

TRANSPORT INTERNATIONAL HOLDINGS LIMITED
2008 ANNUAL REPORT



BUILDING ON OUR
CORE STRENGTHS
TO ENSURE SUSTAINABLE BUSINESS EXCELLENCE



2,800,000
passenger trips per day

13,000
professional staff

75
years' experience

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BUILDING ON OUR

CORE STRENGTHS

TO ENSURE SUSTAINABLE BUSINESS EXCELLENCE

The key to the development of the businesses of Transport International Holdings Limited (“TIH”) in Hong Kong and China Mainland lies in the Group’s core strengths: innovation, teamwork, efficiency and service excellence. Innovation drives our responsiveness to change, while teamwork is integral to our delivery of world class services. By reviewing and improving our operational efficiency, we are able to identify opportunities for increasing revenue and controlling costs. Our continuous commitment to service excellence attracts discerning customers who are looking for transport services that represent excellent quality as well as good value for money. It is by building on our core strengths that we are able both to maintain our position as a world leader in the transport industry and to ensure sustainable business excellence.

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Over

75

years' experience





SERVICE EXCELLENCE

The Group's hallmark service excellence and dedication to continuous improvement are reflected in nearly ten years of ISO accreditation across the whole KMB organisation. In November 2008, Sun Bus Limited, the flagship of the Group's Non-franchised Transport Operations Division, also obtained ISO 9001:2000 certification for the provision of non-franchised bus services, the first commercial non-franchised bus company in Hong Kong to achieve such accreditation.

WE ARE TRANSPORT INTERNATIONAL



Transport International Holdings Limited (“TIH” or the “Company”, SEHK: 62) is a leading public transport operator in Hong Kong and in three major cities in China Mainland. TIH is the holding company of The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, RoadShow Holdings Limited and a number of non-franchised transport providers. It also has business interests in property holdings and development in Hong Kong.

TIH’s vision is to become a global leader in public transport. It aims to achieve this by adopting innovative solutions, listening to its customers’ needs and setting new standards for safety, service and efficiency. The Company’s mission is driven by a dedication to implementing sustainable business practices, enhancing shareholder value, and furthering the social and economic development of Greater China.



As a driving force in the Greater China transport sector, we continue to leverage the strengths of our operating companies to drive forward the standard of public transport services, while linking millions together through constant innovation.

BEHIND THE BRAND

MISSION

Our mission is to enhance shareholder value and contribute to the social and economic development of Greater China. This mission drives our business operations:

- D** istinctive customer service
- R** eliable performance
- I** nnovation
- V** alue for money
- E** nvironmental responsibility
- S**ustainable business practice

By listening to our customers, identifying their expectations and developing innovative solutions, we raise the quality of our service in all areas of our operations.

VISION

Our vision to be a global leader in public transport is based on three pillars: understanding our customers' needs, introducing innovative and proven technologies that further environmental preservation, and setting new standards for safety, service and efficiency.



CORPORATE VALUES

In line with our commitment to sustainable business excellence, our corporate values are based on delivering service standards that meet customer needs, operating with a consistent record of profitability for shareholders, and supporting the overall development of the communities where we conduct our business.



BUSINESS AT A GLANCE

TRANSPORT INTERNATIONAL HOLDINGS LIMITED

HONG KONG

Franchised Public Bus Operations



The Kowloon Motor Bus Company [1933] Limited

the flagship company of the Group, operates franchised public bus services with a fleet of over 3,900 buses on a network of some 400 routes covering Kowloon, the New Territories and Hong Kong Island.



Long Win Bus Company Limited

operates franchised public bus services with over 150 buses on 18 routes linking the New Territories with Hong Kong International Airport and North Lantau.

Non-franchised Transport Operations



Sun Bus Holdings Limited and its subsidiaries

with Sun Bus Limited as the flagship company, have over 360 buses which provide a wide range of non-franchised bus services to the residential and commercial sectors through chartered hire services.



New Hong Kong Bus Company Limited

jointly operates with its Shenzhen counterpart the 24-hour cross-boundary shuttle bus service (or "Huang Bus" service) between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.



Park Island Transport Company Limited

provides shuttle bus and ferry services for Park Island, a prestigious residential development on Ma Wan Island.

Property Holdings and Development



Lai Chi Kok Properties Investment Limited

has developed "Manhattan Hill", a prestigious multi-storey residential complex situated at 1 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.



LCK Commercial Properties Limited

owns the two-level retail podium of Manhattan Hill, called "Manhattan Mid-town", which is situated at 1 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong and has an area of about 50,000 square feet.



LCK Real Estate Limited

owns a 17-storey commercial office building which is situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong and has a total gross floor area of 156,700 square feet.

CHINA MAINLAND

Media Sales Business



RoadShow Holdings Limited and its subsidiaries

market advertising in Hong Kong through a proprietary Multi-media On-board system and run a television programme syndication and media sales network on the Mainland.

Financial Services



KMB Financial Services Limited

manages and administers the Group's financial resources and treasury functions.



TIH Financial Services Limited

manages and administers the financing functions for the Manhattan Hill project.

Mainland Transport Operations



Shenzhen Bus Group Company Limited

is a Sino-foreign joint stock company that operates public bus and taxi hire services in Shenzhen.



Beijing Beiqi Kowloon Taxi Company Limited

is a Sino-foreign joint stock company that operates taxi hire and car rental services in Beijing.



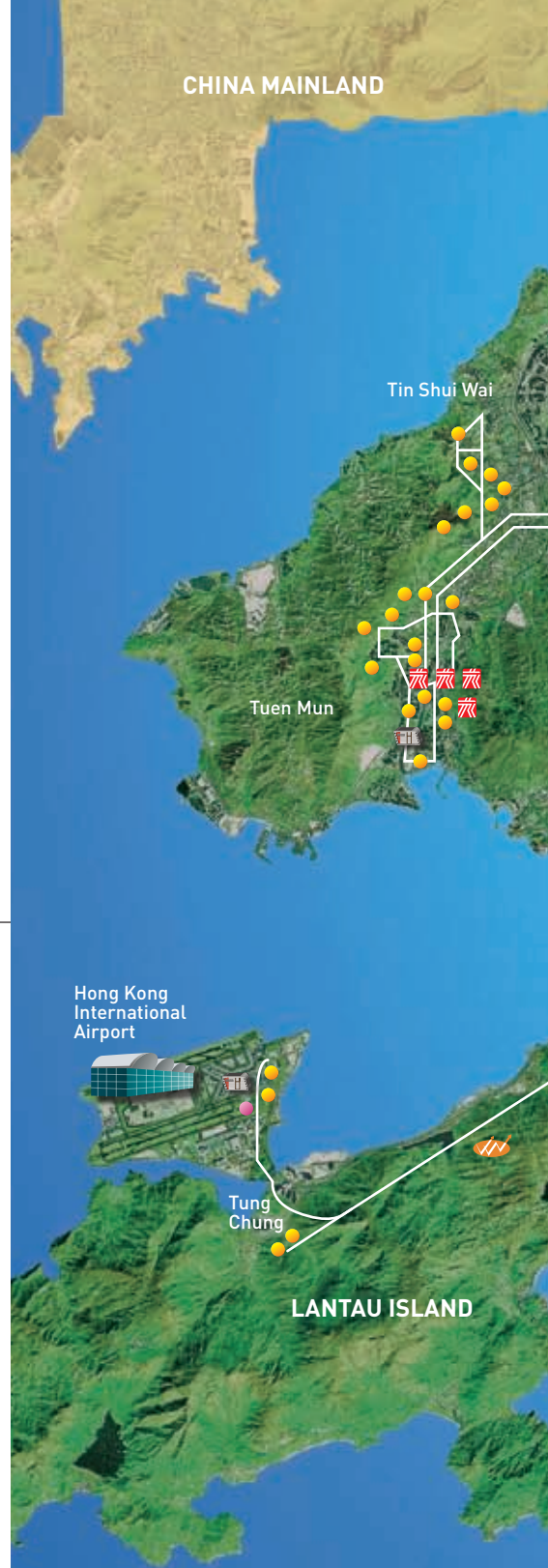
Dalian HK Macau Motor Bus Services Limited

is a Sino-foreign co-operative joint venture that operates public bus services in Dalian City.

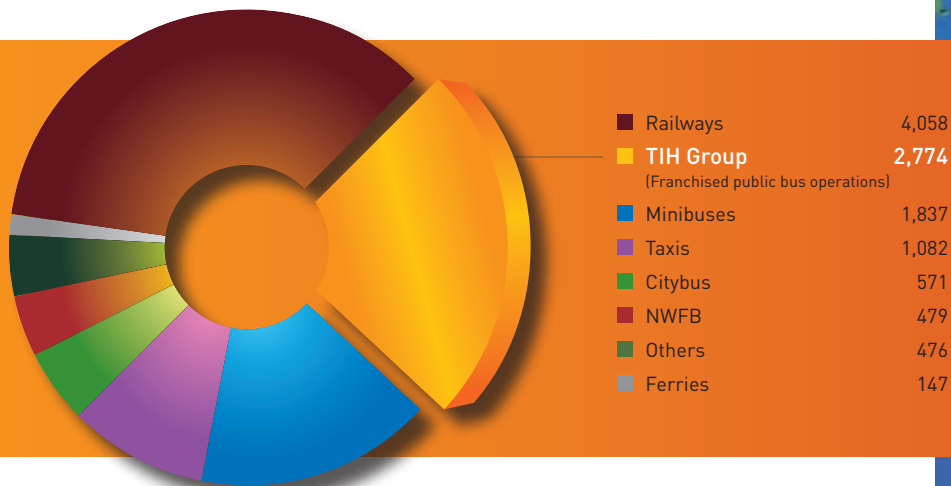
THE GROUP'S STRATEGIC LOCATIONS



- Beijing**
Joint venture operating taxi hire and car rental businesses
- Dalian**
Joint venture operating public bus business
- Shenzhen**
Joint venture operating public bus and taxi hire businesses













AVERAGE NUMBER OF PASSENGER TRIPS PER DAY BY MODE OF PUBLIC TRANSPORT IN HONG KONG IN 2008 (IN THOUSAND)





THE GROUP'S BUS TERMINI, DEPOTS, FERRY PIERS AND CUSTOMER SERVICE CENTRES IN HONG KONG

- | | | | |
|---|--|---|--|
|  | The Group's headquarters |  | Bus termini of "Huang Bus" |
|  | Depots of The Kowloon Motor Bus Company (1933) Limited ("KMB") |  | Ferry piers of Park Island Transport Company Limited |
|  | Depot of Long Win Bus Company Limited ("LWB") |  | Bus termini of Park Island Transport Company Limited |
|  | Bus termini of KMB and LWB |  | High land area |
|  | Customer service centres of KMB and LWB |  | Railways |

KMB and LWB serving about

2,800,000

passenger trips per day





EFFICIENCY

The Group strives to control costs, increase productivity and improve efficiency without compromising its service quality. We will continue to identify opportunities to apply economies of scale, while working hard to leverage our core strengths to offer our customers an even better service.

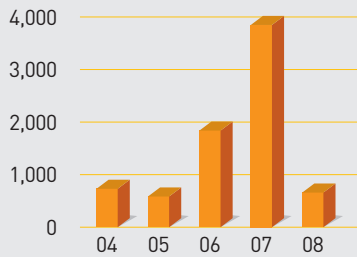
FINANCIAL AND OPERATIONAL HIGHLIGHTS

FOR THE YEAR ENDED 31 DECEMBER 2008

| | Unit | 2008 | 2007 | Increase/ [Decrease] % |
|--|---------------|-----------------|----------|------------------------------|
| Financial Highlights | | | | |
| Turnover: | HK\$ million | 7,353.1 | 12,013.5 | (39%) |
| – Fare revenue | HK\$ million | 6,537.6 | 6,450.5 | 1% |
| – Property sales | HK\$ million | 619.0 | 5,382.9 | (89%) |
| – Media sales revenue | HK\$ million | 196.5 | 180.1 | 9% |
| Profit before taxation | HK\$ million | 693.7 | 4,073.9 | (83%) |
| Profit attributable to equity shareholders of the Company | HK\$ million | 658.7 | 3,847.7 | (83%) |
| Earnings per share | HK\$ | 1.63 | 9.53 | (83%) |
| Ordinary dividends per share | HK\$ | 1.35 | 2.03 | (33%) |
| Special dividends per share | HK\$ | – | 3.50 | N/A |
| Total equity attributable to equity shareholders of the Company | HK\$ million | 6,660.8 | 7,548.9 | (12%) |
| Total assets | HK\$ million | 10,287.0 | 11,933.8 | (14%) |
| Net cash | HK\$ million | 1,719.0 | 1,541.8 | 11% |
| Net finance income | HK\$ million | 88.6 | 84.9 | 4% |
| Cash generated from operations | HK\$ million | 2,335.9 | 6,127.2 | (62%) |
| Financial Ratios | | | | |
| Profit margin | | 9.0% | 32.0% | (72%) |
| Profit margin (excluding property sales) | | 4.3% | 5.1% | (16%) |
| Return on equity attributable to equity shareholders of the Company | | 9.9% | 51.0% | (81%) |
| Gearing ratio (ratio of net borrowings to total equity attributable to equity shareholders of the Company) | Times | Net Cash | Net Cash | N/A |
| Dividend cover (ratio of profit attributable to equity shareholders of the Company to total dividends paid and proposed for the year) | Times | 1.21 | 1.72 | (30%) |
| Share price per share at year-end | HK\$ | 19.3 | 36.8 | (48%) |
| Market capitalisation at year-end | HK\$ million | 7,790.2 | 14,853.9 | (48%) |
| Operational Highlights | | | | |
| Hong Kong | | | | |
| Franchised Public Bus Operations: | | | | |
| Average number of passenger trips per day | Million trips | 2.77 | 2.84 | (2%) |
| Number of licensed buses at year-end | | 4,090 | 4,202 | (3%) |
| Number of staff at year-end | | 12,398 | 12,443 | – |
| Average number of staff per licensed bus at year-end | | 3.03 | 2.96 | 2% |
| Non-franchised Transport Operations: | | | | |
| Number of licensed buses at year-end | | 408 | 399 | 2% |
| Number of catamarans at year-end | | 6 | 7 | (14%) |
| Number of staff at year-end | | 838 | 817 | 3% |
| China Mainland | | | | |
| Mainland Transport Operations: | | | | |
| Number of licensed buses at year-end | | 3,816 | 5,741 | (34%) |
| Number of taxis and vehicles for rental at year-end | | 4,802 | 4,757 | 1% |

Profit attributable to equity shareholders of the Company

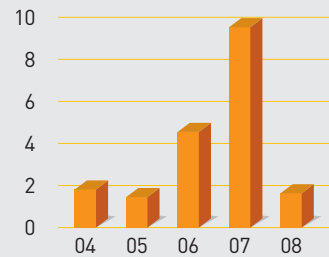
HK\$ million



Profit attributable to equity shareholders for 2008 was HK\$658.7 million

Earnings per share

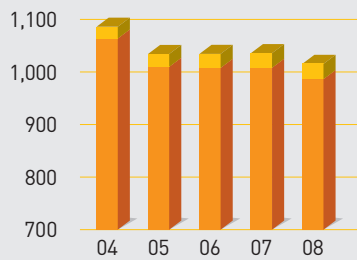
HK\$



Earnings per share for 2008 were HK\$1.63

Number of passenger trips (Franchised Public Bus Operations)

Million trips



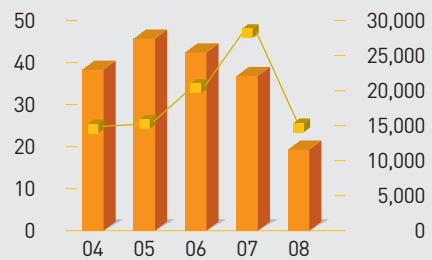
■ KMB
■ LWB

Number of passenger trips in 2008 was 1.02 billion, down from 1.04 billion in 2007

Share price of the Company and Hang Seng Index at year-end

HK\$

Hang Seng Index



■ Share price of the Company (HK\$)
—■ Hang Seng Index

The closing share price of the Company at 2008 year-end was HK\$19.3 per share, down 48% compared with that of 2007 year-end

CORPORATE MILESTONES 2008

JAN

KMB Honoured by Transport Institute for Outstanding Bus Services

KMB won the trophy for Champion of the CILT Award 2007: Passenger Transport Excellence from the Chartered Institute of Logistics and Transport in Hong Kong for its outstanding efforts in providing quality bus services.



Customer Service Hotline Won Customer Service Awards



The KMB customer service hotline won the Gold Award in the Contact Centre Service category of the Hong Kong Association for Customer Service Excellence Award 2007,

while one of our hotline operators won a Silver Award in the Contact Centre Service Individual category.

FEB

KMB Recognised as Responsible Corporate Citizen

KMB was named a "Caring Company" by the Hong Kong Council of Social Service for the sixth consecutive year.

KMB Website Received TELA Award

The KMB website won a Meritorious Website award from the Television and Entertainment Licensing Authority ("TELA").



MAY

KMB Won Communicator Awards

KMB's Civic Education Campaign and its corporate magazine KMB Today won Awards of Distinction in the Communicator Awards organised by the International Academy of The Visual Arts.

JUN

Granting of Fare Increase to KMB and LWB

The HKSAR Government granted KMB and LWB a fare increase of 4.5% with effect from 8 June 2008.

KMB Won Brand Award

KMB received the Gold Award in the PRC Consumers' Most Favorable Hong Kong Brands organised by China Enterprise Reputation and Credibility Association (Overseas) Limited and Just Events Limited.

JUL

KMB Won Most Popular TV Commercial Award

The KMB Civic Education Campaign won Best of the Best in the Info-service category of TVB's Most Popular TV Commercial Awards.



KMB's Publications Won Awards

The 2007 KMB Passenger Liaison Group ("PLG") Report and the Ride KMB for Fun booklet won Awards of Excellence in the Apex Awards for Publication Excellence organised by Communication Concepts.

SBH Group Awarded Tender for Airport-Hotel Services

The SBH Group was awarded the tender by the Airport Authority to provide quality coach services linking Hong Kong International Airport and hotels in the New Territories, Kowloon and Hong Kong Island.

AUG

KMB Operated Special Routes for the Olympics and Paralympics

KMB was entrusted with the responsibility of introducing three new shuttle bus routes to take spectators to and from the venues of the Olympic and Paralympic Equestrian Events, which had a historic significance to Hong Kong.



Customer Service Hotline's Digital Map Passenger Enquiry System Won Award

KMB's customer service hotline's Digital Map Passenger Enquiry System won the Special Achievement in Geographic Information System (GIS) Award. The award recognises organisations that use GIS technology to set new standards globally.

SEP

KMB Named Best in Customer Service in International Award

The high standard of KMB's customer service won international recognition when KMB was named winner of the International Stevie Business Awards: Best in Customer Service at the Stevie Awards Presentation Gala held in Dublin, Ireland, to honour outstanding performances in business.

KMB Recognised for Environmental Protection Efforts

In recognition of its efforts in



environmental preservation, KMB was granted the Class of Excellence Wastewi\$e Label by the

Environmental Campaign Committee in the Hong Kong Awards for Environmental Excellence.

TIH's 2007 Annual Report Won International Awards

TIH's 2007 annual report won three awards in the International ARC Awards: Silver Award for Financial Data, Bronze Award for Chairman's Letter and Honors Award for Written Text.

OCT

KMB Website Won Web Care Award

The KMB website won a Gold Award in the Web Care Awards organised by the Hong Kong-based Internet Professional Association to promote the concept of e-Inclusion.

NOV

TIH Won Gold Award in Best Corporate Governance Disclosure

TIH's good practice in corporate governance disclosure in its 2007 annual report was recognised by the Hong Kong Institute of Certified Public Accountants, who for the second consecutive year awarded the Company a Gold Award (Non-Hang Seng Index Category) in the Best Corporate Governance Disclosure Awards.

TIH's 2007 Annual Report Won Award

TIH's 2007 annual report won the Bronze Award in the Hong Kong Management Association Best Annual Reports Awards.

Sun Bus Limited Obtained ISO Certification

Sun Bus Limited obtained ISO 9001:2000 certification for the provision of non-franchised bus services – the first commercial non-franchised bus company in Hong Kong to receive such certification.

Manhattan Hill Received Property Marketing Awards

Manhattan Hill won a number of accolades in the Hong Kong Institute of Surveyors Property Marketing Awards, taking honours for the Best of The Year Award (Property Layouts), Top Ten Property Marketing, Top Ten Sales Brochures and Top Ten Property Layouts.

DEC

FRIENDS OF KMB Recognised by Social Welfare Department

FRIENDS OF KMB was named first runner-up in the Highest Service Hour Award 2007 (Private Organisation – Best Customer Participation) by the Social Welfare Department of the HKSAR Government.



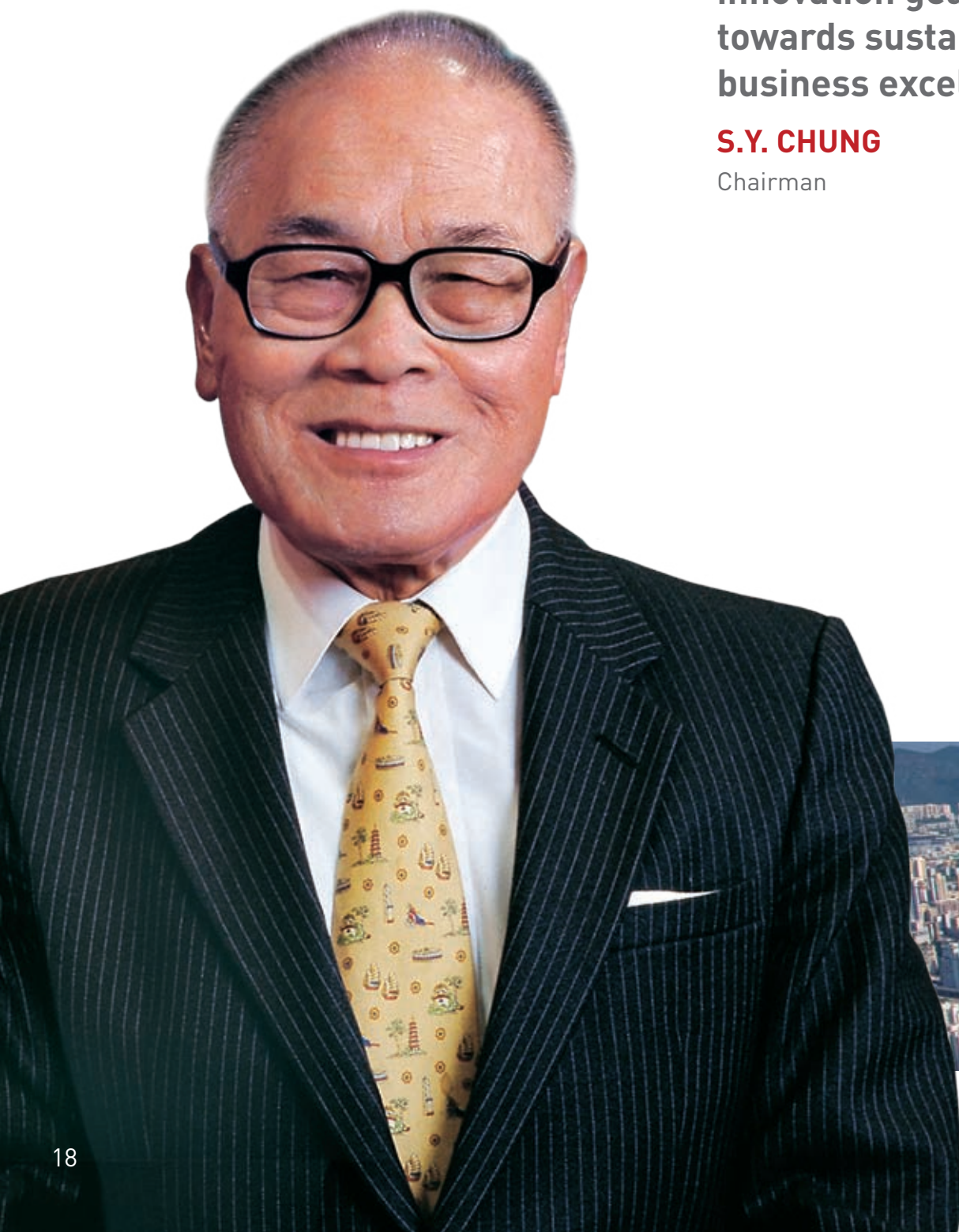
Best Corporate Governance Disclosure Awards 最佳企業管治資料披露大獎 2007



“TIH took further steps towards combining improved productivity and efficiency with innovation geared towards sustainable business excellence”

S.Y. CHUNG

Chairman



Dear Shareholders and Partners,

On behalf of the Board, I am pleased to report that although the financial performance of our public transport business reflected the impact of record high fuel prices and escalating costs due to inflation in 2008, Transport International Holdings Limited (“TIH”) took further steps towards combining improved productivity and efficiency with innovation geared towards sustainable business excellence without compromising its hallmark service excellence. Thanks to further sales of Manhattan Hill residential units in 2008, the Group is currently in a net cash position which gives us the financial strength to seek diversification into related businesses in Hong Kong and China Mainland based on our expertise.

The Group is currently in a net cash position which gives us the financial strength to seek diversification into related businesses in Hong Kong and China Mainland

OUR FINANCIAL PERFORMANCE

The Group’s profit attributable to equity shareholders for the year ended 31 December 2008 was HK\$658.7 million. This represents a decrease of 82.9% compared to HK\$3,847.7 million for 2007. Earnings per share decreased correspondingly to HK\$1.63 for 2008 from HK\$9.53 for 2007. The profit for 2008 included the non-recurrent after-tax profit of HK\$366.2 million (2007: HK\$3,507.7 million) arising from the further sales of 27 residential units (2007: 835 residential units) of Manhattan Hill by Lai Chi Kok Properties Investment Limited, a wholly-owned subsidiary in the Group’s Property Holdings and Development Division. If this non-recurrent profit from property sales was excluded, the profit attributable to equity shareholders of the Company for 2008 would have been HK\$292.5 million, representing a decrease of 14.0% compared to HK\$340.0 million for 2007.

During the year, the financial performance of the Group’s franchised public bus business operated by The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited (“LWB”) was adversely affected by historical



CHAIRMAN'S LETTER

high fuel oil prices, particularly in the first nine months of 2008. Although the price of Singapore 0.5% Sulphur Gas Oil ("Gasoil"), on which the price of ultra-low sulphur diesel used by our franchised public bus fleets is based, eased off in the fourth quarter of 2008, the total fuel cost of KMB and LWB for the whole year of 2008 was 36.1% or HK\$406.7 million higher than that for 2007. Together with the increase in wages and in other operating expenses, the total operating cost of KMB and LWB for 2008 rose to HK\$6,408.6 million, representing an increase of 7.4% compared to HK\$5,965.5 million for 2007. In response to KMB and LWB's submission of applications to the Government of the Hong Kong Special Administrative Region (the "Government") on 7 September 2007 for a fare increase of 9.0% and 5.9% respectively, the Government granted a fare increase of 4.5% to both companies, which took effect from 8 June 2008. Notwithstanding the implementation of the fare increase and various cost control measures, the profit of KMB and LWB for 2008 decreased by 64.6% and 34.3% respectively compared to 2007.

Like the other transport sectors, our Non-franchised Transport Operations Division was adversely affected by high oil prices and escalating costs in 2008. During the year, Sun Bus Holdings Limited and its subsidiaries (the "SBH Group")

Like the other transport sectors, our Non-franchised Transport Operations Division was adversely affected by high oil prices and escalating costs in 2008

continued to enhance economies of scale and acquired 19 coaches to service new contracts. In 2008, the financial performance of our joint venture transport companies in the Mainland cities of Beijing, Shenzhen, Dalian and Wuxi was also suppressed by rising fuel costs and other operating expenses. Following the recent shift in the Wuxi municipal government's focus on the social functionality of public transport, the Group divested its entire 45% equity interest in the Wuxi associate company to the existing Mainland

state-owned shareholder in December 2008 and realised a reasonable return. As for the RoadShow Group, its profit attributable to shareholders for 2008 decreased by 14.1 % compared to that for 2007.

DIVIDENDS

The Board has declared an ordinary final dividend of HK\$1.05 per share (2007: an ordinary final dividend of HK\$1.58 per share and a special final dividend of HK\$2.00 per share). Together with the ordinary interim dividend of HK\$0.30 per share (2007: an ordinary interim dividend of HK\$0.45 per share and a special interim dividend of HK\$1.50 per share) paid on 16 October 2008, total dividends for the year will amount to HK\$1.35 per share (2007: HK\$5.53 per share). The total dividend payout for the year will amount to HK\$544.9 million (2007: HK\$2,232.1 million).

STRIVING FOR SUSTAINABLE BUSINESS EXCELLENCE

Our constant quest for sustainable business excellence in our core business as a leading public transport operator is founded on two principles: innovation and teamwork. Innovation has proven to be a vital part of our change management, while teamwork is one of the core strengths on which our delivery of world class services is based. Teamwork can be strengthened by ongoing training and skills development. This year we complemented the “software” of comprehensive training courses for new and existing bus captains by introducing state-of-the-art “hardware” in the form of the Driving Simulator Studio. When the Studio came into operation in January 2008, we became the first bus company in Hong Kong to offer this effective tool for improving our bus captains’ performance and their ability to respond to different situations by simulating real world driving environments. We will continue to devote resources to introducing more innovations to enhance staff training.

Our constant quest for sustainable business excellence in our core business as a leading public transport operator is founded on two principles: innovation and teamwork

The Group takes its social responsibility very seriously, as befits a corporate citizen with a long term outlook and a sustainable business model. The adoption of sound policies and procedures ensures that our corporate governance is founded on accountability, transparency and integrity across all our business operations. TIH’s 2007 annual report won the Gold Award in the Non-Hang Seng Index Category of the Best Corporate Governance Disclosure Awards, organised by the Hong Kong Institute of Certified Public Accountants. This is the second consecutive year that TIH has been recognised for its corporate governance standards and specifically for the quality of disclosure in its 2007 annual report.

In terms of environmental management, we are fully committed to conducting our business in ways that minimise any adverse impacts on the environment wherever we operate. In 2008, KMB and LWB introduced more Euro IV environment-friendly buses. We will continue to upgrade our fleet with the newest generation of vehicles featuring technologically advanced features to reduce fuel consumption and exhaust emissions.

To enhance the quality of our customer service, we have launched initiatives such as the Digital Map Passenger Enquiry System, and we continue to improve communications with our customers through our websites and various publications, as well as through our award-winning civic education campaign. Our ethos “Caring for People” extends not only to our passengers but also to all our staff. We continue to focus on intensive training and motivation, as well as on creating an environment that values performance, teamwork and a sense of social responsibility.

LEVERAGING OUR CORE STRENGTHS

The implementation of our strategy of developing a diverse business portfolio both in Hong Kong and in China Mainland is based on our core strengths: innovation, efficiency, service excellence and teamwork. To ensure that we derive the fullest value from these core strengths, we have for many years fostered a culture in which members of staff at all levels are encouraged to share creative and innovative ideas.

A key part of our mission is our dedication to total quality management. For over 75 years we have been growing with the community, gaining enormous experience in running large scale public transport operations. Our capacity for handling major events was very much in evidence in August and September during the Olympic and Paralympic Equestrian Events when KMB operated three new shuttle bus routes to take spectators to and from the venues. It was an honour for us to contribute to these historic events, which saw Hong Kong involved in the staging of this international spectacle for the first time.

Our commitment to service excellence and dedication to continuous improvement have been recognised by ISO accreditation across the whole organisation of KMB since 1999, an achievement unmatched by any other public bus company in Hong Kong. In November 2008, Sun Bus Limited, the flagship company of the Group's Non-franchised Transport Operations Division, obtained ISO 9001: 2000 certification for the provision of non-franchised bus services. We believe that Sun Bus Limited is the first commercial non-franchised bus company in Hong Kong to achieve such accreditation.

LOOKING AHEAD

The financial shockwaves that have been felt around the world serve to remind us that a business which is built on a firm foundation can survive the vicissitudes of the market place. As a Group, we have always striven to achieve sustainable business excellence based on our core strengths. I am confident that so long as we continue to focus on the values that have served us so well for the past three quarters of a century, our future will be bright. We will continue to improve the productivity and quality of our public transport services, and at the same time explore every opportunity to increase revenue and control costs. Facing the likelihood of an economic downturn in 2009, we will work to attract more customers to use our bus services, which represent good value for money as well as excellent quality.

I am confident that so long as we continue to focus on the values that have served us so well for the past three quarters of a century, our future will be bright

From the launch of the first sales campaign in November 2006 to the end of 2008, a total of 1,107 residential units of the Manhattan Hill development were sold. With only eight residential units remaining available for sale, we expect the renovation work on the Manhattan Hill retail podium, which has a total area of approximately 50,000 square feet, to be completed for rental to different tenants in the second quarter of 2009. This will provide a new income stream for the Group in the years ahead.

ACKNOWLEDGEMENTS

Mr John Chan Cho Chak retired from his executive position as the Managing Director of TIH and Senior Executive Director of KMB and LWB with effect from 8 April 2008. Since then, he has remained as a Non-executive Director of TIH, KMB and LWB, as well as Chairman and Non-executive Director of RoadShow Holdings Limited. On behalf of the Board, I would like to thank Mr Chan for his immense contribution to the Group since he first joined KMB in 1993.

The successful operation and development of our various businesses have been made possible by the commitment and dedication of all our people who have worked so hard, both on the front lines and behind the scenes. Our achievements in 2008 continued to owe much to the concerted efforts of the Board members, our dedicated management team and staff at all levels. I heartily thank every one of them for their valuable contribution to the Group.

The successful operation and development of our various businesses have been made possible by the commitment and dedication of all our people



S.Y. CHUNG
Chairman
19 March 2009

A CONVERSATION WITH THE MANAGING DIRECTOR

“We will continue to chart our way ahead through the application of innovative ideas, which is one of our core strengths, to attract more people to use our bus services”

Edmond HO Tat Man

Managing Director



Q 2008 was quite a year! What sort of impact has the global financial crisis had on TIH's business?

A It is inevitable that all business sectors have been affected by recent events. Indeed, many of the adverse effects of the global financial turmoil may not have surfaced yet. As we have always done, we will continue to leverage

the Group's core strengths, anchored in our core bus operations.

Q Will the economic downturn have a significant impact on the number of passengers travelling on KMB?

A Prospects are mixed, I believe. When people have to tighten their purse strings, some of them will shift to using our bus services, as KMB represents one of the cheapest modes of public transport. On the other hand, the decline in economic

activities, and, more significantly, the increase in the unemployment rate will almost certainly lead to lower demand for public transport services. Having said that, we will work harder to minimise the impact of the economic downturn on TIH's businesses.

Q What measures is TIH taking to overcome the challenges posed by the economic downturn?

A As always, the golden rule applies: to find ways to increase revenue and reduce costs. To this end, we will continue to chart our way ahead through the application of innovative ideas, which is one of our

core strengths, to attract more people to use our bus services. We will also look into generating additional non-fare income, by creating, for example, a new income stream through bus interior advertising. Cost reductions can be made through route rationalisation, better use of resources and improved environmental management standards.

Q Turning to the future, what does 2009 hold for TIH?

A There's little doubt that we will be facing numerous challenges in 2009. But that doesn't change our vision and our strategy. We will still be working hard to leverage

our core business and to improve productivity and efficiency to better serve our customers. We are confident that our core strengths in public transport operations will help us steer our way through even the most difficult times, as we have done in the past. We will also continue to identify opportunities to apply our economies of scale by, for example, leveraging our purchasing power to obtain the lowest possible prices in the market.



A CONVERSATION WITH THE MANAGING DIRECTOR

Q Are there any measures in the pipeline for improving environment protection?

A We will continue to assess and purchase the newest generation of environment-friendly buses available on the market. This includes the introduction of the first Euro V double-deck bus in Hong Kong in the

first quarter of 2009. Strategic bus route rationalisation will enable us to make better use of our operational resources on under-utilised routes to reduce both fuel consumption and exhaust emissions. In our depots and offices too, we're always looking to adopt more green practices such as waste reduction and recycling. In terms of energy savings, our operations in Hong Kong managed to reduce electricity consumption in 2008 by about 20% compared to 2002, the year before our energy saving campaign started.

Q Will the recent decrease in oil prices provide relief for KMB?

A Lower fuel prices help reduce the financial pressure on bus operations. However, the financial impact of high oil prices in 2008 was so great that our bus business

felt the full negative effect. While the recent drop in oil prices gives us some breathing space, our other operating costs are expected to continue to rise, if current service levels are to be maintained. Besides, the commissioning of the MTR's Kowloon Southern Link in the second half of 2009 will mean additional competition for KMB. In such a business environment, we will spare no effort to exercise stringent cost control.

Q With all the uncertainty generated by the global financial crisis, will there be any staff cuts?

A We have no plans for staff redundancies. We are a responsible employer, committed to the long term economic and social well being of Hong Kong, and we understand very well that our staff are our most valuable

assets. Our confidence in the excellence of our workforce is fully reciprocated and we have maintained very low staff turnover rates compared to the market. At a ceremony held on 3 December 2008, I was pleased to present long service awards to 54 colleagues with more than 40 years' service in the Group, and an additional 196 awards to members of our dedicated workforce with more than 30 years' service.

Q With the Government supporting a number of new rail projects, what strategic response is TIH adopting?

A This is not a new challenge for us, as we had to deal with the commissioning of the Tseung Kwan O Line in 2002, the West Rail Line in 2003 and the Ma On Shan Line in 2004, but that doesn't mean that it won't be tough in the future.

That being said, we have managed to mitigate previous challenges by improving the productivity of our network, through rationalising our bus routes and redeploying our resources from areas that have experienced a drop in demand for our services to catchments where there is still unsatisfied demand. One of our guiding principles is to take advantage of our scalability, that is, the flexibility of our network and our ability to meet the changing demands of our customers.

Q Are there any plans to introduce “bus priority systems” in Hong Kong, as some major cities in the Mainland have done?

A The Bus Rapid Transit (BRT) system, which is essentially a “bus-only lane” concept, has proven to be successful in terms of operational efficiency and environmental management standards in China Mainland, as well as in other parts of the world. We will be looking

at the possibility of working with the Government to apply the concept of BRT, in one form or another, in Hong Kong to suit local conditions.

Q How can the non-franchised business operations of the Group be expanded?

A Following the increase in its fleet size to 367 coaches by the end of 2008, the SBH Group is set to grow in 2009 in line with our business strategy of continuing to identify and apply better economies of scale. The SBH

Group, spearheaded by its flagship Sun Bus Limited, will strive to expand through both organic growth and acquisitions.

Q Does the Group intend to increase its investments in the Mainland?

A China Mainland is one of the very few places in the world which still has robust economic growth. We will therefore continue to identify and evaluate opportunities in China Mainland with a view to

expanding our business portfolio.

Q After the success of the Manhattan Hill development, does the Group have any further property projects in mind?

A With the sale of the Manhattan Hill residential units almost complete, the focus has now shifted to the development’s two-level shopping mall, which we expect to be generating income for the Group from the second quarter of 2009.

With a mix of retail outlets, restaurants and banks on a total floor area of approximately 50,000 square feet, this modern shopping destination is well positioned to serve not just the residents of the 1,115 apartments in Manhattan Hill but also the wider population of West Kowloon.

“We are confident that our core strengths in public transport operations will help us steer our way through even the most difficult times, as we have done in the past”

KMB is the

1st

Hong Kong
public bus company
to obtain **ISO 9001** and
ISO 14001 certifications





INNOVATION

Industry-leading innovation plays a vital part in our change management, as well as enabling us to deliver quality service. We also roll out innovations such as the Euro V engine and the Eco-Driveline system to help improve our environmental performance.



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

CORPORATE GOVERNANCE FRAMEWORK

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

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



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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") sets out the principles of good corporate governance and two levels of recommendations: (i) the "Code Provisions", with which issuers are expected to comply unless they give considered reasons for non-compliance; and (ii) the "Recommended Best Practices", which are provided for guidance only.

The corporate governance principles, Code Provisions and Recommended Best Practices cover the following areas:

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

The Group complied with the Code Provisions set forth in the CG Code throughout the year ended 31 December 2008.

The Listing Rules in relation to certain corporate governance issues and continuing listing obligations were amended in December 2008 and became effective on 1 January 2009. All relevant amendments have been complied with by the Group.

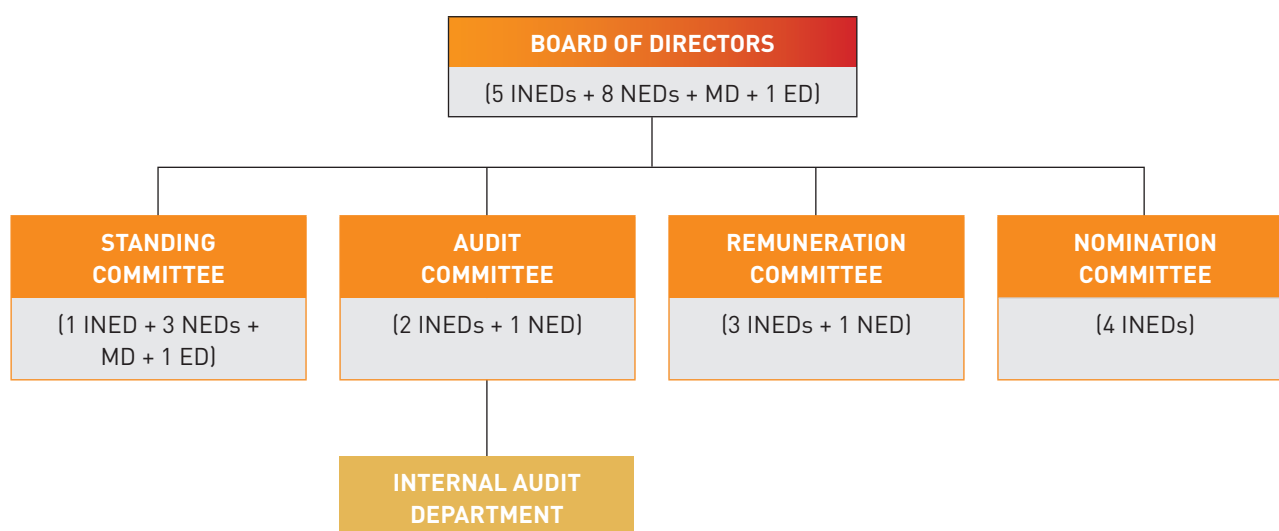
The Board and Senior Management work together to develop a model of governance that aligns the values of all corporate participants. This model, incorporating corporate governance mechanisms and controls, is evaluated periodically for its effectiveness.

CORPORATE GOVERNANCE REPORT

BOARDROOM FRAMEWORK

The Company's Board comprises 15 members, of which five are Independent Non-executive Directors, eight are Non-executive Directors and two are Executive Directors. Daily management of the Group's businesses is delegated to designated Board Committees (namely the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee), the Executive Directors and senior management.

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



INED : Independent Non-executive Director

NED : Non-executive Director

MD : Managing Director

ED : Executive Director

BOARD OF DIRECTORS

(1) Composition of the Board of Directors

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

- Formulation of the Group's objectives, strategies, policies, business plans and corporate values
- Monitoring management performance
- Major financing arrangements
- Material acquisitions and disposals

- Connected transactions
- Dividend policy
- Ensuring the integrity of the Group's accounting and financial reporting system and public announcements
- Internal control and risk management
- Overseeing the management of relationships with stakeholders, including shareholders, customers, the HKSAR Government, suppliers, employees and the community

Throughout 2008, the Company had five Independent Non-executive Directors, and exceeded the minimum requirements of Rules 3.10(1) and (2) of the Listing Rules, which stipulate that there should be at least three Independent Non-executive Directors, of whom at least one must hold appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

(2) Responsibilities of Directors

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

Code of Conduct

The Company has a written Code of Conduct for the guidance of Directors and employees (the "Code"). The Code provides guidelines on personal conduct, relations with suppliers and contractors, responsibilities to shareholders and the financial community, relations with customers, employment practices and responsibilities to the community, as well as procedures for monitoring of compliance and means of enforcement. The Code is reviewed and amended from time to time to take into account changes in legislation and the business environment.

Securities Transactions by Directors

The Group had adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the Directors' securities transactions. In response to the Company's specific enquiry, all Directors confirmed that they had complied throughout 2008 with the required standard of dealings as set out in the Model Code.

Details of the shareholding interests held by the Directors in the Company and its indirect non-wholly owned subsidiary, RoadShow Holdings Limited, as at 31 December 2008 are set out on pages 131 and 132 of this Annual Report.

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

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

Nomination Committee

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

- formulating nomination policy for consideration by the Board and implementing the nomination policy laid down by the Board;
- reviewing and monitoring the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board regarding any proposed changes;
- identifying and nominating for the approval of the Board suitably qualified candidates for appointment as Directors;
- making recommendations to the Board on the appointment or re-appointment of Directors and on succession planning for Directors, in particular, the Chairman and the Managing Director; and
- assessing the independence of Independent Non-executive Directors.

In 2008, one meeting was held by the Nomination Committee and the attendance of each member was as follows:

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

CORPORATE GOVERNANCE REPORT

Appointment and Re-designation of Directors

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

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

Rotation of Directors

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

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

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

(4) Distinctive Roles of the Chairman and the Managing Director

The posts of Chairman and Managing Director are held separately by The Hon Sir Sze-yuen Chung and Mr Edmond Ho Tat Man respectively. This separation ensures that there is a clear distinction between the responsibilities of the Chairman and the Managing Director. The respective roles and duties of the Chairman and the Managing Director have been clearly defined in writing:

Chairman

Responsibilities:

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

Managing Director

Responsibilities:

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

The Chairman also meets once a year with the Non-executive Directors in the absence of the Managing Director and Executive Director(s) to discuss the Group's business affairs. This meeting was held on 20 November 2008.

(5) Board Meetings

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

DELEGATION BY THE BOARD OF DIRECTORS

(1) Delegation of Responsibilities to Senior Management

The day-to-day management of the Group's businesses is delegated to senior management and corporate executives under the guidance and supervision of the relevant Board Committees. This facilitates prompt response to a rapidly changing market environment. Brief particulars of the senior management and corporate executives of the Group are set out on pages 126 and 127 of this Annual Report.

(2) Standing Committee

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

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

CORPORATE GOVERNANCE REPORT

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

In 2008, the Remuneration Committee:

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

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

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

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

ACCOUNTABILITY AND AUDIT

(1) Financial Reporting

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

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

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

(2) Audit Committee

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

(3) Internal Controls and Risk Management

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

■ Effective and Efficient Quality Management System

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

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

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

CORPORATE GOVERNANCE REPORT

Each year, the Hong Kong Quality Assurance Agency (HKQAA), an external ISO certification organisation, carries out an independent audit of the QMS to ensure its effectiveness and efficiency. Recommendations are made for follow-up action when areas of improvement are identified during the course of the ISO audit. In 2008, no non-conformity in the QMS was found in the ISO certification audits of KMB and SB.

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

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

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

■ **Advanced Management Information System**

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

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

■ Comprehensive Review of Internal Control Effectiveness

- Control Environment

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

The Code of Conduct and Staff Handbook set down the rules and policies to which all Directors and employees are expected to adhere. As well as covering all aspects of administrative and operational activities, including relationships with customers, suppliers, competitors and fellow staff, these guidelines underscore the social responsibilities of the Group. The Code also emphasises transparency, objectivity, integrity and reliability in financial information handling, and disclosure in financial reports.

- Control Effectiveness

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

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

CORPORATE GOVERNANCE REPORT

■ Enterprise Risk Management

Our activities are exposed to various types of risks, such as financial risks and operational risks, which may prevent us from achieving or enhancing our corporate values. We have developed and implemented policies and procedures to manage these risks effectively. As to KMB, its risk management process aims to identify the risks that may have an effect on fulfilling its objectives, assess the risks using appropriate quantitative and qualitative techniques, and manage the risks at the desired level of risk appetite. The process applies across a range of areas, from strategies and the setting of related objectives to day-to-day activities, across the whole organisation.

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

■ Business Continuity Plan

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

■ Establishment of a Comprehensive Internal Audit Function

The Internal Audit Department plays a crucial role in monitoring the internal governance of the Group. The Internal Audit Department is responsible for independently reviewing the risks and controls of the Group, and for providing reasonable assurance to senior management and the Audit Committee that any risks and internal control weaknesses have been adequately addressed. The Head of the Internal Audit Department supervises the implementation of comprehensive audits, and reviews the financial and operational procedures and practices of the Group on both a regular and an ad hoc basis.

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

In 2008, the major work undertaken by the Internal Audit Department included:

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

Based on the report of the Internal Audit Department, the Audit Committee concluded that, in general, the Group continues to operate in a sound control environment with a control system that effectively monitors and corrects non-compliance. The Board, following the Audit Committee's annual review of the Group's internal control system, is satisfied that the Group has fully complied with the Code Provision on internal controls in 2008.

■ Internal Controls for Handling and Disseminating Price-sensitive Information

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

(4) External Audit

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

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

CORPORATE GOVERNANCE REPORT

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

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

| | HK\$ million |
|----------------------------|--------------|
| Audit related services | 6.4 |
| Non-audit related services | 0.1 |
| Total | 6.5 |

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

COMMUNICATION WITH STAKEHOLDERS

(1) Communication with Shareholders

The Group takes seriously its corporate responsibility to provide shareholders with the information necessary to form an informed opinion of the Group’s performance. Press releases, interim and final results announcements, interim and annual reports, and other information of interest to shareholders are uploaded to Company’s corporate website www.tih.hk. The interim and annual reports are also sent to shareholders within the respective deadlines stipulated by the Listing Rules.

The financial reports released to shareholders in the Company’s 2008 interim and final results announcements and in the interim and annual reports were reviewed by the Audit Committee and examined by KPMG, the external auditor of the Company, and are in full compliance with the relevant statutory requirements.

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

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

The Board of Directors regards the annual general meetings and other general meetings as important opportunities for direct communication with shareholders. Normally, all Directors and senior management will attend the annual general meeting and other general meetings, where they are available to respond to shareholders' questions. Recognising that not all shareholders are able to attend general meetings, the Company provides an alternative email channel "director@tih.hk" for shareholders and investors to put their enquiries to the Board. The Company Secretary is responsible for attending to these enquiries in the first instance.

All shareholders have the right to vote at general meetings. Since 2007, the Company has conducted voting by poll at general meetings so that each share is entitled to one vote. Resolutions are proposed on each substantially separate issue, including the election of individual Directors. A circular comprising notice of the annual general meeting, proposed resolutions, detailed biographies of each person standing for election as Director at the annual general meeting, and information on poll voting procedures and the right of shareholders to demand a poll, is despatched to shareholders together with the annual report. The circular for the 2008 Annual General Meeting ("2008 AGM") was despatched to shareholders at least 21 days prior to the 2008 AGM date in accordance with the Listing Rules then prevailing. In compliance with the latest amended Listing Rules, the circular for the 2009 Annual General Meeting ("2009 AGM") will be despatched to shareholders at least 20 clear business days prior to the 2009 AGM date.

The 2008 AGM was held on 29 May 2008 and the matters resolved are summarised below:

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

CORPORATE GOVERNANCE REPORT

- Re-appointment of KPMG as auditors of the Company and authorisation of the Directors to fix their remuneration
- Approval of the Directors' fees for 2008 and thereafter
- Granting of a general mandate to the Directors to issue shares not exceeding 20% of the issued share capital
- Granting of a general mandate to the Directors to exercise powers of the Company to purchase its own shares not exceeding 10% of the issued share capital
- Granting of a general mandate to the Directors to extend the share issue mandate granted to the Directors not exceeding 10% of the issued share capital

The details and poll voting results of the 2008 AGM were published on the websites of the Company and of the Stock Exchange on 29 May 2008.



Press conference held by Senior Management after the 2008 AGM

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

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

(2) Communication with the General Public

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

- More about KMB
- More about Long Win
- KMB Corporate Social Responsibility Charter
- Long Win Corporate Social Responsibility Report
- KMB Passenger Liaison Group Report
- Long Win Passenger Liaison Group Report
- KMB's Efforts in Environmental Protection
- KMB Today (a monthly magazine)

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

(3) Communication with Employees

Excellent communications underpin the Company's successful staff relations. To enhance mutual understanding and promote cooperation at all levels, six joint consultative committees of KMB and LWB have been established to provide channels for management and staff to discuss matters such as safety and the work environment, as well as broader issues relating to staff welfare. The Company also maintains a staff website, which provides management announcements, details of upcoming activities and reports on staff events. On-line orientation training courses, e-learning programmes and a staff forum are made available through the website. Periodic VCDs and the monthly magazine KMB Today are also produced to keep our employees, particularly frontline staff, informed of Group news, as well as industry-wide developments.

A dedicated team with
more than

13,000

professional staff





TEAMWORK

No matter how impressive the hardware is, teamwork remains the platform on which our delivery of world class services is built. Recognising the importance of excellent communication to smooth and efficient operations across our Group of companies, we ensure that teamwork is constantly reinforced by training and skills development.

MANAGEMENT DISCUSSION AND ANALYSIS





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(From left to right)

Tim IP Chung Tim
Operations Director

James C LOUEY
Commercial Director

Edmond HO Tat Man
Managing Director

William HO Sai Kei
Finance and Administration Director

Winnie W Y HO
Corporate Affairs Director



OPERATIONAL REVIEW HONG KONG

OVERVIEW AND STRATEGIES

TIH's reputation as one of the world's leading public transport providers is based on a tradition of safety, reliability and service excellence. We continue to set industry standards in line with our corporate objective, 'pursuit of excellence', the foundation of both our economic sustainability and our corporate social responsibility.

The two key benchmarks of our operational performance, namely, mechanical reliability and operational capability, demonstrate that we are meeting the growing expectations of our customers. We will continue to work closely with our manufacturers and suppliers to develop and trial the latest advances in bus technology, including state-of-the-art designs, green engines and advanced safety features.



FRANCHISED PUBLIC BUS OPERATIONS

Franchised public bus operations are at the heart of the Group's business enterprises. The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") provide customers with world-class, innovative and reliable public transport services, while pioneering new services, design and technology, and setting industry standards in the region.



THE KOWLOON MOTOR BUS COMPANY (1933) LIMITED (“KMB”)

Founded in 1933, TIH’s wholly-owned subsidiary KMB provides bus services across Kowloon, the New Territories and Hong Kong Island. Currently, KMB serves around 2.7 million passenger trips each day on its fleet of more than 3,900 buses running on some 400 routes. Its staff force of about 12,000 employees, including some 8,000 bus captains, are dedicated to providing a world class service to our passengers.

OPERATIONAL EXCELLENCE

With 75 years’ experience operating franchised public bus services in Hong Kong, KMB maintains its industry leadership by continuous innovation and a dedication to sustainable business excellence.

KMB’s main depots at Kowloon Bay, Lai Chi Kok, Sha Tin and Tuen Mun were certified in 2007 by the Q-Mark Council of the Federation of Hong Kong Industries as having met the Green Mark Standard under the Hong Kong Green Mark Certification Scheme. Since becoming the first public bus company in Hong Kong to achieve ISO 9001:1994 certification on a company-wide basis in 1999, KMB has been upgraded to ISO 9001:2000 certification accredited by the Hong Kong Quality Assurance Agency (“HKQAA”). The HKQAA has reconfirmed the excellence of KMB’s management systems in five

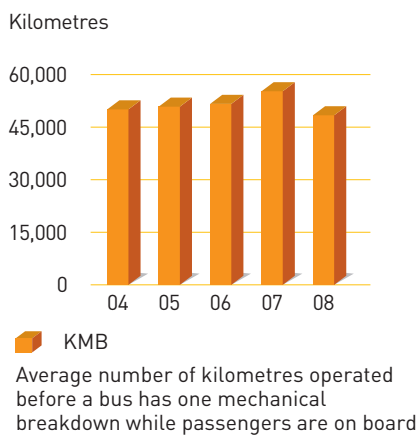
certification areas: KMB Headquarters; Traffic Department and four permanent operating depots; the Overhaul Centre; the Bus Body Construction Depot; and the Unit Overhaul Depot. When Lai Chi Kok and Sha Tin Depots were awarded ISO 14001:2004 Environmental Management System

certification in 2003, KMB became the first public bus company in Hong Kong with both ISO 9001 and ISO 14001 accreditations.

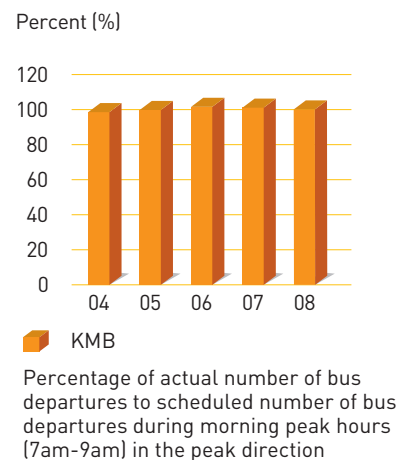
DEPOTS

Depot facilities are continually upgraded to ensure high productivity and top quality service facilities for

Mechanical reliability



Operational capability



KMB and LWB serving about

2,800,000
passenger trips per day

OPERATIONAL REVIEW HONG KONG



Our terminus adjacent to The Arch and International Commerce Centre in West Kowloon is a major transport hub served by 11 bus routes

Major Depots Serving KMB and LWB Buses

| Depot | Areas served/ main purpose of depot | Gross floor area (square metres) | Number of buses served as at 31 December 2008 | Year in which operations commenced |
|--------------------------------------|---|-------------------------------------|---|--|
| KMB depots: | | | | |
| Kowloon Bay Depot | East Kowloon | 71,379 | 1,087 | 1990 |
| Sha Tin Depot | East New Territories | 66,915 | 705 | 1988 |
| Lai Chi Kok Depot | South and West Kowloon | 60,311 | 876 | 2002 |
| Tuen Mun Depot | North and West New Territories | 13,844 | 1,265 | 1979 |
| Tuen Mun Overhaul Centre | Bus overhaul | 35,401 | | 1983 |
| Tuen Mun Bus Body Construction Depot | Bus body construction | 9,843 | | 1978 |
| LWB depot: | | | | |
| Siu Ho Wan Depot | Lantau Island | 7,660 | 157 | 1998 |
| Total | | 265,353 | 4,090 | |



our buses. KMB has four main depots that provide routine maintenance and repair services for the entire bus fleet, 11 other depots that provide parking and minor maintenance services, a bus body construction depot for assembly of new buses, and an overhaul centre for major overhaul of buses.

PERFORMANCE ASSURANCE

The key benchmarks set by the Group for the operational performance of its public bus services are mechanical reliability and operational capability. Mechanical reliability is defined as the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. In

2008, the mechanical reliability of KMB's fleet measured 48,392 km : 1 against a target of 45,000 km : 1.

Operational capability is the ratio of actual to scheduled departures in the peak direction during the peak operational hours of 7:00 a.m. to 9:00 a.m. across the entire bus network. In 2008, the operational capability achieved by KMB was 100.1% against a target of 100%.

FLEET UPGRADE

An important part of KMB's service enhancement planning is ongoing fleet upgrade. We plan and adapt our operations according to the market conditions prevailing in Hong Kong and our service requirements, making major investments in new buses with the

latest designs and safety features. Since 1998, when KMB first introduced super-low floor double-deck buses that provide easy access to passengers, particularly the elderly and disabled, a range of increasingly sophisticated and environment-friendly buses has been added to our fleet. 2008 saw the addition of 21 new super-low floor air-conditioned double-deck buses comprising 20 Euro III buses and one Scania Caetano Euro IV prototype. KMB is proud to be the first franchised bus company in Hong Kong to run Euro IV double-deck buses. In line with its policy of assessing and purchasing the latest environment-friendly buses available on the market, KMB introduced Hong Kong's first Euro V double-deck bus in February 2009.

OPERATIONAL REVIEW HONG KONG

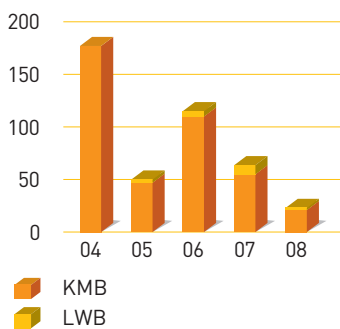


Commute in style on our modern fleet

Number of new buses introduced to the fleet

(Franchised Public Bus Operations)

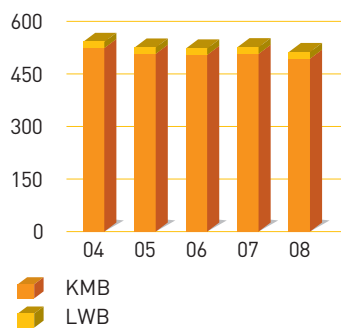
Number of buses



Total fleet capacity at 31 December

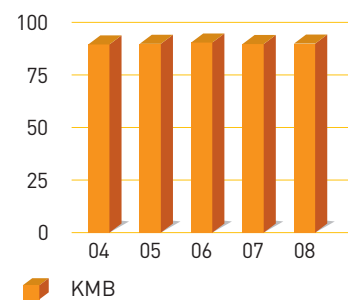
(Franchised Public Bus Operations)

Thousand of passengers



Fleet utilisation

Percent (%)



Percentage of actual number of buses operated on the road to licensed bus fleet

| KMB's bus fleet | Air-conditioned double-deck buses | Air-conditioned single-deck buses | Non air-conditioned double-deck buses | Total number of buses |
|-----------------------|-----------------------------------|-----------------------------------|---------------------------------------|-----------------------|
| As at 1 Jan 2008 | 3,655 | 151 | 241 | 4,047 |
| Additions during year | 21 | - | - | 21 |
| Disposals during year | (63) | (23) | (49) | (135) |
| As at 31 Dec 2008 | 3,613 | 128 | 192 | 3,933 |

The latest super-low floor air-conditioned double-deck buses have innovative features, such as straight staircases, enabling passengers to access the upper deck more easily, wider bodies, facilities for the disabled, and advanced air-conditioning systems, which give better control of the temperature and humidity in the bus. Feedback from our passengers indicates that these innovations are welcome improvements to the quality of KMB's service.

As at 31 December 2008, KMB operated a total of 3,933 buses (comprising 3,805 double-deck and 128 single-deck buses), of which 95.1% were air-conditioned.

At the end of 2008, KMB had on order nine air-conditioned double-deck Euro IV buses and 30

air-conditioned single-deck Euro IV buses for delivery in 2009.

ELECTRONIC TACHOGRAPH

Electronic tachographs, which record vehicle speed and other relevant operational information, are now standard on all new KMB buses. By logging the performance of our bus captains, the tachograph is able to provide enhanced safety monitoring among other benefits, and is particularly useful on long-haul and highway routes. At the end of 2008, 3,473 KMB buses were equipped with the electronic tachograph.

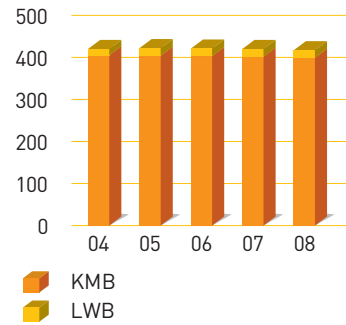
BUS SERVICE NETWORK

Bus Routes

A total of 399 bus routes were operated by KMB at the end of 2008. During the year, the expansion of the rail network in

Number of bus routes operated at 31 December

Number of bus routes



KMB's service areas put further pressure on our operations. In response, we continued to identify new openings for the launch of niche services.

In August and September of this Olympic year, KMB operated a new route to take spectators between University Railway Station and the Hong Kong Olympic Equestrian Venue at Sha Tin for the Olympic and Paralympic Equestrian Events. Two other routes were introduced in August to transport spectators between Fanling Railway Station (the Pak Wo Road and Fanling Station Road exits) and the Hong Kong Olympic Equestrian Venue at Beas River for the Cross Country phase of the Olympic Eventing Competition.



Never too late to catch a ride on KMB after shopping

OPERATIONAL REVIEW HONG KONG

Bus Network Rationalisation

KMB continues to respond to changing market conditions through strategic bus route rationalisation, which enables us to make better use of resources by running fewer buses while meeting the travel demand of our passengers. Not only does this result in better resource utilisation and cost savings, it brings benefits in terms of improved environmental management standards. Bus network rationalisation involves the cancellation of certain bus routes that are no longer required as a result of the introduction of new railway lines, as well as frequency reduction on routes with decreased passenger demand. Besides improving operational efficiency and helping to relieve traffic congestion on busy transport corridors, bus resources thus saved may be redeployed on other routes where demand is increasing, or eliminated by natural attrition. A summary is given below of the bus network rationalisation carried out in 2008:

| | Number of bus routes involved | Number of buses saved |
|--------------------------------|-------------------------------|-----------------------|
| Cancellation / rationalisation | 3 | 8 |
| Frequency reduction | 45 | 45 |
| Total | 48 | 53 |

INFORMATION TECHNOLOGY

KMB integrates advanced information technology into its daily operations to monitor and optimise operational performance, enhance internal and external communications, and boost productivity. KMB's data network covers headquarters, the four main

bus depots and 11 other depots, the eight Customer Service Centres and 149 bus termini. At the end of 2008, a total of 1,665 personal computers were installed at KMB facilities, connected via high-speed communication lines to 132 computer servers at headquarters. A total of 38 software applications, both programs developed in-house and proprietary software, are used in daily operational and financial management. Our information technology systems are constantly upgraded to enable us to improve the company's performance in customer service, human resources management, fleet and depot operations, and financial management.

Electronic Bus Stop Announcement System

The on-board electronic bus stop announcement system has been installed on KMB's entire bus fleet. The system provides passengers with a convenient way of identifying their destination, giving voice announcements in Cantonese,

Putonghua and English, and showing the name of the next bus stop on light emitting diode ("LED") displays.

Traffic Operations Management System

KMB's Information Technology Department, in collaboration with other departments, has developed the Traffic Operations Management

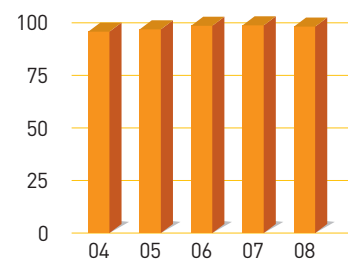
System ("TOM") to improve the efficiency of bus captain duty assignment and despatch. Depot staff use a handheld Radio Frequency Identification reader to identify the parking location of buses and upload the information to the system. Every day this information, together with vehicle registration number, route number, duty schedule and any ad hoc operational arrangements, can be retrieved by bus captains by placing their personalised Octopus cards on the system reader. TOM makes the daily assignment and despatch process more efficient and allows management to speedily obtain from depots information on duty allocation and despatch, as well as the latest operational arrangements. TOM also uses a fleet database to prioritise the deployment of buses with higher emission standards on routes operating on busy corridors.

Bus Service Information

The Integrated Bus Service Information Display ("IBSID") System displays bus route information, including destination, departure time and fares, on large LED display panels at bus termini.

Achievement of schedule

Percent (%)



KMB

Percentage of actual number of buses operated on the road to scheduled bus allocation



Traditional values in perfect harmony with the latest technologies

Urgent messages, concerning, for example, major traffic disruptions, are also given. At the end of 2008, 27 termini were equipped with the IBSID System. The system's closed circuit television function allows traffic and operating conditions in the area surrounding the termini to be monitored both locally and from KMB headquarters.

Our Information Technology Department developed the Electronic Terminus Management System ("ETMS") to ease monitoring of daily bus operations. Terminus supervisors use personal data assistants ("PDAs") to record bus arrival and departure times, which are instantly transmitted to control centres at depots and

relevant departments so that service adjustments can be made, along with any necessary operational decisions. At the end of 2008, 149 termini were equipped with ETMS.

Bus Maintenance Information System

Developed in-house, the computerised Bus Maintenance Information System ("BMS") holds operational information on buses, including type, history, and repair and maintenance logs, as well as recording the status and attendance data of maintenance workers. This assists management in assigning jobs and monitoring maintenance costs. BMS has been upgraded to keep track of the performance and durability of retreaded tyres, as part

of KMB's dedication to safety and environmental protection.

Advanced Finance and Administration Systems

KMB employs SAP e-Business Software for financial and human resources management, enabling the processing of large amounts of information for speedy decision making. By adopting this advanced proprietary system, together with e-tendering, e-payslips, an electronic document management system and company-wide use of email, the Company has substantially reduced paper consumption, and improved the efficiency of internal and external communications, as well as the distribution, filing and retrieval of documents.

OPERATIONAL REVIEW HONG KONG



LWB – first class bus services to and from the airport

LONG WIN BUS COMPANY LIMITED (“LWB”)

LWB has been operating bus services linking the New Territories to Hong Kong International Airport and North Lantau since 1 June 1997. LWB’s service area includes Hong Kong Disneyland, AsiaWorld-Expo and the Ngong Ping 360 cable car.

LWB’s bus network connects the Airport, Tung Chung and tourism developments on North Lantau with the New Territories. With the population increase in Tung Chung, the growth in travel demand to and from the Airport (including SkyPlaza at Terminal 2), and the strong patronage of Hong Kong Disneyland, AsiaWorld-Expo and Ngong Ping 360, LWB is well positioned to serve a steadily growing market.

PERFORMANCE ASSURANCE

By constantly reviewing its bus services, LWB ensures that the safety and reliability of its bus fleet are maintained at the highest levels. Statistics for the two key benchmarks of operational performance, mechanical reliability and operational capability, demonstrate LWB’s commitment to excellence. For 2008, LWB’s buses achieved 67,734 km : 1 in mechanical reliability and 101.8% in operational capability.

FLEET UPGRADE

In 2008, LWB added two new air-conditioned double-deck buses to its fleet to strengthen services on one external route and one Airbus route. To serve the increased number of passengers carrying luggage, conversion work to enlarge luggage rack space was completed on ten buses.

As at 31 December 2008, LWB operated a total of 154 air-conditioned double-deck buses and three air-conditioned single-deck buses. Wheelchair access and the electronic bus-stop announcement system are provided on all LWB’s

super-low floor double-deck buses, which are powered by engines at or above Euro II standard. LWB’s entire bus fleet is equipped with the electronic tachograph, which records vehicle speed and other operational information.

| LWB’s bus fleet | Air-conditioned double-deck buses | Air-conditioned single-deck buses | Total number of buses |
|-----------------------|-----------------------------------|-----------------------------------|-----------------------|
| As at 1 Jan 2008 | 152 | 3 | 155 |
| Additions during year | 2 | – | 2 |
| Disposals during year | – | – | – |
| As at 31 Dec 2008 | 154 | 3 | 157 |



● LWB’s bus termini on Lantau Island



Day and night LWB takes you wherever you want to go

LWB has ordered seven Euro IV super-low floor air-conditioned double-deck buses for introduction in 2009 to meet the growing demand for its services.

DEPOTS

LWB's depot at Siu Ho Wan provides daily bus maintenance, parking, refuelling and washing for its fleet. The depot's waste water treatment system ensures that the quality of waste water complies with

statutory requirements before being discharged into the public drainage system.

BUS SERVICE NETWORK

At the end of 2008, LWB operated 18 routes, the same number as in 2007. LWB continues to enhance the quality of its services to provide a more efficient and direct way for passengers to travel to and from Tung Chung and the Airport. The SkyCity development (which

includes AsiaWorld-Expo, a new passenger terminal, two office towers, and various retailing and entertainment facilities) has contributed to an increase in the number of people visiting the Airport. To cater for passenger demand, the five Airbus routes have been re-routed to serve Terminal 2.

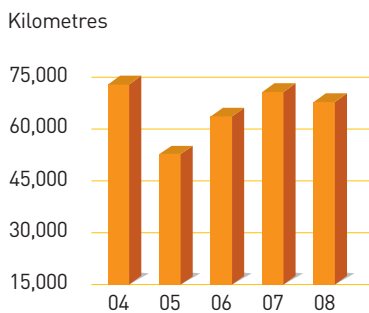
In November 2008, the operations of Routes A33 and E33 were revamped to provide better services for residents of Tuen Mun West



Express services offer hassle free journeys home

heading for the Airport and Tung Chung respectively. The services of Routes A43 and E41 were improved by deploying additional buses, while the frequency of services with low patronage, such as Recreational routes, was reduced. LWB will continue to look at ways to tap into tourism growth, while maintaining the highest standards of network coverage and service for local customers.

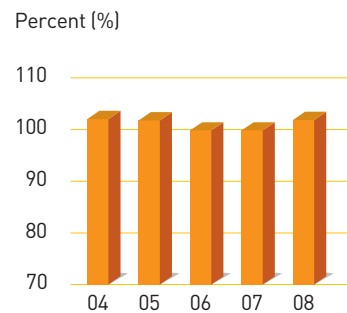
Mechanical reliability



■ LWB

Average number of kilometres operated before a bus has one mechanical breakdown while passengers are on board

Operational capability



■ LWB

Percentage of actual number of bus departures to scheduled number of bus departures during morning peak hours (7am-9am) in the peak direction

NON-FRANCHISED TRANSPORT OPERATIONS

The Group's non-franchised transport operations provide a wide range of transport services to students, shoppers, business commuters and those living in large residential estates, as well as to the general public through chartered hire services.



SUN BUS HOLDINGS LIMITED AND ITS SUBSIDIARIES (THE “SBH GROUP”)

The SBH Group is a leading non-franchised bus operator in Hong Kong. It provides customised high quality transport services to a range of customers, from those seeking premium services to those looking for value for money services.



The SBH Group provides tailor-made services that meet individual client's needs

With Sun Bus Limited as its flagship subsidiary, the SBH Group offers a range of bus services tailored to specific market niches, including large residential estates, shopping malls, major employers, theme parks, deluxe hotels, travel agents and schools, as well as to the general public through chartered hire services.

In 2008, the SBH Group continued to expand its operations, being awarded the tender by the Airport Authority to provide quality airport-hotel coach services. At the end of 2008, the SBH Group had a fleet of 367 buses, an increase of seven buses compared to 2007, further enhancing our economies of scale. In 2009, the SBH Group will

**Sun Bus Limited
obtained
ISO 9001:2000
certification in 2008
– the first commercial
non-franchised bus
company in Hong Kong
to receive such
accreditation**

continue to introduce new buses as part of its ongoing fleet upgrade programme.

In pursuit of service excellence, Sun Bus Limited obtained ISO 9001:2000 certification in November 2008 – the first commercial non-franchised bus company in Hong Kong to receive such accreditation.

**Fleet size of the SBH Group
grew to**

367 buses



PITC's modern catamaran fleet links Ma Wan and Central

PARK ISLAND TRANSPORT COMPANY LIMITED ("PITC")

PITC runs the ferry and shuttle bus operations that serve the transport needs of Park Island's residents and visitors.



Easy-access buses take Park Island residents to and from the airport

Since December 2002, PITC has been providing ferry and shuttle bus services for Park Island, a prestigious residential development on Ma Wan Island. PITC currently operates two ferry routes from Ma Wan, to Central and Tsuen Wan, with a fleet of six high-speed catamarans. In 2008, to meet increased demand, PITC strengthened the frequency of its bus services and introduced two super-low floor single-deck buses and two coaches. As at 31 December 2008, PITC had a fleet of 26 buses, comprising 19 super-low floor single-deck buses, three diesel-electric single-deck buses, two coaches and two minibuses.

As at 31 December 2008, PITC operated four shuttle bus routes between Ma Wan and Tsing Yi Airport Railway Station, Kwai Fong Metroplaza, Hong Kong International Airport and Tsuen Wan Railway Station.

The growing population of Park Island and the increase in the number of visitors following the opening of Phase 1 of Ma Wan Park generated extra demand for our services in 2008. PITC will continue to monitor changes in bus and ferry patronage, and adjust resource deployment as needed.

NEW HONG KONG BUS COMPANY LIMITED (“NHKB”)

NHKB jointly operates the cross-boundary bus service, or “Huang Bus” service, with its Shenzhen counterpart, shuttling commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.

In 2008, NHKB operated the 24-hour cross-boundary shuttle bus service between Lok Ma Chau and Huanggang with a fleet of 15 air-conditioned super-low floor single-deck buses. Its terminus facilities at San Tin Public Transport Interchange include four air-conditioned waiting lounges and an information display system.

With the opening of the Lok Ma Chau Spur Line and the Lok Ma Chau Public Transport Interchange in August 2007, NHKB has faced growing competition from railway and public minibuss services. In July 2008, the launch of direct charter

flights between Taiwan and China Mainland further reduced demand for cross-boundary bus services. However, increased economic activity between Hong Kong and China Mainland and the extension of the Individual Visit Scheme to more Mainland cities are expected to generate new demand for cross-boundary transport. By continuing to offer convenient and quality service, NHKB aims to ensure that its shuttle bus service remains the means of cross-boundary transport preferred by most travellers.



● NHKB's bus termini



NHKB operates a convenient cross-boundary shuttle bus service around the clock

PROPERTY HOLDINGS AND DEVELOPMENT

Lai Chi Kok Properties Investment Limited is the owner and developer of the luxury residential development, Manhattan Hill, which has redefined the concept of metropolitan living in West Kowloon.



LAI CHI KOK PROPERTIES INVESTMENT LIMITED (“LCKPI”)

LCKPI is a wholly-owned subsidiary of TIH and the developer of Manhattan Hill, a luxurious residential complex in Lai Chi Kok, West Kowloon.

Manhattan Hill comprises five high-rise residential towers with a height ranging from 41 to 43 storeys above podium level. It has 1,115 luxury residential units, varying in size from 668 square feet to 5,008 square feet. The five-storey podium contains a clubhouse, landscaped gardens and public open spaces. Four levels of car park provide 390 car parking spaces for residents, tenants and visitors.

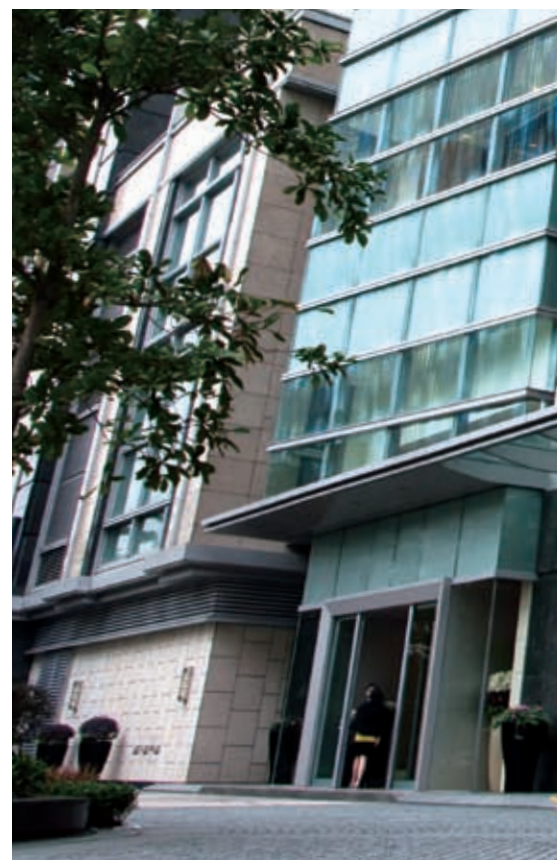
Manhattan Hill’s construction management, marketing and sales programme have been supervised by Sun Hung Kai Real Estate Agency Limited (“SHKRE”), a wholly-owned subsidiary of Sun Hung Kai Properties Limited (“SHKP”). Management and security services are provided by SHKP’s subsidiary, Royal Elite Service Company Limited (“RESC”). Some RESC staff have attended management services training courses at Hong Kong’s Four Seasons Hotel.



Manhattan Hill provides residents with an exclusive quality lifestyle

1,173,600
square feet sold up to the end of 2008

“Offering a mix of shops, restaurants and banks on a total floor area of around 50,000 square feet, Manhattan Mid-town is expected to generate additional revenue for the Group starting from the second quarter of 2009”



The sales campaign of the residential units of Manhattan Hill was first launched in November 2006 and the response was overwhelming. Up to the end of 2007, 1,080 residential units with a total saleable gross floor area (“saleable GFA”) of about 1,119,000 square feet (representing 94.0% of total saleable GFA) were sold. In 2008, a further 27 residential units with a total saleable GFA of about 54,600 square feet (representing 4.6% of the total saleable GFA) were sold. The handover of the residential units to the new owners began in July 2007.

In 2008, Manhattan Hill’s effective marketing strategy was recognised

when it won five marketing and design honours: an HKMA/TVB Award for Marketing Excellence and four awards in the Hong Kong Institute of Surveyors Property Marketing Awards. Besides winning the Best of The Year Award (Property Layouts), Manhattan Hill was also recognised for Top Ten Property Marketing, Top Ten Sales Brochures and Top Ten Property Layouts. These awards are further recognition of Manhattan Hill’s marketing and design achievements.

MANHATTAN LIVING

Overlooking Victoria Harbour and Stonecutters Island with panoramic views to the Central and Wan Chai

waterfronts on Hong Kong Island, Manhattan Hill is easily accessible by rail, via the Tsuen Wan Line, the West Rail Line and the Airport Express, by bus, via KMB services in Mei Foo, and by road, with connections to Route 3 and Route 8.

A commitment to environmental preservation is found in every design aspect of Manhattan Hill. The gleaming stone entrance lobbies, the landscaped podium and the contemporary interior finishing use the finest natural materials, providing residents with an exclusive quality lifestyle. Each apartment has a high ceiling and wide window openings that provide plentiful natural light. Energy



Manhattan Mid-town provides a new shopping experience in West Kowloon

efficient glazing and natural cross ventilation reduce the need for constant mechanical ventilation and cooling. At the mid-point of each tower, a double-height sky garden offers a place to relax and enjoy stunning views over Victoria Harbour. These landscaped podium gardens also provide a green lung for the surrounding area.

LCK COMMERCIAL PROPERTIES LIMITED (“LCKCP”)

LCKCP is a wholly-owned subsidiary of TIH and the owner of the commercial complex of Manhattan Hill.

LCKCP owns Manhattan Hill’s two-level retail podium, which is set to provide Manhattan Hill residents, as well as local householders and office workers, with high quality retail facilities. The new shopping mall, “Manhattan Mid-town”, will be positioned as a high-end retail complex to complement the image of Manhattan Hill and will provide a new shopping experience in the area. Offering a mix of shops, restaurants and banks on a total floor area of around 50,000 square feet, Manhattan Mid-town is scheduled to open in the second quarter of 2009 and is expected to generate additional revenue for the Group.

LCK REAL ESTATE LIMITED (“LCKRE”)

LCKRE, a wholly-owned subsidiary of TIH, is the owner of the Group’s headquarters building in Lai Chi Kok.

LCKRE owns a 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, with a total gross floor area of about 156,700 square feet. The building is situated next to Manhattan Hill and is currently used by the Group for headquarters office and administrative purposes.

MEDIA SALES BUSINESS

As a leading out-of-home media company in Greater China, RoadShow offers an effective advertising medium for advertisers looking to market their products and services to a mass audience. Around 4,800 vehicles in Hong Kong are equipped with the proprietary Multi-Media On-Board (“MMOB”) system.

ROADSHOW HOLDINGS LIMITED AND ITS SUBSIDIARIES (THE “ROADSHOW GROUP”)

RoadShow Holdings Limited (“RoadShow”), established by the Group as its media sales arm, has been separately listed on the main board of The Stock Exchange of Hong Kong Limited since 28 June 2001. Currently, the Group has a 73.0% interest in RoadShow.

Being a leading media sales company in the Greater China region, the RoadShow Group capitalises on a vibrant advertising market consisting of bus

passengers and pedestrians traversing transit vehicle routes. It sells and markets business advertising on its proprietary Multi-media On-board (“MMOB”) system in Hong Kong, offering value added media sales, products and services at competitive prices. The RoadShow Group also runs a television programme syndication and media sales network covering more than 200 cities in China Mainland.



HONG KONG

The RoadShow Group's MMOB business centres on the installation and operation in public buses of equipment and Liquid Crystal Display ("LCD") units for broadcasting tailor-made programmes and advertisements. The MMOB system, with almost 20,000 LCD monitors in buses, broadcasts a wide variety of daily programmes and advertisements. At present, approximately 4,800 vehicles, including franchised buses and public light buses, are equipped with the MMOB system, reaching an audience of close to four million every day. During 2008, the RoadShow Group began to upgrade the LCD units on buses with a view to enhancing the system, which is an attractive medium for advertisers because of its ability to reach such a large daily audience in a powerful way.

RoadShow's customers comprise the major advertisers in Hong Kong, including advertising

agencies, as well as companies in the cosmetics, pharmaceutical, electronics, telecommunications, food and beverage, jewellery, leisure, media, finance, banking, insurance, retail, education, household, clothing, skincare, health food, fitness and real estate sectors.

Besides offering tailor-made sales packages to suit advertisers with different campaign objectives and budgets, the RoadShow Group provides value-added services with marketing integration. This includes the organisation of events and functions and the creation of branded content in addition to the production of television commercials. To increase media sales, various incentives are offered to encourage customers to commit to advertising bookings, including discounts, bonus spots and special advertising packages for long-term commitments.

Riding on the popularity of SMS services, RoadShow launched iClub in 2003 to offer a highly effective interactive platform for both

advertisers and passengers. As at 31 December 2008, around 327,000 iClub members had engaged in our popular daily quiz games and enjoyed special offers.

CHINA MAINLAND

Although the Mainland economy slowed sharply in the fourth quarter of 2008 and was expected to slow even further in 2009, the RoadShow Group aims to capitalise on the opportunities that may arise from the government's economic stimulus programmes. The 2010 World Expo in Shanghai and the 2010 Asian Games in Guangzhou are expected to offer a boost to the advertising and media sales business in those cities, which the RoadShow Group aims to take advantage of.

Within a prudent framework, the Mainland operation of RoadShow will continue to be an important element in its development strategy. RoadShow will explore investment opportunities which offer long-term, exclusive advertising rights that can benefit the RoadShow Group.



RoadShow's MMOB system
reaching about

4,000,000

audience daily in Hong Kong



OPERATIONAL REVIEW CHINA MAINLAND

OVERVIEW AND STRATEGIES

In line with the Group's commitment to diversified business growth, we continue to target the potential of the transport related markets in China Mainland. Leveraging our expertise as a world class public transport operator, TIH seeks to develop its Mainland business portfolio on its well attested record of safety, quality, environmental awareness, productivity and efficiency.

In the light of China's steady economic growth, we are confident that our targeted businesses, including the existing public bus, taxi and car rental operations, will continue to make significant progress.



CHINA MAINLAND TRANSPORT OPERATIONS

The increasing demand for transport services in China Mainland drives the Group's commitment to offer the best in public bus, taxi and car rental services.



CHINA MAINLAND TRANSPORT OPERATIONS

In 2008, the Group operated a diverse portfolio of transport businesses in Shenzhen (深圳), Beijing (北京), Dalian (大連) and Wuxi (無錫). We will continue to identify and evaluate transport related business opportunities in China Mainland in line with our investment strategy.

SHENZHEN BUS GROUP COMPANY LIMITED (深圳巴士集團股份有限公司) (“SBG”)

SBG is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, with four other Mainland investors. The Group has invested RMB387 million (HK\$364 million), representing a 35% stake, in SBG.

SBG mainly provides public bus, minibus and taxi services in Shenzhen City (深圳市), including the Shenzhen Special Economic Zone and the Bao-an (寶安) and Longgang (龍崗) districts. Starting operations on 1 January 2005, SBG now has 4,182 vehicles operating on 173 routes. In 2008, it continued to make steady progress and served



SBG continues to upgrade its fleet to better serve Shenzhen City

SBG's patronage exceeding

2,000,000
passenger trips a day

759.2 million passenger trips, an increase of 1.5% compared to 748.2 million passenger trips in 2007.

In 2008, facing high fuel prices and cost escalation as well as competition from Shenzhen's underground railway, SBG made every effort to control costs and improve efficiency without compromising its service quality. Besides upgrading its vehicles and rationalising its bus route network to increase productivity, SBG implemented stringent budgetary measures to mitigate the adverse impact of rising operating costs. It also introduced a number of new feeder bus routes connecting to Shenzhen underground railway stations. During the year, SBG was able to increase its market share in Shenzhen City through both acquisition and expansion of its bus route network.

Since 2007, SBG has been ISO 9001:2000 certified for the provision of transport services, transit designs and support services in Shenzhen City. To enhance its environmental performance, SBG has upgraded most of the engines in its bus fleet and adopted the use of environment-friendly fuel that meets Euro III emission standards. SBG remains committed to improving its services, sharpening its competitiveness and increasing its market share in Shenzhen and other markets.

SBG's environment-friendly modern fleet is well positioned to increase its market share in Shenzhen and other markets

BEIJING BEIQI KOWLOON TAXI COMPANY LIMITED (北京北汽九龍出租汽車股份有限公司) ("BBKT")

Established in Beijing in 2003, BBKT was the first Sino-foreign joint stock company in China Mainland's taxi hire and car rental business sectors. TIH has invested RMB80 million (HK\$76 million) in BBKT, representing an equity interest of 31.38%. BBKT shareholders include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限責任公司) and three other Mainland investors.

Operating a fleet of 4,352 vehicles, BBKT is one of the leading operators in the taxi hire and car rental business sectors in Beijing City. BBKT is committed to providing its customers with high levels of service in a market well known for its strong economic growth and unceasing pursuit of higher living standards. Having achieved ISO 9001:2000 certification for its quality management systems in taxi services in 2006, BBKT was well positioned to grasp the business opportunities afforded by the Beijing Olympic Games in August 2008.



BBKT is a byword for quality in taxi services

Since the second quarter of 2007, the municipal authorities in Beijing City have conducted quarterly customer satisfaction surveys on the quality of the city's taxi services. BBKT has been ranked first among more than 130 taxi operators in most of the surveys – a reflection of BBKT's continuous efforts to build a reputation as one of the Beijing's leading taxi service providers.

BBKT's high service levels match the Chinese capital, with its strong economic growth and unceasing pursuit of higher living standards

DALIAN CO-OPERATIVE JOINT VENTURE (大連合作合營企業) ("DCJV")

DCJV was the Group's first co-operative PRC joint venture, formed in 1997 between a 60% owned subsidiary of the Group and Dalian Public Transportation Group Co., Ltd. (大連公交客運集團有限公司), formerly known as Dalian City No. 1 Bus Company (大連市第一公共汽車公司) in Dalian City, Liaoning Province (遼寧省大連市). In 2008, the performance of DCJV was adversely affected by rising operating costs and intense market competition. Currently, it has a fleet of 84 single-deck buses operating on three routes serving Dalian City.

WUXI KOWLOON PUBLIC TRANSPORT COMPANY LIMITED (無錫九龍公共交通股份有限公司) ("WKPT")

Established in Wuxi City, Jiangsu Province (江蘇省無錫市), in February 2004, WKPT is a Sino-foreign joint stock company. The Group invested RMB135 million (HK\$127 million), representing a 45% equity interest, in WKPT, alongside three Mainland shareholders.

While WKPT has performed to shareholders' satisfaction both in terms of service quality and operating efficiency, the recent shift in the Wuxi municipal government's focus on the social functionality of public transport fostered the need for structural changes in this sector. To strike a good balance between all stakeholders' interests and in accordance with the joint venture contractual framework, the Group made a divestment to dispose of its entire 45% equity interest in WKPT to the existing Mainland state-owned shareholder of WKPT in December 2008 and realised a reasonable return. The Wuxi municipal government has expressed appreciation of the Group's contribution to Wuxi City via WKPT.



CORPORATE SOCIAL RESPONSIBILITY

OVERVIEW AND STRATEGIES

One consequence of living in today's perpetually evolving and competitive global community is an increased awareness of the social and economic aspects of doing business. TIH continues to lead the industry not just with the highest service standards but also by its dedication to sustainable business development. To this end, all of us in the TIH team work together with the communities we serve to improve our joint quality of life. Most valuable of all is the feedback we receive from our customers, which provides a blueprint for future planning.

A key to the sustainable business excellence of our operations in Hong Kong and China Mainland is our commitment to conducting our businesses with due consideration of the economic, social and environmental aspects.



CUSTOMER SERVICE CULTURE

The drive for business excellence shapes our approach to customer service. By understanding the needs of our customers and the communities we serve, we strive to provide service of the highest order.

THE OCTOPUS SMART CARD

Since its introduction in 1997, the electronic Octopus Smart Card System has proved extremely popular with public transport users in Hong Kong. It is now the world's leading contactless smart card system, with the highest penetration, the highest transaction volume and the widest range of applications. The Group is one of the largest corporate users of Octopus cards in Hong Kong in

terms of the value and number of transactions. In 2008, around 88% of our franchised bus fare revenue was collected via Octopus cards, which continue to find favour with our passengers for their convenience and with the Group for cost savings in cash collection and administration.

OCTOPUS BUS-BUS INTERCHANGE SCHEMES ("OCTOPUS BBI SCHEMES")

At the end of 2008, KMB operated 74 Octopus BBI Schemes covering 262 routes, while LWB had six BBI Schemes covering 12 routes, including those serving Hong Kong Disneyland and AsiaWorld-Expo.

The BBI Schemes are welcomed by our passengers, who benefit from extensive fare discounts on the second leg of journeys and improved network coverage. The Schemes bring other benefits, in the form of resource savings and reduced congestion along busy corridors. We will continue to explore the possibility of expanding our BBI coverage, both across the KMB and LWB networks and through inter-modal schemes jointly operated with other public transport operators.

We are supporters of the HKSAR Government's Action Blue Sky Campaign which aims to improve air quality. We seek to rationalise or cancel bus routes with low



occupancy rates to help reduce the number of buses on the roads, while minimising the inconvenience to passengers by introducing various Octopus BBI Schemes. Such arrangements are win-win solutions in terms of environmental protection and meeting customers' needs.

BUS FARE DISCOUNT SCHEMES

As a socially responsible public transport operator, we aspire to provide safe, reliable and value-for-money services.

KMB and LWB operate a number of fare discounts and concessions to passengers who pay by Octopus cards. The following fare concession schemes, which were initially introduced by KMB and LWB in 2006, are still in operation as at the date of this Annual Report.

| | Discount rates | Exceptions | Effective period |
|--|--|-----------------------------------|---|
| (1) Passengers aged 65 and over ⁽ⁱ⁾ | A flat fare of HK\$2.00 or half fare (whichever is the lower) on Sundays and public holidays | Airport "A" and racecourse routes | 28 January 2006 to 31 January 2010 (both dates inclusive) |
| (2) Jointly-operated cross-harbour routes with fares at or above HK\$15 ⁽ⁱⁱ⁾ | 20% fare discount for the return trip of the same route or route group on the same day | Racecourse and recreation routes | 1 July 2006 to 30 June 2009 (both dates inclusive) |
| (3) Jointly-operated cross-harbour routes with fares between HK\$10 and HK\$14.9 ⁽ⁱⁱ⁾ | 10% fare discount for the return trip of the same route or route group on the same day | Racecourse and recreation routes | 1 July 2006 to 30 June 2009 (both dates inclusive) |

(i) Applicable to KMB and LWB

(ii) Applicable to KMB

BUS SHELTERS

Our bus shelter improvement programme aims to make the waiting environment more pleasant for our passengers. During 2008, KMB added 20 new bus shelters to give a total of 2,388, while LWB maintained its number at 30. Equipped with 2,720 advertising panels, the bus shelters not only benefit our customers but also generate advertising revenue for our franchised bus operations.

CYBER BUS STOPS

At the end of 2008, KMB had eight cyber bus stops installed in popular tourist and shopping spots at the Star Ferry concourse and along Canton Road and Nathan Road. The cyber bus stops have light emitting diode (LED) and liquid crystal display (LCD) panels that display route information, local and international news, and weather information. They are equipped with public address systems that give

route information in Cantonese, English and Putonghua, and also provide access to the KMB website for passengers seeking route search and service information.

CUSTOMER SERVICE CENTRES

KMB's eight customer service centres, located at the public transport interchange hubs of Tsim Sha Tsui, Hung Hom, Lam Tin, Mei Foo, Tsuen Wan, Sha Tin, Tuen Mun

24-hour
hotline

CORPORATE SOCIAL RESPONSIBILITY

and Tin Shui Wai, provide a convenient one-stop service to our customers. Our friendly customer service ambassadors provide route and timetable information, collect feedback on KMB's services and assist customers wishing to buy KMB souvenirs and obtain Octopus card services. The Digital Map Passenger Enquiry System in the centres' multimedia kiosks enables customers to make route searches and view landmarks along their chosen routes on a three-dimensional map. Customers can also use the multimedia kiosks to browse the KMB website.

LWB's customer service and ticketing office at Hong Kong International Airport provides a one-stop centre for customer enquiries, ticketing and lost and found services.

CUSTOMER SERVICE HOTLINES

Over the years, KMB's award-winning customer service hotline (2745 4466) has proven to be a popular and effective communication channel. In 2008, the hotline handled around 3.9 million calls, representing an average of about 325,000 calls a month. Our hotline operator service is available daily from 7:00 a.m. to 11:00 p.m., while the 24-hour hotline system, which operates in Cantonese, English and Putonghua, provides the public with on-demand bus route information, service updates, traffic news and a voicemail service, as well as bus route information via SMS. LWB's customer service helpline (2261 2791) handled 15,966 calls in 2008 – an average of about 1,330 calls a month. The helpline also gathers and processes

customer feedback and handles lost and found enquiries.

KMB's customer service hotline has been recognised internationally as an industry leader. In 2008, the hotline's Digital Map Passenger Enquiry System won the Special Achievement in Geographic Information System (GIS) Award 2008. The award recognises organisations that use GIS technology to set new standards globally. In the Hong Kong Association for Customer Service Excellence Award 2007, the KMB hotline won the Gold Award in the Contact Centre Service category, while one of our hotline operators won a Silver Award in the Contact Centre Service Individual category.

CORPORATE WEBSITES

The TIH website www.tih.hk gives key information about the Group and its various businesses. The KMB website www.kmb.hk has an excellent point-to-point route search facility and offers barrier-free access to visually impaired and novice internet users alike.

The KMB website won two awards in 2008: a Gold Award in the Web Care Awards organised by the Hong Kong-based Internet Professional Association to promote the concept of e-Inclusion, and a Meritorious Website Award from the Television and Entertainment Licensing Authority.

CUSTOMER COMMUNICATIONS

Two-way communication is very important for KMB and LWB, which serve a total of around 2.8 million passenger trips every day. We

understand that to provide even higher levels of service, we need to listen to our customers with an aim to identifying and meeting their needs and expectations. In 2008, KMB held six Passenger Liaison Group meetings ("PLGs") in the presence of Transport Department observers to gather the views of our passengers and gauge their expectations. Appropriate improvements and adjustments were made in response to the various suggestions received, and a report of the proceedings, the 2008 KMB PLG Report, was published and made available on the KMB website. LWB likewise held six PLGs in 2008 and proceeded to adopt a number of suggestions made by its customers.

KMB's dedication to customer communications was once again recognised in 2008. The KMB Civic Education advertising campaign won Best of the Best in the Info-service category of TVB's Most Popular TV Commercial Awards 2008 and the Award of Distinction in the Communicator Awards organised by the International Academy of The Visual Arts. The 2007 KMB PLG Report and the Ride KMB for Fun booklet won Awards of Excellence in the Apex Awards for Publication Excellence organised by Communication Concepts. KMB also received the Gold Award in the PRC Consumers' Most Favorable Hong Kong Brands organised by China Enterprise Reputation and Credibility Association (Overseas) Limited and Just Events Limited.

The high standard of KMB's customer service won international recognition when the company was named winner of the 2008



KMB's Customer Service Centre at the Star Ferry in Tsim Sha Tsui

International Stevie Business Awards: Best in Customer Service at the Stevie Awards Presentation Gala held in Dublin, Ireland, to honour outstanding performances in business. In January 2008, KMB won the trophy for Champion of the CILT Award 2007: Passenger Transport Excellence from the Chartered Institute of Logistics and Transport in Hong Kong, for the company's outstanding efforts in providing quality bus services.

INFORMATION PUBLICATIONS

In 2008, we published the booklet KMB's Efforts in Environmental Protection, which focuses on KMB's environment-friendly practices on buses, in depots and at the corporate level, as well as highlighting our contributions to the economic and social development of Hong Kong.

To further strengthen the company-customer relationship, we

published the KMB Corporate Social Responsibility Charter booklet, with sections devoted to corporate governance, our service charter, customer care, employee engagement, effective communications and environmental performance. In Beijing Olympics year, we also published a Sports and the City travel guide to encourage passengers to use KMB's extensive network to enjoy leisure activities in Hong Kong.

During the year, LWB distributed over 13,980 copies of various information leaflets, including Airbus Cards, which provide route and departure information for LWB's Airport routes, and the "LWBC Bus Services for North Lantau and the Airport" leaflet.

MARKETING AND PUBLIC AWARENESS

KMB's award-winning Civic Education campaign, centred on a series of six 10-second civic

education television programmes (three with an environmental protection theme and three focusing on passenger safety), was broadcast in January and February 2008. The importance of safety and courtesy while travelling on buses was reinforced by a series of ten related posters, which were displayed on more than 50 buses and at around 1,000 bus shelters.

KMB's role as a responsible corporate citizen was recognised at community level when it won the Tai Po District Civic Education Outstanding Enterprise Award for 2007-2008.

Public awareness of our work in environmental protection was further raised through monthly press sessions and briefings promoting various new green initiatives. The sessions covered the installation of ambient sensors on the entire air-conditioned bus fleet, the introduction of the first rescue service truck equipped with a Euro IV engine, the adoption of Euro V diesel, the use of electronic destination signs and a rundown of our green procurement procedures.

Press sessions were also held by KMB to highlight teamwork and the company-wide commitment to providing quality services. Staff featured in such sessions included our award-winning apprentices, Safe Driving Award recipients, the inventors of innovative devices to facilitate bus maintenance work and KMB's first lady bus captain upon her retirement.

TRAINING AND RECOGNITION

Our ethos “Caring for People” extends not only to our customers but also to our 13,000 employees. The Group’s workforce relies on excellent teamwork and industry-leading innovation to deliver quality service. Through our focus on intensive training and recognition, we have fostered a working environment that values performance, teamwork and a sense of social responsibility – the bedrock of service excellence.

The Group continues to invest heavily in improving the safety of its bus and ferry operations. This is done in a number of ways: by providing intensive training to our bus captains and ferry crews, by strengthening performance monitoring procedures, by

improving bus designs, and by maintaining our buses and ferries to the highest standards. A culture of training and recognition not only keeps the focus on safety, it also motivates our staff to maintain high levels of service.



The following table gives a breakdown of the workforce of the Group by division at the end of 2008 and 2007:

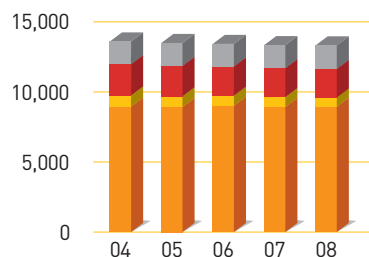
| Division | 2008 | 2007 |
|-------------------------------------|---------------|---------------|
| Franchised Public Bus Operations | | |
| • KMB | 11,947 | 12,000 |
| • LWB | 451 | 443 |
| Non-franchised Transport Operations | 838 | 817 |
| Media Sales Business [#] | 78 | 71 |
| Mainland Transport Operations* | 7 | 7 |
| Total | 13,321 | 13,338 |

[#] including the employees of the Group's subsidiary companies on the Mainland

* excluding the employees of the Group's joint venture companies on the Mainland

Number of staff in the Group at 31 December

Number of Staff



- Bus Captain
- Other Traffic Staff
- Service Staff
- Others

Staff turnover rate

(voluntary resignation only)

Percent (%)



- KMB
- LWB
- Hong Kong market turnover rate*

* Source: Hong Kong Institute of Human Resource Management

STAFF COMMUNICATIONS

The Group operates six Joint Consultative Committees for KMB and LWB, providing a two-way channel for management and employee representatives to discuss matters that affect daily operations. Meeting monthly at KMB and bi-monthly at LWB, representatives cover issues such as safety and operating procedures, the work environment and staff welfare.

Via our staff website, colleagues at KMB and LWB can access staff-related information, such as management announcements, annual leave balances, weather reports, reports on staff events and details of upcoming activities.

The monthly corporate magazine KMB Today and in-house VCDs are effective communication means to keep all our 13,000 staff on the front line and behind the scenes informed of company developments. We also have a library at KMB's headquarters which provides staff with a wide selection of books for self-learning and leisure reading.

About

8,900

well-trained Bus Captains

CORPORATE SOCIAL RESPONSIBILITY

Our Human Resources Department operates an Employee Caring Programme, which offers a variety of health and recreational courses, as well as professional counselling services. In October 2008, a Fun Day was organised at KMB's Sha Tin Depot, giving our employees an opportunity to show the workplace to their families.

We recognise that excellent communication among our people is of paramount importance to close teamwork. In 2008, KMB introduced a two-week Appreciation Programme, through which staff at all levels were encouraged to take time out to post messages thanking their colleagues for assistance and attentiveness beyond the call of duty.

GENERAL STAFF TRAINING

The Group sees staff training as a significant investment in its present and future human capital. In 2008, we focused on training sessions for improving supervisory and crisis management skills. To enhance our Inspectors' supervisory skills, external professional consultants were engaged to provide a series of training workshops covering coaching and mentoring, interpersonal communication and customer service. During the year, 343 members of staff attended courses organised by the Occupational Safety and Health Council and the Labour Department. KMB also formed a

Special Assistance Team under the Crisis Management Committee to enhance traffic accident handling ability. Training in counselling skills was provided to team members.

During the year, we continued to organise Myers-Briggs Type Indicator team building workshops for management staff in KMB and LWB to foster team spirit and enhance departmental performance. In addition, for the third year in succession, we invited a renowned Harvard Business School professor who specialises in business strategies to conduct a seminar to bring our management staff up to speed with the latest developments in the commercial world.



KMB's Driving Simulator Studio is the first training facility of its kind in Hong Kong



Our state-of-the-art driving simulator recreates real-world environments for bus captain training

REWARDING SERVICE EXCELLENCE

As part of its drive for service excellence, KMB continued its Outstanding Service Award programme in 2008, with 72 employees rewarded for outstanding performance. The following awards were also presented to KMB and LWB staff in recognition of their dedicated contribution:

service and safe driving award programmes in 2008 to recognise the outstanding performance of their drivers.

To recognise exceptional loyalty, Long Service Awards were presented to staff with 20, 30 and 40 years of service. By the end of 2008, 3,236 staff members out of a total workforce of 12,398 at KMB

2008 Good Service and Safe Driving Annual Award for Bus Captains

| Number of Bus Captains | KMB | LWB | Total |
|---------------------------|-------|-----|--------------|
| Good Service Annual Award | 6,126 | 273 | 6,399 |
| Safe Driving Annual Award | 3,828 | 179 | 4,007 |

2008 Good Service and Attendance Award for Terminus Supervisors/ Assistant Terminus Supervisors/ Customer Service Assistants

| Number of Employees | KMB | LWB | Total |
|---------------------------|-----|-----|------------|
| Good Service Annual Award | 374 | 17 | 391 |
| Attendance Annual Award | 195 | 7 | 202 |

The operating companies of the Group's Non-franchised Transport Operations Division also ran good

and LWB had received a Long Service Award. In addition to the experience of its workforce, the

Group can count among its core strengths a low staff turnover rate that helps sustain service excellence. KMB's voluntary turnover rate for 2008 was 2.8%, significantly lower than the market average.

BUS CAPTAIN TRAINING

As part of our dedication to providing a safe, comfortable and reliable service for our passengers, we operate our in-house KMB Bus Captain Training School at Sha Tin Depot to provide new and existing bus captains with comprehensive training and improvement courses respectively. In 2008, more than 30 Driving Instructors and some 30 training buses operated out of our Training School.

New recruits undergo a course of training, which includes theory lessons emphasising safety and customer service, as well as practical on-road training. Besides taking Government driving examinations, all our bus captains need to pass stringent internal assessments to ensure they are capable of handling the responsibilities of their position. Experienced bus captains undergo training aimed at reinforcing their safety awareness and sensitivity to passenger comfort. All bus captains receive training in "eco-driving", which promotes good practices such as switching off idling engines.

The Training School's state-of-the-art Driving Simulator Studio recreates real-world driving environments and vehicle behaviours to improve driving performance and response to different situations. It also

CORPORATE SOCIAL RESPONSIBILITY

generates a report, covering passenger comfort, as well as speed and trip duration. Each of the four driving stimulator stations is equipped with three 42-inch plasma displays broadcasting high-resolution three-dimensional images, based around an authentic driving cabin with driving seat, steering wheel, accelerator, brake and instrument panel. Trainees are able to feel the interaction between the vehicle and the road surface and hear the sounds generated inside and outside the cabin. Instructors are on hand to give instructions and to share feedback with participants after each training session.

BUS CAPTAIN PERFORMANCE

Constant monitoring by means of a systematic performance assessment mechanism ensures that the performance of our bus captains is maintained at a high level. In the event of a bus captain falling below these high standards, we provide remedial training, with a Performance Management Team helping bus captains identify their strengths and weaknesses. Disciplinary action is taken when bus captains are found to have under-performed, while outstanding performance is rewarded by various awards and bonuses. The performance of the Group's non-franchised bus

Safety and passenger comfort drive the design and maintenance of our bus fleets

captains and ferry operators is monitored in a similar way.

The Safe Driving Award has been promoting road safety since its introduction in 1990. In 2008, awards were presented to the following KMB and LWB bus captains in recognition of their outstanding safety records:

2008 Safe Driving Award for Bus Captains

| Number of Bus Captains | KMB | LWB | Total |
|------------------------|------------|-----------|------------|
| 35-year accident free | 1 | – | 1 |
| 30-year accident free | 3 | – | 3 |
| 25-year accident free | 8 | – | 8 |
| 20-year accident free | 46 | 1 | 47 |
| 15-year accident free | 75 | 1 | 76 |
| 10-year accident free | 180 | 4 | 184 |
| 5-year accident free | 471 | 11 | 482 |
| Total | 784 | 17 | 801 |

BUS DESIGN AND MAINTENANCE

Safety and passenger comfort drive the design and maintenance of our bus fleets. KMB engineers work with major bus manufacturers to design new bus types that thrive in Hong Kong's unique operating environment. New KMB buses are equipped with the three-in-one integrated monitoring system with periscope. This system enables bus captains to monitor the upper deck, keep an eye on any objects behind the bus when reversing and observe passengers as they alight from the bus. Speed limiting devices and electronic tachographs that record bus performance in detail are also employed to enhance safety.

All KMB and LWB buses are subject to our ISO-certified maintenance regime, comprising daily, monthly and annual professional inspections at our depots. Our franchised buses are also subject to periodic random checks by engineers from the Transport Department.

FERRY CREW TRAINING

Safety is paramount in the operations of Park Island Transport Company Limited ("PITC"). All PITC crew members have appropriate maritime qualifications and seagoing experience, and they participate in ongoing training and professional development programmes.

Initial operational training is provided to newly recruited crew members on aspects related to the handling and navigation of the catamaran fleet. Further sessions are devoted to on-board safety and customer service. In addition, professional development programmes enhance the skills of crew members in areas such as effective radar and Very High Frequency (VHF) radio operations. Crew members are also



All our buses are subject to stringent, ISO-certified maintenance regimes

encouraged to participate in training courses run by the Vocational Training Council on passenger safety, first aid, fire-fighting and survival techniques.

Emergency training is given to ensure that crews respond promptly and effectively to unforeseen incidents. Drills on handling collisions, fires and equipment failure are organised on a regular basis. The Group constantly seeks ways to improve performance standards and thus maintain PITC's outstanding reputation for safety and customer service.

TECHNICAL AND APPRENTICE TRAINING

KMB's Technical Training School has been training maintenance staff in the most up-to-date bus transport technologies since 1973. In 2008, 172 in-house training sessions were organised for 1,217 skilled workers and seven sessions were held for 87 engineers, supervisors and foremen in association with our bus manufacturers.

The Technical Training School also runs a four-year apprenticeship training scheme for school leavers to ensure an adequate supply of skilled maintenance workers.

In 2008, 18 apprentices graduated from the School, bringing the total since its establishment to 2,131. At the end of 2008, 192 apprentices were enrolled at the School.

As in previous years, the quality of KMB's apprentice training programme was recognised in 2008. One of our apprentices won the Outstanding Apprentice Award in the Automobile Trade, organised by the Vocational Training Council, and was invited to join a study trip to Singapore. Another apprentice won the 2007-2008 Sir Edward Youde Memorial Outstanding Apprentice Award, organised by the Sir Edward Youde Memorial Fund Council.

COMMUNITY OUTREACH

The Group has a proud tradition of community service in support of the young, the elderly, the handicapped and others in need, sponsoring events organised by the Government and charities, as well as encouraging staff to participate in a variety of voluntary activities. Once again, in 2008, the Group was recognised as a Caring Company by the Hong Kong Council of Social Service, while KMB was presented with an Award of Distinction by The Community Chest of Hong Kong.

FRIENDS OF KMB

Established in 1995, KMB's volunteer club, FRIENDS OF KMB, is active in social service, environmental protection and civic education. In 2008, its 3,000 members voluntarily contributed more than 13,000 hours of their

time to community outreach. Club members visited children's homes, centres for the elderly and a sheltered workshop, and participated in charity walks, raffle ticket sales, carnivals and environmental protection initiatives. In the 13 years since its inception,

FRIENDS OF KMB has recorded over 75,000 hours of voluntary service, and received further recognition when it was named first runner-up in the Highest Service Hour Award 2007 (Private Organisation – Best Customer Participation) by the Social Welfare Department.



COMMUNITY SPONSORSHIP

The Group is an enthusiastic participant in community sponsorship programmes such as the Corporate Challenge Half Marathon, Dress Special Day and New Territories Walk for Millions, organised by The Community Chest of Hong Kong, and other events and activities organised by the Government, charities and professional groups.

The Group sponsored sporting and cultural events again in 2008, in addition to industry-improvement campaigns and social awareness initiatives. Beneficiaries included the Hong Kong Sports Stars Awards, the Hong Kong Management Association Quality Award, the Hong Kong Brands Week, the Outward Bound Hong Kong Corporate Challenge and the Volunteer Movement of the Social Welfare Department.

The Group's subsidiary, RoadShow Holdings Limited ("RoadShow"), received the "5 Years Plus Logo" in the Caring Company Award, organised by the Hong Kong

Council of Social Service, in recognition of its ongoing commitment to outstanding corporate citizenship. RoadShow continues to support a host of charitable organisations by broadcasting community service messages and charity appeals on its Multi-media On-board (MMOB) system.

HELPING SPECIAL NEEDS PASSENGERS

The Group once again provided free bus rides on its franchised bus routes to special groups of passengers in 2008. On Senior Citizens' Day, 16 November 2008, free rides were offered on both KMB and LWB to passengers aged 65 and over. On International Day of Disabled Persons, 23 November 2008, disabled people and their escorts were able to enjoy the same offer. Both companies continue to exchange ideas with disabled groups on ways to further facilitate the use of bus services by those with special needs.

The Group's community outreach programmes support young people, the elderly, the handicapped and others in need through sponsorship of Government and charity-backed activities

With

3,000

"FRIENDS OF KMB" members

CARING FOR THE ENVIRONMENT

As a member of the international business community, the Group recognises its responsibility towards the environment where it operates. We are constantly looking to improve procedures and introduce innovative solutions locally, while working with our manufacturers and suppliers to develop products that minimise the impact of our operations on the environment. KMB's certification by the Hong Kong Q-Mark Council demonstrates our commitment to a sustainable future.

Q-MARK COUNCIL RECOGNITION FOR KMB'S ENVIRONMENTAL MANAGEMENT

KMB has received Green Mark Certification from the Q-Mark Council of the Federation of Hong Kong Industries, the first public transport organisation to be recognised in this way. The certification recognises that the delivery of franchised bus services and the maintenance and repair of

buses at KMB's four main depots, at Kowloon Bay, Lai Chi Kok, Sha Tin and Tuen Mun, meet the prescribed Hong Kong Green Mark Standard under the Hong Kong Green Mark Certification Scheme. The Scheme is designed to help businesses identify, control and monitor the environmental aspects of their operations. To ensure that stringent environmental management standards are maintained throughout the certification period, from 4 May 2007 to 30 April 2010, KMB remains subject to quarterly surveillance audits.

ENVIRONMENT-FRIENDLY BUSES

The KMB and LWB bus fleets are continuously upgraded to ensure they comply with, or exceed, the applicable environmental standards. We are pleased to fulfil our role as industry leader by introducing innovations that improve our environmental performance.

Euro IV Engines

KMB is acknowledged as a pioneer of the latest green engines. Between 2006 and 2008, the company introduced two types of Euro IV engines currently on the market, in order to evaluate and compare their environmental effectiveness and engine performance. Compared to the Euro III engine, the Euro IV engine can reduce emissions of nitrogen oxides and particulates by 30% and



80% respectively. These two types of Euro IV buses feature respectively the Selective Catalytic Reduction and Exhaust Gas Recirculation technologies, which are set to become the basic specification for KMB's newly purchased buses.

Green Fleet

KMB is progressively installing Diesel Particulate Filters (DPFs) on 1,675 Euro II and Euro III buses to upgrade their exhaust emissions to Euro IV/V standards in terms of particulate matter. The entire project is scheduled to be completed in 2010. At that point, the average particulate emission levels of the entire KMB bus fleet will be reduced by 91% compared to 1992.

At the end of 2008, KMB had a total of 3,933 buses, all of them meeting

the stringent exhaust emission standards of the European Council of Environmental Ministers. A total of 756 Euro II, Euro III and Euro IV buses had been fitted with Continuously Regenerating Traps and Exhaust Gas Recirculation devices to achieve near Euro IV-standard emissions. The number of buses achieving Euro III standard emissions was 445. In addition, catalytic converters had been installed on 939 buses with Euro I engines and 401 buses with pre-Euro engines, bringing their exhaust emissions up to the standards of Euro II and Euro I engines respectively in terms of particulate matter.

As at 31 December 2008, the number of KMB and LWB buses that met the respective emission standards was as follows:

| Emission Level (in terms of particulate matter) | Number of buses meeting such level | | |
|--|------------------------------------|------------|--------------|
| | KMB | LWB | Total |
| Euro I | 401 | 3 | 404 |
| Euro II | 2,331 | 124 | 2,455 |
| Euro III | 445 | 8 | 453 |
| Euro IV | 756 | 22 | 778 |
| Total | 3,933 | 157 | 4,090 |

The bus fleets of the Group's Non-franchised Transport Operations Division are also equipped with environment-friendly engines.

Ultra-Low Sulphur Diesel

Since 2001, all buses in the KMB and LWB fleets have been using ultra-low sulphur diesel, which contains only 0.005% sulphur and significantly reduces the exhaust emission levels of sulphur oxides, nitrous oxides and particulates. In 2008, the KMB bus fleet started to adopt Euro V Diesel, which contains only 0.001% sulphur.

Environment-friendly Non-franchised Buses

Environment-friendly engines are installed in all buses of the SBH Group and New Hong Kong Bus Company Limited fleets. More than 64% of the buses are equipped with Euro III or Euro IV engines.

Revolutionary Diesel-Electric Hybrid Buses

PITC has three diesel-electric hybrid air-conditioned super-low floor single-deck buses powered by batteries that are recharged when the bus brakes or goes downhill. The diesel-powered micro-turbine generators operate only when the batteries run down to a pre-set level, resulting in a dramatic reduction in exhaust emissions.

Over

4,000

**Environment-friendly
Buses**

CORPORATE SOCIAL RESPONSIBILITY

Synthetic Gearbox Oil

Synthetic gearbox oil was introduced in 2001 and the use of synthetic oil was extended to all KMB and LWB double-deck buses in 2005. The oil drain interval has been increased from 30,000 kilometres to 150,000 kilometres, resulting in an 80% reduction in waste oil.

Eco-Driveline System

The Eco-Driveline system developed by KMB engineers offers passengers a smoother and more comfortable ride, while reducing fuel consumption and cutting exhaust emissions by 6-10%. The Eco-Driveline system achieves this by integrating an engine with a high torque, six-speed double overdrive gearbox with an optimised final drive ratio axle and a sophisticated electronically controlled gear-shift program.

Air Foam Filters

KMB and LWB are progressively adopting highly effective foam-element air filters to replace traditional paper-element air filters. Resulting benefits are a six-fold increase in the interval between services and a significant reduction in the amount of solid waste disposal, with no compromise in engine performance.

Variable Stroke Air-conditioning Compressor

The variable stroke compressor, developed for KMB by its air-conditioning system supplier, has undergone extensive road testing since 2005. The system provides

better adaptive control and suits the dynamic urban operational environment in all seasons. The variable stroke compressor has been found to improve fuel consumption, especially in cooler weather. Buses ordered in 2008 will come equipped with this type of energy-saving compressor.

WASTE TREATMENT

WasteWise Scheme

Committed to bringing about a better environment through its contributions to environmental conservation, the Group continues to develop and implement green initiatives to reduce the impacts that arise from its operations. In recognition of its efforts in environmental preservation, KMB was once again granted the "Class of Excellence" Wastewi\$e Label by the Environmental Campaign Committee in 2008.

To reduce the amount of solid waste disposed of in landfills, KMB has adopted a company-wide waste reduction programme. Waste paper and the plastic cartridges used in fax machines and printers, as well as rechargeable batteries and fluorescent tubes, are collected for recycling. Further resource saving is achieved by using long-life fluorescent lighting tubes.

Tyre Retreading and Recycling

In order to reduce industrial waste, the life of a bus tyre can be extended by retreading. Since its retreading workshop began operating in 1972, KMB has

retreaded more than 630,000 tyres. In 2008, about 27,800 tyres were retreaded. In addition, more than 18,000 scrapped tyres, which would formerly have been dumped at Government landfills, and over 170 tons of tyre chips are collected annually by a recycling agent and used to manufacture playground flooring and other rubber products.

Recycling of Fluorescent Tubes

In 2006, KMB became the first enterprise in Hong Kong to participate in the fluorescent tube recycling campaign, further reducing the impact of its solid waste on the environment. In 2008, approximately 89,000 fluorescent tubes were sent to the Government chemical waste treatment centre for recycling, bringing the total to around 200,000 used tubes.

Waste Oil and Chemical Waste

During 2008, around 847,700 litres of waste oil from our bus maintenance sites was collected by a registered waste oil recycling agent, which handled the subsequent recycling or disposal processes in accordance with the statutory standards. Around 351,600 kilograms of solid chemical waste was disposed of by a registered chemical waste collector at authorised landfills after treatment at a Chemical Waste Treatment Centre.

Waste Water

KMB depots are equipped with a total of 11 automatic waste water



Our refrigerant recycling machine facilitates the maintenance of bus air-conditioning systems in an environment-friendly manner

treatment systems with a daily treatment capacity of 631 cubic metres. Waste water produced during the daily operations of the depots is treated by these systems to ensure compliance with statutory standards before it is discharged into the public sewer.

Self-developed Filter Compressing Machine

Developed in-house and introduced by KMB in 2005, the Filter Compressing Machine continues to be used to process disposed fuel and oil filters. It can reduce the volume of solid chemical waste by 60%, thereby helping to save landfill space. Further

environmental benefits are derived as the waste oil squeezed from the filters during the compressing process is subsequently recycled. The machine won the Certificate of Merit in Green Innovative Practice in the 2006 Hong Kong Eco-Business Awards.

GREEN PREMISES

The design, construction and operation of our bus depots are geared towards energy conservation and environmental protection. Dedicated facilities, including waste water treatment systems, water recycling facilities and environment-friendly fire service systems, are installed in all KMB and LWB depots.

Energy saving features are also incorporated in our lighting, air-conditioning and ventilation systems. Regular air sampling ensures a healthy work environment.

Both the design and the renovation of the Group's headquarters are based on the Green Office concept. Pre-set timers are installed to turn lights off when they are not needed or when natural light is sufficient. Thermostats in our air-conditioned premises are set to 25.5°C to conserve energy and reduce air pollution in support of the Government's Action Blue Sky Campaign.

FINANCIAL REVIEW

THE GROUP

REVIEW OF 2008 FINANCIAL PERFORMANCE

The Group's Results for the Year

The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2008 was HK\$658.7 million, a decrease of HK\$3,189.0 million compared to HK\$3,847.7 million for 2007. Earnings per share decreased from HK\$9.53 for 2007 to HK\$1.63 for 2008. The profit included the non-recurrent after-tax profit of HK\$366.2 million (2007: HK\$3,507.7 million) arising from the sales of residential units and car parking spaces of Manhattan Hill by Lai Chi Kok Properties Investment Limited, a wholly-owned subsidiary of the Company. If such non-recurrent after-tax profits for 2008 and 2007 were excluded, the profit attributable to equity shareholders for 2008 would have been HK\$292.5 million, representing a decrease of 14.0% compared to HK\$340 million for 2007.

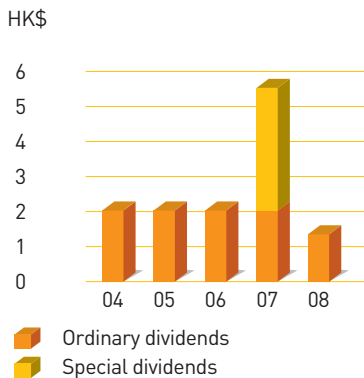
The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2008 are given below:

For the year ended 31 December 2008, the Group's turnover amounted to HK\$7,353.1 million (2007: HK\$12,013.5 million), a decrease of HK\$4,660.4 million or 38.8% compared to 2007. The decrease was mainly due to the fact that the Manhattan Hill residential units were mostly sold by the end of 2007, so that a total sales revenue of HK\$5,382.9 million was recognised in 2007, compared to HK\$619.0 million in 2008. On the other hand, fare revenue and other income generated from the Group's transport operations and other businesses increased by HK\$103.5 million from HK\$6,630.6 million for 2007 to HK\$6,734.1 million for 2008.

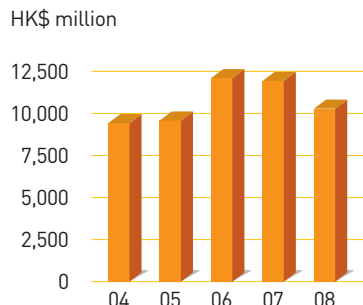
The Group's total operating expenses for the year amounted to HK\$7,087.8 million (2007: HK\$8,182.2 million), a decrease of HK\$1,094.4 million or 13.4% compared to 2007. The decrease was mainly attributable to the decrease in the cost of properties sold of HK\$1,226.4 million and the decrease in selling and marketing expenses of HK\$398.1 million in line with fewer Manhattan Hill residential units sold in 2008. However, this was partly offset by an increase in fuel and oil costs of HK\$433.9 million as a result of high fuel oil prices, particularly in the first nine months of 2008. More detailed information in respect of the Group's individual business units is set out on pages 110 to 115 of this Annual Report.

| HK\$ million | Turnover | | Profit before taxation | |
|---|----------------|----------|------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Franchised Public Bus Operations Division | 6,201.6 | 6,131.6 | 82.5 | 347.3 |
| Non-franchised Transport Operations Division | 399.7 | 379.9 | 23.0 | 37.9 |
| Property Holdings and Development Division | 619.0 | 5,382.9 | 415.2 | 3,700.4 |
| Media Sales Business Division | 132.8 | 119.1 | 57.1 | 61.1 |
| Financial Services Division | - | - | 50.2 | 32.8 |
| Mainland Transport Operations Division | - | - | 106.9 | 16.2 |
| | 7,353.1 | 12,013.5 | 734.9 | 4,195.7 |
| Finance costs | | | (32.6) | (118.8) |
| Unallocated net operating expenses | | | (8.6) | (3.0) |
| Profit before taxation and minority interests | | | 693.7 | 4,073.9 |
| Income tax | | | (17.8) | (205.6) |
| Minority interests | | | (17.2) | (20.6) |
| Profit attributable to equity shareholders of the Company | | | 658.7 | 3,847.7 |

Dividends per share

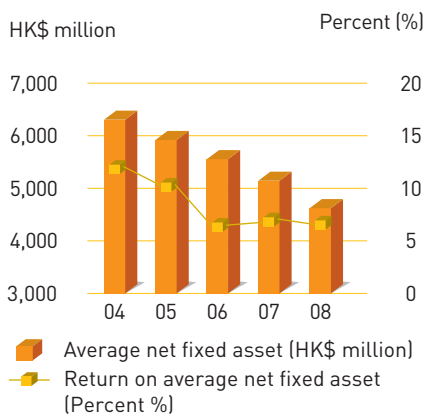


Total assets at 31 December

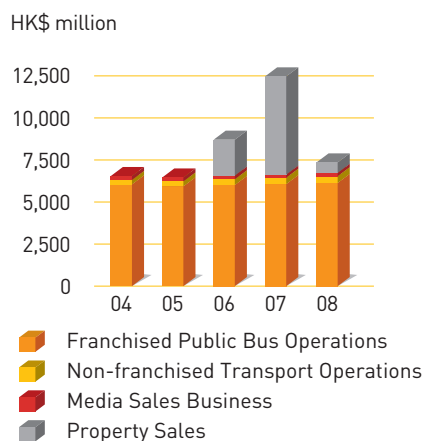


Return on average net fixed asset employed

(excluding property sales)



Group turnover



The Group's share of profits of associates in 2008 amounted to HK\$59.8 million (2007: HK\$29.4 million), an increase of HK\$30.4 million compared to 2007. The increase was mainly due to the increase in government subsidy granted to the Shenzhen Bus Group. In addition, the Group had disposed of its entire 45% equity interest in Wuxi Kowloon Public Transport Company Limited, a Sino-foreign joint stock company, and record an after-tax gain.

Income tax expense for the year amounted to HK\$17.8 million (2007: HK\$205.6 million), representing a decrease of 91.3% compared to the previous year. The breakdown of the income tax expense is set out in note 5(a) to the financial statements on page 162 of this Annual Report.

Segment information on the Group's main businesses is set out in note 11 to the financial statements on page 168 of this Annual Report.

FINANCIAL REVIEW

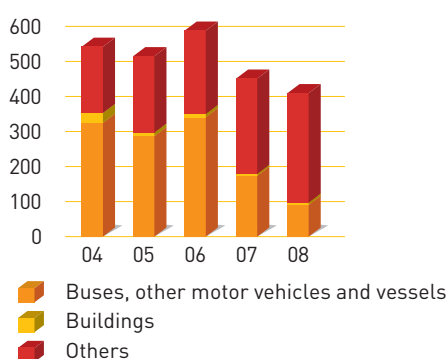
KEY CHANGES TO FINANCIAL POSITION

Fixed Assets and Capital Expenditure

The Group's fixed assets in the consolidated balance sheet mainly comprise buildings, buses and other motor vehicles, vessels, buses under construction, tools and others, investment property under development, and interest in leasehold land held for own use under operating leases. None of the Group's fixed assets was pledged or charged as at 31 December 2008.

Capital expenditure

HK\$ million



During 2008, the Group incurred capital expenditure of HK\$409.5 million (2007: HK\$451.1 million). The decrease was mainly attributable to the purchase of fewer new buses for the franchised public bus operations as result of network reorganisation. The breakdown of the capital expenditure is shown in note 12(a) to the financial statements on page 169 of this Annual Report.

Current Assets and Liabilities

At the end of 2008, the Group's total current assets amounted to HK\$3,960.1 million (2007: HK\$5,160.5 million), which mainly comprised completed property held for sale of HK\$78.5 million (2007: HK\$206.3 million), accounts receivable of HK\$717.8 million (2007: HK\$1,707.6 million) and liquid funds of HK\$3,034.1 million (2007: HK\$3,095.4 million). Completed property held for sale represented the cost of the unsold residential units and car parking spaces of Manhattan Hill held at the balance sheet date.

Accounts receivable included instalments receivable of HK\$299.9 million (2007: HK\$1,433.8 million) arising from the property sales in respect of Manhattan Hill. The Group's liquid funds at the end of 2008 were mainly denominated in Hong Kong Dollars, United States Dollars, Renminbi and British Pound Sterling ("GBP"). The decrease in total current assets during the year was mainly due to the decrease in instalments receivable from the properties sales.

Total current liabilities at 31 December 2008 amounted to HK\$1,876.6 million (2007: HK\$1,936.7 million), which principally included the current portion of bank loans, bank overdrafts, accounts payable and other accruals. The decrease was mainly due to the decrease in current tax payables as a result of decrease in taxable profit in 2008.

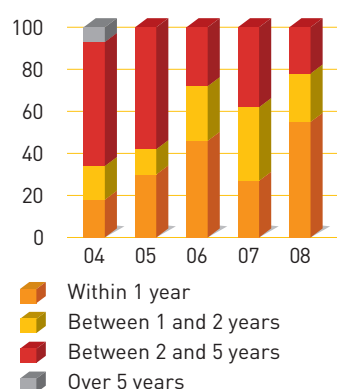
Bank Loans and Overdrafts

At 31 December 2008, bank loans and overdrafts, all unsecured, amounted to HK\$1,315.1 million. At 31 December 2007, the amount was HK\$1,591.6 million, of which HK\$38.0 million was secured by pledged bank deposits of the same amount.

The maturity profile of bank loans and overdrafts of the Group at 31 December 2008 and 31 December 2007 is shown in the chart below:

Debt maturity profile at 31 December

Percent (%)



Net Cash

At 31 December 2008, the Group's net cash (i.e. cash and deposits at banks less total borrowings) amounted

to HK\$1,719.0 million (2007: HK\$1,541.8 million). The details of the Group's net cash by currency at 31 December 2008 are given below:

| Currency | 2008 | | 2007 | |
|------------------------|--------------------------------------|--------------------------|--------------------------------------|--------------------------|
| | Net cash in foreign currency million | Net cash in HK\$ million | Net cash in foreign currency million | Net cash in HK\$ million |
| Hong Kong Dollars | | 1,207.3 | | 978.2 |
| United States Dollars | 47.1 | 365.3 | 54.0 | 421.3 |
| British Pound Sterling | 1.7 | 19.2 | 1.6 | 25.5 |
| Renminbi | 112.5 | 127.2 | 109.1 | 116.8 |
| Total | | 1,719.0 | | 1,541.8 |

Capital Commitments

Capital commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2008 amounted to HK\$326.7 million (2007: HK\$361.9 million). These commitments are to be financed by borrowings and working capital of the Group. A summary of the capital commitments is set out below:

| HK\$ million | 2008 | 2007 |
|---|-------|-------|
| Development of Manhattan Hill | – | 45.2 |
| Purchase of buses and other motor vehicles | 68.1 | 58.8 |
| Purchase of other fixed assets | 257.3 | 256.5 |
| Construction of depots and other depot facilities | 1.3 | 1.4 |
| Total | 326.7 | 361.9 |

As at 31 December 2008, the Group had 44 (2007: 41) new buses on order for delivery in 2009 and 16 (2007: 22) buses at various stages of construction.

FUNDING AND FINANCING

Liquidity and Financial Resources

The Group consistently adopts a prudent financial management policy in the management of its financial affairs. Its liquidity and financial resources are closely monitored to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with undrawn committed banking

facilities are sufficient to meet the demands for daily operational needs, loan repayments, capital expenditure and potential business expansion and development. The Group's operations are mainly financed by shareholders' funds, bank loans and overdrafts. In general, the Group's major operating companies arrange for their own financing to meet their operational and investment needs. The Group's other subsidiaries are mainly financed by the holding company from its capital base. The Group's funding strategy is regularly reviewed by management to ensure that cost-efficient and flexible funding is available to cater for the unique operating environment of each subsidiary. At 31 December 2008, the Group had unutilised banking facilities totalling HK\$535.0 million (2007: HK\$692.0 million).

Gearing Ratio and Liquidity Ratio

The Group was in a net cash position as at 31 December 2008 and 31 December 2007. Its liquidity ratios at the year end of 2008 and 2007 are set out below:

| | 2008 | 2007 |
|--|------|------|
| Liquidity ratio at 31 December (the ratio of current assets to current liabilities) | 2.11 | 2.66 |

The Group's net cash at 31 December 2008 amounted to HK\$1,719.0 million (2007: HK\$1,541.8 million). This increase was mainly attributable to the increase in liquid funds arising from the sales of Manhattan Hill residential units, a portion of which had been utilised as working capital and for repayment of bank loans.

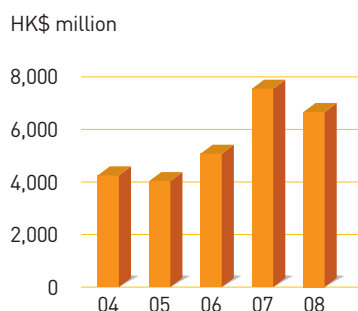
Finance Costs and Interest Cover

For the year ended 31 December 2008, the finance costs incurred by the Group decreased to HK\$32.6 million from HK\$118.8 million for 2007. The decrease was mainly due to the decreases in interest rates and average bank borrowings during the year. The average interest rate in respect of the Group's borrowings for 2008 was 2.15%, a decrease of 233 basis points compared to 4.48% for 2007.

For the year ended 31 December 2008, the Group's interest income exceeded the total finance costs by HK\$88.6 million (i.e. a net interest income position) (2007: HK\$84.9 million).

FINANCIAL REVIEW

Shareholders' fund at 31 December



Net Cash Flow

During the year, the cash flow generated from the operations of the franchised public bus business and the further sales of the residential units of Manhattan Hill was the principal source of our liquidity. For the year ended 31 December 2008, there was a net increase in cash and cash equivalents of HK\$577.6 million (2007: HK\$600.7 million) and the sources are set out below:

| HK\$ million | 2008 | 2007 |
|------------------------------------|--------------|-----------|
| Net cash generated from/(used in): | | |
| • Operating activities | 2,167.3 | 5,917.7 |
| • Investing activities | 257.6 | (1,626.0) |
| • Financing activities | (1,847.3) | (3,691.0) |
| | 577.6 | 600.7 |

In 2008, the net cash inflow generated from the operating and investing activities of the Group was HK\$2,424.9 million (2007: HK\$4,291.7 million). The main components included: (i) net cash generated from the franchised public bus operations of HK\$306.8 million (2007: HK\$622.1 million); (ii) cash proceeds received from the sales of Manhattan Hill residential units of HK\$1,782.1 million (2007: HK\$5,958.0 million); (iii) payment of capital expenditure of HK\$402.1 million (2007: HK\$338.3 million); and (iv) payment of interest expenses of HK\$34.5 million (2007: HK\$120.5 million).

During the year, the bank loans decreased by HK\$257.2 million (2007: HK\$2,250.1 million). Before the payment of dividends to equity shareholders for 2008, the net cash inflow for 2008 was HK\$2,143.7 million, compared to HK\$2,025.5 million for 2007.

Details of the Group's cash flow movement for the year ended 31 December 2008 are set out in the consolidated cash flow statement on pages 144 and 145 of this Annual Report.

Treasury Policies

The Group's activities are exposed to a variety of financial risks, including potential risks on credit, cash flow and liquidity, interest rate, foreign currency, equity price and fuel price. The overall risk management policies and practices of the Group focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's performance.

Credit Risk

The Group's credit risk is mainly attributable to trade and other receivables, instalments receivable from sale of properties, loans to associates, and unlisted debt investments. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations are performed on all major customers requiring credit over a certain amount for trade and other receivables. For instalments receivable from sale of properties, the properties sold serve as the collateral. Debt investments are only made with counterparties of high credit ratings. The Group regularly reviews the recoverability status of the receivables and carries out appropriate follow up measures to minimise its exposure to credit risk. The Group has no significant concentrations of credit risk and does not provide any guarantee that would expose itself to credit risk.

Cash Flow and Liquidity Risk Management

Cash flow and liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, which is caused by mismatches between assets and liabilities in terms of their size and/or timing.

The Group has not been exposed to significant cash flow and liquidity risks as a substantial portion of the Group's revenue is generated from the franchised public bus operations, which is essentially received on a cash basis. Through proper planning and close monitoring of the level of debts, the Group is able to effectively meet its funding and investment requirements.

Interest Rate Risk Management

The Group manages its exposure to interest rate risk in a prudent manner with a variety of techniques and instruments, including natural hedges achieved by spreading loans over different rollover and maturity dates. Derivative financial instruments such as interest rate swaps are used, as and when appropriate. As at 31 December 2008, all of the Group's borrowings were denominated in Hong Kong Dollars and on a floating interest rate basis. This enabled the Group to take advantage of the lower floating interest rates compared to fixed rate financing in 2008. The Group constantly reviews its strategy on interest rate risk management in the light of prevailing market conditions and devises suitable strategies to cope with the risk exposure. The Group's major subsidiary, KMB, has been continuously granted a good and stable "A" credit rating by Standard & Poor's since 14 January 2002. With this credit rating, KMB has been able to obtain favourable borrowing rates from financial institutions.

Foreign Currency Risk Management

Foreign currency risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments and transactions denominated in foreign currencies. The Group's foreign currency exposure mainly arises from the payments for new buses and overseas motor vehicle components, which are mainly denominated in GBP. Although foreign currency exposure does not pose a significant risk to the Group as the levels of foreign currency assets and liabilities are relatively low compared to its total asset base, the Group will continue to closely monitor foreign exchange movements and enter into forward exchange contracts in a strategic manner when opportunities arise to hedge foreign currency fluctuations. In 2008, the Group entered into a number of forward foreign exchange contracts to hedge approximately 30% (2007: Nil) of the total GBP requirement for the first half of 2009.

Equity Price Risk

The Group is exposed to equity price changes arising from investment in equity securities. As the carrying amount of such investments is insignificant compared to the total assets of the Group, management considers the exposure to equity price risk to be insignificant.

Fuel Price Risk

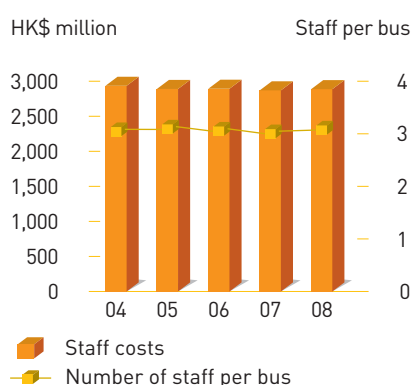
Management constantly monitors fuel oil price movements. When opportunities arise, it may recommend entering into fuel oil swap contracts to hedge against fuel oil price fluctuations in a strategic manner. For the year ended 31 December 2008, the Group did not enter into any fuel oil swap contracts. As a result, there was no outstanding fuel oil swap contract at the year end of 2008.

EMPLOYEES AND REMUNERATION POLICIES

Due to the labour intensive nature of the transport industry, staff costs represent the major cost element of our operations. For the year ended 31 December 2008, total remuneration of employees of the Group (including employees of the Group's subsidiary companies on the Mainland) amounted to HK\$2,985.6 million compared to HK\$2,948.1 million for 2007. During the year, through natural attrition and continued control of the number of staff, the headcount of the Group at the year end of 2008 decreased marginally to 13,321 (2007: 13,338). The Group will continue to closely monitor and align the number and remuneration of its employees against productivity and market trends.

Staff costs and staff per bus

(Franchised Public Bus Operations)



INDIVIDUAL BUSINESS UNITS

FRANCHISED PUBLIC BUS OPERATIONS

The Kowloon Motor Bus Company (1933) Limited ("KMB")

| | Unit | 2008 | 2007 |
|---|-------------------------|------------------|-----------|
| Turnover | HK\$ million | 5,910.4 | 5,847.0 |
| Other net income | HK\$ million | 100.9 | 95.7 |
| Deemed income recognised in respect of defined benefit retirement plans | HK\$ million | 152.0 | 65.2 |
| Total operating expenses | HK\$ million | (6,096.5) | (5,686.5) |
| Finance costs | HK\$ million | (23.7) | (61.1) |
| Profit before taxation | HK\$ million | 43.1 | 260.3 |
| Income tax credit / (expense) | HK\$ million | 32.6 | (46.2) |
| Profit after taxation | HK\$ million | 75.7 | 214.1 |
| Net profit margin | | 1.3% | 3.7% |
| Passenger volume | Million passenger trips | 986.5 | 1,008.1 |
| Kilometres travelled | Million km | 325.4 | 331.2 |
| Staff number at year-end | Number of staff | 11,947 | 12,000 |
| Fleet size at year-end | Number of buses | 3,933 | 4,047 |
| Total assets value | HK\$ million | 5,054.8 | 5,451.4 |

The profit after taxation of KMB for the year of HK\$75.7 million (2007: HK\$214.1 million) included the following items, which are non-cash in nature:

- (i) a deemed income of HK\$152.0 million (2007: HK\$65.2 million) determined by independent actuaries in respect of the two defined benefit schemes operated by KMB, and recognised in KMB's income statement in accordance with the requirement of Hong Kong Accounting Standard 19 "Employee Benefits"; and
- (ii) a deferred tax credit of HK\$38.6 million (2007: nil) arising from the adjustment to the opening deferred tax balance due to the reduction in the Hong Kong Profits Tax rate from 17.5% to 16.5% with effect from the fiscal year 2008/09.

Excluding the above non-cash items, KMB recorded a loss after taxation of HK\$89.8 million for 2008, an unfavourable change of HK\$250.1 million compared to the corresponding profit after taxation of HK\$160.3 million for 2007.

KMB's fare revenue and ridership for the year amounted to HK\$5,816.3 million (2007: HK\$5,768.8 million) and 986.5 million passenger trips (2007: 1,008.1 million passenger trips). The increase in fare revenue was due mainly to the fare increase of 4.5% which took effect from 8 June 2008, but was partly offset by a decrease in total

ridership of 2.2% for 2008 due to intensified competition for patronage following the merger of the two local rail networks together with the offer of rail fare discounts starting from December 2007. Advertising revenue for the year amounted to HK\$90.7 million, an increase of 21.4% compared to HK\$74.7 million for the previous year. The increase was mainly due to the renewal of advertising licence agreements with more favourable terms.

During the year, KMB's financial performance was adversely affected by historical high fuel oil prices, particularly in the first nine months of 2008. Although the price of Singapore 0.5% Sulphur Gas Oil ("Gasoil"), on which the price of the ultra-low sulphur diesel used by our franchised public bus fleets is based, eased off in the fourth quarter of 2008, the total fuel cost for the whole year of 2008 was still 35.7% or HK\$382.7 million higher than that for 2007. Together with the increase in wages and in other operating expenses, KMB's total operating expenses for 2008 rose to HK\$6,096.5 million, representing an increase of 7.2% compared to HK\$5,686.5 million for 2007.

Since 14 January 2002, KMB has continually been assigned a single "A" corporate rating (outlook: stable) by Standard & Poor's in recognition of its prudence in financial management.

Long Win Bus Company Limited (“LWB”)

| | Unit | 2008 | 2007 |
|---|-------------------------|----------------|---------|
| Turnover | HK\$ million | 323.1 | 303.0 |
| Other net income | HK\$ million | 3.6 | 1.8 |
| Deemed income recognised in respect of defined benefit retirement plans | HK\$ million | 1.2 | 0.1 |
| Total operating expenses | HK\$ million | (312.1) | (279.0) |
| Finance costs | HK\$ million | (1.9) | (4.5) |
| Profit before taxation | HK\$ million | 13.9 | 21.4 |
| Income tax expense | HK\$ million | (2.2) | (3.6) |
| Profit after taxation | HK\$ million | 11.7 | 17.8 |
| Net profit margin | | 3.6% | 5.9% |
| Passenger volume | Million passenger trips | 28.9 | 27.7 |
| Kilometres travelled | Million km | 25.6 | 24.9 |
| Staff number at year-end | Number of staff | 451 | 443 |
| Fleet size at year-end | Number of buses | 157 | 155 |
| Total assets value | HK\$ million | 231.2 | 211.6 |

The profit after taxation of LWB for the year amounted to HK\$11.7 million (2007: HK\$17.8 million), representing a decrease of HK\$6.1 million or 34.3% compared to the previous year.

LWB’s fare revenue for the year amounted to HK\$321.3 million, representing an increase of 6.7% compared to HK\$301.2 million for 2007. During the year, LWB recorded a total ridership of 28.9 million (a daily average of 78,890) passenger trips, an increase of 4.3% compared to 27.7 million (a daily average of 75,804) passenger trips in 2007. The increase in ridership was mainly due to the continued growth of population in Tung Chung New Town and the increase in travel demand to and from Hong Kong International Airport. The advertising revenue of LWB amounted to HK\$1.8 million in 2008, same as 2007. LWB was granted a fare increase of 4.5% with effect from 8 June 2008 by the HKSAR Government.

LWB’s total operating expenses for the year amounted to HK\$312.1 million (2007: HK\$279.0 million), an increase of HK\$33.1 million compared to 2007. In addition to the significant increase in fuel costs of HK\$24.0 million, other major operating expenses such as staff costs, tunnel tolls and depreciation charges also increased as a result of the addition of new buses to cope with the growing travel demand and to enhance

service quality. Finance costs for 2008 decreased by HK\$2.6 million to HK\$1.9 million (2007: HK\$4.5 million) due mainly to the decreases in average bank borrowings and market interest rates compared to the previous year.

NON-FRANCHISED TRANSPORT OPERATIONS

The Group’s Non-franchised Transport Operations Division reported a profit after taxation of HK\$19.3 million for 2008 (2007: HK\$29.1 million), representing a decrease of 33.7% compared to that for 2007. Turnover increased by 5.2% to HK\$399.7 million for 2008 from HK\$379.9 million for 2007. A review of the operations of the principal business units in this Division is set out as follows:

Sun Bus Holdings Limited and its subsidiaries (the “SBH Group”)

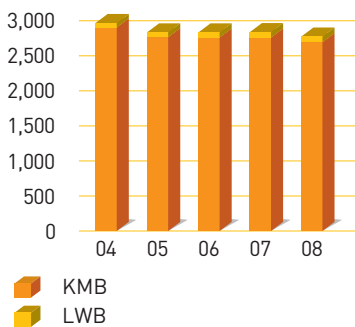
The SBH Group is one of the leading non-franchised bus operators in Hong Kong. It provides tailor-made high quality transport services to a variety of customers. Its fleet serves large residential estates, shopping malls, major employers, theme parks, deluxe hotels, local travel agents and schools, as well as the general public through chartered hire services.

FINANCIAL REVIEW

Average number of passenger trips per day

(Franchised Public Bus Operations)

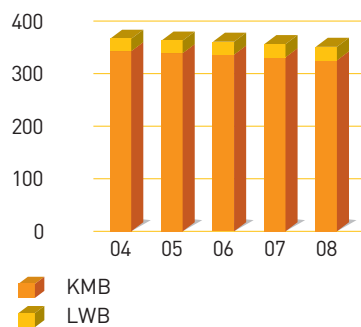
Thousand of passenger trips per day



Bus kilometres operated

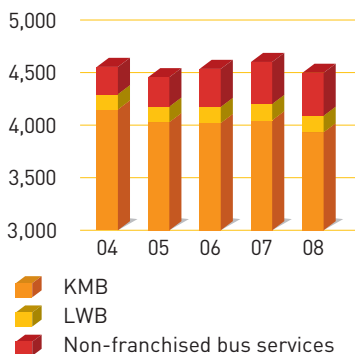
(Franchised Public Bus Operations)

Million kilometres



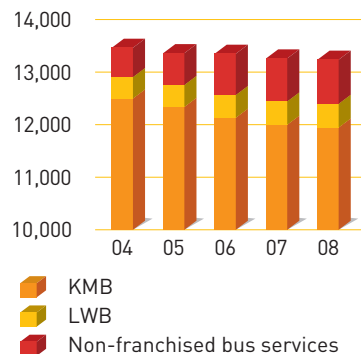
Number of licensed buses at 31 December

Number of buses



Number of staff at 31 December

Number of staff



Turnover of the SBH Group for the year amounted to HK\$218.9 million, an increase of 11.2% compared to 2007. The increase was mainly due to the additional revenue generated from the expanded fleet and an increase in hire charges. However, the growth in turnover was insufficient to offset the increase in fuel costs, staff costs and other operating expenses during the year.

During 2008, the SBH Group's flagship company, Sun Bus Limited, was awarded a contract by the Airport Authority to provide quality airport-hotel coach services. As at 31 December 2008, the SBH Group had a

fleet of 367 buses (2007: 360 buses). During the year, 19 buses (2007: 58 buses) were purchased for business expansion, service enhancement and fleet replacement.

Park Island Transport Company Limited ("PITC")

PITC provides quality shuttle bus and ferry services for residents of and visitors to Park Island, a prestigious development on Ma Wan Island. As a result of the additional population intake and the increase in the number of visitors to Ma Wan Island due to the opening of Phase 1 of Ma Wan Park, the total patronage of the bus and ferry services of PITC increased by 22.7% to

9.2 million passenger trips (2007: 7.5 million passenger trips). In order to meet the increased service demand, PITC added two super-low floor single-deck buses and two coaches to its bus fleet in 2008. As at 31 December 2008, PITC operated two ferry routes and four shuttle bus routes serving Ma Wan Island, with a ferry fleet of six high-speed catamarans and an air-conditioned bus fleet of 26 buses, comprising 19 super-low floor single-deck buses, three diesel-electric single-deck buses, two coaches and two minibuses.

New Hong Kong Bus Company Limited (“NHKB”)

NHKB jointly operates with its Shenzhen (深圳) counterpart a direct, economical, 24-hour cross-boundary shuttle bus service (commonly known as the “Huang Bus” service) for regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang (皇崗) in Shenzhen. The opening of the Lok Ma Chau Spur Line and the Lok Ma Chau Public Transport Interchange in August 2007, and the launch of direct charter flights between Taiwan and China Mainland in July 2008 have had a negative impact on the patronage of NHKB’s cross-boundary shuttle bus service, resulting in NHKB’s patronage decreasing by 26.3% from 9.5 million passenger trips in 2007 to 7.0 million passenger trips in 2008. At the end of 2008, NHKB operated a total of 15 buses, the same number as at the end of 2007.

PROPERTY HOLDINGS AND DEVELOPMENT

Lai Chi Kok Properties Investment Limited (“LCKPI”)

LCKPI is a wholly-owned subsidiary of the Group and the developer of Manhattan Hill, an upscale luxurious complex of residential towers located at 1 Po Lun Street, Lai Chi Kok, Kowloon, which is made up of 1,115 residential units with a total gross floor area of more than one million square feet and a two-level retail podium of about 50,000 square feet. In December 2007, the retail podium was transferred to another wholly-owned subsidiary of the Group, LCK Commercial Properties Limited, for development into a shopping mall for rental purposes.

Up to the end of 2007, 1,080 residential units of Manhattan Hill with a total saleable gross floor area (“saleable GFA”) of about 1,119,000 square feet (representing 94.0% of the total saleable GFA) and 253 car parking spaces had been sold. In 2008, a further 27 residential units with a total saleable GFA of about 54,600 square feet (representing 4.6% of the total saleable GFA) were sold, generating total sales of HK\$619.0 million (2007: HK\$5,382.9 million) with an after-tax profit contribution of HK\$366.2 million (2007: HK\$3,507.7 million).

As at 31 December 2008, completed property held for sale (classified under current assets in the consolidated balance sheet) amounted to HK\$78.5 million (2007: HK\$206.3 million).

There were no outstanding bank loans in respect of the construction of Manhattan Hill as at 31 December 2008 (2007: Nil).

LCK Real Estate Limited (“LCKRE”)

LCKRE, a wholly-owned subsidiary of the Group, is the owner of a 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, which has a total gross floor area of about 156,700 square feet. The building is currently held by the Group for its own use and was stated at cost less accumulated depreciation in the amount of HK\$37.5 million (2007: HK\$38.4 million) on its consolidated balance sheet as at 31 December 2008.

LCK Commercial Properties Limited (“LCKCP”)

LCKCP is currently the owner of the two-level retail podium of Manhattan Hill, which is set to provide Manhattan Hill residents, as well as local householders and office staff, with high quality retail facilities. With a total gross floor area of about 50,000 square feet, the new shopping mall (“Manhattan Mid-town”) will be positioned as a high-end retail accommodation to complement the image of Manhattan Hill and provide a new shopping experience in the area. It is scheduled to open in the second quarter of 2009 and will generate additional rental income for the Group.

LCKCP had no capital commitment outstanding and not provided for as at 31 December 2008 (2007: HK\$45.2 million).

FINANCIAL REVIEW

MEDIA SALES BUSINESS

RoadShow Holdings Limited and its subsidiaries (the "RoadShow Group")

| HK\$ million | 2008 | 2007 |
|--|----------------|---------|
| Turnover | 148.4 | 134.3 |
| Other revenue | 35.6 | 57.3 |
| Total operating expenses | (141.0) | (143.0) |
| Finance costs | (0.3) | (1.7) |
| Share of profit of associate | 14.1 | 12.5 |
| Profit before taxation | 56.8 | 59.4 |
| Income tax expense | (7.1) | (2.0) |
| Profit after taxation | 49.7 | 57.4 |
| Minority interests | (7.1) | (7.8) |
| Profit attributable to equity shareholders | 42.6 | 49.6 |

For the year ended 31 December 2008, the RoadShow Group reported a total operating revenue of HK\$184.0 million (2007: HK\$191.6 million) and a profit attributable to equity shareholders of HK\$42.6 million (2007: HK\$49.6 million).

The total operating expenses of the RoadShow Group for 2008 amounted to HK\$141.0 million, a decrease of 1.4% compared to HK\$143.0 million for 2007.

The profit attributable to equity shareholders of the RoadShow Group comprised segment profits derived from Hong Kong operations of HK\$25.1 million (2007: HK\$25.6 million) and China Mainland operations of HK\$17.5 million (2007: HK\$24.0 million). The overall performance of the RoadShow Group in 2008 remained steady. In general, the results reflected the continuing prudent and focused expansion strategy of the RoadShow Group in both Hong Kong and China Mainland.

Further information relating to the RoadShow Group is available in its 2008 final results announcement and annual report.

MAINLAND TRANSPORT OPERATIONS

As at 31 December 2008, the Group's total interests in associates and jointly controlled entities within the Mainland Transport Operations Division amounted to HK\$597.2 million (2007: HK\$702.2 million). Such investments are mainly related to the operation of passenger public transport services in Dalian (大連) and Shenzhen (深圳), and taxi and car rental services in Beijing (北京).

For the year ended 31 December 2008, the Group's Mainland Transport Operations Division reported a profit of HK\$106.9 million (2007: HK\$16.2 million), which included a gain on disposal of its entire 45% equity interest in Wuxi Kowloon Public Transport Company Limited (無錫九龍公共交通股份有限公司).

Dalian

This co-operative joint venture (“CJV”) in Dalian, Liaoning Province (遼寧省), was established in July 1997 by a 60% owned subsidiary of the Group and Dalian Public Transportation Group Co., Ltd. (大連公共交通運集團有限公司), formerly known as Dalian City No.1 Bus Company (大連市第一公共汽車公司). The Dalian CJV has a fleet of 84 single-deck buses operating on three routes serving Dalian City. The business of this CJV was adversely affected by rising operating costs and intense market competition in 2008.

Beijing

Beijing Beiqi Kowloon Taxi Company Limited (北京北汽九龍出租汽車股份有限公司) (“BBKT”), a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT’s shareholders include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限責任公司) and three other Mainland investors. The Group has invested RMB80.0 million (HK\$75.5 million) in BBKT, representing an equity interest of 31.38%. BBKT principally engages in taxi hire and car rental businesses with a fleet of 4,352 vehicles and about 4,265 employees. It made steady progress and continued to record a profit in 2008.

Shenzhen

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) (“SBG”), which started operating in January 2005, is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four other Mainland investors. The Group has invested RMB387.1 million (HK\$363.9 million) in SBG, representing a stake of 35%. SBG principally provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province (廣東省深圳市), which includes the Shenzhen Special Economic Zone and the Bao-an (寶安) and Longgang (龍崗) areas, with 4,182 vehicles serving some 173 routes. In 2008, it continued to make steady progress and recorded a ridership of 759.2 million passenger trips, representing an increase of 1.5% compared to 748.2 million passenger trips in 2007.

Wuxi

Wuxi Kowloon Public Transport Company Limited (無錫九龍公共交通股份有限公司) (“WKPT”) was a Sino-foreign joint stock company established in Wuxi City, Jiangsu Province (江蘇省無錫市) in February 2004. The Group invested RMB135.4 million (HK\$127.2 million) for a 45% equity interest in WKPT. In 2008, following the shift of the Wuxi Government’s focus on the social functionality of public transport, the Group divested the entire 45% equity interest it held in WKPT to the existing Mainland state-owned shareholder and realised a gain on such disposal.

Summary of Investments in Mainland Transport Operations as at 31 December 2008

| | Dalian | Beijing | Shenzhen |
|---|----------------------------|----------------------------------|----------------------------------|
| Nature of business | Bus services | Taxi and car rental services | Bus and taxi hire services |
| Form of business structure | Co-operative joint venture | Sino-foreign joint stock company | Sino-foreign joint stock company |
| Operation commenced | August 1997 | April 2003 | January 2005 |
| The Group’s investment cost (RMB million) | 11 | 80 | 387 |
| The Group’s effective interest | 30% | 31.38% | 35% |
| Fleet size at year-end (Number of vehicles) | 84 | 4,352 | 4,182 |
| Bus passenger volume (Million trips) | 17.6 | N/A | 759.2 |
| Bus kilometres travelled (Million km) | 4.6 | N/A | 292.2 |
| Staff number at year-end | 473 | 4,265 | 16,341 |

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The particulars of the following connected transactions and continuing connected transactions of the Group are set out below in compliance with the reporting requirements of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

CONNECTED TRANSACTIONS

LCK Commercial Properties Limited ("LCKCP")

(i) Transactions with Chun Fai Construction Company Limited ("CFCL")

As detailed in note 35(a)(viii) to the financial statements on page 197 of this Annual Report, on 16 April 2008, LCKCP entered into a prime cost agreement (the "Prime Cost Agreement") with CFCL whereby CFCL will provide management contractor services and be responsible for carrying out and completing the alteration and addition works at the retail podium of Manhattan Hill (the "Retail Podium"). Pursuant to the Prime Cost Agreement, the aggregate consideration payable to CFCL should not exceed HK\$37,400,000.

(ii) Transactions with Sun Hung Kai Architects and Engineers Limited ("SHKAE")

As detailed in note 35(a)(ix) to the financial statements on page 197 of this Annual Report, on 16 April 2008, LCKCP entered into a project management and design services agreement (the "Project Management and Design Services Agreement") with SHKAE, whereby SHKAE will provide to LCKCP services of project management, statutory submissions and interior design in relation to the Retail Podium. Pursuant to the Project Management and Design Services Agreement, a lump sum service fee of HK\$2,670,000 is payable to SHKAE in accordance with the progress of alteration and addition works at the Retail Podium.

Since CFCL and SHKAE are wholly-owned subsidiaries of Sun Hung Kai Properties Limited ("SHKP"), they are associates of SHKP and thus connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of the aforesaid two agreements constitute connected transactions of the Company under the Listing Rules. Particulars of the connected transactions are disclosed in the announcement of the Company dated 17 April 2008.

CONTINUING CONNECTED TRANSACTIONS

The Group

Transactions with Sun Hung Kai Properties Insurance Limited ("SHKPI")

As detailed in note 35(a)(ii) to the financial statements on page 196 of this Annual Report, the Group entered into various insurance arrangements with SHKPI, a wholly-owned subsidiary of SHKP, during the year pursuant to which SHKPI agreed to provide insurance coverage and services to the Group (the "2008 Insurance Arrangements"), and such insurance policies took effect from 1 January 2008 for a period of one year. The transactions under the 2008 Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2008, the annual insurance premium paid and payable by the Group to SHKPI amounted to HK\$67,385,000. On 27 November 2008, the Group further entered into various insurance arrangements (the "2009 Insurance Arrangements") with SHKPI pursuant to which SHKPI will continue to provide insurance coverage and services to the Group. The insurance policies entered into pursuant to the 2009

Insurance Arrangements commenced on 1 January 2009 and will last for one year from the effective date of the policies. It is estimated that the annual insurance premium paid and payable by the Group to SHKPI under the 2009 Insurance Arrangements for the financial year ending 31 December 2009 will not exceed HK\$74,000,000. The transactions under the 2008 Insurance Arrangements and the 2009 Insurance Arrangements are only subject to the reporting and announcement requirements of the Listing Rules and are exempt from the independent shareholders' approval requirement. Particulars of these connected transactions were disclosed in the announcements of the Company dated 10 December 2007 and 27 November 2008.

Park Island Transport Company Limited ("PITC")

Transactions with Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW")

Pursuant to an agreement dated 23 May 2001 entered into between PITC and SHKMW, a wholly-owned subsidiary of SHKP (the "Transport Agreement"), SHKMW engaged PITC to provide bus and ferry services for Ma Wan Island. The Transport Agreement was subsequently amended and supplemented by six supplemental letters dated 4 December 2002, 1 August 2003, 29 February 2004, 6 December 2005, 28 November 2006 and 6 December 2007 (the "2007 Supplemental Agreement") (collectively, the "Previous Supplemental Agreements"), with the operating term extended to 13 December 2008. On 25 November 2008, PITC and SHKMW entered into another supplemental letter (the "2008 Supplemental Agreement") to further extend the operating term for a period of one year from 14 December 2008 to 13 December 2009, and to amend certain terms and conditions of the Transport Agreement. The transactions executed under the Transport Agreement, as modified by the Previous Supplemental Agreements and the 2008 Supplemental Agreement, constitute continuing connected transactions of the Company under the Listing Rules. Particulars of these connected transactions were disclosed in the announcements of the Company dated

25 May 2001, 5 December 2006, 10 December 2007 and 26 November 2008. As detailed in note 35(a)(vii) to the financial statements on page 197 of this Annual Report, the annual permitted return to which PITC was entitled for the year ended 31 December 2008 was HK\$7,807,000. It is estimated that the permitted return for the period from 1 January 2009 to 13 December 2009 will not exceed HK\$16,000,000.

Lai Chi Kok Properties Investment Limited ("LCKPI")

(i) Transactions with Sun Hung Kai Real Estate Agency Limited ("SHKRE")

LCKPI entered into a Letting and Sales Agency Agreement with SHKRE, a subsidiary of SHKP, on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and car parking spaces of Manhattan Hill (the "Original Agreement"). On 15 August 2007, the Original Agreement was terminated and replaced by a letter agreement entered into between LCKPI and SHKRE (the "Letter Agreement"), pursuant to which LCKPI continues to appoint SHKRE as the exclusive letting and sales agent under the same terms and conditions of the Original Agreement except that the aggregate amount of the agency fees payable under the Original Agreement and the Letter Agreement shall not exceed HK\$65,000,000. The appointment of SHKRE under the Letter Agreement shall be for a period of three years commencing from the date of the Letter Agreement. As detailed in note 35(a)(iv) to the financial statements on page 196 of this Annual Report, the letting and sales agency fees paid and payable by LCKPI to SHKRE amounted to HK\$4,704,000 for the year ended 31 December 2008. The aggregate amount of letting and sales agency fees paid and payable under the Original Agreement and the Letter Agreement up to 31 December 2008 was HK\$62,350,000. Particulars of these connected transactions were disclosed in the announcements of the Company dated 21 July 2003 and 16 August 2007.

FINANCIAL REVIEW

(ii) Transactions with Royal Elite Service Company Limited (“Royal Elite”)

LCKPI also entered into a Management Agreement with Hong Yip Service Company Limited (“Hong Yip”), a subsidiary of SHKP, on 17 July 2003 to agree to appoint Hong Yip as the manager of Manhattan Hill and to engage its services in relation to the terms and conditions set out in the deed(s) of mutual covenant and management agreement(s) of Manhattan Hill to be entered into by LCKPI, Hong Yip and the first purchaser of a unit of the completed Manhattan Hill. On 21 June 2007, LCKPI entered into a supplemental deed with Hong Yip and Royal Elite, a subsidiary of SHKP (the “Supplemental Deed”), pursuant to which LCKPI appointed Royal Elite as the manager of Manhattan Hill in place of Hong Yip. All terms defined in the Management Agreement are adopted in the Supplemental Deed. On 20 December 2007, the commercial accommodation of Manhattan Hill was transferred from LCKPI to LCKCP. As a result, LCKCP has to observe and comply with all the terms and conditions contained in the deed of mutual covenant and management agreement of Manhattan Hill. For the year ended 31 December 2008, the total amount of management fee paid and payable by LCKPI and LCKCP to Royal Elite under the Management Agreement was HK\$5,885,000.

The transactions contemplated under each of the aforesaid two agreements constitute continuing connected transactions of the Company under the Listing Rules.

Bus Focus Limited (“Bus Focus”)

Service Agreement with JCDecaux Texon Limited (“JTL”)

On 12 November 2008, Bus Focus, an indirect non-wholly owned subsidiary of the Company and RoadShow Holdings Limited (“RoadShow”), and JCDecaux Texon Limited (“JTL”), a connected person of the Company and RoadShow within the meaning of the

Listing Rules, entered into a Service Agreement pursuant to which Bus Focus agreed to appoint JTL exclusively to provide the media sales agency services and maintenance and operational services in respect of selected bus shelters owned by KMB for a term commencing from 1 August 2008 to 31 July 2012. Pursuant to the Service Agreement, the following considerations were payable/receivable by Bus Focus for the year ended 31 December 2008:

- (a) Management fee payable by Bus Focus to JTL in the amount of HK\$14,144,000; and
- (b) Shortfall of guarantee rental receivable by Bus Focus from JTL in the amount of HK\$9,785,000.

The transactions contemplated under the Service Agreement are only subject to the reporting and announcement requirements of the Listing Rules and are exempt from the independent shareholders’ approval requirement. Particulars of these continuing connected transactions were disclosed in the joint announcement of the Company and RoadShow dated 13 November 2008 (the “Joint Announcement”).

Conditional Waivers

In compliance with the conditional waivers granted to the Company by The Stock Exchange of Hong Kong Limited from strict compliance with the requirement of disclosure by public announcement as stipulated in Chapter 14A of the Listing Rules in connection with the foregoing continuing connected transactions with SHKPI, SHKMW, SHKRE, Royal Elite and JTL on each occasion they arise, the Directors, including the Independent Non-executive Directors of the Company, have reviewed and confirmed that:-

1. each of the foregoing continuing connected transactions with SHKPI, SHKMW, SHKRE, Royal Elite and JTL was entered into:-
 - (i) in the ordinary and usual course of business of the Group;

- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
2. the annual insurance premium paid and payable by the Group to SHKPI for the year ended 31 December 2008 did not exceed the cap amount of HK\$71,500,000 as disclosed in the announcement dated 10 December 2007;
 3. the permitted return for the period from 1 January 2008 to 13 December 2008 to which PITC was entitled under the Transport Agreement, as modified by the 2007 Supplemental Agreement, did not exceed the cap amount of HK\$15,665,000 as disclosed in the announcement dated 10 December 2007;
 4. the permitted return for the period from 14 December 2008 to 31 December 2008 to which PITC was entitled under the Transport Agreement, as modified by the 2008 Supplemental Agreement, did not exceed the cap amount of HK\$828,000 as disclosed in the announcement dated 26 November 2008;
 5. the agency fees for the year ended 31 December 2008 paid and payable by LCKPI under the Original Agreement and the Letter Agreement did not exceed the higher of HK\$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2007;
 6. the agency fees for the year ended 31 December 2008 paid and payable by LCKPI under the Letter Agreement did not exceed the cap amount of HK\$12,426,000, and the aggregate amount of the agency fees paid and payable under the Original Agreement and the Letter Agreement did not exceed the cap amount of HK\$65,000,000, as disclosed in the announcement dated 16 August 2007;
 7. the annual aggregate amount for the year ended 31 December 2008 paid and payable by the Group under the Management Agreement did not exceed the higher of HK\$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2007; and
 8. the management fee paid and payable by Bus Focus to JTL and the shortfall of guarantee rental received and receivable by Bus Focus from JTL under the Service Agreement for the year ended 31 December 2008 did not exceed the cap amount of HK\$15,500,000 and HK\$23,400,000 respectively as disclosed in the Joint Announcement of the Company and RoadShow dated 13 November 2008.

The auditors of the Company had also performed agreed-upon procedures on the above continuing connected transactions and, on the basis of such procedures, advised the Board that the continuing connected transactions (a) had received the approval of the boards of directors of the relevant companies; (b) had been entered into in accordance with the relevant agreements governing the transactions; and (c) had not exceeded the caps as stated above.

DIRECTORS' PROFILES

The Hon Sir Sze-yuen CHUNG* GBM, GBE, PhD, FEng, JP



Chairman and Independent Non-executive Director, aged 91. Sir Sze-yuen Chung has been the Chairman and an Independent Non-executive Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 12 August 1999. He is an Independent Non-executive Director of CLP Holdings Limited and was formerly an Independent Non-executive Director of Sun Hung Kai Properties Limited. The latter is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is also the Pro-Chancellor of The Hong Kong University of Science and Technology. Sir Sze-yuen Chung has contributed significantly in Hong Kong's political, industrial, social and tertiary education fields for over four decades. He was Senior Member of Hong Kong Legislative Council (1974-78), Executive Council (1980-88), and again Convenor of HKSAR Executive Council (1997-99). He was Chairman of Federation of Hong Kong Industries (1966-70), Hong Kong Productivity Council (1974-78), President of Engineering Society of Hong Kong (1960-61) and Hong Kong Academy of Engineering Sciences (1994-97). He established Hong Kong Polytechnic in 1972, City Polytechnic in 1984, The Hong Kong University of Science and Technology in 1991 and Hospital Authority in 1990. He was deeply involved in the Sino-British Negotiation on Hong Kong's future (1982-85) and the establishment of the Hong Kong Special Administrative Region (1992-97).

Dr Norman LEUNG Nai Pang* GBS, JP, LLD, BA



Deputy Chairman and Independent Non-executive Director, aged 68. Dr Leung has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 18 March 2000 and Deputy Chairman of the Company, KMB and LWB since 14 June 2001. Dr Leung became an Independent Non-executive Director of the Company with effect from 1 February 2006. He is the Executive Deputy Chairman of Television Broadcasts Limited, a company listed on the Hong Kong Stock Exchange, and he is also a Director of Wing Lung Bank Limited (a company listed on the Hong Kong Stock Exchange until its withdrawal of listing on 16 January 2009). Dr Leung has been active in public service for over 30 years and he served as Commissioner of the Civil Aid Service from 1993 to 2007, Chairman of the Broadcasting Authority from 1997 to 2002 and Council Chairman of City University of Hong Kong from 1997 to 2003. He is now the Pro-Chancellor of City University of Hong Kong and a member of the Advisory Committee on Post-office Employment for former Chief Executives and Politically Appointed Officials.

KWOK Ping-luen, Raymond JP, MA(Cantab), MBA, Hon DBA, Hon LLD



Non-executive Director, aged 55. Mr Kwok has been a Director of Transport International Holdings Limited (the “Company”) since 4 September 1997. He is also a member of the Standing Committee of the Company. He has been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 September 1981 and 8 May 1997 respectively. Mr Kwok holds a Master of Arts degree in Law from Cambridge University, a Master degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong. He is the Vice Chairman and Managing Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is also the Chairman of SUNeVision Holdings Ltd., the Chairman of SmarTone Telecommunications Holdings Limited, a Non-executive Director of USI Holdings Limited and an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited.

In civic activities, Mr Kwok is a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce and the Vice Chairman of the Council of The Chinese University of Hong Kong. He was a Member of the Hong Kong Port Development Council until 31 December 2008. Mr Kwok is the younger brother of Mr Kwok Ping-sheung, Walter, who is a Director of the Company.

KWOK Ping-sheung, Walter JP, MSc(Lond), DIC, MICE



Non-executive Director, aged 58. Mr Kwok has been a Director of Transport International Holdings Limited (the “Company”) since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 15 November 1990 and 8 May 1997 respectively. He holds an Honorary Doctor of Science degree and a Master of Science degree in Civil Engineering from Imperial College of Science and Technology, University of London, and is a Member of the Institution of Civil Engineers, U.K. and a Member of the Hong Kong Institution of Engineers. He is currently a Non-executive Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance, an Executive Director of SUNeVision Holdings Ltd., and a Director of Wilson Parking (Holdings) Limited and Hung Cheong Import & Export Co., Ltd. Mr Kwok is also a Director of The Real Estate Developers Association of Hong Kong and Tsimshatsui East Property Developers’ Association Ltd. and Honorary Treasurer of the Federation of Hong Kong Hotel Owners.

On the community front, he is the Member of the Former Directors Committee of The Hong Kong Community Chest. He is also a Member of MBA Programmes Committee of The Chinese University of Hong Kong and an Honorary Member of The Court of The Hong Kong University of Science and Technology. Mr Kwok is an Honorary Citizen of Beijing & Guangzhou and a Standing Committee Member of the National Committee of the Chinese People’s Political Consultative Conference. Mr Kwok is the elder brother of Mr Kwok Ping-luen, Raymond, who is a Director of the Company.

(*Independent Non-executive Director)

DIRECTORS' PROFILES

NG Siu Chan



Non-executive Director, aged 78. Mr Ng has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He is also a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 3 March 1983 and 8 May 1997 respectively. Mr Ng is also an Independent Non-executive Director of Century City International Holdings Limited, Paliburg Holdings Limited and Regal Hotels International Holdings Limited. Mr Ng is the father of Ms Winnie Ng, who is a Director of the Company, KMB and LWB, and also Founder and Deputy Chairman and Non-executive Director of RoadShow Holdings Limited.

William LOUEY Lai Kuen BSc(Econ)



Non-executive Director, aged 49. Mr Louey has been a Director of Transport International Holdings Limited since 4 September 1997. He has been acting as Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 14 January 1993 and 8 May 1997 respectively. Mr Louey has previously worked for an international merchant bank in the United Kingdom for five years and an international accounting firm in the United Kingdom for three years. In 1995, he set up the William S D Louey Educational Foundation in memory of his grandfather, Mr William S D Louey, to finance outstanding students from China and Hong Kong to further their education abroad. Having aware of the success of the Foundation, Mr Louey was invited to become a committee member of the Hong Kong Oxford Scholarship Fund in 1999. Mr Louey has also served as an Executive Committee Member of The Friends of Cambridge University in Hong Kong since 2003. The Friends of Cambridge University is the sponsor of the Prince Philip Scholarship.

John CHAN Cho Chak GBS, JP, DBA(Hon), BA, DipMS, CCMI, FCILT, FHKIoD



Non-executive Director, aged 65. Mr Chan was the Managing Director of Transport International Holdings Limited (the "Company") from 4 September 1997 to 7 April 2008; the Managing Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") from 1 November 1993 to 31 December 2006 and from 8 May 1997 to 31 December 2006 respectively; the Senior Executive Director of KMB and LWB from 1 January 2007 to 7 April 2008; and a Non-executive Director of the Company, KMB and LWB since 8 April 2008. He is also the Chairman and Non-executive Director of RoadShow Holdings Limited, an indirect subsidiary of the Company listed on The Stock Exchange of Hong Kong Limited and an Independent Non-executive Director of Hang Seng Bank Limited and Guangdong Investment Limited. He was formerly an Independent Non-executive Director of the Hong Kong Exchanges and Clearing Limited, 2000-03 and a member of the Hong Kong Civil Service, 1964-78 and 1980-93. Key posts held in Government included Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. Also former Executive Director and General Manager of Sun Hung Kai Finance Company Limited, 1978-80. Chairman of the Hong Kong Jockey Club, Vice Patron of The Community Chest, Chairman of the Court of The Hong Kong University of Science and Technology, Member of the Exchange Fund Advisory Committee and Member of the East Asian Games Planning Committee. In December 2000, Mr Chan won the Executive Award in the DHL/SCMP HK Business Awards 2000 and received an Honorary University Fellowship from The University of Hong Kong.

Charles LUI Chung Yuen M.H., BEc, AASA, FCILT



Executive Director, aged 74. Mr Lui has been a Director of Transport International Holdings Limited since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively. Joined KMB in 1960 as Accountant and promoted to Chief Accountant, Assistant General Manager and appointed as General Manager on 1 March 1989. Retired as General Manager on 21 July 1999 on reaching the retirement age of 65 years. Mr Lui was appointed the Deputy Managing Director of KMB (China) Holdings Limited ("KMB (China)") on 1 September 1999. Relinquished the post of Deputy Managing Director to assume the post of Chairman of KMB (China) on 13 August 2003.

Winnie NG BA, MBA(Chicago), MPA(Harvard), FCIM, CMILT, MHKIoD



Non-executive Director, aged 45. Ms Ng has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 4 September 1997, 12 October 1995 and 8 May 1997 respectively. She is also Founder and Deputy Chairman of RoadShow Holdings Limited. Ms Ng won the Yazhou Zhoukan Young Chinese Entrepreneur Award in 2003, was named one of China's One Hundred Outstanding Women Entrepreneurs and a Mason Fellow of Harvard University in 2006, and was the Caring Heart Award recipient in 2009.

During her service as Executive Director of the Company, Ms Ng successfully revamped and rejuvenated KMB's image, and positioned KMB as a powerful out-of-home media sales tool in Hong Kong by raising the profiles of bus body, bus shelter, and in-bus advertising. Her introduction of the brand new champagne gold bus livery revitalizes and energizes the more than 75 year-old brand. She founded and spearheaded listing of RoadShow, which business model has been adopted by many companies in HK, China and over the world. Ms Ng assumed Non-executive Director on 13 October 2008.

Active in public service, she is Director of Bauhinia Foundation Research Centre; Director of HK Cyberport; Director of HK Sports Institute; Council Member of Better HK Foundation; Executive Committee Member of HK Council of Social Service; Director of Agency for Volunteer Service; PR Committee Member of Community Chest; Hospital Governing Committee Member of Queen Elizabeth Hospital, and Advisory Board Member of Habitat for Humanity China. Ms Ng is also Vice Chairman of Council of China's Foreign Trade, China Council for the Promotion of International Trade and Vice Board Chairman of Council of World Market, Shanghai Foreign Economic Relation & Trade Commission.

Ms Ng is the daughter of Mr Ng Siu Chan, who is a Director of the Company. She also acts as an Alternate Director to Mr Ng Siu Chan. Ms Ng holds an MBA degree from the University of Chicago and an MPA degree from Harvard University.

DIRECTORS' PROFILES

Dr KUNG Zi-ang Mien, James* GBS, OBE



Independent Non-executive Director, aged 78. Dr Kung has been the Independent Non-executive Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. He retired from the Chairman and CEO of Chekiang First Bank Ltd, after 53 years of service. Dr Kung graduated from the Soochow University Law School with a degree of LLB in 1950. He was conferred Doctor of Laws, LL.D (honoris causa) by The Chinese University of Hong Kong in 1990; DBA, Doctor of Business Administration (honoris causa) by Hong Kong Polytechnic in 1991 and Doctor of Laws (honoris causa) by The University of Hong Kong in 2000. Dr Kung was awarded OBE by Her Majesty the Queen in 1994. Diplomatic Service: 1989 – 2007, Honorary Consul of Luxembourg. Other awards include Grand Officer of Order of Merit of the Grand Duchy of Luxembourg in 1994, Chevalier de la Légion d'Honneur of France in 1996, Commander in the Order of Leopold II of Belgium in 1997, Officier de la Légion d'Honneur in 2000, Commandeur de la Légion d'Honneur in 2003 and Grand Officier de la Légion d'Honneur in 2007. Dr Kung is Chairman of the Hong Kong Digestive Foundation, Former Member of the Exchange Fund Advisory Committee and the Land Fund Advisory Committee, Member of the Advisory Council, One Country Two Systems Research Institute, Chairman of the HKU-Pasteur Research Centre Ltd, President of the Légion d'Honneur Club Hong Kong Chapter.

George CHIEN Yuan Hwei MSc(Lond), BSc(Eng), DIC, FICE, CEng, PEng, FITE



Non-executive Director, aged 71. Mr Chien has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. He was the Alternate Director to Mr Kwok Ping-sheung, Walter during the period from 8 June 1995 to 13 October 1998 inclusive. He is a member of the Audit Committee of the Company. Mr Chien is the holder of "Transportation Advisor" post in Sun Hung Kai Properties Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Previously worked for the Toronto Transit Commission in Canada for more than 10 years and in the ex-Public Works Department of the Hong Kong Government for about 24 years.

Dr Eric LI Ka Cheung* GBS, OBE, JP, LL.D, DSocSc, BA, FCPA(Practising), FCA, FCPA(Aust.), FCIS



Independent Non-executive Director, aged 55. Dr Li has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. Dr Li was appointed an Independent Non-executive Director of RoadShow Holdings Limited since 16 September 2004. He is the Senior Partner of Li, Tang, Chen & Co., Certified Public Accountants. Dr Li is an independent non-executive director of SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Limited, Hang Seng Bank Limited, China Resources Enterprise, Limited, Meadville Holdings Limited and Bank of Communications Co. Ltd., all of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was formerly an independent non-executive director of China Vanke Co., Ltd., Sinofer Holdings Limited and CATIC International Holdings Limited. He is also an independent non-executive director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is a member of the 11th National Committee of the Chinese People's Political Consultative Conference. He was also a former member of the Legislative Council of Hong Kong and a past president of the Hong Kong Institute of Certified Public Accountants. Dr Li is the Chairman of the Audit Committee of the Company.

Edmond HO Tat Man MA(Cantab), MBA, CMILT, MHKIoD



Managing Director, aged 47. Mr Ho has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 1 January 2001, and a Director of RoadShow Holdings Limited since 13 October 2008. He joined KMB in September 1998 and served as Finance and Administration Director from January 1999 to April 2003. Mr Ho was promoted to Deputy Managing Director of the Company, KMB and LWB with effect from 10 January 2002. He has been appointed Managing Director of KMB and LWB since 1 January 2007 and Managing Director of the Company with effect from 8 April 2008. Positions previously held by him included Investment Director of a merchant bank and executive director of a number of transport infrastructure management and investment companies in Hong Kong and in the Mainland of China. He was formerly also a director of four Sino-foreign joint venture companies of an international leading soft drink brand. Mr Ho holds a master's degree in engineering from Cambridge University and an MBA degree from The University of Hong Kong.

SIU Kwing-chue, Gordon* GBS, CBE, JP, MSS(Birmingham, UK)



Independent Non-executive Director, aged 63. Mr Siu was appointed Independent Non-executive Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 26 October 2004. He is currently an Independent Non-executive Director of China Resources Enterprise, Limited and Television Broadcasts Limited. Mr Siu joined the Civil Service in 1966, rose to the rank of Secretary, Government Secretariat in 1993 and retired from the Service in July 2002 with a service of over 36 years. His recent positions in Government included Deputy Secretary for the Civil Service (1981-1985), Secretary-General of OMELCO (1985-1988), Postmaster General (1988-1989), Commissioner for Transport (1989-1992), Director, New Airport Projects Co-ordination Office (1992-1993), Secretary for Economic Services (1993-1996), Secretary for Transport (1996-1997), Head, Central Policy Unit (1997-1999) and Secretary for Planning, Environment & Lands (1999-2002). Mr Siu was awarded the honours of Commander of the Most Excellent Order of the British Empire (CBE) in 1997 and Gold Bauhinia Star (GBS) in 2002, and appointed a non-official Justice of the Peace in 2003.

John Anthony MILLER SBS, OBE, MPA(Harvard), BA(Lond)



Non-executive Director, aged 58. Mr Miller has been a Director of Transport International Holdings Limited and The Kowloon Motor Bus Company (1933) Limited since 1 March 2008, and a Director of RoadShow Holdings Limited since 20 March 2008. Mr Miller retired from the Civil Service in February 2007 as Permanent Representative of the Hong Kong Special Administrative Region of China to the World Trade Organization in Geneva. Key positions held over a career spanning 35 years prior to Mr Miller's retirement include Permanent Secretary for Financial Services and the Treasury 2002-2004, Director of Housing and Chief Executive of the Housing Authority 1996-2002, Director-General of Trade 1993-1996, Director of Marine 1991-1993, Information Coordinator in the Chief Secretary's Office 1989-1991 and Private Secretary to the Governor 1979-1982. Mr Miller has been a Non-executive Director of Hong Kong Business Aviation Centre Limited, a partly-owned subsidiary of Sun Hung Kai Properties Limited since 12 November 2007. Mr Miller holds an MPA degree from Harvard University and a BA degree from London University.

(*Independent Non-executive Director)

SENIOR MANAGEMENT

Edmond HO Tat Man MA(Cantab), MBA, CMILT, MHKIoD

Aged 47. Managing Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Managing Director of KMB (China) Holdings Limited and a Director of RoadShow Holdings Limited. Brief biography of Mr Ho is set out on page 125 of this Annual Report.

Charles LUI Chung Yuen M.H., BEc, AASA, FCILT

Aged 74. Executive Director of Transport International Holdings Limited. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Chairman of KMB (China) Holdings Limited. Brief biography of Mr Lui is set out on page 123 of this Annual Report.

William HO Sai Kei BBA, MBA, CA(Canada), FCPA, MHKIoD

Aged 41. Finance and Administration Director of The Kowloon Motor Bus Company (1933) Limited ("KMB"). Before joining KMB in 2003, Mr Ho held senior finance positions in two groups of companies listed on The Stock Exchange of Hong Kong Limited. He also has over nine years of experience in public accounting in Canada and Hong Kong.

James Conrad LOUEY BSc

Aged 44. Commercial Director of The Kowloon Motor Bus Company (1933) Limited ("KMB"). Mr Louey joined KMB in 1990 and was appointed Head of Human Resources Department in 1993. He was promoted to Commercial Director in March 2006. On community service, Mr Louey is currently a member of the Ninth and the Tenth Session Henan provincial committee of the Chinese People's Political Consultative Conference.

Tim IP Chung Tim BSocSc, MSc, DIC, CMILT

Aged 55. Operations Director of The Kowloon Motor Bus Company (1933) Limited ("KMB"). Mr Ip joined KMB in 1981 as Senior Transport Planner and was promoted to Planning, Marketing and Development Manager in 1989. After two years overseas, Mr Ip re-joined KMB in 1994 as Assistant to General Manager. He was appointed Head of Traffic Department in 1999 and assumed the post of Operations Director in May 2007. Mr Ip was a Council Member of the Chartered Institute of Logistics and Transport in Hong Kong from 1994 to 2002 and is a member of the Management Committee of Rehabus.

Winnie W Y HO BA

Aged 39. Corporate Affairs Director of The Kowloon Motor Bus Company (1933) Limited ("KMB"). Ms Ho was a member of the Administrative Officer Grade of the Hong Kong Civil Service between 1991 and 2004 and has held directorate positions in the tourism, aviation and environment portfolios. She was Director, Government Relations of an international theme park company prior to joining KMB in 2007.

CORPORATE EXECUTIVES

| Name | Position |
|--|---|
| Transport International Holdings Limited | |
| Lana WOO MBA, BA, AAT, CGA, ACIS, MIFC, CFC | Company Secretary |
| The Kowloon Motor Bus Company (1933) Limited | |
| Lana WOO MBA, BA, AAT, CGA, ACIS, MIFC, CFC | Company Secretary |
| Peter S H MACK MBA, MSc(Finance), LLB(Peking), ACA, CPA, ACIS | Head of Accounts Department |
| Susanne HO | Head of Corporate Communications Department |
| CHAN Pik Yin BA | Head of Customer Service Department |
| Thomas T M TONG MSc, MBA, CEng, MStructE, MHKIE, RPE, AP, RSE | Head of Facilities Management Department |
| Doris K K LAU ACA, CPA | Head of Financial Planning and Costing Department |
| Sharon Y C CHENG BA | Head of Human Resources Department |
| Tommy H T LEUNG BSc, DMS | Head of Information Technology Department |
| Alice LUK BBA, ANZIIF(Snr Assoc), MCI Arb | Head of Insurance Department |
| Thomas M L LEUNG BSc(Hons), ACA, FCCA, CPA, CGA | Head of Internal Audit Department |
| Queenie L M YAU BBA | Head of Office Administration Department |
| Mark LEUNG BBA, CMILT | Head of Planning and Development Department |
| Lisa L M NG BA | Head of Purchasing Department |
| LEUNG Kin Wang BSc, MIMechE, CEng | Head of Service Department |
| SHUM Yuet Hung BSc(Eng), MSc, MSc(Eng), MBA, MIRTE, FIMechE, CEng, MHKIE, ACGI, MSOE | Principal Engineer, Bus Engineering |
| Wendy W M SIU BA, CMILT | Head of Traffic Department |
| Simon C S CHEUNG MBA, BSc, CGA, ACCA, CMILT | Head of Treasury Department |
| WAN Kin Tim BSc | General Manager (Kowloon Bay Depot) |
| LUI Yuk Fan | General Manager (Lai Chi Kok Depot) |
| HO Chi Man MA, CMILT | General Manager (Sha Tin Depot) |
| WOO Kin Keung | General Manager (Tuen Mun Depot) |
| Long Win Bus Company Limited | |
| Kenrick FOK CMILT | General Manager |
| Lana WOO MBA, BA, AAT, CGA, ACIS, MIFC, CFC | Company Secretary |
| KMB (China) Holdings Limited and New Hong Kong Bus Company Limited | |
| Simon TU MBA, CMILT | General Manager |
| Sun Bus Holdings Limited | |
| Benjamin C H WONG CMILT | General Manager |
| Park Island Transport Company Limited | |
| Raymond CHENG CMILT | General Manager |
| RoadShow Holdings Limited | |
| MO Tik Sang | Managing Director |
| Thomas LO Sui Sing | Chief Programme Officer |
| Jo MAN Miu Sheung ACA, CPA, ACIS, ACS | Finance and Administration Director and Company Secretary |
| Ramond YIU Wing Hong BBA | Marketing and Sales Director |
| Ada LO Ching | Operations and Planning Director |

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report and the audited financial statements for Transport International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2008.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in Bermuda and has its registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and principal place of business at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the Group are the operation of both franchised and non-franchised public transportation, property holdings and development and the provision of media sales services. Particulars of the Company's principal subsidiaries are set out in note 17 to the financial statements.

The Group's turnover and profit are mainly attributable to transport operations, property development and media sales business. The analysis of the principal activities of the Group during the financial year is set out in note 11 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2008 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 139 to 199 of this Annual Report.

TRANSFER TO RESERVES

Profits attributable to equity shareholders of the Company, before dividends, of HK\$658,670,000 (2007: HK\$3,847,678,000) have been transferred to reserves. Other movements in reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

An ordinary interim dividend of 30 cents per share was paid to the shareholders on 16 October 2008 (2007: ordinary interim dividend of 45 cents per share and special interim dividend of HK\$1.50 per share). The Directors now recommend that an ordinary final dividend of HK\$1.05 per share (2007: ordinary final dividend of HK\$1.58 per share and special final dividend of HK\$2.00 per share) in respect of the year ended 31 December 2008 be paid to the shareholders on 22 May 2009.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$642,000 (2007: HK\$1,181,000).

FIXED ASSETS

During the year, major additions to the fixed assets of the Group were buses under construction with a total cost of HK\$42,666,000 and tools and other fixed assets with a total cost of HK\$274,379,000. Buses with a total cost of HK\$71,580,000 were licensed and put into service during the year following the completion of construction. Other movements in fixed assets during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the financial statements. There were no movements during the year.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the financial year and up to the date of this report were:

| | |
|--|--|
| The Hon Sir Sze-yuen CHUNG*, <i>GBM, GBE, PhD, FREng, JP</i> | (Chairman) |
| Dr Norman LEUNG Nai Pang*, <i>GBS, JP</i> | (Deputy Chairman) |
| KWOK Ping-luen, Raymond, <i>JP</i> | |
| KWOK Ping-sheung, Walter, <i>JP</i> | |
| NG Siu Chan | |
| William LOUEY Lai Kuen | |
| John CHAN Cho Chak, <i>GBS, JP</i> | |
| Charles LUI Chung Yuen, <i>M.H.</i> | |
| Winnie NG | (Director and Alternate Director to Mr NG Siu Chan) |
| Dr KUNG Ziang Mien, James*, <i>GBS, OBE</i> | |
| George CHIEN Yuan Hwei | |
| Dr Eric LI Ka Cheung*, <i>GBS, OBE, JP</i> | |
| Edmond HO Tat Man | (Managing Director) |
| SIU Kwing-chue, Gordon*, <i>GBS, CBE, JP</i> | |
| John Anthony MILLER, <i>SBS, OBE</i> | (Appointed on 1 March 2008) |
| KUNG Lin Cheng, Leo | (Alternate Director to Dr KUNG Ziang Mien, James*, <i>GBS, OBE</i>) |
| YUNG Wing Chung | (Alternate Director to Mr KWOK Ping-luen, Raymond, <i>JP</i>) |
| SO Wai Kei, Godwin | (Alternate Director to Mr KWOK Ping-sheung, Walter, <i>JP</i> with effect from 25 February 2009) |
| WONG On Ning, Orlena | (Ceased to be Alternate Director to Mr KWOK Ping-sheung, Walter, <i>JP</i> with effect from 25 February 2009) |

* Independent Non-executive Director

In accordance with the Company's Bye-laws and Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), Mr Kwok Ping-luen, Raymond, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung and Mr Edmond Ho Tat Man retire from the Board by rotation and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 120 to 125 of this Annual Report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors of the Company who held office at 31 December 2008 had the following interests in the shares of the Company, subsidiaries and other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of Directors' and chief executives' interests and short positions required to be kept under Section 352 of the SFO.

(i) Interests in Issued Shares

(a) The Company

| | Ordinary shares of HK\$1 each | | | | | Total number of shares held | Percentage of total issued shares |
|--|-------------------------------|------------------|---------------------|------------------------|---|-----------------------------|-----------------------------------|
| | Personal interests | Family interests | Corporate interests | Trustee interests | | | |
| The Hon Sir Sze-yuen CHUNG* | 18,821 | – | – | – | – | 18,821 | 0.005% |
| Dr Norman LEUNG Nai Pang* | – | – | – | – | – | – | – |
| KWOK Ping-luen, Raymond | 393,350 | – | – | – | – | 393,350 | 0.097% |
| KWOK Ping-sheung, Walter | 61,522 | – | – | – | – | 61,522 | 0.015% |
| NG Siu Chan | – | 21,000,609 | – | – | – | 21,000,609 | 5.203% |
| William LOUEY Lai Kuen | 6,246,941 | 4,475 | – | – | – | 6,251,416 | 1.549% |
| John CHAN Cho Chak | 2,000 | – | – | – | – | 2,000 | – |
| Charles LUI Chung Yuen | 12,427 | – | – | 2,651,750 (Note 1) | – | 2,664,177 | 0.660% |
| Winnie NG | 41,416 | – | – | 21,000,609 (Note 2) | – | 21,042,025 | 5.213% |
| Dr KUNG Ziang Mien, James* | – | – | 172,000 | – | – | 172,000 | 0.043% |
| George CHIEN Yuan Hwei | 2,000 | – | – | – | – | 2,000 | – |
| Dr Eric LI Ka Cheung* | – | – | – | – | – | – | – |
| Edmond HO Tat Man | – | – | – | – | – | – | – |
| SIU Kwing-chue, Gordon* | – | – | – | – | – | – | – |
| John Anthony MILLER | – | – | – | – | – | – | – |
| KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*) | – | – | – | – | – | – | – |
| YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond) | – | – | – | – | – | – | – |
| WONG On Ning, Orlena (Alternate Director to Mr KWOK Ping-sheung, Walter) | – | – | – | – | – | – | – |

* Independent Non-executive Director

Notes:

- 1 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 2,651,750 shares in the Company.
- 2 Ms Winnie Ng has interest in 21,000,609 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(i) Interests in Issued Shares (continued)

(b) RoadShow Holdings Limited ("RoadShow"), a subsidiary of the Company

| | Ordinary shares of HK\$0.1 each | | | | | Total number of shares held | Percentage of total issued shares |
|--|---------------------------------|------------------|---------------------|---------------------|---|-----------------------------|-----------------------------------|
| | Personal interests | Family interests | Corporate interests | Trustee interests | | | |
| The Hon Sir Sze-yuen CHUNG* | 4,000 | - | - | - | - | 4,000 | - |
| Dr Norman LEUNG Nai Pang* | - | - | - | - | - | - | - |
| KWOK Ping-luen, Raymond | 37,400 | - | - | - | - | 37,400 | 0.004% |
| KWOK Ping-sheung, Walter | 6,600 | - | - | - | - | 6,600 | 0.001% |
| NG Siu Chan | - | 123,743 | - | - | - | 123,743 | 0.012% |
| William LOUEY Lai Kuen | 412,371 | - | - | - | - | 412,371 | 0.041% |
| John CHAN Cho Chak | - | - | - | - | - | - | - |
| Charles LUI Chung Yuen | - | - | - | 209,131 (Note 1) | - | 209,131 | 0.021% |
| Winnie NG | 1,000,000 | - | - | 123,743 (Note 2) | - | 1,123,743 | 0.113% |
| Dr KUNG Ziang Mien, James* | - | - | 500,000 | - | - | 500,000 | 0.050% |
| George CHIEN Yuan Hwei | - | - | - | - | - | - | - |
| Dr Eric LI Ka Cheung* | - | - | - | - | - | - | - |
| Edmond HO Tat Man | - | - | - | - | - | - | - |
| SIU Kwing-chue, Gordon* | - | - | - | - | - | - | - |
| John Anthony MILLER | - | - | - | - | - | - | - |
| KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*) | - | - | - | - | - | - | - |
| YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond) | - | - | - | - | - | - | - |
| WONG On Ning, Orlena (Alternate Director to Mr KWOK Ping-sheung, Walter) | - | - | - | - | - | - | - |

* Independent Non-executive Director

Notes:

- 1 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 209,131 shares in RoadShow.
- 2 Ms Winnie Ng has interest in 123,743 shares in RoadShow as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

As at 31 December 2008, none of the Directors had any non-beneficial interest in the share capital of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(iii) Interests in Underlying Shares

RoadShow has a share option scheme ("the Scheme") which was adopted on 7 June 2001, under which the directors of RoadShow may, at their discretion, offer any employee (including any directors) of RoadShow or any of its wholly-owned subsidiaries options to subscribe for shares in RoadShow to recognise their contributions to the growth of RoadShow, subject to the terms and conditions stipulated in the Scheme.

The exercise price of the options is determined as the highest of the nominal value of the shares of RoadShow ("the Shares"), the closing price of the Shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of the grant and the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant. The options vest immediately from the date of grant and are then exercisable within a period of three years. The Scheme is valid and effective for a period of ten years ending on 6 June 2011, after which no further options will be granted.

The total number of securities available for issue under the Scheme as at 31 December 2008 was 99,736,533 shares which represented 10% of the issued share capital of RoadShow at 31 December 2008. In respect of the maximum entitlement of each participant under the Scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of RoadShow's ordinary shares in issue. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 of RoadShow.

As at 31 December 2008, no options were outstanding.

Apart from the above, none of the Directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company or any of its subsidiaries or other associated corporations, as recorded in the register of directors' interests and short positions required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the contracts as disclosed in note 35(a) to the financial statements, in which Messrs. Kwok Ping-luen, Raymond and Kwok Ping-sheung, Walter, who have beneficial interests in Sun Hung Kai Properties Limited ("SHKP") were interested, no other contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DISCLOSEABLE INTERESTS OF SHAREHOLDERS IN SHARES AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2008, the interests or short positions of the persons, other than Directors and the chief executive of the Company, being 5% or more in the interest in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

| | Ordinary shares of HK\$1 each | | | Percentage of total issued shares |
|---|-------------------------------|---------------------|-----------------------------|-----------------------------------|
| | Registered shareholders | Corporate interests | Total number of shares held | |
| Sun Hung Kai Properties Limited (Notes 1 and 2) | – | 133,271,012 | 133,271,012 | 33.0% |
| Arklake Limited (Note 1) | 68,600,352 | – | 68,600,352 | 17.0% |
| HSBC International Trustee Limited (Note 3) | 183,757,886 | – | 183,757,886 | 45.5% |
| Kwong Tai Holdings Limited (Note 4) | 21,000,609 | – | 21,000,609 | 5.2% |

Notes:

- 1 The interest disclosed by SHKP includes the 68,600,352 shares disclosed by Arklake Limited.
- 2 Under The Code on Takeovers and Mergers ("the Takeovers Code"), a person will be subject to mandatory offer obligations if such person acquires, whether by a series of transactions over a period of time or not, 30% or more of the voting rights of a company. Such threshold was reduced from 35% to 30% with effect from 19 October 2001. However, transitional provisions apply where a person, or two or more persons acting in concert, holds 30% or more of the voting rights of a company but less than 35% of such voting rights immediately prior to 19 October 2001. For so long as such holding remains in this range and until 10 years after that date, the Takeovers Code shall be interpreted and applied as if the 30% trigger in Rule 26.1(a) and (b) of the Takeovers Code was 35% for such person or persons and such person or persons are not subject to the 2% creeper under Rules 26.1(c) and (d) of the Takeovers Code. In this regard, SHKP has been holding 30% or more of the voting rights of the Company but less than 35% of such voting rights immediately prior to 19 October 2001, the above transitional provisions apply to SHKP for so long as its holding remains within the range of 30% and 35% for a period of 10 years after 19 October 2001.
- 3 HSBC International Trustee Limited is deemed to be interested in 183,757,886 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.
- 4 The interest disclosed by Kwong Tai Holdings Limited includes 21,000,609 shares disclosed by Mr Ng Siu Chan and Ms Winnie Ng, both are Directors of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

SENIOR MANAGEMENT

Brief particulars of the senior management of the Group are set out on page 126 of this Annual Report.

STAFF RETIREMENT SCHEMES

The Group operates two separate non-contributory defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme ("The KMB Monthly Rated Employees Scheme") and The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme ("The KMB Daily Rated Employees Scheme"), and participates in a defined contribution retirement scheme, SHKP MPF Employer Sponsored Scheme.

Defined Benefit Retirement Schemes

The Group makes contributions to two defined benefit retirement schemes that provide pension benefits for employees upon retirement. The schemes are administered by an independent trustee and the assets are held separately from those of the Group. Both schemes are formally established under trust and are registered under the Occupational Retirement Schemes Ordinance. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the retirement schemes at regular intervals.

The most recent actuarial valuations of the two schemes were at 1 January 2009 which showed that there were sufficient assets in the schemes to cover both the solvency and ongoing liabilities of the schemes. Other relevant information extracted from the valuation pertaining to the two schemes is set out below:

The KMB Monthly Rated Employees Scheme

- i) The scheme was established with effect from 15 February 1978.
- ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: Investment Return at 5.5% and Salary Escalation at 4.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age of 65.
- iii) The market value of the scheme assets at 31 December 2008 was HK\$932,792,000.
- iv) On the basis of the assumptions made as to the future economic and demographic experience of the Scheme, and assuming the past service surplus is to be utilised faster to offset the Group's contribution requirement, the Group took a contribution holiday for the year ended 31 December 2008.
- v) The ongoing funding surplus in the scheme was HK\$241,233,000 and the solvency surplus was HK\$242,049,000 at 31 December 2008.

The KMB Daily Rated Employees Scheme

- i) The scheme was established with effect from 1 July 1983.
- ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: Investment Return at 5.5% and Salary Escalation at 4.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age of 60.
- iii) The market value of the scheme assets at 31 December 2008 was HK\$2,177,725,000.
- iv) On the basis of the assumptions made as to the future economic and demographic experience of the Scheme, and assuming the past service surplus is to be utilised faster to offset the Group's contribution requirement, the Group took a contribution holiday for the year ended 31 December 2008.
- v) The ongoing funding surplus in the scheme was HK\$565,536,000 and the solvency surplus was HK\$662,634,000 at 31 December 2008.

Note: The obligations in respect of defined benefit retirement schemes included in the financial statements are calculated using the projected unit credit method under different actuarial assumptions (see notes 1(w)(ii) and 21 to the financial statements).

STAFF RETIREMENT SCHEMES (continued)

Defined Contribution Retirement Scheme

SHKP MPF Employer Sponsored Scheme (“the SHKP Scheme”)

The Group is also a participating member of the SHKP Scheme, which is a defined contribution retirement scheme. A majority of those employees who do not participate in the defined benefit retirement schemes are covered by the SHKP Scheme which is administered by an independent trustee. The assets of the SHKP Scheme are held separately from those of the Group in independently administered funds. The Group is required to make contributions to the SHKP Scheme at rates ranging from 5% to 12% of the relevant employees' salaries, depending on their length of service with the Group. The employees are required to make contributions to the SHKP Scheme at 5% of the employees' relevant income as defined by the Hong Kong Mandatory Provident Fund Schemes Ordinance, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the SHKP Scheme during the year are charged to the income statement as incurred. Forfeited amounts due to resignation prior to the vesting of the benefits will be used to reduce the Group's contributions made in that corresponding financial year. The amount of forfeited contributions utilised during the year and the amount available for use as at 31 December 2008 were insignificant to the Group.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts of the Group as at 31 December 2008 are set out in note 25 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Income attributable to the five largest customers of the Group accounted for less than 30% of the total income of the Group for the year.

Purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the value of the Group's total purchases for the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on page 200 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules and all Directors have complied with the required standard of dealings set out therein throughout the year.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the code provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 to the Listing Rules.

PROPERTIES

Particulars of the completed property held for sale of the Group are shown on page 113 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and policies adopted by the Group, discussed auditing, internal control and financial reporting matters, and also reviewed the financial statements for the year ended 31 December 2008.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

S.Y. CHUNG

Chairman

Hong Kong, 19 March 2009

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF

TRANSPORT INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Transport International Holdings Limited (the "Company") set out on pages 139 to 199, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

19 March 2009

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008

| | Note | 2008 HK\$'000 | 2007 HK\$'000 |
|--|-----------|--------------------|------------------|
| Turnover | 2 & 11 | 7,353,086 | 12,013,479 |
| Other net income | 3 | 404,595 | 332,680 |
| Cost of properties sold | | (134,214) | (1,360,588) |
| Staff costs | 4(a) | (3,047,200) | (3,010,978) |
| Depreciation and amortisation | | (916,470) | (934,043) |
| Fuel and oil | | (1,643,709) | (1,209,805) |
| Spare parts and stores | | (226,760) | (243,902) |
| Toll charges | | (351,747) | (332,061) |
| Selling and marketing expenses for property sales | | (22,633) | (420,750) |
| Other operating expenses | | (745,059) | (670,075) |
| Profit from operations | | 669,889 | 4,163,957 |
| Finance costs | 4(b) | (32,614) | (118,756) |
| Share of profits of associates | | 59,759 | 29,380 |
| Share of losses of jointly controlled entities | | (3,363) | (644) |
| Profit before taxation | 4 | 693,671 | 4,073,937 |
| Income tax | 5(a) | (17,837) | (205,581) |
| Profit for the year | | 675,834 | 3,868,356 |
| Attributable to: | | | |
| Equity shareholders of the Company | 8 & 30(a) | 658,670 | 3,847,678 |
| Minority interests | 30(a) | 17,164 | 20,678 |
| Profit for the year | | 675,834 | 3,868,356 |
| Profit for the year attributable to equity shareholders of the Company: | | | |
| Arising from sales of properties | | 366,154 | 3,507,741 |
| Arising from the Group's other operations | | 292,516 | 339,937 |
| | | 658,670 | 3,847,678 |
| Earnings per share: | 9 | | |
| Arising from sales of properties | | HK\$0.91 | HK\$8.69 |
| Arising from the Group's other operations | | 0.72 | 0.84 |
| | | HK\$1.63 | HK\$9.53 |
| Dividends paid/payable to equity shareholders of the Company attributable to the year: | 10 | | |
| Ordinary interim dividend declared and paid of HK\$0.30 per share (2007: HK\$0.45 per share) | | 121,092 | 181,638 |
| Special interim dividend declared and paid of HK\$Nil per share (2007: HK\$1.50 per share) | | - | 605,459 |
| Ordinary final dividend proposed after the balance sheet date of HK\$1.05 per share (2007: HK\$1.58 per share) | | 423,821 | 637,750 |
| Special final dividend proposed after the balance sheet date of HK\$Nil per share (2007: HK\$2.00 per share) | | - | 807,279 |
| | | 544,913 | 2,232,126 |

The notes on pages 146 to 199 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2008

| | Note | 2008 HK\$'000 | 2007 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Fixed assets | 12(a) | | |
| – Investment property under development | | 120,375 | 82,529 |
| – Other property, plant and equipment | | 4,265,488 | 4,816,690 |
| – Interest in leasehold land held for own use under operating leases | | 80,025 | 82,104 |
| | | 4,465,888 | 4,981,323 |
| Passenger service licences | 13 | 15,036 | 13,936 |
| Goodwill | 14 | 62,885 | 51,578 |
| Media assets | 15 | 778 | 1,122 |
| Non-current prepayments | 16 | 28,741 | 38,322 |
| Interest in associates | 18 | 833,680 | 911,887 |
| Interest in jointly controlled entities | 19 | 20,422 | 22,959 |
| Other financial assets | 20 | 135,540 | 138,060 |
| Employee benefit assets | 21(a) | 755,435 | 602,228 |
| Deferred tax assets | 28(b) | 8,493 | 11,877 |
| | | 6,326,898 | 6,773,292 |
| Current assets | | | |
| Completed property held for sale | | 78,469 | 206,288 |
| Spare parts and stores | | 76,240 | 76,780 |
| Accounts receivable | 23 | 717,823 | 1,707,599 |
| Deposits and prepayments | | 28,858 | 30,518 |
| Current taxation recoverable | 28(a) | 24,608 | 5,917 |
| Pledged bank deposit | 25 | – | 38,000 |
| Cash and cash equivalents | 24 | 3,034,131 | 3,095,420 |
| | | 3,960,129 | 5,160,522 |
| Current liabilities | | | |
| Bank loans and overdrafts | 25 | 725,384 | 436,936 |
| Accounts payable and accruals | 26 | 989,087 | 1,281,709 |
| Third party claims payable | 27 | 142,684 | 143,751 |
| Current taxation payable | 28(a) | 19,458 | 74,307 |
| | | 1,876,613 | 1,936,703 |
| Net current assets | | 2,083,516 | 3,223,819 |
| Total assets less current liabilities | | 8,410,414 | 9,997,111 |

| | Note | 2008 HK\$'000 | 2007 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current liabilities | | | |
| Bank loans | 25 | 589,748 | 1,154,664 |
| Contingency provision – insurance | 27 | 336,912 | 295,165 |
| Deferred tax liabilities | 28(b) | 531,330 | 701,504 |
| Provision for long service payments | 29 | 38,521 | 47,222 |
| | | 1,496,511 | 2,198,555 |
| Net assets | | | |
| | | 6,913,903 | 7,798,556 |
| Capital and reserves | | | |
| | 30(a) | | |
| Share capital | | 403,639 | 403,639 |
| Reserves | | 6,257,184 | 7,145,289 |
| Total equity attributable to equity shareholders of the Company | | 6,660,823 | 7,548,928 |
| Minority interests | | 253,080 | 249,628 |
| Total equity | | 6,913,903 | 7,798,556 |

Approved and authorised for issue by the Board of Directors on 19 March 2009

S.Y. CHUNG

Chairman

Edmond HO Tat Man

Managing Director

The notes on pages 146 to 199 form part of these financial statements.

BALANCE SHEET

at 31 December 2008

| | Note | 2008 HK\$'000 | 2007 HK\$'000 |
|-------------------------------|-------|------------------|------------------|
| Non-current assets | | | |
| Plant and equipment | 12(b) | – | – |
| Investments in subsidiaries | 17(a) | 1,188,423 | 1,187,986 |
| | | 1,188,423 | 1,187,986 |
| Current assets | | | |
| Deposits and prepayments | | 514 | 360 |
| Amounts due from subsidiaries | 17(b) | 6,950,045 | 3,432,229 |
| Cash and cash equivalents | 24 | 27,289 | 30,804 |
| | | 6,977,848 | 3,463,393 |
| Current liabilities | | | |
| Accounts payable and accruals | 26 | 44,490 | 52,967 |
| Amounts due to subsidiaries | 17(b) | 6,340,317 | 2,466,765 |
| | | 6,384,807 | 2,519,732 |
| Net current assets | | | |
| | | 593,041 | 943,661 |
| Net assets | | | |
| | | 1,781,464 | 2,131,647 |
| Capital and reserves | | | |
| Share capital | 30(b) | 403,639 | 403,639 |
| Reserves | | 1,377,825 | 1,728,008 |
| Total equity | | | |
| | | 1,781,464 | 2,131,647 |

Approved and authorised for issue by the Board of Directors on 19 March 2009

S.Y. CHUNG

Chairman

Edmond HO Tat Man

Managing Director

The notes on pages 146 to 199 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

| | Note | 2008 | | 2007 | |
|---|------|------------------|--------------------|-----------|-------------|
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total equity at 1 January: | | | | | |
| Attributable to equity shareholders of the Company | | 7,548,928 | | 5,074,190 | |
| Minority interests | | 249,628 | | 244,689 | |
| | | | 7,798,556 | | 5,318,879 |
| Net income recognised directly in equity: | | | | | |
| Exchange differences on translation of financial statements of entities outside Hong Kong | | | 55,967 | | 53,966 |
| Release upon disposal of interest in associate | | | (27,515) | | - |
| Release upon deemed disposal of partial interest in associate | | | - | | (1,782) |
| Cash flow hedge: effective portion of changes in fair value | | | (595) | | - |
| Change in fair value of available-for-sale securities | | | 484 | | 5 |
| | | | 28,341 | | 52,189 |
| Transfer from equity: | | | | | |
| Transfer to profit or loss on disposal of available-for-sale securities | | | 101 | | - |
| Transfer to profit or loss on impairment of available-for-sale securities | | | 1,100 | | - |
| | | | 1,201 | | - |
| Profit for the year: | | | | | |
| Attributable to equity shareholders of the Company | | 658,670 | | 3,847,678 | |
| Minority interests | | 17,164 | | 20,678 | |
| | | | 675,834 | | 3,868,356 |
| Total recognised income and expense for the year | | | 705,376 | | 3,920,545 |
| Attributable to: | | | | | |
| - equity shareholders of the Company | | 678,016 | | 3,899,585 | |
| - minority interests | | 27,360 | | 20,960 | |
| | | 705,376 | | 3,920,545 | |
| Dividends declared or approved during the year | 10 | | (1,566,121) | | (1,424,847) |
| Dividends paid to minority shareholders | | | (23,908) | | (16,021) |
| Total equity at 31 December | | | 6,913,903 | | 7,798,556 |

The notes on pages 146 to 199 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

| | Note | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------|------------------|------------------|
| Operating activities | | | |
| Profit before taxation | | 693,671 | 4,073,937 |
| Adjustments for: | | | |
| – dividend income from unlisted securities | | (4,960) | – |
| – interest income | | (121,169) | (203,607) |
| – finance costs | | 32,614 | 118,756 |
| – transfer from equity on disposal of available-for-sale securities | | 101 | – |
| – impairment loss of available-for-sale securities | | 1,100 | – |
| – depreciation and amortisation | | 916,470 | 934,043 |
| – impairment loss on fixed assets | | – | 3,000 |
| – net gain on disposal of fixed assets | | (1,191) | (5,389) |
| – gain on deemed disposal of partial interest in associate | | – | (10,243) |
| – gain on disposal of associate | | (64,626) | – |
| – share of profits of associates | | (59,759) | (29,380) |
| – share of losses of jointly controlled entities | | 3,363 | 644 |
| Effect of foreign exchange rate | | 3,728 | (3,764) |
| Operating profit before changes in working capital | | 1,399,342 | 4,877,997 |
| Decrease in non-current prepayments | | 9,581 | 9,580 |
| Decrease/(increase) in spare parts and stores | | 540 | (4,062) |
| (Increase)/decrease in trade and other receivables | | (19,397) | 59,344 |
| Decrease in deposits and prepayments | | 1,860 | 67,816 |
| Decrease in completed property held for sale | | 127,819 | 1,227,137 |
| Decrease in accounts payable and accruals | | (301,058) | (460,738) |
| Increase in amounts due from associates | | – | (4,471) |
| Decrease in instalments receivable from sale of properties | | 1,238,455 | 380,508 |
| (Decrease)/increase in third party claims payable | | (1,067) | 17,528 |
| Increase in contingency provision – insurance | | 41,747 | 23,956 |
| Decrease in provision for long service payments | | (8,701) | (2,068) |
| Increase in employee benefit assets | | (153,207) | (65,278) |
| Cash generated from operations | | 2,335,914 | 6,127,249 |
| Interest received | | 119,085 | 193,484 |
| Interest paid | | (34,495) | (120,487) |
| Hong Kong Profits Tax paid | | (250,834) | (281,416) |
| The People's Republic of China ("PRC") Income Tax paid | | (2,384) | (1,144) |
| Net cash generated from operating activities | | 2,167,286 | 5,917,686 |

| | Note | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------|--------------------|--------------------|
| Investing activities | | | |
| Decrease in pledged bank deposit | | 38,000 | 1,520 |
| Decrease/(increase) in bank deposits with original maturities of over three months | | 617,395 | (1,251,071) |
| Payment for purchase of fixed assets | | (401,733) | (337,145) |
| Payment for purchase of passenger service licences | | (400) | (1,110) |
| Payment for purchase of available-for-sale debt securities | | (48,455) | (50,030) |
| Proceeds from disposal of available-for-sale debt security | | 7,992 | – |
| Proceeds from disposal of fixed assets | | 12,145 | 5,694 |
| Payment for acquisition of subsidiary | 31 | (12,196) | (9,807) |
| New loans to associate | | – | (25,552) |
| Repayment of loan to investee | | 18,592 | – |
| Return of capital investment from jointly controlled entity | | 2,215 | – |
| Interest received from associate | | 2,138 | – |
| Dividends received from associates | | 16,949 | 41,467 |
| Dividends received from unlisted securities | | 4,960 | – |
| Net cash generated from/(used in) investing activities | | 257,602 | (1,626,034) |
| Financing activities | | | |
| Dividends paid to equity shareholders of the Company | | (1,566,121) | (1,424,847) |
| Dividends paid to minority shareholders | | (23,908) | (16,021) |
| Proceeds from new bank loans | | 99,000 | 1,438,003 |
| Repayment of bank loans | | (356,250) | (3,688,126) |
| Net cash used in financing activities | | (1,847,279) | (3,690,991) |
| Net increase in cash and cash equivalents | | 577,609 | 600,661 |
| Cash and cash equivalents at 1 January | | 1,802,485 | 1,196,516 |
| Effect of foreign exchange rate changes | | (2,202) | 5,308 |
| Cash and cash equivalents at 31 December | 24 | 2,377,892 | 1,802,485 |

The notes on pages 146 to 199 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of the new and revised HKFRSs has no material impact on the financial statements for the years presented.

The Group has not applied any standard or interpretation that is not yet effective for the current accounting period (see note 39).

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as “the Group”) and the Group’s interest in associates and jointly controlled entities.

The purchase method of accounting is used to account for business combinations by the Group. The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill (see note 1(e)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain investments in securities (see note 1(f)), derivative financial instruments (see note 1(g)) and employee benefit assets (see note 1(w)(ii)) are stated at their fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 38.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)(ii)).

(d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(e) and (l)(iii)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates and jointly controlled entities *(continued)*

When the Group's share of losses exceeds its interest in an associate or a jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associates or jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(l)(ii)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the consolidated income statement.

On disposal of a cash-generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(l)(i)).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Other investments in debt and equity securities (continued)

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in the income statement. Dividend income from these investments is recognised in the income statement in accordance with the policy set out in note 1(t)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement in accordance with the policy set out in note 1(t)(iv). When these investments are derecognised or impaired (see note 1(l)(i)), the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the income statement, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(h)).

(h) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(l)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Property that is being constructed or developed for future use as investment property is classified as investment property under development and stated at cost, including borrowing costs capitalised (see note 1(u)), aggregate cost of development, materials and supplies, direct labour and other direct expenses, less any impairment losses (see note 1(l)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment using the straight-line method over their estimated useful lives as follows:

| | |
|--------------------------------------|---|
| Buildings situated on leasehold land | – the shorter of 40 years and the unexpired terms of the leases |
| Buses | – 14 years |
| Other motor vehicles | – 5 to 14 years |
| Vessels | – 25 years |
| Others | – 2 to 7 years |

No depreciation is provided for buses and vessels under construction and investment property under development.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

The cost of acquiring land held under operating leases is amortised on a straight-line basis over the period of the lease term.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Intangible assets (other than goodwill)

Media assets represent advertising rights which are the costs of acquiring operating rights for the placement of advertisements in advertising display panels in the PRC and include any directly attributable costs of bringing advertising display panels to their present condition and location for their intended use. Advertising rights are stated at cost less accumulated amortisation and impairment losses (see note 1(l)(ii)).

Advertising rights are amortised to the income statement on a straight-line basis over 5 to 10 years, being the agreed periods of use of the advertising rights.

Passenger service licences acquired by the Group are regarded to have indefinite useful lives and are stated in the balance sheet at cost less impairment losses (see note 1(l)(ii)).

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and amortisation is charged to the income statement on a straight-line basis over the asset's estimated useful life.

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled entities: see note 1(l)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of accounts receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against accounts receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under operating leases;
- intangible assets;
- investments in subsidiaries, associates and jointly controlled entities; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, goodwill and intangible assets that have indefinite useful lives are tested for impairment annually even when there is no indication of impairment.

- Calculation of the recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(m) Completed property held for sale

Inventories in respect of completed property held for sale are carried at the lower of cost and net realisable value. Cost of completed property developed by the Group is determined by apportionment of the total development costs for that development project attributable to the unsold property. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(n) Spare parts and stores

Spare parts and stores are included within current assets and stated at cost, using the first-in-first-out method. Provision is made for obsolescence where appropriate.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(l)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When the Company issues a financial guarantee for borrowings of a subsidiary, the fair value of the guarantee is initially recognised as deferred income within accounts payable and accruals, and a corresponding increase in the Company's investment in the subsidiary is recognised on initial recognition of the deferred income.

The amount of the guarantee initially recognised as deferred income is amortised to the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(iii) if and when it becomes probable that the holder of the guarantee will call upon the Company under the guarantee, and the amount of that claim on the Company is expected to exceed the amount currently carried in accounts payable and accruals in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(s)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 1(s)(iii).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Financial guarantees issued, provisions and contingent liabilities (continued)

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

- (i) Fare revenue from franchised public bus services and revenue from non-franchised transport services are recognised when the related services are provided.
- (ii) Revenue arising from the sale of completed property held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on property sold prior to the date of revenue recognition are included in accounts payable and accruals.

Where property is sold under deferred terms with part of the sale proceeds being receivable after an interest-free period, that portion of the differences between the sale prices with and without such terms representing finance income is allocated to the income statement on a basis that takes into account the effective yield on the amounts of the sale proceeds receivable over the interest-free period.

- (iii) Income from media sales is recognised when the related advertisements are telecast or commercials appear before the public.
- (iv) Interest income is recognised as it accrues using the effective interest method.
- (v) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(u) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Translation of foreign currencies

The functional currency of the Company and subsidiaries which operate in Hong Kong is Hong Kong Dollars while that for subsidiaries which operate in the PRC is Renminbi. The presentation currency of the Group is Hong Kong Dollars.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the average foreign exchange rates for the year. Balance sheet items including goodwill arising on consolidation of operations outside Hong Kong acquired on or after 1 January 2005 are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of an operation outside Hong Kong acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the operation outside Hong Kong.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation is included in the calculation of the profit or loss on disposal.

(w) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Employee benefits (continued)

(iii) Lump sum long service amounts payable on cessation of employment

The Group's net obligation in respect of lump sum long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

(iv) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(v) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(x) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 17 to the financial statements.

Turnover comprises fare revenue from the operation of franchised public bus and non-franchised transport services, revenue from sales of properties and media sales revenue recognised during the year and is analysed as follows:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|-------------------|
| Fare revenue from franchised public bus services | 6,137,548 | 6,070,232 |
| Revenue from non-franchised transport services | 399,983 | 380,180 |
| Revenue from sales of properties | 619,032 | 5,382,928 |
| Media sales revenue | 196,523 | 180,139 |
| | 7,353,086 | 12,013,479 |

3 OTHER NET INCOME

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Net income recognised in respect of defined benefit retirement plans (note 21(e)) | 153,207 | 65,278 |
| Interest income on financial assets not at fair value through profit or loss | 121,169 | 203,607 |
| Gain on disposal of associate (note 18) | 64,626 | – |
| Claims received | 30,565 | 23,355 |
| Net exchange gain | 9,624 | 8,308 |
| Net miscellaneous business receipts | 8,922 | 6,118 |
| Dividend income from unlisted securities | 4,960 | – |
| Net gain on disposal of fixed assets | 1,191 | 5,389 |
| Gain on deemed disposal of partial interest in associate | – | 10,243 |
| Available-for-sale securities: transfer from equity | | |
| – on disposal | (101) | – |
| – on impairment | (1,100) | – |
| Sundry revenue | 11,532 | 10,382 |
| | 404,595 | 332,680 |

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| (a) Staff costs: | | |
| Contributions to defined contribution retirement plans | 61,484 | 56,972 |
| Movements in provision for long service payments (note 29) | 133 | 5,929 |
| Salaries, wages and other benefits | 2,985,583 | 2,948,077 |
| | 3,047,200 | 3,010,978 |

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| (b) Finance costs: | | |
| Interest on bank loans and overdrafts not at fair value through profit or loss | 32,614 | 118,756 |

4 PROFIT BEFORE TAXATION (continued)

Profit before taxation is arrived at after charging: (continued)

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| (c) Other items: | | |
| Auditors' remuneration | | |
| – audit services | 4,720 | 4,396 |
| – other services | 1,739 | 1,730 |
| Operating lease charges on properties, temporary bus depots, buses, ferries and terminal shelters | 37,927 | 36,705 |
| Depreciation | 913,985 | 931,594 |
| Amortisation of land lease premium | 2,079 | 2,079 |
| Amortisation of media assets | 406 | 370 |
| Impairment losses | | |
| – fixed assets | – | 3,000 |
| – trade and other receivables | 80,990 | 289 |
| Write-down of spare parts and stores | 2,683 | 7,163 |

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| Current tax – Hong Kong Profits Tax | | |
| Provision for the year | 119,519 | 258,445 |
| Additional provision for prior years upon resolution of tax disputes | 58,095 | – |
| (Over)/under-provision in respect of prior years | (226) | 942 |
| | 177,388 | 259,387 |
| Current tax – PRC Income Tax | | |
| Provision for the year | 7,039 | 997 |
| Under-provision in respect of prior years | 200 | – |
| | 7,239 | 997 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (69,657) | (54,803) |
| Effect of decrease in tax rate on deferred tax balances at 1 January | (39,038) | – |
| Effect of resolution of tax disputes | (58,095) | – |
| | (166,790) | (54,803) |
| Income tax expense | 17,837 | 205,581 |

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Taxation in the consolidated income statement represents: (continued)

The provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries in the PRC is charged at the appropriate current rates of taxation ruling in the PRC.

In February 2008, the Hong Kong Government announced a reduction in the Hong Kong Profits Tax rate from 17.5% to 16.5% which has been applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. As a result, the opening balance of deferred tax has been re-estimated accordingly.

In prior years, there were discussions between a subsidiary and the Hong Kong Inland Revenue Department ("the IRD") on the subsidiary's treatment of defined benefit assets and calculations of depreciation allowances in its Hong Kong Profits Tax computations. During the year ended 31 December 2008, the subsidiary and the IRD have finalised the related tax treatments. The subsidiary has revised its Hong Kong Profits Tax computations for prior years accordingly, resulting in additional current taxation payable of HK\$58,095,000 and a corresponding reduction in deferred tax liabilities of the same amount. This has no material impact on the Group's net assets as at 31 December 2008 and its profit for the year then ended.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | 693,671 | 4,073,937 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | 111,567 | 719,772 |
| Tax effect of non-deductible expenses | 7,205 | 8,759 |
| Tax effect of non-taxable income | (62,776) | (525,479) |
| Tax effect of unused tax losses not recognised | 2,517 | 1,216 |
| Tax effect of prior years' unrecognised tax losses utilised during the year | - | (139) |
| Tax effect of prior years' unrecognised deferred tax assets recognised during the year | (457) | - |
| (Over)/under-provision in prior years | (26) | 942 |
| Effect on opening deferred tax balances resulting from a decrease in tax rate during the year | (39,038) | - |
| Others | (1,155) | 510 |
| Actual tax expense | 17,837 | 205,581 |

NOTES TO THE FINANCIAL STATEMENTS

6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows:

| For the year ended 31 December 2008 | Directors' fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Retirement scheme contributions HK\$'000 | Total HK\$'000 |
|--|-----------------------------|---|-----------------------------------|---|----------------------|
| Executive Directors | | | | | |
| Charles Lui Chung Yuen | 360 | 600 | 141 | - | 1,101 ⁽¹⁾ |
| Edmond Ho Tat Man | 372 | 3,596 | 800 | 408 | 5,176 ⁽¹⁾ |
| Non-executive Directors | | | | | |
| Kwok Ping-luen, Raymond | 360 | - | - | - | 360 |
| Kwok Ping-sheung, Walter | 360 | - | - | - | 360 |
| Ng Siu Chan | 360 | - | - | - | 360 |
| William Louey Lai Kuen | 360 | - | - | - | 360 |
| John Chan Cho Chak ⁽²⁾ | 448 | 1,750 | - | 288 | 2,486 ⁽¹⁾ |
| Winnie Ng ⁽³⁾ | 421 | 2,799 | 434 | - | 3,654 ⁽¹⁾ |
| George Chien Yuan Hwei | 420 | - | - | - | 420 |
| John Anthony Miller | 344 | - | - | - | 344 ⁽¹⁾ |
| Yung Wing Chung ⁽⁴⁾ | 19 | - | - | - | 19 |
| Independent Non-executive Directors | | | | | |
| The Hon Sir Sze-yuen Chung | 504 | - | - | - | 504 |
| Dr Norman Leung Nai Pang | 402 | - | - | - | 402 |
| Dr Kung Ziang Mien, James | 450 | - | - | - | 450 |
| Dr Eric Li Ka Cheung | 552 | - | - | - | 552 ⁽¹⁾ |
| Siu Kwing-chue, Gordon | 360 | - | - | - | 360 |
| | 6,092 | 8,745 | 1,375 | 696 | 16,908 |

6 DIRECTORS' REMUNERATION (continued)

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows: (continued)

| For the year ended 31 December 2007 | Directors' fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Retirement scheme contributions HK\$'000 | Total HK\$'000 |
|--|-----------------------------|---|-----------------------------------|---|----------------------|
| Executive Directors | | | | | |
| John Chan Cho Chak ⁽²⁾ | 354 | 4,356 | 1,500 | 1,101 | 7,311 ⁽¹⁾ |
| Charles Lui Chung Yuen | 288 | 600 | 27 | – | 915 ⁽¹⁾ |
| Winnie Ng ⁽³⁾ | 343 | 3,159 | 1,035 | – | 4,537 ⁽¹⁾ |
| Lui Pochiu ⁽⁵⁾ | 108 | 1,144 | – | – | 1,252 |
| Edmond Ho Tat Man | 288 | 2,964 | 1,380 | 434 | 5,066 ⁽¹⁾ |
| Non-executive Directors | | | | | |
| Kwok Ping-luen, Raymond | 288 | – | – | – | 288 |
| Kwok Ping-sheung, Walter | 288 | – | – | – | 288 |
| Ng Siu Chan | 288 | – | – | – | 288 |
| William Louey Lai Kuen | 288 | – | – | – | 288 |
| George Chien Yuan Hwei | 336 | – | – | – | 336 |
| Independent Non-executive Directors | | | | | |
| The Hon Sir Sze-yuen Chung | 403 | – | – | – | 403 |
| Dr Norman Leung Nai Pang | 322 | – | – | – | 322 |
| Dr Kung Ziang Mien, James | 360 | – | – | – | 360 |
| Dr Eric Li Ka Cheung | 457 | – | – | – | 457 ⁽¹⁾ |
| Siu Kwing-chue, Gordon | 288 | – | – | – | 288 |
| | 4,699 | 12,223 | 3,942 | 1,535 | 22,399 |

Notes:

- Mr Charles Lui Chung Yuen, Mr Edmond Ho Tat Man, Mr John Chan Cho Chak, Ms Winnie Ng, Mr John Anthony Miller and Dr Eric Li Ka Cheung have also served as directors of certain subsidiary(ies) of the Company. The corresponding amounts of Directors' remuneration disclosed above include emoluments received or receivable from such subsidiary(ies).
- Mr John Chan Cho Chak has been re-designated as a Non-executive Director of the Company with effect from 8 April 2008.
- Ms Winnie Ng has been re-designated as a Non-executive Director of the Company with effect from 13 October 2008.
- Mr Yung Wing Chung, Alternate Director to Mr Kwok Ping-luen, Raymond, has been appointed as a Non-executive Director of RoadShow Holdings Limited ("Roadshow") with effect from 20 November 2008. His remuneration disclosed above was in respect of his service as a director of RoadShow for the period from 20 November 2008 to 31 December 2008.
- Mr Lui Pochiu retired as Executive Director on 18 May 2007.

NOTES TO THE FINANCIAL STATEMENTS

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2007: three) are Directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) are as follows:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Fees | 1,241 | 985 |
| Salaries, allowances and benefits in kind | 11,962 | 14,518 |
| Discretionary bonuses | 2,184 | 4,887 |
| Retirement scheme contributions | 794 | 1,634 |
| | 16,181 | 22,024 |

The emoluments of the five (2007: five) individuals with the highest emoluments are within the following bands:

| | Number of individuals | |
|-------------------------------|-----------------------|------|
| | 2008 | 2007 |
| HK\$2,000,001 – HK\$2,500,000 | 2 | 1 |
| HK\$2,500,001 – HK\$3,000,000 | 1 | 1 |
| HK\$3,500,001 – HK\$4,000,000 | 1 | – |
| HK\$4,500,001 – HK\$5,000,000 | – | 1 |
| HK\$5,000,001 – HK\$5,500,000 | 1 | 1 |
| HK\$7,000,001 – HK\$7,500,000 | – | 1 |

8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK\$1,106,880,000 (2007: HK\$1,331,462,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Amount of consolidated profit attributable to equity shareholders of the Company dealt with in the Company's financial statements | 1,106,880 | 1,331,462 |
| Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year | 109,058 | 58,827 |
| Company's profit for the year (note 30(b)) | 1,215,938 | 1,390,289 |

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$658,670,000 (2007: HK\$3,847,678,000) and 403,639,413 shares in issue during the years ended 31 December 2008 and 2007. The calculation of basic earnings per share arising from sales of properties and the Group's other operations is based on profits arising from the respective operations of HK\$366,154,000 (2007: HK\$3,507,741,000) and HK\$292,516,000 (2007: HK\$339,937,000) respectively and 403,639,413 shares in issue during the years ended 31 December 2008 and 2007.

(b) Diluted earnings per share

The diluted earnings per share for the current and previous years are not presented as there are no dilutive potential ordinary shares during the years.

10 DIVIDENDS

(a) Dividends paid/payable to equity shareholders of the Company attributable to the year

| | 2008 | | 2007 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Per Share HK\$ | Total HK\$'000 | Per Share HK\$ | Total HK\$'000 |
| Ordinary interim dividend declared and paid | 0.30 | 121,092 | 0.45 | 181,638 |
| Special interim dividend declared and paid | - | - | 1.50 | 605,459 |
| Ordinary final dividend proposed after the balance sheet date | 1.05 | 423,821 | 1.58 | 637,750 |
| Special final dividend proposed after the balance sheet date | - | - | 2.00 | 807,279 |
| | 1.35 | 544,913 | 5.53 | 2,232,126 |

The ordinary final dividend and special final dividend proposed after the balance sheet date have not been recognised as liabilities at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

| | 2008 | | 2007 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Per Share HK\$ | Total HK\$'000 | Per Share HK\$ | Total HK\$'000 |
| Final dividend in respect of the previous financial year, approved and paid during the year | 1.58 | 637,750 | 1.58 | 637,750 |
| Special final dividend in respect of the previous financial year, approved and paid during the year | 2.00 | 807,279 | - | - |
| | 3.58 | 1,445,029 | 1.58 | 637,750 |

NOTES TO THE FINANCIAL STATEMENTS

11 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

- Transport operations: The provision of franchised and non-franchised public transport services.
- Media sales business: The provision of audio-video programming through a multi-media on-board system and marketing of exterior advertising spaces on transit vehicles exteriors, shelters and outdoor signages.
- Property holdings and development: The development of residential and commercial properties for sale and long term investment.

| | Transport operations | | Media sales business | | Property holdings and development | | Inter-segment elimination | | Consolidated | |
|--|----------------------|------------------|----------------------|------------------|-----------------------------------|------------------|---------------------------|------------------|-------------------|-------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 |
| Revenue from external customers | 6,537,531 | 6,450,412 | 196,523 | 180,139 | 619,032 | 5,382,928 | - | - | 7,353,086 | 12,013,479 |
| Inter-segment revenue | - | - | 47,185 | 30,491 | - | - | (47,185) | (30,491) | - | - |
| Other revenue from external customers | 46,157 | 36,227 | 744 | 2,321 | 393 | - | - | - | 47,294 | 38,548 |
| Total | 6,583,688 | 6,486,639 | 244,452 | 212,951 | 619,425 | 5,382,928 | (47,185) | (30,491) | 7,400,380 | 12,052,027 |
| Segment result | 29,464 | 333,119 | 103,184 | 68,959 | 363,683 | 3,557,087 | | | 496,331 | 3,959,165 |
| Unallocated net operating income | | | | | | | | | 173,558 | 204,792 |
| Profit from operations | | | | | | | | | 669,889 | 4,163,957 |
| Finance costs | | | | | | | | | (32,614) | (118,756) |
| Share of profits less losses of associates and jointly controlled entities | 42,255 | 16,198 | 14,141 | 12,538 | - | - | | | 56,396 | 28,736 |
| Income tax | | | | | | | | | (17,837) | (205,581) |
| Profit after taxation | | | | | | | | | 675,834 | 3,868,356 |
| Depreciation and amortisation for the year | 901,832 | 910,920 | 14,638 | 23,123 | - | - | | | | |
| Impairment losses | | | | | | | | | | |
| - fixed assets | - | - | - | 3,000 | - | - | | | | |
| - trade and other receivables | 291 | 234 | 414 | 55 | 80,285 | - | | | | |
| Segment assets | 5,664,100 | 5,825,002 | 92,659 | 105,471 | 461,908 | 1,728,469 | | | 6,218,667 | 7,658,942 |
| Interests in associates and jointly controlled entities | 597,176 | 702,223 | 256,926 | 232,623 | - | - | | | 854,102 | 934,846 |
| Unallocated assets | | | | | | | | | 3,214,258 | 3,340,026 |
| Total assets | | | | | | | | | 10,287,027 | 11,933,814 |
| Segment liabilities | 1,172,431 | 1,218,958 | 32,426 | 64,091 | 265,718 | 455,652 | | | 1,470,575 | 1,738,701 |
| Unallocated liabilities | | | | | | | | | 1,902,549 | 2,396,557 |
| Total liabilities | | | | | | | | | 3,373,124 | 4,135,258 |
| Capital expenditure incurred during the year | 368,864 | 444,087 | 2,803 | 124 | 37,846 | 7,962 | | | | |

Geographical segments

The Group's turnover and profit from operations derived from activities outside Hong Kong were insignificant. Accordingly, no analysis by geographical segment is presented.

12 FIXED ASSETS

(a) The Group:

| | Buildings HK\$'000 | Buses and other motor vehicles HK\$'000 | Vessels HK\$'000 | Buses under construction HK\$'000 | Tools and others HK\$'000 | Sub-total HK\$'000 | Investment property under development HK\$'000 | Interest in leasehold land held for own use under operating leases HK\$'000 | Total fixed assets HK\$'000 |
|--|-----------------------|---|---------------------|--|------------------------------------|-----------------------|--|--|--------------------------------------|
| Cost: | | | | | | | | | |
| At 1 January 2007 | 1,421,105 | 9,043,181 | 122,922 | 115,076 | 2,072,448 | 12,774,732 | 74,567 | 126,120 | 12,975,419 |
| Exchange adjustments | - | 142 | - | - | - | 142 | - | - | 142 |
| Additions | 4,797 | 40,277 | - | 147,994 | 263,718 | 456,786 | 7,962 | - | 464,748 |
| Acquisition of subsidiary | - | 13,028 | - | - | - | 13,028 | - | - | 13,028 |
| Disposals | - | (74,559) | - | - | (8,192) | (82,751) | - | - | (82,751) |
| Transfer of buses | - | 191,068 | - | (191,068) | - | - | - | - | - |
| At 31 December 2007 | 1,425,902 | 9,213,137 | 122,922 | 72,002 | 2,327,974 | 13,161,937 | 82,529 | 126,120 | 13,370,586 |
| Accumulated depreciation, amortisation and impairment losses: | | | | | | | | | |
| At 1 January 2007 | 782,392 | 5,002,183 | 23,781 | - | 1,675,777 | 7,484,133 | - | 41,937 | 7,526,070 |
| Exchange adjustments | - | 89 | - | - | - | 89 | - | - | 89 |
| Charge for the year | 42,196 | 617,826 | 6,150 | - | 265,422 | 931,594 | - | 2,079 | 933,673 |
| Impairment loss for the year (note) | - | - | - | - | 3,000 | 3,000 | - | - | 3,000 |
| Acquisition of subsidiary | - | 8,877 | - | - | - | 8,877 | - | - | 8,877 |
| Written back on disposal | - | (74,416) | - | - | (8,030) | (82,446) | - | - | (82,446) |
| At 31 December 2007 | 824,588 | 5,554,559 | 29,931 | - | 1,936,169 | 8,345,247 | - | 44,016 | 8,389,263 |
| Net book value: | | | | | | | | | |
| At 31 December 2007 | 601,314 | 3,658,578 | 92,991 | 72,002 | 391,805 | 4,816,690 | 82,529 | 82,104 | 4,981,323 |
| Cost: | | | | | | | | | |
| At 1 January 2008 | 1,425,902 | 9,213,137 | 122,922 | 72,002 | 2,327,974 | 13,161,937 | 82,529 | 126,120 | 13,370,586 |
| Exchange adjustments | - | 121 | - | - | 8 | 129 | - | - | 129 |
| Additions | 6,262 | 32,200 | - | 42,666 | 274,379 | 355,507 | 37,846 | - | 393,353 |
| Acquisition of subsidiary (note 31) | - | 2,529 | - | - | - | 2,529 | - | - | 2,529 |
| Disposals | (2,251) | (162,857) | (37) | - | (43,295) | (208,440) | - | - | (208,440) |
| Transfer of buses | - | 71,580 | - | (71,580) | - | - | - | - | - |
| At 31 December 2008 | 1,429,913 | 9,156,710 | 122,885 | 43,088 | 2,559,066 | 13,311,662 | 120,375 | 126,120 | 13,558,157 |
| Accumulated depreciation, amortisation and impairment losses: | | | | | | | | | |
| At 1 January 2008 | 824,588 | 5,554,559 | 29,931 | - | 1,936,169 | 8,345,247 | - | 44,016 | 8,389,263 |
| Exchange adjustments | - | 68 | - | - | 5 | 73 | - | - | 73 |
| Charge for the year | 33,710 | 601,295 | 4,622 | - | 274,358 | 913,985 | - | 2,079 | 916,064 |
| Acquisition of subsidiary (note 31) | - | 115 | - | - | - | 115 | - | - | 115 |
| Written back on disposal | (2,251) | (152,498) | (6) | - | (42,731) | (197,486) | - | - | (197,486) |
| At 31 December 2008 | 856,047 | 6,003,539 | 34,547 | - | 2,167,801 | 9,061,934 | - | 46,095 | 9,108,029 |
| Net book value: | | | | | | | | | |
| At 31 December 2008 | 573,866 | 3,153,171 | 88,338 | 43,088 | 391,265 | 4,249,728 | 120,375 | 80,025 | 4,450,128 |
| Add: Deposits paid in respect of buses on order | | | | | | 15,760 | - | - | 15,760 |
| | | | | | | 4,265,488 | 120,375 | 80,025 | 4,465,888 |

NOTES TO THE FINANCIAL STATEMENTS

12 FIXED ASSETS (continued)

(a) The Group: (continued)

Note on impairment loss on fixed assets:

During the year ended 31 December 2007, management carried out an assessment of the recoverable amount of certain fixed assets of the Group. Based on their assessment, carrying amount of these fixed assets was written down by HK\$3,000,000. The estimated recoverable amount was determined based on the future cash flows generated from these fixed assets. The impairment loss is included in other operating expenses in the consolidated income statement. No additional impairment loss is required based on management's assessment for the year ended 31 December 2008.

(b) The Company:

| | Other fixed assets | |
|----------------------------------|--------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Cost: | | |
| At 1 January and 31 December | 201 | 201 |
| Accumulated depreciation: | | |
| At 1 January and 31 December | 201 | 201 |
| Net book value: | | |
| At 31 December | - | - |

(c) All the Group's buildings, investment property under development and interest in leasehold land held for own use under operating leases are held in Hong Kong. The analysis of the net book value of properties is as follows:

| | The Group | |
|--------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Medium-term leases | 494,856 | 473,307 |
| Short-term leases | 279,410 | 292,640 |
| | 774,266 | 765,947 |

| | The Group | |
|--|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Representing: | | |
| Buildings held for own use | 573,866 | 601,314 |
| Interest in leasehold land held for own use under operating leases | 80,025 | 82,104 |
| Investment property under development | 120,375 | 82,529 |
| | 774,266 | 765,947 |

13 PASSENGER SERVICE LICENCES

| | The Group | |
|-------------------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Cost and net book value: | | |
| At 1 January | 13,936 | 7,576 |
| Acquisition of subsidiary (note 31) | 700 | 5,250 |
| Additions | 400 | 1,110 |
| At 31 December | 15,036 | 13,936 |

Passenger service licences of the Group are regarded to have indefinite useful lives as there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

Passenger service licences have been allocated to the cash-generating unit of non-franchised transport operations for the purpose of impairment testing. Details of impairment testing are set out in note 14 to the financial statements.

14 GOODWILL

| | The Group | |
|---------------------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Cost: | | |
| At 1 January | 64,065 | 61,691 |
| Acquisition of subsidiary (note 31) | 11,307 | 2,374 |
| At 31 December | 75,372 | 64,065 |
| Accumulated impairment losses: | | |
| At 1 January and 31 December | 12,487 | 12,487 |
| Carrying amount: | | |
| At 31 December | 62,885 | 51,578 |

Impairment tests for cash-generating units containing goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives belong to the Group's non-franchised transport operations as a cash-generating unit ("CGU").

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the long-term average growth rate for the business in which the CGU operates.

NOTES TO THE FINANCIAL STATEMENTS

14 GOODWILL (continued)

Impairment tests for cash-generating units containing goodwill and intangible assets with indefinite useful lives (continued)

Key assumptions used for value-in-use calculations are as follows:

| | 2008 % | 2007 % |
|---------------|-----------|-----------|
| Gross margin | 10.5 | 11.8 |
| Growth rate | 2.5 | 3.0 |
| Discount rate | 6.0 | 7.5 |

Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the segment.

The recoverable amount of the CGU is higher than its carrying amount based on the value-in-use calculations. Accordingly, no impairment loss on goodwill or intangible assets with indefinite useful lives has been recognised in the consolidated income statement.

15 MEDIA ASSETS

| | The Group | |
|--|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Cost: | | |
| At 1 January | 1,923 | 1,797 |
| Exchange adjustments | 107 | 126 |
| At 31 December | 2,030 | 1,923 |
| Accumulated amortisation and impairment losses: | | |
| At 1 January | 801 | 389 |
| Amortisation for the year | 406 | 370 |
| Exchange adjustments | 45 | 42 |
| At 31 December | 1,252 | 801 |
| Carrying amount: | | |
| At 31 December | 778 | 1,122 |

16 NON-CURRENT PREPAYMENTS

Non-current prepayments consist of advanced payments for concession and rights for advertising and media programme placement on transit vehicles and transit network furniture.

17 INTEREST IN SUBSIDIARIES

(a) Investments in subsidiaries

| | The Company | |
|--------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Unlisted shares, at cost | 1,188,423 | 1,187,986 |

17 INTEREST IN SUBSIDIARIES (continued)

(b) Amounts due from/(to) subsidiaries

Amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of settlement/repayment.

(c) Particulars of principal subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of company | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Percentage of ownership interest | | | Principal activity |
|--|--|---|----------------------------------|---------------------|----------------------|---|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| KMB Resources Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | 100 | – | Investment holding |
| The Kowloon Motor Bus Company (1933) Limited | Hong Kong | 403,639,413 shares of HK\$1 each | 100 | – | 100 | Provision of franchised public bus services in Hong Kong |
| Long Win Bus Company Limited | Hong Kong | 100,000,000 shares of HK\$1 each | 100 | – | 100 | Provision of franchised public bus services for North Lantau and Hong Kong International Airport |
| Sun Bus Limited | Hong Kong | 2 shares of HK\$1 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong |
| Chomang Travel Transport Company Limited | Hong Kong | 10,000 shares of HK\$1 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong |
| Bun Tang Bus Service Company Limited | Hong Kong | 120,000 shares of HK\$1 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong |
| Sau Luen P.L.B. Co., Limited | Hong Kong | 10,000 shares of HK\$1 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong |
| New Hong Kong Bus Company Limited | Incorporated in Hong Kong and operates in Hong Kong and the PRC | 1,000 shares of HK\$1 each | 100 | – | 100 | Provision of cross-boundary shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen) |
| Park Island Transport Company Limited | Hong Kong | 10,000 shares of HK\$1 each | 100 | – | 100 | Provision of non-franchised bus and ferry services in Hong Kong |
| RoadShow Holdings Limited | Incorporated in Bermuda and operates in Hong Kong | 997,365,332 shares of HK\$0.1 each | 73 | – | 73 | Investment holding |
| CityVision Limited | Hong Kong | 10,000 shares of HK\$1 each | 65.7 | – | 90 | Operation of multi-media on-board business on transit vehicles |
| RoadShow Creations Limited | Hong Kong | 2 shares of HK\$1 each | 73 | – | 100 | Trading of bus souvenirs |

NOTES TO THE FINANCIAL STATEMENTS

17 INTEREST IN SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries (continued)

| Name of company | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Percentage of ownership interest | | | Principal activity |
|--|--|---|----------------------------------|---------------------|----------------------|--|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| RoadShow Media Limited | Hong Kong | 2 shares of HK\$1 each | 73 | – | 100 | Provision of media sales and management services for advertising on transit vehicle exteriors and shelters and for the multi-media on-board business |
| RoadShow Productions Limited | Hong Kong | 2 shares of HK\$1 each | 73 | – | 100 | Production of content for multi-media on-board systems |
| Lai Chi Kok Properties Investment Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Property development |
| LCK Real Estate Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Property holding |
| LCK Commercial Properties Limited | Hong Kong | 1 share of HK\$1 | 100 | – | 100 | Property holding |
| TIH Financial Services Limited | Hong Kong | 2 shares of HK\$1 each | 100 | – | 100 | Provision of second mortgage loan services |
| KMB Financial Services Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Investment holding |
| HK Macau Ltd. | Incorporated in the British Virgin Islands and operates in Hong Kong | 1,200 shares of US\$1 each | 60 | – | 60 | Investment holding |
| Shanghai Yafei Advertising Company Limited (Limited liability company) | The PRC | RMB600,000 | 37.2 | – | 51 | Provision of media advertising agency and design and production of advertisements |
| Hoi Tai Tours Limited | Incorporated in Hong Kong and operates in Hong Kong and the PRC | 20,000 shares of HK\$100 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong and the PRC |

The market value of the Group's interest in a listed subsidiary, RoadShow, at 31 December 2008 amounted to HK\$364,088,000 (2007: HK\$524,215,000).

18 INTEREST IN ASSOCIATES

| | The Group | |
|-----------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Share of net assets | 655,950 | 739,317 |
| Goodwill | 75,870 | 72,298 |
| Loans to associate | 95,714 | 94,793 |
| Amounts due from associates | 11,068 | 10,401 |
| Amounts due to associates | (4,922) | (4,922) |
| | 833,680 | 911,887 |

The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of settlement/repayment. Loans to associate and amounts due from associates are neither past due nor impaired.

The loans to associate are unsecured, bearing interest ranging from 5.58% p.a. to 7.47% p.a. (2007: 6.12% p.a. to 7.29% p.a.) and due within one year.

The Group has provided a loan of RMB22,858,000 (2007: RMB22,858,000), equivalent to HK\$25,830,000 (2007: HK\$24,408,000), to an associate. The loan was made through a designated deposit/loan arrangement where a subsidiary of the Group placed a pledged deposit of RMB22,858,000 (2007: RMB22,858,000), equivalent to HK\$25,830,000 (2007: HK\$24,408,000), with a bank in the PRC and the bank provided a loan to the associate of the same amount.

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

| Name of associate | Form of business structure | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Proportion of ownership interest | | | Principal activity |
|--|-----------------------------------|---|---|----------------------------------|---------------------|----------------------|--|
| | | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| AdSociety Daye Advertising Company Limited | Sino-foreign equity joint venture | The PRC | RMB74,380,984 | 29.9 | – | 40.9 | Provision of full range of advertising services |
| Beijing Beiqi Kowloon Taxi Company Limited | Sino-foreign joint stock company | The PRC | RMB166,600,000 | 31.4 | – | 31.4 | Provision of taxi hiring and car rental services |
| Shenzhen Bus Group Company Limited | Sino-foreign joint stock company | The PRC | RMB995,630,000 | 35 | – | 35 | Provision of bus services |

During the year, the Group and another shareholder of Wuxi Kowloon Public Transport Company Limited entered into a share transfer agreement under which the Group disposed of its entire 45% equity interest in the associate. The transaction was completed on 9 December 2008 and Wuxi Kowloon Public Transport Company Limited ceased to be an associate of the Group. The transaction resulted in a gain on disposal of HK\$64,626,000 and related PRC income tax of HK\$4,949,000.

18 INTEREST IN ASSOCIATES (continued)

(a) Goodwill on acquisition of associates

Goodwill arising from acquisition of associates is allocated to the Group's share of net assets in the respective associates as follows:

| | The Group | |
|--|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Shenzhen Bus Group Company Limited ("SBG") | 61,374 | 57,802 |
| AdSociety Daye Advertising Company Limited ("ADA") | 14,496 | 14,496 |
| | 75,870 | 72,298 |

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

Key assumptions used for value-in-use calculations:

| | SBG | | ADA | |
|---------------|-----------|-----------|-----------|-----------|
| | 2008 % | 2007 % | 2008 % | 2007 % |
| Gross margin | 12.5 | 14.1 | 16.8 | 18.5 |
| Growth rate | 3.0 | 10.0 | 3.0 | 3.0 |
| Discount rate | 5.3 | 7.4 | 5.6 | 4.4 |

Management determined the budgeted gross margins based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the CGUs.

The recoverable amounts of the CGUs are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

(b) Summary financial information on associates

| | Assets HK\$'000 | Liabilities HK\$'000 | Equity HK\$'000 | Revenues HK\$'000 | Net profit HK\$'000 |
|----------------------------|--------------------|-------------------------|--------------------|----------------------|------------------------|
| 2008 | | | | | |
| 100 per cent | 3,168,593 | (1,356,935) | 1,811,658 | 2,818,450 | 148,439 |
| Group's effective interest | 1,144,966 | (489,016) | 655,950 | 1,017,121 | 59,759 |
| 2007 | | | | | |
| 100 per cent | 3,830,618 | (1,856,441) | 1,974,177 | 2,920,522 | 95,792 |
| Group's effective interest | 1,420,189 | (680,872) | 739,317 | 1,016,817 | 29,380 |

19 INTEREST IN JOINTLY CONTROLLED ENTITIES

| | The Group | |
|---|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Share of net assets | 20,772 | 23,309 |
| Amount due to jointly controlled entity | (350) | (350) |
| | 20,422 | 22,959 |

The amount due to jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

The following list contains only the particulars of the jointly controlled entity which principally affected the results or assets of the Group:

| Name of joint venture | Form of business structure | Place of establishment and operation | Particulars of registered and paid-up capital | Proportion of ownership interest | | | Principal activity |
|--|----------------------------|--------------------------------------|---|----------------------------------|---------------------|----------------------|--|
| | | | | Group's effective interest | Held by the Company | Held by a subsidiary | |
| Dalian HK Macau Motor Bus Services Limited | Co-operative joint venture | The PRC | RMB37,000,000 | (Note) | – | (Note) | Provision of bus services in Dalian, the PRC |

Note: The co-operative joint venture, Dalian HK Macau Motor Bus Services Limited ("Dalian HK Macau"), was formed between HK Macau Ltd. ("HK Macau"), a 60% owned subsidiary of the Group, and Dalian Public Transportation Group Co., Ltd. (大連公交客運集團有限公司), formerly known as Dalian City No.1 Bus Company (大連市第一公共汽車公司), a PRC entity. The joint venture is for a period of 15 years commencing from 31 July 1997. The profits and losses of Dalian HK Macau are shared equally by HK Macau and Dalian Public Transportation Group Co., Ltd.

20 OTHER FINANCIAL ASSETS

| | The Group | |
|---|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Instalments receivable from sales of properties | 29,799 | 54,078 |
| Unlisted equity securities, at cost | 15,355 | 15,355 |
| Available-for-sale unlisted debt securities | 90,386 | 50,035 |
| Loan to investee | – | 18,592 |
| | 135,540 | 138,060 |

The loan to investee was unsecured and interest bearing at 5.5% per annum. The loan was repaid in full in 2008.

Instalments receivable from sales of properties are neither past due nor impaired. Instalments receivable from sales of properties relate to a wide range of customers for whom there was no recent history of default. Properties sold to the customers serve as collateral.

Unlisted debt securities are issued by corporate entities with credit rating ranging from Aa3 to Aaa. As at 31 December 2008, the Group's available-for-sale debt securities of HK\$38,666,000 (2007: Nil) were individually determined to be impaired as a result of declines in their fair values below costs and management considers it probable that the cost of investment will not be fully recovered. Impairment losses on these investments of HK\$1,100,000 (2007: Nil) were recognised in the income statement in accordance with the policy set out in note 1(U)(i) (see note 3). The remaining available-for-sale debt security of HK\$51,720,000 (2007: HK\$ 50,035,000) was neither past due nor impaired.

21 EMPLOYEE RETIREMENT BENEFITS

The Group makes contributions to two defined benefit retirement schemes which provide pension benefits to eligible employees of the Group. The schemes are administered by an independent trustee and the assets are held separately from those of the Group.

The latest independent actuarial valuations of the plans were at 31 December 2008 and were prepared by Watson Wyatt Hong Kong Limited, which has among its staff fellow members of the Canadian Institute of Actuaries and the Society of Actuaries, using the projected unit credit method. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 90% (2007: 174%) covered by the plan assets held by the trustee.

(a) The amount recognised in the consolidated balance sheet is as follows:

| | The Group | |
|---|--------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Present value of funded obligations | (3,443,631) | (2,755,991) |
| Fair value of plan assets | 3,110,517 | 4,782,207 |
| Unrecognised past service cost | - | 113,659 |
| Net unrecognised actuarial losses/(gains) | 1,088,549 | (1,537,647) |
| | 755,435 | 602,228 |

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable in the next twelve months, as future refund or reduction of contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The expected annual contribution to defined benefit retirement plans for 2009 is HK\$20,859,000.

(b) Plan assets consist of the following:

| | The Group | |
|-------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Equity securities | 2,118,273 | 3,491,011 |
| Bonds | 846,046 | 963,913 |
| Cash and others | 146,198 | 327,283 |
| | 3,110,517 | 4,782,207 |

(c) Movements in the present value of the defined benefit obligations:

| | The Group | |
|----------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| At 1 January | 2,755,991 | 2,661,069 |
| Benefits paid by the plans | (178,909) | (232,644) |
| Current service cost | 151,711 | 142,001 |
| Past service cost | (77,672) | - |
| Interest cost | 102,911 | 101,256 |
| Actuarial losses | 689,599 | 84,309 |
| At 31 December | 3,443,631 | 2,755,991 |

21 EMPLOYEE RETIREMENT BENEFITS (continued)

(d) Movements in plan assets:

| | The Group | |
|--|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| At 1 January | 4,782,207 | 3,864,006 |
| Benefits paid by the plans | (178,909) | (232,644) |
| Actuarial expected return on plan assets | 354,066 | 284,273 |
| Actuarial (losses)/gains | (1,846,847) | 866,572 |
| At 31 December | 3,110,517 | 4,782,207 |

(e) Net income recognised in the consolidated income statement is as follows:

| | The Group | |
|--|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Current service cost | 151,711 | 142,001 |
| Past service cost recognised | 35,987 | 10,881 |
| Interest cost | 102,911 | 101,256 |
| Actuarial expected return on plan assets | (354,066) | (284,273) |
| Net actuarial gains recognised | (89,750) | (35,143) |
| | (153,207) | (65,278) |

An enhancement to scheme benefits made in 2006 for early retiring eligible employees was no longer offered by the Group. Unrecognised past service costs to the extent incurred by the Group as a result of the enhancement of HK\$35,987,000 was recognised in the consolidated income statement.

The above net income is included in other net income in the consolidated income statement.

The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions received and benefits paid) was net loss of HK\$1,492,781,000 (2007: net income of HK\$1,150,845,000).

(f) The principal actuarial assumptions used at the respective year-ends are as follows:

| | The Group | |
|--|-----------|-----------|
| | 2008 % | 2007 % |
| Discount rate | 1.2 | 3.5 |
| Expected rate of return on plan assets | 7.5 | 7.5 |
| Future salary increases | 4.5 | 4.5 |

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

21 EMPLOYEE RETIREMENT BENEFITS (continued)

(g) Historical information

| | The Group | | |
|---|--------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Fair value of plan assets | 3,110,517 | 4,782,207 | 3,864,006 |
| Present value of the defined benefit obligations | (3,443,631) | (2,755,991) | (2,661,069) |
| (Deficit)/surplus in the plans | (333,114) | 2,026,216 | 1,202,937 |
| Experience (losses)/gains arising on plan liabilities | (47,681) | 84,445 | 41,439 |
| Experience (losses)/gains arising on plan assets | (1,846,847) | 866,572 | 302,284 |

Disclosure of historical information has been made prospectively from the year ended 31 December 2006 in accordance with the transitional provisions of Amendment to HKAS 19, Employee benefits – actuarial gains and losses, group plans and disclosures.

22 EQUITY SETTLED SHARE-BASED TRANSACTIONS

RoadShow operates a share option scheme (“the Scheme”) which was adopted on 7 June 2001 whereby the directors of RoadShow are authorised, at their discretion, to offer any employee (including any director) of RoadShow or any of its wholly-owned subsidiaries options to subscribe for shares in RoadShow to recognise their contributions to the growth of RoadShow. The options vest immediately from the date of grant and are then exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share of RoadShow. The Scheme is valid and effective for a period of ten years ending on 6 June 2011.

No option was granted during the year and there were no outstanding options at 31 December 2008 and 2007.

23 ACCOUNTS RECEIVABLE

| | The Group | |
|---|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Trade and other receivables | 493,385 | 266,086 |
| Instalments receivable from sale of properties | 299,860 | 1,433,751 |
| Interest receivable | 9,106 | 11,714 |
| Less: Allowance for doubtful debts (note 23(b)) | (84,528) | (3,952) |
| Financial assets measured at amortised cost | 717,823 | 1,707,599 |

All of the accounts receivable are expected to be recovered within one year.

23 ACCOUNTS RECEIVABLE (continued)

(a) Ageing analysis

Included in accounts receivable are trade receivables and instalments receivable from sale of properties (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

| | The Group | |
|-----------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Current | 342,229 | 1,644,599 |
| 1 to 3 months past due | 15,810 | 12,291 |
| More than 3 months past due | 19,008 | 6,474 |
| | 377,047 | 1,663,364 |

The Group's credit policy is set out in note 34(a) to the financial statements.

(b) Impairment of trade and other receivables and instalments receivable from sale of properties

Impairment losses in respect of trade and other receivables and instalments receivable from sale of properties are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables and instalments receivable from sale of properties directly (see note 1(U)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group | |
|-----------------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| At 1 January | 3,952 | 3,718 |
| Impairment loss recognised | 80,990 | 289 |
| Uncollectible amounts written off | (414) | (55) |
| At 31 December | 84,528 | 3,952 |

At 31 December 2008, the Group's trade and other receivables and instalments receivable from sale of properties of HK\$310,673,000 (2007: HK\$13,890,000) were individually determined to be impaired. The individually impaired receivables related to customers that have defaulted on repayment and management assessed that only a portion of the receivables is expected to be recovered. Included in this amount are instalments receivable from sales of properties of HK\$292,964,000 (2007: Nil) which are due from customers who have defaulted on completion. Although the Group holds the property as collateral over these balances, management assessed that only a portion of the receivables is expected to be recovered due to the fall in market value of the related properties. Consequently, specific allowances for doubtful debts of HK\$84,528,000 (2007: HK\$3,952,000) were recognised.

NOTES TO THE FINANCIAL STATEMENTS

23 ACCOUNTS RECEIVABLE (continued)

(c) Accounts receivable that is not impaired

The ageing analysis of accounts receivable that is neither individually nor collectively considered to be impaired is as follows:

| | The Group | |
|-------------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Neither past due nor impaired | 461,405 | 1,681,014 |
| 1 to 3 months past due | 12,790 | 10,775 |
| More than 3 months past due | 17,483 | 5,872 |
| | 30,273 | 16,647 |
| | 491,678 | 1,697,661 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

24 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|------------------|------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 |
| Cash at bank and in hand | 179,489 | 134,545 | 27,289 | 30,804 |
| Bank deposits | 2,854,642 | 2,960,875 | - | - |
| Cash and cash equivalents in the balance sheets | 3,034,131 | 3,095,420 | 27,289 | 30,804 |
| Less: Bank deposits with original maturities of over three months | (644,105) | (1,261,500) | | |
| Bank overdrafts | (12,134) | (31,435) | | |
| Cash and cash equivalents in the consolidated cash flow statement | 2,377,892 | 1,802,485 | | |

25 BANK LOANS AND OVERDRAFTS

At 31 December 2008, the bank loans and overdrafts were repayable as follows:

| | The Group | |
|----------------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Within 1 year or on demand | 725,384 | 436,936 |
| After 1 year but within 2 years | 300,000 | 550,000 |
| After 2 years but within 5 years | 289,748 | 604,664 |
| | 589,748 | 1,154,664 |
| | 1,315,132 | 1,591,600 |

Except for the bank loan of HK\$38,000,000 as at 31 December 2007 which was secured by a pledged bank deposit of HK\$38,000,000, all bank loans and overdrafts are unsecured.

26 ACCOUNTS PAYABLE AND ACCRUALS

| | The Group | | The Company | |
|--|------------------|------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 |
| Trade payables | 139,924 | 201,005 | - | - |
| Other payables and accruals | 848,568 | 1,080,704 | 35,962 | 37,431 |
| Financial liabilities measured at amortised cost | 988,492 | 1,281,709 | 35,962 | 37,431 |
| Financial guarantees issued | - | - | 8,528 | 15,536 |
| Derivative financial instruments | 595 | - | - | - |
| | 989,087 | 1,281,709 | 44,490 | 52,967 |

Financial guarantees issued by the Company of HK\$4,039,000 (2007: HK\$8,547,000) are expected to be recognised as income after more than one year. All other accounts payable and accruals at 31 December 2008 and 2007 are expected to be settled within one year.

Included in accounts payable and accruals are trade payables with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---------------------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Due within 1 month or on demand | 122,979 | 116,044 |
| Due after 1 month but within 3 months | 15,312 | 84,961 |
| Due after more than 3 months | 1,633 | - |
| | 139,924 | 201,005 |

27 CONTINGENCY PROVISION – INSURANCE

| | The Group | |
|--|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| At 1 January | 438,916 | 397,432 |
| Provision charged to the consolidated income statement | 86,464 | 77,328 |
| Payments made during the year | (45,784) | (35,844) |
| At 31 December | 479,596 | 438,916 |

| | The Group | |
|----------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Representing: | | |
| Current portion | 142,684 | 143,751 |
| Non-current portion | 336,912 | 295,165 |
| | 479,596 | 438,916 |

The Group is involved from time to time in litigations and claims in connection with its bus operations. Contingency provisions – insurance represents amounts set aside annually by the Group to meet liabilities which are expected to arise from third party claims for incidents which have occurred prior to the balance sheet date in connection with the Group's bus operations.

28 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

| | The Group | |
|--|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Provision for Hong Kong Profits Tax for the year | 119,519 | 258,445 |
| Provisional Profits Tax paid | (125,794) | (169,136) |
| | (6,275) | 89,309 |
| Balance of Profits Tax payable/(recoverable) relating to prior years | 574 | (21,564) |
| | (5,701) | 67,745 |
| PRC Income Tax payable | 551 | 645 |
| | (5,150) | 68,390 |

| | The Group | |
|------------------------------|------------------|------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Representing: | | |
| Current taxation recoverable | (24,608) | (5,917) |
| Current taxation payable | 19,458 | 74,307 |
| | (5,150) | 68,390 |

28 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated balance sheet and the movements during the year are as follows:

| Deferred tax arising from: | The Group | | | | |
|---|--|---------------------|---------------------|---------------------------------|------------------|
| | Depreciation allowances in excess of related depreciation HK\$'000 | Provisions HK\$'000 | Tax losses HK\$'000 | Defined benefit assets HK\$'000 | Total HK\$'000 |
| At 1 January 2007 | 736,154 | (27,243) | (58,448) | 93,967 | 744,430 |
| (Credited)/charged to consolidated income statement | (57,148) | (14,084) | 5,005 | 11,424 | (54,803) |
| At 31 December 2007 | 679,006 | (41,327) | (53,443) | 105,391 | 689,627 |
| At 1 January 2008 | 679,006 | (41,327) | (53,443) | 105,391 | 689,627 |
| (Credited)/charged to consolidated income statement | (109,152) | (4,914) | 10,288 | (63,012) | (166,790) |
| At 31 December 2008 | 569,854 | (46,241) | (43,155) | 42,379 | 522,837 |

| | The Group | |
|---|----------------|---------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Net deferred tax assets recognised in the consolidated balance sheet | (8,493) | (11,877) |
| Net deferred tax liabilities recognised in the consolidated balance sheet | 531,330 | 701,504 |
| | 522,837 | 689,627 |

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of HK\$27,230,000 (2007: HK\$26,940,000) in respect of tax losses of HK\$165,030,000 (2007: HK\$153,944,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

29 PROVISION FOR LONG SERVICE PAYMENTS

Details of the provision for long service payments of the Group are as follows:

| | The Group | |
|--|----------------|---------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| At 1 January | 47,222 | 49,290 |
| Provision charged to the consolidated income statement (note 4(a)) | 133 | 5,929 |
| Payments made during the year | (8,834) | (7,997) |
| At 31 December | 38,521 | 47,222 |

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement schemes that are attributable to contributions made by the Group. The Group does not set aside any assets to fund the above remaining obligations.

NOTES TO THE FINANCIAL STATEMENTS

30 CAPITAL AND RESERVES

(a) The Group

| | Note | Attributable to equity shareholders of the Company | | | | | | Total HK\$'000 | Minority interests HK\$'000 | Total equity HK\$'000 |
|---|-------|--|-------------------------------|---|---|---|---------------------------------|-------------------|-----------------------------------|-----------------------------|
| | | Share capital HK\$'000 | Other reserves HK\$'000 | Exchange reserve HK\$'000 (note (i)) | Hedging reserve HK\$'000 (note (ii)) | Fair value reserve HK\$'000 (note (iii)) | Retained profits HK\$'000 | | | |
| At 1 January 2007 | | 403,639 | 1,102,851 | 40,498 | - | - | 3,527,202 | 5,074,190 | 244,689 | 5,318,879 |
| Dividend approved in respect of the previous year | 10(b) | - | - | - | - | - | (637,750) | (637,750) | - | (637,750) |
| Dividends paid to minority shareholders | | - | - | - | - | - | - | - | (16,021) | (16,021) |
| Exchange differences on translation of financial statements of entities outside Hong Kong | | - | - | 53,684 | - | - | - | 53,684 | 282 | 53,966 |
| Deemed disposal of partial interest in associate | | - | - | (1,782) | - | - | - | (1,782) | - | (1,782) |
| Available-for-sale securities: change in fair value | | - | - | - | - | 5 | - | 5 | - | 5 |
| Profit for the year | | - | - | - | - | - | 3,847,678 | 3,847,678 | 20,678 | 3,868,356 |
| Dividends approved in respect of the current year | 10(a) | - | - | - | - | - | (787,097) | (787,097) | - | (787,097) |
| At 31 December 2007 | | 403,639 | 1,102,851 | 92,400 | - | 5 | 5,950,033 | 7,548,928 | 249,628 | 7,798,556 |
| At 1 January 2008 | | 403,639 | 1,102,851 | 92,400 | - | 5 | 5,950,033 | 7,548,928 | 249,628 | 7,798,556 |
| Dividends approved in respect of the previous year | 10(b) | - | - | - | - | - | (1,445,029) | (1,445,029) | - | (1,445,029) |
| Dividends paid to minority shareholders | | - | - | - | - | - | - | - | (23,908) | (23,908) |
| Exchange differences on translation of financial statements of entities outside Hong Kong | | - | - | 45,771 | - | - | - | 45,771 | 10,196 | 55,967 |
| Disposal of interest in associate | | - | - | (27,515) | - | - | - | (27,515) | - | (27,515) |
| Cash flow hedge: effective portion of changes in fair value | | - | - | - | (595) | - | - | (595) | - | (595) |
| Available-for-sale securities: | | | | | | | | | | |
| - changes in fair value | | - | - | - | - | 484 | - | 484 | - | 484 |
| - transfer to profit or loss on disposal | | - | - | - | - | 101 | - | 101 | - | 101 |
| - transfer to profit or loss on impairment | | - | - | - | - | 1,100 | - | 1,100 | - | 1,100 |
| Profit for the year | | - | - | - | - | - | 658,670 | 658,670 | 17,164 | 675,834 |
| Dividend approved in respect of the current year | 10(a) | - | - | - | - | - | (121,092) | (121,092) | - | (121,092) |
| At 31 December 2008 | | 403,639 | 1,102,851 | 110,656 | (595) | 1,690 | 5,042,582 | 6,660,823 | 253,080 | 6,913,903 |

Included in retained profits is an amount of HK\$89,468,000 (2007: HK\$71,229,000) being the retained profits attributable to associates, and an amount of HK\$2,486,000 (2007: retained profits of HK\$877,000) being the accumulated losses attributable to jointly controlled entities.

30 CAPITAL AND RESERVES (continued)

(a) The Group (continued)

Nature and purpose of reserves:

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of entities outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(ii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(h).

(iii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policy set out in note 1(f).

(b) The Company

| | Note | Share capital HK\$'000 | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total equity HK\$'000 |
|--|-------|---------------------------|---------------------------------|------------------------------|--------------------------|
| At 1 January 2007 | | 403,639 | 1,300,000 | 462,566 | 2,166,205 |
| Dividend approved in respect of the previous year | 10(b) | - | - | (637,750) | (637,750) |
| Profit for the year | | - | - | 1,390,289 | 1,390,289 |
| Dividends approved in respect of the current year | 10(a) | - | - | (787,097) | (787,097) |
| At 31 December 2007 | | 403,639 | 1,300,000 | 428,008 | 2,131,647 |
| At 1 January 2008 | | 403,639 | 1,300,000 | 428,008 | 2,131,647 |
| Dividends approved in respect of the previous year | 10(b) | - | - | (1,445,029) | (1,445,029) |
| Profit for the year | | - | - | 1,215,938 | 1,215,938 |
| Dividend approved in respect of the current year | 10(a) | - | - | (121,092) | (121,092) |
| At 31 December 2008 | | 403,639 | 1,300,000 | 77,825 | 1,781,464 |

The Company's reserves available for distribution to shareholders at 31 December 2008 amounted to HK\$1,377,825,000 (2007: HK\$1,728,008,000). After the balance sheet date, the Directors proposed an ordinary final dividend of HK\$1.05 per share (2007: ordinary final dividend of HK\$1.58 per share and special final dividend of HK\$2.00 per share), amounting to HK\$423,821,000 (2007: ordinary final dividend of HK\$637,750,000 and special final dividend of HK\$807,279,000). The dividends have not been recognised as liabilities at the balance sheet date.

30 CAPITAL AND RESERVES (continued)

(c) Share capital

(i) Authorised and issued share capital

| | 2008 HK\$'000 | 2007 HK\$'000 |
|---|------------------|------------------|
| Authorised: | | |
| 600,000,000 ordinary shares of HK\$1 each | 600,000 | 600,000 |
| Issued and fully paid: | | |
| 403,639,413 ordinary shares of HK\$1 each | 403,639 | 403,639 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital structure on the basis of the level of net cash/debt compared to the amount of capital. For this purpose the Group defines net cash/debt as interest-bearing loans and borrowings less cash and cash equivalents. Capital comprises all components of equity.

Net cash/debt and equity at 31 December 2008 and 2007 were as follows:

| | Note | The Group | | The Company | |
|---------------------------------|------|--------------------|------------------|------------------|------------------|
| | | 2008 HK\$'000 | 2007 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 |
| Bank loans and overdrafts | 25 | 1,315,312 | 1,591,600 | - | - |
| Less: Cash and cash equivalents | 24 | (3,034,131) | (3,095,420) | (27,289) | (30,804) |
| Pledged deposit | | - | (38,000) | - | - |
| Net cash | | (1,718,819) | (1,541,820) | (27,289) | (30,804) |
| Total equity | | 6,913,903 | 7,798,556 | 1,781,464 | 2,131,647 |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31 ACQUISITION OF SUBSIDIARY

On 25 April 2008, the Company, via a wholly-owned subsidiary, acquired the entire equity interest in Hong Kong Campbell Transportation Co., Limited ("Campbell") for HK\$12,196,000, satisfied in cash.

The principal activity of Campbell is the provision of non-franchised bus services between Hong Kong and the PRC. The contribution to the Group's revenue and profit for the year from Campbell since the date of acquisition is immaterial.

Details of net assets acquired and goodwill are as follows:

| Net assets acquired: | Carrying amount HK\$'000 | Fair value HK\$'000 |
|---|-------------------------------------|--------------------------------|
| Fixed assets | 2,414 | 2,414 |
| Passenger service licences | - | 700 |
| Deposits and prepayments | 200 | 200 |
| Accounts payable and accruals | (2,425) | (2,425) |
| Net assets acquired | | 889 |
| Goodwill arising from the acquisition (note 14) | | 11,307 |
| Total purchase price paid, satisfied in cash | | 12,196 |

Goodwill represents expected future profitability of the acquired business and synergies with the Group which are not attributable to any separately identifiable intangible asset.

32 COMMITMENTS

- (a) At 31 December 2008, the Group had the following capital commitments in relation to the purchase of property, plant and equipment not provided for in the financial statements:

| | The Group | |
|-----------------------------------|--------------------------|--------------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Contracted for | 153,717 | 122,108 |
| Authorised but not contracted for | 173,000 | 239,780 |
| | 326,717 | 361,888 |

- (b) At 31 December 2008, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

| | The Group | |
|---------------------------------|--------------------------|--------------------------|
| | 2008 HK\$'000 | 2007 HK\$'000 |
| Within 1 year | 4,497 | 3,043 |
| After 1 year but within 5 years | 3,197 | 1,380 |
| | 7,694 | 4,423 |

The Group leases a number of properties under operating leases. The leases typically run for a period of one to five years. The leases do not include contingent rentals.

33 CONTINGENT LIABILITIES

Financial guarantees issued

At 31 December 2008, the Company has undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of HK\$490,000,000 (2007: HK\$540,000,000).

As at the balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the outstanding amount of the loans advanced by the banks to the subsidiaries totalling HK\$405,000,000 (2007: HK\$410,000,000).

Deferred income in respect of the guarantees issued is disclosed in note 26 to the financial statements.

34 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, currency and fuel price risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, instalments receivable from sale of properties, loans to associate and unlisted debt investments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all major customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and their ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. A credit period of between 30 days and 90 days is normally granted to customers of the Group's non-franchised transport operations and media sales business. All the trade and other receivables included in current assets are expected to be recoverable within one year.

For instalments receivable from sales of properties, the properties sold serve as collateral.

Debt investments are only made with counterparties of a high credit rating. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

Regular review and follow up actions are carried out on overdue amounts to minimise the Group's exposure to credit risk. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables.

The Group has no significant concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantee to third parties which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables are set out in notes 20 and 23.

34 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

The Group closely monitors its liquidity and financial resources to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the requirements for loan repayments, daily operational needs, capital expenditure, as well as potential business expansion and development. Major operating companies of the Group arrange for their own financing to meet specific requirements. The Group's other subsidiaries are mainly financed by the Company's capital base. The Group reviews its strategy from time to time to ensure that cost-efficient funding is available to cater for the unique operating environment of each subsidiary.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

| | The Group | | | | | | | | | |
|--|-----------------------------|--|--|--|---|-----------------------------|--|--|--|---|
| | 2008 | | | | | 2007 | | | | |
| | Carrying amount HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Within 1 year or on demand HK\$'000 | More than 1 year but less than 2 years HK\$'000 | More than 2 years but less than 5 years HK\$'000 | Carrying amount HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Within 1 year or on demand HK\$'000 | More than 1 year but less than 2 years HK\$'000 | More than 2 years but less than 5 years HK\$'000 |
| Bank loans | 1,302,998 | 1,312,654 | 720,230 | 301,683 | 290,741 | 1,560,165 | 1,667,259 | 459,311 | 580,525 | 627,423 |
| Accounts payable and accruals | 988,492 | 988,492 | 988,492 | - | - | 1,281,709 | 1,281,709 | 1,281,709 | - | - |
| Bank overdrafts | 12,134 | 12,134 | 12,134 | - | - | 31,435 | 31,435 | 31,435 | - | - |
| | 2,303,624 | 2,313,280 | 1,720,856 | 301,683 | 290,741 | 2,873,309 | 2,980,403 | 1,772,455 | 580,525 | 627,423 |
| Derivatives settled gross: | | | | | | | | | | |
| Forward foreign exchange contracts held as cash flow hedging instruments | | | | | | | | | | |
| - outflow | | 27,315 | 27,315 | - | - | | - | - | - | - |
| - inflow | | (26,721) | (26,721) | - | - | | - | - | - | - |

| | The Company | | | | | | | | | |
|-----------------------------|-----------------------------|--|--|--|---|-----------------------------|--|--|--|---|
| | 2008 | | | | | 2007 | | | | |
| | Carrying amount HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Within 1 year or on demand HK\$'000 | More than 1 year but less than 2 years HK\$'000 | More than 2 years but less than 5 years HK\$'000 | Carrying amount HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Within 1 year or on demand HK\$'000 | More than 1 year but less than 2 years HK\$'000 | More than 2 years but less than 5 years HK\$'000 |
| Amounts due to subsidiaries | 6,340,317 | 6,340,317 | 6,340,317 | - | - | 2,466,765 | 2,466,765 | 2,466,765 | - | - |
| Other payables and accruals | 35,962 | 35,962 | 35,962 | - | - | 37,431 | 37,431 | 37,431 | - | - |
| | 6,376,279 | 6,376,279 | 6,376,279 | - | - | 2,504,196 | 2,504,196 | 2,504,196 | - | - |

34 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

It is the Group's policy to closely monitor the market conditions and devise suitable strategies against interest rate risk. As at 31 December 2008 and 2007, all the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. The Group regularly reviews its strategy on interest rate risk management in the light of the prevailing market conditions.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest bearing assets and liabilities at the balance sheet date.

| | The Group | | | |
|---|--------------------------------|--------------------|--------------------------------|--------------------|
| | 2008 | | 2007 | |
| | Effective interest rate p.a. % | HK\$'000 | Effective interest rate p.a. % | HK\$'000 |
| Fixed rate assets: | | | | |
| Bank deposits | 1.4 | 2,854,642 | 3.8 | 2,960,875 |
| Instalments receivable | - | - | 4.4 | 1,433,751 |
| Loan to investee | - | - | 5.5 | 18,592 |
| Loans to associate | 7.5 | 95,714 | 6.5 | 94,793 |
| Available-for-sale unlisted debt securities | 4.6 | 90,386 | 4.1 | 50,035 |
| | | 3,040,742 | | 4,558,046 |
| Variable rate assets/(liabilities): | | | | |
| Cash at bank | 0.1 | 49,908 | 0.6 | 68,602 |
| Instalments receivable | 5.0 | 40,334 | 6.8 | 54,078 |
| Bank overdrafts | 5.0 | (12,134) | 6.8 | (31,435) |
| Bank loans | 0.5 | (1,302,998) | 3.9 | (1,560,165) |
| | | (1,224,890) | | (1,468,920) |

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK\$10,233,000 (2007: HK\$11,999,000). Other components of consolidated equity would have decreased/increased by approximately HK\$2,634,000 (2007: HK\$1,815,000) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax, retained profits and other components of consolidated equity that would arise assuming that the change in the interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments held by the Group at the balance sheet date. The impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2007.

34 FINANCIAL INSTRUMENTS (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through purchases of buses that are denominated in a currency other than the functional currency of the Group. The currency giving rise to this risk is primarily British Pound Sterling. In 2008, the Group hedged no more than 30% of its estimated foreign currency exposure in respect of highly probable forecast purchases. The Group uses forward exchange contracts to hedge its currency risk and classifies these as cash flow hedges. All of the forward exchange contracts have maturities of less than one year after the balance sheet date.

At 31 December 2008, the Group had forward exchange contracts hedging forecast transactions with a net fair value of \$595,000 (2007: Nil) recognised as derivative financial instruments. The forward exchange contracts are for the purchases of British Pound Sterling totalling GBP2,388,000 (2007: GBP Nil).

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | The Group | | | | | |
|--|------------------|--------------------------------------|-------------------------------------|------------------|--------------------------------------|-------------------------------------|
| | 2008 | | | 2007 | | |
| | Renminbi '000 | British Pound Sterling '000 | United States Dollars '000 | Renminbi '000 | British Pound Sterling '000 | United States Dollars '000 |
| Cash and cash equivalents | - | 1,713 | 47,141 | - | 1,636 | 54,018 |
| Accounts payable and accruals | - | (1,133) | (400) | - | (1,706) | (433) |
| Loans to associate | 22,858 | - | 9,017 | 22,858 | - | 8,894 |
| Notional amounts of forward exchange contracts used as economic hedges | - | 2,388 | - | - | - | - |
| Overall net exposure | 22,858 | 2,968 | 55,758 | 22,858 | (70) | 62,479 |

In addition, the Group is exposed to currency risk arising from inter-company receivables denominated in Renminbi which is not the functional currency of the lender. Such inter-company receivables amounted to RMB124,971,000 as at 31 December 2008 (2007: RMB121,066,000).

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

34 FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis (continued)

| | The Group | | | | | |
|------------------------|--|--|--|--|--|--|
| | 2008 | | | 2007 | | |
| | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits (increase/ (decrease)) HK\$'000 | Effect on other components of equity (increase/ (decrease)) HK\$'000 | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits (increase/ (decrease)) HK\$'000 | Effect on other components of equity (increase/ (decrease)) HK\$'000 |
| Renminbi | 3% | 4,236 | 775 | 3% | 3,885 | 731 |
| | (3%) | (4,236) | (775) | (3%) | (3,885) | (731) |
| British Pound Sterling | 4% | 343 | 1,068 | 4% | 142 | – |
| | (4%) | (343) | (1,068) | (4%) | (142) | – |
| United States Dollars | 1% | 3,630 | 1,089 | 1% | 4,185 | 645 |
| | (1%) | (3,630) | (1,089) | (1%) | (4,185) | (645) |

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2007.

Renminbi is not a fully convertible currency. All foreign exchange transactions involving Renminbi must take place either through the People's Bank of China or other institutions authorised to buy and sell foreign exchange.

(e) Equity price risk

The Group is exposed to equity price changes arising from investments in equity securities. As the carrying amount of such investments is insignificant compared to the total assets of the Group, management considers the exposure to equity price risk to be insignificant.

(f) Fuel price risk

It is the Group's policy to closely monitor the fuel oil price movements and enter into fuel oil swap contracts in a strategic manner when opportunities arise to hedge against fuel oil price fluctuations. There was no outstanding fuel oil swap contract as at 31 December 2008 and 2007.

(g) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 except as follows:

- (i) Amounts due from/to subsidiaries, associates and jointly controlled entities of the Group and the Company are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose their fair values.
- (ii) Unlisted equity securities of HK\$15,355,000 (2007: HK\$15,355,000) do not have a quoted market price in an active market and therefore their fair values cannot be reliably measured. They are stated at cost less impairment losses at the balance sheet date.

34 FINANCIAL INSTRUMENTS (continued)

(h) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Available-for-sale unlisted debt securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Forward exchange contracts

The fair values of forward exchange contracts are marked to market using quoted market prices.

(iii) Interest-bearing loans and borrowings

Fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iv) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates can be made.

35 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Transactions with related companies

| | Note | 2008 HK\$'000 | 2007 HK\$'000 |
|--|--------|------------------|------------------|
| Service fees for provision of coach services | (i) | 32,384 | 26,105 |
| Insurance premium paid | (ii) | 67,385 | 65,029 |
| Amount paid and accrued for management contractor services for property under development | (iii) | - | 37,238 |
| Amount paid and accrued for letting and sales agency agreement | (iv) | 4,704 | 44,085 |
| Amount paid and accrued for management agreement | (v) | 5,885 | 10,271 |
| Amount paid and accrued for property project management services | (vi) | - | - |
| Estimated Entitled Net Return for provision of transport services | (vii) | 7,807 | 8,054 |
| Amount paid and accrued for management contractor services for investment property under development | (viii) | 34,510 | - |
| Amount paid and accrued for project management and design services for investment property under development | (ix) | 2,670 | - |

35 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related companies (continued)

- (i) During the year, the Group provided coach services to certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP") under the same terms as those available to other customers in the ordinary course of business. Amounts due from these companies at 31 December 2008 amounted to HK\$13,496,000 (2007: HK\$7,480,000).
- (ii) During the year, the Group entered into a contract with a subsidiary of SHKP, Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of insurance services to the Group. SHKPI entered into the contract with the Group under the same terms as those available to other customers in the ordinary course of business. Outstanding balance due to SHKPI for this contract at 31 December 2008 amounted to HK\$65,000 (2007: Nil).
- (iii) In 2003, Lai Chi Kok Properties Investment Limited ("LCKPI"), an indirectly wholly-owned subsidiary of the Company, entered into a prime cost contract ("the Prime Cost Contract") with Chun Fai Construction Co. Ltd. ("CFCCCL"), a subsidiary of SHKP, for the provision of management contractor services relating to the property under development of the Group ("Manhattan Hill"). In 2004, a supplementary agreement to the Prime Cost Contract ("the Supplementary Agreement") was entered into between LCKPI and CFCCCL for the purposes of upgrading the design, materials and quality of the workmanship of Manhattan Hill. Pursuant to the Prime Cost Contract, as supplemented by the Supplementary Agreement, the aggregate consideration payable to CFCCCL should not exceed HK\$1,617,743,000. Outstanding balance payable for this contract at 31 December 2008 amounted to HK\$117,304,000 (2007: HK\$163,925,000).
- (iv) LCKPI entered into a Letting and Sales Agency Agreement (the "Original Agreement") with Sun Hung Kai Real Estate Agency Limited ("SHKRE"), a subsidiary of SHKP, on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and the car parking spaces of Manhattan Hill. On 15 August 2007, the Original Agreement was terminated and replaced by a letter agreement (the "Letter Agreement") pursuant to which LCKPI continues to appoint SHKRE as the letting and sales agent of Manhattan Hill under the same terms and conditions of the Original Agreement except that the maximum amount of the agency fees payable under the Original Agreement and the Letter Agreement shall, altogether, not exceed HK\$65,000,000. Outstanding balance payable for this contract at 31 December 2008 amounted to HK\$1,833,000 (2007: Nil).
- (v) In 2003, LCKPI entered into the Management Agreement with Hong Yip Service Company Limited ("Hong Yip"), a subsidiary of SHKP, to agree to appoint Hong Yip as the manager of Manhattan Hill and to engage its services in relation to the terms and conditions set out in deed(s) of mutual covenant and management agreement(s) of Manhattan Hill to be entered into by LCKPI, Hong Yip and the first purchaser of a completed unit of the property.

In 2007, a supplemental deed had been entered into between LCKPI, Hong Yip and Royal Elite Service Company Limited ("Royal Elite"), a fellow subsidiary of Hong Yip, to amend and supplement the management agreement (the "Supplemental Deed"). It is agreed among the three parties that Royal Elite will replace Hong Yip as the Manager and to perform and discharge the duties and obligations as the manager under the deed(s) of mutual covenant. All terms defined in the Management Agreement are adopted in the Supplemental Deed. Outstanding balance payable for this contract at 31 December 2008 amounted to HK\$562,000 (2007: HK\$2,111,000).
- (vi) The Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to Manhattan Hill. The contract sum of the project management services is HK\$15,000,000, or the lower of 1% of the project costs and HK\$20,000,000, whichever is higher. Management service fees payable for this contract at 31 December 2008 amounted to HK\$3,800,000 (2007: HK\$3,800,000).

35 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related companies (continued)

- (vii) On 23 May 2001, an indirectly wholly-owned subsidiary of the Company, Park Island Transport Company Limited ("PITC"), entered into a contract with Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW"), a wholly-owned subsidiary of SHKP ("the Transport Agreement"), for the provision of transport services for Ma Wan Island in Hong Kong. The Transport Agreement was subsequently amended and supplemented by six supplemental letters dated 4 December 2002, 1 August 2003, 29 February 2004, 6 December 2005, 28 November 2006 and 6 December 2007 (collectively, the "Supplemental Agreements") with the operating term extended to 13 December 2008.

Under the terms of the Transport Agreement, PITC shall be entitled to a return lying within the range of 7% and 14% per annum of the simple arithmetic average of the opening balance and the closing balance of the net book value of PITC's fixed assets with respect to the accounting year concerned ("the Entitled Net Return").

On 25 November 2008, PITC entered into another Supplemental Letter to amend certain terms and conditions of the Transport Agreement whereby the operating term of the Transport Agreement was extended for a period of one year from 14 December 2008 to 13 December 2009 and the Entitled Net Return of the Transport Agreement was changed to lie within the range of 6% and 15% per annum.

The amount receivable from SHKMW at 31 December 2008 under this contract was HK\$55,486,000 (2007: HK\$59,384,000).

- (viii) On 16 April 2008, LCK Commercial Properties Limited ("LCKCP"), an indirectly wholly-owned subsidiary of the Company, entered into a prime cost agreement ("the Prime Cost Agreement") with CFCCCL for the provision of management contractor services involving the alteration and addition works to the retail podium of Manhattan Hill ("the Retail Podium"). Pursuant to the Prime Cost Agreement, the aggregate consideration payable to CFCCCL should not exceed HK\$37,400,000. Outstanding balance payable for this contract at 31 December 2008 amounted to HK\$17,478,000 (2007: Nil).
- (ix) On 16 April 2008, LCKCP entered into a project management and design services agreement ("the Project Management and Design Services Agreement") with Sun Hung Kai Architects and Engineers Limited ("SHKAE"), a subsidiary of SHKP, for the provision of project management, statutory submission and interior design services in relation to the Retail Podium. Pursuant to the Project Management and Design Services Agreement, a lump sum service fee of HK\$2,670,000 is payable to SHKAE in accordance with the progress of the alteration and addition works to the Retail Podium. Outstanding balance payable for this contract at 31 December 2008 amounted to HK\$1,870,000 (2007: Nil).

(b) Key management personnel remuneration

Remuneration for key management personnel represents amounts paid to the Company's Directors as disclosed in note 6.

(c) Financing arrangements

Loans to associate are unsecured and have no fixed terms of repayment. Interest income from loans to associate during the year was HK\$4,999,000 (2007: HK\$3,735,000) and the interest receivable at the year end amounted to HK\$11,139,000 (2007: HK\$8,896,000).

36 COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with the current year's presentation.

37 NON-ADJUSTING POST BALANCE SHEET EVENT

After the balance sheet date, the Directors proposed a final dividend for the year. Further details are disclosed in note 10(a) to the financial statements.

38 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 14, 18, 21(f) and 34(h) contain information about the assumptions and their risk factors relating to impairment of goodwill and intangible assets with indefinite useful lives, employee benefit assets and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Contingency provision – insurance

Estimation of the contingency provision – insurance, as disclosed in note 27, is based on past claims experience and recent claims development. As the ultimate claim amount will be affected by future external events, for example the amount of court awards, changes in standards of liability and the attitude of claimants towards settlement of their claims, actual claims may deviate from these estimations. Any increase or decrease in the provision would affect the Group's results in future years.

(b) Depreciation/amortisation

Fixed assets are depreciated/amortised on a straight-line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation/amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation/amortisation expense for future periods is adjusted if there are material changes from previous estimates.

(c) Impairment of assets

Internal and external sources of information are reviewed by the Group at each balance sheet date to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually even if there is no indication of impairment.

(d) Net realisable value of completed property held for sale

Management determines the net realisable value of completed property held for sale with reference to recent sale transactions of the property and those in nearby areas. Estimated costs to be incurred in selling the property are taken into account in estimating net realisable value. These estimates require management judgement as to the anticipated future selling prices, rate of new property sales, marketing costs and general market conditions. Changes in market conditions affect the actual selling price when the property is sold and may affect profit or loss in future years.

(e) Recognition of deferred tax assets

At 31 December 2008, the Group has recognised deferred tax assets which arose from unused tax losses and deductible temporary differences as set out in note 28(b). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax asset may arise, which will be recognised in the consolidated income statement for the period in which such a reversal takes place.

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that it is unlikely to have a material impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

| | | Effective for accounting periods beginning on or after |
|-------------------|--------------------------------------|--|
| HKAS 1 (Revised) | Presentation of financial statements | 1 January 2009 |
| HKAS 23 (Revised) | Borrowing costs | 1 January 2009 |
| HKFRS 8 | Operating segments | 1 January 2009 |

FINANCIAL SUMMARY

for the year ended 31 December

| | 2008 HK\$'M | 2007 HK\$'M | 2006 HK\$'M | 2005 HK\$'M | 2004 HK\$'M | 2003 HK\$'M | 2002 HK\$'M | 2001 HK\$'M | 2000 HK\$'M | 1999 HK\$'M |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Income statement | | | | | | | | | | |
| Turnover | 7,353 | 12,013 | 8,705 | 6,456 | 6,544 | 6,540 | 6,843 | 6,862 | 6,323 | 5,871 |
| Profit before taxation | 694 | 4,074 | 2,002 | 691 | 913 | 857 | 1,142 | 1,810 | 936 | 893 |
| Less: Income tax | 18 | 206 | 133 | 96 | 169 | 259 | 175 | 237 | 81 | 154 |
| Profit after taxation | 676 | 3,868 | 1,869 | 595 | 744 | 598 | 967 | 1,573 | 855 | 739 |
| Less: Minority interests | 18 | 21 | 31 | 11 | 13 | 1 | 28 | 34 | - | - |
| Profit attributable to equity shareholders of the Company | 658 | 3,847 | 1,838 | 584 | 731 | 597 | 939 | 1,539 | 855 | 739 |
| Balance sheet | | | | | | | | | | |
| Fixed assets | 4,466 | 4,981 | 5,463 | 5,720 | 6,119 | 6,491 | 6,497 | 6,047 | 5,381 | 4,952 |
| Passenger service licences | 15 | 14 | 8 | - | - | - | - | - | - | - |
| Goodwill | 63 | 52 | 49 | 33 | 30 | 50 | 53 | 21 | 22 | 4 |
| Media assets | 1 | 1 | 1 | 96 | 115 | 61 | - | - | - | - |
| Non-current prepayments | 29 | 38 | 48 | 63 | 470 | 105 | 101 | - | - | - |
| Interest in associates | 834 | 911 | 834 | 776 | 330 | 162 | 61 | 1 | - | (5) |
| Interest in jointly controlled entities | 20 | 23 | 23 | 16 | 5 | 1 | 2 | 6 | 10 | 13 |
| Other financial assets | 136 | 138 | 46 | 34 | 15 | 15 | 15 | 15 | 1 | - |
| Employee benefit assets | 755 | 602 | 537 | 485 | 414 | 339 | 278 | - | - | - |
| Net current assets | 2,083 | 3,224 | 1,426 | 184 | 253 | 548 | 465 | 854 | 926 | 881 |
| Employment of funds | 8,402 | 9,984 | 8,435 | 7,407 | 7,751 | 7,772 | 7,472 | 6,944 | 6,340 | 5,845 |
| Financed by: | | | | | | | | | | |
| Share capital | 404 | 404 | 404 | 404 | 404 | 404 | 404 | 404 | 404 | 404 |
| Reserves | 6,257 | 7,145 | 4,670 | 3,628 | 3,847 | 3,935 | 4,157 | 3,776 | 2,341 | 2,052 |
| Total equity attributable to equity shareholders of the Company | 6,661 | 7,549 | 5,074 | 4,032 | 4,251 | 4,339 | 4,561 | 4,180 | 2,745 | 2,456 |
| Minority interests | 253 | 249 | 245 | 269 | 289 | 260 | 244 | 228 | 4 | 6 |
| Total equity | 6,914 | 7,798 | 5,319 | 4,301 | 4,540 | 4,599 | 4,805 | 4,408 | 2,749 | 2,462 |
| Contingency provision – insurance | 337 | 295 | 271 | 52 | 59 | 106 | 117 | 202 | 298 | 305 |
| Long term bank loans | 590 | 1,155 | 2,052 | 2,218 | 2,298 | 2,218 | 1,830 | 1,743 | 2,176 | 1,961 |
| Other liabilities | 561 | 736 | 793 | 836 | 854 | 849 | 720 | 591 | 1,117 | 1,117 |
| Funds employed | 8,402 | 9,984 | 8,435 | 7,407 | 7,751 | 7,772 | 7,472 | 6,944 | 6,340 | 5,845 |
| Earnings per share (HK\$) | 1.63 | 9.53 | 4.55 | 1.45 | 1.81 | 1.48 | 2.33 | 3.81 | 2.12 | 1.83 |
| Dividends per share (HK\$) | 1.35 | 5.53 | 2.03 | 2.03 | 2.03 | 2.03 | 2.03 | 1.86 | 1.58 | 1.35 |

Notes:

- In 2005, the Group has changed several of its accounting policies to comply with Hong Kong Financial Reporting Standards ("HKFRSs") that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Figures for 2004 to 2008 have been prepared based on the new and revised policies in accordance with the transitional provisions of HKFRSs. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively.
- In order to comply with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 34 "Employee benefits" (now superseded and replaced by Hong Kong Accounting Standard 19, "Employee benefits") and SSAP 12 (revised) "Income taxes" (now superseded and replaced by Hong Kong Accounting Standard 12, "Income taxes"), the Group adopted new accounting policies for short-term employee benefits and deferred taxation in 2002. Figures for the year 2001 have been adjusted and it is not practicable to restate earlier years for comparison purposes.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

The Hon Sir Sze-yuen CHUNG*

GBM, GBE, PhD, FREng, JP
Chairman

Dr Norman LEUNG Nai Pang*

GBS, JP, LLD, BA
Deputy Chairman

KWOK Ping-luen, Raymond[^]

JP, MA(Cantab), MBA, Hon DBA, Hon LLD

KWOK Ping-sheung, Walter[^]

JP, MSc(Lond), DIC, MICE

NG Siu Chan[^]

William LOUEY Lai Kuen[^]

BSc(Econ)

John CHAN Cho Chak[^]

GBS, JP, DBA(Hon), BA, DipMS,
CCMI, FCILT, FHKIoD

Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT
Executive Director

Winnie NG[^]

BA, MBA(Chicago), MPA(Harvard),
FCIM, CMILT, MHKIoD
(Non-executive Director and Alternate
Director to Mr NG Siu Chan)

Dr KUNG Ziang Mien, James*

GBS, OBE

George CHIEN Yuan Hwei[^]

MSc(Lond), BSc(Eng), DIC, FICE, CEng,
PEng, FITE

Dr Eric LI Ka Cheung*

GBS, OBE, JP, LLD, DSocSc, BA,
FCPA(Practising), FCA, FCPA(Aust.), FCIS

Edmond HO Tat Man

MA(Cantab), MBA, CMILT, MHKIoD
Managing Director

SIU Kwing-chue, Gordon*

GBS, CBE, JP, MSS(Birmingham, UK)

John Anthony MILLER[^]

SBS, OBE, MPA(Harvard), BA(Lond)

KUNG Lin Cheng, Leo

(Alternate Director to
Dr KUNG Ziang Mien, James, GBS, OBE)

YUNG Wing Chung

(Alternate Director to
Mr KWOK Ping-luen, Raymond, JP)

SO Wai Kei, Godwin

(Alternate Director to
Mr KWOK Ping-sheung, Walter, JP)

BOARD COMMITTEES

Audit Committee

Dr Eric LI Ka Cheung[#]
Dr KUNG Ziang Mien, James
George CHIEN Yuan Hwei

Nomination Committee

Dr Norman LEUNG Nai Pang[#]
Dr KUNG Ziang Mien, James
Dr Eric LI Ka Cheung
SIU Kwing-chue, Gordon

Remuneration Committee

Dr Norman LEUNG Nai Pang[#]
Dr KUNG Ziang Mien, James
Dr Eric LI Ka Cheung
John CHAN Cho Chak

Standing Committee

Dr Norman LEUNG Nai Pang[#]
KWOK Ping-luen, Raymond
John CHAN Cho Chak
Charles LUI Chung Yuen
Edmond HO Tat Man
Winnie NG

COMPANY SECRETARY

Lana WOO

MBA, BA, AAT, CGA, ACIS, MIFC, CFC

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11, Bermuda

PRINCIPAL OFFICE

9 Po Lun Street, Lai Chi Kok
Kowloon, Hong Kong
Telephone: (852) 2786 8888
Facsimile: (852) 2745 0300
Website: www.tih.hk
E-mail: director@tih.hk

AUDITOR

KPMG

8/F, Prince's Building, 10 Chater Road
Central, Hong Kong

REGISTRARS

Hong Kong

Computershare Hong Kong Investor
Services Limited
17/F, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

Bermuda

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM 08
Bermuda

REGISTER OF MEMBERS

Book closed from 13 May 2009 to 21 May 2009,
both dates inclusive

DIVIDENDS

Interim

HK\$0.30 per share,
paid on 16 October 2008

Final (proposed)

HK\$1.05 per share,
payable on 22 May 2009

STOCK CODE

The Stock Exchange of Hong Kong: 62
Bloomberg: 62HK
Reuters: 0062.HK

CUSTOMER SERVICE HOTLINES

The Kowloon Motor Bus Company (1933) Limited

Telephone: (852) 2745 4466
Facsimile: (852) 2745 0600

Long Win Bus Company Limited

Telephone: (852) 2261 2791

Sun Bus Limited

Telephone: (852) 2371 2666

(* Independent Non-executive Directors of the Company)

([^] Non-executive Directors of the Company)

([#] Committee Chairman)

This Annual Report is also available on our corporate website: www.tih.hk

TRANSPORT INTERNATIONAL HOLDINGS LIMITED

9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong

Telephone: (852) 2786 8888

Facsimile: (852) 2745 0300

www.tih.hk

Stock Code: 62

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