



載通國際
Transport International



Excellence
Through
Innovation



Transport International Holdings Limited
2011 Annual Report

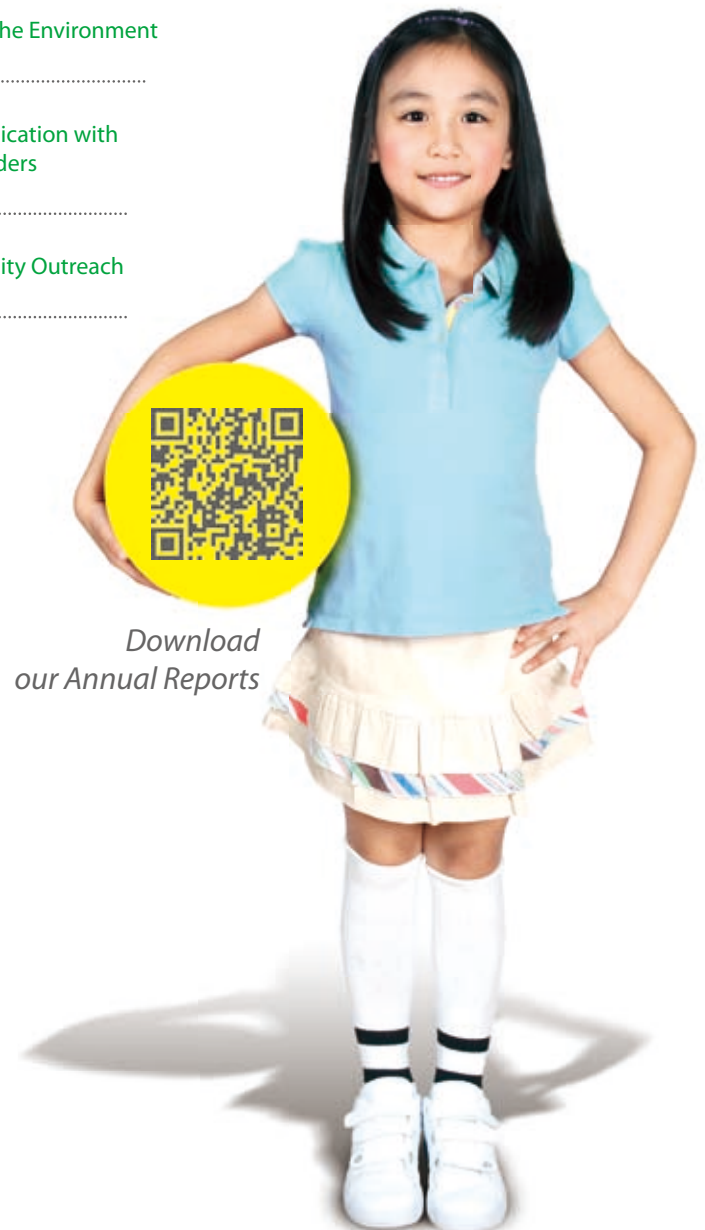


Excellence Through Innovation

One of the keys to the development of the businesses of Transport International Holdings Limited (“TIH”) is innovation, which not only drives our responsiveness to change but also reflects our commitment to providing our customers with greater value while helping bring about a cleaner and greener environment. Our commitment to technological innovation and service excellence underlies the successful operation of the Group’s various businesses and enables us to continue to attract discerning customers who seek transport services that combine top quality service delivery with good value for money.

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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 set new standards in the public transport industry by pursuing excellence through innovation. We aim to achieve this by adopting innovative and environment-friendly solutions, continuing to improve safety and service standards and attending to our customers’ needs. In this way we will be able to achieve our mission to enhance shareholder value while furthering the social and economic development of Greater China.

Mission

.....

Our mission is to enhance shareholder value while contributing to the social and economic development of Hong Kong and China Mainland. This mission drives our business operations:

Distinctive customer service

Reliable performance

Innovation

Value for money

Environmental responsibility

Sustainable business practice

By listening to our customers, identifying their expectations and developing innovative solutions, we are able to raise the quality of our services.

Vision

.....

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

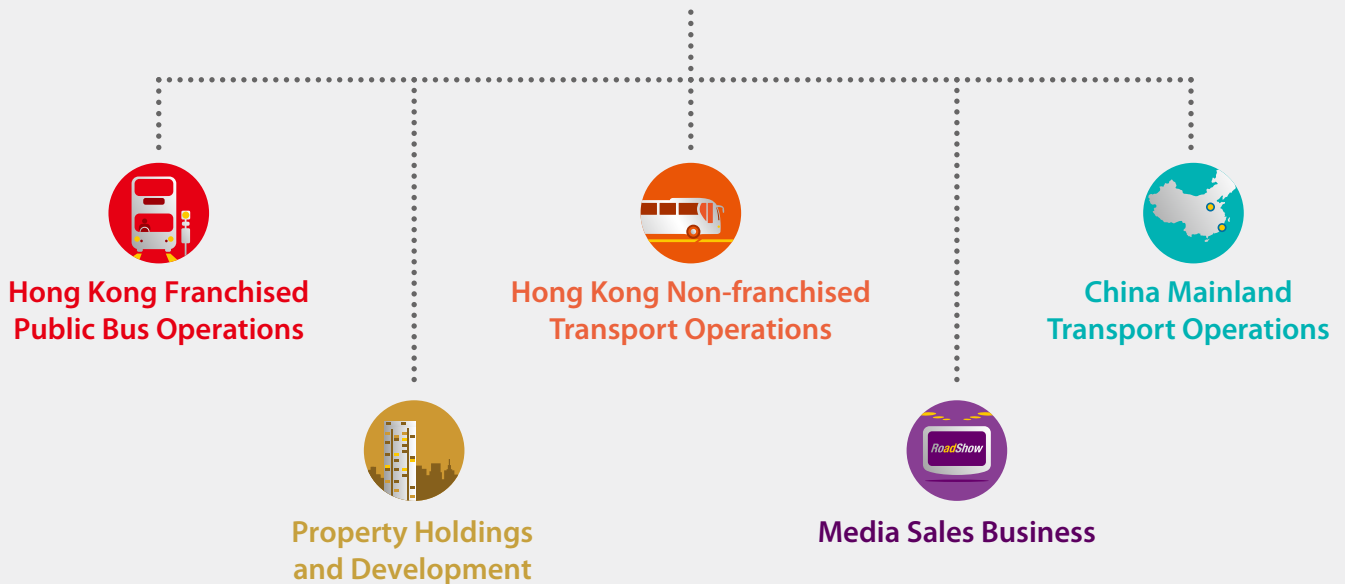
Corporate Values

.....

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

Business at a Glance

Transport International Holdings Limited



Hong Kong Franchised Public Bus Operations

The Kowloon Motor Bus Company (1933) Limited

the flagship company of the Group, operates franchised public bus services with a fleet of more than 3,800 buses on a network of about 390 routes covering Kowloon, the New Territories and Hong Kong Island.



Long Win Bus Company Limited

operates franchised public bus services with 164 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 388 buses providing 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 Real Estate Limited

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



LCK Commercial Properties Limited

owns the Manhattan Mid-town shopping mall, which is a two-level retail podium with an area of about 50,000 square feet situated at 1 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.

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.



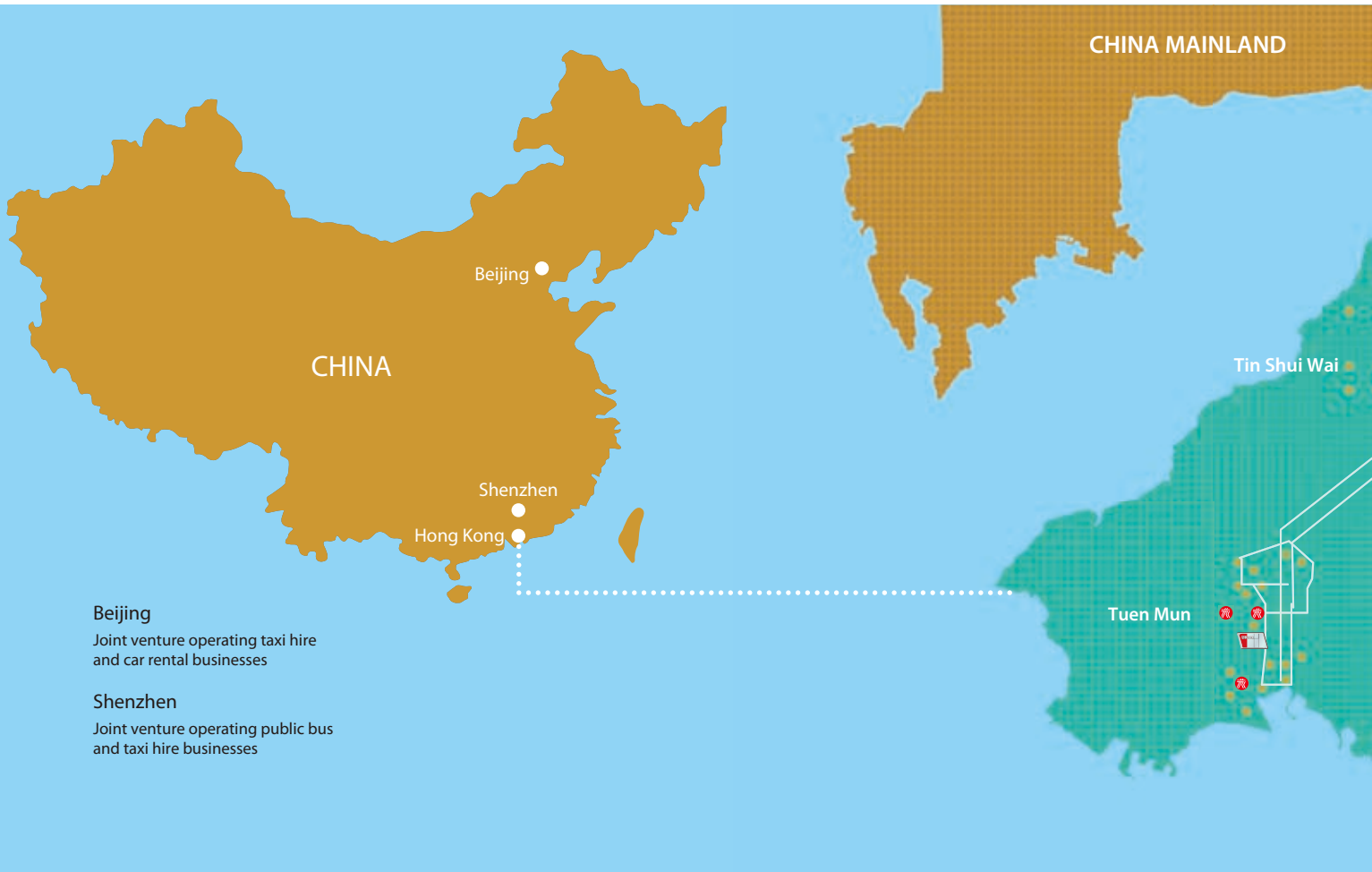
Bus Power Limited *

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 2011 (in thousand)










| | | | |
|--|--------------|---------|-----|
| Railways | 4,634 | Citybus | 603 |
| The Group (Franchised public bus operations) | 2,648 | NWFB | 480 |
| Minibuses | 1,893 | Others | 522 |
| Taxis | 995 | Ferries | 135 |





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"
-  Railways

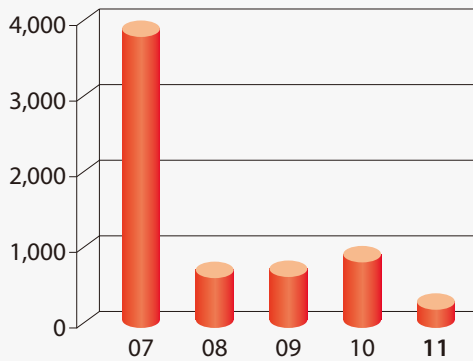
Financial and Operational Highlights

For the Year Ended 31 December 2011

| | Unit | 2011 | 2010 | Increase/ (Decrease) % |
|--|---------------|----------|----------|------------------------------|
| Financial Highlights | | | | |
| Turnover: | HK\$ million | 6,947.5 | 6,686.8 | 4% |
| – Fare revenue | HK\$ million | 6,442.1 | 6,317.3 | 2% |
| – Property sales | HK\$ million | 109.1 | 29.3 | 272% |
| – Media sales revenue | HK\$ million | 374.8 | 327.0 | 15% |
| – Gross rentals from investment properties | HK\$ million | 21.5 | 13.2 | 63% |
| Profit before taxation | HK\$ million | 275.4 | 930.7 | (70%) |
| Profit attributable to equity shareholders of the Company | HK\$ million | 242.4 | 866.9 | (72%) |
| Earnings per share | HK\$ | 0.60 | 2.15 | (72%) |
| Ordinary dividends per share | HK\$ | 0.60 | 1.35 | (56%) |
| Total equity attributable to equity shareholders of the Company | HK\$ million | 6,520.1 | 6,737.3 | (3%) |
| Total assets | HK\$ million | 9,732.3 | 9,691.9 | – |
| Net cash | HK\$ million | 2,106.1 | 2,133.2 | (1%) |
| Net finance income | HK\$ million | 38.2 | 30.0 | 27% |
| Cash generated from operations | HK\$ million | 1,136.9 | 1,407.9 | (19%) |
| Financial Ratios | | | | |
| Profit margin | | 3.5% | 13.0% | (73%) |
| Profit margin (excluding property sales and disposal) | | 2.5% | 5.9% | (58%) |
| Return on equity attributable to equity shareholders of the Company | | 3.7% | 12.9% | (71%) |
| Gearing ratio (ratio of net borrowings to total equity attributable to equity shareholders of the Company) | | 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 | 1.00 | 1.59 | (37%) |
| Share price per share at year-end | HK\$ | 15.20 | 25.45 | (40%) |
| Market capitalisation at year-end | HK\$ million | 6,135.3 | 10,272.6 | (40%) |
| Operational Highlights | | | | |
| Hong Kong | | | | |
| Franchised Public Bus Operations: | | | | |
| Average number of passenger trips per day | Million trips | 2.65 | 2.67 | (1%) |
| Number of licensed buses at year-end | | 4,055 | 3,988 | 2% |
| Number of staff at year-end | | 12,123 | 12,132 | – |
| Average number of staff per licensed bus at year-end | | 2.99 | 3.04 | (2%) |
| Non-franchised Transport Operations: | | | | |
| Number of licensed buses at year-end | | 403 | 397 | 2% |
| Number of staff at year-end | | 633 | 620 | 2% |
| China Mainland | | | | |
| China Mainland Transport Operations: | | | | |
| Number of licensed buses at year-end | | 5,496 | 4,748 | 16% |
| Number of taxis and vehicles for rental at year-end | | 5,087 | 4,887 | 4% |

Profit attributable to equity shareholders of the Company

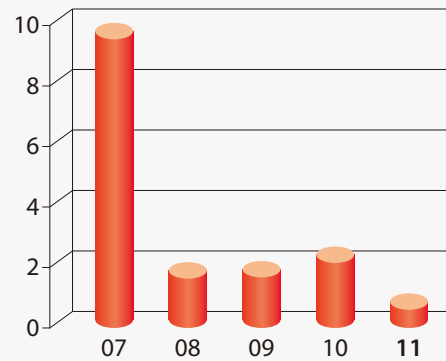
HK\$ million



Profit attributable to equity shareholders for 2011 was HK\$242.4 million

Earnings per share

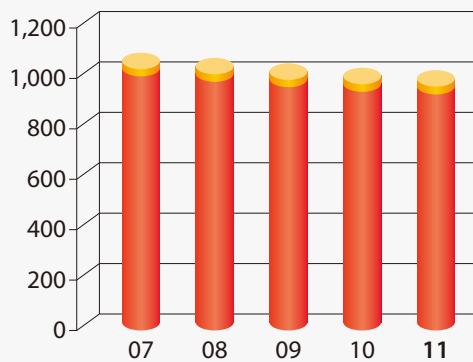
HK\$



Earnings per share for 2011 was HK\$0.60

Number of passenger trips
(Franchised public bus operations)

Million trips



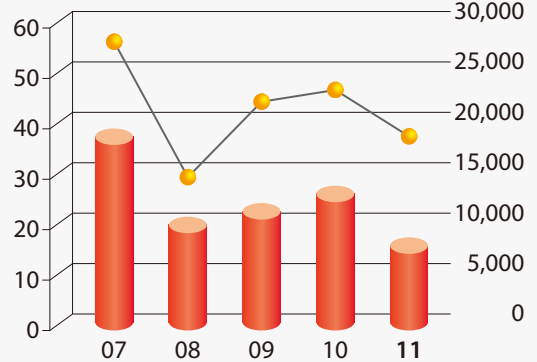
■ KMB
 ■ LWB

Number of passenger trips in 2011 was 966.7 million, down from 976.1 million in 2010

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

HK\$

Hang Seng Index



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

The closing share price of the Company at 2011 year-end was HK\$15.20 per share, down 40% compared with that of 2010 year-end

Corporate Milestones 2011

JAN

KMB Website Won Diamond Award

The KMB website won the top prize, the Diamond Award, in the Web Care Award organised by the Internet Professional Association, recognising the Company's ongoing commitment to building a barrier free internet environment.



APR

KMB Frontline Staff Changed into New Summer Uniform

All KMB frontline staff, including inspectors, terminus supervisors and bus captains, changed into a new summer uniform for the delivery of a professional and quality bus service.

KMB Named Smiling Service Enterprise

KMB was named a Smiling Service Enterprise in the field of transportation services for the quality customer services delivered by its frontline staff.



MAY

Fare Increase Applications of KMB and LWB Came into Effect

KMB and LWB's fare increases of 3.6% and 3.2% respectively took effect from 15 May 2011.

KMB Recognised as Responsible Corporate Citizen

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

KMB Honoured as Manpower Developer

KMB was honoured as a Manpower Developer for its outstanding achievements in training and development in the Employees Retraining Board Manpower Developer Award Scheme.



FEB

KMB Won Customer Service Awards

KMB's customer-oriented service was recognised with the Silver Award in the Hong Kong Association for Customer Service Excellence's 2010 Customer Service Excellence Grand Award, while KMB's Special Assistance Team won Bronze in the Field and Special Service Team Award, and a KMB Customer Hotline Centre operator won Gold in the Contact Centre Service Individual Award.

MAR

KMB Launched iPhone App

The KMB iPhone app was launched, offering "point-to-point", "route number" and "nearby bus stop searches", and the "alight reminder" function.



JUN

New Generation Single-deck Buses Introduced by KMB

KMB launched new generation single-deck buses to operate on routes with lower passenger demand in replacement of retired single-deckers for better deployment of bus resources.

JUL

KMB Civic Education Campaign Won International Award

KMB's Brother Bus civic education campaign won the Award of Excellence in the 2011 Apex Awards for Publication Excellence.



KMB Civic Education Campaign Won Most Popular TV Commercial Award



KMB's civic education campaign, "Travelling Hand in Hand", won the Most Popular TV Commercial Award in the Info-service category of the 2011 TVB Most Popular TV Commercial Awards.

AUG

KMB Received Award of Merit from Community Chest

KMB received an Award of Merit from The Community Chest of Hong Kong in recognition of its enthusiastic participation in various fund-raising activities organised by the Chest in 2010/2011.



KMB Won Yahoo! Emotive Brand Award for Second Consecutive Year

KMB won in the Logistics/Transportation category of the 2010-2011 Yahoo! Emotive Brand Awards in a poll organised by Yahoo! Hong Kong among internet users.



SEP

KMB iPhone App Won Two Awards

KMB received the "Best 10" Award in the 2011 Most Popular Marketing Smartphone Apps Awards and won in the Social Wellness category of the Best Marketing Smartphone Apps Award in the 2011 Hong Kong Marketing Smartphone Apps Popularity Contest, recognising the popularity and positive social impact of KMB's smartphone app.



NOV

TIH Won Gold Award for Corporate Governance Disclosure



TIH's 2010 annual report won the Gold Award in the Non-Hang Seng Index (Large Market Capitalisation) category of the 2011 Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants.

TIH's 2010 Annual Report Won Local and International Awards

TIH's 2010 annual report received an Honourable Mention in the Hong Kong Management Association Best Annual Reports Awards. It also won four awards in the International ARC Awards: Gold for Interior Design and Bronze for Chairman's Letter, Financial Data and Written Text.

KMB Won Hong Kong Most Admired Knowledge Enterprise (MAKE) Award

KMB was named a Hong Kong MAKE Award winner in recognition of its outstanding achievements in Knowledge Management.

KMB Launched Android App

The KMB smartphone app was released on the Android platform.

DEC

FRIENDS OF KMB Recognised by Social Welfare Department

FRIENDS OF KMB was named first runner-up in the 2010 Highest Service Hour Award (Private Organisation – Customer Participation) organised by the Social Welfare Department of the HKSAR Government.



Chairman's Letter

 *By combining improved productivity and efficiency with excellent service and innovation geared towards sustainable business development, we spared no effort in order to cope with the inflationary environment. The Group is currently in a net cash position which provides a platform from which we can further strengthen our leadership in transport and related businesses in 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 sustained and significant challenges, Transport International Holdings Limited ("TIH") was able to deliver positive results for 2011. By combining improved productivity and efficiency with excellent service and innovation geared towards sustainable business development, we spared no effort in order to cope with the inflationary environment. The Group is currently in a net cash position which provides a platform from which we can further strengthen our leadership in transport and related businesses in Hong Kong and China Mainland.

OUR FINANCIAL PERFORMANCE

The Group's profit attributable to equity shareholders for the year ended 31 December 2011 was HK\$242.4 million, representing a decrease of 72.0% compared to HK\$866.9 million for 2010. Earnings per share for the year decreased correspondingly to HK\$0.60 for 2011 from HK\$2.15 for 2010. The decrease in profit was mainly attributed to the deterioration in the financial performance of The Kowloon Motor Bus Company (1933) Limited ("KMB") in 2011, which was mainly owing to the drastic increase in international fuel oil prices compared with 2010. Another reason for the year-on-year decrease in profit was 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, which was recognised in 2010.

The Group's franchised public bus business operated by KMB and Long Win Bus Company Limited ("LWB") faced a very challenging operating environment in 2011. Escalating international fuel oil prices resulted in a substantial increase of HK\$374.7 million in KMB's fuel costs to HK\$1,403.4 million in 2011, a 36.4% increase compared to 2010. This increase in fuel costs, coupled with increases in KMB's other operating expenses, including staff costs and toll charges, far exceeded the increase in fare revenue resulting from the implementation of the 3.6% fare increase which took effect on 15 May 2011. Furthermore, KMB recorded a year-on-year decline in patronage of 1.1% for 2011, mainly due to continuing passenger shift to rail. These adverse factors resulted in KMB reporting a significant decrease in profit in 2011.

As for LWB, its total ridership in 2011 increased by 2.9% compared to that of 2010. The increase was attributable to the increased demand for transport generated by travellers from China Mainland and by construction workers involved in new developments at the airport in the first half of the year, although this growth was dampened in the second half of the year by the impact of the financial uncertainty in the United States and Europe. LWB's fare increase of 3.2%, which took effect on 15 May 2011, also helped boost its fare revenue. However, these positive factors were unable to counterbalance the upsurge in fuel prices, increases in staff costs, toll charges and other operating expenses, resulting in LWB reporting a decrease in profit in 2011.

The performance of the Group's non-franchised transport businesses in 2011 was also adversely affected by the rise in fuel prices. With Sun Bus Limited as the flagship company, our Non-franchised Transport Operations Division continued to implement its prudent expansion strategy for cross-boundary passenger services in 2011 to cater for the growth in the number of visitors from the Mainland. During the year, it also adjusted coach hiring charges to meet increased operating costs. As to our China Mainland Transport Operations Division, our joint ventures in Beijing and Shenzhen were stable in 2011. The Group's media businesses operated by the RoadShow Group reported a loss of HK\$48.6 million in 2011 mainly as a result of an impairment loss provision of HK\$109.6 million made on an unlisted investment in the Mainland.

DIVIDENDS

The Board has declared an ordinary final dividend of HK\$0.45 per share (2010: HK\$1.05 per share). Together with the ordinary interim dividend of HK\$0.15 per share (2010: HK\$0.30 per share) paid on 17 October 2011, total dividends for the year will amount to HK\$0.60 per share (2010: HK\$1.35 per share). The total dividend payout for the year will amount to HK\$242.2 million (2010: HK\$544.9 million).

COMMITTED TO EXCELLENCE THROUGH INNOVATION

Constant innovation leading to ever improving service delivery is one of the major priorities for the Group. In 2011, KMB was the first franchised public bus company in Hong Kong to launch user-friendly smartphone apps which make the search for bus information easier and quicker. By the end of 2011, more than 700,000 iPhone, iPad and iPod Touch users had downloaded the KMB smartphone apps. As a caring employer, the Group is attentive to the needs of all of its nearly 12,900 employees and is committed to staff development through comprehensive training and recognition programmes. During the course of the year, a series of safety management training courses was arranged to equip selected staff members with a thorough knowledge of safety management systems as part of the implementation of Occupational Health and Safety Assessment Series ("OHSAS") 18001 safety management systems within KMB's Operations Division.

Our firm commitment to service excellence and continuous improvement has been recognised by ISO 9001 certification across the entire organisation of KMB since 1999. In addition to quality management, we have adopted a proactive approach that emphasises risk management as a key element in all safety management activities. A fit-for-purpose safety management system, based on OHSAS 18001, was fully implemented by KMB in January 2012. KMB aims to execute effective risk control systems which ensure that safety risks are maintained at levels appropriate to the nature of its operations.

COMMITTED TO CORPORATE SOCIAL RESPONSIBILITY

TIH takes its corporate social responsibility very seriously, as is only fitting for a Group with a long term outlook and a commitment to sustainable business practices. By formulating and implementing sound policies and procedures, we are able to ensure that accountability, transparency and integrity are the foundation on which all our business operations are based. KMB's commitment to responsible corporate citizenship was reaffirmed in 2011 when it was named Caring Company for the tenth consecutive year by the Hong Kong Council of Social

Service. FRIENDS OF KMB, our volunteer club of some 3,350 members who participate in a variety of community building, educational and environmental protection activities, has been dedicated to serving our community since its establishment in 1995. The club's sterling work was recognised by being awarded first runner-up in the Highest Service Hour Award (Private Organisation – Best Customer Participation) organised by the Social Welfare Department.

To further enhance environmental protection, we continue to explore the most advanced zero- and low-emission bus technologies. Having introduced the zero-emission supercapacitor bus (the "gBus") to Hong Kong for an eight-month trial which ended in April 2011, we are working closely with potential suppliers and the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") to put right hand drive electric buses into service. Given their greater operational flexibility and significantly lower capital investment requirement as compared to rail, zero-emission bus deployment in new development areas is a Group priority and we remain committed to working with the HKSAR Government towards bringing electric buses to Hong Kong.

Ongoing fleet upgrade which utilises the latest technological developments is a core part of the Group's service enhancement programme. To this end, we made great strides in 2011, with KMB and LWB introducing 235 Euro V buses, bringing the total number of such buses in their fleets to 324.

COMMITTED TO EVER HIGHER CORPORATE GOVERNANCE

The Group believes that sound corporate governance is essential for maintaining stakeholder confidence and furthering our competitiveness. I am therefore especially pleased that TIH's 2010 Annual Report won the "Gold Award" in the Non-Hang Seng Index (Large Market Capitalisation) Category of the 2011 Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants, as well as the Bronze Award for Financial Data in the 2011 International ARC Awards.

LOOKING AHEAD

Continued high fuel oil prices, an expanding rail network and further increases in wages and other operating expenses due to inflationary pressure mean that we expect the Group's operating environment to become increasingly challenging in 2012. We will respond to these challenges by seeking to improve KMB's network efficiency by engaging with the HKSAR Government and the District Councils on improving the efficiency of our bus network by reorganising routes with low demand and increasing the service on routes with growing demand.

Given the recent adverse changes in the operating environment, it is increasingly challenging to achieve our dual objective of maintaining high service standards while safeguarding the financial viability of our franchised bus operations under the existing regulatory framework. While further route rationalisation and efficiency enhancement measures are one response to these challenges, other means should be explored with the HKSAR Government with a view to easing fare increase pressures. If the current trend of high fuel prices persists and other mitigation measures cannot effectively alleviate the cost escalation problem, we will have little choice under the existing mechanism but to apply for fare adjustments in order to restore our financial viability and maintain the existing service standards.

Regarding our non-franchised transport businesses, we will continue to enhance the quality of our services for both local and cross-boundary services and to explore business opportunities that will increase our income. The Group will also continue to seek out business growth in China Mainland when good investment opportunities arise.

The development of the industrial site at 98 How Ming Street, East Kowloon, in which the Group has a 50% stake, is ongoing. The site is set for development into non-residential (excluding hotel) uses. Upon completion, the property will generate rental income for the Group. The sale of residential flats and car parking spaces at

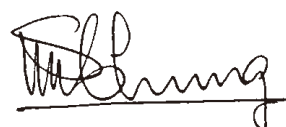
Manhattan Hill is almost complete. The entire Manhattan Mid-town shopping mall with a total area of 50,000 square feet and the shops in our headquarters building at 9 Po Lun Street, Lai Chi Kok, are leased out and will continue to provide steady revenue for the Group.

In spite of the significant challenges to our franchised public bus business posed by high fuel prices and the expansion of the rail network, the Group remains in good shape in respect of its various businesses and is well placed to take advantage of viable opportunities in the future. We are confident that we will be able to overcome the challenges that lie ahead by continuing to leverage our core competence to deliver significant value in the businesses that we operate.

ACKNOWLEDGEMENTS

This will be my last Chairman's Letter to TIH shareholders and partners following my decision, announced on 14 April 2011, not to offer myself for re-election at the Company's upcoming Annual General Meeting. I would like to put on record my pleasure in having been accorded the privilege of serving as Independent Non-executive Director and Chairman of the Company and its subsidiaries, KMB and LWB, since 12 August 1999. I would also like to wish my successor in the post, Dr Norman LEUNG Nai Pang, and the other Directors all the very best in the years ahead.

Lastly, I would like to sincerely thank all my fellow Directors and the Group's management and staff for their dedication and contributions towards the success of the Group.



S.Y. CHUNG

Chairman

15 March 2012

Conversation with the Managing Director

 *In spite of the intense competition from the railways, there will always be demand for the safe, comfortable and reliable, often door-to-door, bus services that we provide for our passengers. Taking a longer term view, we are excited about the opportunity to run services in a more innovative way by making use of new technologies such as electric buses with zero roadside emissions.* 

Edmond HO Tat Man
Managing Director



Q How would you characterise the performance of Transport International Holdings Limited ("TIH") in 2011?

A 2011 was a very challenging year for the TIH Group, with our franchised bus businesses continuing to face the challenges posed by high oil prices, rising inflationary pressure and the negative impact of the expanded rail network. Our response to these challenges was rooted in seeking means of boosting productivity and controlling costs wherever possible, while identifying ways of increasing revenue. We continued to look at ways of increasing our bus network efficiency through route reorganisation, of strengthening our services in the growing tourist segments, and of trialling and adopting the latest technologies that could stimulate patronage. With regard to our non-franchised transport businesses, we focused on providing tailor-made, value for money services to meet our clients' specific needs. As for our property division, we managed to generate additional rental income in 2011 by expanding our leasing property portfolio. We also continued to provide our customers in Hong Kong and China Mainland with high quality services founded on our key values of sustainable business development, good corporate governance and community care.

Q How do you see the future development of franchised bus services in Hong Kong?

A In spite of the intense competition from the railways, there will always be demand for the safe, comfortable and reliable, often door-to-door, bus services that we provide for our passengers. Taking a longer term view, we are excited about the opportunity to run services in a more innovative way by making use of new technologies such as electric buses with zero roadside emissions. The theme of this annual report, "Excellence through innovation", reflects our commitment not only to providing our customers with greater value but also to helping bring about a cleaner and more environment-friendly Hong Kong.

Q How do you plan to cope with the severe competition from the expanding rail network in the next few years?

A We will continue to focus attention on the reorganisation of our bus network, which will increase the efficiency of our operations, and at the same time bring social, environmental and financial benefits. In 2011, KMB managed to save 28 buses through route reorganisation efforts, significantly more than the saving of nine buses in the previous year. Besides this, we will continue to enhance the user-friendliness of our services, especially for the growing number of overseas visitors, by upgrading the accessibility of our bus service information to ensure that our customers know how to get the best out of our services. This enhancement can be seen in the upgraded signage at bus stops and termini, the Bus Stop Announcement System on buses and the Integrated Bus Services Information Display System at major termini, as well as in the KMB website and smartphone apps.

Q Why is enhancing bus service information provided via smartphones important?

A Given KMB and LWB's large bus network with over 400 routes, casual local travellers and tourists may not know which routes to take. With the rapidly growing popularity of smartphones, KMB and LWB launched the iPhone app and the Android app in March and November 2011 respectively, to provide more convenient and user-friendly services to all our customers, including tourists. These apps boast features which can give passengers enhanced bus-ride experiences, such as the innovative "Alight Reminder" function. Passengers can specify their starting point and destination, and the apps give detailed information on all available routes together with the bus stop locations for boarding and alighting. The apps also provide suggestions on bus routes with the fewest en-route stops and lowest fare to any destination they select.

Conversation with the Managing Director

Q How important is technology for the continued success of the Company?

A Continuous technological innovation is very important for the successful operation of the Group's various businesses, and we will continue to work closely with our manufacturers and suppliers, as well as the HKSAR Government, in order to remain industry leaders for the provision of attractive and competitive services. Having said that, we are fully aware that our most valuable asset is our staff, who are highly trained and professional individuals. Beyond the further introduction of state-of-the-art technologies and innovative services and products, we will also continue to provide the resources and training that enable our frontline staff to best serve our customers.

Q What strategies are KMB and LWB adopting in the current inflationary environment to cope with the lower than expected fare increases implemented in 2011?

A KMB and LWB submitted applications to the Government for fare increases of 8.6% and 7.4% respectively in July 2010 and were granted increases of 3.6% and 3.2% respectively to take effect from 15 May 2011. The increases granted have proven grossly insufficient to offset increased costs, particularly fuel costs, in the current inflationary environment. We have therefore taken every possible measure to increase our network and cost efficiency. The best way to achieve this is by stepping up our efforts in route reorganisation, which enables not only more effective utilisation of resources but also helps create a greener environment. Should costs continue to rise unabated in spite of our stringent cost control measures, we will consider applying for a fare adjustment in order to maintain our financial viability and service standards.

Q Are there any growth areas in respect of patronage that you see as opportunities?

A The growth of Mainland visitors is certainly an important opportunity. The arrival numbers from China Mainland grew considerably in 2011, surpassing 28 million, an increase of about 24% compared with that of 2010, and are set to grow further with closer social and economic ties between Hong Kong and the Mainland. In 2011, KMB's multiple routes that serve cross-boundary passengers grew significantly in terms of ridership. We will continue to apply innovations and allocate ample resources to effectively serve this growing market segment.

Q How has the Group performed on the Mainland?

A Both of our equity joint ventures in Shenzhen and Beijing made steady progress in 2011. In Shenzhen, SBG continued taking a lead in innovation by not only introducing environment-friendly electric buses for trial, but also electric taxis as a new business.

Q Can you bring us up to date on the latest developments with regard to electric buses?

A KMB introduced Hong Kong's first zero-emission supercapacitor bus, the gBus, for trial from August 2010 to April 2011. In this eight-month intensive trial, the gBus has proven to be safe and reliable when running at full loading and air-conditioning on the test route. As the technology of electric buses is developing rapidly, we are considering putting other electric vehicles on trial runs. KMB has visited a number of electric vehicle manufacturers, and is exploring collaboration with some of them to develop electric vehicles suitable for operation in Hong Kong.

Q What do you see as the major benefits of electric buses?

A There are a number of reasons that we are keen to see the deployment of electric buses which produce zero roadside emissions, whether they are powered by supercapacitor or battery technology. Besides producing zero roadside emission, these types of technologies are more economical, requiring substantially lower capital expenditure on infrastructure compared to rail. Successful large-scale deployment of electric buses will also of course reduce our fuel costs, besides contributing to a greener Hong Kong. Electric buses also offer high flexibility in terms of phased in deployment, making them eminently suited to new development areas where population and travel demand will take time to build up. Despite the higher total cost of purchasing and operating electric buses as compared to conventional diesel-powered buses, the potential benefits of the former have been recognised by the HKSAR Government, which has earmarked a budget of HK\$180 million to support the franchised bus companies' purchase of a total of 36 electric buses for trial deployment to assess their performance under Hong Kong's operating conditions.

Q Does the TIH Group also intend to invest in diesel-electric hybrid buses?

A With the funding support of the HKSAR Government, we are planning to introduce diesel-electric hybrid double-deckers for trial on some of the territory's busiest roads to see how they perform in local operating conditions. We have already drawn up the specifications of the hybrids we would like to test and are currently at the tendering stage.

Q What enhanced measures have you taken to ensure that passengers enjoy safe and comfortable rides?

A By adopting a "Plan-Do-Check-Act" (PDCA) approach, which aims at continual improvement in the safety performance of all aspects of our business, KMB established a fit-for-purpose safety management system based on Occupational Health and Safety Assessment Series ("OHSAS") 18001 in January 2011. This system was fully implemented in January 2012.

We have for some years been running a very successful Civic Education Campaign in both print and broadcast form to encourage our customers to put safety first when travelling with us and to show consideration towards their fellow passengers. In 2011, we took this a step further with the "Priority Seats" trial scheme, which prompts passengers to offer their seats to the elderly, the disabled, pregnant women, and passengers with infants. Accordingly, four priority seats with eye-catching headrests have been earmarked in each bus for the use of those in need. We aim to complete the adoption of this scheme across most routes of the KMB and LWB fleets.

Management Discussion and Analysis



From left to right:
William HO Sai Kei, *Finance and Administration Director*
James C LOUEY, *Commercial Director*
Edmond HO Tat Man, *Managing Director*
Evan AU YANG, *Deputy Managing Director*
Kenrick FOK, *Operations Director*

Operational Review



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innovation for
Quality Services





.....
Understanding customers' needs and going the extra mile to meet them by making use of the latest technologies is our assurance of quality service delivery.

Operational Review



Hong Kong Franchised Public Bus Operations

Franchised public bus operations are central to the Group's business. The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited offer world-class, innovative and reliable services to their passengers, while setting new standards in terms of design, comfort and the latest green technologies.

NEARBY BUS STOP

FEWEST ENROUTE STOP

LOWEST BUS FARE

INFORMATION UPDATE

ENROUTE INFORMATION

ALIGHT REMINDER



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. KMB serves approximately 2.6 million passenger trips a day on its fleet of over 3,800 buses running on some 390 routes. Its workforce of about 11,700 employees, including some 8,000 bus captains, is committed to providing a world class service to our customers.

OPERATIONAL EXCELLENCE

For 78 years, KMB has stood out for its commitment to providing world class public bus services for the people of Hong Kong. The following service milestones testify to the high standards of its operations:

1999

KMB became the first public bus company in Hong Kong to receive ISO 9001:1994 certification on a corporate-wide basis for its quality management systems. In fact, KMB is the fourth organisation in Hong Kong to achieve such corporate-wide certification.

2002

KMB obtained ISO 9001:2000 certification.

2003

KMB became the only franchised bus company in Hong Kong with both ISO 9001 and ISO 14001 accreditation when its Lai Chi Kok and Sha Tin Depots were awarded ISO 14001:1996 Environmental Management System certification.

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.

2007

The four 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.

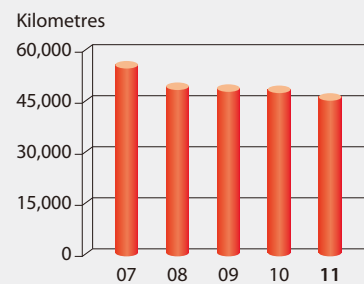
2009

KMB received the newest ISO 9001:2008 certificates from the Hong Kong Quality Assurance Agency ("HKQAA") 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.

2011

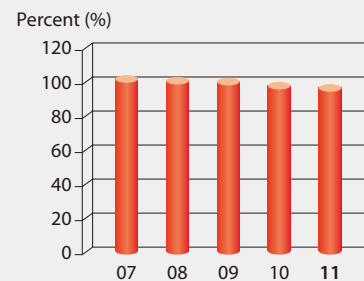
The power of the KMB brand gained further recognition when it won in the Logistics/Transportation category of the Yahoo! Emotive Brand Awards 2010-2011 organised by Yahoo! Hong Kong. KMB also won the 2011 Hong Kong Most Admired Knowledge Enterprise (MAKE) Award organised by The Hong Kong Polytechnic University, and the Bronze Star Award in the 2011 Age Friendly Hong Kong Appreciation Scheme organised by the Hong Kong Council of Social Service.

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

Download our Corporate Video



3 *Brand Awards*

In 2011, KMB gained recognition from Yahoo! Hong Kong, the Hong Kong Polytechnic University and the Hong Kong Council of Social Service.

PERFORMANCE PLEDGE

We dedicate ourselves to offering our customers safe and efficient bus services of the highest quality. Mechanical reliability and operational capability are two key performance indicators for 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. For 2011, the mechanical reliability of KMB's fleet was 45,780 km : 1 against a target of 45,000 km : 1 and the operational capability achieved was 95.8% against a target of 100%.

BUS FLEET AND FLEET UPGRADES

Constant innovation and bus fleet modernisation are two of KMB's major priorities. Since 1997, when we collaborated with our bus suppliers to bring the world's first super-low floor, wheelchair accessible double-decker to Hong Kong, we have continuously been introducing technologically advanced and environment-friendly buses to the KMB fleet.

Today's bus models include a raft of innovative features, such as straight staircases for easier access to the upper deck, wider bodies, 2+2 seating, priority seats, a wheelchair space, brightly coloured handrails, easy-reach bell pushes, and advanced air-conditioning systems for better control of temperature and humidity. In 2009, KMB was the first public bus

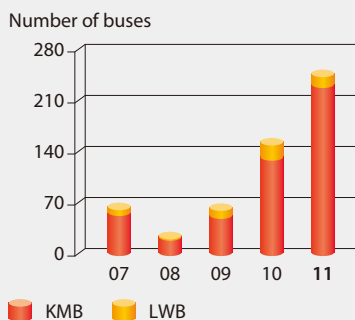




KMB's service network takes you to the heart of the city

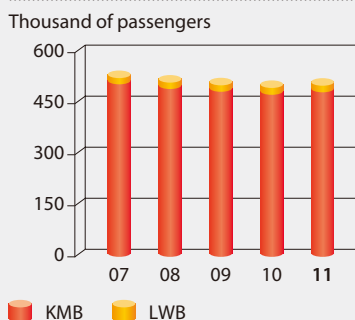
Number of new buses introduced to the fleet

(Franchised Public Bus Operations)

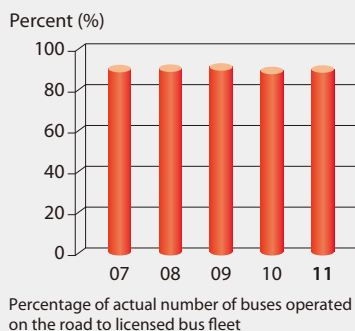


Total fleet capacity at 31 December

(Franchised Public Bus Operations)



Fleet utilisation – KMB



company in Asia to introduce the Euro V double-deck bus. Our single-deck fleet has also been upgraded, with retiring single-deck buses being replaced by brand new wheelchair accessible super-low floor single-deck models which combine stylish design with greater headroom.

In 2011, substantial investment was made in new buses featuring the latest safety, environmental and

design features. A total of 231 new super-low floor air-conditioned buses, consisting of 11 Euro IV and 188 Euro V double-deckers and 32 Euro V single-deckers, were added to the KMB fleet.

As at 31 December 2011, KMB operated a total of 3,891 buses, comprising 3,726 double-deck buses and 165 single-deck buses, of which 98.7% 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 2011 | 3,534 | 157 | 131 | 3,822 |
| Additions during year | 214 ⁽¹⁾ | 32 | – | 246 ⁽¹⁾ |
| Disposals during year | (72) | (24) | (81) | (177) |
| As at 31 Dec 2011 | 3,676 | 165 | 50 | 3,891 |

⁽¹⁾ Includes 15 air-conditioned double-deck buses transferred from Long Win Bus Company Limited.

At the end of 2011, KMB had on order 77 air-conditioned double-deck Euro V buses and 28 air-conditioned single-deck Euro V buses, for delivery in 2012.

BUS SERVICE NETWORK

KMB operated a network of 393 bus routes at the end of 2011. In furtherance of its aim of deploying its resources more effectively while meeting the travel demand of its passengers, we continue to implement service rationalisation measures that mitigate the effects of passenger shift to the railways. To enable redeployment of resources

from routes with low passenger use to areas of increasing demand, KMB's route reorganisation efforts continue to focus on proposals to reroute, truncate and combine routes for greater operating efficiency and to adjust service frequencies where necessary. During the year, we submitted to the Government 42 proposals on route reorganisation and 55 on service frequency, involving a reduction of 123 buses. However, only four of the reorganisation proposals and 23 of the service frequency proposals were approved, involving a reduction of just 28 buses.

To improve its service delivery efficiency, KMB is committed to reviewing the viability of bus routes that are no longer required as a result of railway expansion, as well as reducing the frequency of routes with decreased passenger demand. The resources saved from such route reorganisation will be redeployed to areas with higher or increasing demand. Besides benefiting our

passengers, this will also help relieve traffic congestion and protect the environment, while easing fare adjustment pressure. Strategic bus network reorganisation will remain the cornerstone of KMB's response to changing market conditions.

A summary of the bus network rationalisation carried out in 2011 is tabulated below:

231

new super-low floor buses

In 2011, 231 new super-low floor air-conditioned buses were added to the KMB fleet.

| | Proposed | | Implemented | |
|---------------------|---------------------|-----------------------------|---------------------|-----------------------|
| | Number of proposals | Number of buses to be saved | Number of proposals | Number of buses saved |
| Rationalisation | 42 | 66 | 4 | 5 (8%) |
| Frequency reduction | 55 | 57 | 23 | 23 (40%) |
| Total | 97 | 123 | 27 | 28 (23%) |



A modern service for a modern city

Luminous Crystal Bus Stop Pole



Perfectly integrating aesthetic appearance and user-friendly functionality, the luminous crystal bus stop pole was first introduced to Hong Kong by KMB. The environment-friendly pole is lit by LED lighting, which has treble the lifespan and six times the electricity-saving capacity of fluorescent tubes.



7 route promotions

In 2011, seven route promotion schemes were launched on a total of 34 KMB routes.

BUS ROUTE PROMOTION

During 2011, seven route promotion schemes were launched on a total of 34 KMB routes via extensive

advertising on mega panels at bus shelters, on bus-stop poles and on the KMB website.

| Promotion schemes | Routes involved |
|--|---|
| 1 Route B1 | B1 |
| 2 Tai Po Recreation Routes | 64K, 74K, 75K, 275R, 275S |
| 3 Sai Kung Recreation Routes | 92, 96R, 99, 299 |
| 4 Sha Tin Town Centre and Scenic Park Promotion Routes | 47X, 48X, 49X, 81, 85, 86, 89, 89X, 263, 269D |
| 5 Tsuen Wan and Kwai Tsing Shopping Routes | 35A, 36B, 38, 41A, 42A, 42C |
| 6 Gold Coast and Sham Tseng Promotion Routes | 52X, 53, 234A, 234B, 61M |
| 7 Kam Shan Country Park Promotion Routes | 72, 81, 86B |

Joint Promotion between major Shopping Malls and KMB

KMB and a number of shopping malls have held a joint promotion campaign since October 2010. Individual customers from China Mainland who spend HK\$400 or more at Sun Yuen Long Centre, Yuen Long Plaza, Metropolis Plaza or Landmark North are eligible to obtain free one-way pre-paid tickets on any of Routes B1, 76K and 276B and subsequently on the Huang Bus service. The promotion has been extended to 31 December 2012.

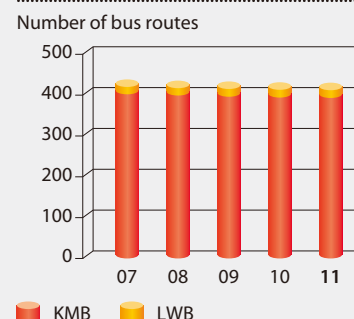
DEPOTS

KMB's four major depots at Kowloon Bay, Sha Tin, Lai Chi Kok and Tuen Mun provide routine maintenance and repair services for our entire bus fleet. Ten smaller depots provide parking and minor maintenance services, while major bus overhaul services are performed at the KMB Overhaul Centre. Continuous improvements are made to our depot facilities to ensure that a consistently high level of productivity and quality service is maintained for our buses.

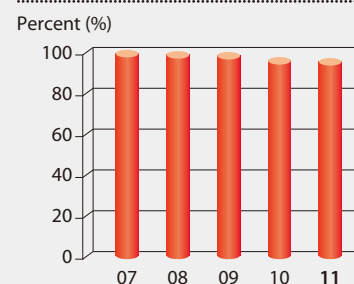
Major Depots Serving KMB and LWB Buses

| Depot | Areas served/main purpose of depot | Gross floor area (square feet) | Number of buses served as at 31 December 2011 | Year in which operations commenced |
|---------------------|------------------------------------|--------------------------------|---|------------------------------------|
| KMB depots: | | | | |
| Kowloon Bay Depot | East Kowloon | 768,038 | 1,059 | 1990 |
| Sha Tin Depot | North and East New Territories | 720,005 | 1,098 | 1988 |
| Lai Chi Kok Depot | South and West Kowloon | 648,946 | 866 | 2002 |
| Tuen Mun Depot | West New Territories | 148,961 | 868 | 1979 |
| KMB Overhaul Centre | Bus overhaul | 380,915 | | 1983 |
| LWB depot: | | | | |
| Siu Ho Wan Depot | Lantau Island | 82,422 | 164 | 1998 |
| Total | | 2,749,287 | 4,055 | |

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

Continuous improvements are made to our depot facilities to ensure that a consistently high level of productivity and quality service is maintained for our buses.

Information Technology

Through extensive use of advanced information technology, KMB has been able to closely monitor the performance of its daily operations, foster internal and external communications and enhance productivity.



Information Technology



Customer Service

Electronic Bus Stop Announcement System

The On-Board Electronic Bus Stop Announcement System, installed across KMB's entire bus fleet, delivers voice announcements in Cantonese, English and Putonghua while showing the name of the next bus stop on light emitting diode ("LED") displays. The system also broadcasts safety reminders and bus service messages.

Bus Service Information Display System

The Integrated Bus Service Information Display System ("IBSID") is installed at KMB's major termini to provide passengers with information on bus route

destinations, departure times and fares. Up-to-date messages on contingencies such as major traffic disruptions are also displayed on the large LED display panels. At the end of 2011, 28 termini were equipped with IBSID, which can also enable monitoring of the traffic and operating conditions in the area surrounding the termini at headquarters and at the termini themselves via closed circuit television.

Lost Property Management System

Launched in 2009, the Lost Property Management System ("LPM"), which tracks lost items from initial recovery to reclaim by passengers or eventual disposal, enables efficient handling of lost property claims and inquiries. Besides improving the handling of passenger inquiries about lost property, LPM also helps our staff keep accurate track of the status of lost property. In 2011, an average of some 2,100 lost property cases a month (representing around 5,800 lost property items) were processed by the system.



Operation

Octopus Management System

Developed by our Information Technology Department, the Octopus Management System ("OMS") retrieves detailed maintenance records of Octopus readers and traces the location of any readers whose fare revenue record has not been downloaded or which lack the latest fare table. Besides providing accurate reports on Octopus revenue reconciliation, OMS enhances user interface and data analysis functions. After thorough testing, OMS came into full operation in late 2011.

At the end of 2011, KMB facilities were equipped with a total of 1,720 personal computers. These computers are interlinked via high-speed communication lines to 163 computer servers located at KMB headquarters. In this way, the information channels between headquarters, eight Customer Service Centres, 14 bus depots and 163 bus termini are integrated by a sophisticated data network. A total of 38 software applications, including in-house developed programs and proprietary software, are used in our daily operations and financial management. By constantly upgrading our information technology systems, we can improve our customer service delivery, while enhancing our human resources management, fleet and depot operations, and financial management.

Terminus Management System

KMB's Terminus Management System ("TER") facilitates the management of daily bus operations in 163 termini by automatically displaying bus captains' next departure time and special instructions on their personalised Octopus cards. Bus arrival and departure data are recorded and made available to headquarters, depots and relevant departments so that necessary service adjustments can be made.

Traffic Operations Management System

KMB's Traffic Operations Management System ("TOM") improves the efficiency of bus captain duty assignment by equipping depot staff with an RFID reader which identifies the parking location of buses and uploads the information for retrieval by bus captains at Duty Dispatch Offices. TOM also keeps management informed on duty dispatch, as well as prioritising the deployment of buses with lower emissions on routes running on busy roads.

Operations Communications Management System

KMB's Operations Communications Management System ("OCM") streamlines the recording and dissemination of real-time information on operational incidents logged by KMB's Radio Control Section.

Bus Maintenance Information System

The Bus Maintenance Information System ("BMS") helps management assign jobs and monitor maintenance costs by providing useful information, including bus type, repair and maintenance records, overhaul of major units and maintenance workers' work records.

Bus Onboard Monitoring System

Developed in 2011, the Bus Onboard Monitoring System ("BOM") generates reports on bus captains' driving performance for analysis by depots and relevant departments, thus enhancing driving safety and passenger comfort coaching.



Human Resources & Financial Management

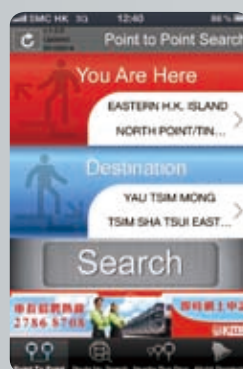
Advanced Finance and Administration Systems

SAP ERP e-Business Software is adopted by KMB for financial and human resources management. These advanced proprietary information management systems enhance the efficiency of financial planning, control and reporting, and improve administration and planning. Together with the deployment of an advanced electronic document management system, e-tendering, e-payslips, and company-wide e-mail, paper usage has been greatly reduced and internal and external communications, document distribution, filing and retrieval all improved.

KMB Smartphone Apps



In March 2011, in line with the rapidly growing popularity of smartphones, KMB launched its free iPhone app, which was downloaded by more than 700,000 iPhone, iPad and iPod Touch users. The KMB smartphone app was also released on the Android platform in November 2011. These apps give suggestions on bus routes with the fewest en-route stops and lowest fare to any destination passengers select. They also offer users a choice of ways to search for a bus route, providing route maps, timetables and photos of every bus stop. The apps' powerful "Nearby Bus Stops" function makes use of the Global Positioning System to automatically identify the location of the user and list all bus routes within 200 metres and the location of their corresponding bus stops. In addition, for greater peace of mind, the apps feature the pioneering "Alight Reminder" function, which emits an alert sound (or vibration) two bus stops before the selected destination is reached. The apps come in traditional Chinese, simplified Chinese and English versions.



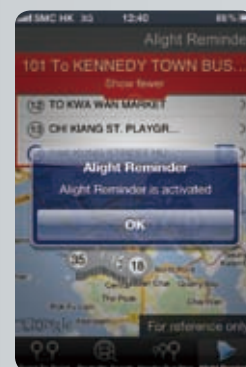
Point-to-Point Search



Route Number Search



Nearby Bus Stops



Alight Reminder



*Download our
Smartphone Apps*



iPhone Version



Android Version

In recognition of the popularity and positive social impact of KMB's smartphone app, KMB won the Best Marketing Smartphone Apps (Social Wellness) Award in the 2011 Hong Kong Marketing Smartphone Apps Popularity Contest and the "Best 10" Award in the 2011 Most Popular Marketing Smartphone Apps Awards.

LONG WIN BUS COMPANY LIMITED (“LWB”)

LWB has been providing bus services linking the New Territories with Hong Kong International Airport and North Lantau since 1 June 1997. LWB’s extensive network covers the airport, 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.



The increasing demand for transport generated by Mainland travellers on the one hand and construction workers involved in new developments at the airport on the other helped boost LWB's ridership in the first half of 2011. This growth was affected, however, in the second half of the year by the negative impact of the financial uncertainty in the U.S. and Europe. LWB's comprehensive network is well placed to serve its growing customer base.

PERFORMANCE PLEDGE

By constantly reviewing its operations, LWB is able to ensure that safety and efficiency are maintained at the highest levels for its bus fleet. Two key performance indicators, namely mechanical reliability and operational capability, are used to measure LWB's operational performance. 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 morning

LWB will continue to look for ways to capitalise on continued tourism growth while maintaining its high standards of network coverage and service.

hours of 7:00 a.m. to 9:00 a.m. across the whole bus network. In 2011, LWB's buses achieved 54,326 km : 1 in mechanical reliability and 99.4% in operational capability.

BUS FLEET AND FLEET UPGRADE

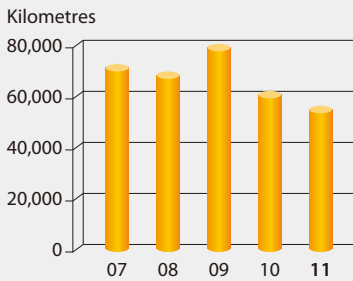
In 2011, LWB introduced 15 new Euro V super-low floor air-conditioned double-deck buses on its External routes. LWB will continue to purchase new buses in 2012. Enhanced features contributing to passenger comfort and safety will be further introduced in the bus design as appropriate.

As at 31 December 2011, LWB operated 164 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 operating data.

To meet the demand for service enhancement, at the end of 2011, LWB had on order 15 Euro V super-low floor air-conditioned double-deck buses for delivery in 2012.

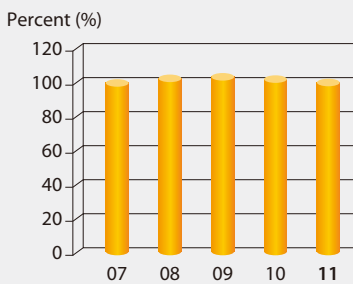
| LWB's air-conditioned double-deck bus fleet | Total number of buses |
|---|-----------------------|
| As at 1 Jan 2011 | 166 |
| Additions during year | 15 |
| Disposals during year | (17) |
| As at 31 Dec 2011 | 164 |

Mechanical reliability – LWB



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

Operational capability – LWB



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



LWB's efficient service matches Hong Kong International Airport

LWB's introduction of 32 Euro IV buses and 15 Euro V buses helps contribute to a cleaner environment by reducing nitrogen oxide emissions.

BUS SERVICE NETWORK

At the end of 2011, LWB operated 19 routes. To improve service levels, one bus was added to Route A31 in July and the route was extended to Tsuen Wan West Railway Station. In addition, a proposal was made in December to introduce a new recreation route, Route X34, plying between AsiaWorld-Expo and Tin Shui Wai Town Centre. This service would meet the demand created by the mega entertainment events held at AsiaWorld-Expo.

LWB is committed to continuing to look for ways to capitalise on continued tourism growth while

maintaining its high standards of network coverage and service for all its passengers. This is in line with its mission of providing the most efficient and direct means of transport to and from North Lantau.

DEPOT

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



● LWB's bus termini on Lantau Island

SAFETY AND CUSTOMER SERVICE

Regular and thorough inspections of LWB's buses are undertaken to make sure that they are maintained to the highest standards. Driving instructors monitor bus captains' driving performance and customer service delivery, while safety briefings are held periodically and safety reminders are circulated to all bus captains. Additionally, LWB runs quality campaigns to recognise and reward good performance at both the team and the individual level.

To provide even greater convenience for passengers using its services, LWB will continue to explore and study ways of enhancing its operational efficiency by such means as the further implementation of the "Terminus Management System" at bus termini and the installation of more electronic route information display boards at bus termini and en-route bus stops.

ENVIRONMENTAL PROTECTION

The introduction of 32 Euro IV buses and 15 Euro V buses (representing

about 20% and 9% of the LWB fleet respectively) helps contribute to a cleaner environment by reducing nitrogen oxide emissions. To reduce emissions of particulate matter, LWB has retrofitted Diesel Particulate Filters on all of its Euro II and Euro III buses.

The electrostatic air filtration function in the air-conditioning system of LWB's buses greatly improves the air quality in bus compartments, while the Eco-driveline system effectively reduces fuel consumption and exhaust emissions.



Hong Kong Non-franchised Transport Operations

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



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

As a leading non-franchised bus operator in Hong Kong, the SBH Group provides tailor-made transport services to a variety of customers, both those requiring premium services and those seeking value-for-money services.



Led by its flagship Sun Bus Limited ("SBL"), the SBH Group offers a range of bus services made to measure for specific market segments. Its fleet of 388 buses 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 line with the SBH Group's aim of strengthening its services by purchasing the latest environment-friendly buses available on the market, in 2011, 25 Euro V buses were added to its fleet in replacement of older buses. More new Euro V buses will be introduced as part of the SBH Group's ongoing fleet upgrade programme.

In pursuit of service excellence, SBL obtained ISO 9001:2000 certification from the Hong Kong Quality Assurance Agency ("HKQAA") in November 2008 – the first commercial non-franchised bus company in Hong Kong to receive such accreditation. In 2009, following successful completion

of an upgrade audit, ISO 9001:2008 certification was awarded to SBL by HKQAA – an endorsement of SBL's quality management systems. SBL remains committed to strengthening all aspects of its management and operations.



Sun Bus serves students and other customers across Hong Kong

NEW HONG KONG BUS COMPANY LIMITED (“NHKB”)

In conjunction with its Shenzhen counterpart, NHKB operates the cross-boundary shuttle bus service, commonly known as the “Huang Bus” service, which takes business and leisure travellers between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.





NHKB's new buses offer green services to and from Shenzhen

The demand for cross-boundary bus services is set to grow as social and economic ties between Hong Kong and the Mainland become closer.

In 2011, NHKB ran a total 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. For passenger comfort, NHKB's terminus at the San Tin Public Transport Interchange is well equipped with 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 as 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. Additionally, the Control

Point Office in Huanggang was relocated in July 2011, requiring passengers to walk further for immigration clearance. As a result, the demand for its cross-boundary bus services has declined, with a fall in patronage from 5.6 million passenger trips in 2010 to 5.2 million passenger trips in 2011.

Notwithstanding this short-term decrease in demand, arrivals from China Mainland registered considerable growth in 2011, surpassing 28 million, representing a year-on-year increase of about 24%. The demand for cross-boundary bus services is set to grow as social and economic ties between Hong Kong and the Mainland become closer and more residents from other major cities on the Mainland are expected

to become eligible for the Individual Visit Scheme. In response, NHKB will continue to make its shuttle bus service an attractive option for cross-boundary travellers.



■ NHKB's bus termini



China Mainland Transport Operations

In 2011, the Group operated a range of transport services in Shenzhen (深圳) and Beijing (北京) in line with its strategy of exploring transport related business opportunities in China Mainland which 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, and four other Mainland investors. The Group has a 35% stake in SBG.

Since it commenced operations in January 2005, SBG has provided public bus, minibus and taxi services in the city of Shenzhen (深圳市). As at 31 December 2011, SBG had 5,946 vehicles operating on 267 routes. In 2011, owing to the adverse impact of the opening of new routes on Shenzhen’s underground railway system, the number of bus passenger trips served by SBG decreased by 2.7% to 907.0 million compared to 932.5 million passenger trips in 2010.

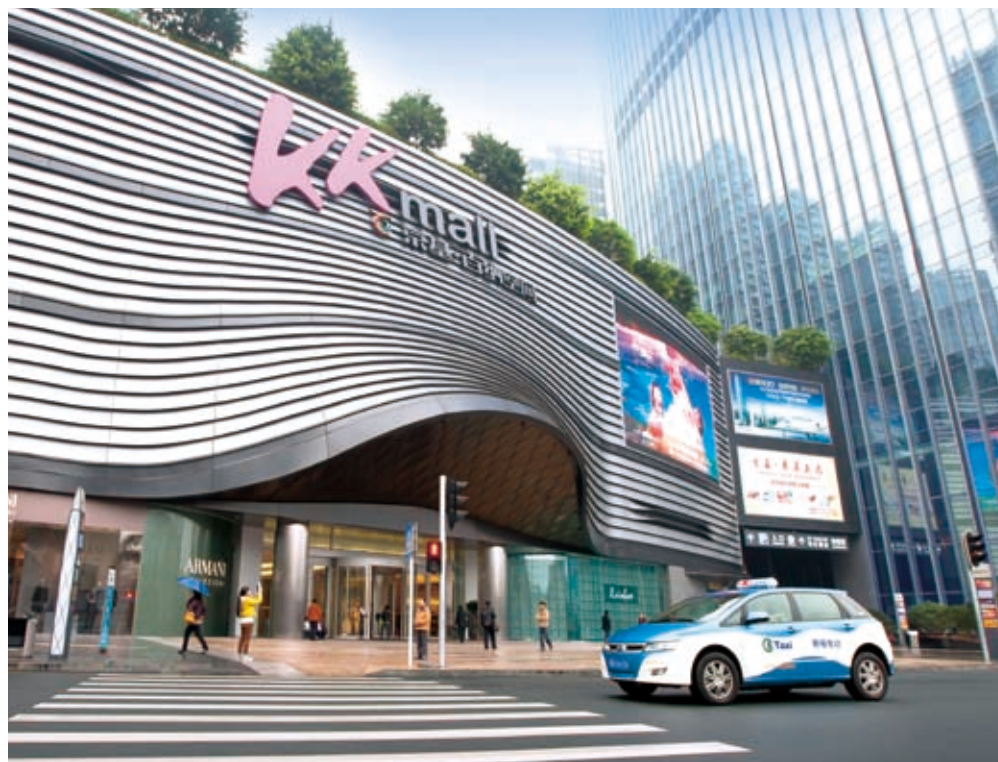
In 2011, in the face of high inflation in China Mainland and keen competition from Shenzhen’s underground railway, SBG further bolstered its cost control measures and improved its operational efficiency. To assure its position in the public transport sector, productivity was further boosted by fleet upgrade and strategic rationalisation of the bus route network. Rigorous budgetary control measures were also implemented to mitigate the effect of rising operating costs. In 2011, SBG continued to introduce more feeder bus routes linking neighbourhoods with underground railway stations and to expand its bus route network to nearby districts.

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 enhance its environmental performance, SBG has adopted the use of environment-friendly fuel and engines meeting up to Euro IV emission standards. It also extended the trial of buses and taxis using new clean energy

sources such as liquefied natural gas or electricity so as to collect more research data for better application of these new technologies. SBG remains committed to improving its services, sharpening its competitiveness and enlarging its market share in Shenzhen and other markets.

SBG has extended the trial of buses and taxis using new clean energy sources such as liquefied natural gas or electricity so as to collect more research data for better application of these new technologies.



SBG’s electric taxis help contribute to a cleaner Shenzhen metropolis

Electric Bus

The pursuit of environment-friendly initiatives never stops. SBG demonstrates its commitment to environmental protection by trialling environment-friendly electric buses.



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

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, holds an equity interest of 31.38% in BBKT, which was established in 2003 as the first Sino-foreign joint stock company in the Mainland’s taxi hire and car rental market.

As a leading operator in the taxi hire and car rental business in Beijing, BBKT is renowned for offering the highest levels of service in a highly competitive market. ISO 9001:2000 certified for its quality management systems in taxi services since 2006, BBKT is well positioned with its fleet of 4,637 vehicles to seize additional

business opportunities afforded by the wide variety of events, conferences and exhibitions that are held in the nation’s capital. New market opportunities continue to be identified by the representative office which was opened in the Binhai New District of Tianjin (天津市濱海新區) in 2009.

With its fleet of 4,637 vehicles, BBKT is well positioned to take advantage of the business opportunities afforded by the wide variety of events, conferences and exhibitions that are held in the nation's capital.

Despite facing the continuing challenges posed by rising operating costs, BBKT is committed to enhancing its competitiveness by improved efficiency and more effective fleet utilisation without compromising its service quality. Building on its solid reputation for quality service provision, BBKT continues to upgrade its motor vehicle fleets and explore profitable avenues for capturing new business opportunities.



BBKT's modern taxi fleet proudly serves the nation's capital



Property Holdings and Development

The Group's luxury property development at Manhattan Hill redefines the concept of city living in West Kowloon.





Manhattan Mid-town is a stylish place to meet in West Kowloon

LAI CHI KOK PROPERTIES INVESTMENT LIMITED (“LCKPI”)

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

Boasting panoramic views of the world-renowned Hong Kong Island skyline, Manhattan Hill is a prestigious residential complex consisting of five high-rise towers with a height ranging from 41 to 43 storeys above podium level. Two luxurious private clubhouses provide residents of the 1,115 units, ranging from 668 square feet to 5,008 square feet, with comprehensive facilities.

The five-storey podium features landscaped gardens, public open spaces and 390 car park spaces for residents and visitors. High ceilings and wide windows providing plentiful natural light are a feature of the flats, which also boast energy-efficient glazing and natural cross-ventilation, which minimise the need for constant mechanical ventilation and cooling. The polished stone lobbies, landscaped podium and contemporary interior finishing make use of the finest natural materials to complement the luxury lifestyle. A double-height sky garden midway up each tower offers tranquillity and a magnificent setting from which to enjoy the views across

Victoria Harbour, while an elevated footbridge with escalators and lifts connects the towers to key public transport locations.

The public response to the sale of Manhattan Hill’s residential units, which began in November 2006, has been overwhelming. In 2011, three residential units and 13 car parking spaces were sold, leaving only one speciality flat and 14 car parking spaces available for sale at the end of 2011.



Choice dining and retail outlets in Lai Chi Kok are easily accessible by public transport

LCK COMMERCIAL PROPERTIES LIMITED (“LCKCP”)

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

LCKCP owns the upscale Manhattan Mid-town shopping mall, the two-level retail podium at Manhattan Hill, which is in easy reach of all parts of the territory by bus, rail and car, with high-speed access to Hong Kong Island and Hong Kong International Airport. Since opening in March 2009, the mall’s mix of shops and restaurants has provided Manhattan Hill residents and other shoppers with a mix of high quality shops and restaurants. At the end of 2011, the entire lettable area of the 50,000 square feet shopping mall had been leased out, generating recurring rental income for the Group.

LCK REAL ESTATE LIMITED (“LCKRE”)

LCKRE, a wholly-owned subsidiary of TIH, is the owner of the Group’s headquarters building in Lai Chi Kok, 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 81% of the area is currently used by the Group for headquarters, office and administrative purposes. The remaining area is set aside for the provision of shops and restaurants. At the end of 2011, all such lettable floor area had been leased out to a number of restaurants and shops to generate additional recurrent rental income.

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, Kowloon, as tenants in common in equal shares.

The KTIL 240 Site will be jointly developed by KTRE and TRL. Sun Hung Kai Real Estate Agency Limited, a subsidiary of SHKP, 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.

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.

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. Since March 2011, the entire lettable area of this property has been leased out to generate recurring rental income for the Group.

The Group's Property Holdings and Development

| Property | Usage | Total Gross Floor Area (square feet) | Group's Interest (%) |
|--|-----------------------|---|-------------------------|
| Kwun Tong Inland Lot 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 Center | 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.

Manhattan Mid-town offers a mix of high quality shops and restaurants.



Manhattan Mid-town's shops and restaurants are a magnet for discerning shoppers



Media Sales Business

RoadShow's innovation and creative excellence provides marketers and advertisers with an unrivalled way of spreading the message about their products and services to nearly four million consumers every day.



ROADSHOW HOLDINGS LIMITED AND ITS SUBSIDIARIES

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

BUS-TV

RoadShow's Bus-TV business provides an electronic medium on the road which specialises in the broadcast of tailor-made programmes and advertisements. It also handles programme content production and sourcing, the marketing and selling of airtime, as well as the production of events and promotions for advertisers on an integrated basis.

Operating on around 20,000 liquid crystal display ("LCD") units broadcasting a variety of programmes to an estimated 3,700,000 bus passengers in Hong Kong each day, Bus-TV covers culture, lifestyle, entertainment and news. RoadShow is able to stay ahead of the competition by customising its uniquely creative coverage to represent the essence of mobile TV on the road.

In 2011, RoadShow completed the upgrade of its media platform by equipping new Bus-TV systems with 3G transmission capabilities, an essential media buy for marketers looking for easy penetration of, and gross impact across, a large daily audience base.

IN-BUS

In-Bus advertising first appeared on buses in February 2009 and has proven to be a fruitful source of revenue for RoadShow. By combining interior advertisements with customised Bus-TV segments, local advertisers are able to reap the benefits of RoadShow's all-round creative platform.

BUS-BODY

Since 2009, Bus-Body has been a powerful medium for advertisers wishing to reach all parts of Hong Kong with their messages. Currently, advertising on the exteriors of around 3,500 franchised buses in Hong Kong is managed by RoadShow.

BUS-SHELTERS

Bus-Shelter advertising continues to boost RoadShow's market share

and its status as one of Hong Kong's leading integrated out-of-home advertising specialists.

INTEGRATED MARKETING SERVICES

In 2011, RoadShow experienced a healthy increase in demand for its integrated marketing services, indicating its growing popularity in the industry. Key customers include advertisers, event management and production specialists, and those working in the creative development and public relations fields.

As a premier out-of-home advertising provider, RoadShow remains well positioned to meet the integrated media and marketing services needs of agencies and advertisers.



Bus-TV

RoadShow's new Bus-TV systems are equipped with 3G transmission capabilities, offering advertisers high impact across a large daily audience base.



Care for Customers

Quality Service – True to our vision of being a global leader in the public transport field, we are dedicated to meeting our customers' needs and providing them with the best possible service.



OCTOPUS BUS-BUS INTERCHANGE SCHEMES (“OCTOPUS BBI SCHEMES”)

The Octopus BBI Schemes offered by our franchised bus services provide fare discounts to passengers on the second leg of journeys while broadening our network coverage. BBI Schemes also relieve traffic congestion on busy corridors and contribute towards an improved environment by improving bus utilisation. At the end of 2011, KMB operated 76 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. We will continue to work towards further enhancement of our Octopus BBI coverage, both on the KMB and LWB networks and via inter-modal schemes jointly operated with other public transport operators.

BUS FARE DISCOUNT SCHEME

In 2011, KMB and LWB offered Sunday and public holiday fare discounts for passengers aged 65 and over who pay by Octopus cards. These passengers enjoyed 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 was introduced on 28 January 2006 and will expire on 30 June 2012 (both dates inclusive).

THE OCTOPUS SMART CARD

For public transport fare payments in Hong Kong, the electronic Octopus Smart Card System has become increasingly popular. Today, Octopus is the world’s leading contactless smart card system, with the highest penetration rate, the highest transaction volume and the widest range of applications. The Group is one of the largest corporate users of Octopus cards in Hong Kong in terms of both value and number of transactions. In 2011, about 90% of our franchised bus fare revenue was collected via Octopus cards, which provide convenience for passengers and cost savings for the Group with regard to cash collection and administration.

LUMINOUS CRYSTAL BUS STOP POLES

To enhance our signage in busy urban areas, in 2011, KMB added 70 new luminous crystal bus stop poles, bringing the total to 130. Besides allowing passengers to check route information more conveniently, the environment-friendly poles add a sparkle to Hong Kong’s nightscape. The twin concepts of simplicity and radiance drive the design of the new pole, which is topped by a rectangular crystal bus-stop sign featuring the traditional KMB red circular pattern. The lower part of the sign displays the bus stop name in English and Chinese in larger font than traditional bus-stop poles. The pole’s multi-

sided, 360-degree rotating route information panel gives passengers speedy and convenient access to route information. The pole’s pollution-free LED lighting, which has treble the lifespan and over six times the electricity-saving capacity of fluorescent tubes, is powered by a silicon rechargeable battery. The new bus-stop pole is also equipped with a timer to regulate the power supply and further save energy.

BUS SHELTERS

Our bus shelter improvement programme continues to make the roadside environment more pleasant for passengers before boarding our buses. In 2011, KMB added 20 new bus shelters, raising the total to 2,432, while LWB maintained its number at 32. With 2,720 advertising panels installed, the bus shelters not only provide convenience to our passengers but also generate advertising income for our franchised bus operations.

CUSTOMER SERVICE CENTRES

KMB has eight customer service centres, strategically located 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. The centres provide a convenient one-stop service to passengers wishing to provide feedback on our services or receive bus route information

Priority Seats

Four priority seats are set aside near the exit door of selected double-deck buses to encourage passengers to offer their seats to people in need.



from our friendly customer service ambassadors. Octopus card services and KMB souvenirs are also available from the centres. The Digital Map Passenger Enquiry System in the centres' multimedia kiosks allows customers to make route searches and view landmarks on their chosen routes on a three-dimensional map. To cater for the growing number of Mainland visitors, a simplified Chinese version of the Digital Map Passenger Enquiry System is available. Customers may also use the multimedia kiosks to browse the KMB website.

Conveniently located 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

KMB's award-winning customer service hotline (2745 4466) is a

proven and effective communication channel between the Company and its passengers. In 2011, the hotline handled over 3.4 million calls, an average of about 283,000 calls a month. Our hotline operator service, which is available daily from 7:00 a.m. to 11:00 p.m., is complemented by a 24-hour hotline system which provides on-demand bus route information, service updates, traffic news and a voicemail service in Cantonese, English and Putonghua. KMB is the first local transport operator to send bus route information via SMS and digital maps of bus stop locations to customers' mobile phones.

LWB's customer service helpline (2261 2791) handled a total of 18,594 calls in 2011, an average of 1,550 calls a month. Besides answering passengers' enquiries, the helpline collects and processes customers' opinions and handles lost and found enquiries.

BUS DESIGN AND MAINTENANCE

Together with leading bus manufacturers, KMB's engineers continue to develop new bus types which are specially suited to Hong Kong's climate and operating environment. New double-deck KMB buses are equipped with the three-in-one integrated safety monitoring system, which enables bus captains to monitor the upper deck, keep an eye on objects behind the bus when reversing and observe alighting passengers. As an extension of this system and to improve safety on our buses, prototypes of an on-board image-recording system covering the entrance and exit, the driver's cabin, the lower and upper saloons and the staircase are being prepared for operational trials.

The entire KMB and LWB bus fleet is subject to an ISO-certified maintenance regime, comprising daily, monthly, half-yearly and

annual road-worthiness inspections at our depots. The rigour of our maintenance systems assures our passengers of high mechanical reliability. Our franchised buses are subject to regular random checks by the Transport Department of the HKSAR Government.

INFORMATION FACILITIES AT BUS TERMINI

In 2011, KMB enhanced and upgraded information facilities at 16 major bus termini, raising the total to 20, helping passengers who are unfamiliar with the terminus find the locations of bus stops by means of an enlarged floor plan. Accompanying route information tables provide bilingual destination names, grid

reference codes, platform numbers and fares. The provision at the termini of large information boards giving directions is another means of helping passengers find their bus stop more quickly.

DUAL-PURPOSE SERVICE KIOSKS

In 2011, KMB converted three existing terminus supervisor kiosks to dual-purpose use, serving both bus operational and customer service needs. The kiosks, located at Mong Kok East Railway Station Bus Terminus, Ravana Garden Bus Terminus and Sheung Tak Bus Terminus, provide passengers with bus departure times and route promotion displays as well as a face-to-face customer enquiry service.

SAFETY CULTURE

Underpinning our safety culture is a strategic plan aimed at developing, implementing, monitoring and reviewing a safety management system that goes beyond legal and statutory requirements. Through continuous improvement, we work to ensure a world-class approach to safety management marked by the highest achievable safety standards.

SAFETY MANAGEMENT SYSTEM

As stated in its Corporate Safety Policy, KMB is firmly committed to striving for continual improvement in safety performance. Robust safety governance is the backbone



KMB's state-of-the-art and ISO-certified bus maintenance regime keeps the fleet running smoothly

Bus Fleet Innovation

Today's bus models include a raft of innovative features, including super-low floor, priority seats, a wheelchair space, brightly coloured handrails, easy-reach bell pushes and the Electronic Bus Stop Announcement System.



of our safety management system. A rigorous safety governance framework ensures that the highest levels of safety performance and sustainable operations are achieved. Established in 2010, the Safety and Service Quality Department focuses on enhancing our safety performance and delivering high quality services.

In order to develop, implement, maintain and monitor Occupational Health and Safety Assessment Series ("OHSAS") 18001 safety management systems, compatible with ISO 9001 (quality) and ISO 14001

(environmental) management system standards, we 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.

As befits a world-class public bus operator, a fit-for-purpose safety management system has been established based on OHSAS 18001. The safety management system was fully implemented in January 2012. In terms of risk management, KMB has adopted a proactive approach that

emphasises risk management as a key element in all safety management activities. We aim to execute an effective risk control system to ensure that safety risks are controlled to levels appropriate to the nature of our bus operations.

SAFE DRIVING CULTURE

Our Bus Captain Training School at Sha Tin Depot, equipped with a state-of-the-art Driving Simulator Studio, runs training programmes that give top priority to safe driving. We organise a number of safety awards and competitions which

promote the concept of excellence in driving to our bus captains. Our buses are equipped with various technological measures to enhance safety, including speed limiters (which limit the speed of buses to 70 km/h) and electronic tachographs, which record vehicle speed and other operational information. At the end of 2011, 3,832 KMB buses and 164 LWB buses were equipped with electronic tachographs.

To enhance bus captains' awareness of safe driving and reinforce our safe driving messages, a "Safe Driving Card" is given to bus captains, while posters with key messages are placed in bus termini. A new Bus Captain Safe Driving Handbook, which includes driving regulations and safety notes that cover every aspect of a bus captain's daily work, is also distributed to all bus captains. Driving tips are highlighted in the handbook to enhance the concept of defensive driving, while bus captains are reminded to pay special attention to road situations and to maintain safe driving practices.

Providing passengers with safe and reliable bus journeys has always been KMB's number one priority. As part of our continuous effort to improve safe driving performance, an incentive scheme, including the Route Safety Performance Award and the Route Safety Improvement Award, was introduced in 2011.

DATABASE OF "DRIVING TIPS IN SPECIAL ATTENTION AREAS"

A database of "Driving Tips in Special Attention Areas", the first of its kind

in Hong Kong, is available on our staff website to help bus captains drive more smoothly and safely. These special attention areas were selected by our driving instructors and operations staff based on their experience after consultation with bus captains. Specially tailored driving tips and suggestions are provided for each location according to the characteristics of each area. To promote bus captains' awareness of safe driving, the relevant bus routes are listed in the database, supplemented by photos and clear layout drawings. The database also provides structured instructions and tips on best driving practices so that the expertise and knowledge of the most experienced bus captains can be effectively communicated to their colleagues.

To encourage two-way communication and to promote bus operational safety, the staff website provides a channel for bus captains to give their suggestions on the driving tips. After review, a summary of this feedback will be given directly to the bus captains. We will continue to fine-tune and update the database through study of all the bus routes involved in order to provide the most up-to-date and accurate information. All these measures are geared towards providing our passengers with pleasant and safe journeys, as well as supporting our bus captains in safe driving.

CARE FOR ELDERLY PASSENGERS

Providing passengers, especially the elderly, with safe bus journeys has always been KMB's first priority.

Promotional leaflets have been distributed at more than 150 bus termini, 13 homes for elderly and ten shopping centres to enhance public awareness of safety for elderly passengers. The leaflet carries images of some of the winning posters in the "Care for the Elderly – Poster Design Competition", which was open to all primary school students and received more than 2,000 entries. The winning submissions were displayed on three bus bodies from December 2010 to April 2011 and also on posters in bus compartments. In this way, passengers were reminded to take care of the elderly when travelling on buses by offering their seats and always holding the handrail, thus helping to contribute to safe and comfortable bus journeys.

PRIORITY SEATS PROMOTION

To encourage passengers to express their concern for passengers in need by offering their seats to the elderly, the disabled, pregnant women and passengers with infants, we launched a "Priority Seats" trial scheme in May 2011 to promote a culture of caring for passengers. Four priority seats with eye-catching headrests are set aside near the exit door on the lower deck of 87 double-deck buses. To encourage passengers to offer their seats to people in need, "priority seat" stickers have also been placed near the designated seats. Through the provision of these priority seats, passengers in need can enjoy safer and more pleasant bus journeys.



Care for Employees

As a caring employer, the Group cares for its employees and sees the development of its people as a way of delivering high quality service. A comprehensive training and recognition programme motivates staff by valuing and rewarding excellent performance.



Top priority is given to the provision of excellent and value-added bus services. This is achieved in the following ways: by providing service training to our bus captains, by making performance monitoring procedures more rigorous, by improving bus designs, and by maintaining our bus fleet to the highest standards. At the same

time, a culture of training and recognition provides staff members with the incentive to deliver top quality service.

The following table gives a breakdown of the workforce of the Group by division at the end of 2011 and at the end of 2010:

| Division | 2011 | 2010 |
|--|---------------|---------------|
| Franchised Public Bus Operations | | |
| • KMB | 11,654* | 11,674 |
| • LWB | 469 | 458 |
| Sub-total | 12,123 | 12,132 |
| Non-franchised Transport Operations | 633 | 620 |
| Media Sales Business ⁽¹⁾ | 117 | 104 |
| China Mainland Transport Operations ⁽²⁾ | 6 | 7 |
| Total | 12,879 | 12,863 |

⁽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.

* The measure of full-time equivalent (FTE) is adopted.

STAFF CONSULTATION AND COMMUNICATIONS

Six Joint Consultative Committees provide forums for management and staff representatives from KMB and LWB to meet to discuss matters affecting daily operations. Meeting every month at KMB and every two months at LWB, issues raised and discussed include safety and operating procedures, the working environment and staff welfare. Our staff website provides KMB and LWB employees with easy access to staff-related information, such as company announcements, reports on staff events, annual leave balances, weather updates and details of upcoming events.

The monthly magazine KMB Today and in-house VCDs are additional channels for keeping staff up to date on corporate developments.



Staff Website

Our staff website keeps employees up to date on staff-related matters, including company announcements, reports on staff events and details of upcoming events and activities.

STAFF DEVELOPMENT

The Group is committed to developing its staff so as to enhance their performance and upgrade the quality of service provided to the public. Training is also seen by the Group as a key investment in its future. Accordingly, training and development courses are arranged for staff at all levels.

In 2011, the range of training and development courses we offered included people development skills, analytical skills, financial management skills, time management skills, personal effectiveness enhancement and communication skills.

To support the development and implementation of Occupational Health and Safety Assessment Series ("OHSAS") 18001 safety management systems within

KMB's Operations Division, a series of safety management training courses was arranged throughout 2011, which included OHSAS 18001 Awareness Training, OHSAS 18001 Understanding and Application Training and OHSAS Internal OHS Audit Training. These courses were successfully completed in 2011, thus equipping our staff members with a thorough knowledge of safety management systems for the implementation of OHSAS 18001 in an efficient and effective manner.

To reinforce the culture of mutual support and personal growth among our new bus captains, a series of team building workshops was run in 2011. These workshops use adventure-based learning to encourage and reinforce positive behaviour in a work setting. The Most Professional Bus Captain Election Campaign was

organised in January 2011 to give the public the opportunity to recognise KMB and LWB bus captains who provide outstanding service performance.

In 2011, 483 staff attended courses organised by the the Occupational Safety and Health Council and the Labour Department. The Equal Opportunities Commission was invited to conduct a series of seminars for our management staff and frontline operations staff to keep them updated on relevant legal requirements. In addition, for the sixth successive year, we invited a renowned Harvard Business School professor specialising in business strategy to conduct a seminar to bring our KMB and LWB management up to speed on the latest developments in the business world.



KMB's Driving Simulator Studio provides bus captains with top quality training

BUS CAPTAIN TRAINING

New and existing KMB bus captains are provided with comprehensive training and improvement courses at our Bus Captain Training School in Sha Tin Depot. In 2011, more than 40 Instructors and around 35 training buses were employed at the Training School.

Initial training comprises both on-road training and theory lessons with the focus on the provision of safe and comfortable bus journeys as well as delivering excellent customer service. In addition to passing Government driving tests, new bus captains are the subject of rigorous internal assessments to ensure they are capable of carrying out their duties effectively. Experienced bus captains undertake training that reinforces their safety awareness and mindfulness of passenger comfort. All of our bus captains receive “eco-driving” training, which promotes good practices such as switching off idling engines.

By recreating real-world driving environments, the Training School’s state-of-the-art Driving Simulator Studio enables bus captains to improve their driving in general and their response to different situations in particular. The four simulator stations are equipped with a driving cabin, with driving seat, steering wheel, accelerator, brake and instrument panel, as well as numerous 42-inch plasma screens

displaying high-resolution images. Added authenticity is provided by the sound of the bus interacting with the road surface and by the presence of other sounds which are typically encountered by the bus captain. While instructors provide instant individual feedback, a report covering speed, trip duration and passenger comfort is given to each trainee.

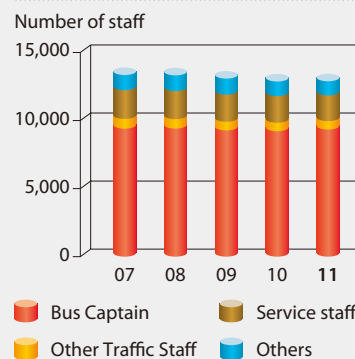
TECHNICAL AND APPRENTICE TRAINING

KMB’s Technical Training School has been training maintenance staff in the latest bus technologies since 1973. In 2011, 223 in-house training sessions were organised for 1,669 skilled workers and 16 sessions were run for 224 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 for our bus fleet. 2011 saw the graduation of a further 45 apprentices, bringing the total number of graduates since the School’s establishment to 2,231. At the end of the year, the School had an enrolment of 185 apprentices.

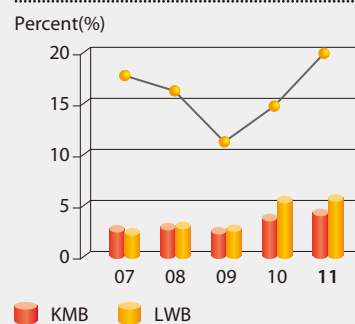
The quality of KMB’s apprentice training programme was once again recognised in 2011 with one apprentice being named Outstanding Contestant in the Vocational Training Council’s Best Apprentice in the Automobile Trade Competition.

Number of staff in the Group at 31 December



Staff turnover rate

(voluntary resignation only)



**Source: Employers’ Federation of Hong Kong

The four simulator stations in the Driving Simulator Studio at our Bus Captain Training School are equipped with driving seat, steering wheel, accelerator, brake and instrument panel, as well as 42-inch plasma screens displaying high-resolution images.



The KMB family celebrates the Year of the Dragon

REWARDING SERVICE EXCELLENCE

A systematic performance assessment mechanism providing continuous monitoring is adopted to ensure that the performance of our bus captains is maintained at the highest level. Any bus captain falling below these high standards will be provided with 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. A similar performance assessment mechanism is used to monitor the Group's non-franchised bus captains.

Outstanding performance will be rewarded by awards and bonus schemes.

The Safe Driving Award was introduced in 1990 to promote road safety. In 2011, a total of 668 KMB and LWB bus captains received the Safe Driving Award in recognition of their outstanding safety records.

The excellent performance of 59 employees was recognised at the 2011 Outstanding Service Awards, where team awards were also presented to groups who had worked together to produce outstanding results.

In 2011, in recognition of consistently strong performance, 5,677 Good Service Annual Awards and 3,878 Safe Driving Annual Awards were presented to KMB and LWB bus captains, while 338 Good Service Annual Awards were made to KMB and LWB Terminus Supervisors/ Assistant Terminus Supervisors/ Customer Service Assistants.

The operating companies within the Group's Non-franchised Transport Operations Division ran their own good service and safe driving award programmes in 2011 to recognise especially meritorious performance.



The excellent performance of individual staff members and teams is recognised annually through the Outstanding Service Awards.

WORK-LIFE BALANCE

Health talks are organised regularly for members of staff and their families as part of our encouragement of healthy work-life practices. A self-learning culture is promoted, with an in-house library service established on the staff website to ease borrowing of library materials via an electronic library catalogue.

MEDICAL CENTRES

Four Medical Centres on KMB premises provide dedicated outpatient services for our staff, as well as medical checks for new employees and annual medical checks as required.

NEW UNIFORM FOR FRONTLINE STAFF

In 2011, KMB adopted the newly-designed uniforms on a company-wide basis for all KMB frontline staff, including bus captains, inspectors and terminus supervisors. The new uniforms feature green as the primary colour representing vitality and energy. Silver grey reflective piping and tape on the back of the uniform enhance operational safety, especially in dark conditions.



innovation for Green Environment

Key to the sustainable business excellence of our operations is our dual commitment to constant innovation and to conducting our businesses with full consideration of the environmental, social and economic aspects.



Corporate Social Responsibility



Care for the Environment

The Group is dedicated to working for a better environment through its contributions to environmental preservation. As a popular provider of public transport services, we recognise the potential environmental impacts associated with our services and are wholeheartedly committed to reducing these impacts in four main areas: environment-friendly buses, green use of consumables, environmental waste treatment and green workplace. Our environmental protection efforts have been recognised with Green Mark Certification from the Hong Kong Q-Mark Council.



Q-MARK COUNCIL RECOGNITION FOR KMB'S ENVIRONMENTAL MANAGEMENT

KMB's Sha Tin and Lai Chi Kok Depots were awarded ISO14001 certification from the Hong Kong Quality Assurance Agency in 2003. ISO 14001 is the internationally recognised standard for environmental management systems, providing a framework for organisations to manage aspects of their operations that affect the environment. In 2010, the company 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. Green Mark Certification attests 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. 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.

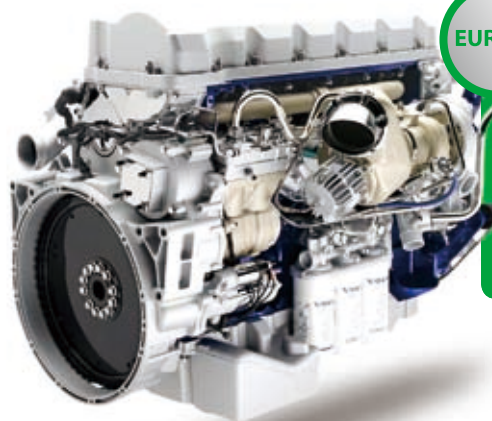
ENVIRONMENT-FRIENDLY BUSES

KMB and LWB are committed to building a better environment through continuous investment in the application of environmental technology. KMB and LWB's social responsibility is evidenced by their commitment to making improvements through continuous investment in the environmental area, as they progressively adopt innovative technologies and equipment. The regular purchase of state-of-the-art environment-friendly buses and the continuous upgrading of our fleets ensure compliance with all relevant environmental standards. Our new buses generally have environmental performances far exceeding the legal requirements in Hong Kong, making

the Group an industry leader in the adoption of innovative technologies and equipment that improve environmental performance.

Euro IV and Euro V Engines

In recent years, we have introduced a number of new buses equipped with Euro IV and Euro V engines, which can reduce the emission of pollutants significantly, especially in terms of nitrogen oxides, as a result of the application of urea-based Selective Catalytic Reduction (SCR) technology. To tie in with the future growth of environment-friendly buses, KMB has installed 12 urea solution dispensing units at its depots in Lai Chi Kok, Kowloon Bay, Sha Tin, Tuen Mun, Yuen Long, Tai Po and Sheung Shui to simplify work processes and achieve higher efficiency. The units are able to top up the solution on more than 1,000 buses each day. The depots at Tseung Kwan O and Tsing Yi will be equipped with this facility in 2012, bringing the total number of urea solution dispensing units to 14.



Euro V Engine

EURO 5

The Euro V engine, when combined with urea-based Selective Catalytic Reduction technology, significantly reduces the emission of pollutants such as nitrogen oxides.

Supercapacitor Bus (or “gBus”)



Powered by supercapacitor technology, the gBus is a zero-emission electric bus which can run for five kilometres per full charge without the need for continuous overhead cables. Following satisfactory road performance during its 8-month trial, we are working closely with our suppliers and the HKSAR Government to take the gBus to the next, wider level of implementation.



Compared with Euro III engines, Euro IV and Euro V engines reduce the emission of nitrogen oxides by 30% and 60% respectively (in terms of grams per kilowatt-hour). Euro IV and Euro V buses equipped with a SCR catalytic converter can reduce the emission of nitrogen oxides, since ammonia formed from the urea solution can convert nitrogen oxides into nitrogen gas and water vapour. At 31 December 2011, there were 345 buses of this kind in the KMB fleet. KMB is currently working with the Environmental Protection Department to explore the feasibility of retrofitting SCR devices on existing Euro II and Euro III buses to further reduce nitrogen oxide emissions.

A total of 322 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

At the end of 2011, KMB and LWB operated a total of 4,055 buses, all of which met the strict exhaust emission standards of the European Council of Environmental Ministers. Of these buses, a total of 3,348 was either equipped with catalytic converters

(“CRT”) or Diesel Particulate Filters (“DPF”), bringing their exhaust emission levels to higher Euro standards in terms of particulate matter. The average particulate emission levels of the entire KMB bus fleet had been reduced by 92% compared with 1992, the year when Euro I emission standard was first introduced in the European Union.

As at 31 December 2011, the number of KMB and LWB buses that met the respective emission standards was shown in the table on page 71.



Download
our
gBus Video



EXPLORING ZERO-AND LOW-EMISSION BUS TECHNOLOGIES

KMB is rigorously exploring and trialling the most advanced zero- and low-emission bus technologies. We introduced the zero-emission supercapacitor bus (the “gBus”) for trial in Hong Kong from August 2010 to April 2011, during which a satisfactory result was achieved. The gBus only took about 3 minutes to fully charge its supercapacitors after travelling 2.8 to 4.0 kilometres with air-conditioning at fully loaded operating conditions on different duty cycles. Those who took a ride on the gBus during trials 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 gBus’s deployment potential. We continue to work closely with potential suppliers and the Government with a view to starting trial deployment of gBuses

on actual bus routes to serve our customers. At the same time, we continue to explore other zero-emission technologies, including the battery-electric bus, which has made significant advances in its operating range. The Government has earmarked HK\$180 million for Hong Kong franchised bus companies to purchase 36 electric buses for trial runs on a number of routes to assess their performance under different conditions.

With funding support from the Government, we also plan to introduce diesel-electric hybrid double-deck buses on busy corridors to test and record their operational efficiency and performance in local operating conditions. The specifications of the diesel-electric hybrid double-deck buses which KMB would like to acquire for trials have been drawn up, and the project is currently at the tendering and acquisition stage.

| Engine Type | Number of Buses | | | Emission Level (in terms of particulate matter) | | | |
|-------------------------|-----------------|------------|--------------|---|--------------|-----------|--------------|
| | KMB | LWB | Total | Euro I | Euro II | Euro III | Euro IV/V |
| Pre-Euro ⁽¹⁾ | 1 | | 1 | 1 | | | |
| Euro I ⁽¹⁾ | 855 | | 855 | | 855 | | |
| Euro II | 200 | | 200 | | 200 | | |
| Euro II ⁽²⁾ | 1,319 | 99 | 1,418 | | | | 1,418 |
| Euro III | 43 | | 43 | | | 43 | |
| Euro III ⁽²⁾ | 1,056 | 18 | 1,074 | | | | 1,074 |
| Euro IV | 108 | 32 | 140 | | | | 140 |
| Euro V | 309 | 15 | 324 | | | | 324 |
| | 3,891 | 164 | 4,055 | 1 | 1,055 | 43 | 2,956 |

Notes:

1. Equipped with CRT.
2. Equipped with CRT or DPF.

The entire KMB and LWB fleet uses Near Zero Sulphur Diesel, containing just 0.001% sulphur, significantly reducing the exhaust emission levels of sulphur oxides and particulates.

We will continue to work with the Government to explore the feasibility of deploying green buses in areas that are especially suited to such services, in particular, busy corridors and the Kai Tak Redevelopment. Given that zero-emission buses are more operationally flexible and require significantly less capital investment than other zero-emission mass transport solutions such as rail, we remain committed to working closely with our manufacturers and suppliers to develop zero-emission buses for Hong Kong's unique operating environment.

GREEN USE OF CONSUMABLES

Near Zero Sulphur Diesel

Since 2009, all buses in KMB and LWB fleets have been using Near Zero Sulphur Diesel ("NZSD"), which contains only 0.001% sulphur. NZSD significantly reduces the exhaust emission levels of sulphur oxides and particulates, thus contributing to a healthier environment.

Synthetic Transmission Oil

Introduced in 2001, synthetic transmission oil was extended to all KMB and LWB double-deck buses in 2005. The move has seen an 80% reduction in waste oil and an increase in the oil drain interval from 30,000 to 150,000 kilometres.

Eco-Driveline System

The Eco-Driveline System, which has been a standard feature on all our new buses since 2003, 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 provides a 6-10% improvement in fuel consumption and emissions in comparison with conventional drivelines.

Electrostatic Filters

To further improve the air quality inside buses, KMB is equipping its air-conditioned buses with electrostatic filters, which provide even more effective filtration of very fine particles with minimal noise. At the end of December 2011, 1,229 KMB buses had been equipped with this device. By means of electrostatic precipitation, the electrostatic filter is able to capture micron-sized contaminants and particles such as dust and pollen. The multi-layered design of the collecting plates enables the removal of airborne contaminants with greater efficiency than traditional air filters. Tests of the effectiveness of electrostatic filters showed that they can filter out 80% of fine dust, enabling passengers to enjoy an even more comfortable journey on KMB buses.

Foam-element Air Filters

KMB and LWB are progressively replacing traditional paper-element air filters with high performance foam-element air filters with an average life span of about 12 months, six times longer than that of conventional paper filters. The use of foam-element air filters maintains the operating performance of our buses while significantly reducing the amount of solid waste for disposal.

Variable Capacity Air-conditioning Compressor

Power-saving variable capacity air-conditioning compressors are installed on all KMB buses ordered after 2008. The compressors provide more adaptive and refined thermal control in the bus compartment in the most fuel-efficient manner, while handling the dynamic urban operating environment in all weather conditions.

Tyre Retreading and Recycling

Extending the life of a bus tyre through retreading is cost effective and environmentally friendly, as it reduces the amount of industrial waste and saves resources. The life of a new bus tyre, which can typically be used for seven months, can be

extended by around 14 months through retreading, as each tyre can be retreaded two times on average. In 2011, 31,000 used tyres were retreaded in KMB's retreading workshop, bringing the total number of tyres retreaded since 1972 to more than 720,000. Additionally, more than 17,000 scrapped tyres and 190 tonnes of tyre chips, which would otherwise have been disposed of in Government landfills, were collected by an agent for recycling into various rubber products.

Cartridge Recycling Programme

KMB has supported Friends of the Earth's (HK) cartridge recycling programme since 2001, collecting cartridges from printers and fax machines with the objective of saving

natural resources and protecting the environment. At the end of August 2011, KMB had collected a total of 4,733 cartridges for recycling. Not only does this help reduce the amount of solid waste disposed of in landfills, it also saves natural resources used in producing the cartridges. Over the past ten years, the cartridges collected by KMB have added up to a reduction of four tonnes in solid waste, as well as saving 2,780 litres of petroleum that would have been used to produce the same number of cartridges. This amount of petroleum is enough to power a double-deck bus 184 times up and down Route 3 between Hong Kong Island and Yuen Long.



Urea Solution Dispensing Units at Depots



KMB has equipped 12 depots with urea solution dispensing units, which can top up more than 1,000 buses each day with the environment-friendly solution.

Dedicated green facilities that promote energy conservation at our depots include waste water treatment systems, water recycling facilities and environment-friendly fire service systems. Energy-saving features are also incorporated in the lighting, air-conditioning and ventilation systems.

ENVIRONMENTAL WASTE TREATMENT

KMB implements a company-wide waste reduction programme aimed at reducing the amount of solid waste needing disposal. Positive results were again achieved in waste reduction and recycling in our daily operations, including plastic cartridges used in fax machines and printers, rechargeable batteries, fluorescent tubes and waste paper. Since 2009, around 1,200 kilograms of printed circuit boards, which would otherwise be disposed of in Government landfills, have been collected by a recycling agent. 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 2011.

Environmental Treatment of Waste Oil and Chemical Waste

During 2011, some 764,000 litres of waste oil were collected from our depots and other bus maintenance sites by a registered waste oil recycling agent for recycling or disposal in accordance with the statutory standards. In addition, about 290,000 kilograms of solid chemical waste were first 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.

Waste Water Recycling

Environmental protection has always been an important consideration

in KMB's operations, and a great deal of effort is dedicated to conserving resources. In 2011, water consumption at KMB headquarters and depots recorded a 6% reduction compared to 2010. Apart from launching the "Save Water" campaign to remind staff to save water, KMB also adopts a number of environment-friendly measures in its daily operations. The water that is used every day to clean the KMB bus fleet is treated and recycled through the water recycling system. KMB's depots are equipped with a total of 11 automatic waste water treatment systems with a daily treatment capacity of 520 cubic metres. Following the addition of chemicals to separate solid impurities 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. 70% of the water that is used every day to clean the bus fleet is treated and recycled, thus significantly reducing water consumption.

Waste Scrap Metal Recycling

In 2011, more than 1,160 tonnes of scrap metal from aged and damaged bus parts, replaced at the daily, monthly, half-yearly and annual professional inspections, were collected from KMB depots for recycling, considerably reducing the amount of solid waste needing disposal. Approximately 95% of that metal was scrap iron. All types of scrap metal, including

non-ferrous metals, can be recycled repeatedly at a lower cost and with less energy consumption, when compared with the refining process from ores. To enable more effective scrap collection, KMB has set up five collection points at Lai Chi Kok Depot, Kowloon Bay Depot, Sha Tin Depot, Tuen Mun Depot and the KMB Overhaul Centre. The collected scrap metal is handled by waste collectors appointed by KMB through its annual tendering process for recycling and future re-use.

Merchandising from Scrap Parts

According to Group practice, retired buses have been sold to scrap merchants for export or recycling. In order to promote environmental protection and generate non-farebox revenue, local universities were approached and in 2011 KMB entered into a sustainable collaborative project with the Hong Kong Design Institute ("HKDI"), a leading regional design education institution, to recycle obsolete and used parts. Higher Diploma in Product Design students at the HKDI are now able to use their skills to transform obsolete materials into useful products including furniture, lighting and hi-fi. As the first local public transport operator to launch this kind of project, the Group is sending out a clear message to the general community and engaging the younger generation in particular on the importance it attaches to social, environmental and educational responsibilities.

GREEN WORKPLACE

The dedicated green facilities promoting energy conservation installed at all our depots include waste water treatment systems, water recycling facilities and environment-friendly fire service systems. Energy-saving features are also incorporated in the lighting, air-conditioning and ventilation systems. Regular air sampling in depot areas ensures that a healthy work environment is maintained. Since 2009, when KMB carried out a pilot scheme at Sha Tin Depot to replace high bay lamps with long-life energy-saving fluorescent tubes, leading to a 12% saving in electricity consumption, the company has continued to adopt energy efficient lamps in its depots as part of its commitment to promoting a low carbon economy. In 2011, the use of energy saving induction lamps at Kowloon Bay Depot cut monthly electricity consumption by 17%. Lamp replacement work is currently being undertaken at KMB's other depots.

Since becoming in 2006 the first organisation in Hong Kong to participate in the fluorescent tube recycling campaign, KMB has set up five collection points at Lai Chi Kok Depot, Kowloon Bay Depot, Sha Tin Depot, Tuen Mun Depot and the KMB Overhaul Centre to gather used fluorescent tubes from around 3,800 buses, more than 2,000 bus-shelter light boxes at bus shelters, and the bus depots themselves. Whenever a fluorescent tube is replaced, the packing material of the new tube is used to wrap the old tube. The

used fluorescent tubes are stored in a designated area, from which a licensed contractor regularly collects them for recycling. The contractor will remove the mercury from the used tubes before crushing them into glass granules, allowing the retrieved mercury, glass granules and other metal parts to be reused. In 2011, around 80,000 used fluorescent tubes were sent to the Government's Chemical Waste Treatment Centre for recycling, bringing the total number recycled to around 465,000.

The Green Office concept informs the design, refurbishment and practices of the Group's Lai Chi Kok headquarters. Air-conditioning thermostats are set to 25.5°C to conserve energy and benefit air quality in support of the Government's Action Blue Sky Campaign, while pre-set timers switch off lights when they are not needed or when there is sufficient natural light. We have also introduced lower-energy LED lighting in common areas of the headquarters building such as the main lobby to reduce both electricity consumption and the demand for air-conditioning.

Self-developed Filter Compressing Machine

The use of the in-house developed Filter Compressing Machine at KMB's Sha Tin Depot has led to a reduction of 60% in the volume of solid chemical waste formed by disposed fuel or oil filters. Additionally, the waste oil squeezed from the filters during the compressing process can be recycled.



Communication with Stakeholders

We use a variety of channels to maintain open communication with all our stakeholders, including passengers, suppliers, manufacturers, the Government, and political and community groups.

Download our Publications



PASSENGER LIAISON GROUP MEETINGS

KMB and LWB have held Passenger Liaison Group (“PLG”) meetings since 1993 and 2000 respectively to gather the views of passengers and better understand their expectations. In 2011, KMB held six PLG meetings, with wide-ranging discussion of frontline services, bus services and model passengers. Our bus operations have been enhanced and adjusted in a number of ways as a result of the suggestions we received. KMB’s 2011 PLG Report is available for browsing on the KMB website. LWB similarly held six PLG meetings in 2011, adopting many of the suggestions made by participants in line with its goal of continuous improvement of its quality service provision.

CORPORATE SOCIAL RESPONSIBILITY CHARTER

In 2011, we once again published the KMB Corporate Social Responsibility (“CSR”) Charter 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 and employees, its connection with the community, its engagement with stakeholders, its commitment to the environment and its promotion of sustainable development.

MEDIA OUTREACH

In 2011, a number of press sessions and briefings were held by KMB to promote various initiatives and increase public awareness of our provision of customer-friendly services. The sessions covered the introduction of the popular KMB iPhone and Android apps, which feature the pioneering “Alight Reminder” function, the promotion of newly-introduced “priority seats” for passengers with special needs, the launch of the new generation of single-deck buses for better deployment of resources, and the addition of award-winning apprentice graduates to our maintenance and repair team.

KMB also held press sessions to showcase its initiatives in the provision of safe and high quality bus services. These included the “Most Professional Bus Captain” election, the “Bus Captain of the Year” competition, the launch of the “Route-based Safety Team” scheme, and the presentation of the Safe Driving Award and the Outstanding Service Award. The focus of other press briefings included KMB’s Lost Property Management System, service enhancements for the first day of the school year and the latest environmental achievements of the KMB bus fleet.

KMB’s CSR Charter provides details of our corporate values, including care for customers and employees, connection with the community, engagement with stakeholders, commitment to the environment and promotion of sustainable development.



TIH Managing Director addresses the media



KMB and LWB's Passenger Liaison Group meetings give passengers the chance to share their views on bus services for service improvement

The popularity of KMB's Civic Education Campaign was demonstrated when it picked up the Info-service category award in the Most Popular TV Commercial Awards 2011 organised by Television Broadcasts Limited.

INFORMATION PUBLICATIONS

"KMB's Efforts in Environmental Protection" was again published in 2011, highlighting the environment-friendly measures and policies the company has adopted in the areas of emission reduction, energy and resource management, recycling, and waste management. Additional features focus on KMB's corporate governance and its contributions to the economic and social development of Hong Kong.

In 2011, LWB continued to distribute various information leaflets, including the "LWB Bus Services for North Lantau and the Airport" leaflet and the Airbus Card, which provides route and departure information for LWB's Airport routes. Leaflets targeting the

tourist market, giving details of hotels and relevant transport information, have been distributed since June 2010.

CIVIC EDUCATION CAMPAIGNS

A campaign aimed at raising awareness of how KMB has grown with the city and its people was launched in early 2011. Using bus body decorations and bus shelter posters, as well as year planners and calendar posters, the "KMB, With a Hong Kong Heart" campaign was successful in reaching out to the whole community. The ongoing popularity of KMB's Civic Education Campaign was demonstrated when it picked up the Info-service category award in the Most Popular TV Commercial Awards 2011, organised by Television Broadcasts Limited.

CORPORATE WEBSITES

The TIH website (www.tih.hk) keeps investors up to date on the activities of the Group and its various businesses. The design of KMB's award-winning website (www.kmb.hk) takes into account the needs of special groups in addition to the capabilities and limitations of the most popular browsers. The website features Hong Kong's first map-based point-to-point bus route search function for a public bus company, giving details of relevant routes in a couple of clicks. It also offers a "Street View" feature on its point-to-point route search function, which gives

passengers a 360-degree photo tour of the street near their chosen bus stop, allowing them to familiarise themselves with the surroundings in advance.

The KMB website won the Diamond Prize in the Web Care Award organised by the Internet Professional Association, the Meritorious Website Award in the Meritorious Websites Contest, organised by the Television and Entertainment Licensing Authority, and the Merit Prize for Corporate Group in the Top 10 .hk Website Competition, organised by the Hong Kong Internet Registration Corporation Limited.

The KMB website's map-based point-to-point route search function gives details of relevant routes in a couple of clicks, allowing users to make fast and accurate searches for bus route information.



The KMB Website's Brand-new "Street View" Feature



The KMB website's "Street View" feature gives passengers a 360-degree photo tour of the street near their chosen bus stop.





Community Outreach

The Group's dedication to community service and charity sponsorship was recognised once again in 2011, with KMB and RoadShow being granted the "10 Consecutive Years Caring Company Logo" in the Caring Company Award, organised by the Hong Kong Council of Social Service, and KMB receiving the Award of Merit from The Community Chest of Hong Kong.



COMMUNITY SPONSORSHIP

The Group is a regular sponsor of and participant in different community programmes, including the New Territories Walk for Millions, Dress Casual Day and the Corporate Challenge Half Marathon, organised by The Community Chest of Hong Kong, in the Friends of the Earth's (HK) Earth Partner programme, and in other events and activities organised by the HKSAR Government, charities and professional and environmental groups.

The Group also sponsored industry-improvement campaigns, social awareness initiatives and a variety of sporting and cultural events in 2011. The Hong Kong Management Association Quality Award, the Hong Kong Awards for Industries, The University of Hong Kong's Distinguished Transport Lecture Series, the Hong Kong Sports Stars Awards, the Outward Bound Hong Kong Corporate Challenge, the Green Power Hike and the Volunteer Movement of the Social Welfare Department were all beneficiaries during the year.

KMB's efforts in responsible corporate citizenship were once again recognised with the Tai Po District Civic Education Outstanding Enterprise Award for 2010-2011.

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

FRIENDS OF KMB, KMB's volunteer club, has been promoting social service, environmental protection and civic education since its establishment in 1995. In 2011, 3,350 members volunteered more than 16,000 hours of their time to community service, volunteering at children's homes and centres for the elderly and participating in various charity and environmental protection events. Two new volunteer campaigns were rolled out in 2010-11. To promote green living, a new programme, "EP Go! Go! Goal!" was run in partnership with International Social Service - Hong Kong Branch (ISS-HK). New immigrants and low income families from ISS-HK's Sham Shui Po Integrated Family Service Centre attended briefing sessions on adopting a green lifestyle and visited organisations that promote environmental protection. In conjunction with the Anti-drug Volunteer Group of the Narcotics Division, FRIENDS OF KMB also organised a programme called "Cooking as a Career", which provided basic cookery training for drug rehabilitants with a view to helping them find a job in the food and beverage industry. Over the past 16 years, FRIENDS OF KMB has amassed more than 116,000 hours of voluntary service. The club's work was honoured once again with the award of first runner-up in the Highest Service Hour Award (Private Organisation – Best Customer Participation) organised by the Social Welfare Department. It also received the Bronze Award, Best Volunteer Team, in the Hong Kong Outstanding Corporate Citizenship

Award organised by the Hong Kong Productivity Council and the Committee on the Promotion of Civic Education.

REACHING OUT TO PASSENGERS WITH SPECIAL NEEDS

The Group provides regular support for events organised for passengers with special needs. To mark International Day of Persons with Disabilities, KMB and LWB provided free bus services for disabled people and their escorts on 13 November 2011. KMB and LWB also offered free rides to passengers aged 65 and over on Senior Citizens' Day, 20 November 2011.

The Group makes continuous investment in features that ease the travel of passengers with special needs. All new buses are equipped with a super-low floor step-free entrance, a wheelchair space, and a non-slip handrail near the entrance to help passengers with special needs. At the front of buses, large characters and numbers are displayed on the liquid crystal display ("LCD") destination panels for the convenience of passengers waiting to board. Further, 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, is installed on the entire KMB fleet.

KMB and LWB are members of the Working Group on Access to Public Transport by People with Disabilities along with representatives from the Transport Department, other public bus operators and organisations for the disabled.

Financial Review

The Group

REVIEW OF 2011 FINANCIAL PERFORMANCE

The Group's Results for the Year

The Group's profit attributable to equity shareholders for the year ended 31 December 2011 was HK\$242.4 million, representing a decrease of HK\$624.5 million or 72.0% compared to HK\$866.9 million for 2010. Earnings per share for the year decreased correspondingly to HK\$0.60 for 2011 from HK\$2.15 for 2010. The decrease in profit was mainly attributed to the deterioration in the financial performance of The Kowloon Motor Bus Company (1933) Limited ("KMB") in 2011, which was mainly owing to the drastic increase in international fuel oil prices compared with 2010. Another main reason for the year-on-year decrease in profit was that a 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 (the "KT Site") was recognised in 2010.

The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2011 are shown below:

For the year ended 31 December 2011, the Group's turnover amounted to HK\$6,947.5 million (2010: HK\$6,686.8 million), an increase of HK\$260.7 million or 3.9% compared to 2010. The increase was due mainly to the sale of three Manhattan Hill residential units (2010: one) and 13 car parking spaces (2010: three) in 2011, resulting in total sales revenue of HK\$109.1 million being recognised in 2011 (2010: HK\$29.3 million). Turnover generated from the Group's franchised public bus operations and non-franchised transport operations divisions also increased by HK\$126.3 million from HK\$6,319.1 million for 2010 to HK\$6,445.4 million for 2011, due mainly to the fare increases of 3.6% and 3.2% for KMB and Long Win Bus Company Limited ("LWB") respectively which became effective on 15 May 2011. Furthermore, the turnover of the Group's media sales business division increased by HK\$46.3 million from HK\$325.2 million for 2010 to HK\$371.5 million for 2011. Such increase was mainly attributable to the growth of the bus exterior advertising business in Hong Kong.

The Group's total operating expenses for 2011 amounted to HK\$6,833.7 million (2010: HK\$6,348.9 million), an increase

| HK\$ million | Turnover | | Profit/(Loss) before taxation | |
|---|----------------|----------------|-------------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Franchised Public Bus Operations Division | 6,180.9 | 6,062.4 | 88.5 | 397.3 |
| Non-franchised Transport Operations Division | 264.5 | 256.7 | 20.5 | 26.7 |
| Property Holdings and Development Division | 130.6 | 42.5 | 112.1 | 493.6 |
| Media Sales Business Division | 371.5 | 325.2 | (30.9) | (48.3) |
| Financial Services Division | – | – | 35.0 | 23.3 |
| China Mainland Transport Operations Division | – | – | 31.3 | 33.8 |
| | 6,947.5 | 6,686.8 | 256.5 | 926.4 |
| Finance costs | | | (8.6) | (6.6) |
| Unallocated net operating income | | | 27.5 | 10.9 |
| Profit before taxation and non-controlling interests | | | 275.4 | 930.7 |
| Income tax | | | (41.2) | (75.3) |
| Non-controlling interests | | | 8.2 | 11.5 |
| Profit attributable to equity shareholders of the Company | | | 242.4 | 866.9 |

of HK\$484.8 million or 7.6% compared to 2010. The increase was mainly due to the drastic increase in international fuel oil prices, which resulted in our fuel costs for the year 2011 surging to HK\$1,533.8 million, a substantial increase of HK\$406.8 million or 36.1% compared to HK\$1,127.0 million for 2010. More detailed information in respect of the Group's individual business units is set out on pages 88 to 93 of this Annual Report.

The Group's share of profits of associates for 2011 amounted to HK\$31.3 million (2010: HK\$33.8 million), a decrease of HK\$2.5 million or 7.4% compared to 2010.

Income tax expense for the year amounted to HK\$41.2 million (2010: HK\$75.3 million). The breakdown of the income tax expense is set out in note 6(a) to the financial statements on page 161 of this Annual Report.

Segment information on the Group's main businesses is set out in note 13 to the financial statements on pages 166 to 168 of this Annual Report.

Dividend

The Board has recommended an ordinary final dividend of HK\$0.45 per share (2010: HK\$1.05 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 17 May 2012, the proposed final dividend, together with the interim dividend of HK\$0.15 per share (2010: HK\$0.30 per share) paid in October 2011, would result in a total dividend of HK\$0.60 per share for 2011 (2010: HK\$1.35 per share).

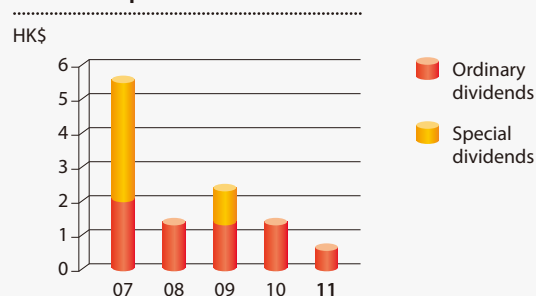
KEY CHANGES TO FINANCIAL POSITION

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 other equipment, investment properties, and interest in leasehold land. None of the Group's fixed assets was pledged or charged as at 31 December 2011.

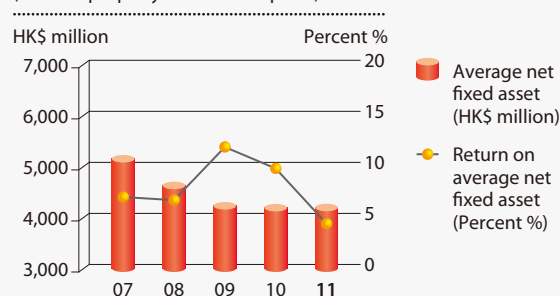
In 2011, the Group incurred capital expenditure of HK\$754.3 million (2010: HK\$1,080.2 million). The decrease was mainly attributable to the fact that fewer new buses were purchased for our franchised public bus operations during the year. The breakdown of the capital expenditure is shown in notes 14(a) and 15 to the financial statements on pages 170 and 172 respectively of this Annual Report.

Dividends per share

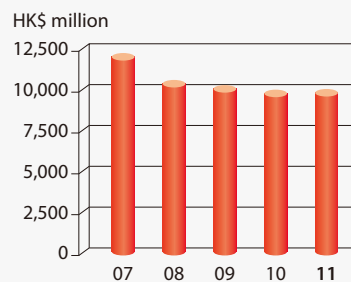


Return on average net fixed asset employed

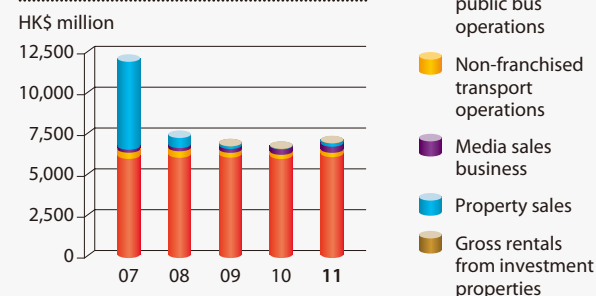
(exclude property sales and disposal)



Total assets at 31 December

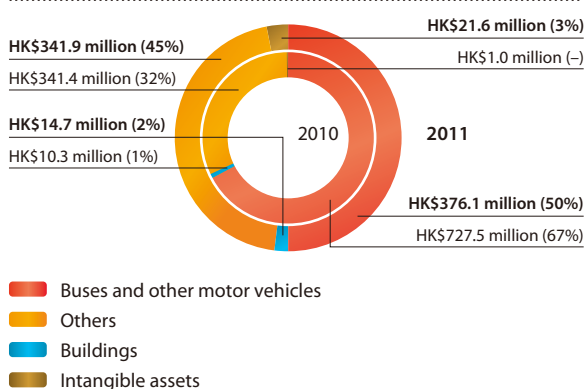


Group turnover



Financial Review

Capital expenditure



Current Assets and Liabilities

At 31 December 2011, the Group's total current assets amounted to HK\$3,577.8 million (2010: HK\$3,213.0 million), mainly comprising liquid funds of HK\$2,974.1 million (2010: HK\$2,800.7 million), accounts receivable of HK\$331.5 million (2010: HK\$256.6 million), and completed property held for sale of HK\$19.7 million (2010: HK\$45.2 million). Completed property held for sale represents the cost of one residential unit and 14 car parking spaces of Manhattan Hill held at the balance sheet date. The Group's liquid funds at the end of 2011 were mainly denominated in Hong Kong dollars, United States dollars and Renminbi.

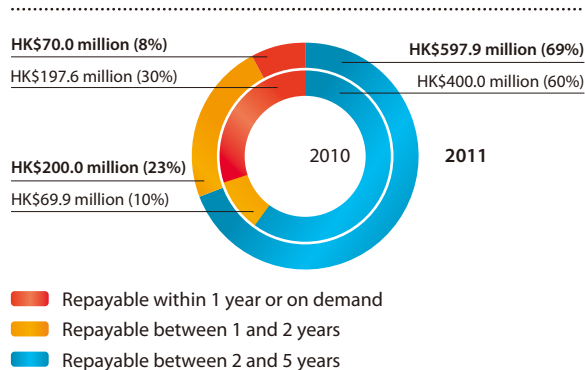
Total current liabilities at 31 December 2011 amounted to HK\$1,277.8 million (2010: HK\$1,450.2 million), which principally included the current portion of bank loans, accounts payable and other accruals. The decrease was due mainly to decreases in current portion of bank loans and accounts payable.

Bank Loans and Overdrafts

At 31 December 2011, bank loans and overdrafts, all unsecured, amounted to HK\$867.9 million (2010: HK\$667.5 million). The maturity profile of bank loans and overdrafts of

the Group at 31 December 2011 and 31 December 2010 is shown in the chart below:

Debt maturity profile at 31 December



Net Cash

At 31 December 2011, the Group's net cash (i.e. cash and deposits at banks less total borrowings) amounted to HK\$2,106.1 million (2010: HK\$2,133.2 million). The details of the Group's net cash by currency at 31 December 2011 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 2011 | | | | |
| Hong Kong dollars | | 2,568.1 | (867.9) | 1,700.2 |
| Renminbi | 165.6 | 204.3 | - | 204.3 |
| United States dollars | 25.8 | 201.0 | - | 201.0 |
| British Pounds Sterling | - | 0.6 | - | 0.6 |
| Total | | 2,974.0 | (867.9) | 2,106.1 |
| At 31 December 2010 | | | | |
| Hong Kong dollars | | 2,455.1 | (667.5) | 1,787.6 |
| Renminbi | 110.2 | 130.5 | - | 130.5 |
| United States dollars | 25.0 | 194.1 | - | 194.1 |
| British Pounds Sterling | 1.7 | 21.0 | - | 21.0 |
| Total | | 2,800.7 | (667.5) | 2,133.2 |

Capital Commitments

Capital commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2011 amounted to HK\$2,140.6 million (2010: HK\$2,438.4 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 | 2011 | 2010 |
|---|---------|---------|
| Development of the Kwun Tong Site | 1,791.3 | 1,797.1 |
| Purchase of buses and other motor vehicles | 119.3 | 346.3 |
| Purchase of other fixed assets | 229.9 | 293.0 |
| Construction of depots and other depot facilities | 0.1 | 2.0 |
| Total | 2,140.6 | 2,438.4 |

At 31 December 2011, the Group had 114 (2010: 385) new buses on order for delivery in 2012.

FUNDING AND FINANCING

Liquidity and Financial Resources

The Group closely monitors its liquidity and financial resources in a prudent manner by preparing and reviewing a rolling 12-month cash flow projection on a monthly basis 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 demands for daily operational needs, loan repayments, capital expenditure and potential business expansion and development. The Group's operations are mainly financed by shareholders' funds, bank loans and overdrafts. In general, the Group's major operating companies arrange 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. Management regularly reviews the Group's funding strategy to ensure that cost-efficient and flexible funding is available to cater for the unique operating environment of each subsidiary. Adequate stand-by banking facilities

are maintained to facilitate routine treasury operations.

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 2011, the Group had unutilised banking facilities totalling HK\$730.0 million (2010: HK\$1,329.8 million).

Gearing Ratio and Liquidity Ratio

The Group was in a net cash position as at the year end of 2011 and 2010. At 31 December 2011, its liquidity ratio (the ratio of current assets to current liabilities) was 2.8 (2010: 2.2).

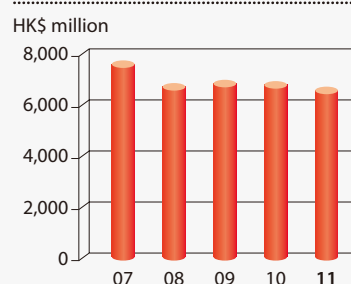
The Group's net cash as at 31 December 2011 amounted to HK\$2,106.1 million (2010: HK\$2,133.2 million).

Finance Costs and Interest Cover

For the year ended 31 December 2011, the finance costs incurred by the Group increased to HK\$8.6 million from HK\$6.6 million for 2010. The increase was due mainly to the increases in interest rates and average bank borrowings during the year. The average interest rate in respect of the Group's borrowings for 2011 was 0.95%, an increase of 15 basis points compared to 0.80% for 2010.

For the year ended 31 December 2011, the Group's interest income exceeded the total finance costs by HK\$38.2 million (i.e. a net interest income position) (2010: HK\$30.0 million).

Shareholders' fund at 31 December



Financial Review

Net Cash Flow

During the year, the cash flow generated from the operations of the franchised public bus business was the principal source of our liquidity. For the year ended 31 December 2011, there was a net increase in cash and cash equivalents of HK\$1,039.8 million (2010: a net decrease of HK\$34.7 million) and the sources are set out below:

| | 2011 | 2010 |
|--|--------------|--------------|
| | HK\$ million | HK\$ million |
| Net cash generated from/ (used in): | | |
| • Operating activities | 1,150.8 | 1,315.1 |
| • Investing activities | 186.4 | (188.8) |
| • Financing activities | (297.4) | (1,161.0) |
| Total | 1,039.8 | (34.7) |

In 2011, the net cash inflow generated from the operating and investing activities of the Group was HK\$1,337.2 million (2010: HK\$1,126.3 million). The main components included: (i) net cash generated from the operating activities of the franchised public bus operations of HK\$850.4 million (2010: HK\$1,126.6 million); (ii) cash proceeds received from the sale of Manhattan Hill residential units of HK\$108.3 million (2010: HK\$133.8 million); (iii) payment of capital expenditure of HK\$779.8 million (2010: HK\$1,035.2 million); and (iv) a decrease in bank deposits placements with original maturities of over three months of HK\$845.4 million (2010: HK\$743.0 million).

During the year, the bank loans increased by HK\$200.0 million (2010: decreased by HK\$200.0 million). Before the payment of dividends to equity shareholders in 2011, the net cash inflow for 2011 was HK\$1,524.2 million, compared to HK\$913.9 million for 2010.

Details of the Group's cash flow movement for the year ended 31 December 2011 are set out in the consolidated cash flow statement on page 141 of this Annual Report.

Treasury Policies

The Group's activities are exposed to a variety of financial risks, including fuel prices, foreign currencies, interest rates, as well as potential risks on cash flow and liquidity, and credit risk. 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.

Fuel Price Risk

The results of the Group's core franchised public bus businesses can be significantly affected by fuel price movements. 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 has not entered into any fuel oil hedging contracts during 2011. The Group's two major subsidiaries, KMB and LWB, will consider applying for fare increases to counter the adverse impact of rapid increases in fuel oil prices on the financial viability of their franchised public bus operations, and will also rigorously explore other measures, including but not limited to the implementation of more route rationalisation plans and the introduction of new local or boundary routes with growing demands, with the HKSAR Government to mitigate this impact. The Group will continue to monitor fuel price movements and will constantly review its strategy on fuel price risk management.

Foreign Currency Risk Management

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). Although foreign currency exposure does not pose a significant risk to the Group as the levels of foreign currency assets and liabilities are relatively low compared to its total asset base, the Group will continue to closely monitor foreign exchange movements and enter into forward 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 for the hedging of approximately 35% (2010: 56%) of the total GBP requirements for the year 2011. At 31 December 2011 and 31 December 2010, the Group had no forward foreign exchange contracts outstanding.

Interest Rate Risk Management

The Group manages its exposure to interest rate risk in a prudent manner with a variety of techniques and instruments, including natural hedges achieved by

spreading loans over different rollover and maturity dates. Derivative financial instruments such as interest rate swaps are used as and when appropriate. As at 31 December 2011, all of the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. This enabled the Group to take advantage of the low interest rates in 2011. The Group regularly reviews its strategy on interest rate risk management in the light of prevailing market conditions and devises appropriate 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.

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 and the 50% interest in KT Site. By means of proper planning and close monitoring of the level of debt, the Group will be able to effectively meet its funding and investment requirements. 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 are continuously at a high level and we are not able to obtain sufficient fare increase magnitude from the HKSAR Government 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.

Credit Risk

The Group's credit risk is mainly attributable to trade and other receivables, instalments receivable from property sales 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

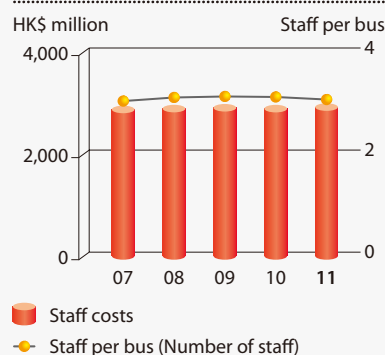
evaluations are performed on all major customers requiring credit in excess of a certain specified amount. These evaluations focus on a customer's past history of making payments when due and ability to pay, and take into account information specific to the customer as well as relating to the economic 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.

EMPLOYEES AND REMUNERATION POLICIES

As 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 2011, total remuneration amounted to HK\$2,987.0 million (2010: HK\$2,967.1 million). The number of employees of the Group at the year end of 2011 was 12,879, an increase of 0.1% compared to 12,863 at the year end of 2010.

Staff cost and staff per bus

(Franchised public bus operations)



Individual Business Units

FRANCHISED PUBLIC BUS OPERATIONS

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

| | Unit | 2011 | 2010 |
|--|-------------------------|-----------|-----------|
| Turnover | HK\$ million | 5,929.1 | 5,829.7 |
| Other net income | HK\$ million | 103.8 | 114.0 |
| Total operating expenses | HK\$ million | (6,050.7) | (5,648.2) |
| Operating (loss)/profit before deemed income recognised in respect of defined benefit retirement plans | HK\$ million | (17.8) | 295.5 |
| Deemed income recognised in respect of defined benefit retirement plans | HK\$ million | 84.8 | 74.3 |
| Finance costs | HK\$ million | (8.2) | (5.6) |
| Gain on disposal of building and interest in leasehold land | HK\$ million | – | 105.7 |
| Profit before taxation | HK\$ million | 58.8 | 469.9 |
| Income tax expense | HK\$ million | (7.4) | (58.9) |
| Profit after taxation | HK\$ million | 51.4 | 411.0 |
| Net profit margin | | 0.9% | 7.1% |
| Passenger volume | Million passenger trips | 936.4 | 946.7 |
| Kilometres operated | Million km | 303.8 | 309.7 |
| Staff number at year-end | Number of staff | 11,654 | 11,674 |
| Fleet size at year-end | Number of buses | 3,891 | 3,822 |
| Total assets value | HK\$ million | 5,139.5 | 4,826.5 |

The profit after taxation of KMB for 2011 amounted to HK\$51.4 million, a decrease of HK\$359.6 million or 87.5% compared to HK\$411.0 million for 2010. Such profit included a deemed income of HK\$84.8 million (2010: HK\$74.3 million) recognised in respect of two defined benefit staff retirement schemes operated by KMB in accordance with Hong Kong Accounting Standard 19, Employee Benefits. When excluding such deemed income, KMB recorded an operating loss of HK\$17.8 million for 2011, an unfavourable change of HK\$313.3 million compared to an operating profit of HK\$295.5 million for 2010.

KMB's fare revenue for 2011 amounted to HK\$5,822.8 million, an increase of HK\$99.1 million or 1.7% compared to HK\$5,723.7 million for 2010. Total ridership for 2011 was 936.4 million passenger trips (a daily average of 2.56 million passenger trips), a decrease of 1.1% compared to 946.7 million passenger trips (a daily average of 2.59 million passenger trips) for 2010. The increase in fare revenue was mainly due to the fare increase of 3.6% which took effect

from 15 May 2011, but was partly offset by the loss of ridership due to continuing passenger shifts to the railways, in particular, after the commencement of the operations of the Kowloon Southern Link. Advertising revenue for the year amounted to HK\$104.5 million, an increase of 0.8% compared with HK\$103.7 million for the previous year.

Total operating expenses for 2011 amounted to HK\$6,050.7 million, an increase of HK\$402.5 million or 7.1% compared to HK\$5,648.2 million for 2010. The increase was mainly due to drastic increase in international fuel oil prices, which resulted in the fuel costs for 2011 surging to HK\$1,403.4 million, a substantial increase of HK\$374.7 million compared to HK\$1,028.7 million for 2010. 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, increased by 39.1% from US\$89.6 per barrel in 2010 to US\$124.6 per barrel in 2011. Although a 3.6% fare increase was granted by the HKSAR Government and implemented with effect from 15 May 2011, such fare

increase magnitude was grossly insufficient to offset the increase in fuel costs alone, which was largely beyond the control of KMB.

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

Long Win Bus Company Limited ("LWB")

| | Unit | 2011 | 2010 |
|---|-------------------------|---------|---------|
| Turnover | HK\$ million | 354.8 | 336.9 |
| Other net income | HK\$ million | 3.1 | 1.3 |
| Total operating expenses | HK\$ million | (336.2) | (310.3) |
| Operating profit before deemed loss recognised in respect of defined benefit retirement plans | HK\$ million | 21.7 | 27.9 |
| Deemed loss recognised in respect of defined benefit retirement plans | HK\$ million | (0.1) | (0.3) |
| Finance costs | HK\$ million | (0.4) | (0.4) |
| Profit before taxation | HK\$ million | 21.2 | 27.2 |
| Income tax expense | HK\$ million | (3.5) | (4.4) |
| Profit after taxation | HK\$ million | 17.7 | 22.8 |
| Net profit margin | | 5.0% | 6.8% |
| Passenger volume | Million passenger trips | 30.3 | 29.4 |
| Kilometres operated | Million km | 25.3 | 25.6 |
| Staff number at year-end | Number of staff | 469 | 458 |
| Fleet size at year-end | Number of buses | 164 | 166 |
| Total assets value | HK\$ million | 292.9 | 288.7 |

The profit after taxation of LWB for the year amounted to HK\$17.7 million, representing a decrease of HK\$5.1 million or 22.4% compared with HK\$22.8 million for the previous year.

LWB's fare revenue for 2011 amounted to HK\$354.4 million, an increase of HK\$17.8 million or 5.3% compared to HK\$336.6 million for 2010. The increase was mainly due to the implementation of the 3.2% fare increase which took effect from 15 May 2011 and the year-on-year increase in ridership. During the year, LWB recorded a total ridership of 30.3 million passenger trips (a daily average of 82,889 passenger trips), an increase of 2.9% compared to 29.4 million passenger trips (a daily average of 80,579 passenger trips) in 2010. The increase in ridership was attributable to the increased demand for transport generated by travellers from China Mainland and by construction workers involved in new developments at the airport.

LWB's total operating expenses for the year amounted to HK\$336.2 million, an increase of HK\$25.9 million compared to HK\$310.3 million for 2010. The increase was mainly due to the rise in fuel costs of HK\$21.7 million or 37.0% as a result of the surge of fuel oil prices, as well as increases in staff costs, tunnel toll charges and other operating costs due to inflationary pressure.

NON-FRANCHISED TRANSPORT OPERATIONS

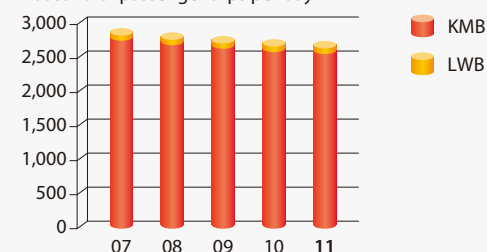
The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK\$17.5 million for 2011, representing a decrease of HK\$5.5 million or 23.9% compared to HK\$23.0 million for 2010. Turnover increased by 3.1% from HK\$256.7 million for 2010 to HK\$264.5 million for 2011.

Financial Review

Average number of passenger trips per day

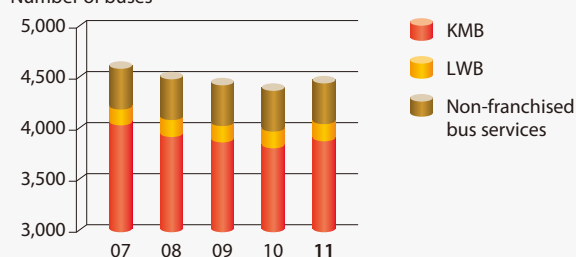
(Franchised public bus operations)

Thousand of passenger trips per day



Number of licensed buses at 31 December

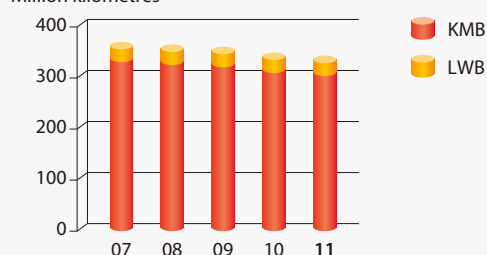
Number of buses



Bus kilometres operated

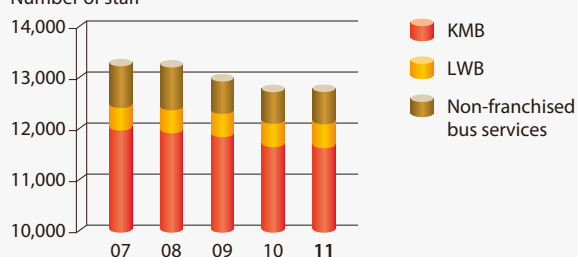
(Franchised public bus operations)

Million kilometres



Number of staff at 31 December

Number of staff



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 tailor-made transport services to a variety of customers, including servicing 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 spite of the rise in fuel prices which also had a negative effect on coach services, the SBH Group was able to adjust coach hiring charges to meet the increased operating costs. As a result, its turnover for the year increased by HK\$9.6 million or 4.4% from HK\$216.7 million in 2010 to HK\$226.3 million in 2011. In line with the SBH Group's commitment to quality service and environmental protection, the SBH Group added 25 Euro V buses to its fleet in replacement of older buses in 2011.

As at 31 December 2011, the SBH Group had a fleet of 388 buses (2010: 382 buses). During the year, 33 buses (2010: 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. Following 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, NHKB's ridership has been decreasing. For 2011, NHKB's total patronage was 5.2 million passenger trips (an average monthly ridership of 0.43 million passenger trips), a decrease of 6.8% compared to 5.6 million passenger trips (an average monthly ridership of 0.46 million passenger trips) for 2010. The negative impact from the decrease in ridership was partly offset by a fare increase from HK\$7 per trip to HK\$8 per trip for overnight and day services which took effect from 5 May 2010 and 21 November 2011 respectively. At the end of 2011, NHKB operated a total of 15 buses, the same number as at the end of 2010.

PROPERTY HOLDINGS AND DEVELOPMENT

Lai Chi Kok Properties Investment Limited (“LCKPI”)

LCKPI, a wholly-owned subsidiary of the Group, is the developer of Manhattan Hill, a luxury residential complex located in Lai Chi Kok, West Kowloon, comprising 1,115 residential units with a total gross floor area of over one million square feet.

During 2011, three Manhattan Hill residential units with a total saleable GFA of about 6,963 square feet and 13 car parking spaces were sold, generating an after-tax profit of HK\$72.9 million (2010: an after-tax loss of HK\$17.0 million).

As at 31 December 2011, the residential units of Manhattan Hill had nearly all been sold, with only one specialty residential unit with a saleable GFA of 5,008 square feet and 14 car parking spaces (classified under current assets in the consolidated balance sheet) at a total carrying value of HK\$19.7 million (2010: HK\$45.2 million) available for sale.

There were no outstanding bank loans in respect of the construction of Manhattan Hill as at 31 December 2011 (2010: Nil).

LCK Commercial Properties Limited (“LCKCP”)

LCKCP, a wholly-owned subsidiary of the Group, is the owner of the upscale “Manhattan Mid-town” shopping mall. Since opening in March 2009, the mall has provided Manhattan Hill residents, as well as local householders and office staff, with a mix of high quality shops and restaurants. In 2011, the entire lettable area of the 50,000 square feet shopping mall was completely leased out, generating a steady income stream for the Group.

As at 31 December 2011, 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\$105.9 million (2010: HK\$110.9 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. As at 31 December 2011, the building was stated on the consolidated balance sheet at cost less accumulated depreciation and impairment losses in the amount of HK\$33.9 million (2010: HK\$35.2 million).

KT Real Estate Limited (“KTRE”)

KTRE, a wholly-owned subsidiary of the Company, and Turbo Result Limited (“TRL”), a subsidiary of Sun Hung Kai Properties Limited (“SHKP”), jointly own 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.

On 11 December 2009, KTRE, TRL, the Company and SHKP entered into an agreement to jointly develop the KT Site for non-residential (excluding hotel) purposes. Since April 2010, Sun Hung Kai Real Estate Agency Limited (“SHKRE”), a wholly-owned subsidiary of SHKP, has been appointed as the project manager to oversee the development of the KT Site. SHKRE 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. Upon completion, the Group intends to hold the development for long-term investment purposes.

As at 31 December 2011, the carrying value of the KT Site (classified under investment property under development on the consolidated balance sheet) amounted to HK\$11.7 million (2010: HK\$5.2 million). The capital commitment outstanding and not provided for as at 31 December 2011 was HK\$1,791.3 million (2010: HK\$1,797.1 million).

TM Properties Investment Limited (“TMPI”)

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, at 1 Kin Fung Circuit, Tuen Mun. The property became vacant in 2010 and has been leased out since March 2011 to generate additional rental income.

As at 31 December 2011, the carrying value of the industrial property (classified under investment property on the consolidated balance sheet), which was stated at cost less accumulated depreciation and impairment losses, amounted to HK\$9.9 million (2010: HK\$10.3 million).

Financial Review

MEDIA SALES BUSINESS

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

| HK\$ million | 2011 | 2010 |
|---|---------|---------|
| Turnover | 371.5 | 325.2 |
| Other revenue | 25.8 | 31.2 |
| Total operating revenue | 397.3 | 356.4 |
| Total operating expenses | (318.5) | (295.3) |
| Profit from operations | 78.8 | 61.1 |
| Impairment loss of other non-current financial assets | (109.6) | (110.0) |
| Loss before taxation | (30.8) | (48.9) |
| Income tax expense | (12.9) | (8.3) |
| Loss after taxation | (43.7) | (57.2) |
| Non-controlling interests | (4.9) | (4.4) |
| Loss attributable to equity shareholders | (48.6) | (61.6) |

For the year ended 31 December 2011, the RoadShow Group reported a total operating revenue of HK\$397.3 million (2010: HK\$356.4 million) and a loss attributable to equity shareholders of HK\$48.6 million (2010: a loss of HK\$61.6 million). The loss was mainly attributable to an impairment loss of HK\$109.6 million (2010: HK\$110.0 million) made by the RoadShow Group on its other non-current financial assets. The impairment loss, which was non-cash in nature, would be the last and full provision for the amount of the RoadShow Group's investment in and loans to AdSociety Daye Advertising Company Limited, a joint venture in Mainland China. Despite the impairment loss made, the core business of the RoadShow Group remains strong and the profit from operations for the year ended 31 December 2011 was HK\$78.8 million, an increase of HK\$17.7 million or 29.0% compared to HK\$61.1 million for 2010.

The revenue generated from the RoadShow Group's Hong Kong media sales services in 2011 amounted to HK\$370.6 million, an increase of 14.3% compared to HK\$324.1 million in 2010. 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 2011 amounted to HK\$318.5 million, an increase of 7.9% compared to HK\$295.3 million for 2010, which is in line with the growth of the media sales business.

Further information relating to the RoadShow Group is available in its 2011 final results announcement and annual report.

CHINA MAINLAND TRANSPORT OPERATIONS

As at 31 December 2011, the Group's total interests in associates within the China Mainland Transport Operations Division amounted to HK\$668.1 million (2010: HK\$640.3 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 2011, the Group's China Mainland Transport Operations Division reported a profit of HK\$31.3 million (2010: HK\$33.8 million).

Summary of Investments in China Mainland Transport Operations as at 31 December 2011

| | 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 2011 (Number of vehicles) | 4,637 | 5,946 |
| Bus passenger volume (Million trips) | N/A | 907.0 |
| Bus kilometres travelled (Million km) | N/A | 407.2 |
| Staff number at year-end 2011 | 4,934 | 23,323 |

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公司) and three other China 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 4,637 vehicles and 4,934 employees. It made steady progress and continued to record a profit in 2011.

Shenzhen

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) ("SBG"), which commenced operations 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 5,946 vehicles serving 267 routes. In 2011, SBG continued to make steady progress and recorded a ridership of 907.0 million passenger trips (2010: 932.5 million passenger trips).

Continuing Connected Transactions

The particulars of the following 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"):

(a) THE GROUP

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

As detailed in note 35(a)(ii) to the financial statements on page 200 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 "2011 Insurance Arrangements"), and such insurance policies took effect from 1 January 2011 for a period of one year. The transactions under the 2011 Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2011, the annual insurance premium paid and payable by the Group to SHKPI under the 2011 Insurance Arrangements amounted to HK\$71,134,000. On 23 November 2011, the Group further entered into various insurance arrangements (the "2012 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 2012 Insurance Arrangements commenced on 1 January 2012 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 2012 Insurance Arrangements for the financial year ending 31 December 2012 will not exceed HK\$76,000,000. The transactions under the 2011 Insurance Arrangements and the 2012 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 24 November 2010 and 23 November 2011.

(b) 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 (the "Service Agreement"). Pursuant to the Service Agreement, the following considerations were payable/receivable by Bus Focus for the year ended 31 December 2011:

- (i) Management fee payable by Bus Focus to JCDecaux Cityscape in the amount of HK\$16,975,000; and
- (ii) Shortfall of guarantee rental receivable by Bus Focus from JCDecaux Cityscape in the amount of HK\$557,000.

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 and in an announcement of RoadShow dated 29 March 2011.

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 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 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 2011 did not exceed the cap amount of HK\$77,250,000 as disclosed in the announcement dated 24 November 2010; and
3. 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 2011 did not exceed the cap amount of HK\$18,000,000 and HK\$24,000,000 respectively as disclosed in the announcement of RoadShow dated 29 March 2011 which sets out the annual caps for the year ended 31 December 2011 and for the seven months ending 31 July 2012.

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 an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions set out in paragraphs (a) and (b) above in accordance with Rule 14A.38 of the Listing Rules. Copies of the auditor's letter have been provided by the Company to The Stock Exchange of Hong Kong Limited.

Corporate Governance Report



Accountability, transparency, honesty and integrity are the four cornerstones on which the Board has formulated our corporate governance policies to guide the Company in directing and conducting its businesses. We strive to maintain the highest standards of corporate governance by meeting all statutory and regulatory requirements and by adopting sound policies, procedures and rules that are fully adhered to by board members and staff.

CORPORATE GOVERNANCE FRAMEWORK

We firmly believe that a strong corporate governance system enables the Company to fulfil its mission and attain business excellence. The Company's Corporate Governance Framework (the "Framework") is designed to help our Board of Directors and management conduct the Group's businesses in line with planned strategic goals which meet the expectations of our stakeholders, including shareholders, customers, employees, creditors and suppliers. Besides ensuring that we are in compliance with all regulatory requirements as well as meeting environmental and local community needs, the Framework acts as a benchmark for evaluating the effectiveness of our performance. Good corporate governance principles, including accountability, transparency, honesty, integrity, openness, performance orientation, mutual respect and commitment, are the basis for the design and planning of the Framework. Sound management policies and practices have been adopted at all levels of operation throughout the Group's businesses to obtain the highest standards of corporate governance. While the Framework is stringent, it maintains the necessary flexibility to handle the evolving dynamics of local regulatory requirements, market changes, social expectations and international developments.

We achieve our corporate governance objectives by implementing the following measures:

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

Our management team is committed to continuous enhancement and enrichment of our current practices to ensure compliance with new regulatory developments and find ways to mitigate risk in every practicable way. 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.

CORPORATE GOVERNANCE PRACTICES

The Group is constantly mindful of the recommended corporate governance practices set out 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”) and the revised CG Code set out in the Consultation Conclusions on Review of the Corporate Governance Code and Associated Listing Rules. The CG Code enables listed issuers in Hong Kong to evaluate and improve their corporate governance practices by providing two levels of recommendations: “Code Provisions”, with which issuers are expected to comply but from which they may choose to deviate so long as 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

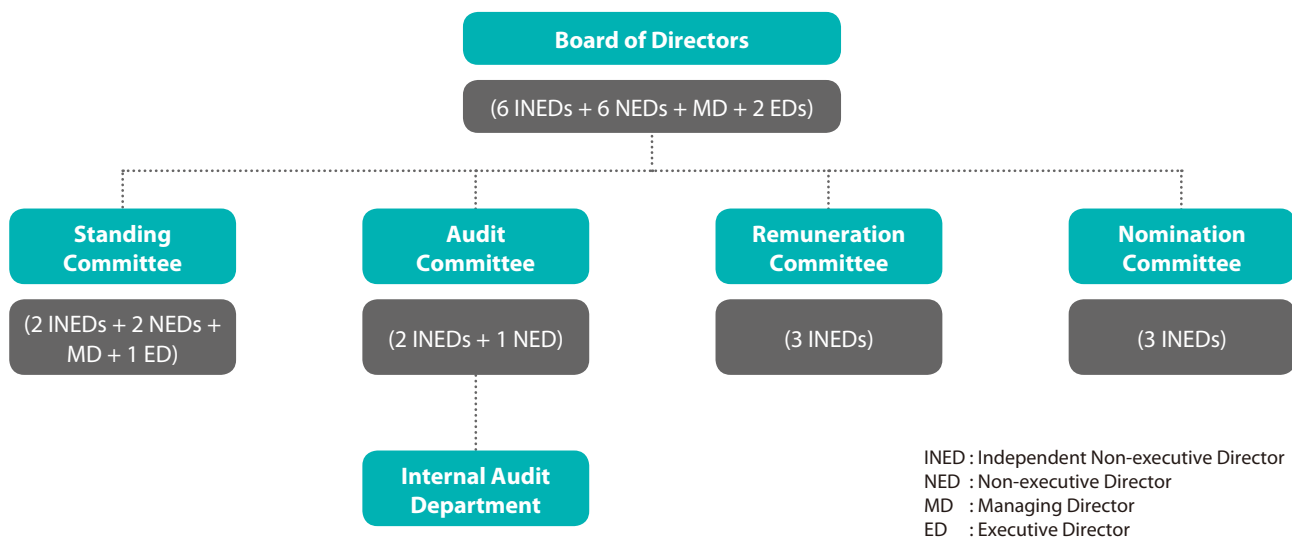
The Company fully complied with and in certain areas exceeded the Code Provisions set forth in the CG Code throughout the year ended 31 December 2011, and closely observed the continuing listing obligations revised from time to time in the Listing Rules. The Company exceeds or meets the Code Provisions and Recommended Best Practices of the CG Code in these major areas:

| 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. |
| ✓ | | One-third of the Board is represented by Independent Non-executive Directors. |
| ✓ | | The Board meets regularly (11 times in 2011) 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. |
| ✓ | | We have four Corporate Governance-related Committees, namely, the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. The Audit, Nomination and Remuneration Committees have a majority of Independent Non-executive Directors. |
| ✓ | | The Audit Committee meets the external auditors twice a year without the presence of senior management. |
| ✓ | | External auditors attend the annual general meeting to answer questions from shareholders. |
| ✓ | | All members of the Nomination Committee are Independent Non-executive Directors. Their independence is essential for identifying candidates of high 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 (the “Code”) applicable to all Directors and staff. The Code emphasises the role of ethical values 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 the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission and relevant ISO Standards, which together provide comprehensive guidance for our 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 20 major companies listed on the Stock Exchange as the base for determining the Directors’ level of remuneration. |
| | ✓ | We adopt all Code Provisions of the CG Code. |

BOARDROOM FRAMEWORK

The overall management of the Company's businesses is vested in the Board, which currently comprises 15 members, of whom six are Independent Non-executive Directors, six are Non-executive Directors and three are Executive Directors (including the Managing Director and the Deputy Managing Director). Daily management of the

Group's businesses is delegated to the senior management, who are the Executive Directors 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 given below:



BOARD OF DIRECTORS

Composition of the Board of Directors

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

The primary responsibilities of the Board include the following:

- Formulating the Group's objectives, strategies, policies, business plans and corporate values
- Monitoring management performance
- 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 controls
- Risk management

- Overseeing the management of relationships with stakeholders, including shareholders, customers, the HKSAR Government, suppliers, employees and the community
- Assessing and evaluating the skills and expertise needed on the Board.

The Board of Directors comprises Executive and Non-executive Directors (including Independent Non-executive Directors) who have diverse business and professional experience. This mix ensures that the Board possesses a balance of expertise and a strong independent element allowing it to effectively exercise independent judgement and promote the best interests of its shareholders. The list of Directors, including their biographies and their respective terms of office, is available on the websites of the Company and the Stock Exchange.

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

taken into consideration. Currently having six Independent Non-executive Directors, the Company complies with the Recommended Best Practice A.3.2 of the Listing Rules (which will become a Code Provision with effect from 1 April 2012) that at least one-third of Board members should be Independent Non-executive Directors, and exceeds the minimum 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 written confirmation of their independence to both the Stock Exchange and the Company in line with Rule 3.13 of the Listing Rules, and the Company considers each of them to be independent.

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

| | |
|-------------------------------------|--|
| Independent Non-executive Directors | The Hon Sir Sze-yuen CHUNG, GBM, GBE, JP (Chairman) Dr Norman LEUNG Nai Pang, GBS, JP (Deputy Chairman) Dr John CHAN Cho Chak, GBS, JP (Note 1) Dr Eric LI Ka Cheung, GBS, OBE, JP Mr SIU Kwing-chue, Gordon, GBS, CBE, JP Professor LIU Pak-wai, SBS, JP (Note 2) |
| 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 Ms Winnie NG 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) |

Notes:

1. Re-designated from Non-executive Director to Independent Non-executive Director with effect from 4 January 2012.
2. Appointed as an Independent Non-executive Director with effect from 1 September 2011.

Detailed biographies of the Directors are set out on pages 116 to 122 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 term of office of not longer than three years.

Obligations of Directors

Securities Transactions by Directors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct to regulate the Directors' securities transactions concerning the Company. In response to the Company's specific enquiry, all Directors confirmed that they had complied throughout 2011 with the required standard of dealings as set out in the Model Code.

Details of the shareholding interests held by the Directors in the Company and its indirect non-wholly-owned subsidiary, RoadShow Holdings Limited, as at 31 December 2011 are set out on pages 127 and 128 of this Annual Report.

Corporate Governance Report

Code of Conduct

The Company has a written Code of Conduct (the “Code”) for the guidance of Directors and employees. The Code provides guidelines 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 the requirement for ethical values and conscience in business activities. Directors and employees are required to adhere to the Code when they discharge their delegated duties.

Induction and Professional Development

To ensure that Directors’ contributions to the Board remain informed and relevant, the Company Secretary is charged with the responsibility of providing comprehensive, formal and tailored induction programmes, briefings and other training courses for new and existing Directors. In this way, Directors’ knowledge and skills, as well as their awareness of the best corporate governance practices are enhanced in a timely manner. Directors are also encouraged to participate in continuous professional development programmes organised by qualified institutions and are requested to provide a record to the Company of any training they undertake.

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 on the recommendation of the Nomination Committee. All Directors are appointed for a specific term and are subject to retirement by rotation and re-election at the Company’s annual general meeting at least once every three years. Directors appointed to fill casual vacancies of the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. The shareholders may also remove a Director before the expiration of his period of office by special resolution in general meeting properly convened in accordance with the Bye-laws of the Company for such purpose.

In the interests of independence, any appointment of an Independent Non-executive Director who has served the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. The Company will provide an explanation in the circular it sends to shareholders giving notice of the annual general meeting why it considers that any such Independent Non-executive Director continues to be independent and why it recommends that shareholders vote in favour of his or her re-election.

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

If a shareholder wishes to propose for election as a Director at a general meeting a person other than a Director who is due to retire, the shareholder should lodge at the head office of the Company at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong for the attention of the Company Secretary a notice signed by the shareholder, who is other than the person to be proposed and is duly qualified to attend and vote at the meeting for which such notice is given, of his or her intention to propose such person for election. The shareholder should also lodge a notice signed by the person to be proposed of his or her willingness to be elected. The length of the period during which the aforesaid notices may be given will be at least seven days, commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such general meeting. In order for the Company to inform the shareholders of the proposal, the written notice must give the full name of the person proposed for election as a Director, and the person’s biographical details as required to be disclosed under Rule 13.51(2) of the Listing Rules, as well as the person’s written consent to the publication of his/her personal data. The procedures for shareholders to propose a person for election as a director is published on the Company’s website.

Appointment and Cessation of Directors

Professor LIU Pak-wai was appointed as an Independent Non-executive Director of the Company and a Director of KMB and LWB with effect from 1 September 2011. Professor LIU, as a Director appointed by the Board to fill the casual

vacancy occasioned by the resignation of Mr George CHIEN Yuan Hwei on 1 July 2011, will hold office as Director until the next annual general meeting of the Company to be held on 17 May 2012. Professor LIU will then be eligible for re-election and subject to retirement by rotation and re-election at subsequent annual general meetings of the Company.

Mr George CHIEN Yuan Hwei resigned as Director of the Company, KMB and LWB with effect from 1 July 2011.

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

Rotation of Directors

At the 2011 AGM, six Directors, namely, 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 retired by rotation and were re-elected as Directors of the Company. (Note: As disclosed in the Company's circular dated 14 April 2011, the Hon Sir Sze-yuen CHUNG offered himself for re-election at the 2011 AGM for a term of one year only.)

At the forthcoming annual general meeting to be held on 17 May 2012 (the "2012 AGM"), Mr KWOK Ping-luen, Raymond, Mr Charles LUI Chung Yuen, Ms Winnie NG, Dr Eric LI Ka Cheung, Mr Edmond HO Tat Man and Professor LIU Pak-wai 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 2012 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 has any financial, business, family or other relationship with the other, thus ensuring better governance through the clear separation of the roles and responsibilities of the Chairman and the Managing Director.

With an Independent Non-executive Chairman, the Company is able to ensure that the Board is fully engaged with strategy and can evaluate how well it is being implemented. He also provides independent oversight of management while ensuring that the Board remains closely aligned with the interests of shareholders.

The respective roles and responsibilities of the Chairman and the Managing Director are clearly defined in writing and may be 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
- Taking appropriate steps to provide effective communication with shareholders and to ensure that shareholders' views are communicated to the Board as a whole

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 the Group's operations and performance
- Maintaining ongoing dialogue with the Board Chairman and other Directors
- Developing and leading 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 Directors, to discuss the Group's business affairs. This meeting was held on 24 October 2011.

Corporate Governance Report

Board Meetings

The full Board normally meets regularly to discuss and decide on major corporate strategic and operational issues, and to evaluate major investment opportunities. Board meetings are conducted according to the procedures laid down in the Company's Bye-laws and the recommended best practices contained 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 that 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 the decisions reached as well as any concerns raised or dissenting views expressed by the Directors, are taken by the Company Secretary and circulated to the 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 available for inspection by the Directors.

Voting on Connected Transactions

Directors are requested to disclose to the Company twice a year the offices they hold in 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 relevant resolutions if they have a conflict of interest or a material interest in the proposed transaction. Directors with an interest so declared would not count towards the quorum for the meeting in respect of 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 2011, the Company was involved in two continuing connected transactions, details of which are disclosed on pages 94 to 95 of this Annual Report.

Directors' Indemnities and Protections

The Company has arranged appropriate insurance cover in respect of legal action against the Directors of the Company, which indemnifies the Directors for liabilities incurred in connection with the Company's activities.

DELEGATION BY THE BOARD OF DIRECTORS

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

The Board has established the Standing Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee as the four designated Board Committees 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 terms of reference explaining the role and the authority delegated by the Board to the Board Committees are available on the websites of the Company and the Stock Exchange.

The membership of each Committee is shown below:

| Name of Directors | Standing Committee | Audit Committee | Remuneration Committee | Nomination Committee |
|---|--------------------|--------------------|------------------------|----------------------|
| Dr Norman LEUNG Nai Pang GBS, JP [^] | Chairman | | Chairman | Chairman |
| Dr Eric LI Ka Cheung GBS, OBE, JP [^] | | Chairman | Member | Member |
| Mr SIU Kwing-chue, Gordon GBS, CBE, JP [^] | | Member | | Member |
| Mr KWOK Ping-luen, Raymond JP [#] | Member | | | |
| Dr John CHAN Cho Chak GBS, JP [^] (Note 1) | Member | | Member | |
| Ms Winnie NG [#] | Member | | | |
| Mr George CHIEN Yuen Hwei [#] | | ex-Member (Note 2) | | |
| Mr John Anthony MILLER SBS, OBE [#] | | Member (Note 3) | | |
| Mr Charles LUI Chung Yuen M.H. * | Member | | | |
| Mr Edmond HO Tat Man * | Member | | | |

[^] Independent Non-executive Director

[#] Non-executive Director

* Executive Director

Notes:

1. Re-designated from Non-executive Director to Independent Non-executive Director with effect from 4 January 2012.

2. Resigned as a member of the Audit Committee with effect from 1 July 2011.

3. Appointed as a member of the Audit Committee with effect from 1 July 2011.

Standing Committee

The Standing Committee was set up by the Board to advise and assist the Board in formulating policies, and to monitor their implementation by management. In 2011, the Standing Committee met with senior management 11 times to review and discuss financial, operational and strategic issues in relation to current businesses as well as potential investment opportunities for the Group, and reported findings and made 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 other members of the Audit Committee have a wide range of experience in various business and professional fields as set down in the Directors' biographies on pages 116 to 122 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 in line 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 financial reporting process, internal control procedures and risk management system of the Company, and its relationship with the external auditor.

In 2011, the Audit Committee together with the senior management held two meetings with the Company's external auditors, KPMG, in which the Company's financial reports, internal control and other relevant matters were thoroughly reviewed and discussed. 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 bring up to the Audit Committee in the absence 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 had arisen.

The major work performed by the Audit Committee in 2011 included:

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

- The accounting principles and practices adopted by the Group, the financial results of the Company and of its major subsidiaries, the accuracy and fairness of the financial statements and the scope of both internal and external audit work were reviewed with senior management;

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- Revised accounting standards and prospective changes to accounting standards, and their impact on the financial reporting of the Company and the Group, were reviewed;
- The effectiveness of the audit procedures and the external auditors' findings concerning the unaudited interim financial report and audited annual financial statements, and results announcements were reviewed with the external auditors;
- The audit reports prepared by the Head of the Internal Audit Department covering internal audit aspects, including audit objectives, audit approach, audit work done and findings, were discussed and reviewed. The qualifications and experience of staff carrying out accounting and financial reporting, as well as the adequacy of resources, training programmes and budgets for such staff, were examined, together with internal control functions;
- Guidance was provided 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 relevant accounting standards and legal requirements; and
- Reviews were conducted with the external auditors and 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 these reviews and discussions, the Audit Committee recommended the Board to approve the unaudited interim financial report of the Company for the six months ended 30 June 2011 and the annual financial statements for the year ended 31 December 2011.

(b) Management of Relationship with External Auditors

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

Based on the conclusions drawn from these reviews, 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 2012.

Remuneration Committee

The Remuneration Committee is designated with the responsibility for formulating remuneration policies, including the establishment of 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 to the Board on human resources related policies in line with the Group's goals and objectives. Details of the terms of reference, remuneration policies and work done by the Remuneration Committee in 2011 are set out in the Remuneration Report on pages 112 to 115 of this Annual Report.

Nomination Committee

All members, including the chairman, of the Nomination Committee are Independent Non-executive Directors of the Company. The role of the Nomination Committee is to identify appropriate candidates with suitable skills and experience for consideration by the Board and 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.

The overall attendance record of the Directors at the Annual General Meeting, Board Meetings and Committee Meetings in 2011 is given below:

| Members of the Board of Directors | Meetings Attended/Held | | | | | |
|--|------------------------|-------|-----------------------|--------------------|---------------------------|-------------------------|
| | 2011 AGM | Board | Standing Committee | Audit Committee | Remuneration Committee | Nomination Committee |
| Independent Non-executive Directors | | | | | | |
| The Hon Sir Sze-yuen CHUNG, GBM, GBE, JP (Chairman) | 1/1 | 11/11 | | | | |
| Dr Norman LEUNG Nai Pang, GBS, JP (Deputy Chairman) | 1/1 | 11/11 | 10/11 | | 3/3 | 2/2 |
| Dr John CHAN Cho Chak, GBS, JP (Note 1) | 1/1 | 11/11 | 11/11 | | 3/3 | |
| Dr Eric LI Ka Cheung, GBS, OBE, JP | 1/1 | 11/11 | | 2/2 | 3/3 | 1/2 |
| Mr SIU Kwing-chue, Gordon, GBS, CBE, JP | 1/1 | 11/11 | | 2/2 | | 2/2 |
| Professor LIU Pak-wai, SBS, JP (Note 2) | | 4/4 | | | | |
| Non-executive Directors | | | | | | |
| Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate) | 1/1 | 11/11 | 11/11 | | | |
| Dr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin as alternate) | 1/1 | 10/11 | | | | |
| Mr NG Siu Chan (with Ms Winnie NG as alternate) | 1/1 | 11/11 | | | | |
| Mr William LOUEY Lai Kuen | 1/1 | 11/11 | | | | |
| Ms Winnie NG | 1/1 | 11/11 | 10/11 | | | |
| Mr George CHIEN Yuan Hwei (Note 3) | 1/1 | 5/5 | | 1/1 | | |
| Mr John Anthony MILLER, SBS, OBE (Note 4) | 1/1 | 11/11 | | 1/1 | | |
| Executive Directors | | | | | | |
| Mr Charles LUI Chung Yuen, M.H. | 1/1 | 8/11 | 9/11 | | | |
| Mr Edmond HO Tat Man (Managing Director) | 1/1 | 11/11 | 11/11 | | | |
| Mr Evan AU YANG Chi Chun (Deputy Managing Director) | 1/1 | 11/11 | | | | |

Notes:

1. Re-designated from Non-executive Director to Independent Non-executive Director with effect from 4 January 2012.
2. Appointed as an Independent Non-executive Director with effect from 1 September 2011.
3. Resigned as a Director and ceased to be a member of the Audit Committee with effect from 1 July 2011.
4. Appointed as a member of the Audit Committee with effect from 1 July 2011.

Delegation of Responsibilities to Senior Management

The daily management of the Group's businesses is delegated to senior management, comprising Executive Directors of the Company, and its management team who have wide experience and expertise in different areas under the supervision of the Board and the relevant Board Committees. Our professional team provides accurate, adequate and detailed financial and operational information in a timely manner to the Directors to keep them up to date on the latest developments of the Group, enabling them to make informed decisions and discharge their responsibilities effectively.

Company Secretary

The Company Secretary of the Company is Miss Lana Woo, who is a member of The Hong Kong Institute of Chartered Secretaries. She reports to the Managing Director of the Company and is responsible for advising the Board on governance matters and facilitating the induction and professional development of Directors.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors recognise their responsibility for the preparation of financial statements of the Company and the Group which give a true and fair view in accordance with the Hong Kong Financial Reporting Standards ("HKFRS")

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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 any information that needs to be disclosed to satisfy 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 2011 given on pages 135 to 203 of this Annual Report represent a true and fair view of the state of affairs of the Company and the Group, and the results and cash flows for the year. These financial statements are prepared according to the HKFRSs issued by the HKICPA. The responsibilities of the external auditors, KPMG, are set out in the auditors’ report on page 134 of this Annual Report.

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

The Board

- establishes high ethical and moral standards and monitors management compliance with these standards
- ensures that sound and effective internal control measures are in place
- monitors and oversees the 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
- promotes 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 on the performance of the Company’s internal control system

Internal Audit Department

- formulates action plans to monitor the effectiveness of the internal control system
- works with various operating units and monitors their compliance with internal control practices
- conducts robust reviews and stringent testing of the internal control system and makes recommendations for improvement
- reports directly to the Audit Committee on a periodic basis
- provides independent and objective assurance of the effectiveness of the internal control practices

Internal Controls and Risk Management

The Board recognises its responsibility to maintain a sound and effective internal control system to safeguard the assets of the Group, minimise operational system risks, and provide reasonable assurance against material misstatement of information (whether financial or non-financial). Rigorous internal control measures are in place at all levels of the Group to ensure effective monitoring of its day-to-day operations.

The Audit Committee, which is appointed by the Board to oversee the Group’s internal control framework and assess its effectiveness, plays a key role in ensuring an effective system of internal control. With the assistance of the external auditors and the Internal Audit Department, the Audit Committee provides strong assurance regarding the quality and effectiveness of our control practices.

Control Environment

The Group is able to ensure a sound control environment by means of 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.

Management

- designs, implements and maintains an effective internal control system
- supervises staff to ensure that they carry out their duties in accordance with the requirements of internal control practices
- cooperates with and supports the work of the Internal Audit Department
- performs the central role in monitoring the Group’s Quality Management System

The Group has a clear organisational structure with delineated lines of authority and control responsibilities which are clearly defined in writing and documented in organisation charts and job manuals for individual operating and business units. Management is responsible for designing, adopting and maintaining internal controls, formulating operational plans and preparing financial budgets setting out the resources to be allocated according to the identified and prioritised business opportunities. The approved plans and budgets are used as the benchmarks for monitoring the implementation results. The Board and the Audit Committee oversee management performance and monitor 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.

Business Ethics

The Group's internal control environment is built on high ethical values and management integrity. The Code of Conduct (the "Code") and the Staff Handbook set down the rules and policies to which all Directors and staff are expected to adhere. Besides covering all aspects of administrative and operational activities, including relationships with customers, suppliers, competitors and fellow staff, these guidelines underscore the social responsibilities of the Group. The Code also emphasises transparency, objectivity, integrity and reliability in financial information handling, and disclosure in financial reports.

Enterprise Risk Management

Our businesses are exposed to various types of risks, such as financial and operational risks, which may prevent us from achieving or enhancing our corporate values. We have developed and implemented policies and procedures to manage these risks based on the framework issued by the Committee of Sponsoring Organisations of the Treadway Commission. The framework involves identifying potential risks related to different business processes that are relevant to the Group's objectives, and assessing them in terms of impact and likelihood by deploying appropriate quantitative and qualitative techniques. The risks inherent in various business processes will be duly prioritised according to their level of significance. Appropriate responses and controls are formulated and implemented 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 as follows:



Effective and Efficient Quality Management System

An effective and efficient Quality Management System ("QMS"), based on the benchmarks required by the International Organisation for Standardisation ("ISO"), has been implemented in two of the Company's major subsidiaries, KMB and Sun Bus Limited ("SBL"). 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. In 2008, SBL was awarded ISO 9001:2000 certification for the provision of non-franchised bus services, and in 2009, both KMB and SBL were ISO 9001:2008 certified after successfully completing upgrade audits.

In our QMS, all major financial and operational procedures and instructions, including illustrative flow charts, are clearly documented and approved by authorised persons before release. Such documentation, covering all major operational processes together with members of staff responsible and their respective duties, is examined and updated from time to time in line with changes in the work process. Trained internal quality auditors regularly conduct on-site audits to ensure that daily operations are performed according to the documented procedures. If any non-conformity is detected, preventive and corrective measures will be taken immediately. Management meetings are held every three months to review the effectiveness and compliance of the QMS, and improvement plans continuously formulated and implemented to enhance its standard.

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Each year, the Hong Kong Quality Assurance Agency (“HKQAA”), an external ISO certification organisation, carries out an independent audit of the QMS to ensure its effectiveness, efficiency and conformity. Recommendations are made for follow-up action when areas for improvement are identified during the course of the ISO audit. In 2011, no non-conformity in the QMS was found in the ISO certification audits of KMB and SBL.

The adoption of QMS has enhanced cooperation between staff, and ensures that everyone involved in the operation process is directed towards achieving the same goal and meeting the required ISO standards. A well-structured and systematic documentation model facilitates the Group’s development of strategic and operational planning. It sets out the performance indicators against which a business unit may measure its effectiveness.

Business Continuity Plan

As 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. The BCP, an integral part of the risk management process, enables management to safeguard stakeholder value in a crisis by prompt response and resumption of KMB’s critical business functions at an acceptable pre-defined level. It identifies and evaluates major risks of business functions affected, defines responsibilities, recovery time objectives and resources required, and outlines the necessary responses. KMB performs walk-through tests and drills periodically to ensure that these responses are practicable.

Enterprise Resources Planning System

A comprehensive Enterprise Resources Planning system, including SAP e-business Software is in place to provide a tailor-made solution for the systematic analysis of large amounts of operational and financial data. This assists the Board and senior management in making informed strategic business decisions on a timely basis and measuring management performance against budget.

Establishment of a Comprehensive Internal Audit Function

The Internal Audit Department plays a crucial role in monitoring the internal governance of the Group. It 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 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 2011, the major work undertaken by the Internal Audit Department included:

- conducting systematic audits of various aspects of the Group’s operations according to the rolling audit plan, and reporting findings and recommending follow-up actions 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 were 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 has 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. Following the Audit Committee’s annual review of the Group’s internal control system, the Board is satisfied that the Group fully complied with the Code Provision on internal controls in 2011.

Control Practices for Handling and Disseminating Price-sensitive Information

Recognising its obligations under the Listing Rules, the Company 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. Additionally, 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 an important role in assuring the integrity of the disclosure of financial information. The Company’s external auditors report directly to the Audit Committee and the Board of the Company on major

findings, if any, which are noted during the course of the review of the Company's interim financial report and audit of its annual financial statements. The external auditors are also invited to attend meetings of the Audit Committee, as well as the Annual General Meeting.

The Audit Committee is charged with monitoring 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 non-audit services will not impair their independence in providing audit services. The external auditor is also required to review annually their relationship with the Group and give written confirmation to the Audit Committee of their independent status. The Company has engaged KPMG as external auditors to audit the financial statements for the Company for the year ended 31 December 2011. In this regard, KPMG has formally written to the Audit Committee confirming that for the year ended 31 December 2011 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 2011 are set out below:

| | HK\$ million |
|----------------------------|--------------|
| Audit related services | 5.9 |
| Non-audit related services | 1.1 |
| Total | 7.0 |

COMMUNICATION WITH STAKEHOLDERS

Communication with Shareholders

Mindful of its responsibility to provide shareholders with the information necessary to evaluate its performance, the Board has established a Shareholder's Communication Policy which is posted on the Company's website and will be reviewed on a regular basis to ensure its effectiveness. The Group uses various communication means, including press releases, interim and final results announcements, interim and annual reports, and circulars, to convey its messages. Other information of interest to shareholders is available on the Company's corporate website www.tih.hk as well as the Stock Exchange website. The interim and annual reports, notices of general meetings and circulars in English and/or Chinese are sent to shareholders within the respective deadlines stipulated by the Listing Rules.

The Company's success in building and maintaining excellent corporate governance practices across all aspects of its businesses was recognised by professional institutions when the Company's 2010 annual report won the following six prestigious awards in 2011:

- Gold 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;
- Honourable Mention in the Hong Kong Management Association ("HKMA") Best Annual Reports Awards; and
- Gold Award for Interior Design, Bronze Award for Chairman's Letter, Bronze Award for Financial Data and Bronze Award for Written Text, in the International ARC Awards;

The Company's general meetings are regarded by the Board 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 that they can respond to any comments or questions raised by shareholders.

Procedure for Sending Enquiries to the Board

In addition to the meetings, shareholders are welcome to send their enquiries to the Board. All enquiries should be addressed to the Board or Company Secretary of the Company and served to the head office of the Company at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong. Shareholders may also email their enquiries to the Directors at the Company's email address director@tih.hk. The Company Secretary is responsible for attending to these enquiries in the first instance.

Shareholders' Right

Shareholders holding not less than one-tenth of the paid-up capital of the Company and carrying the right of voting at general meetings of the Company may request the Board to convene a special general meeting ("SGM") for the transaction of business specified in the request. The request must be in written form with the purpose of the meeting stated therein and deposited at the head office of the Company at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong. The request must be signed by the shareholders concerned and may consist of two or more documents in like form, each signed by one or more of those shareholders. Upon receipt of the confirmation of the Company's Share Registrars that the request is valid, the Company Secretary will arrange to convene a SGM by

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Directors meet TIH shareholders at the 2011 AGM

serving sufficient notice in accordance with the Company's Bye-laws and the statutory requirements to all the registered shareholders.

Procedures for Making Proposals at General Meetings

Shareholders holding not less than one-twentieth of the total voting rights of those shareholders having the right to vote at the general meetings or not less than 100 shareholders holding shares in the Company may submit a written request to move a resolution at general meetings. The written request must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution. It must be signed by all the shareholders concerned and may consist of two or more documents in like form, which between them contain the signatures of all the shareholders concerned. The request must be deposited at the head office of the Company at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution and not less than one week in the case of any other requisition. The request will be verified with the Company's Share Registrars and upon their confirmation that it is proper and in order, the Company Secretary will arrange to include the resolution in the agenda for the general meeting provided that the shareholders concerned have deposited a sum of money reasonably sufficient, but not less than HK\$2,000, to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders. If, however, the request has been verified as not in order or the shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the

said purposes, the shareholders concerned will be advised of this outcome and the proposed resolution will not be included in the agenda for the general meeting.

Annual General Meeting

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. Separate resolutions are proposed for each distinctive matter, including the election of individual Directors. The circular containing the notice of the annual general meeting, proposed resolutions, biographies of Directors standing for election and information on poll voting procedures is sent to shareholders with the annual report at least 20 clear business days before the annual general meeting.

The 2011 AGM was held on 19 May 2011 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 2010;
- Approval of an ordinary final dividend of HK\$1.05 per share for the year ended 31 December 2010;
- Re-election of 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 as Directors of the Company;
- Re-appointment of KPMG as auditors of the Company, and authorisation of the Directors to fix their remuneration;
- Granting of a general mandate to the Directors to issue shares not exceeding 20% of the issued share capital;
- Granting of a general mandate to the Directors to

exercise powers of the Company to purchase its own shares not exceeding 10% of the issued share capital; 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 2011 AGM were published on the websites of the Company and the Stock Exchange on 19 May 2011.

The 2012 Financial Calendar of the Company is set out as follows:

| | |
|---|---------------------------------------|
| Announcement of 2011 final results | 15 March 2012 |
| Dispatch of 2011 Annual Report and accompanying Circular to shareholders | 17 April 2012 |
| Last day to register transfer to qualify for attending and voting at the 2012 AGM | 9 May 2012 |
| Book closure for 2012 AGM | 10-17 May 2012 (both dates inclusive) |
| Date of 2012 AGM | 17 May 2012 |
| Last day to register transfer to qualify for 2011 final dividend | 22 May 2012 |
| Book closure for 2011 final dividend | 23 May 2012 |
| Payment of 2011 final dividend | 1 June 2012 |
| Announcement of 2012 interim results | mid-August 2012 |
| Payment of 2012 interim dividend | mid-October 2012 |
| Financial year end date | 31 December 2012 |

Constitutional Documents

An updated and consolidated version of the Bye-laws of the Company is published on the websites of the Company and the Stock Exchange. There was no change to the Company's Bye-laws in 2011.

Communication with the General Public

We strive to keep the general public informed on what the Group has done and how our achievements relate to them, making use of the following communication channels:

Website – The Company's website www.tih.hk provides a wide range of information about the Group and its various businesses for shareholders and other interested parties.

Media – To keep the public up to speed on the bus services of KMB and LWB, the two major subsidiaries of

the Group, regular press sessions are held at which the media are introduced to the latest developments of the bus companies in terms of services, facilities, safety and environmental protection.

Publications – KMB and LWB publish a number of booklets and leaflets which keep the travelling public updated about their services and operations.

In 2011, the KMB website won the Diamond Prize in the 2010 Web Care Award organised by the Internet Professional Association, the Meritorious Website Award in the 2010 Meritorious Websites Contest organised by the Television and Entertainment Licensing Authority, and the Merit Prize for Corporate Group in the 2010 Top 10 .hk Website Competition organised by the Hong Kong Internet Registration Corporation Limited.

KMB's publications may be downloaded from its website www.kmb.hk, which also features regularly updated corporate, financial and media information relating to the Group.

Communication with Employees

Strong two-way communication between management and staff is not only essential to our success; it is also the most effective way of boosting loyalty and efficiency.

One key to the furtherance of mutual understanding and the promotion of cooperation at all levels is the establishment of six joint consultative committees at which KMB and LWB management and staff are able to discuss matters such as safety and the work environment, as well as staff welfare matters.

The Group maintains a staff website which enables staff to access relevant management announcements and information on issues that concern them such as payroll and staff events and activities. Online orientation training courses, e-learning programmes and a staff forum are also available on the website. Periodic VCDs and the monthly corporate magazine, KMB Today, keep our employees, especially frontline staff, informed on news and events relating to the Group and the industry. The monthly column "Message from the Managing Director" in KMB Today is an important tool for enhanced communication between management and staff.

The Staff Handbook, accessible via the staff website, provides clear guidelines for staff at all levels to follow, as well as setting out the company's human resources policies.

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 members of the Committee are Dr Eric LI Ka Cheung and Dr John CHAN Cho Chak, both Independent Non-executive Directors of the Company.

The Remuneration Committee is delegated by the Board with the responsibility of ensuring that the Company employs properly structured and fair remuneration policies, which take into account the interests of Directors, staff and other stakeholders, as well as align with the Company's goals, objectives and performance. Remuneration levels are determined according to the principles of individual performance, fairness, transparency and market competitiveness. A variety of remuneration elements are incorporated in order to attract and retain people who are fully motivated to contribute to the Group.

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

- No Director or member of senior management is involved in deciding his or her own remuneration;
- Remuneration policy and practice including that relating to the Directors should be as transparent as possible; and
- Remuneration packages should constitute a fair system of reward for all participants, taking qualifications, experience and performance into consideration, while also taking account of 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, which are posted on the Company's website, fully comply with the Code Provisions set out in Appendix 14 of the Listing Rules. The main duties of the Committee include:

- making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management, and on the establishment of a formal and transparent procedure for developing remuneration policy;

The Remuneration Committee is delegated by the Board with the responsibility of ensuring that the Company employs properly structured and fair remuneration policies, which take into account the interests of Directors, staff and other stakeholders, as well as align with the Company's goals, objectives and performance.

- establishing guidelines for determining the remuneration of the Directors (including terms of conditions of employment, remuneration and retirement benefits of Executive Directors) and to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, as well as Non-executive Directors;
- considering salaries paid by comparable companies, as well as time commitment, responsibilities and employment conditions elsewhere in the Group;
- reviewing and approving compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- ensuring that no Director or any of his or her associates is involved in deciding his or her own remuneration; and
- reviewing and considering proposals from the Managing Director regarding human resources or related policies and making appropriate recommendations to the Board.

In 2011, the Remuneration Committee:

- Reviewed the remuneration policy for 2011;
- Reviewed the remuneration of Executive and Non-executive Directors, benchmarked 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 the Group employees, with reference to the performance of the Group and individual achievement, measured against the assessment criteria and taking into consideration market norms; and
- Examined employees' wage and salary increments by reference to the relevant factors and on a merit basis.

CRITERIA FOR DETERMINATION OF THE REMUNERATION OF DIRECTORS

In accordance with good corporate governance practices, assessment of the remuneration of Directors is based on formalised principles, which take into account market practices and a tried and tested methodology. The determination of Directors' fees was 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 20 major companies listed on The Stock Exchange of Hong Kong Limited.

Remuneration Report

The fee structure for Directors in 2011, which was fixed by the shareholders at the annual general meetings of the Company held in 2008 and 2010 and remained effective until the Company in general meetings otherwise determines, is set out below:

| | Fee per annum | Effective from 1 January |
|--|------------------|-----------------------------|
| Board Members | HK\$ | |
| – Chairman | 504,000 | 2008 |
| – Other Director | 360,000 | |
| Audit Committee Members | | |
| – Chairman | 84,000 | 2008 |
| – Other member | 60,000 | |
| Remuneration Committee Members | | |
| – Chairman | 42,000 | 2008 |
| – Other member | 30,000 | |
| Standing Committee Members (except Executive Directors) | | |
| – Chairman | 336,000 | 2010 |
| – Other member | 240,000 | |

Besides the fees disclosed above, neither the Independent Non-executive Directors nor the 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 2011, together with 2010 comparisons, are given in note 7 to the consolidated financial statements on pages 162 and 163 of this Annual Report.

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

In determining the remuneration of senior management members, comprising Messrs Charles LUI Chung Yuen, Edmond HO Tat Man and Evan AU YANG Chi Chun, who are Executive Directors of the Company and whose biographies are set out in the Directors' Profiles on pages 116 to 122 of this Annual Report, and other employees, the Group makes reference to the remuneration for similar positions in comparable 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 level of any such discretionary bonus is subject to review and approval by the Remuneration Committee and the Board after taking into account the Group's performance. No senior management members serve on the Remuneration Committee. The main components of remuneration for senior management members and other employees are set out below:

Base Compensation

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

Discretionary bonuses are designed to align employee contribution with Company performance and may be granted to staff members in recognition of their outstanding performance. Individuals are subject to comprehensive performance appraisal by their immediate supervisors and only those who obtain at least a satisfactory performance rating are considered for the award of an incentive bonus.

Staff 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") are two non-contributory defined benefit retirement schemes operated by the Group. 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

Formally established under trust in 1978 and registered under the Occupational Retirement Schemes Ordinance (Cap. 426), the Monthly Scheme is administered 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 actuary 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

Formally established under trust in 1983 and registered under the Occupational Retirement Schemes Ordinance (Cap. 426), the Daily Scheme is administered 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 actuary's 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 relevant employees' salaries, depending on their length of service with the Group. 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 94. 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 was formerly an Independent Non-executive Director of CLP Holdings Limited and as well as 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 71. 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 Chairman of Television Broadcasts

Limited, a company listed on the Hong Kong Stock Exchange. 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 58. 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's 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 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 Chairman of SUNeVision Holdings Ltd., Chairman of SmarTone Telecommunications Holdings Limited, a Non-executive Director of Wing Tai Properties 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 61. 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 & 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 81.
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

Independent Non-executive Director, aged 68. 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, and was re-designated as Independent Non-executive Director of the Company with effect from 4 January 2012. 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, Guangdong Investment Limited and Swire Properties Limited. He was formerly an Independent Non-executive Director of 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. Dr Chan was formerly also the Executive

Director and General Manager of Sun Hung Kai Finance Company Limited, 1978-80. He is currently a Director of The Community Chest of Hong Kong, Chairman of the Council of the Sir Edward Youde Memorial Fund, 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. He was awarded the degrees of Doctor of Business Administration (honoris causa) by the International Management Centres in 1997 and Doctor of Social Sciences (honoris causa) by The Hong Kong University of Science and Technology in 2009 and The University of Hong Kong in 2011. He is a Companion of the Chartered Management Institute, a Fellow of the Chartered Institute of Logistics and Transport and a Fellow of the Hong Kong Institute of Directors.



WILLIAM LOUEY LAI KUEN

BSc(Econ)

Non-executive Director, aged 52. 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 77. 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.

Directors' Profiles



WINNIE NG

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

Non-executive Director, aged 48, has been Director of The Kowloon Motor Bus Company (1933) Limited since 1995 and 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. She was Executive Director of the Company from 1995 until 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 Council Member of The Better Hong Kong Foundation, Director of Bauhinia Foundation Research Centre, Member of Hospital Authority, Member of Hong Kong Tourism Board, Member of Vocational Training Council, Member of Employees Retraining Board, Member of Public Relations Committee of The Community Chest, and is also involved with a number of other public and community boards.

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.



DR ERIC LI KA CHEUNG

GBS, OBE, JP, LLD, DSocSc, BA,
FCPA(Practising), FCA, FCPA(Aust.),
FCIS

Independent Non-executive Director, aged 58. 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., Sinofer 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 50. 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 66. 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.

Directors' Profiles



JOHN ANTHONY MILLER

SBS, OBE, MPA(Harvard), BA(Lond)

Non-executive Director, aged 61. 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 40. Mr Au Yang has been a Director of Transport International Holdings

Limited, The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 20 May 2010. Mr Au Yang is a Board member of the American Chamber of Commerce in Hong Kong and serves as the Chairman of its Environmental Steering Group. 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.



PROFESSOR LIU PAK-WAI

SBS, JP

Independent Non-executive Director, aged 64. Professor Liu was appointed Independent Non-executive Director of Transport International Holdings

Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 1 September 2011. He received his AB degree from Princeton University and PhD degree from Stanford University in the United States of America. He is the Professor of Economics and formerly Pro-Vice-Chancellor of The Chinese University of Hong Kong and holds a number of positions related to his field of study, including Director of the Economic Research Centre of the Hong Kong Institute of Asia-Pacific Studies and

Vice-President of the East Asian Economic Association. Professor Liu is also an independent non-executive director of Hang Lung Properties Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, a director of the Hong Kong Institute for Monetary Research of the Hong Kong Monetary Authority and was a non-executive director of the Securities and Futures Commission and the chairman of its remuneration committee.

| Company/Position | Name |
|---|---|
| Transport International Holdings Limited | |
| Company Secretary | Lana WOO MBA, BA, AAT, CGA, FCIS, MIFC, CFC |
| The Kowloon Motor Bus Company (1933) Limited | |
| Finance and Administration Director | William HO Sai Kei BBA, MBA, CA(Canada), FCPA |
| Commercial Director | James Conrad LOUEY BSc |
| Operations Director | Kenrick FOK CMILT |
| Head of Depots | HO Chi Man MA, CMILT |
| Head of Accounts Department | Peter S H MACK MBA, MSc(Finance), LLB(Peking), ACA, CPA, ACIS |
| Head of Corporate Communications Department | Susanne HO BRS, Hon.Dip. |
| Head of Customer Service Department | CHAN Pik Yin BA |
| Head of Commercial and Facilities Management Department | Thomas T M TONG MSc, MBA, CEng, MIStructE, MHKIE, RPE, AP, RSE |
| Head of Financial Planning and Costing Department | Doris K K LAU MBA, ACA, CPA |
| Head of Human Resources Department | Susanna P Y WONG BSocSc, MIHRM |
| Head of Information Technology Department | Tommy H T LEUNG BSc, DMS |
| Head of Insurance Department | Clara M F LEUNG ACII, Chartered Insurance Practitioner |
| Head of Internal Audit Department | Thomas M L LEUNG BSc(Hons), ACA, FCCA, CPA, CGA |
| Head of Office Administration Department | Queenie L M YAU BBA |
| Head of Planning and Development Department | Cherry LEUNG MBA, CPA |
| Head of Safety and Service Quality Department | Gary WONG MSc(SafMgt), GD(OHS) |
| Head of Service Department | LEUNG Kin Wang BSc |
| Principal Engineer, Bus Engineering | SHUM Yuet Hung BSc(Eng), MSc, MSc(Eng), MBA, MIRTE, FIMechE, CEng, FHKIE, ACGI, MSOE, RPE, CEnv |
| Head of Traffic Department | Wendy W M SIU BA, CMILT |
| Head of Treasury Department | Simon C S CHEUNG MBA, BSc, CGA, ACCA, CMILT |
| General Manager (Kowloon Bay Depot) | WAN Kin Tim BSc |
| General Manager (Lai Chi Kok Depot) | MA Siu Wah BA, CMILT, AMInstTA, PgD |
| General Manager (Shatin Depot) | FUNG Siu Hung BSc(Econ), MA, CMILT |
| General Manager (Tuen Mun Depot) | WOO Kin Keung |
| Long Win Bus Company Limited | |
| General Manager | George CHAN |
| KMB (China) Holdings Limited and New Hong Kong Bus Company Limited | |
| General Manager | Simon TU Sik Man MBA, CMILT |
| Sun Bus Holdings Limited | |
| General Manager | Benjamin C H WONG CMILT |
| RoadShow Holdings Limited | |
| Managing Director | Alex MO Tik Sang |
| Chief Financial Officer and Company Secretary | Jo MAN Miu Sheung ACA, CPA |
| Chief Operating Officer | Thomas LO Sui Sing |
| General Manager, Marketing and Sales (Greater China) | Simon SIU Kar Chun |
| Operations and Planning Director | Ada LO Ching |

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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 2011.

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 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 2011 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 135 to 203 of this Annual Report.

TRANSFER TO RESERVES

Profits attributable to equity shareholders of the Company, before dividends, of HK\$242,351,000 (2010: HK\$866,886,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK\$0.15 per share was paid to the shareholders on 17 October 2011 (2010: HK\$0.30 per share). The Directors now recommend that an ordinary final dividend of HK\$0.45 per share in respect of the year ended 31 December 2011 (2010: HK\$1.05 per share) be paid to the shareholders on 1 June 2012.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$285,000 (2010: HK\$535,000).

FIXED ASSETS

During the year, major additions to the fixed assets of the Group were buses under construction with a total cost of HK\$388,829,000 (2010: HK\$703,686,000) and tools and other fixed assets with a total cost of HK\$334,071,000 (2010: HK\$335,051,000). Buses with a total cost of HK\$621,046,000 (2010: 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*, <i>GBM, GBE, PhD, FREng, JP</i> | (Chairman) |
| Dr Norman LEUNG Nai Pang*, <i>GBS, JP</i> | (Deputy Chairman) |
| KWOK Ping-luen, Raymond, <i>JP</i> | |
| Dr KWOK Ping-sheung, Walter, <i>JP</i> | |
| NG Siu Chan | |
| William LOUEY Lai Kuen | |
| Dr John CHAN Cho Chak*, <i>GBS, JP</i> | (re-designated as Independent Non-executive Director with effect from 4 January 2012) |
| Charles LUI Chung Yuen, <i>M.H.</i> | |
| Winnie NG | (Director and Alternate Director to Mr NG Siu Chan) |
| Dr Eric LI Ka Cheung*, <i>GBS, OBE, JP</i> | |
| Edmond HO Tat Man | (Managing Director) |
| SIU Kwing-chue, Gordon*, <i>GBS, CBE, JP</i> | |
| John Anthony MILLER, <i>SBS, OBE</i> | |
| Evan AU YANG Chi Chun | (Deputy Managing Director) |
| Professor LIU Pak-wai*, <i>SBS, JP</i> | (appointed on 1 September 2011) |
| YUNG Wing Chung | (Alternate Director to Mr KWOK Ping-luen, Raymond, <i>JP</i>) |
| SO Wai Kei, Godwin | (Alternate Director to Dr KWOK Ping-sheung, Walter, <i>JP</i>) |
| George CHIEN Yuan Hwei | (resigned on 1 July 2011) |

* Independent Non-executive Director

In accordance with the Company's Bye-laws and Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), Mr Kwok Ping-luen, Raymond, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung, Mr Edmond Ho Tat Man and Professor Liu Pak-wai retire from the Board by rotation at the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election. In addition, the Hon Sir Sze-yuen Chung will retire from the Board on conclusion of the AGM and not offer himself for re-election.

Brief biographical details of the Directors of the Company are set out on pages 116 to 122 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 2011 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.

(a) Interests in Issued Shares

(i) The Company

| | Ordinary shares of HK\$1 each | | | | | Total number of shares held | Percentage of total issued shares |
|--|-------------------------------|------------------|---------------------|-------------------|--|-----------------------------|-----------------------------------|
| | Personal interests | Family interests | Corporate interests | Trustee interests | | | |
| The Hon Sir Sze-yuen CHUNG* | 18,821 | – | – | – | | 18,821 | 0.005% |
| Dr Norman LEUNG Nai Pang* | – | – | – | – | | – | – |
| KWOK Ping-luen, Raymond | 393,350 | – | – | – | | 393,350 | 0.097% |
| 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 | | 2,664,177 | 0.660% |
| | | | | (Note 1) | | | |
| Winnie NG | 41,416 | – | – | 21,000,609 | | 21,042,025 | 5.213% |
| | | | | (Note 2) | | | |
| Dr Eric LI Ka Cheung* | – | – | – | – | | – | – |
| Edmond HO Tat Man | – | – | – | – | | – | – |
| SIU Kwing-chue, Gordon* | – | – | – | – | | – | – |
| John Anthony MILLER | – | – | – | – | | – | – |
| Evan AU YANG Chi Chun | – | – | – | – | | – | – |
| Professor LIU Pak-wai* | – | – | – | – | | – | – |
| 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.

Report of the Directors

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

(a) Interests in Issued Shares (continued)

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

| | Ordinary shares of HK\$0.1 each | | | | Total number of shares held | Percentage of total issued shares |
|--|---------------------------------|------------------|---------------------|-------------------|-----------------------------|-----------------------------------|
| | Personal interests | Family interests | Corporate interests | Trustee interests | | |
| The Hon Sir Sze-yuen CHUNG* | 4,000 | – | – | – | 4,000 | – |
| Dr Norman LEUNG Nai Pang* | – | – | – | – | – | – |
| KWOK Ping-luen, Raymond | 37,400 | – | – | – | 37,400 | 0.004% |
| 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 | 209,131 | 0.021% |
| | | | | (Note 1) | | |
| Winnie NG | 1,000,000 | – | – | 123,743 | 1,123,743 | 0.113% |
| | | | | (Note 2) | | |
| Dr Eric LI Ka Cheung* | – | – | – | – | – | – |
| Edmond HO Tat Man | – | – | – | – | – | – |
| SIU Kwing-chue, Gordon* | – | – | – | – | – | – |
| John Anthony MILLER | – | – | – | – | – | – |
| Evan AU YANG Chi Chun | – | – | – | – | – | – |
| Professor LIU Pak-wai* | – | – | – | – | – | – |
| 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 2011, 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)

(b) Interests in Underlying Shares

RoadShow has a share option scheme ("the Scheme") which was adopted on 7 June 2001. The Scheme was valid and effective for a period of ten years and expired on 6 June 2011.

No option was granted during the year and there were no outstanding options at 31 December 2011 (2010: Nil).

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 35(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, subsidiaries 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.

Report of the Directors

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

At 31 December 2011, 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 of Hong Kong Limited ("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) | 35,837,445 | – | 35,837,445 | 8.9% |
| 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 applied 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. With effect from 19 October 2011, the above transitional provisions expired and SHKP is subject to the 2% creeper under Rules 26.1(c) and (d) of the Takeovers Code.

(3) HSBC International Trustee Limited and HSBC Trustee (C.I.) Limited are deemed to be interested in a total of 170,179,418 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

The Executive Directors of the Company, Mr Charles Lui Chung Yuen, Mr Edmond Ho Tat Man and Mr Evan Au Yang Chi Chun are members of the senior management of the Group whose brief particulars are set out on pages 119, 121 and 122 respectively 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 2012 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 2011 was HK\$1,040,741,000 (2010: 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 2011.
- (v) The ongoing funding surplus in the scheme was HK\$307,698,000 (2010: HK\$504,970,000) and the solvency surplus was HK\$307,756,000 (2010: HK\$505,221,000) at 31 December 2011.

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 2011 was HK\$2,347,364,000 (2010: 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 2011.
- (v) The ongoing funding surplus in the scheme was HK\$790,566,000 (2010: HK\$1,212,364,000) and the solvency surplus was HK\$865,470,000 (2010: HK\$1,294,235,000) at 31 December 2011.

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).

Report of the Directors

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 2011 were insignificant to the Group.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts of the Group as at 31 December 2011 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 204 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 91 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 2011.

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, 15 March 2012

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 135 to 203, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 2011 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

15 March 2012

Consolidated Income Statement

for the year ended 31 December 2011
(Expressed in Hong Kong dollars)

| | Note | 2011 \$'000 | 2010 \$'000 |
|---|-----------|------------------|----------------|
| Turnover | 3 & 13 | 6,947,544 | 6,686,836 |
| Other net income | 4 | 248,471 | 186,570 |
| Cost of properties sold | | (25,103) | (6,665) |
| Staff costs | 5(a) | (3,075,104) | (3,040,705) |
| Depreciation and amortisation | | (883,491) | (899,248) |
| Fuel and oil | | (1,548,498) | (1,140,289) |
| Spare parts and stores | | (219,080) | (245,274) |
| Toll charges | | (383,563) | (363,827) |
| Selling and marketing expenses for property sales | | (1,206) | (1,832) |
| Other operating expenses | | (697,658) | (651,095) |
| Profit from operations | | 362,312 | 524,471 |
| Finance costs | 5(b) | (8,630) | (6,618) |
| Gain on disposal of building and interest in leasehold land | 35(a)(ix) | – | 489,052 |
| Share of profits of associates | | 31,292 | 33,821 |
| Impairment loss on other financial assets | 21(b) | (109,606) | (110,000) |
| Profit before taxation | 5 | 275,368 | 930,726 |
| Income tax | 6(a) | (41,253) | (75,352) |
| Profit for the year | | 234,115 | 855,374 |
| Attributable to: | | | |
| Equity shareholders of the Company | 9 | 242,351 | 866,886 |
| Non-controlling interests | | (8,236) | (11,512) |
| Profit for the year | | 234,115 | 855,374 |
| 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 | | 72,869 | 471,952 |
| Arising from the Group's other operations | | 169,482 | 394,934 |
| | | 242,351 | 866,886 |
| Earnings per share – basic and diluted: | 11 | | |
| Arising from sales of building and interest in leasehold land and Manhattan Hill properties | | \$0.18 | \$1.17 |
| Arising from the Group's other operations | | 0.42 | 0.98 |
| | | \$0.60 | \$2.15 |

The notes on pages 142 to 203 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 2011
(Expressed in Hong Kong dollars)

| | Note | 2011 \$'000 | 2010 \$'000 |
|--|------|----------------|----------------|
| Profit for the year | | 234,115 | 855,374 |
| Other comprehensive income for the year (after tax and reclassification adjustments): | | | |
| Exchange differences on translation of financial statements of entities outside Hong Kong | | 26,552 | 21,885 |
| Reclassification of exchange reserve on disposal of operation outside Hong Kong | | (751) | – |
| Available-for-sale debt securities: net movement in the fair value reserve, net of nil tax | 10 | (1,023) | 8,222 |
| Total comprehensive income for the year | | 258,893 | 885,481 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 267,129 | 896,993 |
| Non-controlling interests | | (8,236) | (11,512) |
| Total comprehensive income for the year | | 258,893 | 885,481 |

The notes on pages 142 to 203 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2011
(Expressed in Hong Kong dollars)

| | Note | 2011 \$'000 | 2010 \$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Fixed assets | 14(a) | | |
| – Investment properties | | 123,135 | 123,767 |
| – Investment property under development | | 11,741 | 5,236 |
| – Interest in leasehold land | | 71,426 | 73,438 |
| – Other property, plant and equipment | | 3,914,255 | 4,073,853 |
| | | 4,120,557 | 4,276,294 |
| Intangible assets | 15 | 44,178 | 22,536 |
| Goodwill | 16 | 63,315 | 63,315 |
| Non-current prepayments | 18 | 1,667 | 44,267 |
| Interest in associates | 20 | 668,136 | 640,263 |
| Other financial assets | 21 | 472,465 | 636,262 |
| Employee benefit assets | 22(a) | 800,656 | 789,983 |
| Deferred tax assets | 29(b) | 3,536 | 6,055 |
| | | 6,174,510 | 6,478,975 |
| Current assets | | | |
| Completed property held for sale | | 19,702 | 45,245 |
| Spare parts and stores | | 59,420 | 62,032 |
| Accounts receivable | 24 | 348,444 | 256,628 |
| Other financial assets | 21 | 15,032 | – |
| Deposits and prepayments | | 30,340 | 32,569 |
| Current taxation recoverable | 29(a) | 110,757 | 15,781 |
| Pledged and restricted bank deposits | 25(a) | 45,455 | 73,921 |
| Cash and cash equivalents | 25(a) | 2,928,606 | 2,726,776 |
| | | 3,557,756 | 3,212,952 |
| Current liabilities | | | |
| Bank loans and overdrafts | 26 | 70,040 | 197,592 |
| Accounts payable and accruals | 27 | 1,066,876 | 1,109,044 |
| Third party claims payable | 28 | 136,297 | 131,122 |
| Current taxation payable | 29(a) | 4,541 | 12,400 |
| | | 1,277,754 | 1,450,158 |
| Net current assets | | 2,280,002 | 1,762,794 |
| Total assets less current liabilities | | 8,454,512 | 8,241,769 |

Consolidated Balance Sheet

at 31 December 2011
(Expressed in Hong Kong dollars)

| | Note | 2011 \$'000 | 2010 \$'000 |
|--|-------|------------------|------------------|
| Non-current liabilities | | | |
| Bank loans | 26 | 797,901 | 469,916 |
| Contingency provision – insurance | 28 | 309,575 | 300,295 |
| Deferred tax liabilities | 29(b) | 607,445 | 499,456 |
| Provision for long service payments | 30 | 37,254 | 29,885 |
| | | 1,752,175 | 1,299,552 |
| Net assets | | | |
| | | 6,702,337 | 6,942,217 |
| Capital and reserves | | | |
| Share capital | 31(b) | 403,639 | 403,639 |
| Reserves | | 6,116,421 | 6,333,659 |
| Total equity attributable to equity shareholders of the Company | | | |
| | | 6,520,060 | 6,737,298 |
| Non-controlling interests | | | |
| | | 182,277 | 204,919 |
| Total equity | | | |
| | | 6,702,337 | 6,942,217 |

Approved and authorised for issue by the Board of Directors on 15 March 2012

S.Y. CHUNG

Chairman

Edmond HO Tat Man

Managing Director

The notes on pages 142 to 203 form part of these financial statements.

Balance Sheet

at 31 December 2011
(Expressed in Hong Kong dollars)

| | Note | 2011 \$'000 | 2010 \$'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 | | 801 | 473 |
| Amounts due from subsidiaries | 19(b) | 8,178,226 | 7,890,053 |
| Cash and cash equivalents | 25(a) | 38,368 | 31,590 |
| | | 8,217,395 | 7,922,116 |
| Current liabilities | | | |
| Accounts payable and accruals | 27 | 41,300 | 42,088 |
| Amounts due to subsidiaries | 19(b) | 7,437,109 | 7,357,759 |
| | | 7,478,409 | 7,399,847 |
| Net current assets | | 738,986 | 522,269 |
| Net assets | | 1,927,409 | 1,710,692 |
| Capital and reserves | | | |
| Share capital | 31(a) | 403,639 | 403,639 |
| Reserves | | 1,523,770 | 1,307,053 |
| Total equity | | 1,927,409 | 1,710,692 |

Approved and authorised for issue by the Board of Directors on 15 March 2012

S.Y. CHUNG

Chairman

Edmond HO Tat Man

Managing Director

The notes on pages 142 to 203 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011
(Expressed in Hong Kong dollars)

| | Note | Attributable to equity shareholders of the Company | | | | | Total \$'000 | Non- controlling interests \$'000 | Total equity \$'000 |
|---|-------|--|-----------------------------|-------------------------------|---------------------------------|-------------------------------|------------------|--|---------------------------|
| | | Share capital \$'000 | Other reserves \$'000 | Exchange reserve \$'000 | Fair value reserve \$'000 | Retained profits \$'000 | | | |
| | | | | (note 31(c)(i)) | (note 31(c)(ii)) | | | | |
| Balance at 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 and 1 January 2011 | | 403,639 | 1,102,851 | 133,073 | 8,228 | 5,089,507 | 6,737,298 | 204,919 | 6,942,217 |
| Changes in equity for 2011: | | | | | | | | | |
| Profit/(loss) for the year | | - | - | - | - | 242,351 | 242,351 | (8,236) | 234,115 |
| Other comprehensive income | | - | - | 25,801 | (1,023) | - | 24,778 | - | 24,778 |
| Total comprehensive income for the year | | - | - | 25,801 | (1,023) | 242,351 | 267,129 | (8,236) | 258,893 |
| Dividend approved in respect of the previous year | 12(b) | - | - | - | - | (423,821) | (423,821) | - | (423,821) |
| Dividends paid to non-controlling interests | | - | - | - | - | - | - | (13,058) | (13,058) |
| Disposal of subsidiaries | | - | (237) | - | - | 237 | - | (1,348) | (1,348) |
| Dividend approved in respect of the current year | 12(a) | - | - | - | - | (60,546) | (60,546) | - | (60,546) |
| Balance at 31 December 2011 | | 403,639 | 1,102,614 | 158,874 | 7,205 | 4,847,728 | 6,520,060 | 182,277 | 6,702,337 |

The notes on pages 142 to 203 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2011
(Expressed in Hong Kong dollars)

| | Note | 2011 \$'000 | 2010 \$'000 |
|---|-------|------------------|--------------------|
| Operating activities | | | |
| Cash generated from operations | 25(b) | 1,136,901 | 1,407,931 |
| Interest received | | 53,994 | 31,816 |
| Interest paid | | (8,011) | (8,411) |
| Hong Kong Profits Tax paid | | (32,103) | (116,301) |
| Net cash generated from operating activities | | 1,150,781 | 1,315,035 |
| Investing activities | | | |
| Decrease/(increase) in pledged and restricted bank deposits | | 28,466 | (22,721) |
| Decrease in bank deposits with original maturities of over three months | | 845,447 | 742,962 |
| Payment for purchase of fixed assets | | (758,142) | (1,034,218) |
| Payment for purchase of intangible assets | | (21,642) | (1,000) |
| Payment for purchase of available-for-sale debt securities | | – | (386,565) |
| Proceeds from disposal of fixed assets | | 8,530 | 496,399 |
| Net cash outflow from disposal of subsidiaries | | (2,337) | – |
| Decrease/(increase) in loans to investee | | 27,064 | (26,127) |
| Dividends received from associates | | 28,083 | 26,374 |
| Dividends received from unlisted equity securities | | 31,000 | 16,145 |
| Net cash generated from/(used in) investing activities | | 186,469 | (188,751) |
| Financing activities | | | |
| Dividends paid to equity shareholders of the Company | | (484,367) | (948,552) |
| Dividends paid to non-controlling interests | | (13,058) | (8,436) |
| Proceeds from new bank loans | | 550,000 | 200,000 |
| Repayment of bank loans | | (350,000) | (400,000) |
| Return of capital to non-controlling interests | | – | (3,976) |
| Net cash used in financing activities | | (297,425) | (1,160,964) |
| Net increase/(decrease) in cash and cash equivalents | | 1,039,825 | (34,680) |
| Cash and cash equivalents at 1 January | | 642,062 | 671,654 |
| Effect of foreign exchange rate changes | | 7,641 | 5,088 |
| Cash and cash equivalents at 31 December | 25(a) | 1,689,528 | 642,062 |

The notes on pages 142 to 203 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 2011 comprise the Company and its subsidiaries (together referred to as “the Group”) and the Group’s interest in associates.

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 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 37.

(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 (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)(i)).

(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.

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 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associates and joint ventures (continued)

When the Group's share of losses exceeds its interest in an associate, 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.

Unrealised profits and losses resulting from transactions between the Group and its associates 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, 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 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)).

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 statements 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 and associates, 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Cash flow hedges (continued)

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.

(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 |
| Others | – 2 to 7 years |

No depreciation is provided for buses 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)(ii). 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 People's Republic of China ("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 and transport operating rights acquired by the Group that have definite useful lives are stated at cost less accumulated amortisation and impairment losses (see note 1(m)(ii)). They are amortised to the consolidated income statement on a straight-line basis over their estimated useful lives. For those passenger service licences and transport operating rights that are assessed and regarded by the Group to have indefinite useful lives, they 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

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

- For investments in subsidiaries and associates (including those 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 these financial assets 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets (continued)

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

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.

(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; 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

- 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.

(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 using the effective interest method, 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 guarantees 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.
- (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 completion of properties, 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Translation of foreign currencies

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

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the average foreign exchange rates for the year. Balance sheet items including goodwill arising on consolidation of operations outside Hong Kong acquired on or after 1 January 2005 are translated into Hong Kong dollars at the 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.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee benefits (continued)

(ii) Defined benefit retirement plan obligations (continued)

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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Income tax (continued)

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

(i) A person, or a close member of that person's family, is related to the Group if that person:

- (1) has control or joint control over the Group;
- (2) has significant influence over the Group; or
- (3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (3) Both entities are joint ventures of the same third party.
- (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (6) The entity is controlled or jointly controlled by a person identified in (i).
- (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 a number of amendments to HKFRSs and one new Interpretation 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:

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)
- Amendments to HK(IFRIC) 14, HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction - Prepayments of a minimum funding requirement

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38).

The amendments to HK(IFRIC) 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group.

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvement to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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:

| | 2011 | 2010 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| Fare revenue from franchised public bus services | 6,177,135 | 6,060,373 |
| Revenue from non-franchised transport services | 265,021 | 256,986 |
| Revenue from sales of properties | 109,084 | 29,263 |
| Media sales revenue | 374,817 | 327,000 |
| Gross rentals from investment properties | 21,487 | 13,214 |
| | 6,947,544 | 6,686,836 |

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 the financial statements.

4 OTHER NET INCOME

| | 2011 | 2010 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Net movement in balance of passenger rewards (note (a)) | 28,066 | 26,657 |
| Net income recognised in respect of defined benefit retirement plans (note 22(e)) | 84,673 | 73,990 |
| Interest income on instalments receivable from sales of properties | 143 | 284 |
| Interest income on other financial assets not at fair value through profit or loss | 46,667 | 36,310 |
| Claims received | 23,272 | 27,059 |
| Dividend income from unlisted equity securities | 31,000 | 16,145 |
| Net miscellaneous business receipts | 7,826 | 8,642 |
| Net exchange gain | 10,954 | 15,519 |
| Net gain on disposal of fixed assets | 3,636 | 3,345 |
| Reversal of net gain on property sales previously recognised (note (b)) | – | (38,628) |
| Sundry revenue | 12,234 | 17,247 |
| | 248,471 | 186,570 |

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 reward 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 2011 and 2010 was 9.7% per annum. The balance of passenger rewards of the Group as at 31 December 2011, included in accounts payable and accruals, was \$3,695,000 (2010: \$31,572,000) (see note 27).

(b) During the year ended 31 December 2010, as the purchasers of two property units had 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 had retained the forfeited deposits of 10% of the purchase price, and the deposits received in excess of the deposit forfeited were to be refunded to the purchasers. As a result, a net loss on cancellation of property sales of \$38,628,000 was recognised in 2010, and completed property held for sale was increased by \$9,072,000. The net loss included the reversal of revenue from the cancelled properties recognised in prior years, net of the related selling and marketing expenses of \$999,000, amounted to \$53,111,000.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

| | 2011 | 2010 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| (a) Staff costs | | |
| Contributions to defined contribution retirement plans | 73,094 | 68,048 |
| Movements in provision for long service payments (note 30) | 14,994 | 5,593 |
| Salaries, wages and other benefits | 2,987,016 | 2,967,064 |
| | 3,075,104 | 3,040,705 |
| (b) Finance costs | | |
| Interest on bank loans and overdrafts not at fair value through profit or loss | 8,630 | 6,618 |
| (c) Other items | | |
| Auditors' remuneration | | |
| – audit services | 4,389 | 4,810 |
| – other services | 2,647 | 1,738 |
| Operating lease charges on properties, temporary bus depots, buses and terminal shelters | 36,963 | 31,417 |
| Depreciation | 881,479 | 896,987 |
| Amortisation of land lease premium | 2,012 | 2,056 |
| Amortisation of media assets | – | 205 |
| Impairment loss on trade and other receivables | 104 | 663 |
| Impairment loss on media assets | – | 171 |
| Write-back of impairment loss on trade and other receivables | – | (731) |
| Write-down of spare parts and stores | 4,817 | 12,440 |
| Rentals receivable from investment properties less direct outgoings of \$7,471,000 (2010: \$6,961,000) (note) | (14,016) | (6,253) |

Note: Included contingent rental income of \$510,000 (2010: \$324,000).

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

| | 2011 | 2010 |
|---|-----------|--------|
| | \$'000 | \$'000 |
| Current tax – Hong Kong Profits Tax | | |
| Provision for the year | 33,991 | 71,902 |
| Revision of prior years' tax provision (note) | (104,527) | – |
| (Over)/under-provision in respect of prior years | (196) | 1,923 |
| | (70,732) | 73,825 |
| Current tax – PRC Income Tax | | |
| Provision for the year | – | 260 |
| Over-provision in respect of prior years | – | (401) |
| | – | (141) |
| PRC withholding tax | 1,477 | 1,400 |
| Deferred tax | | |
| Effect of revision of prior years' tax provision (note) | 104,527 | – |
| Origination and reversal of other temporary differences | 5,981 | 268 |
| | 110,508 | 268 |
| | 41,253 | 75,352 |

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 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.

Note: During the year ended 31 December 2011, the Hong Kong Inland Revenue Department ("the IRD") revised its assessing practice regarding the tax treatment of defined benefit retirement schemes. In prior years, net income/expenses recognised in respect of defined benefit retirement plans were treated as taxable income/deductible expenses in the tax computations of a subsidiary of the Company. Under the revised assessing practice, such income/expenses are non-taxable or non-deductible. Instead, any cash refund from the defined benefit retirement schemes is taxable and any actual ordinary contribution made by the subsidiary, subject to a limitation as prescribed in the Inland Revenue Ordinance, is tax deductible. Due to the IRD's change in assessing practice, a subsidiary is eligible for additional tax deductions and a resulting tax refund from the IRD in respect of previous years. As a result, the subsidiary has revised its Hong Kong Profits Tax computations for prior years, resulting in an increase in current taxation recoverable relating to prior years of \$104,527,000 (2010: Nil) and a corresponding increase in deferred tax liabilities. This has no material impact on the Group's net assets as at 31 December 2011 and its profit for the year then ended.

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

| | 2011 | 2010 |
|--|----------|-----------|
| | \$'000 | \$'000 |
| Profit before taxation | 275,368 | 930,726 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | 47,128 | 151,416 |
| Tax effect of non-deductible expenses | 22,431 | 23,008 |
| Tax effect of non-taxable income | (28,661) | (102,022) |
| Tax effect of unused tax losses not recognised | 1,746 | 1,078 |
| (Over)/under – provision in prior years | (196) | 1,522 |
| Others | (1,195) | 350 |
| Actual tax expense | 41,253 | 75,352 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows:

| | 2011 | | | | Total \$'000 |
|--|-----------------|---|-----------------------|---------------------------------|----------------------|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Executive Directors | | | | | |
| Charles Lui Chung Yuen | 360 | 840 | 43 | – | 1,243 ⁽¹⁾ |
| Edmond Ho Tat Man | 450 | 4,064 | 400 | 488 | 5,402 ⁽¹⁾ |
| Evan Au Yang Chi Chun | 360 | 3,590 | 352 | 197 | 4,499 ⁽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 |
| Winnie Ng | 750 | – | – | – | 750 ⁽¹⁾ |
| John Anthony Miller | 480 | – | – | – | 480 ⁽¹⁾ |
| Yung Wing Chung | 178 | – | – | – | 178 ⁽²⁾ |
| George Chien Yuan Hwei ⁽³⁾ | 208 | – | – | – | 208 |
| Independent Non-executive Directors | | | | | |
| The Hon Sir Sze-yuen Chung | 504 | – | – | – | 504 |
| Dr Norman Leung Nai Pang | 738 | – | – | – | 738 |
| Dr John Chan Cho Chak ⁽⁴⁾ | 756 | – | – | – | 756 ⁽¹⁾ |
| Dr Eric Li Ka Cheung | 648 | – | – | – | 648 ⁽¹⁾ |
| Siu Kwing-chue, Gordon | 420 | – | – | – | 420 |
| Professor Liu Pak-wai (Appointed on 1 September 2011) | 120 | – | – | – | 120 |
| | 7,652 | 8,494 | 795 | 685 | 17,626 |

7 DIRECTORS' REMUNERATION (continued)

| | 2010 | | | | |
|---|-----------------|---|-----------------------|---------------------------------|----------------------|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'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 ⁽⁴⁾ | 756 | – | – | – | 756 ⁽¹⁾ |
| Winnie Ng | 750 | – | – | – | 750 ⁽¹⁾ |
| John Anthony Miller | 450 | – | – | – | 450 ⁽¹⁾ |
| Yung Wing Chung | 178 | – | – | – | 178 ⁽²⁾ |
| George Chien Yuan Hwei ⁽³⁾ | 420 | – | – | – | 420 |
| 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 ⁽⁵⁾ | 159 | – | – | – | 159 |
| | 7,736 | 8,304 | 1,569 | 676 | 18,285 |

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) Mr George Chien Yuan Hwei resigned on 1 July 2011.

(4) Dr John Chan Cho Chak was redesignated as Independent Non-executive Director with effect from 4 January 2012.

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2010: two) 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:

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Fees | 810 | 673 |
| Salaries, allowances and benefits in kind | 13,617 | 14,089 |
| Discretionary bonuses | 1,147 | 2,655 |
| Retirement scheme contributions | 795 | 888 |
| | 16,369 | 18,305 |

The emoluments of the five (2010: five) individuals with the highest emoluments are within the following bands:

| | Number of individuals | |
|---------------------------|-----------------------|------|
| | 2011 | 2010 |
| \$2,000,001 – \$2,500,000 | 3 | 1 |
| \$2,500,001 – \$3,000,000 | – | 2 |
| \$4,000,001 – \$4,500,000 | 1 | 1 |
| \$5,000,001 – \$5,500,000 | 1 | – |
| \$5,500,001 – \$6,000,000 | – | 1 |

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of \$701,084,000 (2010: \$900,895,000) 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:

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Amount of consolidated profit attributable to equity shareholders of the Company dealt with in the Company's financial statements | 701,084 | 900,895 |
| Final dividend from subsidiary attributable to the profits of the previous financial year, approved and paid during the year | – | 50,631 |
| Company's profit for the year (note 31(a)) | 701,084 | 951,526 |

10 OTHER COMPREHENSIVE INCOME

| | 2011 | 2010 |
|---|---------|--------|
| | \$'000 | \$'000 |
| Available-for-sale debt securities: | | |
| Change in fair value recognised during the year | (1,023) | 8,222 |

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 \$242,351,000 (2010: \$866,886,000) and 403,639,413 shares in issue during the years ended 31 December 2011 and 2010. The calculation of basic earnings per share arising from sales of building and interest in leasehold land and Manhattan Hill properties and the Group's other operations is based on profits arising from the respective operations of \$72,869,000 (2010: \$471,952,000) and \$169,482,000 (2010: \$394,934,000) respectively and 403,639,413 shares in issue during the years ended 31 December 2011 and 2010.

(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

| | 2011 | | 2010 | |
|---|-------------|----------------|-------------|----------------|
| | Per share | Total | Per share | Total |
| | \$ | \$'000 | \$ | \$'000 |
| Interim dividend declared and paid | 0.15 | 60,546 | 0.30 | 121,092 |
| Ordinary final dividend proposed after the balance sheet date | 0.45 | 181,638 | 1.05 | 423,821 |
| | 0.60 | 242,184 | 1.35 | 544,913 |

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

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

| | 2011 | | 2010 | |
|---|-------------|----------------|-------------|----------------|
| | Per share | Total | Per share | Total |
| | \$ | \$'000 | \$ | \$'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 |
| | 1.05 | 423,821 | 2.05 | 827,460 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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.

(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 2011 and 2010 is set out below.

| | Franchised bus operation | | Media sales business | | Property development | | All other segments | | Total | |
|--|--------------------------|------------------|----------------------|-----------------|----------------------|-----------------|--------------------|------------------|------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue from external customers | 6,180,941 | 6,062,437 | 371,491 | 325,231 | 109,512 | 29,633 | 285,600 | 269,535 | 6,947,544 | 6,686,836 |
| Inter-segment revenue | 101,318 | 102,072 | – | – | – | – | 22,971 | 28,010 | 124,289 | 130,082 |
| Reportable segment revenue | 6,282,259 | 6,164,509 | 371,491 | 325,231 | 109,512 | 29,633 | 308,571 | 297,545 | 7,071,833 | 6,816,918 |
| Reportable segment profit/(loss) | 69,045 | 328,028 | (43,744) | (57,155) | 72,869 | (16,999) | 64,321 | 73,078 | 162,491 | 326,952 |
| Interest income | 2,952 | 1,044 | 9,815 | 12,024 | – | – | 142 | 284 | 12,909 | 13,352 |
| Interest expense | (8,630) | (5,993) | – | – | – | – | – | (625) | (8,630) | (6,618) |
| Depreciation and amortisation for the year | (835,740) | (859,399) | (9,699) | (6,498) | – | – | (38,052) | (33,351) | (883,491) | (899,248) |
| Write-back/(provision) of impairment losses on receivables | – | 731 | – | (318) | – | – | (104) | (345) | (104) | 68 |
| Impairment loss on other financial assets | – | – | (109,606) | (110,000) | – | – | – | – | (109,606) | (110,000) |
| Impairment loss on media assets | – | – | – | (171) | – | – | – | – | – | (171) |
| Staff costs | (2,916,398) | (2,886,038) | (60,047) | (54,454) | – | – | (90,224) | (91,445) | (3,066,669) | (3,031,937) |
| Share of profits of associates | – | – | – | – | – | – | 31,292 | 33,821 | 31,292 | 33,821 |
| Income tax (expense)/credit | (10,847) | (63,266) | (12,863) | (8,269) | (9,163) | 1,846 | (8,335) | (5,663) | (41,208) | (75,352) |
| Reportable segment assets | 5,430,052 | 5,113,638 | 766,074 | 806,756 | 36,653 | 64,610 | 1,163,533 | 1,087,663 | 7,396,312 | 7,072,667 |
| – including interest in associates | – | – | – | – | – | – | 668,136 | 640,263 | 668,136 | 640,263 |
| Additions to non-current segment assets during the year | 626,790 | 1,044,774 | 66,567 | 1,303 | – | – | 60,966 | 34,112 | 754,323 | 1,080,189 |
| Reportable segment liabilities | 2,654,887 | 2,415,519 | 124,344 | 71,088 | 154,944 | 176,156 | 56,536 | 49,373 | 2,990,711 | 2,712,136 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 SEGMENT REPORTING (continued)

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

| | 2011 | 2010 |
|---|-----------|-----------|
| | \$'000 | \$'000 |
| Revenue | | |
| Reportable segment revenue | 6,763,262 | 6,519,373 |
| Revenue from all other segments | 308,571 | 297,545 |
| Elimination of inter-segment revenue | (124,289) | (130,082) |
| Consolidated turnover | 6,947,544 | 6,686,836 |
| Profit | | |
| Reportable segment profit | 98,170 | 253,874 |
| Profit from all other segments | 64,321 | 73,078 |
| Gain on disposal of building and interest in leasehold land | – | 489,052 |
| Unallocated profits | 71,624 | 39,370 |
| Consolidated profit after taxation | 234,115 | 855,374 |
| Assets | | |
| Reportable segment assets | 6,232,779 | 5,985,004 |
| Assets from all other segments | 1,163,533 | 1,087,663 |
| Unallocated assets | 2,335,954 | 2,619,260 |
| Consolidated total assets | 9,732,266 | 9,691,927 |
| Liabilities | | |
| Reportable segment liabilities | 2,934,175 | 2,662,763 |
| Liabilities from all other segments | 56,536 | 49,373 |
| Unallocated liabilities | 39,218 | 37,574 |
| Consolidated total liabilities | 3,029,929 | 2,749,710 |

(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 interest 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 interest in associates.

| | Specified non-current assets | |
|-------------------------------|------------------------------|-----------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Hong Kong (place of domicile) | 4,218,166 | 4,354,299 |
| The PRC | 678,020 | 648,109 |
| | 4,896,186 | 5,002,408 |

14 FIXED ASSETS

(a) The Group

| | 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 |
|--|-----------|--------------------------------|--------------------------|------------------|------------|---------------------------------------|-----------------------|----------------------------|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'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 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 |
|--|-----------|--------------------------------|--------------------------|------------------|------------|---------------------------------------|-----------------------|----------------------------|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost: | | | | | | | | | |
| At 1 January 2011 | 1,408,025 | 9,196,907 | 492,536 | 2,903,727 | 14,001,195 | 7,256 | 154,597 | 115,513 | 14,278,561 |
| Additions | 14,660 | 37,227 | 388,829 | 334,071 | 774,787 | 6,505 | 1,363 | – | 782,655 |
| Disposals | – | (300,830) | – | (90,041) | (390,871) | – | – | – | (390,871) |
| Exchange adjustments | – | – | – | 40 | 40 | – | – | – | 40 |
| Transfers | (7,199) | 621,046 | (621,046) | – | (7,199) | – | 7,199 | – | – |
| At 31 December 2011 | 1,415,486 | 9,554,350 | 260,319 | 3,147,797 | 14,377,952 | 13,761 | 163,159 | 115,513 | 14,670,385 |
| Accumulated depreciation, amortisation and impairment losses: | | | | | | | | | |
| At 1 January 2011 | 889,351 | 6,641,961 | – | 2,446,251 | 9,977,563 | 2,020 | 30,830 | 42,075 | 10,052,488 |
| Charge for the year | 30,337 | 527,357 | – | 317,531 | 875,225 | – | 6,254 | 2,012 | 883,491 |
| Written back on disposal | – | (299,861) | – | (86,116) | (385,977) | – | – | – | (385,977) |
| Exchange adjustments | – | – | – | 33 | 33 | – | – | – | 33 |
| Transfers | (2,940) | – | – | – | (2,940) | – | 2,940 | – | – |
| At 31 December 2011 | 916,748 | 6,869,457 | – | 2,677,699 | 10,463,904 | 2,020 | 40,024 | 44,087 | 10,550,035 |
| Net book value: | | | | | | | | | |
| At 31 December 2011 | 498,738 | 2,684,893 | 260,319 | 470,098 | 3,914,048 | 11,741 | 123,135 | 71,426 | 4,120,350 |
| Add: Deposits paid in respect of buses on order | | | | | 207 | – | – | – | 207 |
| | | | | | 3,914,255 | 11,741 | 123,135 | 71,426 | 4,120,557 |

(b) The Company

| | Other fixed assets | |
|----------------------------------|--------------------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'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 | |
|---------------------------------------|----------------|---------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Medium-term leases | 450,396 | 462,614 |
| Short-term leases | 254,644 | 258,501 |
| | 705,040 | 721,115 |
| Representing: | | |
| Buildings | 498,738 | 518,674 |
| Interest in leasehold land | 71,426 | 73,438 |
| Investment properties | 123,135 | 123,767 |
| Investment property under development | 11,741 | 5,236 |
| | 705,040 | 721,115 |

- (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 \$1,065,910,000 and \$1,065,000,000 respectively as at 31 December 2011 (2010: \$790,900,000 and \$775,000,000 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 locations and categories of properties being valued. The valuations were performed on an open market value basis. As at 31 December 2011, the investment property under development recognised in the fixed assets of \$11,741,000 (2010: \$5,236,000) 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 2011. 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 | |
|---------------------------------|---------------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Within 1 year | 17,233 | 13,315 |
| After 1 year but within 5 years | 16,174 | 5,236 |
| | 33,407 | 18,551 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INTANGIBLE ASSETS

Passenger service licences and transport operating rights

| | The Group | |
|---------------------------------|-----------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Cost and net book value: | | |
| At 1 January | 22,536 | 21,536 |
| Additions | 21,642 | 1,000 |
| At 31 December | 44,178 | 22,536 |

For those passenger service licences and transport operating rights of the Group that are regarded to have indefinite useful lives, there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

Intangible assets that are regarded to have indefinite useful lives 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 | |
|---------------------------------------|-----------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Cost: | | |
| At 1 January and 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").

16 GOODWILL (continued)

Impairment tests for cash-generating units containing goodwill and intangible assets with indefinite useful lives (continued)

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:

| | 2011 | 2010 |
|---------------|------|------|
| | % | % |
| Growth rate | 3.0 | 3.0 |
| Discount rate | 7.8 | 8.1 |

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 | |
|--|-----------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Cost: | | |
| At 1 January | 2,053 | 2,030 |
| Exchange adjustments | – | 23 |
| Disposals | (2,053) | – |
| At 31 December | – | 2,053 |
| Accumulated amortisation and impairment losses: | | |
| At 1 January | 2,053 | 1,658 |
| Amortisation for the year | – | 205 |
| Exchange adjustments | – | 19 |
| Impairment loss | – | 171 |
| Written back on disposal | (2,053) | – |
| At 31 December | – | 2,053 |
| Net book value: | | |
| At 31 December | – | – |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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. The amounts are neither past due nor impaired.

19 INTEREST IN SUBSIDIARIES

(a) Investments in subsidiaries

| | The Company | |
|--------------------------|-------------|-----------|
| | 2011 | 2010 |
| | \$'000 | \$'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. The amounts due from subsidiaries are neither past due nor impaired.

(c) Particulars of principal subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of company | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Percentage of ownership interest | | | Principal activity |
|--|--|---|----------------------------------|---------------------|----------------------|--|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| KMB Resources Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | 100 | – | Investment holding |
| The Kowloon Motor Bus Company (1933) Limited | Hong Kong | 403,639,413 shares of \$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 \$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 \$1 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong |

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 | | | Principal activity |
|---|--|---|----------------------------------|---------------------|----------------------|---|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| Chomang Travel Transport Company Limited | Hong Kong | 10,000 shares of \$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 \$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 \$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 \$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 \$100 each | 100 | – | 100 | Provision of non-franchised bus services |
| 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 \$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 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 | | | Principal activity |
|----------------------------------|--|---|----------------------------------|---------------------|----------------------|--|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| 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 \$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 \$0.1 each | 73 | – | 73 | Investment holding |
| RoadShow Creations Limited | Hong Kong | 2 shares of \$1 each | 73 | – | 100 | Trading of bus souvenirs |
| RoadShow Media Limited | Hong Kong | 2 shares of \$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 |
| RoadShow Productions Limited | Hong Kong | 2 shares of \$1 each | 73 | – | 100 | Production of content for Multi-media On-board systems |
| Bus Power Limited | Hong Kong | 1 share of \$1 | 73 | – | 100 | Provision of media sales services for advertising on transit vehicle exteriors |

The market value of the Group's interest in a listed subsidiary, RoadShow Holdings Limited, at 31 December 2011 amounted to \$444,157,000 (2010: \$473,282,000).

20 INTEREST IN ASSOCIATES

| | The Group | |
|------------------------------|----------------|----------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Share of net assets | 579,296 | 581,364 |
| Goodwill | 66,657 | 63,821 |
| Amount due from an associate | 27,105 | – |
| Amount due to an associate | (4,922) | (4,922) |
| | 668,136 | 640,263 |

Amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of settlement/repayment. The amount due from an associate is neither past due nor impaired.

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

| Name of associate | Form of business structure | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Percentage of ownership interest | | | Principal activity |
|--|----------------------------------|---|---|----------------------------------|---------------------|----------------------|--|
| | | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| 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 \$'000 | Liabilities \$'000 | Equity \$'000 | Revenue \$'000 | Net profit \$'000 |
|----------------------------|------------------|-----------------------|------------------|-------------------|----------------------|
| 2011 | | | | | |
| 100 per cent | 4,785,305 | (3,095,624) | 1,689,681 | 2,643,273 | 90,122 |
| Group's effective interest | 1,656,443 | (1,077,147) | 579,296 | 910,964 | 31,292 |
| 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 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 OTHER FINANCIAL ASSETS

| | The Group | |
|--|----------------|---------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Instalments receivable from sales of properties | 2,437 | 3,019 |
| Unlisted equity securities, at cost | 15,355 | 38,925 |
| Loans to investee | – | 97,218 |
| Amount due from investee | – | 15,882 |
| Available-for-sale debt securities | | |
| – listed outside Hong Kong | 431,944 | 442,717 |
| – unlisted | 37,761 | 38,501 |
| | 487,497 | 636,262 |
| Less: unlisted available-for-sale debt securities classified as current assets | (15,032) | – |
| Other financial assets classified as non-current assets | 472,465 | 636,262 |

- (a) 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.
- (b) During the year ended 31 December 2011, RoadShow and its subsidiaries (“RoadShow Group”) requested AdSociety Daye Advertising Company Limited (the “investee”) to repay the loans totalling \$70,154,000 due upon expiry. However, the investee had defaulted on the agreed repayment schedule. In addition, the RoadShow Group has undertaken various discussions with the investee to restructure the investment in and loans to the investee. Up to the date of these financial statements, the RoadShow Group has not been able to obtain a viable proposal from the investee. The RoadShow Group has engaged PRC lawyers and issued legal letter to the investee to demand settlement. Up to the date of these financial statements, no settlement has been made and the loans are overdue.

The default of loan repayment has instigated re-assessment of the recoverable amount of the unlisted available-for-sale equity interest in and the outstanding amounts due from the investee totalling \$109,606,000. Based on the latest information available to the RoadShow Group, it is considered that the prospect of any significant recovery of the investment and outstanding amounts is highly uncertain. Accordingly, additional impairment losses of \$109,606,000 have been made against the RoadShow Group’s investment in, loans to and amount due from the investee resulting in full impairment losses made on such assets as at 31 December 2011.

The remaining unlisted equity securities of \$15,355,000 relate to another investment of the Group for which no impairment loss is considered necessary.

- (c) Debt securities are issued by corporate entities with credit rating ranging from BBB+ to AAA. As at 31 December 2011 and 2010, the Group’s available-for-sale debt securities were neither past due nor impaired. Debt securities that will mature within one year are classified as current assets.

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 2011 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 108% (2010: 147%) covered by the plan assets held by the trustee.

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

| | The Group | |
|---|----------------|----------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Present value of funded obligations | (3,124,902) | (2,700,389) |
| Fair value of plan assets | 3,388,105 | 3,973,271 |
| Net unrecognised actuarial losses/(gains) | 537,453 | (482,899) |
| | 800,656 | 789,983 |

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 2012 is Nil.

(b) **Plan assets consist of the following:**

| | The Group | |
|-------------------|------------------|------------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Equity securities | 2,452,502 | 2,955,833 |
| Bonds | 776,605 | 894,688 |
| Cash and others | 158,998 | 122,750 |
| | 3,388,105 | 3,973,271 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 EMPLOYEE RETIREMENT BENEFITS (continued)

(c) Movements in the present value of the defined benefit obligations:

| | The Group | |
|----------------------------|------------------|------------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| At 1 January | 2,700,389 | 2,886,274 |
| Benefits paid by the plans | (191,409) | (199,878) |
| Current service cost | 122,599 | 135,474 |
| Interest cost | 80,089 | 74,139 |
| Actuarial losses/(gains) | 413,234 | (195,620) |
| At 31 December | 3,124,902 | 2,700,389 |

(d) Movements in plan assets:

| | The Group | |
|--|------------------|------------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| At 1 January | 3,973,271 | 3,816,704 |
| Benefits paid by the plans | (191,409) | (199,878) |
| Actuarial expected return on plan assets | 273,384 | 283,647 |
| Actuarial (losses)/gains | (593,141) | 72,798 |
| Refund of scheme surplus | (74,000) | – |
| At 31 December | 3,388,105 | 3,973,271 |

(e) Net income recognised in the consolidated income statement is as follows:

| | The Group | |
|--|-----------------|-----------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Current service cost | 122,599 | 135,474 |
| Interest cost | 80,089 | 74,139 |
| Actuarial expected return on plan assets | (273,384) | (283,647) |
| Net actuarial (gains)/losses recognised | (13,977) | 44 |
| | (84,673) | (73,990) |

The above net income is included in other net income in the consolidated income statement. The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions received and benefits paid) was net loss of \$319,757,000 (2010: net gain of \$356,445,000).

22 EMPLOYEE RETIREMENT BENEFITS (continued)

(f) The principal actuarial assumptions used at the respective year-ends are as follows:

| | The Group | |
|--|-----------|------|
| | 2011 | 2010 |
| | % | % |
| Discount rate | 1.5 | 3.0 |
| Expected rate of return on plan assets | 7.0 | 7.0 |
| 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 | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Fair value of plan assets | 3,388,105 | 3,973,271 | 3,816,704 | 3,110,517 | 4,782,207 |
| Present value of the defined benefit obligations | (3,124,902) | (2,700,389) | (2,886,274) | (3,443,631) | (2,755,991) |
| Surplus/(deficit) in the plans | 263,203 | 1,272,882 | 930,430 | (333,114) | 2,026,216 |
| Experience gains/(losses) arising on plan liabilities | 18,413 | 85,373 | 125,284 | (47,681) | 84,445 |
| Experience (losses)/gains arising on plan assets | (593,141) | 72,798 | 644,339 | (1,846,847) | 866,572 |

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 was valid and effective for a period of ten years and expired on 6 June 2011.

No option was granted during the year and there were no outstanding options at 31 December 2011 and 2010.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 ACCOUNTS RECEIVABLE

| | The Group | |
|---|----------------|----------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Trade and other receivables | 330,649 | 242,408 |
| Instalments receivable from sales of properties | 1,003 | 409 |
| Interest receivable | 16,896 | 14,156 |
| Less: Allowance for doubtful debts (note 24(b)) | (104) | (345) |
| | 348,444 | 256,628 |

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 sales of properties (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

| | The Group | |
|-----------------------------|----------------|----------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Current | 105,951 | 97,294 |
| 1 to 3 months past due | 50,888 | 18,427 |
| More than 3 months past due | 8,037 | 7,934 |
| | 164,876 | 123,655 |

The Group's credit policy is set out in note 34(a) to the financial statements.

(b) Impairment of trade and other receivables and instalments receivable from sales of properties

Impairment losses in respect of trade and other receivables and instalments receivable from sales 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 sales of properties directly (see note 1(m)(i)).

24 ACCOUNTS RECEIVABLE (continued)**(b) Impairment of trade and other receivables and instalments receivable from sales of properties**
(continued)

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group | |
|-----------------------------------|-----------|---------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| At 1 January | 345 | 4,529 |
| Impairment loss recognised | 104 | 663 |
| Write-back of impairment loss | – | (731) |
| Uncollectible amounts written off | (345) | (4,116) |
| At 31 December | 104 | 345 |

At 31 December 2011, the Group's trade and other receivables of \$206,000 (2010: \$814,000) 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. Consequently, specific allowances for doubtful debts of \$104,000 (2010: \$345,000) were recognised as at 31 December 2011.

(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 | |
|-------------------------------|-----------|---------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Neither past due nor impaired | 289,519 | 230,267 |
| 1 to 3 months past due | 50,888 | 18,427 |
| More than 3 months past due | 7,935 | 7,465 |
| | 58,823 | 25,892 |
| | 348,342 | 256,159 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 ACCOUNTS RECEIVABLE (continued)

(c) Accounts receivable that is not impaired (continued)

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 | |
|---|-------------|-------------|-------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash at bank and in hand | 301,141 | 185,208 | 38,368 | 31,590 |
| Bank deposits | 2,672,920 | 2,615,489 | – | – |
| | 2,974,061 | 2,800,697 | 38,368 | 31,590 |
| Less: Pledged and restricted bank deposits (note) | (45,455) | (73,921) | – | – |
| Cash and cash equivalents in the balance sheets | 2,928,606 | 2,726,776 | 38,368 | 31,590 |
| Less: Bank deposits with original maturities of over three months | (1,239,038) | (2,084,485) | | |
| Bank overdrafts | (40) | (229) | | |
| Cash and cash equivalents in the consolidated cash flow statement | 1,689,528 | 642,062 | | |

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 in favour of the subsidiaries of the Group regarding their due performance and payment under the respective licence agreements. The Group has pledged bank deposits of \$41,200,000 (2010: \$41,200,000) to banks for the bank guarantees issued.

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 2011, the related restricted bank deposits amounted to \$4,255,000 (2010: \$32,721,000).

25 CASH AND CASH EQUIVALENTS (continued)**(b) Reconciliation of profit before taxation to cash generated from operations:**

| | 2011 | 2010 |
|---|------------------|-----------|
| | \$'000 | \$'000 |
| Profit before taxation | 275,368 | 930,726 |
| Adjustments for: | | |
| – dividend income from unlisted equity securities | (31,000) | (16,145) |
| – interest income | (46,810) | (36,594) |
| – finance costs | 8,630 | 6,618 |
| – impairment loss on other financial assets | 109,606 | 110,000 |
| – depreciation and amortisation | 883,491 | 899,248 |
| – impairment loss on media assets | – | 171 |
| – net gain on disposal of fixed assets | (3,636) | (492,397) |
| – loss on disposal of subsidiaries | 468 | – |
| – share of profits of associates | (31,292) | (33,821) |
| Effect of foreign exchange rate | (6,904) | (3,495) |
| Operating profit before changes in working capital | 1,157,921 | 1,364,311 |
| Decrease/(increase) in non-current prepayments | 9,580 | (25,106) |
| Increase in employee benefit assets | (10,673) | (73,990) |
| Decrease in spare parts and stores | 2,612 | 10,344 |
| Increase in trade and other receivables | (88,823) | (10,433) |
| (Increase)/decrease in instalments receivable from sale of properties | (12) | 149,410 |
| Decrease in deposits and prepayments | 2,229 | 7,505 |
| Decrease/(increase) in completed property held for sale | 25,543 | (3,163) |
| Increase/(decrease) in accounts payable and accruals | 16,700 | (5,360) |
| Increase in third party claims payable | 5,175 | 3,580 |
| Increase/(decrease) in contingency provision – insurance | 9,280 | (4,772) |
| Increase/(decrease) in provision for long service payments | 7,369 | (4,395) |
| Cash generated from operations | 1,136,901 | 1,407,931 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

26 BANK LOANS AND OVERDRAFTS

At 31 December 2011, the bank loans and overdrafts were repayable as follows:

| | The Group | |
|----------------------------------|-----------|---------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Within 1 year or on demand | 70,040 | 197,592 |
| After 1 year but within 2 years | 200,000 | 69,916 |
| After 2 years but within 5 years | 597,901 | 400,000 |
| | 797,901 | 469,916 |
| | 867,941 | 667,508 |

27 ACCOUNTS PAYABLE AND ACCRUALS

| | The Group | | The Company | |
|--|-----------|-----------|-------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade payables | 220,642 | 237,737 | – | – |
| Balance of passenger rewards (see note 4) | 3,695 | 31,572 | – | – |
| Other payables and accruals | 842,539 | 839,735 | 41,182 | 41,615 |
| Financial liabilities measured at amortised cost | 1,066,876 | 1,109,044 | 41,182 | 41,615 |
| Financial guarantees issued | – | – | 118 | 473 |
| | 1,066,876 | 1,109,044 | 41,300 | 42,088 |

No financial guarantees issued (2010: \$151,000) by the Company are expected to be recognised as income after more than one year. All other accounts payable and accruals at 31 December 2011 and 2010 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 | |
|---------------------------------------|-----------|---------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Due within 1 month or on demand | 197,655 | 202,101 |
| Due after 1 month but within 3 months | 17,219 | 33,120 |
| Due after more than 3 months | 5,768 | 2,516 |
| | 220,642 | 237,737 |

28 CONTINGENCY PROVISION – INSURANCE

| | The Group | |
|--|-----------|----------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| At 1 January | 431,417 | 432,609 |
| Provision charged to the consolidated income statement | 50,976 | 39,466 |
| Payments made during the year | (36,521) | (40,658) |
| At 31 December | 445,872 | 431,417 |
| Representing: | | |
| Current portion | 136,297 | 131,122 |
| Non-current portion | 309,575 | 300,295 |
| | 445,872 | 431,417 |

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 | |
|--|-----------|----------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Provision for Hong Kong Profits Tax for the year | 33,991 | 71,902 |
| Provisional Profits Tax paid | (13,209) | (75,473) |
| | 20,782 | (3,571) |
| Balance of Profits Tax recoverable relating to prior years | (127,258) | (70) |
| | (106,476) | (3,641) |
| PRC Income Tax payable | 260 | 260 |
| | (106,216) | (3,381) |
| Representing: | | |
| Current taxation recoverable | (110,757) | (15,781) |
| Current taxation payable | 4,541 | 12,400 |
| | (106,216) | (3,381) |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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:

| Deferred tax arising from: | The Group | | | | | Total \$'000 |
|---|---|----------------------|----------------------|----------------------------------|------------------|-----------------|
| | Depreciation allowances in excess of the related depreciation \$'000 | Provisions \$'000 | Tax losses \$'000 | Defined benefit assets \$'000 | Others \$'000 | |
| 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 |
| At 1 January 2011 | 516,985 | (41,671) | (27,138) | 41,827 | 3,398 | 493,401 |
| Charged/(credited) to the consolidated income statement | 29,907 | (3,719) | (4,719) | 90,282 | (1,243) | 110,508 |
| At 31 December 2011 | 546,892 | (45,390) | (31,857) | 132,109 | 2,155 | 603,909 |

| | The Group | |
|--|----------------|----------------|
| | 2011 \$'000 | 2010 \$'000 |
| Amounts recognised in the consolidated balance sheet: | | |
| Net deferred tax assets | (3,536) | (6,055) |
| Net deferred tax liabilities | 607,445 | 499,456 |
| | 603,909 | 493,401 |

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of \$30,357,000 (2010: \$29,385,000) in respect of tax losses of \$183,826,000 (2010: \$177,007,000) 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 \$308,000 (2010: \$2,107,000) 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 | |
|--|-----------|---------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| At 1 January | 29,885 | 34,280 |
| Provision charged to the consolidated income statement (note 5(a)) | 14,994 | 5,593 |
| Payments made during the year | (7,625) | (9,988) |
| At 31 December | 37,254 | 29,885 |

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:

| | Share capital | Contributed surplus | Retained profits | Total equity |
|---|---------------|---------------------|------------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 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 (note 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 (note 12(a)) | – | – | (121,092) | (121,092) |
| At 31 December 2010 | 403,639 | 1,300,000 | 7,053 | 1,710,692 |
| At 1 January 2011 | 403,639 | 1,300,000 | 7,053 | 1,710,692 |
| Changes in equity for 2011: | | | | |
| Dividend approved in respect of the previous year (note 12(b)) | – | – | (423,821) | (423,821) |
| Profit and total comprehensive income for the year | – | – | 701,084 | 701,084 |
| Dividend approved in respect of the current year (note 12(a)) | – | – | (60,546) | (60,546) |
| At 31 December 2011 | 403,639 | 1,300,000 | 223,770 | 1,927,409 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

The Company's reserves available for distribution to shareholders at 31 December 2011 amounted to \$1,523,770,000 (2010: \$1,307,053,000). After the balance sheet date, the Directors proposed an ordinary final dividend of \$0.45 per share (2010: \$1.05 per share), amounting to \$181,638,000 (2010: \$423,821,000). The ordinary final dividend proposed has not been recognised as liability at the balance sheet date.

(b) Share capital

Authorised and issued share capital

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Authorised: | | |
| 600,000,000 ordinary shares of \$1 each | 600,000 | 600,000 |
| Issued and fully paid: | | |
| 403,639,413 ordinary shares of \$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) 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 2011 and 2010 were as follows:

| | The Group | | The Company | |
|---|-----------|-----------|-------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash and cash equivalents (note 25(a)) | 2,928,606 | 2,726,776 | 38,368 | 31,590 |
| Pledged and restricted bank deposits (note 25(a)) | 45,455 | 73,921 | – | – |
| Less: Bank loans and overdrafts (note 26) | (867,941) | (667,508) | – | – |
| Net cash | 2,106,120 | 2,133,189 | 38,368 | 31,590 |
| Total equity | 6,702,337 | 6,942,217 | 1,927,409 | 1,710,692 |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirement.

32 COMMITMENTS

- (a) At 31 December 2011, 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 | |
|-----------------------------------|-----------|---------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Contracted for | 120,045 | 530,314 |
| Authorised but not contracted for | 229,254 | 111,006 |
| | 349,299 | 641,320 |

At 31 December 2011, the Group's share of capital commitments of the jointly controlled investment property under development not provided for in the financial statements is as follows:

| | The Group | |
|-----------------------------------|-----------|-----------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Contracted for | 23,308 | 11,200 |
| Authorised but not contracted for | 1,767,976 | 1,785,900 |
| | 1,791,284 | 1,797,100 |

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

32 COMMITMENTS (continued)

- (b) At 31 December 2011, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

| | The Group | |
|---------------------------------|-----------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Within 1 year | 6,044 | 2,326 |
| After 1 year but within 5 years | 14,668 | 1,523 |
| | 20,712 | 3,849 |

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 | |
|---------------------------------|-----------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Within 1 year | 16,696 | 29,713 |
| After 1 year but within 5 years | – | 16,696 |
| | 16,696 | 46,409 |

33 CONTINGENT LIABILITIES

Financial guarantee issued

At 31 December 2011, the Company has undertaken to guarantee a banking facility granted to a subsidiary to the extent of \$140,000,000 (2010: \$140,000,000).

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 \$70,000,000 (2010: \$70,000,000).

Deferred income in respect of the guarantee issued is disclosed in note 27 to the financial statements.

34 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'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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

34 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

| | 2011 | | | | | 2010 | | | | |
|-------------------------------|------------------------------------|--|---|-----------|-------------------------------|------------------------------------|--|---|-----------|-------------------------------|
| | Contractual undiscounted cash flow | | | | Balance sheet carrying amount | Contractual undiscounted cash flow | | | | 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 | | 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 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Bank loans | 79,206 | 207,628 | 609,429 | 896,263 | 867,901 | 205,120 | 74,575 | 403,592 | 683,287 | 667,279 |
| Bank overdrafts | 40 | – | – | 40 | 40 | 229 | – | – | 229 | 229 |
| Accounts payable and accruals | 1,066,876 | – | – | 1,066,876 | 1,066,876 | 1,109,044 | – | – | 1,109,044 | 1,109,044 |
| | 1,146,122 | 207,628 | 609,429 | 1,963,179 | 1,934,817 | 1,314,393 | 74,575 | 403,592 | 1,792,560 | 1,776,552 |

The Company

| | 2011 | | | | | 2010 | | | | |
|-------------------------------------|------------------------------------|--|---|-----------|-------------------------------|------------------------------------|--|---|-----------|-------------------------------|
| | Contractual undiscounted cash flow | | | | Balance sheet carrying amount | Contractual undiscounted cash flow | | | | 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 | | 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 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Amounts due to subsidiaries | 7,437,109 | – | – | 7,437,109 | 7,437,109 | 7,357,759 | – | – | 7,357,759 | 7,357,759 |
| Other payables and accruals | 41,182 | – | – | 41,182 | 41,182 | 41,615 | – | – | 41,615 | 41,615 |
| | 7,478,291 | – | – | 7,478,291 | 7,478,291 | 7,399,374 | – | – | 7,399,374 | 7,399,374 |
| Financial guarantee issued: | | | | | | | | | | |
| Maximum amount guaranteed (note 33) | 70,000 | – | – | 70,000 | 118 | 70,000 | – | – | 70,000 | 473 |

34 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 2011 and 2010, all the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. The Group regularly reviews its strategy on interest rate risk management in the light of the prevailing market 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 | | | |
|--|---|------------------|---|------------------|
| | 2011 | | 2010 | |
| | Effective interest rate p.a. % | Amount \$'000 | Effective interest rate p.a. % | Amount \$'000 |
| Fixed rate assets: | | | | |
| Bank deposits | 1.9 | 2,672,920 | 0.7 | 2,615,489 |
| Loans to investee | – | – | 5.3 | 97,218 |
| Available-for-sale debt securities | 3.7 | 469,705 | 3.7 | 481,218 |
| | | <u>3,142,625</u> | | <u>3,193,925</u> |
| Variable rate assets/(liabilities): | | | | |
| Cash at bank | 0.1 | 45,198 | 0.1 | 75,898 |
| Instalments receivable | 5.0 | 2,616 | 5.0 | 3,428 |
| Bank overdrafts | 5.0 | (40) | 5.0 | (229) |
| Bank loans | 1.1 | (867,901) | 0.9 | (667,279) |
| | | <u>(820,127)</u> | | <u>(588,182)</u> |

(ii) Sensitivity analysis

At 31 December 2011, 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 \$6,773,000 (2010: \$4,786,000). Other components of consolidated equity would have decreased/increased by approximately \$9,455,000 (2010: \$13,662,000) 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 2010.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

34 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, investments in debt securities and deposits placed at banks 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, United States dollars and Renminbi.

The Group hedges approximately 35% (2010: 56%) of its estimated foreign currency exposure in respect of highly probable forecast purchases. During the years ended 31 December 2011 and 2010, the Group used forward foreign exchange contracts to hedge its currency risk and classified these as cash flow hedges.

At 31 December 2011 and 2010, the Group had no forward foreign exchange contracts outstanding.

(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 dollars, 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) | | | | | |
|------------------------------------|---|---|---------------------------------------|--------------------|---|---------------------------------------|
| | 2011 | | | 2010 | | |
| | Renminbi \$'000 | British Pounds Sterling \$'000 | United States dollars \$'000 | Renminbi \$'000 | British Pounds Sterling \$'000 | United States dollars \$'000 |
| Cash and cash equivalents | 32,731 | 623 | 200,748 | 4,112 | 20,963 | 194,191 |
| Accounts payable and accruals | – | (38,067) | (2,487) | – | (52,516) | (3,168) |
| Available-for-sale debt securities | – | – | 431,944 | – | – | 442,717 |
| Amount due from associate | 27,105 | – | – | – | – | – |
| Amount due from investee | – | – | – | – | – | 15,882 |
| Loans to investee | – | – | – | 27,064 | – | 70,154 |
| Overall net exposure | 59,836 | (37,444) | 630,205 | 31,176 | (31,553) | 719,776 |

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 RMB123,730,000 as at 31 December 2011, equivalent to \$152,361,000 (2010: RMB123,734,000, equivalent to \$145,882,000).

34 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 dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies.

The Group

| | 2011 | | | 2010 | | |
|-------------------------|--|--|--|--|--|--|
| | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits (increase/ (decrease)) \$'000 | Effect on other components of equity (increase/ (decrease)) \$'000 | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits (increase/ (decrease)) \$'000 | Effect on other components of equity (increase/ (decrease)) \$'000 |
| Renminbi | 4% | 9,348 | – | 3% | 5,319 | – |
| | (4%) | (9,348) | – | (3%) | (5,319) | – |
| British Pounds Sterling | 4% | (1,247) | – | 4% | (916) | – |
| | (4%) | 1,247 | – | (4%) | 916 | – |
| United States dollars | 1% | 1,987 | 4,319 | 1% | 2,776 | 4,427 |
| | (1%) | (1,987) | (4,319) | (1%) | (2,776) | (4,427) |

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 2010.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) 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 2011 and 2010.

(f) 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

2011

| | The Group | | |
|------------------------------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Total \$'000 |
| Assets | | | |
| Available-for-sale debt securities | | | |
| – Listed | 431,944 | – | 431,944 |
| – Unlisted | – | 37,761 | 37,761 |
| | 431,944 | 37,761 | 469,705 |

2010

| | The Group | | |
|------------------------------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Total \$'000 |
| Assets | | | |
| Available-for-sale debt securities | | | |
| – Listed | 442,717 | – | 442,717 |
| – Unlisted | – | 38,501 | 38,501 |
| | 442,717 | 38,501 | 481,218 |

During the year there were no transfers between instruments in Level 1 and Level 2.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) 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 2011 and 2010 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 \$15,355,000 (2010: \$38,925,000) 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.

(g) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

35 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 | 2011 \$'000 | 2010 \$'000 |
|--|--------|----------------|----------------|
| Service fees for provision of coach services | (i) | 42,379 | 36,612 |
| Insurance premium paid | (ii) | 71,134 | 67,869 |
| Amount paid and accrued for management contractor services for property under development | (iii) | – | – |
| Amount recoverable for letting and sales agency agreement | (iv) | – | (127) |
| Amount paid and accrued for management agreement | (v) | 4,472 | 4,659 |
| Amount paid and accrued for property project management services | (vi) | – | – |
| Amount paid and accrued for management contractor services for investment property under development | (vii) | – | – |
| Interest income received and receivable from unsecured fixed rate notes | (viii) | 396 | 396 |
| Gain on disposal of building and interest in leasehold land | (ix) | – | 489,052 |
| Amount paid and accrued for project management service and lease modification | (x) | 2,000 | 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 2011 amounted to \$10,740,000 (2010: \$10,067,000).

(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 "2011 Insurance Arrangements"). The amount paid and payable under the 2011 Insurance Arrangements amounted to \$71,134,000 (2010: \$67,869,000). Outstanding balance due to SHKPI at 31 December 2011 amounted to \$10,000 (2010: \$25,000).

(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. ("CFCCCL"), a subsidiary of SHKP, for the provision of management contractor services relating to the property under development of the Group ("Manhattan Hill"). In 2004, a supplementary agreement to the Prime Cost Contract ("the Supplementary Agreement") was entered into between LCKPI and CFCCCL for the purposes of upgrading the design, materials and quality of the workmanship of Manhattan Hill. Pursuant to the Prime Cost Contract, as supplemented by the Supplementary Agreement, the aggregate consideration payable to CFCCCL should not exceed \$1,617,743,000. Outstanding balance payable for this contract at 31 December 2011 amounted to \$95,805,000 (2010: \$101,845,000).

(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 \$65,000,000. Outstanding balance payable for this contract at 31 December 2011 amounted to \$2,676,000 (2010: \$3,605,000).

(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. Outstanding balance payable for this contract at 31 December 2011 amounted to \$330,000 (2010: Nil).

35 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related companies (continued)

Notes: (continued)

- (vi) In 1999, 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 \$15,000,000, or the lower of 1% of the project costs and \$20,000,000, whichever is higher. Management service fees payable for this contract at 31 December 2011 amounted to \$3,800,000 (2010: \$3,800,000).
- (vii) 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 CFCL 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 CFCL should not exceed \$37,400,000. Outstanding balance payable for this contract at 31 December 2011 amounted to \$2,419,000 (2010: \$4,229,000).
- (viii) 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 \$15,000,000 from a bank in an open secondary market, at a cost of \$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 2011, the Fixed Rate Notes held by KMBFS were carried at a fair value of \$15,032,000 (2010: \$15,282,000) and there was no material outstanding interest receivable in current and prior years.
- (ix) 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 \$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 \$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 2011 has been disclosed in note 32(a) to the consolidated financial statements.

- (x) 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) \$20,000,000; and (2) the lower of (a) 1% of the project cost and (b) \$25,000,000.

The amount payable for lease modification services shall be in the sum of the lower of (1) \$3.2 for each square foot of the permitted maximum gross floor area as approved under the lease modification and (2) \$3,840,000.

Outstanding balance payable for this contract as at 31 December 2011 amounted to \$2,000,000 (2010: Nil).

(b) Key management personnel remuneration

Remuneration for key management personnel represents amounts paid to the Company's Directors as disclosed in note 7.

36 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 16, 22(f) and 34(g) 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.

(e) Recognition of deferred tax assets

At 31 December 2011, 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.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|--|--|
| Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets | 1 July 2011 |
| Amendments to HKAS 12, Income taxes – Deferred tax: Recovery of underlying assets | 1 January 2012 |
| Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income | 1 July 2012 |
| HKFRS 10, Consolidated financial statements | 1 January 2013 |
| HKFRS 11, Joint arrangements | 1 January 2013 |
| HKFRS 12, Disclosure of interests in other entities | 1 January 2013 |
| HKFRS 13, Fair value measurement | 1 January 2013 |
| HKAS 27, Separate financial statements (2011) | 1 January 2013 |
| HKAS 28, Investments in associates and joint ventures | 1 January 2013 |
| Revised HKAS 19, Employee benefits | 1 January 2013 |
| HKFRS 9, Financial instruments | 1 January 2015 |

The Group is in the process of making an assessment of what the impact of these amendments and interpretations and new standards is expected to be in the period of initial application. So far it has concluded that the above developments are relevant to the Group's financial statements but the adoption of them, except Revised HKAS 19, is unlikely to have a material impact on the Group's results of operations and financial position.

Revised HKAS 19 is effective for annual periods beginning on or after 1 January 2013, with earlier adoption permitted.

Changes in accounting policies arising from the adoption of Revised HKAS 19 are expected to include the following:

- Actuarial gains and losses will be recognised immediately in other comprehensive income. Currently only the portion of cumulative unrecognised actuarial gain or loss at the end of the previous reporting period exceeding ten percent of the greater of the present value of the defined benefit obligation at that date (before deducting plan assets) and the fair value of any plan assets at that date is recognised over the expected average remaining working lives of the employees, and that amount is recognised in the income statement.
- Expected return on plan assets recognised in the income statement will be calculated based on the rate used to discount the defined benefit obligation. Currently, this is recognised based on the Group's expected long-term rate of return on plan assets.

In addition, Revised HKAS 19 introduces additional disclosures for defined benefit plans.

The adoption of the revised standard may have a significant impact on amounts reported in respect of the Group's net assets and financial results. However, it is not practicable to provide a reasonable estimate of the impact until a detailed review has been completed.

Financial Summary

for the year ended 31 December
(Expressed in Hong Kong dollars)

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|
| | \$'M | \$'M | \$'M | \$'M | \$'M | \$'M | \$'M | \$'M | \$'M | \$'M |
| Income statement | | | | | | | | | | |
| Turnover | 6,948 | 6,687 | 6,842 | 7,353 | 12,013 | 8,705 | 6,456 | 6,544 | 6,540 | 6,843 |
| Profit before taxation | 275 | 931 | 800 | 694 | 4,074 | 2,002 | 691 | 913 | 857 | 1,142 |
| Income tax | (41) | (75) | (118) | (18) | (206) | (133) | (96) | (169) | (259) | (175) |
| Profit after taxation | 234 | 856 | 682 | 676 | 3,868 | 1,869 | 595 | 744 | 598 | 967 |
| Non-controlling interests | 8 | 11 | (9) | (18) | (21) | (31) | (11) | (13) | (1) | (28) |
| Profit attributable to equity shareholders of the Company | 242 | 867 | 673 | 658 | 3,847 | 1,838 | 584 | 731 | 597 | 939 |
| Balance sheet | | | | | | | | | | |
| Fixed assets | 4,121 | 4,276 | 4,100 | 4,466 | 4,981 | 5,463 | 5,720 | 6,119 | 6,491 | 6,497 |
| Intangible assets | 44 | 23 | 22 | 15 | 14 | 8 | – | – | – | – |
| Goodwill | 63 | 63 | 63 | 63 | 52 | 49 | 33 | 30 | 50 | 53 |
| Media assets | – | – | – | 1 | 1 | 1 | 96 | 115 | 61 | – |
| Non-current prepayments | 2 | 44 | 19 | 29 | 38 | 48 | 63 | 470 | 105 | 101 |
| Interest in associates | 668 | 640 | 612 | 834 | 911 | 834 | 776 | 330 | 162 | 61 |
| Interest in jointly controlled entities | – | – | – | 20 | 23 | 23 | 16 | 5 | 1 | 2 |
| Other financial assets | 472 | 636 | 334 | 136 | 138 | 46 | 34 | 15 | 15 | 15 |
| Employee benefit assets | 801 | 790 | 716 | 755 | 602 | 537 | 485 | 414 | 339 | 278 |
| Net current assets | 2,280 | 1,763 | 2,455 | 2,083 | 3,224 | 1,426 | 184 | 253 | 548 | 465 |
| Employment of funds | 8,451 | 8,235 | 8,321 | 8,402 | 9,984 | 8,435 | 7,407 | 7,751 | 7,772 | 7,472 |
| Financed by: | | | | | | | | | | |
| Share capital | 404 | 404 | 404 | 404 | 404 | 404 | 404 | 404 | 404 | 404 |
| Reserves | 6,116 | 6,334 | 6,385 | 6,257 | 7,145 | 4,670 | 3,628 | 3,847 | 3,935 | 4,157 |
| Total equity attributable to equity shareholders of the Company | 6,520 | 6,738 | 6,789 | 6,661 | 7,549 | 5,074 | 4,032 | 4,251 | 4,339 | 4,561 |
| Non-controlling interests | 182 | 205 | 229 | 253 | 249 | 245 | 269 | 289 | 260 | 244 |
| Total equity | 6,702 | 6,943 | 7,018 | 6,914 | 7,798 | 5,319 | 4,301 | 4,540 | 4,599 | 4,805 |
| Contingency provision – insurance | 310 | 300 | 305 | 337 | 295 | 271 | 52 | 59 | 106 | 117 |
| Long term bank loans | 798 | 470 | 470 | 590 | 1,155 | 2,052 | 2,218 | 2,298 | 2,218 | 1,830 |
| Other liabilities | 641 | 522 | 528 | 561 | 736 | 793 | 836 | 854 | 849 | 720 |
| Funds employed | 8,451 | 8,235 | 8,321 | 8,402 | 9,984 | 8,435 | 7,407 | 7,751 | 7,772 | 7,472 |
| Earnings per share (\$) | 0.60 | 2.15 | 1.67 | 1.63 | 9.53 | 4.55 | 1.45 | 1.81 | 1.48 | 2.33 |
| Dividends per share (\$) | 0.60 | 1.35 | 2.35 | 1.35 | 5.53 | 2.03 | 2.03 | 2.03 | 2.03 | 2.03 |
| Total assets per share (\$) | 24.11 | 24.01 | 24.71 | 25.49 | 29.57 | 29.98 | 23.78 | 23.32 | 23.44 | 22.70 |
| Net assets per share (\$) | 16.60 | 17.20 | 17.39 | 17.13 | 19.32 | 13.18 | 10.65 | 11.25 | 11.39 | 11.90 |

Note: 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 2011 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.

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^)

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

Professor LIU Pak-wai*

SBS, JP

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*
SIU Kwing-chue, Gordon
John Anthony MILLER

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, FCIS, MIFC, CFC

REGISTERED OFFICE

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Hamilton HM11, Bermuda

PRINCIPAL OFFICE

9 Po Lun Street, Lai Chi Kok

Kowloon, Hong Kong

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Website: www.tih.hk
E-mail: director@tih.hk

AUDITOR

KPMG

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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 closure for 2012 AGM:
10-17 May 2012 (both dates inclusive)

Book closure for 2011 final dividend:
23 May 2012

DIVIDENDS

Interim

HK\$0.15 per share,
paid on 17 October 2011

Final (proposed)

HK\$0.45 per share,
payable on 1 June 2012

STOCK CODE

The Stock Exchange of Hong Kong: 62
Bloomberg: 62HK
Reuters: 0062.HK

CUSTOMER SERVICE HOTLINES

The Kowloon Motor Bus Company (1933) Limited

Telephone: (852) 2745 4466
Facsimile: (852) 2745 0600

Long Win Bus Company Limited

Telephone: (852) 2261 2791

Sun Bus Limited

Telephone: (852) 2371 2666

(* Independent Non-executive Directors of the Company)

(^ Non-executive Directors of the Company)

(# Committee Chairman)

This Annual Report is also available on our corporate website: www.tih.hk

Transport International Holdings Limited

9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong

Telephone: (852) 2786 8888

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www.tih.hk

Stock Code: 62

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