code Provisions contained in the CG Code. At the beginning of every year, all Board members will be provided with the schedule of regular Board meetings. They will be duly informed of any amendments to the schedule at least 14 days before the relevant meeting.

The agenda for regular Board meetings is consolidated by the Company Secretary for approval by the Chairman. All Directors are entitled to put forward items for inclusion in the agenda of Board meetings. A Notice of Board meeting is delivered to each Director one month in advance of the scheduled meeting date together with the agenda. Detailed discussion papers for the Board meeting are circulated 7 days prior to the meeting to ensure that the Directors have sufficient time to consider the items for discussion and make decisions in the best interests of the Company.

At the Board meetings, senior management together with the relevant corporate executives report to the Board on the operations and financial performance of the Group's various business areas. The Company Secretary prepares draft minutes of Board meetings which record the matters considered by the Board and the decisions reached as well as any concerns raised or dissenting views expressed by the Directors. The draft minutes are circulated to the Directors for their comments. The final version of the draft minutes is submitted to the Board at the ensuing meeting for formal adoption. The adopted minutes are kept by the Company Secretary, and are available for inspection by the Directors.

### Voting on Connected Transactions

The Company's Bye-laws provide that all Directors are required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other

proposal to be discussed at a Board meeting and to abstain from voting on relevant resolutions if they have a conflict of interest or a material interest in the proposed transaction. Any such declaration of interest will be recorded by the Company Secretary in the minutes. A Director is not included in the quorum for such part of a meeting that relates to a resolution he/she is not allowed to vote on but he/she shall be included in the quorum for all other parts of that meeting. This reduces the potential for conflict which might otherwise arise between the Company's business and an individual Director's other interests or appointments.

Independent Non-executive Directors, together with the other Board members, ensure that connected transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the agreement governing them on terms that are fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole. The Company Secretary is responsible to make sure that all connected transactions entered into are in compliance with the Listing Rules. In 2018, the Company entered into three continuing connected transactions, details of which are given on pages 83 to 85 of this Annual Report.

## Obligations of Directors

### Code of Conduct

All Directors and staff of the Company are subject to a written Code of Conduct, which is available on the staff website. It provides guidance on matters relating to 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 compliance and means of enforcement. The Code of Conduct promulgates ethical values in business activities which the Directors and employees are required to adhere to when discharging their delegated duties. The Code of Conduct is reviewed and updated periodically to be kept up to date with regulatory changes. The Company has a whistleblowing policy to encourage employees and related third parties (such as customers and suppliers) who deal with the Company to raise concerns in confidence about misconduct, malpractice or irregularity in any matters related to the Company. The whistleblowing policy is published on the Company website and staff website.

### Securities Transactions by Directors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct to regulate Directors’ securities transactions in respect of the Company’s shares. Senior managers, other nominated managers and staff who, because of their positions in the Company, are likely to be in possession of Inside Information (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), are requested to comply with the provisions of the Model Code.

After the making of specific enquiries, all Directors confirmed that they had complied with the standard of dealings set out in the Model Code throughout 2018. Details of the shareholding interests held by the Directors in the Company as at 31 December 2018 are set out on pages 119 and 120 of this Annual Report.

### Induction and Continuous Professional Development

All Directors attended training programmes in the year to keep themselves abreast of the latest developments in the fields relevant to their respective expertise and professions. The Company Secretary is responsible for providing tailored induction programmes for new Directors and appropriate training programmes for the ongoing development of all Directors to ensure that they have proper understanding of the Company’s business operations and practices and are fully aware of their responsibilities under the Listing Rules and other regulatory requirements. Information on the latest developments regarding the Listing Rules and other applicable governance matters is provided to the Directors as and when required. The Directors are provided with detailed monthly management reports, as well as monthly media reports, including press articles relevant to the Company’s businesses. On 11 October 2018, a seminar was run by a professional services firm to update the Directors on the latest development in corporate governance. The Directors are encouraged to participate in continuous professional development programmes organised by qualified institutions. The costs for such programmes are borne by the Company. Formal procedure is in place for reporting the training and continuous professional development received by Directors.

### Time Commitment of Directors

For the year ended 31 December 2018, the Company has received confirmation from each Director that he/she committed sufficient time and attention to the Company’s affairs. The Board reviews their contribution annually.

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

The Company has in place a formal and transparent procedure for the appointment of new Directors. A person may be appointed as a member of the Board at any time either by the shareholders in general meeting or by the Board on the recommendation of the Nomination Committee when it is necessary to fill a casual vacancy. A Director appointed by the Board to fill a casual vacancy shall hold office until the first annual general meeting after such appointment but is eligible for election at the same meeting. All Directors are appointed for a specific term and are subject to retirement by rotation and re-election at the Company’s annual general meeting at least once every three years. All Directors have a current term of office not longer than three years. Shareholders may remove a Director before the expiration of his/her period of office by passing a special resolution giving detailed reasons at a general meeting properly convened in accordance with the Bye-laws of the Company for such a purpose.

The election of individual Directors is subject to separate resolutions to be approved by the shareholders. In respect of the re-appointment of an Independent Non-executive Director who has served on the Board for more than nine years, the Company is required to explain in a circular containing the notice of the annual general meeting why it considers that the Director continues to be independent and why it recommends his/her re-election to the shareholders.

### Re-election of Directors

At the 2018 AGM, five Directors, namely, Mr Raymond KWOK Ping Luen, *JP*, Mr Charles LUI Chung Yuen, *M.H.*, Ms Winnie NG, *JP*, Dr Eric LI Ka Cheung, *GBS, OBE, JP*, and Professor LIU Pak Wai, *SBS, JP*, retired by rotation and were re-elected as Directors of the Company.

### Retirement of Director

Mr Edmond HO Tat Man retired as a Non-executive Director with effect from the conclusion of the 2018 AGM and did not offer himself for re-election.

### Appointment of Directors

Mr TSANG Wai Hung, *GBS, PDSM, JP*, was appointed by the Board as an Independent Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 January 2018 to fill the casual vacancy occasioned by the retirement of Mr Gordon SIU Kwing Chue, *GBS, CBE, JP*, on 18 May 2017.

Dr CHEUNG Wing Yui, *BBS* was appointed by the Board as a Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 January 2018 to fill the casual vacancy occasioned by the resignation of Mr Evan AU YANG Chi Chun on 1 March 2016.

Mr LEE Luen Fai, *JP* was appointed by the Board as a Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 January 2018 to fill the casual vacancy occasioned by the retirement of Mr John Anthony MILLER, *SBS, OBE*, on 18 May 2017.

Mr TSANG, Dr CHEUNG and Mr LEE were elected as Directors at the 2018 AGM.

Mr LUNG Po Kwan was appointed by the Board as a Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 July 2018 to fill the casual vacancy occasioned by the retirement of Mr Edmond HO Tat Man on 17 May 2018. Mr LUNG will hold office as Director until the next annual general meeting of the Company to be held on 16 May 2019 (the "2019 AGM"), when he shall be eligible for election, and will then be subject to re-election at subsequent annual general meetings of the Company pursuant to the Company's Bye-laws.

Appropriate announcements of the re-election, retirement and appointment of Directors were published in accordance with the Listing Rules.

Dr Norman LEUNG Nai Pang, *GBS, JP* and Mr William LOUEY Lai Kuen will retire as Directors of the Company and offer themselves for re-election at the 2019 AGM. All these retiring Directors and Mr LUNG Po Kwan, being eligible, have been nominated by the Nomination Committee and recommended by the Board to stand for re-election at the 2019 AGM. The election of each Director will be subject to the vote of shareholders in a separate resolution.

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

The shareholders are entitled to nominate a person for election as a Director at a general meeting of the Company. The procedures for making proposals to nominate a person for election as a Director are available on the websites of the Company and of the Stock Exchange.

### Directors' Indemnities and Protections

The Company has taken out an appropriate insurance policy covering any legal action against the Directors of the Company, which indemnifies the Directors for liability incurred in connection with the Company's activities. These indemnities were in force during 2018 and remain in force.

### Delegation by the Board of Directors

The Board maintains four designated Board Committees to oversee various aspects of the Group's affairs: the Standing Committee, the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee. The Committees are governed by their respective terms of reference and are provided with adequate authority and resources to discharge their duties. The terms of reference are regularly reviewed and are available on the websites of the Company and the Stock Exchange respectively.

The membership of each Committee (as at 1 January 2019) is shown below:

Name of Directors	Standing Committee	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee
<b>Independent Non-executive Directors</b>				
Dr Norman LEUNG Nai Pang, GBS, JP	Chairman			
Dr John CHAN Cho Chak, GBS, JP	Member		Chairman	Chairman
Dr Eric LI Ka Cheung, GBS, OBE, JP		Chairman	Member	Member
Professor LIU Pak Wai, SBS, JP		Member	Member	
Mr TSANG Wai Hung, GBS, PDSM, JP	Member	Member		
<b>Non-executive Directors</b>				
Mr Raymond KWOK Ping Luen, JP	Member			
Mr Charles LUI Chung Yuen, M.H.	Member			
Ms Winnie NG, JP	Member		Member	
Mr Allen FUNG Yuk Lun		Member		Member
Mr William LOUEY Lai Kuen	Member			
<b>Executive Director</b>				
Mr Roger LEE Chak Cheong	Member			

### Standing Committee

The role of the Standing Committee is to advise and assist the Board in devising business strategies, making significant investment proposals and monitoring their implementation. The Standing Committee's findings and recommendations are submitted directly to the Board. In 2018, the Standing Committee held six meetings with senior management to review and discuss financial, operational and strategic planning, as well as potential investment opportunities for the Group.

### Audit and Risk Management Committee

On 1 January 2018, the Board appointed Mr TSANG Wai Hung, an Independent Non-executive Director as member of the Audit and Risk Management Committee. The Chairman of the Audit and Risk Management Committee is Dr Eric LI Ka Cheung, an Independent Non-executive Director of the Company. He is a Certified Public Accountant who possesses the professional qualifications and accounting expertise prescribed by the Listing Rules.

Dr LI and the other members of the Audit and Risk Management Committee have diverse experience in various business and professional fields as set down in the Directors' biographies on pages 108 to 114 of this Annual Report. None of the members of the Audit and Risk Management Committee is a former or existing partner of the external auditors of the Company. The Audit and Risk Management Committee is responsible for establishing and maintaining an adequate internal control structure, ensuring the quality and integrity of financial statements, nominating independent external auditors, reviewing the adequacy of external audits in respect of cost, scope and performance, and ensuring that an effective system of internal control and risk management is established within the Company. The Audit and Risk Management Committee's terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and are regularly updated with reference to the recommendations of the CG Code of the Listing Rules.

In 2018, the Audit and Risk Management Committee and senior management held two meetings with the Company's external auditors, KPMG – at which the Company's financial reports, internal control systems and other relevant matters were reviewed and discussed. At the end of these meetings, the external auditors were invited to discuss in private with members of the Audit and Risk Management Committee issues noted during the course of the audit and any other matters they might wish to bring to the attention of the Audit and Risk Management Committee without the presence of senior management. Following each of the two meetings, the Chairman of the Audit and Risk Management Committee submitted a report to the Board of Directors and gave a briefing on all significant issues identified.

The major work undertaken by the Audit and Risk Management Committee in the financial year ended 31 December 2018 included:

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

- Reviewed with senior management the accounting principles and practices adopted by the Group, the financial results of the Company and of its major subsidiaries, the accuracy and fairness of the financial statements, and the scope of internal and external audit work;
- Reviewed the revised accounting standards and any prospective changes thereto, and considered their impact on the financial reporting of the Company and the Group;
- Reviewed with external auditors the effectiveness of the audit procedures and their findings concerning the interim and annual financial statements and results announcements, as well as management's response to such findings;
- Discussed and reviewed the internal audit reports prepared by the Head of the Internal Audit Department covering among other things audit objectives, audit approach, audit work done and the findings arising therefrom;

- Examined the qualifications and experience of staff carrying out accounting and financial reporting, as well as the adequacy of resources and training programmes;
- Conducted reviews with the external auditors and senior management to ensure that connected transactions were properly disclosed in accordance with the requirements of the Listing Rules; and
- Monitored the operation of the whistleblowing policy.

Following these reviews and discussions, the Audit and Risk Management Committee recommended to the Board that the unaudited interim financial report of the Company for the six months ended 30 June 2018 and the audited annual financial statements for the year ended 31 December 2018 be approved.

**(b) Maintenance of Relationship with External Auditors**

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

Based on the conclusions drawn from these reviews, the Audit and Risk Management Committee recommended to the Board that KPMG, the existing external auditors, be re-appointed as auditors of the financial statements of the Company for the year ending 31 December 2019.

### Remuneration Committee

The Board has devolved upon the Remuneration Committee the authority to formulate remuneration policies, including the establishment of guidelines to determine the terms and conditions of employment and the remuneration and retirement benefits of Directors and employees of the Group. The Remuneration Committee also draws up criteria for performance-based bonuses and makes recommendations to the Board on human resources related policies based on the Group's goals and objectives. Details of the terms of reference, remuneration policies and work performed by the Remuneration Committee in 2018 are set out in the Remuneration Report on pages 104 to 107 of this Annual Report.

### Nomination Committee

The Board has appointed the Nomination Committee to identify suitable candidates of a high calibre and with sufficient experience for its consideration, taking into account the Board Diversity Policy. The Nomination Committee ensures that the appointment of Directors undergoes formal, stringent and transparent procedures. The majority of members of the Nomination Committee, including its chairman, are Independent Non-executive Directors of the Company. The principal terms of reference of the Nomination Committee include:

- Formulating nomination policy for consideration by the Board and implementing the nomination policy established by the Board;
- Identifying and nominating for the approval of the Board appropriately qualified candidates for appointment as Directors;
- Making recommendations to the Board for the appointment or re-appointment of Directors and making recommendations regarding succession planning for Directors, in particular, the Chairman and the Managing Director;
- Reviewing and monitoring the structure, size and composition (including evaluating the balance and blend of skills, knowledge, professional experience, gender, age, cultural and educational background and length of service) of the Board and making recommendations to the Board regarding any proposed changes; and
- Evaluating the independence of Independent Non-executive Directors.

## Attendance Records

The Directors' attendance at the Annual General Meeting, Board Meetings and Committee Meetings in 2018 is given below:

Members of the Board of Directors	2018 AGM	Board	Audit and Risk			
			Standing Committee	Management Committee	Remuneration Committee	Nomination Committee
<b>Independent Non-executive Directors</b>						
Dr Norman LEUNG Nai Pang, GBS, JP (Chairman)	1/1	6/6	6/6			
Dr John CHAN Cho Chak, GBS, JP (Deputy Chairman)	1/1	6/6	6/6		3/3	2/2
Dr Eric LI Ka Cheung, GBS, OBE, JP	1/1	6/6		2/2	3/3	2/2
Professor LIU Pak Wai, SBS, JP	0/1	6/6		2/2	3/3	
Mr TSANG Wai Hung, GBS, PDSM, JP	1/1			2/2		
<b>Non-executive Directors</b>						
Mr Raymond KWOK Ping Luen, JP (with Ms Susanna WONG Sze Lai, as alternate)	0/1	0/6	6/6			
Mr NG Siu Chan (with Ms Winnie NG, JP as alternate)	0/1	5/6				
Mr Charles LUI Chung Yuen, M.H.	1/1	5/6	6/6			
Mr William LOUEY Lai Kuen (with Mr GAO Feng, as alternate)	1/1	5/6	6/6			
Ms Winnie NG, JP	1/1	6/6	6/6		3/3	
Mr Allen FUNG Yuk Lun	1/1	5/6		2/2		2/2
Mr Edmond HO Tat Man (retired on 17 May 2018)	0/1	1/6				
Dr CHEUNG Wing Yui, BBS	1/1	6/6				
Mr LEE Luen Fai, JP	1/1	6/6				
Mr LUNG Po Kwan (appointed on 1 July 2018)	0/1	3/6				
<b>Executive Director</b>						
Mr Roger LEE Chak Cheong (Managing Director)	1/1	6/6	6/6			
<b>Alternate Directors</b>						
Mr GAO Feng (Alternate Director to Mr William LOUEY Lai Kuen)	0/1	1/6				
Ms Winnie NG, JP (Director and Alternate Director to Mr NG Siu Chan)	1/1	1/6				
Ms Susanna WONG Sze Lai (Alternate Director to Mr Raymond KWOK Ping Luen, JP)	0/1	3/6				
<b>In attendance</b>						
External Auditors	1/1			2/2		

Notes:

- Particulars of the 2018 AGM are set out on page 102 of this Annual Report.

The Board held six meetings in 2018, which exceeded the minimum of four board meetings a year required by the CG Code. On average, regular Board meetings and Board Committee meetings lasted at least two hours.

## Delegation of Responsibilities to Senior Management

Senior management is responsible for implementing the strategies and day-to-day management of the Group's businesses. It is under the continual supervision of the Board and the corresponding Board Committees. Drawing upon their extensive experience and expertise in different areas, senior management provides accurate, adequate and detailed financial and operational information in a timely manner to the Board to keep them informed of the latest developments of the Group, enabling them to make informed decisions and discharge their responsibilities effectively.

## The Role of the Company Secretary

The post of Company Secretary is held by Miss Lana WOO, who is a fellow member of The Hong Kong Institute of Chartered Secretaries. She is responsible for ensuring that the correct Board procedures are followed, advising the Board on all corporate governance matters and facilitating the induction and continuous professional development of Directors. She reports to the Managing Director of the Company, and all Directors may call upon her for advice and assistance at any time in respect of their duties and the effective operation of the Board and Board Committees. In 2018, the Company Secretary took more than 15 hours of professional training to update her skills and knowledge.

## Accountability And Audit

### Financial Reporting

The Board is responsible for the preparation of the Group's financial statements. It ensures that a true and fair view of the financial status of the Group is given in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong). This responsibility extends to the accuracy and sufficiency of the content of interim and annual reports, as well as "price-sensitive" announcements and other financial disclosures required by the Listing Rules, reports to regulators, and any information that needs to be disclosed under statutory requirements.

The financial statements of the Company and the Group for the year ended 31 December 2018 given on pages 132 to 227 of this Annual Report represent a true and fair view of the state of affairs of the Company and the Group, and the results and cash flow for the year. The Audit and Risk Management Committee of the Company, together with senior management and the Company's external auditors, has reviewed the accounting principles and policies adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the financial results for the year ended 31 December 2018.

## Internal Control and Risk Management Systems

The Board has the overall responsibility for establishing, maintaining and reviewing the effectiveness of the Group's internal control and risk management systems. It is duty bound to safeguard the Group's assets and stakeholders' interests, manage the Group's existing and anticipated risks, and provide reasonable assurance against material mis-statement of information (whether financial or non-financial). Stringent internal control measures are implemented at all levels of the Group in order to ensure effective monitoring of its day-to-day operations.

The Audit and Risk Management Committee is delegated by the Board with the responsibility of maintaining and reviewing the effectiveness of the internal control and risk management systems and determining the nature and extent of any significant risks. With the assistance of the external auditors and the Internal Audit Department, the Audit and Risk Management Committee provides sound assurance regarding the quality and effectiveness of our control practices.

## Internal Control Framework

The Group's Internal Control Framework is monitored, managed and reviewed by the following bodies:

### The Board

- Has the ultimate responsibility for the Group's risk management and internal control systems
- Reviews the effectiveness of the Group's risk management and internal control systems in achieving the Group's objectives

- Provides direction on the risk management and internal control culture

#### The Audit and Risk Management Committee

- Assists the Board in monitoring the performance of the Group's risk management and internal control systems
- Reviews the Group's internal control and risk management reports prior to endorsement by the Board
- Reviews the effectiveness of the Company's external and internal audit functions
- Ensures staff are appropriately trained for their relevant positions to ensure that they carry out their duties in accordance with the requirements of good internal control practices

#### Management

- Designs, implements and maintains an effective internal control system including the Group's Quality Management System
- Ensures a proper reporting channel so that emerging risks are reported to the Audit and Risk Management Committee in a timely manner

#### The Internal Audit Department

- Supports the Audit and Risk Management Committee in reviewing the effectiveness of the Group's risk management and internal control systems
- Works with business units to ensure sound internal controls and compliance functions are in place
- Conducts independent reviews and other special investigations requested by the Board, the Audit and Risk Management Committee and the Management

The Group's internal control and risk management framework, based on the Committee of Sponsoring Organisations of the Treadway Commission's Internal Control – Integrated Framework issued in May 2013, consists of the following components:

#### Control Environments

The Group complies with the Listing Rules requirement that at least one-third of the Board members should be Independent Non-executive Directors to demonstrate independence from management and exercises oversight of the development and performance of internal control. The Board of Directors and the Board Committees are chaired by Independent Non-executive Directors.

There are four designated Board Committees which meet on a regular basis for day-to-day management of the Group's business.

The Group has a well-defined organisational structure with succinct lines of authority and control responsibilities, which are clearly set out in writing and documented in the form of organisation charts and job manuals for the corresponding operating and business units.

Integrity and honourable business ethics are foundational to the continued success of the Group. The Code of Conduct and the Staff Handbook, which are accessible to all Directors and employees, define the rules and policies which all Directors and staff are bound to follow. The Code of Conduct emphasises transparency, objectivity, integrity and reliability in the handling of financial information and in respect of disclosure in financial reports. In addition, the Staff Handbook reminds all staff members that they must not make use of their position to solicit or receive any advantage from any third parties.

A whistleblowing policy has been established by the Audit and Risk Management Committee to deal with concerns related to fraudulent or unethical acts or instances of non-compliance with the law or with the Group's policies that have or could have a significant adverse financial, legal or reputational impact on the Group. The Group will respond to all such concerns expressed fairly and properly. The Group's whistleblowing policy and procedures, which are published on the Company's website, apply to employees at all levels and in all divisions as well as to business partners, suppliers and any third parties that deal with the Group. The Audit and Risk Management Committee has overall responsibility for the whistleblowing policy, notwithstanding that it has delegated day-to-day responsibility for overseeing and implementing the same to the Company Secretary.

## Risk Assessment

### TIH Enterprise Risk Management System

The Group’s Enterprise Risk Management System (“ERM System”) has the following objectives:

- To provide a systematic approach to the early identification and management of risks
- To provide consistent risk assessment criteria
- To make available accurate and concise risk information that informs decision making including business directions
- To adopt risk treatments that are cost effective and efficient in reducing risk to an acceptable level

- To monitor and review risk levels to ensure that risk exposure remains within an acceptable level

The Group’s ERM System was designed with reference to the COSO ERM framework.

The Group’s risk management structure is as follows:

Risk Rating is determined by Impact and Vulnerability. A dynamic risk rating matrix, using both quantitative and qualitative factors, is used to assess risk.

A Risk Key Performance Indicator Report (“Risk KPI Report”) summarising the Group’s top ten risks as identified by management, is submitted to the Audit and Risk Management Committee every six months. The Risk KPI Report provides a comprehensive profile of these top ten risks and the monitoring mechanism for these risks as established by management.

### TIH Risk Management Framework

## Internal Audit

#### Board of Directors

- Evaluates and provides direction to the Group on the nature and extent of the risks that shall be taken in achieving its strategic objectives (i.e. setting the Risk Appetite).
- Ensures review of the effectiveness of the risk management and internal control systems.

#### Audit and Risk Management Committee

- Ensures that the Risk Management Taskforce (“RMTF”) and Business Lines have fulfilled their duties in establishing and maintaining an effective risk management programme.
- Reviews the Risk KPI Reports semi-annually.

#### Risk Management Taskforce (“RMTF”)

- RMTF comprises the Finance Director and General Manager, Corporate Planning and Business Development (“GM – CP&BD”), it is chaired by GM – CP&BD.
- Maintains an oversight of the Group’s risk management system, framework and programme.
- Proposes to the Board for approval at least annually enhancements as needed, including those to fulfil regulators or governance bodies’ statutory requirements.
- Reviews and/or approves the Risk Inventory in the risk management programme and monitors the Risk KPI Reports.
- Ensures Business Lines of the Group commit sufficient resources to carrying out the risk management exercise.

#### Individual Department Head/Director (collectively referred as “Business Lines”)

- Develops policies and controls to effectively embed the Group’s risk management directions into day-to-day operations.
- Promotes the risk-management culture to those working under the Business Lines so they comply with the risk management policies and procedures when conducting day-to-day operations.
- Identifies the risks associated with business activities (including new business) within his/her own Business Lines, and implements appropriate action plans to manage the identified risks and opportunities.

### Control Activities

The Group's franchised and non-franchised businesses involve well-established business processes. Control activities are built on top-level reviews, segregation of duties and physical controls. Written policies and procedures with defined limits of delegated authority are in place. These policies and procedures include but are not limited to:

- Annual budgeting and planning processes
- Financial and payment authorisation guidelines
- Procurement and tendering policies
- IT security policy

### Quality Management System

The Group's franchised operations, KMB and LWB, have implemented a quality management system ("QMS") based on the benchmarks prescribed by the International Organisation for Standardisation ("ISO"). Under ISO requirements, major financial and operational procedures and instructions, including illustrative flow charts, are clearly documented and followed by operations.

The Hong Kong Quality Assurance Agency ("HKQAA") conducts an annual independent audit of QMS to assess its effectiveness, efficiency and conformity. During 2018, there was no non-conformity in QMS noted during the ISO audit of the operations of both KMB and LWB.

As of December 2018, both KMB and LWB possessed ISO 9001:2015 quality management system certification. In addition, two of KMB's major bus depots are ISO 14001-certified for their environmental management systems.

### Business Continuity Plan

The Group's flagship subsidiary, KMB, has formulated and documented a Business Continuity Plan ("BCP") in respect of key business and IT operations. The BCP is reviewed and updated from time to time according to changes in circumstances. BCP, which is an integral part of the risk management process, provides a systematic approach for building an effective response that enables management to safeguard shareholder value in a crisis by responding promptly and by resuming KMB's critical business functions at acceptable pre-defined levels. KMB

performs walk-through tests and drills periodically to ensure that the BCP will be able to adequately ensure minimal disruption to key businesses if an unforeseeable event occurs.

### Information and Communication/Monitoring Activities

The Group's IT systems generate timely data to allow management to monitor business operations and thus achieve business objectives.

Regular and ad-hoc management and operational meetings are held to facilitate the proper monitoring of internal control and risk management items.

### Internal Audit Function

The Internal Audit Department plays an important role in the assessment of the effectiveness of the risk management and internal control systems. It is responsible for providing the Audit and Risk Management Committee and senior management with independent and objective assurance that the internal control systems of the Group are effective in achieving their objectives, and that any risks and internal control weaknesses have been adequately addressed. The Internal Audit Department holds a group-wide function and covers both franchised and non-franchised operations of the Group. The Head of the Internal Audit Department reports directly to the Audit and Risk Management Committee and the Managing Director.

The Internal Audit Department conducts risk-based internal audit reviews in accordance with the International Standards for the Professional Practice of Internal Auditing. All staff in the Internal Audit Department, including the Head of Internal Audit, are required to declare their independence every year.

In 2018, the Internal Audit Department performed the following functions, among others:

- Conducted compliance reviews of relevant laws and regulations applicable to the Group's business;
- Carried out operational reviews and surprise checks of major internal control processes in respect of both franchised and non-franchised businesses;

- Performed special reviews and investigations at the request of the Group’s management;
- Conducted follow up reviews on the recommendations of the Special Committee of the Tai Po Accident; and
- Assisted operations in carrying out Internal Quality Audits (“IQA”) in accordance with ISO requirements.

Based on the report of the Internal Audit Department and the report of the Company Secretary on the Group’s whistleblowing policy, the Audit and Risk Management Committee has concluded that the Group continues to operate in an effective control environment with a control system that adequately monitors and corrects non-compliance in significant areas. Following the Audit and Risk Management Committee’s annual review of the Group’s internal control systems, the Board is satisfied that the Group complied with the Code Provisions on internal controls in 2018.

### Control Practices for Handling and Disseminating Price-sensitive and/or Inside Information

The Company is fully aware of its obligations under the Listing Rules and the Securities and Futures Ordinance. It has a suite of procedures and internal control measures in place to preserve the confidentiality of price-sensitive and/or inside information relating to the Group. All members of the Board, senior management and nominated executives, who are likely to have access to price-sensitive and/or inside information because of their office or employment in the Company or a subsidiary, are bound by the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules. In addition, every employee is required to follow the guidelines of the Code of Conduct and the Staff Handbook to keep unpublished price-sensitive and/or inside information strictly confidential.

### External Audit

The external auditors play a crucial role in ensuring the integrity of the disclosure of financial information. If during the course of their review of the Company’s interim financial report and their audit of the Company’s annual financial statements, the external auditors discover any major irregularities, they will report their findings directly to the Audit and Risk Management Committee and the Board. The external auditors are invited to attend

meetings of the Audit and Risk Management Committee, as well as the Annual General Meeting.

The Audit and Risk Management Committee is responsible for monitoring the audit and non-audit services rendered to the Group by its external auditors. A formal policy is in place to ensure that the engagement of the external auditors in non-audit services will not impair their independence in providing the audit services. The external auditors are also required to review annually their relationship with the Group and to give written confirmation to the Audit and Risk Management Committee of their independent status.

The Company engaged KPMG as its external auditors to audit the financial statements of the Company for the year ended 31 December 2018. KPMG has formally confirmed in writing to the Audit and Risk Management Committee that for the year ended 31 December 2018 and up to the date of this Annual Report, it remains 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 2018 are set out below:

	HK\$ million
Audit related services	4.1
Non-audit related services (Note)	1.2
<b>Total</b>	<b>5.3</b>

Note: Non-audit related services mainly consist of other review and reporting services.

## Engagement With Stakeholders

### Shareholders

The Company had 3,912 registered shareholders as at 31 December 2018. The shareholders comprise individual shareholders, institutional investors plus people and organisations holding shares via financial intermediaries such as nominees, investment funds and the Central Clearing and Settlement System ("CCASS") of Hong Kong.

The names of the shareholders holding 5% or more of the shares of the Company as at 31 December 2018, other than those who are also Directors of the Company, are disclosed in the Directors' Report on page 122 of this Annual Report. The largest single shareholder of the Company is Sun Hung Kai Properties Limited, which retains an equity interest of about 37.10% in the Company.

As at 31 December 2018, the shareholding distribution of the Company was as follows:

Size of registered shareholding	Number of shareholders	% of shareholders	Number of shares (Note)	% of issued share capital
0-1,000	1,407	35.97	445,608	0.10
1,001-5,000	1,474	37.68	3,454,726	0.80
5,001-10,000	424	10.84	3,223,022	0.74
10,001-100,000	499	12.75	14,705,586	3.38
Above 100,000	108	2.76	412,768,385	94.98
	<b>3,912</b>	<b>100.00</b>	<b>434,597,327</b>	<b>100.00</b>

Note: 46.03% of all TIH's issued shares were held through CCASS.

Based on information that is publicly available to the Company and the Directors, the Company has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2018.

### Shareholder Communications Policy

Transparency is vital to good corporate governance. The Board has formulated the Shareholder Communications Policy to provide shareholders with information about the Company, allowing them to engage with the Company and obtain information about the Company for exercising their rights as shareholders. The Shareholder Communications Policy is posted on the Company's website and is reviewed regularly to ensure its effectiveness. The Company adopts various communication channels, including press releases, announcements, circulars and interim and annual reports, to convey messages to the shareholders. Interim and annual reports, notices of general meetings, announcements and circulars in English and Chinese are posted on the Company's website ([www.tih.hk](http://www.tih.hk)) and the website of the Stock Exchange. They are also delivered to shareholders within the respective deadlines stipulated by the Listing Rules. Other information of interest to shareholders and the public is also available on the Company's website.

### Annual Reports

The annual report is a unique source of information for shareholders and other stakeholders who wish to understand the business of the Group. Senior management endeavours to make the annual report informative, comprehensible and transparent, with a sufficient level of disclosure. There are both English and Chinese versions of the annual report and both printed and electronic copies are available to shareholders. In the interests of environmental preservation and economy, the Company encourages its shareholders to choose the electronic version of all the Company's corporate communications such as the annual and interim reports, notices of meetings, listing documents, circulars and forms of proxy. Shareholders are at liberty to change their choice of language or means of receiving the Company's corporate communications by giving written notice of not less than seven days to the Company's share registrar, Computershare Hong Kong Investor Services Limited, or by emailing [tih.com@computershare.com.hk](mailto:tih.com@computershare.com.hk).

Over the years, the Company's annual reports have won widespread recognition in local and international award programmes. In 2018, the Company won the Silver Award for Chairman's Letter and Bronze Award for Written Text in the Transportation & Leasing category of the 2018 International ARC Awards.

### The Company's General Meetings

The Directors consider the Company's general meetings an important way of communication with shareholders. The annual general meetings and other general meetings are normally attended by all Directors and senior management as well as the Company's external auditors so that any comments or questions raised by shareholders can be addressed.

Shareholders have control over the Company primarily through exercising their voting rights at general meetings. All voting is conducted by poll at general meetings with each shareholder being entitled to one vote. A separate resolution is proposed for each matter, including the election of individual Directors. The circular containing the notice of the annual general meeting, proposed resolutions, biographies of Directors standing for election and information on poll voting procedures is sent to shareholders with the annual report at least 20 clear business days before the annual general meeting.

### Annual General Meeting

The 2018 AGM was held on 17 May 2018 and the matters resolved are summarised below:

As ordinary business:

- Approval of the audited financial statements and reports of the Directors and Auditors for the year ended 31 December 2017;
- Approval of an ordinary final dividend of HK\$0.90 per share for the year ended 31 December 2017;
- Re-election of Mr Raymond KWOK Ping Luen, JP, Mr Charles LUI Chung Yuen, M.H., Ms Winnie NG, JP, Dr Eric LI Ka Cheung, GBS, OBE, JP, Professor LIU Pak Wai, SBS, JP, Mr TSANG Wai Hung, GBS, PDSM, JP, Dr CHEUNG Wing Yui, BBS and Mr LEE Luen Fai, JP as Directors of the Company;
- Re-appointment of KPMG as auditors of the Company, and authorisation of the Directors to fix their remuneration;
- Fixing the remuneration of the Directors of the Company;
- Granting of a general mandate to the Directors to issue shares;

- Granting of a general mandate to the Directors to exercise the powers of the Company to purchase its own shares; and
- Extending the share issue mandate granted to the Board of Directors.

The details and poll voting results of the 2018 AGM were published on the websites of the Company and the Stock Exchange on 17 May 2018.

The 2019 Financial Calendar of the Company is set out as follows:

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● Announcement of 2018 final results	21 March 2019
● Dispatch of 2018 Annual Report and accompanying circular to shareholders	11 April 2019
● Last day to register transfer to qualify to attend and vote at the 2019 AGM	9 May 2019
● Book closure for 2019 AGM (both dates inclusive)	10 May 2019 – 16 May 2019
● Date of 2019 AGM	16 May 2019
● Last day to register transfer to qualify for 2018 final dividend	21 May 2019
● Book closure for 2018 final dividend	22 May 2019
● Payment of 2018 final dividend	27 June 2019
● Announcement of 2019 interim results	mid-August 2019
● Payment of 2019 interim dividend	mid-October 2019
● Financial year end date	31 December 2019

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### Shareholders' Right

Under the Company's Bye-laws, shareholders holding at least 10% of the paid-up capital of the Company and carrying the right of voting at general meetings of the Company may ask the Board to convene a special general meeting ("SGM") for the transaction of business specified in the request. The request must be in written form with the purpose of the meeting stated therein and deposited at the head office of the Company at 15/F, 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong. The request must be signed by the shareholders concerned and may consist of two or more documents in like form, each signed by one or more of those shareholders. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will arrange to convene a SGM by serving sufficient notice to all the registered shareholders in accordance with the Company's Bye-laws and the statutory requirements.

### Procedures for Making Proposals at General Meetings

Shareholders holding not less than one-twentieth of the total voting rights of those shareholders having the right to vote at the general meetings or not less than 100 shareholders holding shares in the Company are entitled to submit a written request to move a resolution at general meetings. The procedures for making proposals at general meetings are laid down in the Company's Shareholder Communications Policy, which is available on the Company's website.

### Procedure for Sending Enquiries to the Board

Enquiries from shareholders can be sent to the attention of the Board. All enquiries should be addressed to the Board or the Company Secretary and sent to the Company's head office at 15/F, 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong. Shareholders may also email their enquiries to the Directors at [director@tih.hk](mailto:director@tih.hk). The Company Secretary will respond to such enquiries within a reasonable time.

### Constitutional Documents

An up-to-date and consolidated version of the Bye-laws of the Company is published on the websites of the Company and the Stock Exchange. No changes were made to the Company's constitutional documents in 2018.

### General Public

The Group uses the following communication channels to keep the general public informed of its developments:

*Website* – The Company's website ([www.tih.hk](http://www.tih.hk)) offers a wide range of company, financial and corporate social responsibility information about the Group and its various businesses for shareholders and other interested parties.

*Media and Online Communication* – To keep the public informed about the bus services of KMB and LWB, the two major subsidiaries of the Group, press sessions are held to introduce the media to the latest developments in respect of services, facilities, safety and efforts in environmental protection. Social media such as Facebook and Instagram are also used to publicise KMB's initiatives and achievements, as well as to gather useful feedback from the public.

*Publications* – KMB and LWB publish a number of leaflets which keep the travelling public updated on their services and operations. These publications can be accessed on the companies' websites ([www.kmb.hk](http://www.kmb.hk) and [www.lwb.hk](http://www.lwb.hk)).

### Employees

Effective communication between the management and staff is a key means to boost efficiency and morale. The staff website is an effective way for employees to access relevant management announcements and information on issues that concern them, such as payroll and staff events and activities. Orientation training courses, e-learning programmes and a staff forum are also available online. The corporate magazine KMB Today keeps employees, especially frontline staff, informed of news and events relating to the Group and the industry.

The Staff Handbook, which is accessible on the staff website, allows the staff to know more about the Company's human resources policies and employment guidelines.