Transport International Holdings Limited
2010 Annual Report

載通國際
Transport International

Driving Value for the Community

Contents

Driving **Value** for the **Community**

One of the hallmarks of the businesses of Transport International Holdings Limited ("TIH") in Hong Kong and China Mainland is the value we bring to the various communities in which we operate. As a driving force in Greater China's public transport sector, TIH is focused on delivering value to customers, shareholders and society by upholding the highest operating standards as well as through constant innovation. By effectively maintaining a balance between the increasingly demanding needs of those who use our services and our constant drive for efficiency, we seek to continuously drive value for the community.

Group Profile

Transport International

Transport International Holdings Limited ("TIH" or the "Company", SEHK: 62) is a leading public transport operator in Hong Kong and 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 establish itself as a global leader in public transport by driving value for the communities it serves. We aim to do this by adopting innovative solutions, setting new standards for safety and service quality and always listening to our customers. Our mission is to enhance shareholder value while furthering the social and economic development of the region in which we operate.

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 and identifying and meeting their expectations, we are able to drive value for the communities we serve as we raise the quality of our service in all 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 value, 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 in which we conduct our business.

Fostering
Social and Economic
Development

Business at a Glance

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 3,800 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 166 buses on 19 routes linking the New Territories with Hong Kong International Airport and North Lantau.

Hong Kong Non-franchised Transport Operations

Sun Bus Holdings Limited and its subsidiaries

with Sun Bus Limited as the flagship company, have 382 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.

China 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.

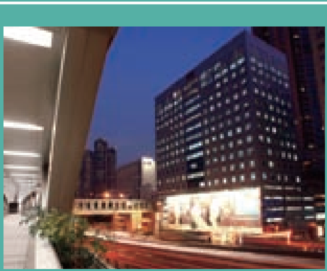
Property Holdings and Development

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, commonly known as "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 about 156,700 square feet.

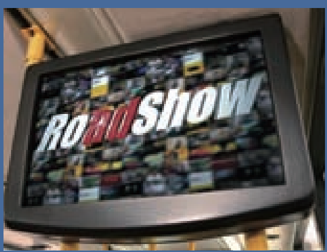
KT Real Estate Limited

owns a 50% interest in the site at Kwun Tong Inland Lot No. 240 at 98 How Ming Street, Kwun Tong, Kowloon, Hong Kong.

TM Properties Investment Limited

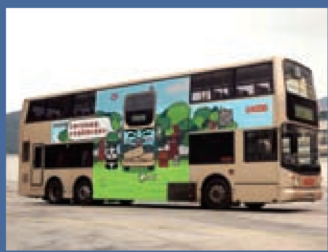
owns an industrial property at 1 Kin Fung Circuit, Tuen Mun, New Territories, Hong Kong, comprising a single-storey high ceiling structure and a three-storey workshop building with a total gross floor area of about 105,900 square feet.

Media Sales Business



RoadShow Media Limited*

provides a media sales service for advertising on transit vehicle interiors and for Multi-media On-board business.



Bus Power Limited*

provides a media sales service for advertising on transit vehicle exteriors.

(* wholly-owned subsidiaries of RoadShow Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited, which is 73% owned by Transport International Holdings Limited)

The Group's Strategic Locations

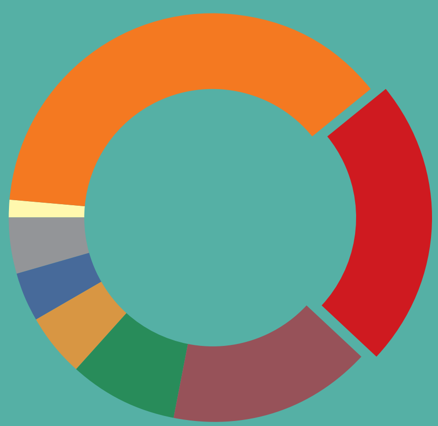
Beijing

Joint venture operating taxi hire and car rental businesses

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 2010 (in thousand)



Railways	4,407
TIH Group (Franchised public bus operations)	**2,674**
Minibuses	1,877
Taxis	988
Citybus	578
NWFB	472
Others	514
Ferries	136

The Group's bus termini, depots and customer service centres in Hong Kong

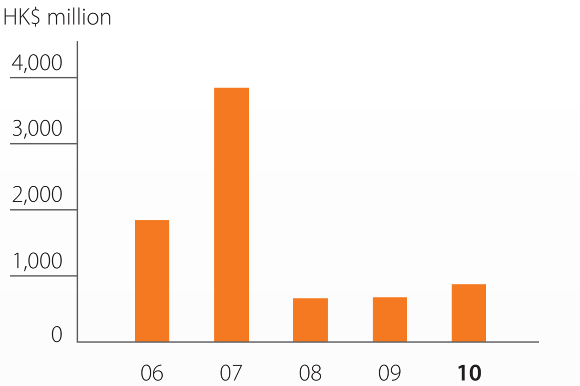
- The Group's headquarters
- Depots of The Kowloon Motor Bus Company (1933) Limited ("KMB")
- Depot of Long Win Bus Company Limited ("LWB")
- Bus termini of KMB and LWB
- Customer service centres of KMB and LWB
- Bus termini of "Huang Bus"
- High land area
- Railways

Financial and Operational Highlights

For the Year Ended 31 December 2010

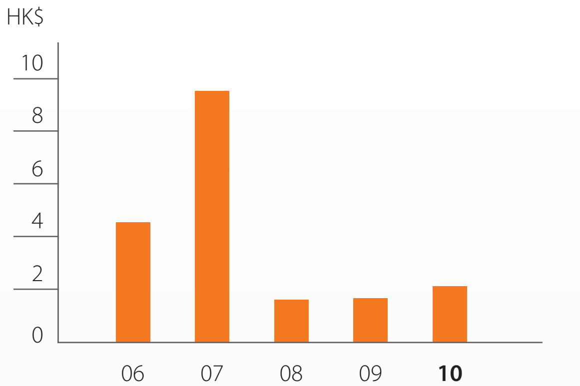
	Unit	2010	2009	Increase/ (Decrease) %
Financial Highlights				
Turnover:	HK$ million	**6,686.8**	6,842.2	(2%)
– Fare revenue	HK$ million	**6,317.3**	6,441.8	(2%)
– Property sales	HK$ million	**29.3**	156.2	(81%)
– Media sales revenue	HK$ million	**327.0**	236.5	38%
– Gross rentals from investment property	HK$ million	**13.2**	7.7	71%
Profit before taxation	HK$ million	**930.7**	799.8	16%
Profit attributable to equity shareholders of the Company	HK$ million	**866.9**	673.5	29%
Earnings per share	HK$	**2.15**	1.67	29%
Ordinary dividends per share	HK$	**1.35**	1.35	–
Special dividend per share	HK$	**–**	1.00	(100%)
Total equity attributable to equity shareholders of the Company	HK$ million	**6,737.3**	6,788.9	(1%)
Total assets	HK$ million	**9,691.9**	9,972.1	(3%)
Net cash	HK$ million	**2,133.2**	2,681.3	(20%)
Net finance income	HK$ million	**30.0**	25.1	20%
Cash generated from operations	HK$ million	**1,407.9**	2,062.8	(32%)
Financial Ratios				
Profit margin		**13.0%**	9.8%	33%
Profit margin (excluding property sales and disposal)		**5.9%**	7.3%	(19%)
Return on equity attributable to equity shareholders of the Company		**12.9%**	9.9%	30%
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	**1.59**	0.71	124%
Share price per share at year-end	HK$	**25.45**	22.00	16%
Market capitalisation at year-end	HK$ million	**10,272.6**	8,880.1	16%
Operational Highlights				
Hong Kong				
Franchised Public Bus Operations:				
Average number of passenger trips per day	Million trips	**2.67**	2.72	(2%)
Number of licensed buses at year-end		**3,988**	4,047	(1%)
Number of staff at year-end		**12,132**	12,327	(2%)
Average number of staff per licensed bus at year-end		**3.04**	3.05	(0.3%)
Non-franchised Transport Operations:				
Number of licensed buses at year-end		**397**	392	1%
Number of staff at year-end		**620**	635	(2%)
China Mainland				
China Mainland Transport Operations:				
Number of licensed buses at year-end		**4,748**	4,501	5%
Number of taxis and vehicles for rental at year-end		**4,937**	4,796	3%

Profit attributable to equity shareholders of the Company



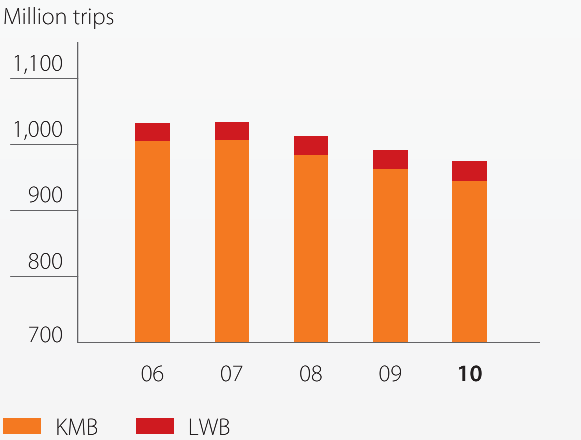
Profit attributable to equity shareholders for 2010 was HK$866.9 million

Earnings per share



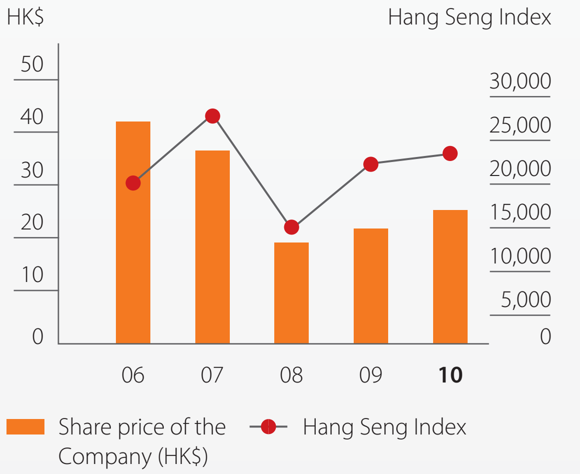
Earnings per share for 2010 were HK$2.15

Number of passenger trips
(Franchised Public Bus Operations)



Number of passenger trips in 2010 was 0.98 billion, down from 0.99 billion in 2009

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



The closing share price of the Company at 2010 year-end was HK$25.45 per share, up 16% compared with that of 2009 year-end

Corporate Milestones 2010

JAN

Disposal of 50% Interest in Kwun Tong Site

At the Special General Meeting held on 21 January 2010, TIH shareholders approved the disposal of 50% of the Group's interest in an industrial site at Kwun Tong and the entering into a development agreement with Sun Hung Kai Properties Limited and its subsidiary to redevelop the site into non-residential (excluding hotel) use for long-term investment purposes.

KMB Website Won Gold Prize

The new look KMB website won Gold Prize in the Web Care Award 2009 organised by the Internet Professional Association, recognising the commitment of KMB to build a barrier free internet environment.

Second Phase of "Service from the Heart" Frontline Training Programme

Following the completion of the first phase of the programme, the second phase began in January 2010 with over 300 workshops being organised for over 8,500 KMB frontline staff to equip them with the necessary skills to better serve its customers.

APR

KMB Recognised as Responsible Corporate Citizen

For the eighth consecutive year, KMB was named Caring Company by the Hong Kong Council of Social Service.

KMB Website Introduced "Street View" Function

The KMB website added a Street View browser to its route search facility, helping passengers make more accurate bus-stop searches.

MAY

KMB Civic Education Programmes Won Most Popular TV Commercial Awards

KMB's civic education television series "Good Passenger in Nature" won the Most Popular TV Commercial Award (Info-Service) in TVB's Most Popular TV Commercial Awards 2010.

KMB Won Yahoo! Emotive Brand Award

KMB won the Yahoo! Emotive Brand Award 2009-2010 (Logistics/ Transportation) after receiving over two million votes in an online poll for companies with good brand values.

KMB Won Sectoral Award for Environmental Excellence

KMB won the Bronze Award in the Transport and Logistics sector of the 2009 Hong Kong Awards for Environmental Excellence, reflecting KMB's efforts in environmental protection.

JUN

KMB Won Communicator Awards

KMB Today and the KMB website won Awards of Excellence in The Communicator Awards organised by the International Academy of The Visual Arts.

JUL

Submission of Applications for Fare Increase by KMB and LWB

On 30 July 2010, KMB and LWB submitted their applications to the Transport Department of the HKSAR Government for a fare increase of 8.6% and 7.4% respectively.

KMB's Publication Won Award

The 2009 KMB Passenger Liaison Group Report won the Award of Excellence in the Apex Awards for Publication Excellence organised by Communication Concepts.

SEP

Trial of Hong Kong's First Supercapacitor Bus

KMB led Hong Kong's public transport industry into a new era with the trial of Hong Kong's first zero-emission electric bus powered by supercapacitor, named the gBus.

KMB Selected as One of Hong Kong's 100 Most Influential Brands

KMB was selected by the World Brand Lab as one of Hong Kong's 100 Most Influential Brands in 2010, making it the only public bus company selected in Hong Kong's public transport industry.

NOV

TIH Won Platinum Award for Corporate Governance Disclosure

TIH's 2009 annual report won the Platinum Award in the Non-Hang Seng Index (Large Market Capitalisation) category of the 2010 Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants.

KMB Won Championship in 2009-10 Best Corporate Volunteer Service Project Competition

The volunteer service project "Hong Kong, My New Home" run by KMB's volunteer club, FRIENDS OF KMB, won the championship in the 2009-10 Best Corporate Volunteer Service Project Competition organised by the Social Welfare Department. FRIENDS OF KMB also received the 2009 Award of 10,000 hours for Volunteer Service.

The "Riverside Scene at Qingming Festival" Exhibition at AsiaWorld-Expo

LWB launched special Route X1 between Tung Chung MTR Station and AsiaWorld-Expo for this three-week exhibition, which attracted over 900,000 visitors.

FRIENDS OF KMB Celebrated 15th Anniversary

FRIENDS OF KMB, established in November 1995 as KMB's volunteer club, celebrated its 15th anniversary.

DEC

KMB Frontline Staff Changed into New Winter Uniform

All KMB frontline staff, including inspectors, terminus supervisors and bus captains, changed into a new winter uniform, providing quality and reliable bus services to passengers with a refreshing and stylish look.

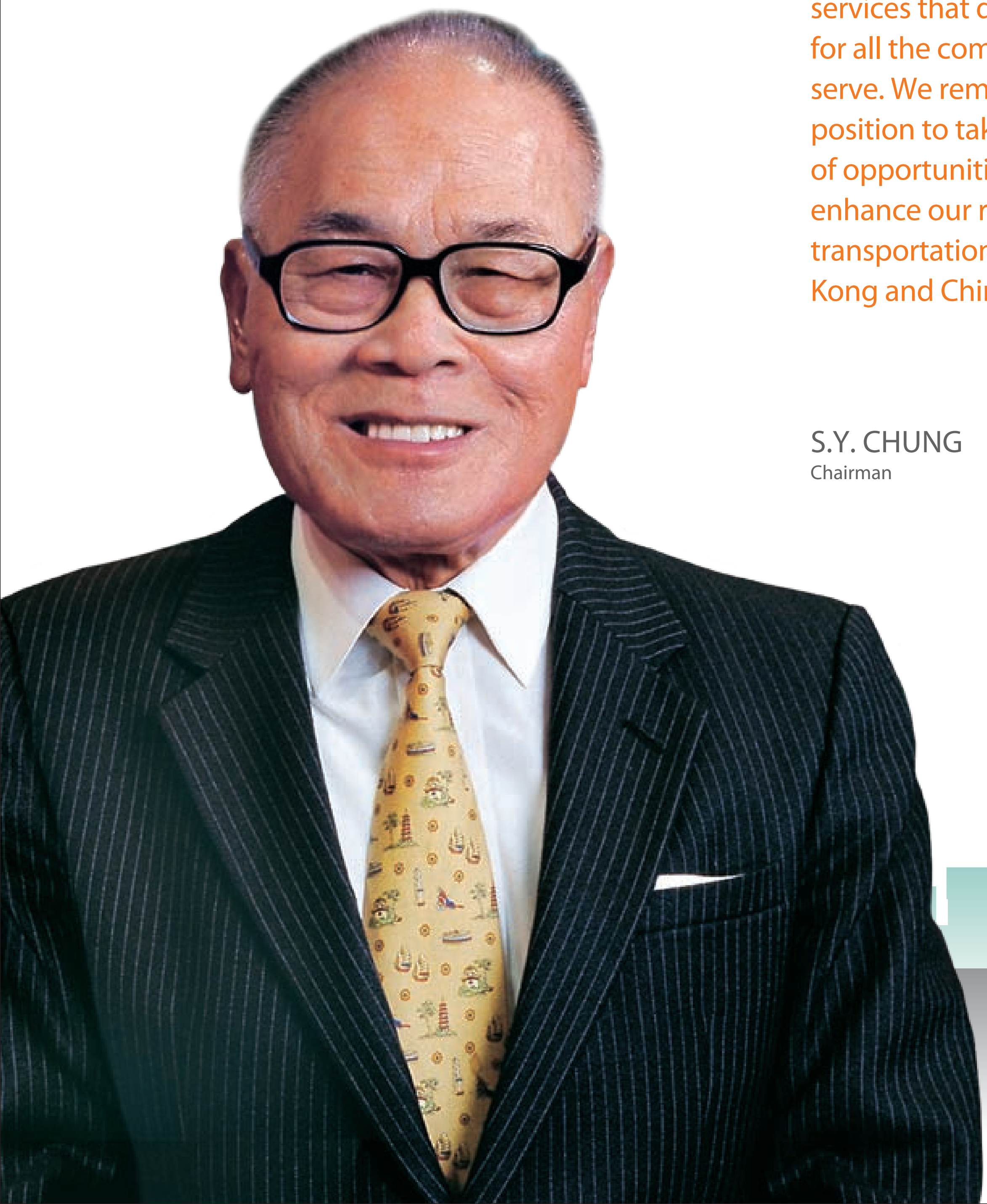
FRIENDS OF KMB Recognised by Social Welfare Department

FRIENDS OF KMB was named first runner-up in the Highest Service Hour Award 2009 (Private Organisation – Best Customer Participation) by the Social Welfare Department of the HKSAR Government.

Chairman's Letter

"Our continuous efforts in enhancing productivity and maintaining a sustainable business model enabled us to partially offset the adverse effects of high fuel prices and general upward inflationary pressure to deliver high quality services that drive value for all the communities we serve. We remain in a good position to take advantage of opportunities to further enhance our role as a leader in transportation in both Hong Kong and China Mainland."

S.Y. CHUNG
Chairman



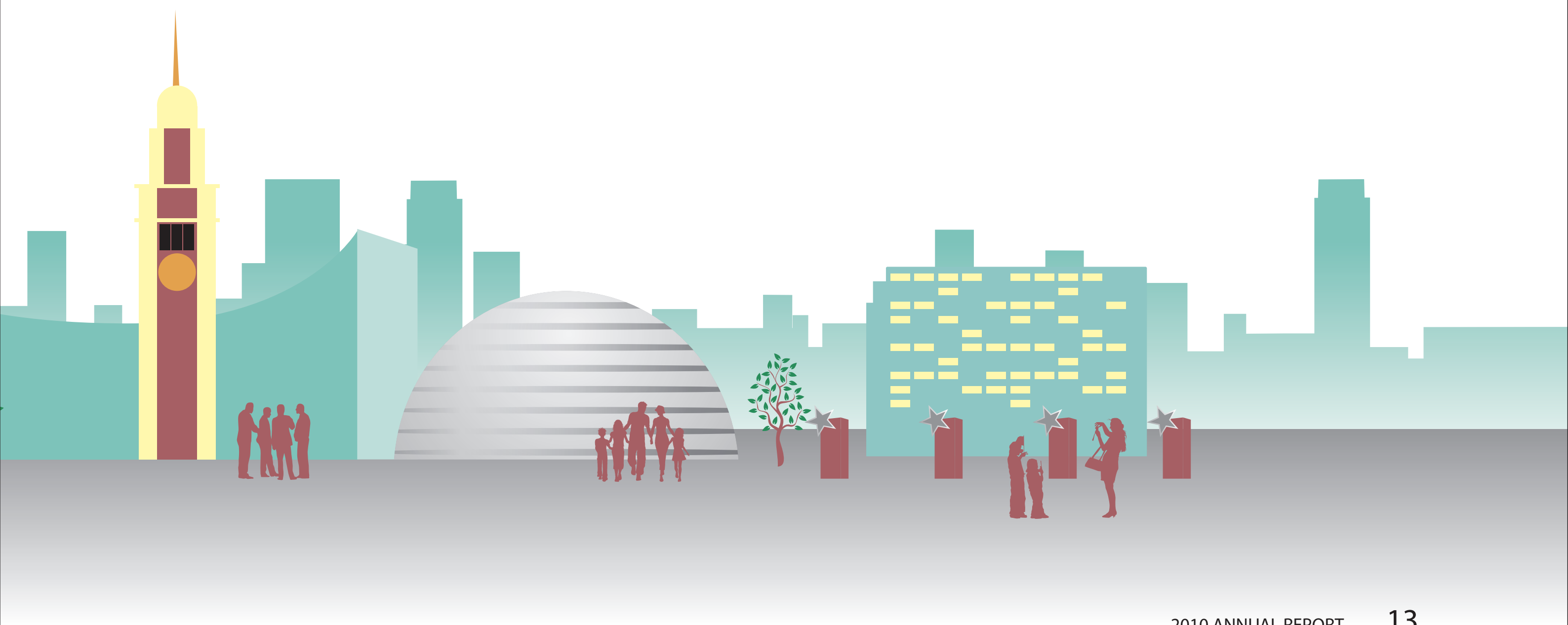
DEAR SHAREHOLDERS AND PARTNERS,

On behalf of the Board, I am pleased to report that, in spite of many challenges, Transport International Holdings Limited ("TIH") was able to deliver satisfactory results for 2010. Our continuous efforts in enhancing productivity and maintaining a sustainable business model enabled us to partially offset the adverse effects of high fuel prices and general upward inflationary pressure to deliver high quality services that drive value for all the communities we serve. We remain in a good position to take advantage of opportunities to further enhance our role as a leader in transportation in both Hong Kong and China Mainland.

OUR FINANCIAL PERFORMANCE

The Group's profit attributable to equity shareholders for the year ended 31 December 2010 was HK$866.9 million, representing an increase of 28.7% as compared to HK$673.5 million for 2009. Earnings per share rose correspondingly to HK$2.15 for 2010 from HK$1.67 for 2009. The increase in profit was mainly attributed to the recognition of the one-off, non-recurrent capital gain of HK$489.1 million arising from the disposal of 50% of the Group's interest in an industrial site at Kwun Tong in January 2010, but was partly offset by the reduction in the number of Manhattan Hill residential units sold during the year. If these non-recurrent profits from property disposal and sale were excluded, the profit attributable to equity shareholders for 2010 would have been HK$394.9 million, representing a decrease of 19.0% compared to that for 2009.

The operating environment for the Group's franchised public bus business operated by KMB and LWB in 2010 was challenging. Due mainly to the expansion of the railway network, particularly the Kowloon Southern Link which commenced operations in August 2009, the total ridership of KMB in 2010 fell by 1.9% over 2009, resulting in a decrease in total fare revenue of HK$97.6 million or 1.7% as compared with 2009. Total operating expenses for the year, however, increased by HK$182.6 million or 3.3% as compared with 2009, mainly owing to the year-on-year increase in fuel costs of HK$184.5 million or 21.9% as a result of the significant upsurge of international fuel oil prices. These adverse factors resulted in KMB reporting a decrease in profit in 2010. As for LWB, its total ridership in 2010 increased by 4.4%, which was attributed to the continual growth of population in Tung Chung, the rise in travel demand to and from Hong Kong International Airport, and the "Animated version of Riverside Scene at Qingming Festival" exhibition at AsiaWorld-Expo in November 2010. These positive factors, however, could not counterbalance the increase in fuel costs, toll charges and other operating expenses. Therefore, LWB saw a decrease in profit in 2010. In order to maintain the financial viability and the existing service levels of our franchised bus operations against the largely uncontrollable trend of rising costs, KMB and LWB submitted applications to the Transport Department of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") on 30 July 2010 for a fare increase of 8.6% and 7.4% respectively. These applications are still being considered by the HKSAR Government.



> "We have been actively exploring the development and use of environment-friendly buses, including zero-emission electric vehicles. We continue to work with both the HKSAR Government and our manufacturers and suppliers to develop solutions that are as environmentally sound as rail transport but require far less capital investment."

The Group's non-franchised transport businesses reported a steady growth in 2010. Sun Bus Holdings Limited and its subsidiaries continued to strengthen their market position in the residential service segments, obtaining more residential bus service contracts during the year. The transport businesses of our joint ventures in Beijing and Shenzhen continued to show stable performance. The Group's businesses operated by the RoadShow Group reported a loss of HK$61.6 million in 2010 mainly as a result of an impairment loss provision of HK$110.0 million made on an unlisted investment.

DIVIDENDS

The Board has declared an ordinary final dividend of HK$1.05 per share (2009: an ordinary final dividend of HK$1.05 per share and a special dividend of HK$1.00 per share). Together with the ordinary interim dividend of HK$0.30 per share (2009: an ordinary interim dividend of HK$0.30 per share) paid on 18 October 2010, total dividends for the year will amount to HK$1.35 per share (2009: HK$2.35 per share). The total dividend payout for the year will amount to HK$544.9 million (2009: HK$948.6 million).

COMMITTED TO DRIVING VALUE FOR THE COMMUNITY

Striving to serve increasingly more sophisticated and demanding customers, the Group understands the importance of delivering value in all the services that we provide. With vastly increased transportation options compared to just a few years ago and a community with greater environmental awareness, we have been actively exploring the development and use of environment-friendly buses, including zero-emission electric vehicles. We continue to work with both the HKSAR Government and our manufacturers and suppliers to develop solutions that are as environmentally sound as rail transport but require far less capital investment.

In 2010, KMB's commitment to environmental protection and years of studying the feasibility of applying various green technologies to buses bore fruit in the successful launch of the zero-emission supercapacitor bus (or "gBus") in Hong Kong. Trial results of the gBus have been encouraging, and we are convinced that the adoption of zero-emission green buses takes us in the right direction in line with our commitment to sustainable business development. We will continue to explore additional zero-emission technologies as appropriate in the years ahead.

We will continue to drive value for the community and achieve an equitable balance between the needs of those who use our services and our drive for efficiency by addressing the oversupply of transport services in some areas resulting from duplication of services.

SETTING HIGH GOVERNANCE STANDARDS

As a key element in enhancing investor confidence, furthering competitiveness, and ultimately improving shareholder value, continuous improvement of our corporate governance is something the Group takes very seriously. We are therefore very pleased that TIH's 2009 Annual Report won the "Platinum Award" in the Non-Hang Seng Index (Large Market Capitalisation) Category of the 2010 Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants. With reference to the Gold Awards won by TIH in 2007 and 2008, the Platinum Award reflects the great strides that the Group has continuously made to advance its corporate governance standards.

As a world-class public bus operator according top priority to safety in our daily operations to meet or exceed customers' expectations, we promote the adoption of a "Plan-Do-Check-Act" framework for safety and health management as we evolve our practices towards OHSAS 18001 standards. We also strive for continuous improvement in safety performance in all aspects of the Group's operations.

LOOKING AHEAD

We expect KMB and LWB's operating environment to be increasingly challenging in 2011 due largely to escalating cost pressure, mainly driven by the continued upsurge in fuel oil prices and rising inflation. In addition, the expanding railway network will continue to adversely affect our bus patronage. We will respond to these challenges by our continuing efforts to improve cost efficiency by proposing additional rationalisation plans for routes with low demand while increasing the service for routes with growing demand.

The residential units of the Manhattan Hill development have nearly all been sold in an improving residential market, providing the Group with a net cash position. Looking ahead, the Group's Property Holdings and Development Division will be looking to generate extra recurrent rental income from two of our property sites, one in Kwun Tong and another in Tuen Mun. The redevelopment of our industrial site at 98 How Ming Street, Kwun Tong, is ongoing with Sun Hung Kai Real Estate Agency Limited leading the efforts as the project manager. The Group's industrial building at 1 Kin Fung Circuit, Tuen Mun, has been leased out to generate additional rental income for the Group starting March 2011. The Manhattan Mid-town shopping mall with a total area of approximately 50,000 square feet was completely leased out in 2010 and will continue to provide the Group with a steady income stream.

The Group will continue to look for growth and investment opportunities both in Hong Kong and China Mainland. In Hong Kong, we are continuing our efforts to grow our non-franchised bus business by seeking to serve more clients who require quality coach services. As for the China Mainland market, the Group is continuously evaluating available opportunities for investment while improving the productivity and efficiency of our existing transport operations. Whatever the challenges that face us in the future, they will be met with the same drive to bring value in all our services that underpins our success as a leading transport operator. We are confident that via our continuous improvement efforts and the strengthening of our core competencies, we will continue to deliver significant value in the businesses that we operate.

ACKNOWLEDGEMENTS

The continued success and ongoing development of our portfolio of businesses owe much to the commitment and industriousness of our staff members who work to deliver the highest quality services both on the frontline and behind the scenes. The successful results that I am pleased to report for 2010 are a testimony to the great efforts of our Board members, our dedicated management team and staff at every level. To each of these people I would like to express my gratitude for their continued contributions to the success of the Group.

S.Y. CHUNG
Chairman
17 March 2011

Conversation with the Managing Director

"In 2010, we continued to deliver quality services to our customers across our business lines in Hong Kong and China Mainland by upholding our core beliefs, which are based on sustainable business growth, good corporate governance, corporate social and environmental responsibility, and care for the communities we serve."

Edmond HO Tat Man
Managing Director

Q How did Transport International Holdings Limited perform in 2010 compared with your expectations?

A 2010 was a satisfactory year overall for Transport International Holdings Limited ("TIH") in spite of the fact that our franchised bus businesses faced considerable challenges such as a shift of passengers to the expanded rail network and the significant rise in fuel prices. What we did to mitigate these challenges was to increase productivity and efficiency, exploring viable means for increasing revenue and controlling costs. In respect of our franchised bus businesses, we enhanced our marketing efforts to attract new passengers while containing our operating costs wherever possible. Regarding our non-franchised bus businesses, we focused on business development and won new contracts to expand our portfolio. As for property, we continued to build up our asset portfolio for generating more rental income, while achieving good profit through property sales.

In 2010, we continued to deliver quality services to our customers across our business lines in Hong Kong and China Mainland by upholding our core beliefs, which are based on sustainable business growth, good corporate governance, corporate social and environmental responsibility, and care for the communities we serve.

Q How do you plan to overcome the main challenges facing the Group's franchised bus businesses in 2011?

A The two major challenges for us are more intense competition in the Hong Kong public transport market and rising operating costs.

Faced with the expanded rail network, we need to continue monitoring the efficiency of our franchised bus network and seeking opportunities to reorganise our services. Rationalisation of underutilised routes is one avenue we will continue to explore to improve our cost efficiency. In addition, we will aim to provide improved services on routes with growing demand by using the buses saved from our rationalisation efforts.

In terms of cost escalation, we anticipate that high fuel prices and the inflationary pressures which both Hong Kong and China Mainland are experiencing will continue in 2011. Our response will be to continue to improve our operating efficiency and productivity. If fuel prices continue to rise, we will have to seriously consider applying for appropriate fare adjustments after having exhausted other possible means to maintain our financial viability. As a medium- or long-term solution, we strongly believe in alternative energy technologies that are greener and less susceptible to short-term energy price fluctuations. We will also be discussing with the HKSAR Government the concept of establishing a fuel price stabilisation fund.

Q KMB and LWB have submitted applications to the HKSAR Government for a fare increase. To what extent would this help improve the financial performance of the companies?

A KMB and LWB submitted applications to the Government on 30 July 2010 for fare increases of 8.6% and 7.4% respectively. These applications are still being considered by the Government.

Fuel constitutes about 18% of the operating costs of our franchised bus businesses in 2010 and the price of Singapore 0.5% Sulphur Gasoil, on which the cost of near-zero sulphur diesel used by KMB and LWB is based, has continued to rise dramatically. In 2010, the average price was US$89.6 per barrel, up 29.7% compared to the average price of US$69.1 in 2009. In fact, since we applied for a fare increase in July 2010, the price of Gasoil had surged to US$130 per barrel as at 17 March 2011, 51% higher than the Gasoil price of US$86 per barrel at the time we submitted the fare increase application. If fuel prices continuously stay at a high level and the expected fare increase magnitude and timing are insufficient to mitigate the escalating costs, this will put tremendous financial pressure on KMB and LWB. While we will continue to look for cost savings and enhance efficiency in our operations wherever possible, we will monitor the situation and take appropriate action as necessary.

Q KMB has been trialling a supercapacitor bus for several months. What are your expectations of electric bus technologies?

A The zero-emission supercapacitor bus (or "gBus") has successfully completed several months of trials, achieving a satisfactory operational record and reliability under fully air-conditioned and fully-laden conditions. We are keen to take the gBus to the next, wider level of implementation and are working closely with our suppliers and the HKSAR Government in that regard.

Q With ever increasing public expectations in terms of environmental performance, has the Group taken any other steps in respect of the adoption of green technologies?

A In addition to the supercapacitor bus, KMB is exploring other zero-emission technologies, and one focus area is the battery-electric bus which has recently made breakthroughs in extending its operating range. We are also planning to introduce diesel-electric hybrid double-deck buses with the funding support of the HKSAR Government, whose continued financial backing is critical as we continue to pioneer the introduction of alternative technologies.

Q What business opportunities would green bus technologies bring to TIH?

A We are very keen to continue to work with the HKSAR Government to explore the feasibility of implementing green bus technologies in areas that are especially suited to such services, such as the Kai Tak Redevelopment. With zero-emission buses being more operationally flexible and requiring significantly less capital investment than other zero-emission mass transport solutions such as railways, we strongly believe that the adoption of zero-emission buses will be a key way of driving value for the communities we serve in the future.

Q What has been done to enhance safety for the Group, especially KMB?

A Safety remains our top priority in everything we do, as reflected in the active adoption of a Safety Policy by all Group employees, which represents the safety culture we have instilled in all our staff. In 2010, KMB's commitment to enhanced safety was demonstrated by the establishment of its Safety and Service Quality Department, which is driving our safety practices towards internationally recognised standards. In addition, KMB has created a new database of "Driving Tips in Special Attention Areas", the first of its kind in Hong Kong. The database provides structured instructions and tips on best driving practices for all bus captains driving on particular routes, so that the expertise and knowledge of the most experienced bus captains can be effectively transferred to all others. Through the concerted efforts of all colleagues at KMB, there was a 15.8% reduction in the number of liable accidents in 2010.

Q What other advances were made in 2010?

A Customers continue to be the focus of all our enhancements, whether on buses, at termini or online. Besides the introduction of more super-low floor double-deck buses equipped with the Euro V engine, more user-friendly signage is being progressively introduced at our bus termini. This year also saw the award-winning KMB website break new ground with the introduction of the "Street View" function, which gives passengers a 360-degree photo tour of the street at their chosen bus stops, allowing them to familiarise themselves with their points of boarding and alighting.

We are also actively exploring enhanced technology for improving our bus operations. The on-bus monitoring system, which delivers better monitoring of real-time performance on board buses, is currently being tested on various routes across our bus network.

Q Did the Group's non-franchised transport operations perform well in 2010?

A Our non-franchised bus operations continued to provide high quality services in their respective markets and were able to achieve profit growth in 2010. During the year, Sun Bus Holdings Limited and its subsidiaries (the "SBH Group") strengthened its market share in the residential service segment, adding eleven residential estate services to its portfolio. In addition to serving housing estates, the SBH Group also provides tailor-made coach services for shopping malls, major employers, schools and hotels.

Q You mentioned that the Group would continue to build up its property portfolio for rental income. Do you have any ongoing development projects?

A Jointly with Turbo Result Limited, a wholly-owned subsidiary of Sun Hung Kai Properties Limited, we are currently developing a site at How Ming Street, Kwun Tong, Kowloon, into a commercial building for long-term investment purposes. Apart from bringing in steady rental income, this world-class building in East Kowloon will enhance the Group's rental property portfolio, which now comprises the Manhattan Mid-town shopping mall and our Headquarters Building at Lai Chi Kok. Besides this, the Group's industrial building at Kin Fung Circuit, Tuen Mun, has been let to generate additional rental income from March 2011.

Q Did 2010 see the launch of any initiatives in the Group's China Mainland transport operations?

A The Shenzhen Bus Group Company Limited, in which the Group holds a 35% stake, formed a joint venture with a renowned electric car producer to trial 100 battery-electric taxis as a pioneering move towards a greener environment. Already well established on the Mainland through our joint venture companies in Shenzhen and Beijing, the Group will continue its efforts to seek suitable investment opportunities there.

Q Finally, what about the Group's media sales business?

A RoadShow continues to consolidate its position as a leader in the media sales business in the Greater China region, having completed the installation of the new, improved Multi-media On-board system on close to 3,000 buses. The new system allows the provision of instant news in text format and possesses the potential for location-specific advertising as well as other creative formats at some stage in the future.

Management Discussion and Analysis

From left to right:
Edmond HO Tat Man, *Managing Director*
Evan AUYANG, *Deputy Managing Director*
William HO Sai Kei, *Finance and Administration Director*
James C LOUEY, *Commercial Director*
Winnie W Y HO, *Corporate Affairs Director*
Kenrick FOK, *Operations Director*

Operational Review

Corporate Social Responsibility

Financial Review

Delivering

Quality Services

At the heart of all we do lies our dedication to delivering the highest level of service, adding value to every area in which we operate.


50 Stories of Famous People
Rulers &
Leaders

Hong Kong Franchised Public Bus Operations

Franchised public bus operations drive the Group's business. The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited provide passengers with reliable and comfortable public transport services on vehicles that set the standard for design, innovation and the latest environment-friendly technologies.

THE KOWLOON MOTOR BUS COMPANY (1933) LIMITED ("KMB")

KMB, founded in 1933, a wholly-owned subsidiary of TIH, provides extensive public bus services covering Kowloon, the New Territories and Hong Kong Island. With a dedicated workforce of around 12,000 employees, including some 8,000 bus captains, and a fleet of over 3,800 buses running on some 400 routes, KMB serves approximately 2.6 million passenger trips each day.

OPERATIONAL EXCELLENCE

Throughout its 77 year history, KMB has been distinguished by its dedication to providing public bus services of world-class standards in Hong Kong. It has maintained industry leadership by adopting the highest standards in all aspects of its operations, as evidenced by the following service milestones:

1999 KMB became the first public bus company in Hong Kong to achieve ISO 9001:1994 certification on a company-wide basis as accredited by the Hong Kong Quality Assurance Agency ("HKQAA").

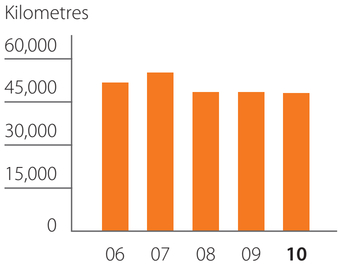
2002 KMB successfully achieved ISO 9001:2000 certification.

2003 KMB's Lai Chi Kok and Sha Tin Depots were awarded ISO 14001:1996 Environmental Management System certification, making KMB the only franchised bus company in Hong Kong with both ISO 9001 and ISO 14001 accreditation.

2004 KMB's Lai Chi Kok Depot was upgraded to ISO 14001:2004 Environmental Management System certification.

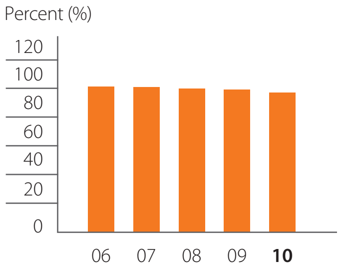
2005 KMB's Sha Tin Depot was upgraded to ISO 14001:2004 Environmental Management System certification.

Mechanical reliability - KMB



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

Operational capability - KMB



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

2007 All the main operating depots of KMB at Lai Chi Kok, Sha Tin, Kowloon Bay and Tuen Mun were certified 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.

2009 KMB successfully obtained from HKQAA the newest ISO 9001:2008 certificates on completion of upgrading audits in the four certification areas: KMB Headquarters; Traffic Department and the four main operating depots; the Overhaul Centre; and the Unit Overhaul Depot.

The strength of the KMB brand was recognised in 2010 when it won in the Logistics/Transportation category of the Yahoo! Emotive Brand Awards 2009-2010 organised by Yahoo! Hong Kong. KMB was also named winner of Best Brand for Home Award 2009-2010 and Best for Green Brand Award 2009-2010 by Take Me Home magazine, as well as being named among Hong Kong's 100 Most Influential Brands by World Brand Lab.

The strength of the KMB brand was recognised in 2010 by Yahoo! Hong Kong, Take Me Home magazine and the World Brand Lab.

KMB's services span Hong Kong

Hong Kong people are served by KMB's vast fleet both day and night

We are committed to providing our customers with safe and efficient bus services of the highest quality. Mechanical reliability and operational capability are two key performance indicators we set for ourselves in measuring the operational performance of our public bus services.

PERFORMANCE PLEDGE

We are committed to providing our customers with safe and efficient bus services of the highest quality. Mechanical reliability and operational capability are two key performance indicators we set for ourselves in measuring the operational performance of our public bus services. 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. 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 2010, the mechanical reliability of KMB's fleet measured 48,023 km : 1 against a target of 45,000 km : 1 and the operational capability achieved was 97.2% against a target of 100%.

KMB's Euro V single-deck buses are both green and efficient

The latest generation bus models include innovative features such as straight staircases, wider bodies, 2+2 seating, priority seats, a wheelchair space, brightly coloured handrails, bell pushes, and advanced air-conditioning systems.

BUS FLEET AND FLEET UPGRADES

KMB is committed to constant innovation and to the modernisation of its bus fleet. Fleet upgrade is an ongoing process for KMB's operations and a key priority of its service enhancement programmes.

Since 1997, when KMB, in collaboration with its bus suppliers, introduced the world's first super-low floor, wheelchair accessible double-deck bus to Hong Kong, different generations of technologically advanced and environment-friendly buses have been added to KMB's fleet.

The latest generation bus models include innovative features such as straight staircases for easier access to the upper deck, wider bodies, 2+2 seating, priority seats, a wheelchair space near the entrance or exit, brightly coloured handrails, bell pushes, and advanced air-conditioning systems for better control of the temperature and humidity inside the bus compartment. In 2009, we demonstrated our leadership in environment-friendly bus services by becoming the first public bus company in Asia to introduce the Euro V double-deck bus. Another part of our service upgrade has seen the continuous replacement of retiring single-deck buses with brand new wheelchair accessible super-low floor single-deck buses. These models combine stylish design with higher headroom to provide passengers with a quality ride.

In 2010, we continued to make substantial investments in new buses featuring the latest safety, environmental and design features. A total of 131 new super-low floor air-conditioned buses, comprising 35 Euro IV and 48 Euro V double-deckers and eight Euro IV and 40 Euro V single-deckers, were added to KMB's fleet.

As at 31 December 2010, KMB operated a total of 3,822 buses, comprising 3,665 double-deck buses and 157 single-deck buses, of which 96.6% were air-conditioned.

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 2010	3,550	151	179	**3,880**
Additions during year	103[(1)]	48	–	**151[(1)]**
Disposals during year	(119)	(42)	(48)	**(209)**
As at 31 Dec 2010	3,534	157	131	**3,822**

(1) Includes 20 air-conditioned double-deck buses transferred from Long Win Bus Company Limited.

In addition, KMB had on order 11 air-conditioned double-deck Euro IV buses and 279 air-conditioned double-deck Euro V buses, as well as 60 air-conditioned single-deck Euro V buses, for delivery in 2011.

BUS SERVICE NETWORK

KMB operated a total of 394 bus routes at the end of 2010. The opening of the Kowloon Southern Link, the railway linking Sham Shui Po and Tsim Sha Tsui, in August 2009 continues to adversely impact KMB's patronage. To better deploy our resources while meeting the travel demand of our passengers, KMB has been implementing service rationalisation measures to mitigate the effects of passenger shifts to the new railways. To enable redeployment of resources from low utilisation routes to areas of increasing demand, KMB continued its rationalisation effort by submitting 16 proposals, involving the reduction of 19 buses, to the Government for implementation in 2010. However, only nine of these proposals were approved, corresponding to a reduction of nine buses. Challenges in implementing route rationalisation have led to lower efficiency in the bus network and higher operating costs.

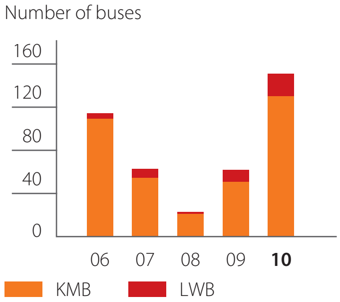
To improve our service delivery efficiency, KMB will continue to explore cancellation of bus routes that are no longer required as a result of the introduction of new railways, as well as reduction of frequency on routes with diminished passenger demand. The resources saved as a result of such route reorganisation will be redeployed to areas with higher or increasing demand. This will also be beneficial in relieving traffic congestion, preserving the environment and easing fare increase pressure. KMB's response to changing market conditions will remain rooted in strategic bus network reorganisation.

A summary of the bus network rationalisation carried out in 2010 is tabulated below:

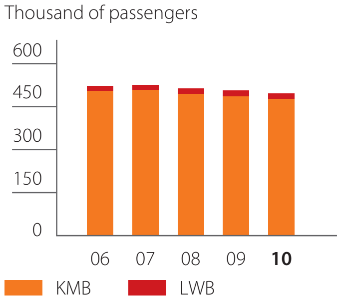
	Proposed		Implemented	
	Number of proposals	Number of buses to be saved	Number of proposals	Number of buses saved[(1)]
Rationalisation proposals	16	19	9	9 (47.4%)

(1) Includes cancellation of special departures of Routes 38P and 44S, which did not involve vehicle savings as buses were deployed from other routes.

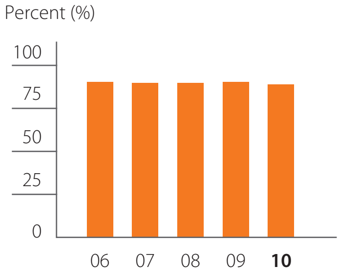
Number of new buses introduced to the fleet
(Franchised Public Bus Operations)



Total fleet capacity at 31 December
(Franchised Public Bus Operations)



Fleet utilisation - KMB

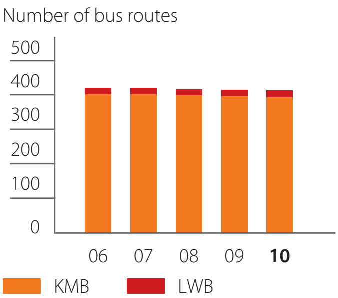


Percentage of actual number of buses operated on the road to licensed bus fleet

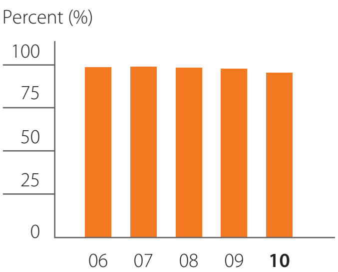
In 2010, we made substantial investments in new buses featuring the latest safety, environmental and design features. A total of 131 new super-low floor air-conditioned buses powered by Euro IV or Euro V engines were added to KMB's fleet.

KMB takes passengers to the heart of the business district

Number of bus routes operated at 31 December



Achievement of schedule - KMB



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

Bus Route Promotion in New Territories West

Promotional activities were conducted on a total of 13 direct bus routes serving Tuen Mun and Yau Tsim Mong through distribution of publicity leaflets and posters. The campaign highlighted KMB's competitive edge and distinctive advantages over other transport modes, namely, direct, door-to-door services and value for money services. Promotion activities were also conducted on Route B1 (Tin Shui Wai Station – Lok Ma Chau Station) through extensive bus shelter and bus pole advertising on three routes (68M, 68X and 268C) with the aim of attracting passengers from Kowloon and Tsuen Wan to interchange with Route B1 to Lok Ma Chau.

Joint Promotion between major Shopping Malls and KMB

A joint promotion campaign between SHKP Shopping Malls and KMB was held between October and December 2010. Individual Visitor Scheme customers who spent HK$400 or more at Sun Yuen Long Centre, Yuen Long Plaza, Metropolis Plaza or Landmark North were eligible for one-way pre-paid tickets on any of Routes B1, 76K and 276B and then the Huang Bus service. The promotion is set to run again from 22 January to 2 May 2011 (both dates inclusive).

DEPOTS

KMB has four major depots at Kowloon Bay, Sha Tin, Lai Chi Kok and Tuen Mun, providing routine maintenance and repair services for our entire bus fleet. Ten other depots provide parking and minor maintenance services, while the KMB Overhaul Centre provides major bus overhaul services. The depot facilities are continually improved to ensure that they consistently maintain a high level of productivity and quality service for our buses.

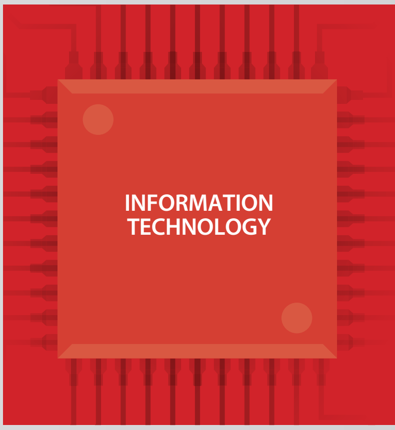
Major Depots Serving KMB and LWB Buses

Depot	Areas served/ main purpose of depot	Gross floor area (square feet)	Number of buses served as at 31 December 2010	Year in which operations commenced
KMB depots:				
Kowloon Bay Depot	East Kowloon	768,038	1,043	1990
Sha Tin Depot	North and East New Territories	720,005	1,094	1988
Lai Chi Kok Depot	South and West Kowloon	648,946	836	2002
Tuen Mun Depot	West New Territories	148,961	849	1979
KMB Overhaul Centre	Bus overhaul	380,915		1983
LWB depot:				
Siu Ho Wan Depot	Lantau Island	82,422	166	1998
Total		**2,749,287**	**3,988**	

KMB's Euro V buses serve passengers on busy corridors

INFORMATION TECHNOLOGY

KMB widely applies advanced information technology in its daily operations for performance monitoring, internal and external communications, and productivity enhancement. At the end of 2010, a total of 1,907 personal computers were installed at various KMB facilities. These computers are interlinked via high-speed communication lines to 161 computer servers at headquarters. This sophisticated data network integrates the information channels between headquarters, eight Customer Service Centres, 14 bus depots and 163 bus termini. Further, 37 software applications, including in-house developed programs and proprietary software, are used for our daily operational and financial management. We constantly seek to upgrade our information technology systems to improve our performance in customer service, human resources management, fleet and depot operations, and financial management.



Electronic Bus Stop Announcement System

KMB's entire bus fleet has been equipped with the On-Board Electronic Bus Stop Announcement System. The system, which delivers voice announcements in Cantonese, English and Putonghua and shows the name of the next bus stop on light emitting diode ("LED") displays, provides passengers with details of the next stop in advance.

Bus Service Information Display System

KMB has installed the Integrated Bus Service Information Display System ("IBSID") at its termini to present bus service information to its passengers. Information on bus route destinations, departure times and fares, as well as up-to-date messages on contingencies such as major traffic disruptions, is displayed on large LED display panels. The traffic and operating conditions in the area surrounding the termini can also be monitored at the termini themselves and at headquarters via IBSID's closed circuit television systems. At the end of 2010, 28 termini were equipped with IBSID.

Lost Property Management System

The Lost Property Management System ("LPM"), developed in 2009, helps us handle lost property claims and inquiries more efficiently, as it tracks lost items from initial location to reclaim by passengers or eventual disposal. Besides improving the handling of passenger inquiries about lost property, LPMS also helps our staff to accurately keep track of the status of lost property.

Boarding and Alighting Analysis System

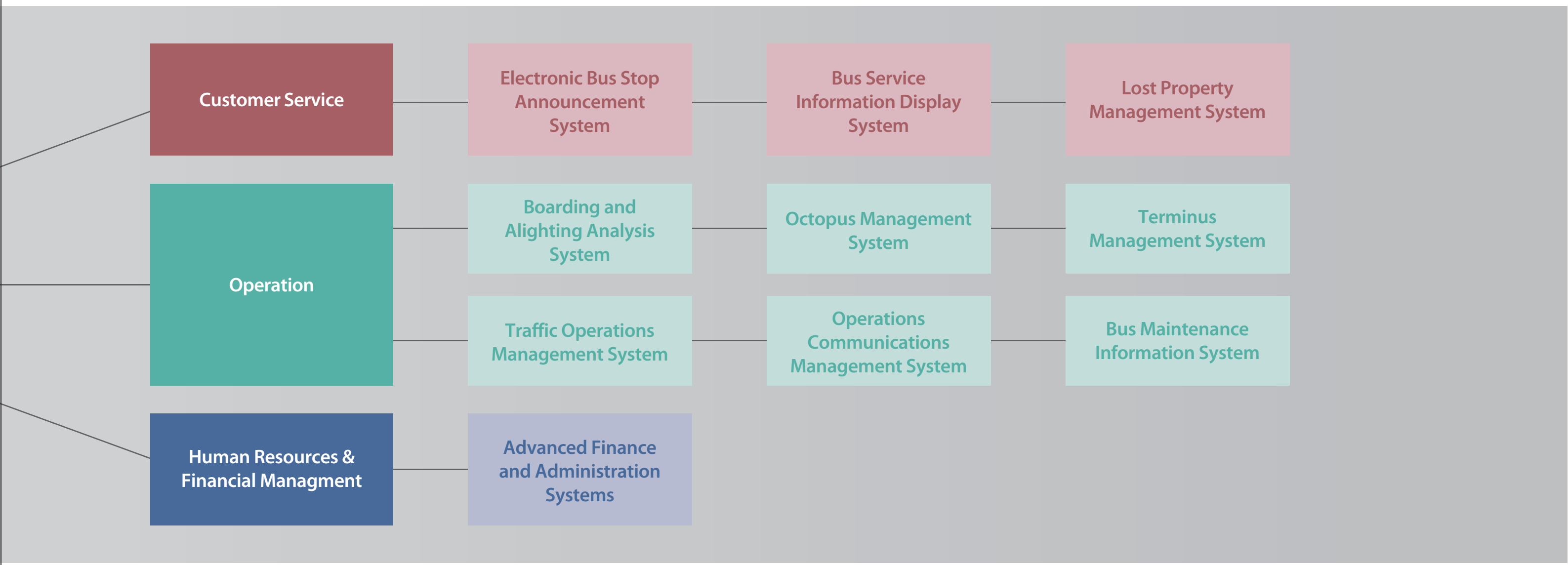
In 2010, the Boarding and Alighting Analysis System ("BAA") was developed by KMB to replace the old Boarding and Alighting System ("BAS") as part of our commitment to continually improving our passenger survey procedures. Survey data is now collected on Windows Mobile-based PDAs and uploaded to BAA, which is integrated with other in-house KMB projects such as the Bus Stop Information System ("BSI"), the Route Revenue Management System ("RRM"), the Terminus Management System ("TER"), the Octopus Management System ("OMS") and the Traffic Operations Management System ("TOM"), to enable seamless data integration and enhance the efficiency of data analysis and report production. The new system was launched in August 2010.

Octopus Management System

A new computer software system, the Octopus Management System ("OMS"), was developed by the Information Technology Department in 2010 to replace the Contactless Smartcard System ("CSS") and the Device Maintenance System ("DMS"). OMS retrieves the detailed maintenance records of Octopus devices and traces the location of those devices whose fare revenue record has not been downloaded to our system or which lack the latest fare table. It also provides accurate reports on Octopus revenue reconciliation. With its enhanced user interface functions, increased data storage capacity and enhanced data analysis functions, OMS streamlines daily Octopus operations. After thorough testing in parallel with CSS and DMS, OMS will come into full operation by mid-2011.

Terminus Management System

KMB has developed the Terminus Management System ("TER") to facilitate the management of daily bus operations. Bus captains use their personalised Octopus cards to report arrival at bus termini, and next departure



time and special instructions are automatically displayed on the screen for their attention. Recorded bus arrival and departure times are instantly transmitted to headquarters, depots and relevant departments so that service adjustments and any other necessary operational decisions can be made. Our Customer Service Hotline staff can also use the arrival and departure information to answer passengers' inquiries. By the end of 2010, 163 termini were equipped with TER.

Traffic Operations Management System

KMB's self-developed Traffic Operations Management System ("TOM") gained external recognition at the 2009 Hong Kong Radio Frequency Identification ("RFID") Awards, winning the Gold Award for Best EPC/RFID Implementation and the Bronze Award for Most Innovative Use of EPC/RFID. TOM greatly improves the efficiency of bus captain duty assignment and despatch by enabling depot staff to use a handheld RFID reader to identify the parking location of buses and upload the information to the system. This information, as well as vehicle registration numbers, route numbers, duty schedules and ad hoc operational arrangements, is retrieved by bus captains via their Octopus cards at Duty Dispatch Offices. Using TOM, management is able to keep up to speed on duty allocations and dispatches, as well as receive the details of the latest operational arrangements. By means of its fleet database, TOM is also able to prioritise the deployment of buses with lower emissions on routes running on busy corridors.

Operations Communications Management System

Developed in 2009, the Operations Communications Management System ("OCM") streamlines the recording and dissemination of real-time information on bus operation incidents logged by KMB's Radio Control Section. The system improves the speed and accuracy of message dissemination by updating depots and relevant departments with operational information on aspects such as traffic congestion, road incidents and adverse weather conditions. Besides improving KMB's contingency management procedures, OCM also saves 100,000 sheets of paper each year.

Bus Maintenance Information System

Developed in-house, the Bus Maintenance Information System ("BMS") provides useful information on buses, including bus type and repair and maintenance records, as well as the work records of maintenance workers, helping management assign jobs and monitor maintenance costs. BMS also keep tracks of the performance and durability of retreaded tyres, optimising their use and ensuring safety and environmental protection.

Advanced Finance and Administration Systems

KMB employs SAP e-Business Software for financial and human resources management. The financial management system was upgraded from SAP version R/3 Release 4.6C to ERP 6.0 in 2009, and the human resources management system followed suit in 2010. Besides processing large amounts of data, these advanced proprietary systems enhance the efficiency of financial planning, control and reporting, and improve staff administration and planning. The employment of SAP e-Business Software together with an advanced electronic document management system, e-tendering, e-payslips, and company-wide e-mail in our daily operations has significantly reduced paper usage and improved internal and external communications, document distribution, filing and retrieval.

LONG WIN BUS COMPANY LIMITED ("LWB")

LWB commenced bus services linking the New Territories with Hong Kong International Airport and North Lantau on 1 June 1997. Today, the area served by LWB's network covers the Airport and Tung Chung, as well as leisure and tourism developments on North Lantau, including Hong Kong Disneyland, AsiaWorld-Expo and the Ngong Ping 360 cable car.

Reflecting the steady recovery from the global financial downturn, ridership on LWB picked up from May 2010 (compared with the previous year), with significant growth noted in July and August. Looking forward, with the increase in air travel demand, the growth of the population of Tung Chung, the expansion programme of Hong Kong Disneyland and the commencement of infrastructural projects at the Airport, travel demand to and from North Lantau is expected to increase. With its comprehensive network, LWB is well positioned to serve a steadily expanding market.

PERFORMANCE PLEDGE

LWB constantly reviews its bus services to ensure that safety and efficiency are maintained at the highest standards across its bus fleet. LWB measures its operational performance by reference to two key performance indicators, namely, 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. 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 2010, LWB's buses achieved 60,123 km : 1 in mechanical reliability and 101.37% in operational capability against targets of 50,000 km : 1 and 100% respectively.

BUS FLEET AND FLEET UPGRADE

To meet the demand for enhancement of services on its External routes, LWB has modernised its fleet by introducing 21 new super-low floor air-conditioned double-deck buses, 20 of which replaced existing mid-life buses.

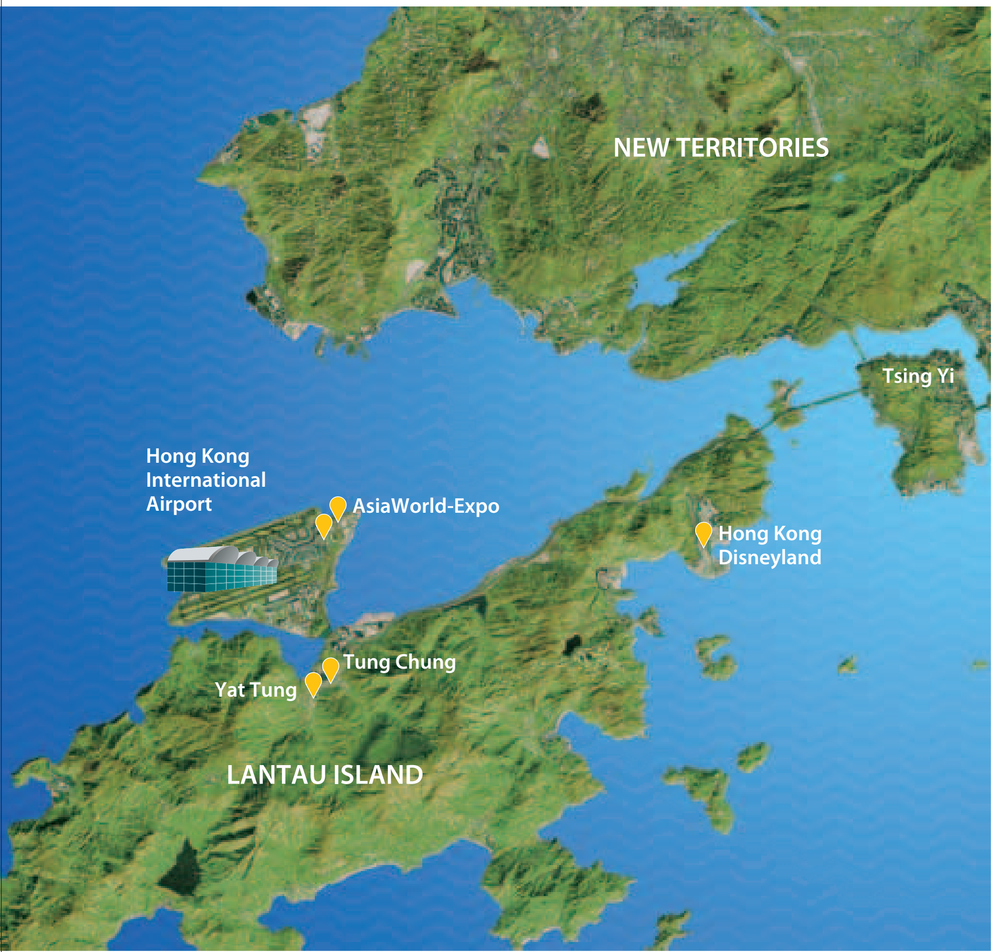
As at 31 December 2010, LWB operated 166 air-conditioned super-low floor double-deck buses, all equipped with wheelchair access, the electronic bus stop announcement system and the electronic tachograph, which records vehicle speed and other operational information.

LWB's bus fleet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	**Total number of buses**
As at 1 Jan 2010	165	2	**167**
Additions during the year	21	–	**21**
Disposals during the year	(20)	(2)	**(22)**
As at 31 Dec 2010	166	–	**166**

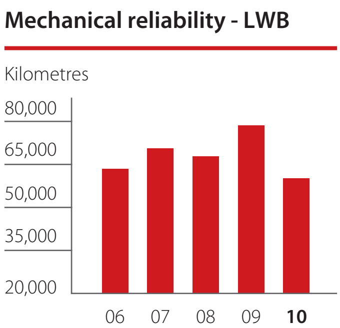
To meet growing travel demand and enhance the quality of its services, at the end of 2010, LWB had on order six Euro V super-low floor air-conditioned double-deck buses for delivery in 2011.

LWB will continue to look for ways to capture the business potential arising from tourism growth, while maintaining the highest standards of network coverage and service for local customers.

LWB provides efficient services for many travellers



LWB's bus termini on Lantau Island



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

BUS SERVICE NETWORK

At the end of 2010, LWB had 19 routes in operation. To improve service levels, two buses were added to Route E34 in May 2010 and the route was split into two, serving the Yuen Long and Tin Shui Wai areas separately during the morning peak period.

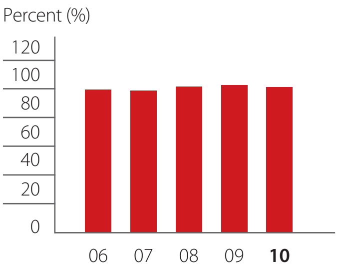
LWB will continue to look for ways to capture the business potential arising from tourism growth, while maintaining the highest standards of network coverage and service for local customers. LWB is committed to providing the most efficient and direct mode of transport to and from the North Lantau area.

DEPOT

LWB operates a depot at Siu Ho Wan for daily bus maintenance, refuelling, bus washing and fleet parking. The depot is equipped with a waste water treatment system, which ensures that the quality of waste water complies with statutory requirements before being discharged into the public drainage system.

LWB and Hong Kong International Airport – the perfect partnership

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

SAFETY

LWB conducts regular and thorough inspections of its buses to make sure they are maintained in the best condition. In addition, driving instructors are assigned to monitor both the driving performance and the customer service of bus captains. Safety briefings are conducted periodically and safety reminders issued to all bus captains. LWB also runs various quality campaigns in which good performance at both team and individual levels is rewarded.

ENVIRONMENTAL PROTECTION

To reduce carbon particle emissions, LWB has retrofitted Diesel Particulate Filters on most of its Euro II and Euro III buses (92% of the relevant fleet). Besides, the introduction of 32 Euro IV buses (representing about 20% of the whole fleet) has helped to decrease nitrogen oxide emissions.

The provision of electrostatic air filtration in the air-conditioning system greatly improves the air quality in the bus compartment, while the adoption of the Eco-driveline system has effectively reduced fuel consumption.

Hong Kong Non-franchised Transport Operations

The Group's non-franchised transport operations mirror the growth of the city. The SBH Group is a leading service provider for residential estates, shopping malls, employers, theme parks, deluxe hotels, travel agents and schools, as well as providing chartered hire services for the general public. New Hong Kong Bus Company Limited's shuttle bus services offer one of the most preferred means of transport for cross-boundary travellers.

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

The SBH Group is a leading non-franchised bus operator in Hong Kong, providing high quality tailor-made transport services to a variety of customers, from those seeking premium services to those looking for value-for-money services.

With Sun Bus Limited ("SBL") as the flagship, the SBH Group offers a range of bus services tailored to specific market segments. Its fleet serves large residential estates, shopping malls, major employers, theme parks, deluxe hotels, travel agents and schools, as well as the general public through chartered hire services.

In 2010, the SBH Group continued to strengthen its market share in the residential service segment, with an additional eleven residential estates awarding new contracts for the provision of residential shuttle bus services.

The SBH Group constantly endeavours to strengthen its services by purchasing the latest environment-friendly buses available on the market. In 2010, 19 Euro V buses were added to its fleet to replace older buses. At the end of 2010, the SBH Group had a fleet of 382 buses. The SBH Group will continue to introduce new buses equipped with Euro V engines as part of its ongoing fleet upgrade programme.

In November 2008, SBL became the first commercial non-franchised bus company in Hong Kong to be awarded ISO 9001:2000 certification by the Hong Kong Quality Assurance Agency ("HKQAA"). In 2009, ISO 9001:2008 certification was awarded to SBL by HKQAA upon completion of its upgrading audit, confirming the quality of SBL's management systems. SBL is committed to the continuous strengthening of all aspects of its management and operations.

In 2010, the SBH Group continued to strengthen its market share in the residential service segment, with an additional eleven residential estates awarding new contracts for the provision of residential shuttle bus services.

Sun Bus provides many services, including serving tourist attractions in Hong Kong

NEW HONG KONG BUS COMPANY LIMITED ("NHKB")

NHKB jointly operates with its Shenzhen counterpart the cross-boundary shuttle bus service, commonly known as the "Huang Bus" service, taking business and leisure travellers between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.

In 2010, NHKB operated a fleet of 15 air-conditioned super-low floor single-deck buses on its 24-hour cross-boundary shuttle bus service between Lok Ma Chau and Huanggang. Its terminus facilities at San Tin Public Transport Interchange include four air-conditioned waiting lounges and an integrated information display system.

With the opening of the Lok Ma Chau Spur Line and the Lok Ma Chau Public Transport Interchange, as well the increasing number of transport options for passengers wishing to cross the boundary, such as the Hong Kong – Shenzhen Western Corridor, NHKB has faced keen competition from railway and public minibus services. As a result, the demand for its cross-boundary bus services has decreased, with a fall in patronage from 5.8 million passenger trips in 2009 to 5.6 million passenger trips in 2010.

Despite the short term negative impact, it is expected that the extension of the Individual Visit Scheme to more cities in China Mainland, the increase in economic activity between Hong Kong and other cities in the Pearl River Delta, and the introduction of year-round multi-entry visas for Shenzhen residents in April 2009 will continue to stimulate new demand for cross-boundary transport. Since the beginning of 2010, mainland visitor arrivals have been experiencing considerable growth, surpassing 20 million in the first eleven months of the year, representing a year-on-year increase of 27%. Since December 2010, the Shenzhen Government has accepted applications to visit Hong Kong under the Individual Visit Scheme from non-Guangdong residents. By making it more convenient for non-Shenzhen residents to travel to Hong Kong, this measure is expected to stimulate new mainland visitor arrivals. NHKB will continue to make its shuttle bus service the preferred means of transport for cross-boundary travellers.

NHKB will continue to make its shuttle bus service the preferred means of transport for cross-boundary travellers.

NHKB's bus termini

The Huang Bus provides an efficient cross-boundary service for business and leisure travellers

China Mainland Transport Operations

In 2010, the Group operated a range of transport services in Shenzhen (深圳) and Beijing (北京). We will continue our strategy of exploring transport related business opportunities in China Mainland that offer reasonable returns.

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 founded 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 35% stake in SBG.

Since it began operating in January 2005, SBG has provided public bus, minibus and taxi services in the city of Shenzhen (深圳市). At the end of 2010, SBG had 5,248 vehicles operating on 251 routes. During the year, it continued to experience strong demand growth, serving 932.5 million passenger trips, an increase of 8.1% compared to 862.8 million passenger trips in 2009.

In 2010, facing strong competition from Shenzhen's underground railway, SBG further strengthened its cost control measures and improved its operational efficiency. SBG continued to take steps to boost productivity to ensure it maintained its position in the public transport market. These measures included further upgrading of its fleet and strategic rationalisation of its bus route network. Additionally, stringent budgetary control measures were adopted to mitigate the impact of rising operating costs. In 2010, SBG introduced more feeder bus routes linking with Shenzhen underground railway stations and expanded its bus route network to nearby districts, thereby enlarging its customer base.

Since 2007, SBG has been ISO 9001:2000 certified for the provision of transport services, transit designs and support services in the city of Shenzhen. To improve its environmental performance, SBG has adopted the use of environment-friendly fuel and engines that meet up to Euro IV emission standards. In 2010, SBG introduced a number of buses using new clean energy sources such as liquefied natural gas and electricity on a trial basis. SBG has also taken the lead in China Mainland by introducing electric taxis for trials in the city of Shenzhen. SBG will continue to upgrade its services, enhance its competitiveness and enlarge its market share in Shenzhen and other markets.

The Shenzhen Bus Group serves Shenzhen passengers over its vast network

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

Founded in Beijing in 2003, BBKT was the first Sino-foreign joint stock company to enter the Mainland's taxi hire and car rental business sectors. 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, has an equity interest of 31.38% in BBKT.

BBKT's taxis keep Beijing on the move

BBKT is one of the leading operators in the taxi hire and car rental market in Beijing. With a fleet of 4,437 vehicles, BBKT is dedicated to providing its customers with high levels of service in a market known for its strong growth and increasingly demanding clientele.

BBKT is one of the leading operators in the taxi hire and car rental market in Beijing. With a fleet of 4,437 vehicles, BBKT is dedicated to providing its customers with high levels of service in a market known for its strong growth and increasingly demanding clientele. Having successfully achieved ISO 9001:2000 certification for its quality management systems in taxi services in 2006, BBKT is strategically positioned to capture additional business opportunities afforded by the host of national and international events, conferences and exhibitions that are held in Beijing.

Despite facing challenges from rising operating costs, BBKT continued to enhance its competitiveness by upgrading its car fleets and introducing new models, while exploring profitable avenues for acquiring new customers. In 2009, BBKT opened a new representative office in the Binhai New District of Tianjin (天津市濱海新區) to capture new market opportunities for BBKT's taxi and car leasing businesses.

In the quarterly customer satisfaction surveys that the municipal authorities in Beijing conduct on the city's taxi services, BBKT has been consistently ranked in the top three among over 100 taxi operators. This is a testament to BBKT's continuous efforts to establish itself as one of Beijing's leading taxi service providers.

Property Holdings and Development

The Group's successful business diversification strategy is showcased by Manhattan Hill, the luxury residential and shopping complex in Kowloon.

LAI CHI KOK PROPERTIES INVESTMENT LIMITED ("LCKPI")

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

With views of the Central and Wan Chai waterfronts on Hong Kong Island, Manhattan Hill is a prestigious residential complex comprising five high-rise residential towers with a height ranging from 41 to 43 storeys above podium level. Two luxurious private clubhouses offering the most comprehensive facilities serve the residents of the 1,115 units, which vary in size from 668 square feet to 5,008 square feet.

The five-storey podium features landscaped gardens, public open spaces and 390 car park spaces for residents, tenants and visitors. Besides high ceilings and wide window openings that provide lots of natural light, each flat features energy-efficient glazing and natural cross-ventilation, which reduce the need for constant mechanical ventilation and cooling. The gleaming stone lobbies, landscaped podium and contemporary interior finishing use the finest natural materials to complement the upscale lifestyle. A double-height sky garden at the mid-point of each tower offers a tranquil place to take in the magnificent views over Victoria Harbour, while an elevated footbridge with escalators and lifts connects the towers to key public transport locations.

The sales campaign for the residential units of Manhattan Hill was launched in November 2006 and the handover of residential units to new owners began in July 2007. Up to the end of 2010, 1,111 residential units with a total saleable gross floor area ("saleable GFA") of about 1,183,619 square feet, representing 99.0% of the total saleable GFA, had been sold.

SHKP's subsidiary, Royal Elite Service Company Limited, provides the management and security services for Manhattan Hill. Some members of Royal Elite's staff have received management services training at Hong Kong's prestigious Four Seasons Hotel.

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 the high-end Manhattan Mid-town shopping mall, the two-level retail podium at Manhattan Hill, which is easily accessible by rail, bus and private car, with speedy highway access to Hong Kong Island and Hong Kong International Airport. Opened in March 2009, the mall's mix of shops and restaurants provides Manhattan Hill residents and other shoppers with high quality retail facilities. At the end of 2010, the entire lettable area of the 50,000 square feet shopping mall had been leased out, generating recurring rental income for the Group.

Manhattan Mid-town's mix of shops and restaurants provides Manhattan Hill residents and other shoppers with high quality retail facilities.

Manhattan Mid-town provides stylish shopping at a convenient location

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, Kowloon.

LCKRE owns the 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, with a total gross floor area of about 156,700 square feet. The building is located next to the Manhattan Hill development. About 149,470 square feet is currently used by the Group as headquarters. The remaining gross floor area of around 7,230 square feet is set aside for the provision of shops and restaurants. At the end of 2010, about 85% of the lettable floor area had been leased out to a number of restaurants to generate additional rental income for the Group.

Manhattan Mid-town's mix of shops caters for all customers

KT REAL ESTATE LIMITED ("KTRE")

KTRE, a wholly-owned subsidiary of TIH, together with Turbo Result Limited ("TRL"), a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"), are owners of the site at Kwun Tong Inland Lot No. 240 (the "KTIL 240 Site") at 98 How Ming Street, Kwun Tong, Kowloon, as tenants in common in equal shares.

The Kwun Tong Inland Lot No. 240 will be jointly developed by KTRE and TRL for the purpose of generating additional revenue for the Group.

The KTIL 240 Site will be jointly developed by KTRE and TRL for the purpose of generating additional revenue for the Group. Sun Hung Kai Real Estate Agency Limited, a subsidiary of Sun Hung Kai Properties Limited, has been appointed by KTRE and TRL as project manager for the management, supervision and control of the development of the KTIL 240 Site to ensure that the highest standards are met throughout the whole development. It is estimated that the project costs in respect of this development will amount to around HK$3.6 billion, which shall be borne and contributed to by KTRE and TRL in equal shares.

TM PROPERTIES INVESTMENT LIMITED ("TMPI")

TMPI, a wholly-owned subsidiary of TIH, is the owner of the property at Tuen Mun Town Lot No. 80 in the New Territories of Hong Kong.

The industrial property in Tuen Mun is being held by TMPI for rental purposes.

TMPI owns an industrial property comprising a single-storey high ceiling structure and a three-storey workshop building with a total gross floor area of about 105,900 square feet. The property became vacant in 2010 and has been leased out to generate additional rental income starting March 2011.

Property Holdings and Development

Property	**Usage**	**Total Gross Floor Area** (square feet)	**Group's Interest** (%)
Kwun Tong Inland Lot No. 240 98 How Ming Street, Kwun Tong, Kowloon	(Note)	1,150,000	50%
Manhattan Mid-town 1 Po Lun Street, Lai Chi Kok, Kowloon	Shopping Centre	50,000	100%
TIH Headquarters Building 9 Po Lun Street, Lai Chi Kok, Kowloon	Office / Shops	156,700	100%
Tuen Mun Town Lot No. 80 1 Kin Fung Circuit, Tuen Mun, New Territories	Industrial / Godown	105,900	100%

Note: Application for lease modification to non-residential (excluding hotel) use is in process. Construction is expected to be completed in 2014 or after.

Media Sales Business

The RoadShow Group offers advertisers a dynamic and effective means of marketing their products and services to four million consumers every day. Its success as a leading media sales company in the Greater China region is based on its unique blend of creativity and innovation.

ROADSHOW HOLDINGS LIMITED AND ITS SUBSIDIARIES

RoadShow Holdings Limited ("RoadShow") was established by the Group as its media sales arm. It 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.

BUS-TV

RoadShow's Bus-TV business specialises in the broadcast on buses of tailor-made programmes and advertisements. It also handles programme content production and sourcing, as well as the marketing and selling of airtime.

Bus-TV currently operates on some 20,000 liquid crystal display ("LCD") units, which broadcast a wide variety of programmes to an estimated 4,000,000 bus passengers daily across Hong Kong. By creating and sourcing highly relevant Bus-TV content spanning the worlds of culture, lifestyle, entertainment and news, RoadShow is able to stay ahead of its competitors through its uniquely creative coverage.

In 2010, RoadShow began enhancing its media platform by equipping new Bus-TV systems with 3G transmission capabilities. These systems are a 'must-have' media buy for brand managers who place a premium on easy penetration of, and gross impact across, a large daily audience base.

IN-BUS

Having first appeared on buses in February 2009, In-Bus advertising has proved to be a lucrative new source of revenue for RoadShow. By leveraging both interior advertisements and Bus-TV's customised TV segments, this platform offers a 'Win-Win' situation for local advertisers looking for a creative showcase that dovetails with other RoadShow platforms.

In 2010, the RoadShow Group began enhancing its media platform by equipping new Bus-TV systems with 3G transmission capabilities, a 'must-have' media buy for brand managers who place a premium on easy penetration of a large daily audience base.

BUS-BODY

Launched in November 2009, Bus-Body is another business initiative from RoadShow. The commencement of 2009-10's new bus exterior advertising arrangement with KMB helped boost this platform's business momentum and market share. At present, the exteriors of around 66% of all franchised buses in Hong Kong carry messages from RoadShow advertisers.

BUS-SHELTERS

Operated with JCDecaux Cityscape Limited (formerly "JCDecaux Texon Limited"), this arm of the RoadShow business commenced operations in 2001. In 2008, RoadShow was awarded an exclusive media sales agency and management rights license in respect of selected bus shelters across Hong Kong. The arrangement will remain in force until 31 July 2012.

In 2010, besides contributing to revenue and profits, Bus-Shelter activities significantly enhanced RoadShow's market share and status as one of Hong Kong's premier out-of-home advertising specialists.

INTEGRATED MARKETING SERVICES

2010 saw a dramatic 300% increase in demand for RoadShow's integrated marketing services. Key customers include not only advertisers and event management and production specialists, but also creative development and public relations professionals.

RoadShow remains better positioned than most other out-of-home advertising providers to meet agencies' and advertisers' integrated media and marketing services needs.

The RoadShow Group offers unique marketing services to advertisers through its integrated 3-in-1 media platform

Care for Customers

Quality Service – Our vision is to be a world-class leader in the public transport field. We are committed to understanding our customers' needs and delivering the best possible value for them.

By improving the utilisation of buses, Octopus BBI Schemes also relieve traffic congestion on busy corridors and help contribute towards an improved environment.

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

The implementation of Octopus BBI Schemes for our franchised bus operations provides extensive fare discounts to passengers on the second leg of journeys and improves our network coverage. By improving the utilisation of buses, Octopus BBI Schemes also relieve traffic congestion on busy corridors and help contribute towards an improved environment. We will continue to find ways to enhance and optimise our Octopus BBI coverage, both across the KMB and LWB networks and through inter-modal schemes jointly operated with other public transport operators. At the end of 2010, KMB operated 74 Octopus BBI Schemes covering 260 routes, while LWB had six Octopus BBI Schemes covering 12 routes, including those serving Hong Kong Disneyland and AsiaWorld-Expo.

BUS FARE DISCOUNT SCHEMES

In 2010, KMB and LWB offered Sunday and public holiday fare discounts for passengers aged 65 and above who pay by Octopus cards. These passengers enjoy a flat fare of HK$2.00 or half fare (whichever is lower) on Sundays and public holidays on all KMB and LWB routes, excluding Airport "A" and racecourse routes. The discount scheme has been effective since 28 January 2006 and will expire on 31 January 2012 (both dates inclusive).

THE OCTOPUS SMART CARD

Introduced in 1997, the electronic Octopus Smart Card System is widely used by public transport users in Hong Kong for fare payment. 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 both in terms of value and number of transactions. In 2010, about 89% of our franchised bus fare revenue was collected via Octopus cards, which bring convenience for passengers and cost savings for the Group in respect of cash collection and administration.

LUMINOUS CRYSTAL BUS STOP POLES

KMB's luminous crystal bus-stop pole is lit by pollution-free, recyclable LED lighting, which has treble the lifespan and over six times the electricity-saving capacity of fluorescent tubes.

In 2010, KMB added 40 new luminous crystal bus stop poles to upgrade our signage in busy urban areas, raising the total to 60. These sparkling and environment-friendly bus stop poles not only allow passengers to check route information more conveniently, but they also add a twinkle to Hong Kong's night scene. Combining the design concepts of simplicity and resplendence, the new bus-stop pole features a rectangular crystal bus-stop sign at the top which keeps the traditional KMB red circular pattern. The bottom part of the sign shows the bus stop name clearly in English and Chinese in larger font than traditional bus-stop poles. The multi-sided, 360-degree rotating route information panel on the bus-stop pole allows passengers to obtain route information conveniently. The luminous crystal bus-stop pole is lit by pollution-free, recyclable LED lighting, which has treble the lifespan and over six times the electricity-saving capacity of fluorescent tubes. As LED lighting is powered by a silicon rechargeable battery, the need for road works for the installation of an electricity supply is avoided. To further save energy, the new bus-stop pole is equipped with a timer to regulate the power supply for the LED lighting.

Senior citizens enjoy Sunday and public holiday fare discounts on KMB and LWB

KMB's bus captains are trained to take care of those with special needs

To cater for the growing number of Mainland visitors, in 2010, a simplified Chinese version was added to the Digital Map Passenger Enquiry System at the multimedia kiosks of KMB's customer service centres.

BUS SHELTERS

We aim to make the bus waiting environment more pleasant for passengers through our bus shelter improvement programme. In 2010, KMB added 17 new bus shelters, raising the total to 2,417, while LWB added two new bus shelters, raising the total to 32. With 2,720 advertising panels installed, the bus shelters not only provide convenience to our passengers but also generate advertising revenue for our franchised bus operations.

CUSTOMER SERVICE CENTRES

Currently, KMB has a total of eight customer service centres situated at the public transport interchange hubs of Tsim Sha Tsui, Hung Hom, Lam Tin, Mei Foo, Tsuen Wan, Sha Tin, Tuen Mun and Tin Shui Wai, providing a convenient one-stop service to public transport users. Besides collecting feedback on KMB services, our friendly customer service ambassadors help customers with route and timetable information. Octopus card services and KMB souvenirs are also available from the centres. The Digital Map Passenger Enquiry System in the centres' multimedia kiosks enables customers to make route searches and view landmarks on their chosen routes on an innovative three-dimensional map. To cater for the growing number of Mainland visitors, a simplified Chinese version was installed in the system in 2010. Customers may also use the multimedia kiosks for browsing the KMB website.

Situated in a central location at Hong Kong International Airport, LWB's customer service and ticketing office provides a one-stop centre for ticketing, customer enquiries and lost property handling.

CUSTOMER SERVICE HOTLINES

For many years, KMB's award-winning customer service hotline (2745 4466) has been a popular and effective communication channel with our passengers. In 2010, the hotline handled around 3.7 million calls, an average of about 310,000 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, operating in Cantonese, English and Putonghua, provides on-demand bus route information, service updates, traffic news and a voicemail service, as well as bus route information via SMS. In 2010, KMB became the first local transport operator to send digital maps of bus stop locations to customers' mobile phones.

A total of 15,949 calls were handled in 2010 by LWB's customer service helpline (2261 2791), an average of 1,329 calls a month. Besides answering passengers' enquiries, the helpline collects and processes customer feedback and handles lost and found enquiries.

BUS DESIGN AND MAINTENANCE

KMB engineers collaborate with leading global bus manufacturers to develop new bus types that are tailored to Hong Kong's special operating environment. New KMB buses are equipped with the three-in-one integrated safety monitoring system which lets bus captains monitor the upper deck, keep an eye on objects behind the bus when reversing and observe alighting passengers.

In 2010, KMB upgraded information facilities at four major bus termini to help passengers find the locations of bus stops more easily with the aid of an enlarged floor plan on information panels.

All KMB and LWB buses are subject to our ISO-certified maintenance regime, comprising daily, monthly, half-yearly and annual road-worthiness inspections at our depots. Our franchised buses are also subject to regular random checks by Motor Vehicle Examiners from the Transport Department of the HKSAR Government. The robustness of this maintenance regime translates into high mechanical reliability for our passengers.

INFORMATION FACILITIES AT BUS TERMINI

In 2010, KMB enhanced and upgraded information facilities at four major bus termini to help passengers find the locations of bus stops more easily with the aid of an enlarged floor plan on information panels. Tables of route information provide bilingual destination names, grid reference codes, platform numbers and fares.

This is especially convenient to passengers who are not familiar with the environment of the bus terminus. By means of the information panel, passengers can locate bus stops quickly and save time by walking straight to the boarding point. In addition, a number of information boards with large font size and clear content provide directions so that passengers can locate their desired bus stops more quickly.

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

A stringent safety governance framework is the key to ensuring the highest levels of safety performance and sustainable operations.

SAFETY CULTURE

To provide a good foundation for a safety culture, a strategic plan is in place for developing, implementing, monitoring and reviewing a safety management system that goes beyond legal and statutory requirements. We continuously strive for improvement to ensure a world-class approach to safety management and to reach the highest achievable safety standards.

SAFETY MANAGEMENT SYSTEM

Robust safety governance is the backbone of our safety management system. A stringent safety governance framework is the key to ensuring the highest levels of safety performance and sustainable operations. A Safety and Service Quality Department was established in September 2010 to specifically focus on enhancing our safety performance and on delivering high quality services. In terms of governance, a Safety Steering Group led by senior management members has been created to set up a "best-in-class" safety management system for KMB, which will be fully implemented in 2012.

Fit-for-purpose safety governance requirements will be established based on Occupational Health and Safety Assessment Series ("OHSAS") 18001 Safety Management Systems, compatible with ISO 9001 (Quality) and ISO 14001 (Environmental) Management System standards. In order to develop, implement, maintain and monitor OHSAS 18001 Safety Management Systems, we have adopted a "Plan-Do-Check-Act" (PDCA) approach, which aims at continual improvement in the safety performance of all aspects of our business and sustained operational excellence.

The Managing Director discusses operational matters with a team of KMB bus captains

SAFE DRIVING CULTURE

To provide safe and reliable bus services for our passengers, the training programmes of the Bus Captain Training School at our Sha Tin Depot, which is equipped with a state-of-the-art Driving Simulator Studio, give top priority to safe driving. Various safety awards and competitions are organised to promote the concept of excellence in driving to our bus captains. Technological measures adopted onboard buses to enhance safety include speed limiters (which limit the speed of buses to 70 km/h) and electronic tachographs, which record vehicle speed and other relevant operational information. At the end of 2010, 3,664 KMB buses and 166 LWB buses were equipped with electronic tachographs.

The Group has adopted a "Plan-Do-Check-Act" (PDCA) approach, which aims at continual improvement in the safety performance of all aspects of our business and sustained operational excellence.

To enhance bus captains' awareness of safe driving, a "Safe Driving Card" has been distributed to bus captains and posters with key messages placed at bus termini to reinforce safe driving messages. A new Bus Captain Safe Driving Handbook, including driving regulations and points to note about safe driving that cover every aspect of a bus captain's daily work, has also been produced. Driving tips have been highlighted in the handbook to enhance the concept of defensive driving. Bus captains are reminded to pay special attention to road situations and to maintain safe driving practices. The handbook has been distributed to all bus captains, who are required to read and carefully execute the safety measures contained in it. The aim is to foster a proper and safe driving attitude.

DATABASE OF "DRIVING TIPS IN SPECIAL ATTENTION AREAS"

To help bus captains drive more smoothly and safely, we have established a database of "Driving Tips in Special Attention Areas", the first of its kind in Hong Kong, which has been uploaded to our staff website. The special attention areas were selected according to the practical experience of our driving instructors and operations staff after consulting bus captains. Based on the characteristics of each special attention area, driving tips and suggestions are provided for each location. To promote bus captains' awareness of safe driving, all relevant bus routes are also listed in the database, supplemented by photos and layout drawings for easy reference.

To provide the most up-to-date and accurate information, we will continue to fine-tune and update the database by studying all the bus routes involved. All these measures demonstrate our determination to provide pleasant and safe journeys to our passengers, as well as to support our bus captains in safe driving.

POSTER DESIGN COMPETITION TO PROMOTE CARE FOR ELDERLY

Providing passengers, especially the elderly, with safe bus journeys has always been our priority. In September 2010, we launched the "Care for the Elderly Poster Design Competition" to enhance public awareness of caring for the elderly. Open to all primary school students, the competition received a positive response from primary schools with more than 2,000 entries. The prize presentation ceremony was held in December 2010. The posters designed by the champion, first runner-up and second runner-up in each section were displayed on a bus body banner on three buses from December 2010 to April 2011 to promote the message of safe bus journeys for the elderly.

Care for Employees

As a caring employer, the Group is attentive to our employees and is committed to developing our people so that we can deliver the highest quality service. A comprehensive training and recognition programme is in place to help maintain a workplace where excellent performance is valued and rewarded.

The Group continues to accord top priority to excellence in the delivery of our bus services. This is done in a number of ways: by providing intensive training to our bus captains, by strengthening performance monitoring procedures, by improving bus designs, and by maintaining our buses to the highest standards. Our culture of training and recognition also motivates staff to deliver service levels of the highest order.

The following table gives a breakdown of the workforce of the Group by division at the end of 2010 and at the end of 2009:

Division	**2010**	2009
Franchised Public Bus Operations		
• KMB	**11,674**	11,870
• LWB	**458**	457
Non-franchised Transport Operations	**620**	635
Media Sales Business[1]	**104**	105
Mainland Transport Operations[2]	**7**	7
Total	**12,863**	13,074

[1] Includes the employees of the Group's subsidiary companies in China Mainland.
[2] Excludes the employees of the Group's joint venture companies in China Mainland.

Excellence is achieved by providing intensive training to our bus captains, by strengthening performance monitoring procedures, by improving bus designs, and by maintaining our buses to the highest standards.

STAFF CONSULTATION AND COMMUNICATIONS

Six Joint Consultative Committees for KMB and LWB provide management and staff representatives with the opportunity to meet and discuss matters affecting daily operations. Meeting every month at KMB and every two months at LWB, matters addressed include safety and operating procedures, the work environment and staff welfare. Our staff website allows KMB and LWB employees to access staff-related information, such as company 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 additional channels for keeping staff up to speed with company developments.

STAFF DEVELOPMENT

The Group sees staff training as an important investment in its future. Training and development courses are arranged for staff at all levels.

A large scale customer service training programme was recently organised for all operations and maintenance staff of KMB and LWB, drawing on the expertise of an established training consultancy firm. The "Service from the Heart" programme was tailor-made to develop a positive service mindset among staff and raise their awareness of customers' expectations of quality service. In the first phase of the programme, 52 seminars were held for more than 10,000 staff members in the fourth quarter of 2009. The second phase of the programme, held from January to April 2010 and consisting of more than 300 workshops with a focus on experiential learning for small groups of around 30 frontline staff, aimed to equip participants with the skills required to handle challenging customer service situations.

A trainee KMB bus captain receives on-road instruction

KMB's new uniform combines style and comfort

A Most Professional Bus Captain Election Campaign asking passengers to nominate the pick of our bus captains is being organised in January 2011 to recognise bus captains who provide outstanding service performance.

All staff members are required to wear a "Service from the Heart" badge while on duty to promote the spirit of delivering quality service. Working tips in different formats, for example, videos, cue cards, training booklets and stickers inside driver compartments, are made available to refresh the skills learned in the seminars and workshops. Reinforcement activities, such as commendation letters, booths, online games and slogan and lyric competitions, are organised regularly to sustain the momentum of the training programme. A Most Professional Bus Captain Election Campaign involving passengers is being organised in January 2011 to recognise bus captains who provide outstanding service performance.

To enhance the performance and competencies of our middle management staff, a series of management development workshops was held in 2010. Areas covered were change management, creative thinking, strategic thinking, coaching skills, negotiation skills, problem solving skills and team management.

In 2010, nearly 400 staff attended courses organised by the Labour Department and the Occupational Safety and Health Council. The Equal Opportunities Commission and the Office of the Privacy Commissioner for Personal Data were invited to conduct a series of seminars for our management staff and frontline operations staff to keep them updated on the respective legal requirements.

For the fifth successive year, a renowned Harvard Business School professor specialising in business strategy was invited to share the latest developments in the business world with KMB and LWB management.

BUS CAPTAIN TRAINING

KMB's Bus Captain Training School at Sha Tin Depot provides new and existing bus captains with comprehensive training and improvement courses to ensure the continued provision of safe and comfortable bus journeys. In 2010, more than 40 Instructors and around 35 training buses were employed at the Training School.

Our initial training course includes both on-road training and theory lessons with the focus on driving safety and customer service. Besides passing Government driving tests, new bus captains undergo rigorous internal assessments to ensure they are capable of carrying out their duties effectively. Experienced bus captains receive training that reinforces their safety awareness and sensitivity to passenger comfort. All bus captains receive "eco-driving" training, 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 that enable bus captains to improve their overall driving and in particular their response to different situations. The four simulator stations are equipped with a driving cabin, with driving seat, steering wheel, accelerator, brake and instrument panel, as well as multiple 42-inch plasma screens displaying high-resolution images. Added authenticity comes in the shape of the sound of the bus interacting with the road surface and other sounds associated with the driving position. The simulator generates a report for each trainee on speed, trip duration and passenger comfort, and our instructors provide instant individual feedback.

TECHNICAL AND APPRENTICE TRAINING

KMB's Technical Training School has been training maintenance staff in the latest bus technologies since 1973. 2010 saw 212 in-house training sessions organised for 1,503 skilled workers and 11 sessions run for 192 engineers, supervisors and foremen in collaboration with our bus manufacturers.

The Technical Training School runs a four-year apprenticeship training scheme for school leavers to ensure an adequate supply of skilled maintenance workers. In 2010, 26 more apprentices graduated, bringing the total since the School's establishment to 2,186. At the end of the year, a total of 233 apprentices were enrolled at the School.

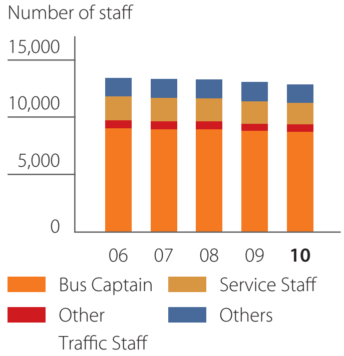
The quality of KMB's apprentice training programme was once again recognised in 2010 with two apprentices obtaining Second Runner-up and Fourth Runner-up spots in the Vocational Training Council's Best Apprentice in the Automobile Trade Competition. The honourees received invitations to visit the Mitsubishi Plant in Japan.

REWARDING SERVICE EXCELLENCE

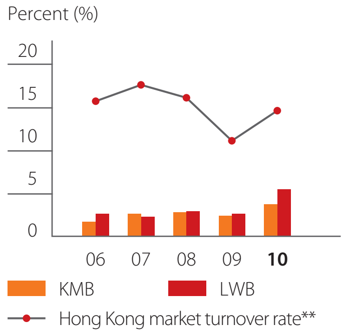
We ensure that the performance of our bus captains is maintained at the highest level by means of a systematic performance assessment mechanism that provides continuous monitoring. If a bus captain falls below these high standards, we will provide remedial training, with a Performance Management Team helping bus captains identify their strengths and weaknesses. In the event of continued under-performance or misconduct, disciplinary action will be taken. On the other hand, outstanding performance is rewarded by awards and bonus schemes. The performance of the Group's non-franchised bus captains is monitored in a similar way.

We ensure that the performance of our bus captains is maintained at the highest level by means of a systematic performance assessment mechanism that provides continuous monitoring.

Number of staff in the Group at 31 December



Staff turnover rate
(voluntary resignation only)



**Source: Employers' Federation of Hong Kong

KMB's strong team of bus captains

Our Safe Driving Award was introduced in 1990 to promote road safety. In 2010, a total of 724 KMB and LWB bus captains received the Safe Driving Award in recognition of their outstanding safety records.

KMB continued its Outstanding Service Award programme during the year, with 64 employees rewarded for their performance excellence. To promote teamwork and give recognition to groups of staff who have attained achievements beyond their normal scope of work, Outstanding Service Awards were once again made to teams.

In recognition of their committed performance, 5,479 Good Service Annual Awards and 4,182 Safe Driving Annual Awards were presented to KMB and LWB bus captains, and 334 Good Service Annual Awards were made to KMB and LWB Terminus Supervisors/Assistant Terminus Supervisors/Customer Service Assistants.

In December 2010, we organised the Long Service Award Presentation Ceremony to recognise the loyal service of our staff. 45 staff members received the 40 year award and 414 staff members received the 30 year award. Another 617 staff members completed 20 years of service and were issued with a certificate of appreciation and a badge.

Likewise, the operating companies within the Group's Non-franchised Transport Operations Division ran good service and safe driving award programmes in 2010 to recognise the outstanding performance of their staff.

KMB's voluntary turnover rate for 2010 was 3.69%, once again considerably lower than the market average. Testimony to the success of the Group's approach to staff training and management, the low turnover rate also helps sustain service excellence.

WORK-LIFE BALANCE

As part of our promotion of a healthy work-life balance, we have set up a wellness corner on the staff website with relevant articles and useful government links. Additionally, health talks are organised regularly for staff members and their families. A self-learning culture is encouraged, with an in-house library established on the staff website for easy borrowing of library materials via the electronic library catalogue.

MEDICAL CENTRES

Four Medical Centres have been set up at KMB premises to provide dedicated outpatient services for our employees, as well as medical checks for new staff and annual medical checks for relevant employees.

NEW WINTER UNIFORM FOR FRONTLINE STAFF

In December 2010, all KMB frontline staff, including inspectors, terminus supervisors and bus captains, were provided with new winter uniforms, practically designed with green as the primary colour. The new uniform represents vitality and highlights the energetic image of our frontline staff. For safety reasons, silver grey reflective piping and tape are added on the back of the uniform to enhance operational safety, especially when working in dark conditions.

Enhancing **Quality** of Life

The Group is committed to delivering quality service by incorporating sustainable practices in our daily operations for the benefit of all the communities we serve, as well as our employees and the environment.

Care for the Environment

The Group is committed to building a better environment through continuous contributions to environmental preservation. As a major provider of public transport services, we recognise the potential environmental impacts associated with our services and are dedicated to mitigating and minimising these impacts in four main areas: environment-friendly buses, green use of consumables, environmental waste treatment and green premises. Our initiatives in environmental protection have been recognised by the Hong Kong Q-Mark Council in the form of Green Mark Certification.

Q-MARK COUNCIL RECOGNITION FOR KMB'S ENVIRONMENTAL MANAGEMENT

In 2010, KMB was recertified with Green Mark Certification by the Q-Mark Council of the Federation of Hong Kong Industries for the period from 1 May 2010 to 30 April 2013. The certification recognises that the delivery of franchised bus services and the repair and maintenance of buses at KMB's four main depots at Kowloon Bay, Lai Chi Kok, Sha Tin and Tuen Mun meet the prescribed standards under the Hong Kong Green Mark Certification Scheme. KMB is the first listed public transport organisation to receive this certification. KMB is subject to quarterly surveillance audits to ensure that the stringent environmental management standards are maintained throughout each certification period.

ENVIRONMENT-FRIENDLY BUSES

Continuous upgrades are made to the KMB and LWB fleets to ensure they comply with all the relevant environmental standards. New buses introduced to our fleets generally have environmental performances far exceeding the requirements in Hong Kong, making the Group an industry leader through the adoption of innovative technologies and equipment that improves environmental performance.

Euro IV and Euro V Engines

Between 2006 and 2008, we introduced two types of Euro IV engines with different emission control technologies to the KMB bus fleet so that we could evaluate and assess their performance and environmental effectiveness. The two types of Euro IV engine technologies are the Selective Catalytic Reduction ("SCR") and Exhaust Gas Recirculation ("EGR") technologies, which are set to become the basic specification for KMB's newly purchased buses. In early 2009, on KMB's initiative, one of the Euro IV prototypes was re-powered to be Euro V compliant, making this bus the first double-decker in Asia to be equipped with the newest generation of the green engine. Compared to Euro III engines, Euro IV and Euro V engines can reduce emissions of nitrogen oxides and particulates by 30% and 80% respectively. We began to order new buses equipped exclusively with Euro V engines in mid 2009.

New buses introduced to our fleets generally have environmental performances far exceeding the requirements in Hong Kong, making the Group an industry leader through the adoption of innovative technologies and equipment that improves environmental performance.

At the end of 2010, 97 KMB buses and 32 LWB buses were equipped with Euro IV engines and 89 KMB buses were equipped with Euro V engines. In addition, 294 buses in the fleets of the Group's Non-franchised Transport Operations Division, comprising the SBH Group and New Hong Kong Bus Company Limited, are equipped with Euro III, Euro IV or Euro V engines.

Green Fleet

In 2010, KMB and LWB respectively completed the installation programme of Diesel Particulate Filters ("DPFs") on 869 and 49 Euro II and Euro III buses, bringing their exhaust emission levels to Euro IV/V standards in terms of particulate matter.

At the end of 2010, KMB and LWB had a total of 3,988 buses, all of them meeting the strict exhaust emission standards of the European Council of Environmental Ministers. This included 97 buses with pre-Euro engines and 932 buses with Euro I engines equipped with catalytic converters, bringing their exhaust emissions up to the standards of Euro I and Euro II engines respectively in terms of particulate matter; 2,503 Euro II and Euro III buses fitted with DPFs and/or Exhaust Gas Recirculation devices, raising their exhaust emission levels to Euro IV/V standards in terms of particulate matter; 188 Euro II buses; 50 Euro III buses; 129 Euro IV buses; and 89 Euro V buses. The average particulate emission levels of the entire KMB bus fleet had been reduced by 90.4% compared with 1992.

As at 31 December 2010, 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 each level KMB	LWB	Total
Euro I	97	–	97
Euro II	1,120	–	1,120
Euro III	50	–	50
Euro IV/V	2,555	166	2,721
Total	**3,822**	**166**	**3,988**

At the end of 2010, more than 68% of KMB and LWB buses met Euro IV/V standards for exhaust emissions in terms of particulate matter.

GREEN USE OF CONSUMABLES

Near Zero Sulphur Diesel

Since 2009, Near Zero Sulphur Diesel ("NZSD"), which contains only 0.001% sulphur, has been adopted fleetwise on all KMB and LWB buses. NZSD significantly reduces the exhaust emission levels of sulphur oxides, nitrous oxides and particulates, thereby contributing to a healthier environment. Prior to that, since 2001, KMB and LWB bus fleets were already using ultra-low sulphur diesel ("ULSD"), containing only 0.005% sulphur.

Synthetic Transmission Oil

Synthetic transmission oil was introduced in 2001 and extended to all KMB and LWB double-deck buses in 2005. The result is an 80% reduction in waste oil and an oil drain interval increased from 30,000 to 150,000 kilometres.

Eco-Driveline System

The Eco-Driveline System has been a standard feature on all our new buses since its introduction in 2003. The Eco-Driveline System reduces fuel consumption by integrating a high-torque engine, a six-speed double-overdrive automatic gearbox controlled by a sophisticated gear-shift programme and an optimised final drive. The system allows a 6-10% improvement in fuel consumption and emissions compared with conventional drivelines.

Foam-element Air Filters

KMB and LWB are progressively replacing traditional paper-element air filters with high performance foam-element air filters, which have an average life span of about 12 months, six times longer than that of conventional paper filters. While maintaining the operating performance of our buses, the use of foam-element air filters significantly reduces the amount of solid waste requiring disposal.

Variable Capacity Air-conditioning Compressor

All KMB buses ordered after 2008 are equipped with the power-saving variable capacity air-conditioning compressor. Extensively tested since 2005, the system provides better adaptive and refined thermal control in the bus compartment in the most fuel-efficient manner, coping well with the dynamic urban operating environment in all weather conditions.

Tyre Retreading and Recycling

KMB retreaded 30,700 used tyres in 2010 at its retreading workshop, bringing the total number of tyres retreaded since the retreading workshop opened in 1972 to more than 690,000. The life of a new bus tyre, which can typically be used for seven months, can be extended by up to two years through retreading, as each tyre can typically be retreaded several times. Extending the life of a bus tyre through retreading is not only cost effective, but it is also environment-friendly, reducing the amount of industrial waste. In 2010, more than 18,000 scrapped tyres, which would otherwise have been disposed of at Government landfills, and over 190 tonnes of tyre chips were collected by a recycling agent and recycled into various rubber products.

ENVIRONMENTAL WASTE TREATMENT

In recognition of our achievements in environmental preservation, KMB was once again granted the "Class of Excellence" WasteWi$e Label by the Environmental Campaign Committee in 2010. During the year, excellent results were achieved in waste reduction and recycling in our daily operations, from waste paper and plastic cartridges used in fax machines and printers to rechargeable batteries and fluorescent tubes.

To reduce the amount of solid waste needing disposal, KMB implemented a company-wide waste reduction programme. Since 2009, around 1,150 kilograms of print circuit boards, which would formerly have been disposed of at Government landfills, have been collected for recycling by a recycling agent.

KMB retreads tyres for environmental preservation

KMB pioneers fully electric bus services in Hong Kong with the trial of the zero-emission gBus

Waste Oil and Chemical Waste

Waste oil from bus maintenance sites is collected by a registered waste oil recycling agent that handles the subsequent recycling or disposal processes in accordance with the statutory standards. The solid chemical waste is initially treated and stored by type in special areas at bus depots and then disposed of by a registered chemical waste collector at the Government's Chemical Waste Treatment Centre. In 2010, around 778,000 litres of waste oil and 329,000 kilograms of solid chemical waste were collected.

Waste Water

KMB's depots are equipped with a total of 11 automatic waste water treatment systems with a daily treatment capacity of 640 cubic metres. Chemicals are added to separate solid impurities and pollutants from the waste water that is produced during the daily operations of the depots. The impurities are disposed of in a landfill and the treated waste water is discharged into the public drainage system.

Self-developed Filter Compressing Machine

With the introduction of the Filter Compressing Machine at KMB's Sha Tin Depot in 2005, the volume of solid chemical waste in the form of disposed fuel or oil filters has been reduced by 60%. The machine also allows for recycling of the waste oil squeezed from the filters during the compressing process. The machine won a Certificate of Merit for Green Innovative Practice in the 2006 Hong Kong Eco-Business Awards.

Fluorescent Tubes

In 2006, KMB became the first enterprise in Hong Kong to participate in the fluorescent tube recycling campaign, thus contributing to the reduction of the impact of solid waste on the environment. In 2010, approximately 95,000 used fluorescent tubes were sent to the Government's Chemical Waste Treatment Centre for recycling, bringing the total number of used tubes collected by KMB since it began participating in the recycling campaign to around 385,000. In 2009, KMB carried out a pilot scheme at Sha Tin Depot, replacing high bay lamps with long-life energy-saving fluorescent tubes. This has resulted in a 12% saving in electricity consumption. KMB plans to extend this scheme to other premises as part of its dedication to viable environment-friendly measures.

In 2010, approximately 95,000 used fluorescent tubes were sent to the Government's Chemical Waste Treatment Centre for recycling, bringing the total number of used tubes collected by KMB since it began participating in the recycling campaign to around 385,000.

GREEN PREMISES

All KMB and LWB depots are equipped with dedicated green facilities for energy conservation, including waste water treatment systems, water recycling facilities and environment-friendly fire service systems. Energy-saving features are also built into the lighting, air-conditioning and ventilation systems. Air sampling is conducted regularly in depot areas to ensure a healthy work environment.

At the Group's Lai Chi Kok headquarters, the Green Office concept informs the design, refurbishment and practices of the premises. Pre-set timers switch off lights when they are not needed or when natural light is sufficient, and air-conditioning thermostats set to 25.5°C conserve energy and benefit air quality in support of the Government's Action Blue Sky Campaign.

EXPLORING ZERO- AND LOW-EMISSION BUS TECHNOLOGIES

2010 was a busy year for KMB in terms of exploring and trialling new bus technologies. We introduced the zero-emission supercapacitor bus (or "gBus") for several months of trials, during which a satisfactory return of 3.3 kilometres per charge was achieved. All who have test ridden the gBus at our Lai Chi Kok Depot, including representatives from the HKSAR Government, political parties and green groups, have shown a keen interest in exploring the bus's deployment potential. We are working closely with our suppliers and the HKSAR Government in order to take the gBus to the next, wider level of implementation.

In addition, we are exploring other zero-emission technologies, including the battery-electric bus, which has made promising breakthroughs in extending its operating range. We are also planning to introduce diesel-electric hybrid double-deck buses with the funding support of the HKSAR Government.

We will continue to work with the HKSAR Government to explore the feasibility of implementing green bus technologies in areas that are especially suited to such services, such as the Kai Tak Redevelopment in Kowloon. With zero-emission buses being more operationally flexible and requiring significantly less capital investment than other zero-emission mass transport solutions such as railways, we will continue to work closely with our manufacturers and suppliers to develop zero-emission buses for Hong Kong's unique operating environment.

Communication with Stakeholders

Open communication is maintained with all our stakeholders, including passengers, manufacturers, the HKSAR Government, and political and community groups, through a wide range of effective channels.

PASSENGER LIAISON GROUP MEETINGS

Since 1993 and 2000 respectively, KMB and LWB have held Passenger Liaison Group ("PLG") Meetings to collect the opinions of passengers and better understand their expectations. In 2010, six KMB PLG meetings were held in the presence of Transport Department observers, with sessions covering the themes of regional bus services, frontline services and model passengers. In response to the suggestions received, a number of improvements and adjustments have been made to our bus operations. The 2010 KMB PLG Report was published and uploaded to the KMB website. LWB likewise held six PLG meetings in 2010, adopting a number of the suggestions made by participants in line with its aim of providing consistently high quality bus services for its customers.

The 2009 KMB PLG Report won the Award of Excellence in the Apex 2010 Awards for Publication Excellence organised by Communication Concepts.

CORPORATE SOCIAL RESPONSIBILITY CHARTER

KMB's Corporate Social Responsibility ("CSR") Charter was published with reference to the Global Reporting Initiative ("GRI") G3 Guidelines and the GRI sector supplement for Logistics and Transportation. The CSR Charter details KMB's corporate values, including its care for customers, contribution to the community, advocacy of business ethics, commitment to environmental protection and promotion of economic development.

KMB held press sessions to highlight its initiatives in the provision of safe and high quality services, including its "Service from the Heart" training programme and database of "Driving Tips in Special Attention Areas".

MEDIA OUTREACH

In 2010, regular press sessions and briefings promoting various green initiatives launched by KMB were held to increase public awareness of our work in environmental protection. The sessions covered the trial of Hong Kong's first supercapacitor bus (the "gBus"), the Euro V two-axle E-friendly bus, the Operations Communications Management System and the latest environmental achievements of the KMB bus fleet.

KMB also held press sessions to highlight its initiatives in the provision of safe and high quality services. These included the "Service from the Heart" training programme, the production of a new handbook on bus captain safe driving, the launch of creative games and competitions to promote KMB's safe driving culture and a database of "Driving Tips in Special Attention Areas". A number of KMB staff were featured in these press sessions, including some female bus captains and recipients of the Safe Driving Award and Outstanding Service Award. Other initiatives introduced through press briefings included the Traffic Operations Management System, the Lost Property Management System, the enhancement of passenger information facilities at bus termini, the provision of new uniforms for frontline staff and the retirement of the Dennis Lance bus model.

INFORMATION PUBLICATIONS

In 2010, the booklet "KMB's Efforts in Environmental Protection" was published, focusing on the environment-friendly measures the company has adopted on its buses, in its depots and at the corporate level. Additional features highlight KMB's contributions to the economic and social development of Hong Kong. The travel guide "Taking Route B1 with KMB" was also published to encourage travellers from China Mainland to use KMB's Route B1 and its extensive interchange network to visit various shopping and scenic spots in Hong Kong.

During the year, LWB distributed about 21,690 copies of various information leaflets, including Airbus Cards, which provide route and departure information for LWB's Airport routes, and the "LWB Bus Services for North Lantau and the Airport" leaflet. Leaflets targeting the tourist market, giving details of hotels and relevant transport information, have been distributed since June 2010.

The Managing Director speaks with the press at the launch of the gBus

KMB's well-received Brother Bus civic education campaign

CIVIC EDUCATION CAMPAIGNS

KMB's well received Civic Education Campaign, centred on a series of five 10-second civic education television programmes was broadcast between July and October 2010 with the theme "Travelling Hand in Hand". KMB used computer animation in the programmes for the first time, turning a KMB bus into a Hong Kong citizen, "Brother Bus". The programmes convey the themes of environmental protection, safety, and care for passengers by means of humorous dialogues between the main character and his friends. A promotional site featuring Brother Bus was launched on the KMB website to introduce the behind-the-scenes stories. The television campaign was supported by an outdoor advertising campaign, through which "Brother Bus" was able to disseminate his key messages to every corner of Hong Kong via bus body advertisements and posters at bus stops.

A campaign aimed at spreading the message of love and care in the community was launched in early 2010. Using bus body decorations and bus shelter posters, as well as year-planners and calendar posters, the "Caring Journey" campaign was able to reach out to the whole community.

The "Palm" series of outdoor advertisements, featuring a KMB bus travelling along the life line of an open hand, was launched as part of KMB's safety culture. Additionally, a series of three 15-second television programmes promoting passenger safety and comfort was shown on RoadShow's Multi-media On-board systems, focusing on travel situations commonly faced by passengers.

The success of KMB's Civic Education Campaign was reflected in its winning the Info-service category of the Most Popular TV Commercial Awards 2010, organised by Television Broadcasts Limited.

CORPORATE WEBSITES

The TIH website (www.tih.hk) keeps the public updated on the activities of the Group and its various businesses. The KMB website (www.kmb.hk) features the first map-based point-to-point bus route search function for a Hong Kong public bus company, allowing users to obtain details of relevant bus routes by clicking the desired origin and destination on a map. The website also offers a brand-new "Street View" feature for its online point-to-point route search function. By conducting a 360-degree photo tour of the street near the bus stop, passengers can familiarise themselves with the location of the bus stop in its surroundings, as if they were actually on the street. In addition, the design of the new KMB website has taken into account the capabilities and limitations of the most popular web browsers, as well as the requirements of special needs groups.

The excellence of the KMB website was recognised with the Gold Prize in the Web Care Award 2009, organised by the Internet Professional Association, and the Award of Excellence in the Website category of the Communicator Awards 2010, organised by the International Academy of the Visual Arts.

The KMB website's brand-new "Street View" feature enables users to conduct a 360-degree photo tour of the street near their chosen bus stop, so they can familiarise themselves with the location of the bus stop in its surroundings.

Community Outreach

Our proud tradition of community service and charity sponsorship was again recognised in 2010, with the Group being named Caring Company by the Hong Kong Council of Social Service and KMB being given the Award of Excellence by The Community Chest of Hong Kong.

The Group regularly sponsors and participates in community programmes such as the New Territories Walk for Millions, Dress Special Day, the Corporate Challenge Half Marathon and the Earth Partner programme.

COMMUNITY SPONSORSHIP

The Group regularly sponsors and participates in community programmes such as the New Territories Walk for Millions, Dress Special Day and the Corporate Challenge Half Marathon organised by The Community Chest of Hong Kong, in the Earth Partner programme organised by Friends of the Earth (HK), and in other events and activities organised by the Government, environmental groups, charities and professional groups.

In addition to industry-improvement campaigns and social awareness initiatives, the Group also sponsored various sporting and cultural events in 2010. Beneficiaries included the Hong Kong Sports Stars Awards, the Hong Kong Management Association Quality Award, the Hong Kong Awards for Industries, the Distinguished Transport Lecture Series of the University of Hong Kong, the Outward Bound Hong Kong Corporate Challenge, the Green Power Hike and the Volunteer Movement of the Social Welfare Department.

KMB's efforts in responsible corporate citizenship were recognised with the Tai Po District Civic Education Outstanding Enterprise Award for 2009-2010.

The Group's subsidiary, RoadShow Holdings Limited ("RoadShow"), holds 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 wide range of charities by broadcasting community service messages and charity appeals on its Multi-media On-board systems installed on public buses.

FRIENDS OF KMB

Founded in 1995, FRIENDS OF KMB, KMB's volunteer club, has a history of promoting social service, environmental protection and civic education. In 2010, its members from all walks of life voluntarily contributed over 14,000 hours of their time to community service. In addition to volunteering at children's homes and centres for the elderly and participating in various charity and environmental protection initiatives, FRIENDS OF KMB launched two new volunteer campaigns in 2009-10. To promote civic education and green living, a new service programme called "KMB Junior EP Workshop" was run in partnership with The Boys' and Girls' Clubs Association of Hong Kong ("BGCA"). To promote the spirit of "Good Passengers, Good Citizens", FRIENDS OF KMB also organised the "KMB Junior School" campaign with BGCA. FRIENDS OF KMB members visited BGCA centres in Hong Kong Island, Kowloon and the New Territories, telling children aged between six and twelve about bus history, road safety and their civic duties. More than 700 children participated in the event, and the outstanding performance of 28 participants was recognised at the graduation ceremony. In addition, a new project "Hong Kong, My New Home" was organised with the International Social Service Hong Kong Branch to assist new arrivals to Hong Kong. This project was named Champion in the 2009-10 Best Corporate Volunteer Service Project Competition organised by the Social Welfare Department. Since its inception 15 years ago, FRIENDS OF KMB has run up more than 100,000 hours of voluntary service. It received further recognition when it was first runner-up in the Highest Service Hour Award 2009 (Private Organisation – Best Customer Participation) organised by the Social Welfare Department.

Since its inception 15 years ago, FRIENDS OF KMB has run up more than 100,000 hours of voluntary service.

REACHING OUT TO PASSENGERS WITH SPECIAL NEEDS

The Group continues to provide support for events organised for passengers with special needs. On Senior Citizens' Day, 21 November 2010, KMB and LWB offered free rides to passengers aged 65 and over. To mark International Day of Persons with Disabilities, KMB and LWB provided disabled people and their escorts with free bus services on 21 November 2010.

The Group continues to invest in features which facilitate the travelling needs of our passengers with special needs. All new buses feature super-low floor step-free entrances, a wheelchair space, and a non-slip handrail near the entrance to guide passengers with special needs. The liquid crystal display ("LCD") destination display panels at the front of buses employ large letters, characters and numbers for easy visibility. In addition, KMB's entire fleet is equipped with the Electronic Bus Stop Announcement System, which delivers voice announcements in Cantonese, English and Putonghua as well as displaying the name of the next bus stop.

KMB and LWB participate in the Working Group on Access to Public Transport by People with Disabilities together with representatives from the Transport Department, other public bus operators and organisations for the disabled.

Two graduates from KMB's "Junior Bus Captain School"

The Group

REVIEW OF 2010 FINANCIAL PERFORMANCE

The Group's Results for the Year

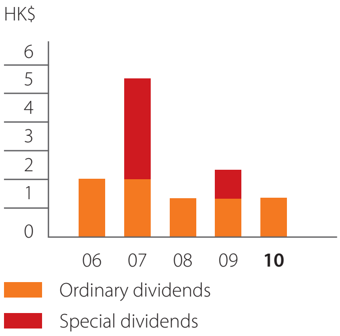
The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2010 was HK$866.9 million, an increase of HK$193.4 million compared to HK$673.5 million for 2009. Earnings per share increased from HK$1.67 for 2009 to HK$2.15 for 2010. The increase was mainly due to the recognition of the non-recurrent capital gain of HK$489.1 million arising from the disposal of 50% of the Group's interest in an industrial site at Kwun Tong in January 2010, but was partly offset by the reduction in the number of Manhattan Hill residential units sold during the year. If these non-recurrent profits from property sale and disposal were excluded, the profit attributable to equity shareholders for 2010 would have been HK$394.9 million, representing a decrease of 19.0% compared to 2009.

For the year ended 31 December 2010, the Group's turnover amounted to HK$6,686.8 million (2009: HK$6,842.2 million), a decrease of HK$155.4 million or 2.3% compared to 2009. The decrease was mainly due to the fact that Manhattan Hill residential units were mostly sold out by the end of 2009 and only one unit (2009: five) and three car parking spaces (2009: 13) were sold in 2010, resulting in total sales revenue of HK$29.3 million was recognised in 2010 (2009: HK$156.2 million). Furthermore, fare revenue generated from the Group's transport operations decreased by HK$124.4 million from HK$6,441.8 million for 2009 to HK$6,317.4 million for 2010, due mainly to the decline in ridership as a result of the shift of passengers to the expanded railway network. The turnover of the Group's media sales business increased by HK$90.5 million from HK$236.5 million for 2009 to HK$327.0 million for 2010. Such increase was mainly attributable to the growth of the bus exterior and interior advertising businesses in Hong Kong.

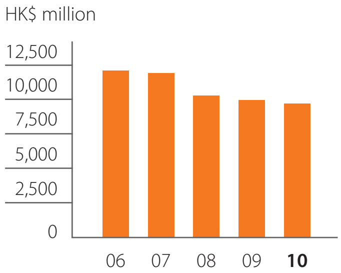
The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2010 are shown below:

	Turnover		Profit/(Loss) before taxation	
HK$ million	**2010**	2009	**2010**	2009
Franchised Public Bus Operations Division	**6,062.4**	6,200.0	**397.3**	474.3
Non-franchised Transport Operations Division	**256.7**	295.3	**26.7**	22.1
Property Holdings and Development Division	**42.5**	163.9	**493.6**	230.1
Media Sales Business Division	**325.2**	183.0	**(48.3)**	22.7
Financial Services Division	**–**	–	**23.3**	21.8
China Mainland Transport Operations Division	**–**	–	**33.8**	38.4
	6,686.8	6,842.2	**926.4**	809.4
Finance costs			**(6.6)**	(12.1)
Unallocated net operating income			**10.9**	2.5
Profit before taxation and non-controlling interests			**930.7**	799.8
Income tax			**(75.3)**	(117.7)
Non-controlling interests			**11.5**	(8.6)
Profit attributable to equity shareholders of the Company			**866.9**	673.5

Dividends per share

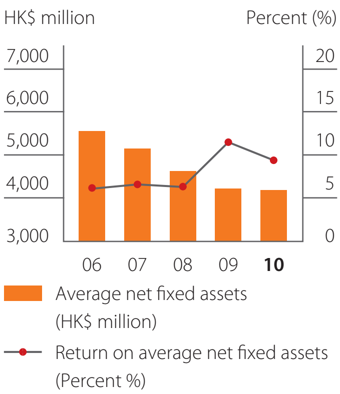


Total assets at 31 December

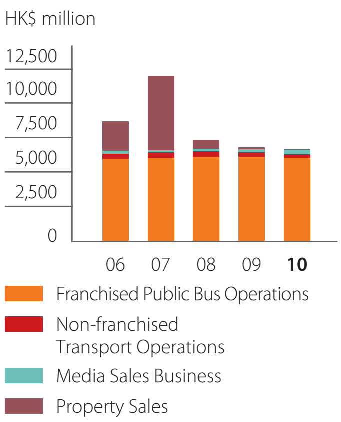


Return on average net fixed assets employed

(exclude property sales and disposal)



Group turnover



The Group's total operating expenses for the year amounted to HK$6,348.9 million (2009: HK$6,143.6 million), an increase of HK$205.3 million or 3.3% compared to 2009. The increase was mainly attributable to the increase in fuel and oil costs of HK$180.3 million as a result of the significant rebound of the international fuel oil prices in 2010. More detailed information in respect of the Group's individual business units is set out on pages 84 to 89 of this Annual Report.

The Group's share of profits of associates in 2010 amounted to HK$33.8 million (2009: HK$29.6 million), an increase of HK$4.2 million compared to 2009.

Income tax expense for the year amounted to HK$75.3 million (2009: HK$117.7 million). The breakdown of the income tax expense is set out in note 6(a) to the financial statements on page 157 of this Annual Report.

Segment information on the Group's main businesses is set out in note 13 to the financial statements on pages 162 to 164 of this Annual Report.

Dividend Policy

The Group has adopted a dividend policy which aims to maintain steady ordinary dividends that can be supported by the earnings performance of its various businesses, after taking into account the need to retain sufficient funds to keep the Group's total debt at a reasonable level, and to fund the growth of existing business operations as well as potential investments for future business expansion. In general, special dividends will only be considered and proposed in the event there are surplus funds arising from non-recurrent earnings of special projects such as the sale of the Manhattan Hill residential units.

The Board has recommended an ordinary final dividend of HK$1.05 per share (2009: an ordinary final dividend of HK$1.05 per share and a special dividend of HK$1.00 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 19 May 2011, the proposed final dividend, together with the interim dividend of HK$0.30 per share (2009: HK$0.30 per share) paid in October 2010, would result in a total dividend of HK$1.35 per share for 2010 (2009: HK$2.35 per share).

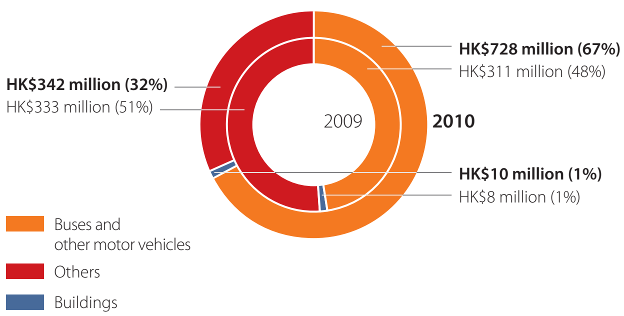
KEY CHANGES TO FINANCIAL POSITION

Fixed Assets and Capital Expenditure

The Group's fixed assets in the consolidated balance sheet mainly comprise buildings, buses and other motor vehicles, buses under construction, tools and others, investment properties, and interest in leasehold land. None of the Group's fixed assets was pledged or charged as at 31 December 2010.

In 2010, the Group incurred capital expenditure of HK$1,080.2 million (2009: HK$651.5 million). The increase was mainly attributable to the purchase of new buses for the franchised public bus operations. The breakdown of the capital expenditure is shown in note 14(a) to the financial statements on pages 165 and 166 of this Annual Report.

Capital expenditure



Current Assets and Liabilities

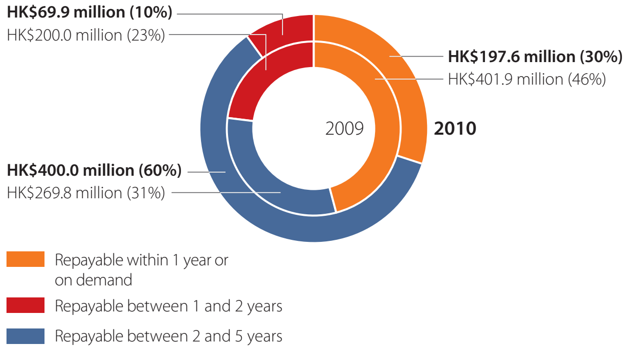
At 31 December 2010, the Group's total current assets amounted to HK$3,213.0 million (2009: HK$4,100.0 million), mainly comprising completed property held for sale of HK$45.2 million (2009: HK$42.1 million), accounts receivable of HK$256.6 million (2009: HK$384.6 million) and liquid funds of HK$2,800.7 million (2009: HK$3,553.1 million). Completed property held for sale represents the cost of the unsold residential units and car parking spaces of Manhattan Hill held at the balance sheet date. The Group's liquid funds at the end of 2010 were mainly denominated in Hong Kong Dollars, United States Dollars, Renminbi and British Pounds Sterling.

Total current liabilities at 31 December 2010 amounted to HK$1,450.2 million (2009: HK$1,646.1 million), which principally included the current portion of bank loans, accounts payable and other accruals. The decrease was mainly due to the repayment of bank loans.

Bank Loans and Overdrafts

At 31 December 2010, bank loans and overdrafts, all unsecured, was HK$667.5 million (2009: HK$871.8 million). The maturity profile of bank loans and overdrafts of the Group at 31 December 2010 and 31 December 2009 is shown in the chart below:

Debt maturity profile at 31 December



Net Cash

At 31 December 2010, the Group's net cash (i.e. cash and deposits at banks less total borrowings) amounted to HK$2,133.2 million (2009: HK$2,681.3 million). The details of the Group's net cash by currency at 31 December 2010 are given below:

Currency	Cash and deposits at bank in foreign currency million	Cash and deposits at bank HK$ million	Bank loans and overdrafts HK$ million	Net cash HK$ million
At 31 December 2010				
Hong Kong Dollars		**2,455.1**	**(667.5)**	**1,787.6**
United States Dollars	**25.0**	**194.1**	**–**	**194.1**
British Pounds Sterling	**1.7**	**21.0**	**–**	**21.0**
Renminbi	**110.2**	**130.5**	**–**	**130.5**
Total		**2,800.7**	**(667.5)**	**2,133.2**
At 31 December 2009				
Hong Kong Dollars		3,072.1	(871.8)	2,200.3
United States Dollars	39.9	309.4	–	309.4
British Pounds Sterling	1.7	21.5	–	21.5
Renminbi	132.8	150.1	–	150.1
Total		3,553.1	(871.8)	2,681.3

Capital Commitments

Capital commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2010 amounted to HK$2,438.4 million (2009: HK$940.7 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	2010	2009
Development of the Kwun Tong Site	**1,797.1**	–
Purchase of buses and other motor vehicles	**346.3**	582.5
Purchase of other fixed assets	**293.0**	356.7
Construction of depots and other depot facilities	**2.0**	1.5
Total	**2,438.4**	940.7

As at 31 December 2010, the Group had 385 (2009: 333) new buses on order for delivery in 2011.

FUNDING AND FINANCING

Liquidity and Financial Resources

The Group closely monitors its liquidity and financial resources to ensure that a healthy financial position is maintained so that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the demand 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 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. Through proper planning and close monitoring of the level of debts, the Group is able to effectively meet its funding and investment requirements. As at 31 December 2010, the Group had unutilised banking facilities totalling HK$1,329.8 million (2009: HK$720.0 million).

Gearing Ratio and Liquidity Ratio

The Group was in a net cash position as at 31 December 2010 and 31 December 2009. Its liquidity ratios at the year end of 2010 and 2009 are set out below:

	2010	2009
Liquidity ratio at 31 December *(the ratio of current assets to current liabilities)*	**2.2**	2.5

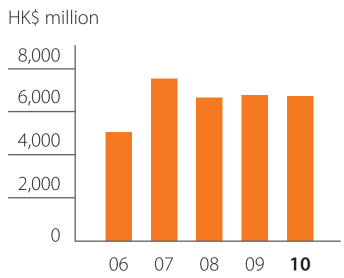
The Group's net cash as at 31 December 2010 amounted to HK$2,133.2 million (2009: HK$2,681.3 million). This decrease was mainly attributable to the decrease in liquid funds for the purchase of new buses, payment of dividends and for the repayment of bank loans.

Finance Costs and Interest Cover

For the year ended 31 December 2010, the finance costs incurred by the Group decreased to HK$6.6 million from HK$12.1 million for 2009. 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 2010 was 0.80%, a decrease of nine basis points compared to 0.89% for 2009.

For the year ended 31 December 2010, the Group's interest income exceeded the total finance costs by HK$30.0 million (i.e. a net interest income position) (2009: HK$25.1 million).

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 disposal of 50% of the Group's interest in an industrial site at Kwun Tong were the principal sources of our liquidity. For the year ended 31 December 2010, there was a net decrease in cash and cash equivalents of HK$34.7 million (2009: HK$1,708.7 million) and the sources are set out below:

HK$ million	2010	2009
Net cash generated from / (used in):		
• Operating activities	**1,315.1**	1,990.6
• Investing activities	**(188.8)**	(2,690.6)
• Financing activities	**(1,161.0)**	(1,008.7)
Total	**(34.7)**	(1,708.7)

In 2010, the net cash inflow generated from the operating and investing activities of the Group was HK$1,126.3 million (2009: cash outflow of HK$700.0 million). The main components included: (i) net cash generated from the operating activities of the franchised public bus operations of HK$1,126.6 million (2009: HK$1,346.8 million); (ii) cash proceeds received from the sales of Manhattan Hill residential units of HK$133.8 million (2009: HK$328.1 million); (iii) payment of capital expenditure of HK$1,035.2 million (2009: HK$618.9 million); and (iv) a decrease in bank deposits placements with original maturities of over three months of HK$743.0 million (2009: increase of HK$2,183.3 million).

During the year, the bank loans decreased by HK$200.0 million (2009: HK$435.9 million). Before the payment of dividends to equity shareholders in 2010, the net cash inflow for 2010 was HK$913.9 million, compared to net cash outflow of HK$1,163.7 million for 2009.

Details of the Group's cash flow movement for the year ended 31 December 2010 are set out in the consolidated cash flow statement on page 137 of this Annual Report.

Treasury Policies

The Group's activities are exposed to a variety of financial risks, including interest rates, foreign currencies, equity prices and fuel prices, as well as potential risks on credit, cash flow and liquidity. The overall risk management policies and practices of the Group thus focus on the unpredictability of financial markets and seek to minimise any adverse impact on the Group's performance.

Credit Risk

The Group's credit risk is mainly attributable to trade and other receivables, instalments receivable from property sales, loans to investee and debt investments. The Group's credit policy monitors exposure to these credit risks on an ongoing basis. In respect of trade and other receivables, credit evaluations are performed on all major customers requiring credit in excess of a certain specified amount. These evaluations focus on a customer's past history of making payments when due and ability to pay, and take into account information specific to the customer as well as relating the economic environment in which the customer operates. As regards instalments receivable from property sales, the properties sold serve as collateral. Debt investments are only made with counterparties with a high credit rating. The Group regularly reviews the recoverability status of receivables and conducts appropriate follow-up measures to minimise its exposure to credit risk. The Group also performs regular ageing analysis on receivables and monitors any credit risk associated with these receivables. The Group has no significant concentrations of credit risk and provides no guarantees to third parties which would expose the Group 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 become due, which is caused by mismatches between assets and liabilities in terms of size and/or timing.

The Group has not been exposed to significant cash flow and liquidity risks since maintaining an adequate level of cash reserves resulting from the sale of the Manhattan Hill residential units. Under normal circumstances and barring a drastic upsurge of fuel oil prices for a prolonged period of time, the cash flow and liquidity risk of the Group's major subsidiary, KMB, which arranges its own financing, will be low as its revenue is essentially received on a cash basis. However, if fuel prices continuously stay at a high level and the expected fare increase magnitude and timing are insufficient to mitigate the escalating costs, this will put pressure on the gearing ratio of KMB. The Group will continue to review its strategy to ensure that cost-efficient funding is available in line with the unique operating environment of each of its subsidiaries.

Interest Rate Risk Management

The Group manages its exposure to interest rate risk in a prudent manner by means of 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 2010, all of the Group's borrowings were denominated in Hong Kong Dollars and on a floating interest rate basis, enabling the Group to take advantage of the very low interest rates in 2010. The Group regularly reviews its strategy on interest rate risk management in the light of prevailing market conditions and devises suitable strategies to cope with its risk exposure. The Group's major subsidiary, KMB, has held a good and stable "A" credit rating from Standard & Poor's since 14 January 2002. With this credit rating, KMB has been able to obtain the funding it requires at favourable borrowing rates from financial institutions.

Foreign Currency Risk Management

The Group is exposed to foreign currency risk, being the risk of loss due to adverse movements in exchange rates relating to investments and transactions denominated in foreign currencies. The Group's foreign currency exposure primarily arises through purchases of buses and overseas motor vehicle components, which are denominated in British Pounds Sterling (GBP). The currency giving rise to this risk is primarily British Pounds Sterling. Although foreign currency exposure does not pose a significant risk to the Group, as the levels of foreign currency assets and liabilities are low compared to its total asset base, the Group will continue to monitor foreign exchange movements and enter into forward foreign exchange contracts in a strategic manner when opportunities arise to hedge foreign currency fluctuations. The Group entered into a number of forward foreign exchange contracts to hedge approximately 56% (2009: 27%) of the total GBP requirement for the year 2010. At 31 December 2010, the Group had no forward foreign exchange contracts outstanding.

Equity Price Risk

The Group's risk exposure to equity price changes arising from investment in equity securities is considered to be insignificant, as the carrying amount of such investments is insignificant compared to the total assets of the Group.

Fuel Price Risk

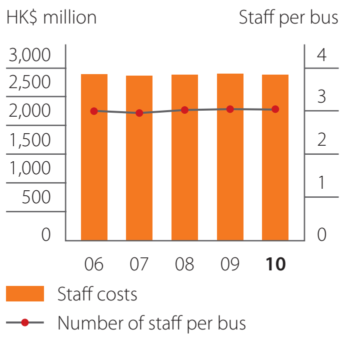
Fuel price movements can have a significant impact on the results of the Group's core franchised public bus businesses. The Group has carefully considered the pros and cons of entering into fuel price hedging arrangements and has concluded that fuel price hedging would be equally as risky as not hedging, and would not necessarily result in a better financial position for the Group in the long term. As a result, the Group did not enter into any fuel oil hedging contracts in 2010. To address the fuel price risk effectively, the Group's two major subsidiaries, KMB and LWB, will consider applying for fare increases when the impact of the surge in fuel oil prices is significant and will rigorously explore with the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") other measures to mitigate this impact. Accordingly, KMB and LWB submitted applications to the Transport Department of the HKSAR Government on 30 July 2010 for fare increases of 8.6% and 7.4% respectively. These applications are still being considered by the Government. The Group will continue to monitor the fuel price movements and will constantly review its strategy on fuel price risk management.

EMPLOYEES AND REMUNERATION POLICIES

Transport operations are labour intensive and staff costs accounted for a substantial portion of the total operating cost of the Group. The Group closely monitors its headcount and staff remuneration against productivity and market trends. For the year ended 31 December 2010, total remuneration of employees of the Group (including employees of the Group's subsidiary companies on the China Mainland) amounted to HK$2,967.1 million (2009: HK$2,988.8 million). As a result of natural attrition and strict control of headcount, the number of employees of the Group at the year end of 2010 was 12,863, a decrease of 1.6% compared to 13,074 at the year end of 2009.

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	**2010**	2009
Turnover	HK$ million	**5,829.7**	5,928.6
Gain on disposal of building and interest in leasehold land	HK$ million	**105.7**	980.0
Other net income	HK$ million	**114.0**	19.3
Deemed income/(loss) recognised in respect of defined benefit retirement plans	HK$ million	**74.3**	(36.4)
Total operating expenses	HK$ million	**(5,648.2)**	(5,465.6)
Finance costs	HK$ million	**(5.6)**	(9.5)
Profit before taxation	HK$ million	**469.9**	1,416.4
Income tax expense	HK$ million	**(58.9)**	(71.9)
Profit after taxation (including gain on disposal of building and interest in leasehold land)	HK$ million	**411.0**	1,344.5
Profit after taxation (excluding gain on disposal of building and interest in leasehold land)	HK$ million	**305.3**	364.5
Net profit margin (including gain on disposal of building and interest in leasehold land)		**7.1%**	22.7%
Net profit margin (excluding gain on disposal of building and interest in leasehold land)		**5.2%**	6.1%
Passenger volume	Million passenger trips	**946.7**	965.2
Kilometres travelled	Million km	**309.7**	320.8
Staff number at year-end	Number of staff	**11,674**	11,870
Fleet size at year-end	Number of buses	**3,822**	3,880
Total assets value	HK$ million	**4,826.5**	4,801.4

The profit after taxation of KMB for the year amounted to HK$411.0 million, which included (i) a non-recurrent non-cash capital gain of HK$105.7 million arising from the transfer of an industrial site at Tuen Mun to a fellow subsidiary (2009: a non-recurrent non-cash capital gain of HK$980.0 million arising from the transfer of an industrial site at Kwun Tong to two fellow subsidiaries) under the Group's Property Holdings and Development Division; and (ii) a non-cash deemed income of HK$74.3 million (2009: deemed loss of HK$36.4 million) determined by independent actuaries in respect of two defined benefit staff retirement schemes operated by KMB in accordance with Hong Kong Accounting Standard 19, Employee Benefits. If these non-cash items were excluded, KMB's profit after taxation for 2010 would have been HK$243.3 million, a decrease of HK$151.6 million or 38.4% compared to HK$394.9 million for 2009.

KMB's fare revenue for 2010 amounted to HK$5,723.7 million, a decrease of HK$97.6 million or 1.7% compared to HK$5,821.3 million for 2009. Total ridership for 2010 was 946.7 million passenger trips (a daily average of 2.59 million passenger trips), a decrease of 1.9% compared to 965.2 million passenger trips (a daily average of 2.64 million passenger trips) for 2009. Such decreases were mainly attributable to the expansion of the railway network. Advertising revenue for the year amounted to HK$103.7 million, a decrease of 1.2% compared with HK$105.0 million for the previous year.

Total operating expenses for 2010 amounted to HK$5,648.2 million, representing an increase of HK$182.6 million compared to HK$5,465.6 million for 2009. The increase was mainly due to the year-on-year increase in fuel costs by HK$184.5 million or 21.9% as a result of the significant rebound of the international fuel oil prices.

The average price of Singapore 0.5% Sulphur Gas Oil ("Gasoil"), on which the prices of Near Zero Sulphur Diesel used by our franchised buses are based, increase by 29.7% from US$69.1 per barrel in 2009 to US$89.6 per barrel in 2010. Since the increase in fuel costs was largely beyond KMB's control and in order to maintain the financial viability and the existing service levels of its bus operations, KMB submitted an application to the Transport Department of the HKSAR Government on 30 July 2010 for a fare increase of 8.6%, which is still being considered by the Government.

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.

increase in travel demand to and from the Hong Kong International Airport as a result of the economic recovery, and the holding of a one-off, special exhibition event "Animated version of Riverside Scene at Qingming Festival" at the AsiaWorld-Expo in November 2010 which attracted a lot of visitors.

LWB's total operating expenses for the year amounted to HK$310.3 million, an increase of HK$18.2 million compared to HK$292.1 million for 2009. The increase was mainly due to the rise in fuel costs of HK$12.1 million or 25.9% as a result of the surge of Gasoil prices, as well as the increase in staff costs, tunnel toll charges and cost of spare parts due to inflationary pressure. To address the issue on rising operating costs and to maintain the financial viability of

Long Win Bus Company Limited ("LWB")

	Unit	**2010**	2009
Turnover	HK$ million	**336.9**	326.9
Other net income/(losses)	HK$ million	**1.3**	(3.5)
Deemed loss recognised in respect of defined benefit retirement plans	HK$ million	**(0.3)**	(3.0)
Total operating expenses	HK$ million	**(310.3)**	(292.1)
Finance costs	HK$ million	**(0.4)**	(0.4)
Profit before taxation	HK$ million	**27.2**	27.9
Income tax expense	HK$ million	**(4.4)**	(4.5)
Profit after taxation	HK$ million	**22.8**	23.4
Net profit margin		**6.8%**	7.2%
Passenger volume	Million passenger trips	**29.4**	28.2
Kilometres travelled	Million km	**25.6**	25.8
Staff number at year-end	Number of staff	**458**	457
Fleet size at year-end	Number of buses	**166**	167
Total assets value	HK$ million	**288.7**	299.2

The profit after taxation of LWB for the year amounted to HK$22.8 million, representing a decrease of HK$0.6 million or 2.6% compared with HK$23.4 million for the previous year.

LWB's fare revenue for 2010 amounted to HK$336.6 million, representing an increase of HK$11.5 million or 3.5% compared to HK$325.1 million for 2009. During the year, LWB recorded a total ridership of 29.4 million passenger trips (a daily average of 80,579 passenger trips), an increase of 4.4% compared to 28.2 million passenger trips (a daily average of 77,151 passenger trips) in 2009. The increase in ridership was mainly due to the

its bus operations, LWB submitted an application to the Transport Department of HKSAR Government for a fare increase of 7.4% on 30 July 2010, which is still being considered by the Government.

NON-FRANCHISED TRANSPORT OPERATIONS

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK$23.0 million for 2010, representing an increase of HK$4.1 million or 21.7% compared to HK$18.9 million for 2009. Turnover decreased by 13.1% from HK$295.3 million for 2009 to HK$256.7 million for 2010.

Financial Review

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")

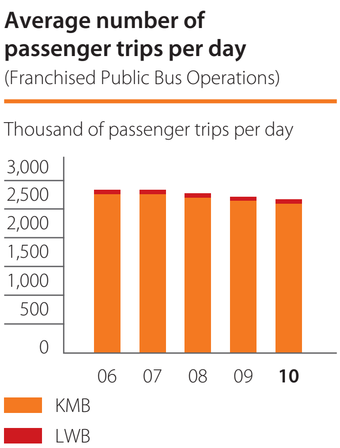
The SBH Group is a leading non-franchised bus operator in Hong Kong, which provides customised high quality transport services to a wide range of customers, including large residential estates, shopping malls, major employers, theme parks, deluxe hotels, travel agents and schools, as well as the general public through chartered hire services.

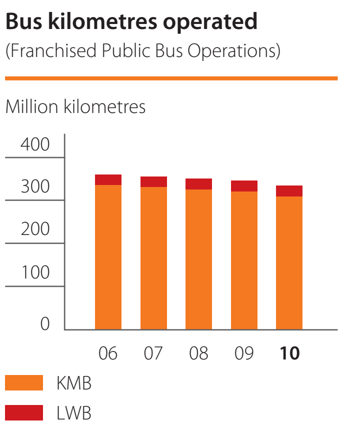
Turnover of the SBH Group for the year amounted to HK$216.7 million, an increase of HK$5.9 million or 2.8% compared to HK$210.8 million for 2009. The increase was mainly attributable to the improvement in the economic environment and the strengthening of SBH Group's market share in the residential service segment.

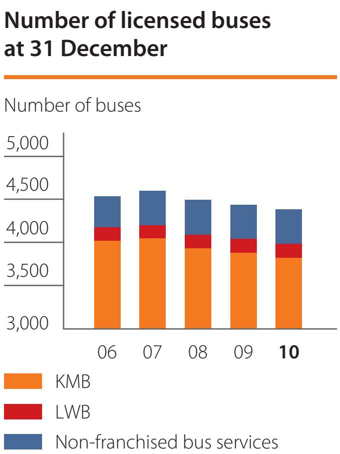
As at 31 December 2010, the SBH Group had a fleet of 382 buses (2009: 377 buses). During the year, 38 buses (2009: 38 buses) were purchased for business expansion, service enhancement and fleet replacement.

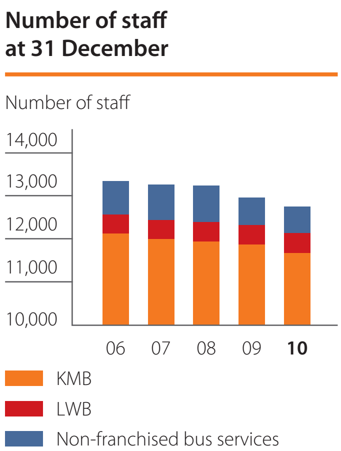
New Hong Kong Bus Company Limited ("NHKB")

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) serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang（皇崗）in Shenzhen. NHKB's ridership has been decreasing since 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. For 2010, NHKB's total patronage was 5.6 million passenger trips (an average monthly ridership of 0.46 million passenger trips), a decrease of 3.5% compared to 5.8 million passenger trips (an average monthly ridership of 0.48 million passenger trips) for 2009. At the end of 2010, NHKB operated a total of 15 buses, the same number as at the end of 2009.









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 residential complex in Lai Chi Kok, West Kowloon, comprising 1,115 residential units with a total gross floor area of over one million square feet.

Up to the end of 2009, 1,112 residential units of Manhattan Hill with a total saleable gross floor area ("saleable GFA") of about 1,186,100 square feet (representing 99.2% of the total saleable GFA) and 367 car parking spaces had been sold. During 2010, an additional residential unit with a total saleable GFA of about 2,300 square feet and three car parking spaces were sold, generating an after-tax profit of HK$22.2 million. However, two residential units with a total saleable GFA of about 4,700 square feet, which were sold in previous years but still pending for completion of transactions, were foreclosed during 2010. As disclosed in note 4(b) to the financial statements on page 155 of this Annual Report, such foreclosures have resulted in a reversal of after-tax profits previously recognised of HK$35.0 million in 2010 and has completely offset the profit generated from the current year sales, leading LCKPI to record an after-tax loss of HK$17.0 million for 2010 (2009: an after-tax profit of HK$186.1 million). These two foreclosed residential units were subsequently resold in January 2011 at a profit, which will be recognised in 2011.

As at 31 December 2010, the carrying value of completed property held for sale (classified under current assets on the consolidated balance sheet), comprising four residential units and 27 car parking spaces, amounted to HK$45.2 million (2009: HK$42.1 million).

There were no outstanding bank loans in respect of the construction of Manhattan Hill as at 31 December 2010 (2009: Nil).

LCK Commercial Properties Limited ("LCKCP")

LCKCP, a wholly-owned subsidiary of the Group, is the owner of shopping mall, "Manhattan Mid-town". Positioned as a high-end retail complex, the 50,000 square feet shopping mall complements the image of Manhattan Hill, providing Manhattan Hill residents, as well as local householders and office staff, with high quality retail facilities including a mix of shops and restaurants. The mall was opened in the second quarter of 2009 and was fully leased out at the end of 2010, generating additional rental income for the Group.

As at 31 December 2010, the carrying value of the shopping mall (classified under investment property on the consolidated balance sheet), which was stated at cost less accumulated depreciation and impairment losses, amounted to HK$110.9 million (2009: HK$115.9 million).

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 mainly for its own use and partially for rental purposes, and was stated at cost less accumulated depreciation and impairment losses in the amount of HK$35.2 million on the consolidated balance sheet as at 31 December 2010 (2009: HK$35.9 million).

KT Real Estate Limited ("KTRE") and KT Properties Investment Limited ("KTPI")

At the end of 2009, KTRE and KTPI, which are indirect wholly-owned subsidiaries of the Company, held the industrial site situated at Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kowloon, Hong Kong (the "KT Site") in equal shares as tenants in common. At the special general meeting of the Company held on 21 January 2010, the independent shareholders of the Company approved the disposal of KTPI's 50% interest in the KT Site to Turbo Result Limited ("TRL"), a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"), at a consideration of HK$490.0 million, which was determined by reference to the valuation performed by Knight Frank Petty Limited, an independent property valuer. Following the completion of the aforesaid disposal on 25 January 2010, the KT Site was owned by KTRE and TRL in equal shares as tenants in common, and a gain on disposal of 50% interest in the KT Site of HK$489.1 million was recognised in the consolidated income statement of the Company for the year ended 31 December 2010.

Pursuant to an agreement dated 11 December 2009, KTRE, TRL, the Company and SHKP have agreed to jointly develop the KT Site for non-residential (excluding hotel) purposes. The project costs, estimated to be HK$3.6 billion, shall be borne by KTRE and TRL in equal shares. On 26 April 2010, Sun Hung Kai Real Estate Agency Limited ("SHKRE"), a wholly-owned subsidiary of SHKP, was appointed as project manager to ensure that quality levels are of high standards throughout the development of the KT Site. The project manager is currently handling matters relating to the modification of the lease and the submission of the building plan. Site demolition and building work will start once the relevant statutory approvals have been granted.

The capital commitment outstanding and not provided for as at 31 December 2010 was HK$1,797.1 million (2009: Nil).

MEDIA SALES BUSINESS

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

HK$ million	2010	2009
Turnover	325.2	196.3
Other revenue	31.2	26.8
Total operating revenue	356.4	223.1
Total operating expenses	(295.3)	(186.3)
Impairment loss of unlisted equity securities	(110.0)	(9.8)
Share of loss of associate	–	(4.4)
(Loss)/Profit before taxation	(48.9)	22.6
Income tax expense	(8.3)	(4.4)
(Loss)/Profit after taxation	(57.2)	18.2
Non-controlling interests	(4.4)	(4.2)
(Loss)/Profit attributable to equity shareholders	(61.6)	14.0

For the year ended 31 December 2010, the RoadShow Group reported a total operating revenue of HK$356.4 million (2009: HK$223.1 million) and a loss attributable to equity shareholders of HK$61.6 million (2009: profit of HK$14.0 million). The loss was mainly attributable to the provision for impairment loss of approximately HK$110.0 million (2009: HK$9.8 million) made by the RoadShow Group on the carrying value of the unlisted equity interest in AdSociety Daye Advertising Company Limited based on Hong Kong Accounting Standard 39 issued by the Hong Kong Institute of Certified Public Accountants.

The revenue generated from the RoadShow Group's Hong Kong media sales services in 2010 amounted to HK$324.1 million, an increase of 67.0% compared to HK$194.1 million in 2009. The increase was mainly attributed to the bus exterior advertising business, which commenced in November 2009, the growth in the bus interior advertising business following the upgrading of the bus television broadcasting system, and the enhancement of the RoadShow Group's unique marketing services to advertisers through the integrated 3-in-1 media (bus-television, bus-body and in-bus) platform on the road.

The total operating expenses of the RoadShow Group for 2010 amounted to HK$295.3 million, an increase of 58.5% compared to HK$186.3 million for 2009, which is in line with the growth of the media sales business.

Further information relating to the RoadShow Group is available in its 2010 final results announcement and annual report.

CHINA MAINLAND TRANSPORT OPERATIONS

As at 31 December 2010, the Group's total interests in associates within the China Mainland Transport Operations Division amounted to HK$640.3 million (2009: HK$612.0 million). Such investments are mainly related to the operation of passenger public transport services in Shenzhen (深圳), and taxi and car rental services in Beijing (北京). For the year ended 31 December 2010, the Group's China Mainland Transport Operations Division reported a profit of HK$33.8 million (2009: HK$38.4 million).

Summary of Investments in China Mainland Transport Operations as at 31 December 2010

	Beijing	Shenzhen
Nature of business	Taxi and car rental services	Bus and taxi hire services
Form of business structure	Sino-foreign joint stock company	Sino-foreign joint stock company
Operation commenced	April 2003	January 2005
The Group's investment cost (RMB million)	80	387
The Group's effective interest	31.38%	35%
Fleet size at year-end 2010 (Number of vehicles)	4,437	5,248
Bus passenger volume (Million trips)	N/A	932.5
Bus kilometres travelled (Million km)	N/A	392.1
Staff number at year-end 2010	4,656	21,950

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 (equivalent to HK$75.5 million at the investment date) in BBKT, representing an equity interest of 31.38%. BBKT primarily engages in taxi hire and car rental businesses with a fleet of around 4,437 vehicles and 4,656 employees. It made steady progress and continued to record a profit in 2010.

Shenzhen

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) ("SBG"), which commenced operation 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 (equivalent to HK$363.9 million at the investment date) 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), with about 5,248 vehicles serving 251 routes. In 2010, SBG continued to make steady progress and recorded a ridership of 932.5 million passenger trips, representing an increase of 8.1% compared to 862.8 million passenger trips in 2009.

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

(a) KT REAL ESTATE LIMITED ("KTRE")

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

On 26 April 2010, KTRE, a wholly-owned subsidiary of the Company, and Turbo Result Limited ("TRL"), a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"), who are the owners (the "Owner") of Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kowloon, Hong Kong (the "KT Site") as tenants in common, entered into a project management agreement (the "Project Management Agreement") with SHKRE, a wholly-owned subsidiary of SHKP, pursuant to which SHKRE was appointed as the project manager for the development of the KT Site (the "Project"). The appointment took effect from 26 April 2010 until the date of expiry of (i) the latest defects liability period under contracts entered into in respect of the Project; or (ii) the date of issuance of the architect's final certificate under the main building contract for the Project, whichever shall be the later. Under the Project Management Agreement, KTRE and TRL shall pay SHKRE a project management fee and a lease modification fee in equal shares. The project management fee shall be a sum equivalent to whichever is the higher of (1) HK$20,000,000; and (2) the lower of (a) 1% of the costs, charges and expenses (excluding any land premium payable to the Government for modification of the Government Grant, the project management fee and the lease modification fee payable to SHKRE and the expenses incurred by SHKRE to employ personnel to carry out its services) incurred in respect of the Project (the "Project Costs") and (b) HK$25,000,000, which fee shall be paid by instalments according to the progress of the development as set out in the Project Management Agreement. The project management fee is calculated on the presumption of a maximum gross floor area of 1,150,000 square feet as permitted under the lease terms of the Government Grant to be modified. In the event that bonus plot ratio is obtained under the Building (Planning) Regulations resulting in an increase in the aforesaid maximum gross floor area and such increased bonus plot ratio is utilised for the Project, the project management fee shall be revised to be a sum equivalent to the higher of (1) HK$20,000,000; and (2) the lower of (a) 1% of the Project Costs and (b) HK$26,000,000. In addition, the Owner shall pay to SHKRE a lease modification fee for the handling and obtaining of the modification of the lease terms of the Government Grant in the sum of the lower of (1) HK$3.2 for each square foot of the permitted maximum gross floor area as approved under the lease modification; and (2) HK$3,840,000, of which HK$1,840,000 shall be payable upon the signing of the Project Management Agreement and the balance thereof shall be payable upon payment of the balance of the premium to the Government for modification of the lease terms of the Government Grant. In 2010, project management fee of HK$2,000,000 and lease modification fee of HK$920,000 were paid by KTRE (being half share of the respective fees) to SHKRE. Particulars of these connected transactions were disclosed in the announcement of the Company dated 26 April 2010.

CONTINUING CONNECTED TRANSACTIONS

(b) The Group

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

As detailed in note 36(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 "2010 Insurance Arrangements"), and such insurance policies took effect from 1 January 2010 for a period of one year. The transactions under the 2010 Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2010, the annual insurance premium paid and payable by the Group to SHKPI under the 2010 Insurance Arrangements amounted to HK$67,869,000. On 24 November 2010, the Group further entered into various insurance arrangements (the "2011 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 2011 Insurance Arrangements commenced on 1 January 2011 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 2011 Insurance Arrangements for the financial year ending 31 December 2011 will not exceed HK$77,250,000. The transactions under the 2010 Insurance Arrangements and the 2011 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 continuing connected transactions were disclosed in the announcements of the Company dated 20 November 2009 and 24 November 2010.

(c) Lai Chi Kok Properties Investment Limited ("LCKPI")

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

LCKPI entered into a Letting and Sales Agency Agreement with SHKRE, a wholly-owned 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 36(a)(iv) to the financial statements on page 196 of this Annual Report, the letting and sales agency fees recoverable from SHKRE by LCKPI due to the foreclosure of two residential units for the year ended 31 December 2010 amounted to HK$127,000. The aggregate amount of letting and sales agency fees paid and payable under the Original Agreement and the Letter Agreement up to 31 December 2010 was HK$64,122,000. Particulars of these continuing connected transactions were disclosed in the announcements of the Company dated 21 July 2003 and 16 August 2007.

(d) Bus Focus Limited ("Bus Focus")

Service Agreement with JCDecaux Cityscape Limited ("JCDecaux Cityscape") (formerly known as JCDecaux Texon Limited)

On 12 November 2008, Bus Focus, an indirect non-wholly owned subsidiary of the Company and RoadShow Holdings Limited ("RoadShow"), and JCDecaux Cityscape, 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 JCDecaux Cityscape 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 2010:

(a) Management fee payable by Bus Focus to JCDecaux Cityscape in the amount of HK$16,738,000; and

(b) Shortfall of guarantee rental receivable by Bus Focus from JCDecaux Cityscape in the amount of HK$7,474,000.

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, SHKRE and JCDecaux Cityscape 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, SHKRE and JCDecaux Cityscape 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 2010 did not exceed the cap amount of HK$72,000,000 as disclosed in the announcement dated 20 November 2009;

3. the agency fees for the year ended 31 December 2010 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 2009;

4. the agency fees for the year ended 31 December 2010 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; and

5. the management fee paid and payable by Bus Focus to JCDecaux Cityscape and the shortfall of guarantee rental received and receivable by Bus Focus from JCDecaux Cityscape under the Service Agreement for the year ended 31 December 2010 did not exceed the cap amount of HK$18,000,000 and HK$47,100,000 respectively as disclosed in the Joint Announcement of the Company and RoadShow dated 13 November 2008.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified letters containing their findings and conclusions in respect of the continuing connected transactions set out in paragraphs (b), (c) and (d) above in accordance with Rule 14A.38 of the Listing Rules. Copies of the auditor's letters have been provided by the Company to The Stock Exchange of Hong Kong Limited.

Corporate Governance Report

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

CORPORATE GOVERNANCE FRAMEWORK

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

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

- Optimal board composition, a professional management team, sound management reporting systems, stringent internal control procedures in place to ensure that the Directors and management are able to make informed decisions in the best interests of our stakeholders;

- Effective internal audit and control systems to safeguards against risk, protect the Group's assets and ensure that its policies and management practices are executed as planned, with any irregularities, deviations and abuses swiftly identified and corrected; and

- Effective communication channels to ensure that the Group's affairs are made known to shareholders, customers and other stakeholders.

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

CORPORATE GOVERNANCE PRACTICES

The Group is constantly mindful of the recommended corporate governance practices articulated in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The CG Code, which provides a comprehensive guide by means of which listed issuers in Hong Kong can evaluate and improve their corporate governance practices, provides two levels of recommendations: "Code Provisions", with which issuers are expected to comply but from which they may choose to deviate provided they give considered reasons for non-compliance; and "Recommended Best Practices", which are provided for guidance only.

The corporate governance principles mainly cover the following areas:

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

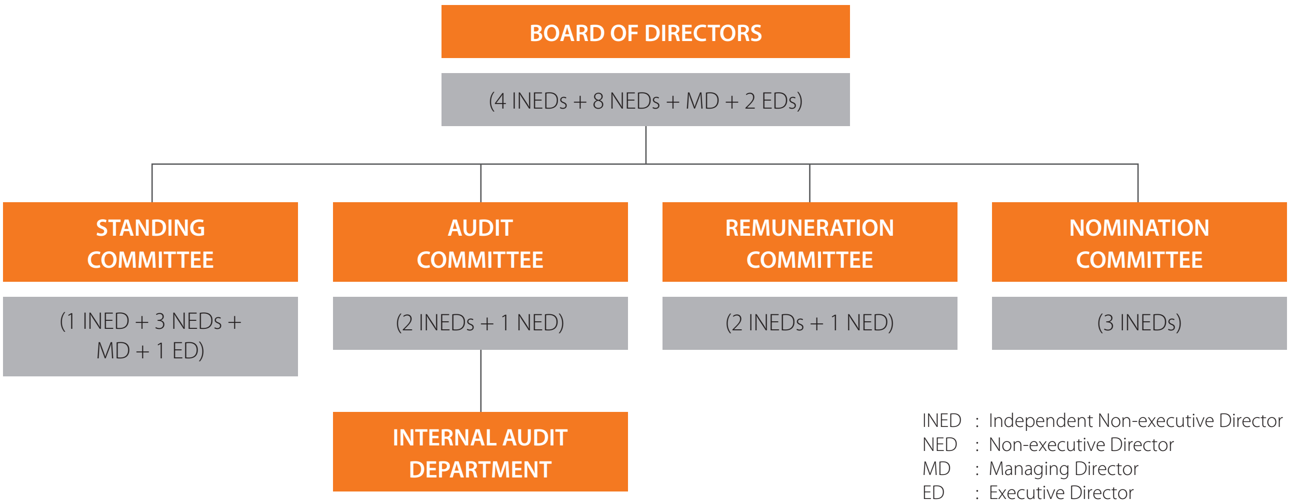
The Company fully complied with and in certain areas exceeded the Code Provisions set forth in the CG Code throughout the year ended 31 December 2010, and closely observed the continuing listing obligations enhanced and revised from time to time by the Listing Rules. In summary, the following are the major areas in which the Company exceeds or meets the Code Provisions and Recommended Best Practices of the CG Code:

Exceed	Meet	Particulars
✓		We have established a comprehensive Corporate Governance Framework to ensure that the best corporate governance practices are identified and conducted throughout the Group in the best interests of its stakeholders.
✓		The Board meets once a month to discuss major corporate strategic and operational issues.
✓		The Chairman and the Managing Director have no financial, business, family or other relationship with each other. This ensures the independence of key personnel holding their distinctive role separately.
✓		All members of the Nomination Committee are Independent Non-executive Directors. Their independence is essential for identifying candidates of the highest calibre in an objective way and in the best interests of the Company and its shareholders.
✓		We have drawn up a written Code of Conduct ("Code") applicable to all Directors and staff. The Code emphasises ethical value and conscience in business activities.
✓		In addition to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, we have a Code of Conduct and a Staff Handbook to regulate the handling and dissemination of price-sensitive information.
✓		Our Internal Control and Risk Management Framework conforms with COSO and relevant ISO Standards, which provide a comprehensive and sophisticated way to guide our good corporate governance practices.
✓		We issue a separate Remuneration Report which sets out the remuneration policy, terms of reference and methodologies adopted for determination of the remuneration of directors.
✓		We use Higgs Methodology and conduct a desk-top survey on the remuneration of the directors of 19 major companies listed on The Stock Exchange of Hong Kong Limited as the base for determining the Directors' level of remuneration.
	✓	We adopt all Code Provisions of the CG Code.

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

BOARDROOM FRAMEWORK

The overall management of the Company's business is vested in the Board, currently consisting of 15 members, of whom four are Independent Non-executive Directors, eight are Non-executive Directors and three are Executive Directors (including the Managing Director and the Deputy Managing Director). Daily management of the Group's business is delegated to the senior management of the Company under the supervision of four designated Board Committees (namely, the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee). The Company's boardroom framework is outlined below:



- Dividend policy
- Major financing arrangements
- Material acquisitions and disposals
- Connected transactions
- Ensuring the integrity of the Group's accounting and financial reporting system and public announcements
- Internal control
- Risk management
- Overseeing the management of relationships with stakeholders, including shareholders, customers, the HKSAR Government, suppliers, employees and the community.

BOARD OF DIRECTORS

Composition of the Board of Directors

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

The primary responsibility of the Board is to oversee the following key areas:

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

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

The Independent Non-executive Directors (whose designations as Independent Non-executive Directors are explicity given in all corporate communications of the Company) contribute to ensuring that major issues and connected transactions are subject to objective and thorough consideration by the Board and that the interests of the shareholders as a whole are fully and impartially taken into consideration. Currently having four Independent

Non-executive Directors, the Company complies with the requirements of Rules 3.10(1) and (2) of the Listing Rules that every listed company should have at least three Independent Non-executive Directors, one of whom must have appropriate professional qualifications or accounting or related financial management expertise.

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

Obligations of Directors

Securities Transactions by Directors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct to regulate the Directors' securities transactions concerning the Company. All Directors, when asked by the Company, confirmed that they had complied with the required standard of dealings set out in the Model Code regarding their securities transactions throughout 2010.

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

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

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

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

Details of the shareholding interests held by the Directors in the Company and its indirect non-wholly-owned subsidiary, RoadShow Holdings Limited, as at 31 December 2010 are set out on pages 123 to 124 of this Annual Report.

Code of Conduct

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

Induction Briefings for Directors

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

Appointment, Re-election, Cessation and Rotation of Directors

A person may be appointed a member of the Board at any time either by the shareholders in general meeting or by the Board to fill a casual vacancy on the Board upon recommendation by the Nomination Committee of the Company. All Directors are appointed for a specific term and are subject to retirement by rotation and to re-election at the Company's annual general meeting at least once every three years. Directors appointed to fill casual vacancies of the Board are subject to election by the shareholders of the Company at the following general meeting after their appointment.

Appointment and Cessation of Directors

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

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

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

Rotation of Directors

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

At the conclusion of the forthcoming annual general meeting to be held on 19 May 2011 (the "2011 AGM"), the Hon Sir Sze-yuen CHUNG, Mr NG Siu Chan, Dr John CHAN Cho Chak, Mr SIU Kwing-chue, Gordon, Mr John Anthony MILLER and Mr Evan AU YANG Chi Chun will retire as Directors of the Company. All these retiring Directors, being eligible, have been nominated by the Nomination Committee and recommended by the Board to stand for re-election at the 2011 AGM. The election of each Director will be subject to the vote of shareholders by a separate resolution.

Distinctive Roles of the Chairman and the Managing Director

The posts of Chairman and Managing Director are held separately by The Hon Sir Sze-yuen CHUNG, an Independent Non-executive Director, and Mr Edmond HO Tat Man, an Executive Director, respectively, neither of whom have any financial, business, family or other relationship with each other. This separation ensures that there is a clear distinction between the roles and responsibilities of the Chairman and the Managing Director so as to achieve a balance of power and authority.

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

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

Responsibilities of the Chairman

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

Responsibilities of the Managing Director

- Developing, recommending and implementing the Group's policies and strategies reflecting long-term objectives and priorities approved by the Board

- Assuming full accountability to the Board for all aspects of company operations and performance
- Maintaining ongoing dialogue with the Board Chairman and other Directors
- Leading, building and developing an effective executive team
- Putting adequate operational, planning and financial-control systems in place
- Closely monitoring operational and financial results in accordance with plans and budgets
- Representing the Company and managing the Group's day-to-day businesses

The Chairman also meets once a year with the Non-executive Directors in the absence of the Managing Director and the Executive Director(s) to discuss the Group's business affairs. This meeting was held on 16 September 2010.

Board Meetings

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

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

Voting on Connected Transactions

All Directors are requested to disclose to the Company twice a year the offices they hold in the other public companies or organisations. Pursuant to the Company's Bye-laws, Directors are required to declare their interests, if any, in any transaction, arrangement or other issue proposed to be discussed at the Board meeting and to abstain from voting on the relevant resolutions if they have a conflict of interests or a material interest in the proposed transactions. Directors with interests so declared would not be counted in the quorum of the meeting for the passing of the relevant resolutions.

Independent Non-executive Directors, together with the other Board members, ensure that connected transactions are entered into in the ordinary and usual course of the Group's business and on normal commercial terms arrived at on an arm's length basis, and that they are fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole. The Company Secretary is responsible for ensuring that all connected transactions entered into are in compliance with the Listing Rules. In 2010, the Company was involved in three continuing connected transactions and entered into one connected transaction, details of which are disclosed on pages 89 to 91 of this Annual Report.

Delegation by the Board of Directors

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

The Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee are the four designated Board Committees set up by the Board to oversee particular aspects of the Group's affairs. Each of the Committees has written terms of reference and adequate authority and resources to discharge their duties. The Committee members of each Committee are summarised below:

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

^ Indepent Non-executive Director
# Non-executive Director
* Executive Director
Note: Dr KUNG passed away on 9 May 2010.

Standing Committee

The Standing Committee was set up by the Board with specific terms of reference to advise and assist the Board in formulating policies, and to monitor their implementation by management. The Standing Committee meets with senior management on a monthly basis to review and discuss financial, operational and strategic issues in relation to current businesses as well as potential investment opportunities of the Group, and reports findings and makes recommendations to the Board directly.

Audit Committee

The Chairman of the Audit Committee, Dr Eric LI Ka Cheung, an Independent Non-executive Director of the Company, is a certified public accountant, with the appropriate professional qualifications and accounting expertise required by the Listing Rules. The Chairman and the other members of the Audit Committee have a wide range of experience in various business and professional fields as described in the Directors' biographies set out on pages 112 to 117 of this Annual Report. None of the Audit Committee members is a former or existing partner of the external auditors of the Company. The Audit Committee's terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and updated with reference to the CG Code of the Listing Rules. The Audit Committee is delegated with the responsibility for overseeing the Company's financial reporting process, internal control procedures and risk management system, and its relationship with the external auditor.

In 2010, two Audit Committee meetings were held together with senior management and the Company's external auditors, KPMG. At the end of each meeting, the external auditors were invited to discuss in private with the Audit Committee members issues arising from the audit and any other matters which they might wish to discuss without the presence of senior management. Following each meeting, the Chairman of the Audit Committee submitted a report to the Board of Directors and gave a briefing on all significant issues that arose.

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

(a) Review of the Company's financial reporting process, and internal control and risk management systems

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

Based on the conclusions drawn from the above reviews and discussions, the Audit Committee recommended that the Board approve the unaudited interim financial report of the Company for the six months ended 30 June 2010 and the annual financial statements for the year ended 31 December 2010. The Audit Committee concluded that, in general, the Group continues to operate within a sound control environment with a control system that effectively monitors and corrects non-compliance. The Board, following the Audit Committee's annual review of the Group's internal control system, is satisfied that the Group has fully complied with the Code Provision on internal controls in 2010.

(b) Management of the relationship with the external auditors

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

Based on the conclusions drawn from this review, the Audit Committee recommended to the Board that KPMG, the existing external auditors, be re-appointed as auditors of the Company in respect of the financial statements for the year ending 31 December 2011.

Remuneration Committee

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

Nomination Committee

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

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

- making recommendations to the Board on the appointment or re-appointment of Directors and on succession planning for Directors, in particular, the Chairman and the Managing Director; and
- assessing the independence of Independent Non-executive Directors.

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

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

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

Notes: 1. Dr KUNG passed away on 9 May 2010.
2. Appointed as an Executive Director with effect from 20 May 2010.

Delegation of Responsibilities to Senior Management

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

The Directors fully recognise their responsibilities for the preparation and the true and fair presentation of the financial statements of the Company and the Group in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility covers the interim and annual reports, "price-sensitive" announcements and other financial disclosures required under the Listing Rules, reports to regulators, and such information as is required to be disclosed pursuant to the statutory requirements.

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

The financial statements of the Company and the Group for the year ended 31 December 2010 given on pages 131 to 199 of this Annual Report present a true and fair view of the state of affairs of the Company and the Group, and the results and cash flow for the year. These financial statements are prepared in accordance with HKFRSs issued by the HKICPA. The responsibilities of the external auditors, KPMG, are set out in the auditor's report on page 130 of this Annual Report.

Internal Controls and Risk Management

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

Control Environment

A well-structured organisational framework with clearly defined authority and responsibility, a culture of high moral standards at both management and staff levels, and an effective risk management system are the keys to a sound control environment.

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

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

The Board

- establishes high ethical and moral standards and monitors management's compliance with those standards
- ensures that a sound and effective internal control environment is in place
- monitors and oversees performance of the Internal Control Framework

Audit Committee

- oversees the Internal Control Framework
- provides directives for the design and implementation of a sound and effective internal control system
- ensures the independence and transparency of the internal audit function
- facilitates coordination between the internal and external auditors
- approves audit plans and ensures findings of the Internal Audit Department are properly addressed by management
- reports to the Board about the performance of the Company's internal control system

Internal Audit Department	Management
• formulates action plans to monitor the effectiveness of the internal control system	• designs, implements and maintains an effective internal control system
• coordinates with various operating units and monitors their compliance with internal control practices	• supervises staff to ensure that they carry out their duties in accordance with the requirements of internal control practices
• conducts robust reviews and rigorous testing of the internal control system and makes recommendations for improvement	• cooperates with and supports the work of the Internal Audit Department
• reports directly to the Audit Committee on a periodic basis	• plays the central role in monitoring the Group's Quality Management System

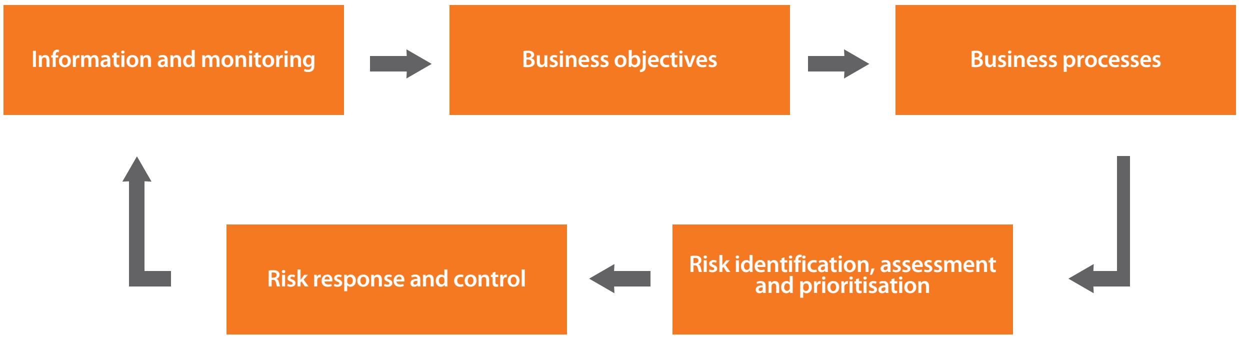
Business Ethics

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

Enterprise Risk Management

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

The risk management process is illustrated in the following flowchart:



Control Effectiveness

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

Effective and Efficient Quality Management System

The adoption of the ISO-based Quality Management System ("QMS") enables the Group to respond to the risks inherent in its operations through effective control practices. An effective and efficient QMS-based on the benchmarks required by the International Organisation for Standardisation ("ISO") has been implemented in its two major subsidiaries, KMB and Sun Bus Limited ("SB"). KMB's adoption of QMS in 1999 was recognised by company-wide ISO 9001:1994 accreditation, and in 2003, two major KMB bus depots were ISO 14001 certified for their environmental management systems. SB adopted QMS in 2008 and duly received ISO 9001:2000 certification for the provision of non-franchised bus services. In 2009, both KMB and SB were ISO 9001:2008 certified after successfully completing upgrade audits.

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

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

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

Business Continuity Plan

Being the core subsidiary of the Group, KMB has formulated and documented a Business Continuity Plan ("BCP"), which is updated from time to time according to changes in circumstances. An integral part of its risk management process, the BCP enables senior management to safeguard stakeholder value in any crisis by prompt response and resumption of KMB's critical business functions within the maximum tolerable limits. The BCP identifies and evaluates major risks, and business functions affected, defines responsibilities, recovery time objectives and resources required, and outlines responses to be taken. KMB performs walkthrough tests and drills to ensure that these responses are feasible and viable.

Advanced Management Information System

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

Establishment of a Comprehensive Internal Audit Function

The Internal Audit Department is responsible for independently reviewing the risks and controls of the Group, and for providing reasonable assurance to senior management and the Audit Committee that the internal control systems are effective in achieving their objectives, and that any risks and internal control weaknesses have been identified and adequately addressed.

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

In 2010, the major work undertaken by the Internal Audit Department included:

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

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

Control Practices for Handling and Disseminating Price-sensitive Information

The Company fully recognises its obligations under the Listing Rules and has established proper procedures and internal controls for handling and disseminating price-sensitive information. The Board, senior management and nominated executives who have access to price-sensitive and/or specific information are bound by the Model Code for Securities Transactions under the Listing Rules. In addition, all staff are required by the Code of Conduct and the Staff Handbook to keep unpublished price-sensitive information strictly confidential.

External Audit

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

The Audit Committee is mandated to monitor the audit and non-audit services rendered to the Group by its external auditors. A formal policy is set to ensure that the engagement of the external auditors in other non-audit services will not impair their independence on providing audit services. The external auditor is also required to review their relationship with the Group and furnish written confirmation to the Audit Committee confirming their independent status. The Company engaged KPMG as external auditors to audit the financial statements for the Company for the year ended 31 December 2010. In this regard, KPMG has formally written to the Audit Committee confirming that for the year ended 31 December 2010 and up to the date of this Annual Report, it is independent of the Group in accordance with the independence requirements of the HKICPA.

The fees for services rendered by KPMG to the Group for the year ended 31 December 2010 are set out below:

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

COMMUNICATION WITH STAKEHOLDERS

Communication with Shareholders

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

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

- Platinum Award – Non-Hang Seng Index (Large Market Capitalisation) Category in the Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants;
- Citation for Design in the Hong Kong Management Association ("HKMA") Best Annual Reports Awards; and
- Honors Award for Financial Data in the International ARC Awards.

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

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

The 2010 AGM was held on 20 May 2010 and the matters resolved are summarised below:

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

Directors meet TIH shareholders at the 2010 AGM

- Granting of a general mandate to the Directors to exercise powers of the Company to purchase its own shares not exceeding 10% of the issued share capital; and
- Granting of a general mandate to the Directors to extend the share issue mandate granted to the Directors not exceeding 10% of the issued share capital.

The details and poll voting results of the 2010 AGM were published on the websites of the Company and of the Stock Exchange on 20 May 2010.

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

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

Communication with the General Public

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

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

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

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

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

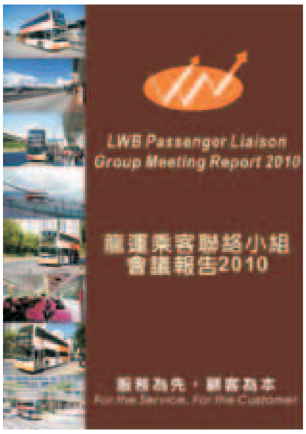
Communication with Employees

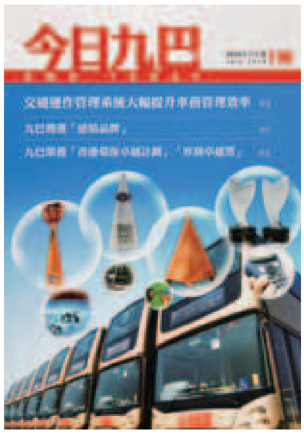
Effective communication between management and our staff members is vital to our success as well as a means of boosting esprit de corps, loyalty and efficiency.

To enhance mutual understanding and promote cooperation at all levels, six joint consultative committees have been established for KMB and LWB to provide channels for management and staff to discuss matters such as safety and the work environment, as well as issues relating to staff welfare.

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

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





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

Remuneration Report

Established in 2003, the Remuneration Committee is chaired by Dr Norman LEUNG Nai Pang, who is an Independent Non-executive Director and also the Deputy Chairman of the Company. The other current members are Dr Eric LI Ka Cheung, an Independent Non-executive Director, and Dr John CHAN Cho Chak, a Non-executive Director.

The Remuneration Committee is delegated by the Board with the responsibility of ensuring that the Company applies properly structured and fair remuneration policies, which align the interests of Directors, staff and other stakeholders in the Company. The level of remuneration is determined according to the principles of performance, fairness, transparency and market competitiveness. A variety of remuneration elements are incorporated in order to attract, retain and motivate individuals to contribute to the Group.

The principal remuneration policies adopted by the Group are summarised as follows:

- No Director or member of senior management is allowed to decide his or her own remuneration;
- Remuneration policy and practice including that relating to the Directors should be transparent; and
- Remuneration packages should fairly reward all participants, taking qualifications, experience and performance into consideration, while having regard to market practices and packages offered for similar posts by comparable companies. Independent professional advice on human resource related matters is sought whenever required.

The Remuneration Committee's written terms of reference fully comply with the Code Provisions set out in Appendix 14 of the Listing Rules. The main duties of the Committee include:

- Formulating remuneration policies, including the basis of remuneration;
- Establishing guidelines to determine terms and conditions of employment, and retirement benefits for Directors and staff;
- Setting up criteria for performance-based bonuses; and
- Reviewing and making recommendations to the Board on major human resource related policies.

The Remuneration Committee is delegated by the Board with the responsibility of ensuring that the Company applies properly structured and fair remuneration policies, which align the interests of Directors, staff and other stakeholders in the Company.

In 2010, the Remuneration Committee:

- Reviewed the remuneration policy for 2010;
- Reviewed the remuneration of Executive and Non-executive Directors, benchmarking it against the level of remuneration of major listed companies in respect of workload, scale and complexity of business;
- Reviewed the annual performance-related bonuses for Group employees, with reference to their achievements, measured against the assessment criteria and taking into consideration market norms; and
- Examined employees' wage and salary increments in 2010.

CRITERIA FOR DETERMINATION OF THE REMUNERATION OF DIRECTORS

In line with good corporate governance practices, the remuneration of Directors is assessed by the Group based on formalised principles, which take into account both market practices and a tried and tested methodology. Consistent with previous years, Directors' fees for 2010 were determined based on the Higgs Methodology and with reference to the results of a desk-top survey conducted by the Company on the remuneration of the directors of 19 major companies listed on The Stock Exchange of Hong Kong Limited.

The fee structure for Directors in 2010, which were approved by general meetings of the Company, is set out as follows:

	Fee per annum HK$
Board Members	
Chairman	504,000*
Other Director	360,000*
Audit Committee Members	
Chairman	84,000
Other Member	60,000
Remuneration Committee Members	
Chairman	42,000
Other Member	30,000
Standing Committee Members	
Chairman	336,000*
Other Member (except for Executive Directors)	240,000*

* These fees are in respect of 12 meetings held for each of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited.

The remuneration of Directors is assessed by the Group based on formalised principles, which take into accounts both market practices and a tried and tested methodology. In determining the remuneration of the senior management team and other employees, the Group refers to the remuneration for similar positions in local companies.

Besides the fees disclosed above, none of our Independent Non-executive Directors or Non-executive Directors received any pension benefits or bonuses from the Group.

The remuneration package of each Director, on a named basis, for the year ended 31 December 2010, together with 2009 comparisons, are given in note 7 to the consolidated financial statements on pages 158 and 159 of this Annual Report.

CRITERIA FOR DETERMINATION OF THE REMUNERATION OF SENIOR MANAGEMENT AND OTHER EMPLOYEES

In determining the remuneration of the Senior Management team (whose brief biographies are set out on page 118 of this Annual Report) and other employees, the Group refers to the remuneration for similar positions in local companies. This is consistent with the Group's remuneration policy of aligning remuneration packages with market practices. Depending on the performance of the Group, discretionary bonuses may also be granted to individuals on a merit basis. The levels of discretionary bonus are subject to the review and approval of the Remuneration Committee and the Board after taking into account the Group's performance. No members of the Senior Management are members of the Remuneration Committee. The main components of remuneration for Senior Management members and other employees are as follows:

Base Compensation

Each year, the Remuneration Committee reviews base compensation, including salaries, allowances and fringe benefits, with reference to the Group's performance, market practices and individual performance.

Discretionary Bonus

A discretionary bonus may be granted to individuals in recognition of their outstanding performance. Individuals are subject to comprehensive performance appraisal by their immediate supervisors. Only those who obtain at least a satisfactory performance rating are considered for the award of an incentive bonus. In 2010, selected management staff of the Group were eligible to receive discretionary bonuses.

Staff Retirement Schemes

The Group operates two non-contributory defined benefit retirement schemes, the KMB Monthly Rated Employees Provident Fund Scheme (the "Monthly Scheme") and the KMB Daily Rated Employees Retirement Fund Scheme (the "Daily Scheme"). It also participates in a defined contribution retirement scheme, the SHKP MPF Employer Sponsored Scheme, which was established and registered under the Hong Kong Mandatory Provident Fund Schemes Ordinance in 2000.

i) The Monthly Scheme

The Monthly Scheme was formally established under trust and registered under the Occupational Retirement Schemes Ordinance (Cap. 426) in 1978. It is administrated by an independent trustee and the assets are held separately from those of the Group. Under the current scheme rules, an eligible member's benefit is equivalent to the final monthly salary multiplied by the service period and the benefit factor applicable to the member's completed years of service. Contributions to the Monthly Scheme are made in accordance with the recommendations of independent actuaries who value the retirement scheme at regular intervals. The scheme is closed to employees first employed or re-employed by KMB (including any subsidiary or associated company which participates in the Monthly Scheme) on or after 1 December 2000.

ii) The Daily Scheme

The Daily Scheme was formally established under trust and registered under the Occupational Retirement Schemes Ordinance (Cap. 426) in 1983. It is administrated by an independent trustee and the assets are held separately from those of the Group. The Scheme provides benefits on death or retirement or on otherwise leaving service to its daily-rated employees. Under the current scheme rules, an eligible member's benefit is equivalent to the final daily basic emolument multiplied by the number of completed years of service as a daily rated employee and further multiplied by a benefit factor applicable to the member's completed years of service. Contributions to the Daily Scheme are made in accordance with the actuaries' recommendations. The Scheme is closed to employees first employed or re-employed by KMB (including any subsidiary or associated company which participates in the Daily Scheme) on or after 1 December 2000.

iii) SHKP MPF Employer Sponsored Scheme

The Group is a participating member of the SHKP MPF Employer Sponsored Scheme ("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.

Directors' Profiles

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

Chairman and Independent Non-executive Director, aged 93. 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 70. 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 also the Chairman of the Nomination Committee, Remuneration Committee and Standing Committee of the Company. 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 57. 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 Wing Tai Properties Limited (formerly known as "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. Mr Kwok is the younger brother of Dr Kwok Ping-sheung, Walter, who is a Director of the Company.

Dr KWOK Ping-sheung, Walter JP, D.Sc., MSc(Lond), DIC, MICE

Non-executive Director, aged 60. Dr 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 The 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 an honorary fellow of the School of Accountancy of The Central University of Finance and Economics, honorary trustee of Tongji University and Nanjing University. 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. Dr 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 was the Chairman 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. Dr Kwok is an Honorary Citizen of Beijing and Guangzhou and a Standing Committee Member of the National Committee of the Chinese People's Political Consultative Conference. Dr Kwok is the committee member of the French Asian Art Society, the Chevalier of the Légion d'Honneur Club Hong Kong Chapter, Honorary President of The Association for the Promotion of Global Chinese Traders Fraternity Ltd. and Honorary Chairman of The Association of Global Chinese Art Collectors Fraternity. Dr Kwok is the elder brother of Mr Kwok Ping-luen, Raymond, who is a Director of the Company.

Directors' Profiles

NG Siu Chan

Non-executive Director, aged 80. 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.

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

Non-executive Director, aged 67. Dr 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; and the Senior Executive Director of KMB and LWB from 1 January 2007 to 7 April 2008. He has been a Non-executive Director of the Company, KMB and LWB since 8 April 2008 as well as a member of the Remuneration Committee and Standing Committee of the Company. 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. Vice Patron of The Community Chest, Chairman of the Court of The Hong Kong University of Science and Technology and Member of the Exchange Fund Advisory Committee. In December 2000, Dr 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.

William LOUEY Lai Kuen BSc(Econ)

Non-executive Director, aged 51. 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.

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

Executive Director, aged 76. Mr Lui 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 ("KMB") and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively. He is also a member of the Standing Committee of the Company. 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 47, has been Director of The Kowloon Motor Bus Company (1933) Limited since 1995, Director of Transport International Holdings Limited (the "Company") and Long Win Bus Company Limited since 1997, and is also Founder and Deputy Chairman of RoadShow Holdings Limited ("RoadShow"). Ms Ng has received numerous awards and recognition. In 2010, she was named a Woman of Excellence and was also selected as one of 60 Meritorious Chinese Entrepreneurs with Achievement and National Contribution. In previous years, she won the Yazhou Zhoukan Young Chinese Entrepreneur Award, was named one of China's 100 Outstanding Women Entrepreneurs, was Mason Fellow of Harvard University, and was the Caring Heart Award recipient.

Ms Ng has been appointed Member of the Standing Committee of the Company since 23 October 2008 to assist and advise the Board in formulating policy, and to monitor implementation by management. Prior to the appointment, she was Executive Director of the Company from 1995 to 13 October 2008 and looked after business development, procurement, insurance, facilities management, marketing and sales, and corporate relations. She also founded and spearheaded the listing of RoadShow, whose business model has been adopted by many companies in Hong Kong, China and the rest of the world.

Active in public service, she is Director of Bauhinia Foundation Research Centre, Council Member of The Better Hong Kong Foundation, Member of Hospital Authority, Member of Hong Kong Tourism Board, Member of Employees Retraining Board, Director of Agency for Volunteer Service, Member of Public Relations Committee of The Community Chest, and is also involved with a number of other public and community bodies.

Ms Ng is daughter of Director Mr Ng Siu Chan and also acts as his alternate director. Ms Ng holds an MBA degree from University of Chicago and an MPA degree from Harvard University.

Directors' Profiles

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

Non-executive Director, aged 73. 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 Dr 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 a consultant to 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, LLD, DSocSc, BA, FCPA(Practising), FCA, FCPA(Aust.), FCIS

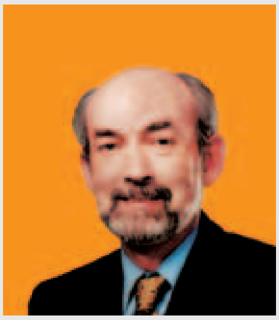
Independent Non-executive Director, aged 57. Dr Li has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. Dr Li was appointed an Independent Non-executive Director of RoadShow 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 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., Sinofert Holdings Limited, CATIC International Holdings Limited and Meadville Holdings Limited (a company listed on the Stock Exchange until its withdrawal of its listing status on 19 April 2010). 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, and a member of the Nomination Committee and Remuneration Committee of the Company.

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

Managing Director, aged 49. 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 is also a member of the Standing Committee of the Company. 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 65. Mr Siu was appointed Independent Non-executive Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 26 October 2004. He is also a member of the Audit Committee and Nomination Committee of the Company. Mr Siu 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 60. 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 is Chairman of Hong Kong Business Aviation Centre Limited, a partly-owned subsidiary of Sun Hung Kai Properties Limited of which he has been a Non-executive Director. Mr Miller holds an MPA degree from Harvard University and a BA degree from London University.

Evan AU YANG Chi Chun BA, MBA

Deputy Managing Director, aged 39. Mr Au Yang 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 20 May 2010. Prior to joining KMB in October 2009, Mr Au Yang was an Associate Partner at McKinsey & Company. As a leader of the Transport, Infrastructure & Logistics Practice at McKinsey, Mr Au Yang advised senior management of leading multinational and Chinese enterprises over a range of strategic issues. Before management consultancy, Mr Au Yang held positions at two international financial institutions in Hong Kong and Singapore in the structured finance and foreign exchange areas. Mr Au Yang received a BA degree in Economics and Political Science from Brown University and an MBA degree from Kellogg School of Management at Northwestern University in the United States of America.

Senior Management

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

Aged 49. 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 116 of this Annual Report.

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

Aged 76. 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 115 of this Annual Report.

Evan AUYANG BA, MBA

Aged 39. Deputy Managing Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Brief biography of Mr Auyang is set out on page 117 of this Annual Report.

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

Aged 43. Finance and Administration Director of The Kowloon Motor Bus Company (1933) Limited ("KMB"). Mr Ho is a Member of the Canadian Institute of Chartered Accountants and a Fellow of the Hong Kong Institute of Certified Public Accountants. 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 46. 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, he is currently a member of the Ninth and the Tenth Session Henan provincial committee of the Chinese People's Political Consultative Conference. Mr Louey has been appointed as a member of the Automotive Industry Training Advisory Committee of the Education Bureau from 2009 to 2011.

Winnie W Y HO BA, MIPA

Aged 41. 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.

Kenrick FOK CMILT

Aged 47. Operations Director of The Kowloon Motor Bus Company (1933) Limited ("KMB"). Mr Fok joined KMB in 1988 and worked in Traffic Department until his appointment as General Manager of Long Win Bus Company Limited in June 1997. He was appointed General Manager, Lai Chi Kok Depot of KMB in December 2009. He was promoted to the current position in June 2010.

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	
HO Chi Man MA, CMILT	Head of Depots and General Manager (Sha Tin Depot)
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, MIStructE, MHKIE, RPE, AP, RSE	Head of Facilities Management Department
Doris K K LAU MBA, ACA, CPA	Head of Financial Planning and Costing Department
Sharon Y C CHENG BA, MIHRM	Head of Human Resources Department
Tommy H T LEUNG BSc, DMS	Head of Information Technology Department
Alice LUK BBA, ANZIIF(Snr Assoc), MCIArb	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
Cherry LEUNG MBA, CPA	Head of Planning and Development Department
Lisa L M NG BA	Head of Purchasing Department
Gary WONG MSc(SafMgt), GD(OHS)	Head of Safety and Service Quality Department
LEUNG Kin Wang BSc, MIMechE, CEng	Head of Service Department
SHUM Yuet Hung BSc(Eng), MSc, MSc(Eng), MBA, MIRTE, FIMechE, CEng, FHKIE, ACGI, MSOE, RPE, CEnv	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)
MA Siu Wah BA, CMILT, AMInstTA, PgD	General Manager (Lai Chi Kok Depot)
WOO Kin Keung	General Manager (Tuen Mun Depot)
Long Win Bus Company Limited	
George CHAN	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
RoadShow Holdings Limited	
MO Tik Sang	Managing Director
Jo MAN Miu Sheung ACA, CPA, ACIS, ACS	Finance and Administration Director and Company Secretary
Thomas LO Sui Sing	Chief Programme Officer
Ramond YIU Wing Hong BBA	Marketing and Sales Director
Ada LO Ching	Operations and Planning Director

Financial Reports

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 2010.

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 19 to the financial statements.

The Group's turnover and profit are mainly attributable to franchised and non-franchised bus 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 13 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 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 131 to 199 of this Annual Report.

TRANSFER TO RESERVES

Profits attributable to equity shareholders of the Company, before dividends, of HK$866,886,000 (2009: HK$673,504,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of 30 cents per share was paid to the shareholders on 18 October 2010 (2009: 30 cents per share). The Directors now recommend that an ordinary final dividend of HK$1.05 per share in respect of the year ended 31 December 2010 (2009: ordinary final dividend of HK$1.05 per share and special dividend of HK$1.00 per share) be paid to the shareholders on 24 May 2011.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$535,000 (2009: HK$1,070,000).

FIXED ASSETS

During the year, major additions to the fixed assets of the Group were buses under construction with a total cost of HK$703,686,000 and tools and other fixed assets with a total cost of HK$335,051,000. Buses with a total cost of HK$341,080,000 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 14 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 31(b) 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*, *GBM, GBE, PhD, FREng, JP*	(Chairman)
Dr Norman LEUNG Nai Pang*, *GBS, JP*	(Deputy Chairman)
KWOK Ping-luen, Raymond, *JP*	
Dr KWOK Ping-sheung, Walter, *JP*	
NG Siu Chan	
William LOUEY Lai Kuen	
Dr John CHAN Cho Chak, *GBS, JP*	
Charles LUI Chung Yuen, *M.H.*	
Winnie NG	(Director and Alternate Director to Mr NG Siu Chan)
George CHIEN Yuan Hwei	
Dr Eric LI Ka Cheung*, *GBS, OBE, JP*	
Edmond HO Tat Man	(Managing Director)
SIU Kwing-chue, Gordon*, *GBS, CBE, JP*	
John Anthony MILLER, *SBS, OBE*	
Evan AU YANG Chi Chun	(Deputy Managing Director)(Appointed on 20 May 2010)
YUNG Wing Chung	(Alternate Director to Mr KWOK Ping-luen, Raymond, *JP*)
SO Wai Kei, Godwin	(Alternate Director to Dr KWOK Ping-sheung, Walter, *JP*)
Dr KUNG Ziang Mien, James*, *GBS, OBE*	(Passed away on 9 May 2010)
KUNG Lin Cheng, Leo, *JP*	(Ceased to be Alternate Director to Dr KUNG Ziang Mien, James*, *GBS, OBE* with effect from 9 May 2010)

* 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"), the Hon Sir Sze-yuen Chung, Mr Ng Siu Chan, Dr John Chan Cho Chak, Mr Siu Kwing-chue, Gordon, Mr John Anthony Miller and Mr Evan Au Yang Chi Chun 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 112 to 117 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 2010 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					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
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%
Dr 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	6,251,416	–	–	–	6,251,416	1.549%
Dr 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%
George CHIEN Yuan Hwei	2,000	–	–	–	2,000	–
Dr Eric LI Ka Cheung*	–	–	–	–	–	–
Edmond HO Tat Man	–	–	–	–	–	–
SIU Kwing-chue, Gordon*	–	–	–	–	–	–
John Anthony MILLER	–	–	–	–	–	–
Evan AU YANG Chi Chun	–	–	–	–	–	–
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond)	–	–	–	–	–	–
SO Wai Kei, Godwin (Alternate Director to Dr 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					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
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%
Dr 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%
Dr 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%
George CHIEN Yuan Hwei	–	–	–	–	–	–
Dr Eric LI Ka Cheung*	–	–	–	–	–	–
Edmond HO Tat Man	–	–	–	–	–	–
SIU Kwing-chue, Gordon*	–	–	–	–	–	–
John Anthony MILLER	–	–	–	–	–	–
Evan AU YANG Chi Chun	–	–	–	–	–	–
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond)	–	–	–	–	–	–
SO Wai Kei, Godwin (Alternate Director to Dr 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 2010, 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)

(ii) 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 2010 was 99,736,533 shares which represented 10% of the issued share capital of RoadShow at 31 December 2010. 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 2010, 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

As disclosed in note 36(a) to the financial statements, certain subsidiaries of the Group entered into transactions with certain subsidiaries of a shareholder, Sun Hung Kai Properties Limited ("SHKP"). Mr Kwok Ping-luen, Raymond and Dr Kwok Ping-sheung, Walter are directors of SHKP. Mr Kwok Ping-luen, Raymond is materially interested in these transactions by virtue of his interest and deemed interest under Part XV of the Securities and Futures Ordinance in more than 5% of the issued shares of SHKP and the interest of Dr Kwok Ping-sheung, Walter in the issued shares of SHKP is pending resolution.

Save as disclosed above, no contract of significance to which the Company, any of its holding companies, subsidiary or fellow 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 2010, 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			
	Registered shareholders	Corporate interests	Total number of shares held	Percentage of total issued shares
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)	42,592,788	–	42,592,788	10.6%
HSBC Trustee (C.I.) Limited (Note 3)	134,341,973	–	134,341,973	33.3%
Kwong Tai Holdings (PTC) 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 Rules 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 and HSBC Trustee (C.I.) Limited are deemed to be interested in a total of 176,934,761 shares in the Company held on trust for their clients, of which 133,271,012 shares are held for SHKP.

(4) The interest disclosed by Kwong Tai Holdings (PTC) 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 118 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 2011 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 Ms Wing Lui, Fellow of the Society of Actuaries of the United States of America. 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 2010 was HK$1,206,019,000.

(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 2010.

(v) The ongoing funding surplus in the scheme was HK$504,970,000 and the solvency surplus was HK$505,221,000 at 31 December 2010.

The KMB Daily Rated Employees Scheme

(i) The scheme was established with effect from 1 July 1983.

(ii) The actuary of the scheme is Ms Wing Lui, Fellow of the Society of Actuaries of the United States of America. 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 2010 was HK$2,767,252,000.

(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 2010.

(v) The ongoing funding surplus in the scheme was HK$1,212,364,000 and the solvency surplus was HK$1,294,235,000 at 31 December 2010.

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(x)(ii) and 22 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 2010 were insignificant to the Group.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts of the Group as at 31 December 2010 are set out in note 26 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 investment properties and completed property held for sale of the Group are shown on page 87 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee of the Company, together with management and the Company's external auditors, KPMG, has reviewed 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 2010.

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, 17 March 2011

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") and its subsidiaries (together "the Group") set out on pages 131 to 199, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 2010 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

17 March 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Turnover	3 & 13	**6,686,836**	6,842,195
Other net income	4	**186,570**	90,539
Cost of properties sold		**(6,665)**	(27,809)
Staff costs	5(a)	**(3,040,705)**	(3,057,194)
Depreciation and amortisation		**(899,248)**	(900,942)
Fuel and oil		**(1,140,289)**	(960,000)
Spare parts and stores		**(245,274)**	(236,013)
Toll charges		**(363,827)**	(372,356)
Selling and marketing expenses for property sales		**(1,832)**	(2,069)
Other operating expenses		**(651,095)**	(587,198)
Profit from operations		**524,471**	789,153
Finance costs	5(b)	**(6,618)**	(12,143)
Gain on disposal of building and interest in leasehold land	36(a)(xi)	**489,052**	–
Share of profits less losses of associates		**33,821**	29,568
Share of profits of jointly controlled entities		**–**	3,021
Impairment loss on unlisted equity securities		**(110,000)**	(9,801)
Profit before taxation	5	**930,726**	799,798
Income tax	6(a)	**(75,352)**	(117,742)
Profit for the year		**855,374**	682,056
Attributable to:			
Equity shareholders of the Company	9	**866,886**	673,504
Non-controlling interests		**(11,512)**	8,552
Profit for the year		**855,374**	682,056
Profit for the year attributable to equity shareholders of the Company:			
Arising from sales of building and interest in leasehold land and Manhattan Hill properties		**471,952**	186,099
Arising from the Group's other operations		**394,934**	487,405
		866,886	673,504
Earnings per share:	11		
Arising from sales of building and interest in leasehold land and Manhattan Hill properties		**HK$1.17**	HK$0.46
Arising from the Group's other operations		**0.98**	1.21
		HK$2.15	HK$1.67

The notes on pages 138 to 199 form part of these financial statements. Details of dividends paid and payable to equity shareholders of the Company attributable to the profit for the year are set out in note 12.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Profit for the year		**855,374**	682,056
Other comprehensive income for the year (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements of entities outside Hong Kong		**21,885**	610
Exchange differences reclassified from equity to profit or loss upon deemed disposal and disposal of interest in associate		**–**	(2,935)
Exchange differences reclassified from equity to profit or loss upon disposal of interest in jointly controlled entity		**–**	(2,070)
Available-for-sale debt securities: net movement in the fair value reserve, net of nil tax	10	**8,222**	(1,684)
Cash flow hedges: net movement in the hedging reserve, net of nil tax	10	**–**	595
Total comprehensive income for the year		**885,481**	676,572
Attributable to:			
Equity shareholders of the Company		**896,993**	672,947
Non-controlling interests		**(11,512)**	3,625
Total comprehensive income for the year		**885,481**	676,572

The notes on pages 138 to 199 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Fixed assets	14(a)		
– Investment properties		**123,767**	115,925
– Investment property under development		**5,236**	–
– Interest in leasehold land		**73,438**	77,946
– Other properties, plant and equipment		**4,073,853**	3,906,247
		4,276,294	4,100,118
Passenger service licences	15	**22,536**	21,536
Goodwill	16	**63,315**	63,315
Media assets	17	**–**	372
Non-current prepayments	18	**44,267**	19,161
Interest in associates	20	**640,263**	612,007
Other financial assets	21	**636,262**	333,548
Employee benefit assets	22(a)	**789,983**	715,993
Deferred tax assets	29(b)	**6,055**	6,013
		6,478,975	5,872,063
Current assets			
Completed property held for sale		**45,245**	42,082
Spare parts and stores		**62,032**	72,376
Accounts receivable	24	**256,628**	384,579
Deposits and prepayments		**32,569**	40,074
Current taxation recoverable	29(a)	**15,781**	7,868
Pledged and restricted bank deposits	25(a)	**73,921**	51,200
Cash and cash equivalents	25(a)	**2,726,776**	3,501,861
		3,212,952	4,100,040
Current liabilities			
Bank loans and overdrafts	26	**197,592**	401,930
Accounts payable and accruals	27	**1,109,044**	1,069,502
Third party claims payable	28	**131,122**	127,542
Current taxation payable	29(a)	**12,400**	47,104
		1,450,158	1,646,078
Net current assets		**1,762,794**	2,453,962
Total assets less current liabilities		**8,241,769**	8,326,025

Consolidated Balance Sheet

at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Bank loans	26	**469,916**	469,832
Contingency provision – insurance	28	**300,295**	305,067
Deferred tax liabilities	29(b)	**499,456**	499,146
Provision for long service payments	30	**29,885**	34,280
		1,299,552	1,308,325
Net assets		**6,942,217**	7,017,700
Capital and reserves			
Share capital	31(b)	**403,639**	403,639
Reserves		**6,333,659**	6,385,218
Total equity attributable to equity shareholders of the Company		**6,737,298**	6,788,857
Non-controlling interests		**204,919**	228,843
Total equity		**6,942,217**	7,017,700

Approved and authorised for issue by the Board of Directors on 17 March 2011

S.Y. CHUNG
Chairman

Edmond HO Tat Man
Managing Director

The notes on pages 138 to 199 form part of these financial statements.

Balance Sheet

at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Plant and equipment	14(b)	**–**	–
Investments in subsidiaries	19(a)	**1,188,423**	1,188,423
		1,188,423	1,188,423
Current assets			
Deposits and prepayments		**473**	1,023
Amounts due from subsidiaries	19(b)	**7,890,053**	7,319,559
Cash and cash equivalents	25(a)	**31,590**	28,417
		7,922,116	7,348,999
Current liabilities			
Accounts payable and accruals	27	**42,088**	41,051
Amounts due to subsidiaries	19(b)	**7,357,759**	6,788,653
		7,399,847	6,829,704
Net current assets		**522,269**	519,295
Net assets		**1,710,692**	1,707,718
Capital and reserves	31(a)		
Share capital		**403,639**	403,639
Reserves		**1,307,053**	1,304,079
Total equity		**1,710,692**	1,707,718

Approved and authorised for issue by the Board of Directors on 17 March 2011

S.Y. CHUNG
Chairman

Edmond HO Tat Man
Managing Director

The notes on pages 138 to 199 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

		Attributable to equity shareholders of the Company								
	Note	Share capital HK$'000	Other reserves HK$'000	Exchange reserve HK$'000 (note 31(c)(i))	Hedging reserve HK$'000 (note 31(c)(ii))	Fair value reserve HK$000 (note 31(c)(iii))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2009		403,639	1,102,851	110,656	(595)	1,690	5,042,582	6,660,823	253,080	6,913,903
Changes in equity for 2009:										
Profit for the year		–	–	–	–	–	673,504	673,504	8,552	682,056
Other comprehensive income		–	–	532	595	(1,684)	–	(557)	(4,927)	(5,484)
Total comprehensive income for the year		–	–	532	595	(1,684)	673,504	672,947	3,625	676,572
Dividend approved in respect of the previous year	12(b)	–	–	–	–	–	(423,821)	(423,821)	–	(423,821)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	(27,862)	(27,862)
Dividend approved in respect of the current year	12(a)	–	–	–	–	–	(121,092)	(121,092)	–	(121,092)
Balance at 31 December 2009 and 1 January 2010		**403,639**	**1,102,851**	**111,188**	**–**	**6**	**5,171,173**	**6,788,857**	**228,843**	**7,017,700**
Changes in equity for 2010:										
Profit/(loss) for the year		**–**	**–**	**–**	**–**	**–**	**866,886**	**866,886**	**(11,512)**	**855,374**
Other comprehensive income		**–**	**–**	**21,885**	**–**	**8,222**	**–**	**30,107**	**–**	**30,107**
Total comprehensive income for the year		**–**	**–**	**21,885**	**–**	**8,222**	**866,886**	**896,993**	**(11,512)**	**885,481**
Dividends approved in respect of the previous year	12(b)	**–**	**–**	**–**	**–**	**–**	**(827,460)**	**(827,460)**	**–**	**(827,460)**
Repayment of capital to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,976)**	**(3,976)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,436)**	**(8,436)**
Dividend approved in respect of the current year	12(a)	**–**	**–**	**–**	**–**	**–**	**(121,092)**	**(121,092)**	**–**	**(121,092)**
Balance at 31 December 2010		**403,639**	**1,102,851**	**133,073**	**–**	**8,228**	**5,089,507**	**6,737,298**	**204,919**	**6,942,217**

The notes on pages 138 to 199 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Operating activities			
Cash generated from operations	25(b)	**1,407,931**	2,062,841
Interest received		**31,816**	32,945
Interest paid		**(8,411)**	(10,131)
Hong Kong Profits Tax paid		**(116,301)**	(94,634)
The People's Republic of China ("PRC") Income Tax paid		**–**	(397)
Net cash generated from operating activities		**1,315,035**	1,990,624
Investing activities			
Increase in pledged and restricted bank deposits		**(22,721)**	(51,200)
Decrease/(increase) in bank deposits with original maturities of over three months		**742,962**	(2,183,342)
Payment for purchase of fixed assets		**(1,034,218)**	(613,421)
Payment for purchase of passenger service licences		**(1,000)**	(5,500)
Payment for purchase of available-for-sale debt securities		**(386,565)**	(93,570)
Proceeds from disposal of available-for-sale debt securities		**–**	88,554
Proceeds from disposal of fixed assets		**496,399**	3,652
Proceeds from disposal of subsidiary	32(b)	**–**	106,640
Proceeds from disposal of jointly controlled entity		**–**	21,945
Payment for acquisition of subsidiary	32(a)	**–**	(2,030)
Repayment of loans to associate		**–**	25,830
Increase in loans to investee		**(26,127)**	–
Interest received from associate		**–**	3,202
Dividends received from associates		**26,374**	–
Dividends received from unlisted equity securities		**16,145**	8,680
Net cash used in investing activities		**(188,751)**	(2,690,560)
Financing activities			
Dividends paid to equity shareholders of the Company		**(948,552)**	(544,913)
Dividends paid to non-controlling interests		**(8,436)**	(27,862)
Proceeds from new bank loans		**200,000**	400,000
Repayment of bank loans		**(400,000)**	(835,920)
Return of capital to non-controlling interests		**(3,976)**	–
Net cash used in financing activities		**(1,160,964)**	(1,008,695)
Net decrease in cash and cash equivalents		**(34,680)**	(1,708,631)
Cash and cash equivalents at 1 January		**671,654**	2,377,892
Effect of foreign exchange rate changes		**5,088**	2,393
Cash and cash equivalents at 31 December	25(a)	**642,062**	671,654

The notes on pages 138 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. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates.

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. 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 non-controlling interests (previously known as "minority interests"). 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(x)(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 and major sources of estimation uncertainty are discussed in note 38.

(c) Subsidiaries and non-controlling 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and non-controlling interests (continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or a jointly controlled entity (see note 1(d)).

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

(d) Associates and joint ventures

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 joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control.

(i) Jointly controlled entities

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.

(ii) Jointly controlled assets

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has joint control over its share of future economic benefits earned from the assets.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(e) and 1(m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associates and joint ventures (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 investee. For this purpose, the Group's interest 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 investees, 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.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate.

The Group recognises in the financial statements its share of the jointly controlled assets and any liabilities incurred jointly with other venturers according to their nature. Liabilities and expenses incurred directly in respect of its interest in the jointly controlled asset are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled asset, together with its share of any expenses incurred by the joint venture, are recognised in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in the consolidated income statement as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)(ii)).

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 fair value, 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 accumulated impairment losses (see note 1(m)(i)).

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 in other comprehensive income and accumulated separately in equity in the fair value reserve, 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(u)(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(u)(iv). When these investments are derecognised or impaired (see note 1(m)(i)), the cumulative gain or loss is reclassified from equity to 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 recognised immediately in 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 gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. 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 reclassified from equity to be 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 reclassified from equity to 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 reclassified from equity to 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 until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(k)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(m)(ii)). Depreciation is calculated to write off the cost of investment properties using the straight-line method over the shorter of their estimated useful lives of 40 years and the unexpired terms of the leases. No depreciation is provided for property that is being constructed or developed for future use as investment property.

Rental income from investment properties is accounted for as described in note 1(u)(vi).

(j) Other property, plant and equipment

Properties held for own use and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(m)(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(v)).

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 items 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
Leasehold land classified as being held under finance leases	– 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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m). All of the Group's leasehold land classified as held under finance lease is fully paid.

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.

(l) 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(m)(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 accumulated impairment losses (see note 1(m)(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 remaining useful life.

(m) 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: see note 1(m)(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;

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets (continued)

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

– 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.

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

– For investments in associates and jointly controlled entities recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).

– 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 carried at cost 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 debt securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to 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)

(m) 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 and intangible assets that have indefinite useful lives, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- investment property under development;
- intangible assets;
- investments in subsidiaries; 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 fair value less costs to sell 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 the 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 if 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)

(m) 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(m)(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. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not the income statement.

(n) 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.

(o) 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.

(p) 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(m)(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.

(q) 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.

(r) 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(t)(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.

(s) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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 guarantee issued. In addition, provisions are recognised in accordance with note 1(t)(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 assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition 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(t)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(t)(iii).

(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.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition (continued)

(ii) Revenue arising from the sale of completed property held for sale is recognised upon the later of the signing of the sale and purchase agreement and the issue of an occupation permit by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. 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.

(vi) Rental income receivable under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Borrowing costs

Borrowing costs that are 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 are capitalised as part of the cost of that assets. Other borrowing costs are expensed in the period in which they are incurred.

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.

(w) Translation of foreign currencies

The functional currency of the Company and subsidiaries which operate in Hong Kong is Hong Kong dollar while that for subsidiaries which operate in the PRC is Renminbi. The presentation currency of the Group is Hong Kong dollar.

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 dollar at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Translation of foreign currencies (continued)

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

(x) 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 or government bonds (where there is no deep markets in such 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 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.

(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 or government bonds (where there is no such deep markets in such 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee benefits (continued)

(iv) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting 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.

(y) 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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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).

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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.

(z) 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.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

– HKFRS 3 (revised 2008), Business combinations

– Amendments to HKAS 27, Consolidated and separate financial statements

– Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary

– Amendment to HKAS 39, Financial instruments: recognition and measurement – eligible hedged items

– Improvements to HKFRSs (2009)

– HK(Int) 5, Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause

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

The amendment to HKAS 39 and the issuance of HK(Int) 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27 and HKFRS 5 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as "minority interests") in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

- The amendment introduced by the Improvements to HKFRSs (2009) omnibus standard in respect of HKAS 17, Leases, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fee, legal fees, due diligence fees, and other professional and consulting fees will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

2 CHANGES IN ACCOUNTING POLICIES (continued)

- If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

- Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in the income statement, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

- If the acquiree has accumulated tax losses or other deductible temporary differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in the income statement, rather than as an adjustment to goodwill as was previously the policy.

- In addition to the Group's existing policy of measuring non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interests at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other deductible temporary differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

• As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies have been applied as from 1 January 2010:

- If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

- If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of a reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

• In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, Investments in associates, and HKAS 31, Interests in joint ventures, the following policies will be applied as from 1 January 2010:

- If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

2 CHANGES IN ACCOUNTING POLICIES (continued)

- If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in the current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

- As a result of the amendment to HKAS 17, Leases, arising from the "Improvements to HKFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate, with the exception of those interests which are registered and transferable ownership interests in land located in the Hong Kong Special Administrative Region and subject to the Government's land policy of renewal without payment of additional land premium. These leasehold interests will no longer be classified by the Group as operating leases as the Group considers that it is in a position economically similar to that of a purchaser. This change in accounting policy has no material impact on the current or previous periods as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

3 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 19 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, revenue from media sales and gross rentals from investment properties recognised during the year and is analysed as follows:

	2010 **HK$'000**	2009 HK$'000
Fare revenue from franchised public bus services	**6,060,373**	6,146,454
Revenue from non-franchised transport services	**256,986**	295,373
Revenue from sales of properties	**29,263**	156,176
Media sales revenue	**327,000**	236,525
Gross rentals from investment properties	**13,214**	7,667
	6,686,836	6,842,195

The Group's customer base is diversified and there was no customer with whom transactions have exceeded 10% of the Group's revenues. Further details regarding the Group's principal activities are disclosed in note 13 to these financial statements.

4 OTHER NET INCOME

	2010 HK$'000	2009 HK$'000
Net movement in balance of passenger rewards (note (a))	**26,657**	(58,100)
Net income/(loss) recognised in respect of defined benefit retirement plans (note 22(e))	**73,990**	(39,442)
Interest income on instalments receivable from sales of properties	**284**	852
Interest income on other financial assets not at fair value through profit or loss	**36,310**	36,380
Claims received	**27,059**	29,298
Dividend income from unlisted equity securities	**16,145**	8,680
Net miscellaneous business receipts	**8,642**	6,004
Net exchange gain/(loss)	**15,519**	(2,801)
Net gain on disposal of fixed assets	**3,345**	400
Net write-back of impairment loss on instalments receivable	**–**	80,285
Gain on disposal of jointly controlled entity	**–**	1,287
Available-for-sale debt securities: reclassified from equity upon disposal	**–**	(125)
Gain on deemed disposal of partial interest in associate	**–**	177
Reversal of net gain on property sales previously recognised (note (b))	**(38,628)**	–
Sundry revenue	**17,247**	27,644
	186,570	90,539

Notes: (a) Under the revised Modified Basket of Factors ("MBOF") approach, which is the existing basis for the assessment of bus fare adjustment applications, 50% of any return on a franchised bus operator in a given year in excess of a prescribed triggering point of return on its average net fixed assets is required to be set aside and accumulated in a balance of passenger rewards which would be available to relieve the pressure for future fare increases and to facilitate the offer of bus fare concessions. The prescribed triggering point of return for 2010 and 2009 was 9.7% per annum. The balance of passenger rewards of the Group as at 31 December 2010, included in accounts payable and accruals, was HK$31,572,000 (2009: HK$58,100,000) (see note 27).

(b) During the year ended 31 December 2010, as the purchasers of two property units have defaulted in the settlement of the purchase consideration, the Group cancelled the sales of the two property units entered into in previous years pursuant to the Agreements for Sale and Purchase. In accordance with the terms of the Agreements for Sale and Purchase, the Group has retained the forfeited deposits of 10% of the purchase price, and the deposits received in excess of the deposit forfeited are to be refunded to the purchasers. As a result, a net loss on cancellation of property sales of HK$38,628,000 was recognised during the year, and completed property held for sale was increased by HK$9,072,000. The net loss includes the reversal of revenue from the cancelled properties recognised in prior years, net of the related selling and marketing expenses of HK$999,000, amounted to HK$53,111,000.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		2010 HK$'000	2009 HK$'000
(a)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**68,048**	65,557
	Movements in provision for long service payments (note 30)	**5,593**	2,887
	Salaries, wages and other benefits	**2,967,064**	2,988,750
		3,040,705	3,057,194
(b)	**Finance costs:**		
	Interest on bank loans and overdrafts not at fair value through profit or loss	**6,618**	12,143
(c)	**Other items:**		
	Auditors' remuneration		
	– audit services	**4,810**	4,107
	– other services	**1,738**	1,465
	Operating lease charges on properties, temporary bus depots, buses, ferries and terminal shelters	**31,417**	29,551
	Depreciation	**896,987**	898,457
	Amortisation of land lease premium	**2,056**	2,079
	Amortisation of media assets	**205**	406
	Impairment loss on trade and other receivables	**663**	296
	Impairment loss on media assets	**171**	–
	Write-back of impairment loss on trade and other receivables and instalments receivable	**(731)**	(80,285)
	Write-down of spare parts and stores	**12,440**	2,843
	Rentals receivable from investment properties less direct outgoings of HK$6,961,000 (2009: HK$5,796,000) (note)	**(6,253)**	(1,871)

Note: Included contingent rental income of HK$324,000 (2009: HK$177,000).

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2010 HK$'000	2009 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**71,902**	138,813
Under-provision in respect of prior years	**1,923**	357
	73,825	139,170
Current tax – PRC Income Tax		
Provision for the year	**260**	247
Over-provision in respect of prior years	**(401)**	–
	(141)	247
PRC withholding tax	**1,400**	–
Deferred tax		
Origination and reversal of temporary differences	**268**	(21,675)
	75,352	117,742

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) 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.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010 HK$'000	2009 HK$'000
Profit before taxation	**930,726**	799,798
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**151,416**	135,541
Tax effect of non-deductible expenses	**23,008**	11,091
Tax effect of non-taxable income	**(102,022)**	(29,422)
Tax effect of unused tax losses not recognised	**1,078**	1,077
Under-provision in prior years	**1,522**	357
Others	**350**	(902)
Actual tax expense	**75,352**	117,742

7 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 2010	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	840	67	–	1,267[(1)]
Edmond Ho Tat Man	450	3,963	1,000	476	5,889[(1)]
Evan Au Yang Chi Chun (Appointed on 20 May 2010)	223	3,501	502	200	4,426[(1)]
Non-executive Directors					
Kwok Ping-luen, Raymond	600	–	–	–	600
Dr Kwok Ping-sheung, Walter	360	–	–	–	360
Ng Siu Chan	360	–	–	–	360
William Louey Lai Kuen	360	–	–	–	360
Dr John Chan Cho Chak	756	–	–	–	756[(1)]
Winnie Ng	750	–	–	–	750[(1)]
George Chien Yuan Hwei	420	–	–	–	420
John Anthony Miller	450	–	–	–	450[(1)]
Yung Wing Chung[(2)]	178	–	–	–	178
Independent Non-executive Directors					
The Hon Sir Sze-yuen Chung	504	–	–	–	504
Dr Norman Leung Nai Pang	738	–	–	–	738
Dr Eric Li Ka Cheung	648	–	–	–	648[(1)]
Siu Kwing-chue, Gordon	420	–	–	–	420
Dr Kung Ziang Mien, James[(3)]	159	–	–	–	159
	7,736	8,304	1,569	676	18,285

7 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 2009	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	67	–	1,027[(1)]
Edmond Ho Tat Man	415	3,901	1,000	468	5,784[(1)]
Non-executive Directors					
Kwok Ping-luen, Raymond	360	–	–	–	360
Dr Kwok Ping-sheung, Walter	360	–	–	–	360
Ng Siu Chan	360	–	–	–	360
William Louey Lai Kuen	360	–	–	–	360
Dr John Chan Cho Chak	456	–	–	–	456[(1)]
Winnie Ng	460	–	–	–	460[(1)]
George Chien Yuan Hwei	420	–	–	–	420
John Anthony Miller	415	–	–	–	415[(1)]
Yung Wing Chung [(2)]	108	–	–	–	108
Independent Non-executive Directors					
The Hon Sir Sze-yuen Chung	504	–	–	–	504
Dr Norman Leung Nai Pang	402	–	–	–	402
Dr Eric Li Ka Cheung	592	–	–	–	592[(1)]
Siu Kwing-chue, Gordon	377	–	–	–	377
Dr Kung Ziang Mien, James [(3)]	450	–	–	–	450
	6,399	4,501	1,067	468	12,435

Notes: (1) The amounts included emoluments from the Company and certain of its subsidiaries.

(2) 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 emolument was solely in respect of his services as a director of RoadShow.

(3) Dr Kung Ziang Mien, James passed away on 9 May 2010.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2009: one) are Directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) are as follows:

	2010 HK$'000	2009 HK$'000
Fees	**673**	415
Salaries, allowances and benefits in kind	**14,089**	12,353
Discretionary bonuses	**2,655**	2,808
Retirement scheme contributions	**888**	685
	18,305	16,261

The emoluments of the five (2009: five) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2010	2009
HK$2,000,001 – HK$2,500,000	**1**	1
HK$2,500,001 – HK$3,000,000	**2**	3
HK$4,000,001 – HK$4,500,000	**1**	–
HK$5,500,001 – HK$6,000,000	**1**	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$900,895,000 (2009: HK$362,106,000) 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:

	2010 HK$'000	2009 HK$'000
Amount of consolidated profit attributable to equity shareholders of the Company dealt with in the Company's financial statements	**900,895**	362,106
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**50,631**	109,061
Company's profit for the year (note 31(a))	**951,526**	471,167

10 OTHER COMPREHENSIVE INCOME

	2010 HK$'000	2009 HK$'000
Available-for-sale debt securities:		
Changes in fair value recognised during the year	**8,222**	(1,809)
Reclassification adjustment for amount transferred to profit or loss on disposal	**–**	125
Net movement in the fair value reserve during the year recognised in other comprehensive income	**8,222**	(1,684)
Cash flow hedges:		
Amount transferred to initial carrying amount of hedged items	**–**	595

11 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$866,886,000 (2009: HK$673,504,000) and 403,639,413 shares in issue during the years ended 31 December 2010 and 2009. The calculation of basic earnings per share arising from sales of building and leasehold land interest and Manhattan Hill properties and the Group's other operations is based on profits arising from the respective operations of HK$471,952,000 (2009: HK$186,099,000) and HK$394,934,000 (2009: HK$487,405,000) respectively and 403,639,413 shares in issue during the years ended 31 December 2010 and 2009.

(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.

12 DIVIDENDS

(a) Dividends paid/payable to equity shareholders of the Company attributable to the year

	2010		2009	
	Per share HK$	Total HK$'000	Per share HK$	Total HK$'000
Interim dividend declared and paid	**0.30**	**121,092**	0.30	121,092
Ordinary final dividend proposed after the balance sheet date	**1.05**	**423,821**	1.05	423,821
Special dividend proposed after the balance sheet date	**–**	**–**	1.00	403,639
	1.35	**544,913**	2.35	948,552

The ordinary final dividend proposed after the balance sheet date has not been recognised as liability at the balance sheet date.

12 DIVIDENDS (continued)

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2010		2009	
	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	**1.05**	**423,821**	1.05	423,821
Special dividend in respect of the previous financial year, approved and paid during the year	**1.00**	**403,639**	–	–
	2.05	**827,460**	1.05	423,821

13 SEGMENT REPORTING

The Group manages its business by business lines. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments:

Franchised bus operation:	The provision of franchised public transport services in Hong Kong.
Media sales business:	The provision of audio-video programming through a multi-media on-board system and marketing of advertising spaces on transit vehicles, shelters and outdoor signages.
Property development:	The development of residential properties for sale.

Other operating segments which do not meet the quantitative thresholds prescribed by HKFRS 8, Operating segments, for determining reportable segments are combined as "all other segments". Such operating segments generate profits mainly from the provision of non-franchised transport services, leasing of investment properties and investments in associates and jointly controlled entities.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to the revenue generated and expenses incurred by those segments. The measure used for reporting segment profit is net profit after taxation, adjusted for head office or corporate administration costs which are not specifically attributable to individual segments. Inter-segment revenue is priced with reference to the price charged to external parties for similar transactions.

Segment assets and segment liabilities include all current and non-current assets and liabilities, respectively, which are directly managed by the segments.

13 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments for the years ended 31 December 2010 and 2009 is set out below.

	Franchised bus operation		Media sales business		Property development		All other segments		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**6,062,437**	6,200,046	**325,231**	183,022	**29,633**	156,176	**269,535**	302,951	**6,686,836**	6,842,195
Inter-segment revenue	**102,072**	54,371	**–**	13,339	**–**	–	**28,010**	19,837	**130,082**	87,547
Reportable segment revenue	**6,164,509**	6,254,417	**325,231**	196,361	**29,633**	156,176	**297,545**	322,788	**6,816,918**	6,929,742
Reportable segment profit/ (loss)	**328,028**	387,897	**(57,155)**	18,220	**(16,999)**	185,252	**73,078**	59,682	**326,952**	651,051
Interest income	**1,044**	3,109	**12,024**	13,648	**–**	–	**284**	852	**13,352**	17,609
Interest expense	**(5,993)**	(9,930)	**–**	–	**–**	–	**(625)**	(2,213)	**(6,618)**	(12,143)
Depreciation and amortisation for the year	**(859,399)**	(854,498)	**(6,498)**	(9,875)	**–**	–	**(33,351)**	(36,569)	**(899,248)**	(900,942)
Write-back/(provision) of impairment losses on receivables	**731**	–	**(318)**	(10)	**–**	80,285	**(345)**	(286)	**68**	79,989
Impairment loss on unlisted equity securities	**–**	–	**(110,000)**	(9,801)	**–**	–	**–**	–	**(110,000)**	(9,801)
Impairment loss on media assets	**–**	–	**(171)**	–	**–**	–	**–**	–	**(171)**	–
Staff costs	**(2,886,038)**	(2,903,030)	**(54,454)**	(39,975)	**–**	–	**(91,445)**	(106,691)	**(3,031,937)**	(3,049,696)
Share of profits less losses of associates	**–**	–	**–**	(4,544)	**–**	–	**33,821**	34,112	**33,821**	29,568
Reportable segment assets	**5,113,638**	5,055,096	**797,887**	852,081	**64,610**	198,217	**1,087,663**	1,072,698	**7,063,798**	7,178,092
– including interest in associates	**–**	–	**–**	–	**–**	–	**640,263**	612,007	**640,263**	612,007
Additions to non-current segment assets during the year	**1,044,774**	605,984	**1,303**	11,021	**–**	–	**34,112**	36,569	**1,080,189**	653,574
Reportable segment liabilities	**2,415,519**	2,433,116	**66,220**	47,987	**176,156**	187,252	**49,373**	247,777	**2,707,268**	2,916,132

(b) Reconciliation of reportable segment revenue, profit, assets and liabilities

	2010	2009
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**6,519,373**	6,606,954
Revenue from all other segments	**297,545**	322,788
Elimination of inter-segment revenue	**(130,082)**	(87,547)
Consolidated turnover	**6,686,836**	6,842,195

	2010	2009
	HK$'000	HK$'000
Profit		
Reportable segment profit	**253,874**	591,369
Profit from all other segments	**73,078**	59,682
Gain on disposal of building and interest in leasehold land	**489,052**	–
Unallocated profits	**39,370**	31,005
Consolidated profit after taxation	**855,374**	682,056

13 SEGMENT REPORTING (continued)

(b) Reconciliation of reportable segment revenue, profit, assets and liabilities (continued)

	2010 HK$'000	2009 HK$'000
Assets		
Reportable segment assets	**5,976,135**	6,105,394
Assets from all other segments	**1,087,663**	1,072,698
Unallocated assets	**2,628,129**	2,794,011
Consolidated total assets	**9,691,927**	9,972,103

	2010 HK$'000	2009 HK$'000
Liabilities		
Reportable segment liabilities	**2,657,895**	2,668,355
Liabilities from all other segments	**49,373**	247,777
Unallocated liabilities	**42,442**	38,271
Consolidated total liabilities	**2,749,710**	2,954,403

(c) Geographic information

Substantially all of the Group's revenue from external customers, based on the location at which the services were provided or the properties were sold, is generated in Hong Kong. The following table sets out information about the geographical location of the Group's fixed assets, intangible assets, goodwill and interests in associates ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset in the case of fixed assets, the location of the operation to which they are allocated in the case of intangible assets and goodwill, and the location of operations in the case of interests in associates.

	Specified non-current assets	
	2010 HK$'000	2009 HK$'000
Hong Kong (place of domicile)	**4,354,299**	4,169,731
The PRC	**648,109**	627,617
	5,002,408	4,797,348

14 FIXED ASSETS

(a) The Group

	Buildings	Buses and other motor vehicles	Vessels	Buses under construction	Tools and others	Sub-total	Investment property under development	Investment properties	Interest in leasehold land	Total fixed assets
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:										
At 1 January 2009	1,429,913	9,156,710	122,885	43,088	2,559,066	13,311,662	120,375	–	126,120	13,558,157
Additions	7,840	30,386	–	229,507	326,576	594,309	–	584	–	594,893
Acquisition of subsidiary (note 32(a))	–	1,800	–	–	–	1,800	–	–	–	1,800
Disposals	(13,056)	(158,321)	–	–	(46,056)	(217,433)	–	–	–	(217,433)
Disposal of subsidiary (note 32(b))	(955)	(39,462)	(122,885)	–	(4,906)	(168,208)	–	–	–	(168,208)
Transfers	–	142,665	–	(142,665)	–	–	(120,375)	120,375	–	–
At 31 December 2009	1,423,742	9,133,778	–	129,930	2,834,680	13,522,130	–	120,959	126,120	13,769,209
Accumulated depreciation, amortisation and impairment losses:										
At 1 January 2009	856,047	6,003,539	34,547	–	2,167,801	9,061,934	–	–	46,095	9,108,029
Charge for the year	32,106	573,816	1,925	–	285,576	893,423	–	5,034	2,079	900,536
Acquisition of subsidiary (note 32(a))	–	1,200	–	–	–	1,200	–	–	–	1,200
Written back on disposal	(13,056)	(155,265)	–	–	(45,860)	(214,181)	–	–	–	(214,181)
Disposal of subsidiary (note 32(b))	(918)	(18,203)	(36,472)	–	(3,989)	(59,582)	–	–	–	(59,582)
At 31 December 2009	874,179	6,405,087	–	–	2,403,528	9,682,794	–	5,034	48,174	9,736,002
Net book value:										
At 31 December 2009	549,563	2,728,691	–	129,930	431,152	3,839,336	–	115,925	77,946	4,033,207
Add: Deposits paid in respect of buses on order						66,911	–	–	–	66,911
						3,906,247	–	115,925	77,946	4,100,118

14 FIXED ASSETS (continued)

(a) The Group (continued)

	Buildings	Buses and other motor vehicles	Buses under construction	Tools and others	Sub-total	Investment property under development	Investment properties	Interest in leasehold land	Total fixed assets
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:									
At 1 January 2010	1,423,742	9,133,778	129,930	2,834,680	13,522,130	–	120,959	126,120	13,769,209
Additions	10,261	40,553	703,686	335,051	1,089,551	5,236	1,093	–	1,095,880
Disposals	–	(318,591)	–	(266,047)	(584,638)	–	–	(2,020)	(586,658)
Exchange adjustments	–	87	–	43	130	–	–	–	130
Transfers	(25,978)	341,080	(341,080)	–	(25,978)	2,020	32,545	(8,587)	–
At 31 December 2010	1,408,025	9,196,907	492,536	2,903,727	14,001,195	7,256	154,597	115,513	14,278,561
Accumulated depreciation, amortisation and impairment losses:									
At 1 January 2010	874,179	6,405,087	–	2,403,528	9,682,794	–	5,034	48,174	9,736,002
Charge for the year	31,695	555,237	–	304,897	891,829	–	5,158	2,056	899,043
Written back on disposal	–	(318,436)	–	(262,200)	(580,636)	–	–	(2,020)	(582,656)
Exchange adjustments	–	73	–	26	99	–	–	–	99
Transfers	(16,523)	–	–	–	(16,523)	2,020	20,638	(6,135)	–
At 31 December 2010	889,351	6,641,961	–	2,446,251	9,977,563	2,020	30,830	42,075	10,052,488
Net book value:									
At 31 December 2010	518,674	2,554,946	492,536	457,476	4,023,632	5,236	123,767	73,438	4,226,073
Add: Deposits paid in respect of buses on order					50,221	–	–	–	50,221
					4,073,853	5,236	123,767	73,438	4,276,294

(b) The Company

	Other fixed assets	
	2010	2009
	HK$'000	HK$'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	**–**	–

14 FIXED ASSETS (continued)

(c) All the Group's buildings, investment properties, investment property under development and interest in leasehold land are held in Hong Kong. The analysis of the net book value of properties is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Medium-term leases	**462,614**	478,884
Short-term leases	**258,501**	264,550
	721,115	743,434
Representing:		
Buildings	**518,674**	549,563
Interest in leasehold land	**73,438**	77,946
Investment properties	**123,767**	115,925
Investment property under development	**5,236**	–
	721,115	743,434

(d) Investment properties and investment property under development are stated at cost less accumulated depreciation and impairment loss. The fair values of the investment properties and investment property under development were HK$790,900,000 and HK$775,000,000 respectively as at 31 December 2010 (2009: HK$432,000,000 and Nil respectively). The valuations were carried out by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuations were performed on an open market value basis. As at 31 December 2010, the investment property under development recognised in the fixed assets of HK$5,236,000 (2009: Nil) is related to the Group's interests in the jointly controlled asset.

(e) The Group leased out investment properties during the year ended 31 December 2010. The leases typically run for an initial period from two to three years, with an option to renew the leases after that date at which time all terms are renegotiated. The leases include contingent rentals being the excess of a percentage of the monthly turnover generated by the lessees over the monthly minimum lease rentals.

The total future minimum lease payments from investment properties under non-cancellable operating leases are receivable as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within 1 year	**13,315**	10,436
After 1 year but within 5 years	**5,236**	12,746
	18,551	23,182

15 PASSENGER SERVICE LICENCES

	The Group	
	2010	2009
	HK$'000	HK$'000
Cost and net book value:		
At 1 January	**21,536**	15,036
Acquisition of subsidiary (note 32(a))	**–**	1,000
Additions	**1,000**	5,500
At 31 December	**22,536**	21,536

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 16 to the financial statements.

16 GOODWILL

	The Group	
	2010	2009
	HK$'000	HK$'000
Cost:		
At 1 January	**75,802**	75,372
Acquisition of subsidiary (note 32(a))	**–**	430
At 31 December	**75,802**	75,802
Accumulated impairment losses:		
At 1 January and 31 December	**12,487**	12,487
Carrying amount:		
At 31 December	**63,315**	63,315

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.

Key assumptions used for value-in-use calculations are as follows:

	2010	2009
	%	%
Growth rate	**3.0**	2.0
Discount rate	**8.1**	8.7

16 GOODWILL (continued)

The growth rates do not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the segment.

The recoverable amount of the CGU based on the value-in-use calculations is higher than its carrying amount. Accordingly, no impairment loss on goodwill or intangible assets with indefinite useful lives has been recognised in the consolidated income statement.

17 MEDIA ASSETS

	The Group	
	2010	2009
	HK$'000	HK$'000
Cost:		
At 1 January	**2,030**	2,030
Exchange adjustments	**23**	–
At 31 December	**2,053**	2,030
Accumulated amortisation and impairment losses:		
At 1 January	**1,658**	1,252
Amortisation for the year	**205**	406
Exchange adjustments	**19**	–
Impairment loss	**171**	–
At 31 December	**2,053**	1,658
Net book value:		
At 31 December	**–**	372

18 NON-CURRENT PREPAYMENTS

Non-current prepayments consist of deposits for purchase of fixed assets and advanced payments for concession and rights for advertising and media programme placement on transit vehicles and transit network furniture for periods from 2002 to 2012. The amounts are neither past due nor impaired.

19 INTEREST IN SUBSIDIARIES

(a) Investments in subsidiaries

	The Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**1,188,423**	1,188,423

(b) Amounts due from/(to) subsidiaries

Amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of settlement/repayment.

19 INTEREST IN SUBSIDIARIES (continued)

(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: Group's effective interest	Percentage of ownership interest: Held by the Company	Percentage of ownership interest: Held by subsidiaries	Principal activity
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	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)
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

19 INTEREST IN SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries (continued)

			Percentage of ownership interest			
Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
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 investment
LCK Commercial Properties Limited	Hong Kong	1 share of HK$1	100	–	100	Property investment
KT Real Estate Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	–	100	Property investment
TM Properties Investment Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	–	100	Property investment
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
RoadShow Holdings Limited	Incorporated in Bermuda and operates in Hong Kong	997,365,332 shares of HK$0.1 each	73	–	73	Investment holding
RoadShow Creations Limited	Hong Kong	2 shares of HK$1 each	73	–	100	Trading of bus souvenirs
RoadShow Media Limited	Hong Kong	2 shares of HK$1 each	73	–	100	Provision of media sales and management services for advertising on transit vehicles, shelters and for the Multi-media On- board business

19 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: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
RoadShow Productions Limited	Hong Kong	2 shares of HK$1 each	73	–	100	Production of content for Multi-media On-board systems
Bus Power Limited	Hong Kong	1 share of HK$1	73	–	100	Provision of media sales services for advertising on transit vehicle exteriors
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

The market value of the Group's interest in a listed subsidiary, RoadShow Holdings Limited, at 31 December 2010 amounted to HK$473,282,000 (2009: HK$531,533,000).

20 INTEREST IN ASSOCIATES

	The Group 2010 HK$'000	2009 HK$'000
Share of net assets	**581,364**	555,453
Goodwill	**63,821**	61,476
Amount due to associate	**(4,922)**	(4,922)
	640,263	612,007

20 INTEREST IN ASSOCIATES (continued)

The following list contains the particulars of associates which are unlisted corporate entities and principally affected the results or assets of the Group:

				Percentage of ownership interest			
Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
Beijing Beiqi Kowloon Taxi Company Limited	Sino-foreign joint stock company	The PRC	RMB 166,600,000	31.4	–	31.4	Provision of taxi hire and car rental services
Shenzhen Bus Group Company Limited	Sino-foreign joint stock company	The PRC	RMB 951,430,306	35	-	35	Provision of bus and taxi hire services

Summary financial information on associates

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenues HK$'000	Net profit HK$'000
2010					
100 per cent	**3,573,937**	**(1,944,990)**	**1,628,947**	**2,625,011**	**96,375**
Group's effective interest	**1,287,401**	**(706,037)**	**581,364**	**905,507**	**33,821**
2009					
100 per cent	3,025,850	(1,480,168)	1,545,682	2,541,619	87,017
Group's effective interest	1,093,632	(538,179)	555,453	890,675	29,568

21 OTHER FINANCIAL ASSETS

	The Group	
	2010 HK$'000	2009 HK$'000
Instalments receivable from sales of properties	**3,019**	9,267
Unlisted equity securities, at cost	**38,925**	148,925
Loans to investee	**97,218**	69,884
Amount due from investee	**15,882**	12,167
Available-for-sale debt securities		
– listed outside Hong Kong	**442,717**	55,283
– unlisted	**38,501**	38,022
	636,262	333,548

Instalments receivable from sales of properties are neither past due nor impaired. Instalments receivable from sales of properties relate to customers for whom there was no recent history of default. Properties sold to the customers serve as collateral.

21 OTHER FINANCIAL ASSETS (continued)

At 31 December 2010 and 2009, the Group's investment in an unlisted investee with a carrying amount of HK$23,570,000 (2009: HK$133,570,000) was classified as available-for-sale equity securities as the Group does not have significant influence over the investee. At 31 December 2010, these available-for-sale equity securities were individually determined to be impaired on the basis of an adverse change in the market in which the investee operated which indicated that the Group's investment in the investee may not be fully recovered. Impairment loss on unlisted available-for-sale equity securities of HK$110,000,000 (2009: HK$9,801,000) was recognised in the consolidated income statement during the year ended 31 December 2010.

At 31 December 2010 and 2009, loans to investee were unsecured, carried interest ranging from 5.31% p.a. to 7.47% p.a. and were not expected to be settled within one year. The loans were neither past due nor impaired.

At 31 December 2010 and 2009, amount due from investee was unsecured, interest-free and had no fixed repayment terms, but was not expected to be recovered within one year. The amount was neither past due nor impaired.

Debt securities are issued by corporate entities with credit rating ranging from A- to AA+. As at 31 December 2010 and 2009, the Group's available-for-sale debt securities were neither past due nor impaired.

22 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 2010 and were prepared by Towers Watson Hong Kong Limited which has among its staff fellow members of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 147% (2009: 132%) covered by the plan assets held by the trustee.

(a) The amount recognised in the consolidated balance sheet is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Present value of funded obligations	**(2,700,389)**	(2,886,274)
Fair value of plan assets	**3,973,271**	3,816,704
Net unrecognised actuarial gains	**(482,899)**	(214,437)
	789,983	715,993

A portion of the above asset/liability is expected to be recovered/paid after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable/payable 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 2011 is Nil.

(b) Plan assets consist of the following:

	The Group	
	2010	2009
	HK$'000	HK$'000
Equity securities	**2,955,833**	2,774,886
Bonds	**894,688**	862,291
Cash and others	**122,750**	179,527
	3,973,271	3,816,704

22 EMPLOYEE RETIREMENT BENEFITS (continued)

(c) Movements in the present value of the defined benefit obligations:

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**2,886,274**	3,443,631
Benefits paid by the plans	**(199,878)**	(168,950)
Current service cost	**135,474**	168,753
Interest cost	**74,139**	40,925
Actuarial gains	**(195,620)**	(598,085)
At 31 December	**2,700,389**	2,886,274

(d) Movements in plan assets:

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**3,816,704**	3,110,517
Benefits paid by the plans	**(199,878)**	(168,950)
Actuarial expected return on plan assets	**283,647**	230,798
Actuarial gains	**72,798**	644,339
At 31 December	**3,973,271**	3,816,704

(e) Net (income)/loss recognised in the consolidated income statement is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Current service cost	**135,474**	168,753
Interest cost	**74,139**	40,925
Actuarial expected return on plan assets	**(283,647)**	(230,798)
Net actuarial losses recognised	**44**	60,562
	(73,990)	39,442

The above net (income)/loss 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 gain of HK$356,445,000 (2009: HK$875,137,000).

22 EMPLOYEE RETIREMENT BENEFITS (continued)

(f) The principal actuarial assumptions used at the respective year-ends are as follows:

	The Group	
	2010	2009
	%	%
Discount rate	**3.0**	2.6
Expected rate of return on plan assets	**7.0**	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.

(g) Historical information

	The Group				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fair value of plan assets	**3,973,271**	3,816,704	3,110,517	4,782,207	3,864,006
Present value of the defined benefit obligations	**(2,700,389)**	(2,886,274)	(3,443,631)	(2,755,991)	(2,661,069)
Surplus/(deficit) in the plans	**1,272,882**	930,430	(333,114)	2,026,216	1,202,937
Experience gains/(losses) arising on plan liabilities	**85,373**	125,284	(47,681)	84,445	41,439
Experience gains/(losses) arising on plan assets	**72,798**	644,339	(1,846,847)	866,572	302,284

23 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. 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 2010 and 2009.

24 ACCOUNTS RECEIVABLE

	The Group	
	2010	2009
	HK$'000	HK$'000
Trade and other receivables	**242,408**	236,159
Instalments receivable from sale of properties	**409**	143,571
Interest receivable	**14,156**	9,378
Less: Allowance for doubtful debts (note 24(b))	**(345)**	(4,529)
	256,628	384,579

All of the accounts receivable are expected to be recovered within one year.

(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	
	2010	2009
	HK$'000	HK$'000
Current	**97,294**	148,726
1 to 3 months past due	**18,427**	17,872
More than 3 months past due	**7,934**	93,708
	123,655	260,306

The Group's credit policy is set out in note 35(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(m)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**4,529**	84,528
Impairment loss recognised	**663**	296
Write-back of impairment loss	**(731)**	(80,285)
Uncollectible amounts written off	**(4,116)**	(10)
At 31 December	**345**	4,529

24 ACCOUNTS RECEIVABLE (continued)

(b) Impairment of trade and other receivables and instalments receivable from sale of properties (continued)

At 31 December 2010, the Group's trade and other receivables of HK$814,000 (2009: HK$16,048,000) 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. During the year ended 31 December 2010, there was a write-back of impairment loss on trade and other receivables of HK$731,000 (2009: write-back of impairment loss on instalments receivable of HK$80,285,000) recognised in the consolidated income statement.

(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	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**230,267**	263,502
1 to 3 months past due	**18,427**	17,254
More than 3 months past due	**7,465**	92,304
	25,892	109,558
	256,159	373,060

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

In 2009, instalments receivable from sale of properties of HK$83,987,000 were due from customers who have defaulted in completion. The Group holds the property as collateral over these balances.

The remaining 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.

25 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**185,208**	335,505	**31,590**	28,417
Bank deposits	**2,615,489**	3,217,556	**–**	–
	2,800,697	3,553,061	**31,590**	28,417
Less: Pledged and restricted bank deposits (note)	**(73,921)**	(51,200)	**–**	–
Cash and cash equivalents in the consolidated balance sheets	**2,726,776**	3,501,861	**31,590**	28,417
Less: Bank deposits with original maturities of over three months	**(2,084,485)**	(2,827,447)		
Bank overdrafts	**(229)**	(2,760)		
Cash and cash equivalents in the consolidated cash flow statement	**642,062**	671,654		

Note: Pursuant to certain licence agreements between certain subsidiaries of the Group and certain subsidiaries of RoadShow, the subsidiaries of RoadShow have provided bank guarantees issued in favour of the subsidiaries of the Group regarding their due performance and payment under the respective licence agreements. Bank deposits of HK$41,200,000 (2009: HK$51,200,000) has been pledged to the bank for the bank guarantees.

In addition, the Group is required to maintain the balance of passenger rewards (see note 4) in designated bank accounts under the revised MBOF approach. As at 31 December 2010, the related restricted bank deposits amounted to HK$32,721,000 (2009: Nil).

25 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	2010 HK$'000	2009 HK$'000
Profit before taxation	**930,726**	799,798
Adjustments for:		
– dividend income from unlisted equity securities	**(16,145)**	(8,680)
– interest income	**(36,594)**	(37,232)
– finance costs	**6,618**	12,143
– reclassification from equity on disposal of available-for-sale debt securities	**–**	125
– impairment loss on unlisted equity securities	**110,000**	9,801
– depreciation and amortisation	**899,248**	900,942
– impairment loss on media assets	**171**	–
– net gain on disposal of fixed assets	**(492,397)**	(400)
– gain on disposal of jointly controlled entity	**–**	(1,287)
– gain on deemed disposal of partial interest in associate	**–**	(177)
– share of profits less losses of associates	**(33,821)**	(29,568)
– share of profits of jointly controlled entities	**–**	(3,021)
Effect of foreign exchange rate	**(3,495)**	(2,386)
Operating profit before changes in working capital	**1,364,311**	1,640,058
(Increase)/decrease in non-current prepayments	**(25,106)**	9,580
Decrease/(increase) in spare parts and stores	**10,344**	(597)
(Increase)/decrease in trade and other receivables	**(10,433)**	244,881
Decrease in instalments receivable from sale of properties	**149,410**	96,536
Decrease/(increase) in deposits and prepayments	**7,505**	(12,886)
(Increase)/decrease in completed property held for sale	**(3,163)**	36,387
(Decrease)/increase in accounts payable and accruals	**(5,360)**	61,018
Decrease in amount due to jointly controlled entity	**–**	(350)
Increase/(decrease) in third party claims payable	**3,580**	(15,142)
Decrease in contingency provision – insurance	**(4,772)**	(31,845)
Decrease in provision for long service payments	**(4,395)**	(4,241)
(Increase)/decrease in employee benefit assets	**(73,990)**	39,442
Cash generated from operations	**1,407,931**	2,062,841

26 BANK LOANS AND OVERDRAFTS

At 31 December 2010, the bank loans and overdrafts were repayable as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within 1 year or on demand	**197,592**	401,930
After 1 year but within 2 years	**69,916**	200,000
After 2 years but within 5 years	**400,000**	269,832
	469,916	469,832
	667,508	871,762

27 ACCOUNTS PAYABLE AND ACCRUALS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**237,737**	206,375	**–**	–
Balance of passenger rewards (see note 4)	**31,572**	58,100	**–**	–
Other payables and accruals	**839,735**	805,027	**41,615**	37,451
Financial liabilities measured at amortised cost	**1,109,044**	1,069,502	**41,615**	37,451
Financial guarantees issued	**–**	–	**473**	3,600
	1,109,044	1,069,502	**42,088**	41,051

Financial guarantees issued by the Company of HK$151,000 (2009: HK$1,809,000) are expected to be recognised as income after more than one year. All other accounts payable and accruals at 31 December 2010 and 2009 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	
	2010	2009
	HK$'000	HK$'000
Due within 1 month or on demand	**202,101**	188,291
Due after 1 month but within 3 months	**33,120**	16,686
Due after more than 3 months	**2,516**	1,398
	237,737	206,375

28 CONTINGENCY PROVISION – INSURANCE

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**432,609**	479,596
Provision charged to the consolidated income statement	**39,466**	12,862
Payments made during the year	**(40,658)**	(59,849)
At 31 December	**431,417**	432,609
Representing:		
Current portion	**131,122**	127,542
Non-current portion	**300,295**	305,067
	431,417	432,609

The Group is involved from time to time in litigation and claims in connection with its bus operations. Contingency provision – 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.

29 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2010	2009
	HK$'000	HK$'000
Provision for Hong Kong Profits Tax for the year	**71,902**	138,813
Provisional Profits Tax paid	**(75,473)**	(99,955)
	(3,571)	38,858
Balance of Profits Tax recoverable relating to prior years	**(70)**	(23)
	(3,641)	38,835
PRC Income Tax payable	**260**	401
	(3,381)	39,236
Representing:		
Current taxation recoverable	**(15,781)**	(7,868)
Current taxation payable	**12,400**	47,104
	(3,381)	39,236

29 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:

	The Group					
Deferred tax arising from:	Depreciation allowances in excess of the related depreciation HK$'000	Provisions HK$'000	Tax losses HK$'000	Defined benefit assets HK$'000	Others HK$'000	Total HK$'000
At 1 January 2009	558,226	(46,241)	(43,155)	42,379	11,628	522,837
Disposal of subsidiary (note 32(b))	(15,442)	–	7,413	–	–	(8,029)
(Credited)/charged to the consolidated income statement	(29,636)	9,061	3,910	(502)	(4,508)	(21,675)
At 31 December 2009	513,148	(37,180)	(31,832)	41,877	7,120	493,133
At 1 January 2010	**513,148**	**(37,180)**	**(31,832)**	**41,877**	**7,120**	**493,133**
Charged/(credited) to the consolidated income statement	**3,837**	**(4,491)**	**4,694**	**(50)**	**(3,722)**	**268**
At 31 December 2010	**516,985**	**(41,671)**	**(27,138)**	**41,827**	**3,398**	**493,401**

	The Group	
	2010 HK$'000	2009 HK$'000
Amounts recognised in the consolidated balance sheet:		
Net deferred tax assets	**(6,055)**	(6,013)
Net deferred tax liabilities	**499,456**	499,146
	493,401	493,133

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of HK$29,385,000 (2009: HK$28,307,000) in respect of tax losses of HK$177,007,000 (2009: HK$170,463,000) 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. Except for tax losses of HK$2,107,000 (2009: HK$2,127,000) which will expire in five years, the tax losses do not expire under the current tax legislation.

30 PROVISION FOR LONG SERVICE PAYMENTS

Details of the provision for long service payments of the Group are as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**34,280**	38,521
Provision charged to the consolidated income statement (note 5(a))	**5,593**	2,887
Payments made during the year	**(9,988)**	(7,128)
At 31 December	**29,885**	34,280

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.

31 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 January 2009		403,639	1,300,000	77,825	1,781,464
Changes in equity for 2009:					
Dividend approved in respect of the previous year	12(b)	–	–	(423,821)	(423,821)
Profit and total comprehensive income for the year		–	–	471,167	471,167
Dividend approved in respect of the current year	12(a)	–	–	(121,092)	(121,092)
At 31 December 2009		403,639	1,300,000	4,079	1,707,718
At 1 January 2010		**403,639**	**1,300,000**	**4,079**	**1,707,718**
Changes in equity for 2010:					
Dividends approved in respect of the previous year	12(b)	**–**	**–**	**(827,460)**	**(827,460)**
Profit and total comprehensive income for the year		**–**	**–**	**951,526**	**951,526**
Dividend approved in respect of the current year	12(a)	**–**	**–**	**(121,092)**	**(121,092)**
At 31 December 2010		**403,639**	**1,300,000**	**7,053**	**1,710,692**

31 CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

The Company's reserves available for distribution to shareholders at 31 December 2010 amounted to HK$1,307,053,000 (2009: HK$1,304,079,000). After the balance sheet date, the Directors proposed an ordinary final dividend of HK$1.05 per share (2009: ordinary final dividend of HK$1.05 per share and special dividend of HK$1.00 per share), amounting to HK$423,821,000 (2009: ordinary final dividend of HK$423,821,000 and special dividend of HK$403,639,000). The ordinary final dividend proposed has not been recognised as liability at the balance sheet date.

(b) Share capital

Authorised and issued share capital

	2010	2009
	HK$'000	HK$'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.

(c) 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(w).

(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 debt securities held at the balance sheet date and is dealt with in accordance with the accounting policy set out in note 1(f).

(d) 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 compared to the amount of capital. For this purpose the Group defines net cash as cash and cash equivalents and pledged and restricted bank deposits less interest-bearing loans and borrowings in the balance sheet. Capital comprises all components of equity.

31 CAPITAL AND RESERVES (continued)

(d) Capital management (continued)

Net cash and equity at 31 December 2010 and 2009 were as follows:

		The Group		The Company	
		2010	2009	**2010**	2009
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	25(a)	**2,726,776**	3,501,861	**31,590**	28,417
Pledged and restricted bank deposits	25(a)	**73,921**	51,200	**–**	–
Less: Bank loans and overdrafts	26	**(667,508)**	(871,762)	**–**	–
Net cash		**2,133,189**	2,681,299	**31,590**	28,417
Total equity		**6,945,348**	7,017,700	**1,710,692**	1,707,718

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirement.

32 ACQUISITION AND DISPOSAL OF SUBSIDIARY

(a) Acquisition of subsidiary

On 8 January 2009, the Company, via a wholly-owned subsidiary, acquired the entire equity interest in Hong Kong Coach Company Limited ("Hong Kong Coach") for a consideration of HK$2,030,000, satisfied in cash.

The principal activity of Hong Kong Coach is the provision of transport services in Hong Kong. The contribution to the Group's revenue and profit for the year ended 31 December 2009 from Hong Kong Coach since the date of acquisition was immaterial.

Details of net assets acquired and goodwill are as follows:

	Carrying Amount HK$'000	Fair value HK$'000
Fixed assets	–	600
Passenger service licences	–	1,000
Net assets acquired		1,600
Goodwill arising from acquisition (note 16)		430
Total purchase price paid, satisfied in cash		2,030

32 ACQUISITION AND DISPOSAL OF SUBSIDIARY (continued)

(b) Disposal of subsidiary

On 21 May 2009, the Group entered into an agreement for the disposal of an indirectly wholly-owned subsidiary, Park Island Transport Company Limited ("PITC"), to Sun Hung Kai Transport Company Limited ("SHKTC"). The disposal consideration was HK$110,626,000, being the carrying value of the net assets of PITC as at 31 May 2009. The transaction was completed on 1 June 2009. There was no gain or loss on disposal of the subsidiary.

Details of the assets and liabilities disposed of are as follows:

	HK$'000
Fixed assets	108,626
Spare parts and stores	4,461
Accounts receivable	12,631
Deposits and prepayments	1,670
Cash and cash equivalents	3,986
Accounts payable and accruals	(12,719)
Deferred tax liabilities	(8,029)
Net assets disposed of	110,626
Gain on disposal of subsidiary	–
Cash consideration received	110,626
Net cash inflow arising on disposal of subsidiary:	
Cash consideration received	110,626
Cash and cash equivalents disposed of	(3,986)
	106,640

As SHKTC is a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), a substantial shareholder of the Company, the disposal of PITC constitutes a related party transaction (see note 36(a)).

33 COMMITMENTS

(a) Capital commitments

At 31 December 2010, 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	
	2010	2009
	HK$'000	HK$'000
Contracted for	**530,314**	767,739
Authorised but not contracted for	**111,006**	173,000
	641,320	940,739

33 COMMITMENTS (continued)

(a) Capital commitments (continued)

As at 31 December 2010, the Group's share of capital commitments of the jointly controlled asset in relation to the investment property under development not provided for in the financial statements is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Contracted for	**11,200**	–
Authorised but not contracted for	**1,785,900**	–
	1,797,100	–

(b) At 31 December 2010, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within 1 year	**2,326**	4,409
After 1 year but within 5 years	**1,523**	2,506
	3,849	6,915

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.

(c) Certain exclusive licences to conduct media sales management services for Multi-media On-board business have been granted to the Group, the respective licences expire in 2012. Under such licences, the Group has committed to pay licence fees or royalty fees at a pre-determined percentage of the net advertising rental received. The future minimum guaranteed licence fees or royalty fees are as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within 1 year	**29,713**	11,504
After 1 year but within 5 years	**16,696**	19,451
	46,409	30,955

34 CONTINGENT LIABILITIES

Financial guarantees issued

At 31 December 2010, the Company has undertaken to guarantee a banking facility granted to a subsidiary to the extent of HK$140,000,000 (2009: HK$340,000,000).

As at the balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the balance sheet date under the guarantee issued is the outstanding amount of the loan advanced by the bank to the subsidiary of HK$70,000,000 (2009: HK$270,000,000).

Deferred income in respect of the guarantee issued is disclosed in note 27 to the financial statements.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, instalments receivable from sale of properties and 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 sale 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. Cash at bank and bank deposits are placed with licensed financial institutions with high credit ratings and the Group monitors the exposure to each financial institution.

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 21 and 24.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (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 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

	2010					2009				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank loans	205,120	74,575	403,592	683,287	667,279	404,228	202,636	273,307	880,171	869,002
Accounts payable and accruals	1,109,044	–	–	1,109,044	1,109,044	1,069,502	–	–	1,069,502	1,069,502
Bank overdrafts	229	–	–	229	229	2,760	–	–	2,760	2,760
	1,314,393	74,575	403,592	1,792,560	1,776,552	1,476,490	202,636	273,307	1,952,433	1,941,264

The Company

	2010					2009				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Amounts due to subsidiaries	7,357,759	–	–	7,357,759	7,357,759	6,788,653	–	–	6,788,653	6,788,653
Other payables and accruals	41,615	–	–	41,615	41,615	37,451	–	–	37,451	37,451
	7,399,374	–	–	7,399,374	7,399,374	6,826,104	–	–	6,826,104	6,826,104
Financial guarantees issued:										
Maximum amount guaranteed (note 34)	70,000	–	–	70,000	473	270,000	–	–	270,000	3,600

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (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 2010 and 2009, all the Group's borrowings were denominated in Hong Kong dollar 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 condition.

(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			
	2010		2009	
	Effective interest rate p.a.		Effective interest rate p.a.	
	%	**HK$'000**	%	HK$'000
Fixed rate assets:				
Bank deposits	**0.7**	**2,615,489**	0.5	3,217,556
Loans to investee	**5.3**	**97,218**	5.8	69,884
Available-for-sale debt securities	**3.7**	**481,218**	3.3	93,305
		3,193,925		3,380,745
Variable rate assets/ (liabilities):				
Cash at bank	**0.1**	**75,898**	0.3	65,955
Instalments receivable	**5.0**	**3,428**	5.0	10,159
Bank overdrafts	**5.0**	**(229)**	5.0	(2,760)
Bank loans	**0.9**	**(667,279)**	0.7	(869,002)
		(588,182)		(795,648)

(ii) Sensitivity analysis

At 31 December 2010, 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$4,786,000 (2009: HK$6,535,000). Other components of consolidated equity would have decreased/increased by approximately HK$13,662,000 (2009: HK$2,824,000) 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 (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2009.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through purchases of new buses and motor vehicle components from overseas that are denominated in a currency other than the functional currency of the entity. The currency giving rise to this risk is primarily British Pounds sterling.

The Group hedges approximately 56% (2009: 27%) of its estimated foreign currency exposure in respect of highly probable forecast purchases. During the years ended 31 December 2010 and 2009, the Group used forward foreign exchange contracts to hedge its currency risk and classified these as cash flow hedges.

At 31 December 2010 and 2009, the Group had no forward foreign exchange contracts outstanding.

The Group is also exposed to currency risk arising from loans to and amount due from investee denominated in Renminbi.

(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. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollar, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

The Group

	Exposure to foreign currencies (expressed in Hong Kong dollars)					
	2010			2009		
	Renminbi	British Pounds Sterling	United States Dollars	Renminbi	British Pounds Sterling	United States Dollars
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cash and cash equivalents	4,112	20,963	194,191	–	21,515	309,614
Accounts payable and accruals	–	(52,516)	(3,168)	–	(18,860)	(5,165)
Available-for-sale debt securities	–	–	442,519	–	–	55,283
Amount due from investee	–	–	15,882	–	–	12,167
Loans to investee	27,064	–	70,154	–	–	69,884
Overall net exposure	31,176	(31,553)	719,578	–	2,655	441,783

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 RMB123,734,000 as at 31 December 2010, equivalent to HK$145,882,000 (2009: RMB124,557,000, equivalent to HK$141,460,000).

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(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.

The Group

	2010			2009		
	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%**	**5,319**	**–**	3%	4,245	–
	(3%)	**(5,319)**	**–**	(3%)	(4,245)	–
British Pounds Sterling	**4%**	**(916)**	**–**	11%	634	–
	(4%)	**916**	**–**	(11%)	(634)	–
United States Dollars	**1%**	**2,776**	**4,425**	1%	3,874	553
	(1%)	**(2,776)**	**(4,425)**	(1%)	(3,874)	(553)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

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 excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2009.

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.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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 2010 and 2009.

(g) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, Financial instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

2010

	The Group		
	Level 1	**Level 2**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Assets			
Available-for-sale debt securities			
– Listed	**442,717**	**–**	**442,717**
– Unlisted	**–**	**38,501**	**38,501**
	442,717	**38,501**	**481,218**

2009

	The Group		
	Level 1	Level 2	Total
	HK$'000	HK$'000	HK$'000
Assets			
Available-for-sale debt securities			
– Listed	55,283	–	55,283
– Unlisted	–	38,022	38,022
	55,283	38,022	93,305

During the year there were no transfers between instruments in Level 1 and Level 2.

35 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(g) Fair values (continued)

(ii) Fair values of financial instruments carried at other than fair value

All financial instruments carried at cost or amortised cost are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009 except as follows:

(1) Amounts due from/to subsidiaries, associates and investee 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.

(2) Unlisted equity securities of HK$38,925,000 (2009: HK$148,925,000) 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 accumulated impairment losses at the balance sheet date.

(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 debt securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) 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.

(iii) 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.

36 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group has entered into the following material related party transactions:

(a) Transactions with related companies

	Note	2010 HK$'000	2009 HK$'000
Service fees for provision of coach services	(i)	**36,612**	32,568
Insurance premium paid	(ii)	**67,869**	63,094
Amount paid and accrued for management contractor services for property under development	(iii)	**–**	–
Amount (recoverable)/accrued for letting and sales agency agreement	(iv)	**(127)**	1,899
Amount paid and accrued for management agreement	(v)	**4,659**	5,323
Amount paid and accrued for property project management services	(vi)	**–**	–
Estimated Entitled Net Return for provision of transport services	(vii)	**–**	2,730
Proceeds received from disposal of a subsidiary	32(b)	**–**	110,626
Amount paid and accrued for management contractor services for investment property under development	(viii)	**–**	–
Amount paid and accrued for project management and design services for investment property under development	(ix)	**–**	–
Amount paid for purchase of unsecured fixed rate notes	(x)	**–**	15,000
Interest income received and receivable from unsecured fixed rate notes	(x)	**396**	327
Gain on disposal of building and interest in leasehold land	(xi)	**489,052**	–
Amount paid and accrued for property management service and lease modification	(xii)	**2,920**	–

Notes: (i) During the year, the Group provided coach services to certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP"), a substantial shareholder of the Company. Amounts due from these companies at 31 December 2010 amounted to HK$10,067,000 (2009: HK$6,826,000).

(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 (the "2010 Insurance Arrangements"). The amount paid and payable under the 2010 Insurance Arrangements amounted to HK$67,869,000. No experience refunds were received by the Group during the year (2009: HK$4,704,000). Outstanding balance due to SHKPI at 31 December 2010 amounted to HK$25,000 (2009: HK$22,000).

(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. ("CFCCL"), 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 CFCCL 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 CFCCL should not exceed HK$1,617,743,000. Outstanding balance payable for this contract at 31 December 2010 amounted to HK$101,845,000 (2009: HK$106,623,000).

(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 2010 amounted to HK$3,605,000 (2009: HK$3,732,000).

(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. There was no outstanding balance payable for this contract at 31 December 2010 (2009: HK$1,078,000).

36 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related companies (continued)

Notes: (continued)

(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 2010 amounted to HK$3,800,000 (2009: HK$3,800,000).

(vii) On 23 May 2001, Park Island Transport Company Limited ("PITC") entered into an agreement ("Transport Agreement") with Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW"), a wholly-owned subsidiary of SHKP, for the provision of transport services for Ma Wan Island in Hong Kong. The Transport Agreement was subsequently amended and supplemented by seven supplemental letters dated 4 December 2002, 1 August 2003, 29 February 2004, 6 December 2005, 28 November 2006, 6 December 2007 and 25 November 2008 (collectively, the "Supplemental Agreements") with the operating term extended to 13 December 2009.

Under the terms of the Transport Agreement and Supplemental Agreements, PITC was entitled to a return lying within the range of 6% and 15% 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 21 May 2009, the Group disposed of the entire interest in PITC to Sun Hung Kai Transport Company Limited, a subsidiary of SHKP. The disposal consideration is HK$110,626,000, being the carrying value of the net assets of PITC at 31 May 2009. The transaction was completed on 1 June 2009. There was no resultant gain or loss on disposal of the subsidiary.

There was no outstanding balance receivable from SHKMW at 31 December 2009 under this contract.

(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 CFCCL for the provision of management contractor services involving the alteration and addition works to the retail podium of Manhattan Hill ("Manhattan Mid-town"). Pursuant to the Prime Cost Agreement, the aggregate consideration payable to CFCCL should not exceed HK$37,400,000. Outstanding balance payable for this contract at 31 December 2010 amounted to HK$4,229,000 (2009: HK$4,390,000).

(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 Manhattan Mid-town. 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 Manhattan Mid-town. There was no outstanding balance payable for this contract at 31 December 2010 (2009: HK$370,000).

(x) On 6 March 2009, KMB Financial Services Limited ("KMBFS"), a wholly-owned subsidiary of the Company, purchased certain unsecured fixed rate notes (the "Fixed Rate Notes") issued by Sun Hung Kai Properties (Capital Market) Limited ("SHKPCM"), a wholly-owned subsidiary of SHKP, with a total nominal value of HK$15,000,000 from a bank in an open secondary market, at a cost of HK$15,000,000. The Fixed Rate Notes are interest bearing at 2.65% per annum. The principal amount of the Fixed Rate Notes will be repaid by SHKPCM on the maturity date on 12 February 2012 and the interest on the Fixed Rate Notes is payable quarterly. At 31 December 2010, the Fixed Rate Notes held by KMBFS were carried at a fair value of HK$15,282,000 (2009: HK$15,251,000) and there was no material outstanding interest receivable in current and prior years.

(xi) At a special general meeting of the Company held on 21 January 2010, the independent shareholders of the Company approved the disposal of 50% of the Group's building and leasehold land interest in an industrial site at Kwun Tong (the "KT Site") to Turbo Result Limited ("TRL"), a subsidiary of SHKP, at a consideration of HK$490,000,000, which was determined by reference to a valuation performed by Knight Frank Petty Limited, an independent property valuer. The transaction was completed on 25 January 2010, resulting in a gain on disposal of HK$489,052,000.

At the same special general meeting, the independent shareholders of the Company also approved the development agreement entered into between the Group and TRL to jointly develop the KT Site on a 50-50 basis. In accordance with the development agreement, all income and profits, less all costs and expenses, deriving from the KT Site shall be shared by the Group and TRL in equal shares. The KT Site is a jointly controlled asset of the Group and is included in fixed assets (see note 14(d)). Capital commitment in respect of the Group's interests in the jointly controlled asset as at 31 December 2010 has been disclosed in note 33(a) to the consolidated financial statements.

(xii) On 26 April 2010, KT Real Estate Limited ("KTRE"), a wholly-owned subsidiary of the Company, and TRL entered into an agreement with SHKRE, pursuant to which KTRE and TRL agreed to appoint SHKRE as the project manager for the management, supervision and control of the application for planning permission, the surrender and regrant of the KT Site and the construction of the KT Site.

The amount payable for project management services shall be a sum equivalent to whichever is the higher of (1) HK$20,000,000; and (2) the lower of (a) 1% of the project cost and (b) HK$25,000,000.

The amount payable for lease modification services shall be in the sum of the lower of (1) HK$3.2 for each square foot of the permitted maximum gross floor area as approved under the lease modification and (2) HK$3,840,000.

There was no outstanding balance payable for this contract as at 31 December 2010.

36 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel remuneration

Remuneration for key management personnel represents amounts paid to the Company's Directors as disclosed in note 7.

37 NON-ADJUSTING POST BALANCE SHEET EVENT

After the balance sheet date, the Directors proposed an ordinary final dividend for the year. Further details are disclosed in note 12(a) to the financial statements.

38 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 16, 22(f) and 35(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 28, 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.

38 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Recognition of deferred tax assets

At 31 December 2010, the Group has recognised deferred tax assets which arose from unused tax losses and deductible temporary differences as set out in note 29(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 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 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 and interpretations and new standard is expected to be in the period of initial application. So far it has concluded that the following developments are relevant to the Group's financial statements but the adoption of them is unlikely to have a material impact on the Group's results of operations and financial position.

	Effective for accounting periods beginning on or after
Revised HKAS 24, Related party disclosure	1 January 2011
HKFRS 9, Financial instruments	1 January 2013
Improvements to HKFRSs (2010)	1 July 2010 or 1 January 2011
Amendments to HKAS 12, Income taxes	1 January 2012

Financial Summary

for the year ended 31 December

	2010 HK$'M	2009 HK$'M	2008 HK$'M	2007 HK$'M	2006 HK$'M	2005 HK$'M	2004 HK$'M	2003 HK$'M	2002 HK$'M	2001 HK$'M
Income statement										
Turnover	**6,687**	6,842	7,353	12,013	8,705	6,456	6,544	6,540	6,843	6,862
Profit before taxation	**931**	800	694	4,074	2,002	691	913	857	1,142	1,810
Income tax	**(75)**	(118)	(18)	(206)	(133)	(96)	(169)	(259)	(175)	(237)
Profit after taxation	**856**	682	676	3,868	1,869	595	744	598	967	1,573
Non-controlling interests	**11**	(9)	(18)	(21)	(31)	(11)	(13)	(1)	(28)	(34)
Profit attributable to equity shareholders of the Company	**867**	673	658	3,847	1,838	584	731	597	939	1,539
Balance sheet										
Fixed assets	**4,276**	4,100	4,466	4,981	5,463	5,720	6,119	6,491	6,497	6,047
Passenger service licences	**23**	22	15	14	8	–	–	–	–	–
Goodwill	**63**	63	63	52	49	33	30	50	53	21
Media assets	**–**	–	1	1	1	96	115	61	–	–
Non-current prepayments	**44**	19	29	38	48	63	470	105	101	–
Interest in associates	**640**	612	834	911	834	776	330	162	61	1
Interest in jointly controlled entities	**–**	–	20	23	23	16	5	1	2	6
Other financial assets	**636**	334	136	138	46	34	15	15	15	15
Employee benefit assets	**790**	716	755	602	537	485	414	339	278	–
Net current assets	**1,763**	2,455	2,083	3,224	1,426	184	253	548	465	854
Employment of funds	**8,235**	8,321	8,402	9,984	8,435	7,407	7,751	7,772	7,472	6,944
Financed by:										
Share capital	**404**	404	404	404	404	404	404	404	404	404
Reserves	**6,334**	6,385	6,257	7,145	4,670	3,628	3,847	3,935	4,157	3,776
Total equity attributable to equity shareholders of the Company	**6,738**	6,789	6,661	7,549	5,074	4,032	4,251	4,339	4,561	4,180
Non-controlling interests	**205**	229	253	249	245	269	289	260	244	228
Total equity	**6,943**	7,018	6,914	7,798	5,319	4,301	4,540	4,599	4,805	4,408
Contingency provision – insurance	**300**	305	337	295	271	52	59	106	117	202
Long term bank loans	**470**	470	590	1,155	2,052	2,218	2,298	2,218	1,830	1,743
Other liabilities	**522**	528	561	736	793	836	854	849	720	591
Funds employed	**8,235**	8,321	8,402	9,984	8,435	7,407	7,751	7,772	7,472	6,944
Earnings per share (HK$)	**2.15**	1.67	1.63	9.53	4.55	1.45	1.81	1.48	2.33	3.81
Dividends per share (HK$)	**1.35**	2.35	1.35	5.53	2.03	2.03	2.03	2.03	2.03	1.86
Total assets per share (HK$)	**24.01**	24.71	25.49	29.57	29.98	23.78	23.32	23.44	22.70	21.68
Net assets per share (HK$)	**17.20**	17.39	17.13	19.32	13.18	10.65	11.25	11.39	11.90	10.92

Notes: (1) 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 2010 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.

(2) 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.

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

Dr KWOK Ping-sheung, Walter▲
JP, D.Sc., MSc(Lond), DIC, MICE

NG Siu Chan▲

William LOUEY Lai Kuen▲
BSc(Econ)

Dr John CHAN Cho Chak▲
GBS, JP, DBA(Hon), DSocSc(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▲)

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, FCILT, MHKIoD
Managing Director

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

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

Evan AU YANG Chi Chun
BA, MBA
Deputy Managing Director

YUNG Wing Chung
(Alternate Director to Mr KWOK Ping-luen, Raymond, JP▲)

SO Wai Kei, Godwin
(Alternate Director to Dr KWOK Ping-sheung, Walter, JP▲)

BOARD COMMITTEES

Audit Committee
Dr Eric LI Ka Cheung#
George CHIEN Yuan Hwei
SIU Kwing-chue, Gordon

Nomination Committee
Dr Norman LEUNG Nai Pang#
Dr Eric LI Ka Cheung
SIU Kwing-chue, Gordon

Remuneration Committee
Dr Norman LEUNG Nai Pang#
Dr Eric LI Ka Cheung
Dr John CHAN Cho Chak

Standing Committee
Dr Norman LEUNG Nai Pang#
KWOK Ping-luen, Raymond
Dr 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

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AUDITOR

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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 12 May 2011 to 19 May 2011, both dates inclusive

DIVIDENDS

Interim
HK$0.30 per share,
paid on 18 October 2010

Final (proposed)
HK$1.05 per share,
payable on 24 May 2011

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

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Telephone: (852) 2786 8888
Facsimile: (852) 2745 0300

www.tih.hk

Stock Code: 62

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