載通國際
Transport International

CONTRIBUTING TO THE GROWTH OF HONG KONG FOR 80 YEARS

Transport International Holdings Limited

2012 Annual Report

CONTRIBUTING TO THE GROWTH OF HONG KONG FOR 80 YEARS

Transport International Holdings Limited ("TIH") operates in the spirit of its flagship subsidiary, The Kowloon Motor Bus Company (1933) Limited ("KMB"), which has been contributing to the growth of Hong Kong for 80 years. By drawing on the strengths that have been a hallmark of Hong Kong's leading public bus operator since its inception in 1933, namely, innovation, efficiency and service excellence, and applying them across all our business operations, we remain well placed to attract discerning customers who are looking for transport services that represent the highest quality as well as good value for money.

Contents

Business Review

Sustainability Report


陳美玉婦科

CONTRIBUTING FOR 80 YEARS

1950s-1960s

KMB's bus services were expanded to meet the needs of immigrants from China Mainland and the population intake of public housing estates in Kowloon

1972

With the completion of the Cross-Harbour Tunnel, the KMB network extended onto Hong Kong Island

GREATER CONNECTIVITY

Serving Kowloon, the New Territories and Hong Kong Island as well as the gateway to China Mainland

2007

A boundary service, Route B1, running from Yuen Long Railway Station to Lok Ma Chau, was launched

1933

KMB was established running a fleet of 106 small single-deck buses

MODERN BUS FLEET

From single-deckers to double-deckers with the latest Euro standards

1949

KMB was the first local company to introduce double-deck buses (model 'Daimler A')

1988

Hong Kong's first air-conditioned double-deck bus was introduced

GROWING WITH HONG KONG

1933

An early bus interior with wooden slatted seats

1997

KMB introduced the world's first super-low floor double-deck bus with wheelchair access

PASSENGER FRIENDLY

Bringing the latest facilities to the bus compartment

1998

KMB launched the on-board electronic Bus Stop Announcement System

2003

KMB introduced a new generation of buses with the straight staircase design

1933

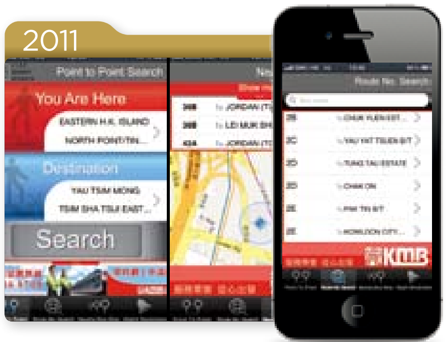
Conductors were employed to sell tickets to passengers

MORE CONVENIENT

Integrating state-of-the-art technology to help passengers access bus services

2000

All buses were equipped with the Octopus Smart Card System for fare payment



2011

KMB was the first mover to introduce smartphone app to provide bus information

2012

The Estimated Time of Arrival System was introduced at the Tuen Mun Road Bus-Bus Interchange

1973

KMB's Technical Training School was established

1988

KMB's Bus Captain Training School was established in Sha Tin

DEVELOPING ITS PEOPLE

KMB has built up a team of well-trained bus captains and maintenance staff

2007

KMB introduced Hong Kong's first Driving Simulator Studio to enhance the training of bus captains

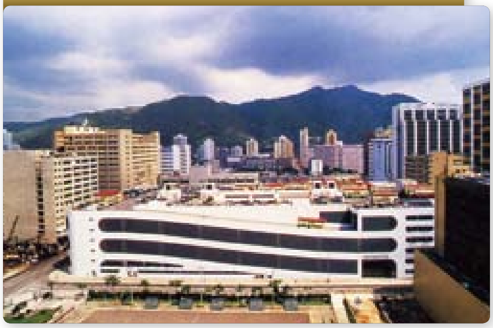
2009-2010

A large-scale training programme "Service from the Heart" was organised for more than 10,000 operations and maintenance staff

1933

KMB's first depot opened at the north end of Nathan Road

1984



KMB's Overhaul Centre, listed in the Guinness Book of World Records as the largest multi-storey bus depot in the world, became operational

WORLD CLASS FACILITIES

Building on
high quality foundations

2002

KMB's new environment-friendly depot in Lai Chi Kok was completed

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

1972

Tyre retreading was introduced

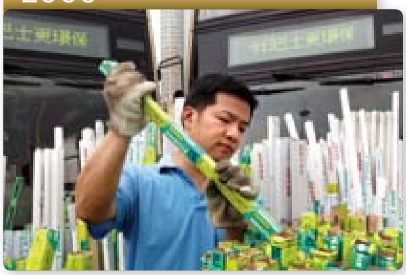
1990s

Our bus-washing machines were equipped with water recycling systems

ENVIRONMENTAL PIONEERS

Committed to building a better environment through adopting environment-friendly solutions

2006



KMB became the first enterprise in Hong Kong to participate in the fluorescent tube recycling campaign

2008

KMB adopted Near Zero Sulphur Diesel

1992

KMB installed environment-friendly Euro I engines on its buses

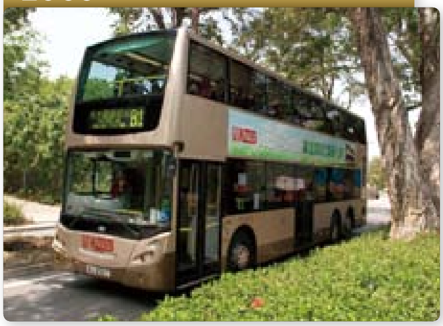
2001

KMB put into service Hong Kong's first bus equipped with a Euro III engine

GREEN FIRST MOVERS

Leading the bus industry in Hong Kong by introducing the latest green buses

2009



KMB introduced Asia's first Euro V air-conditioned double-deck bus

2010

Hong Kong's first zero-emission supercapacitor bus (or "gBus") went on trial

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 continue to contribute to the growth of Hong Kong and be a first mover in the public transport industry, as its flagship KMB has been since its establishment 80 years ago. We aim to achieve this by adopting the highest service standards based on our customers' needs, the most innovative and environment-friendly solutions, and optimal route network efficiency. In all we do, we continue to be driven by a commitment to implementing sustainable business practices, enhancing shareholder value, and fostering the social and economic development of Greater China.

Mission

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

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

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

Vision

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

Values

In line with our commitment to sustainable business excellence, our corporate values are based on delivering service standards that meet or exceed customer needs, operating with a consistent record of profitability for shareholders, and supporting the overall development of the community we have served for 80 years.

Business at a Glance

Transport International Holdings Limited

Hong Kong Franchised Public Bus Operations

Hong Kong Non-franchised Transport Operations

China Mainland Transport Operations

Property Holdings and Development

Media Sales Business

Hong Kong Franchised Public Bus Operations

THE KOWLOON MOTOR BUS COMPANY (1933) LIMITED

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

LONG WIN BUS COMPANY LIMITED

provides franchised public bus services with 165 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 394 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 provides public bus and taxi hire services in Shenzhen.

BEIJING BEIQI KOWLOON TAXI COMPANY LIMITED

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

Property Holdings and Development

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.

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.

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 ("In-Bus") and for Multi-media On-board ("Bus-TV") business.

BUS POWER LIMITED*

provides a media sales service for advertising on transit vehicle exteriors ("Bus-Body").

(* *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

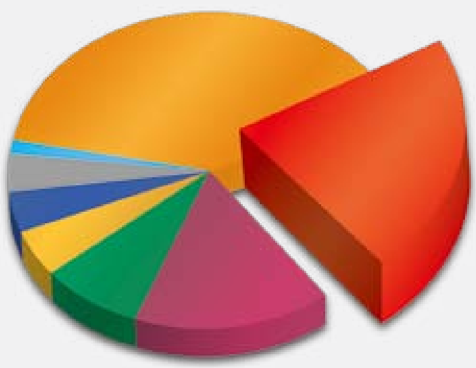
Beijing

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 2012 (in thousand)



Railways	4,838
The Group (Franchised public bus operations)	2,662
Minibuses	1,879
Taxis	956
Citybus	621
NWFB	489
Others	512
Ferries	135

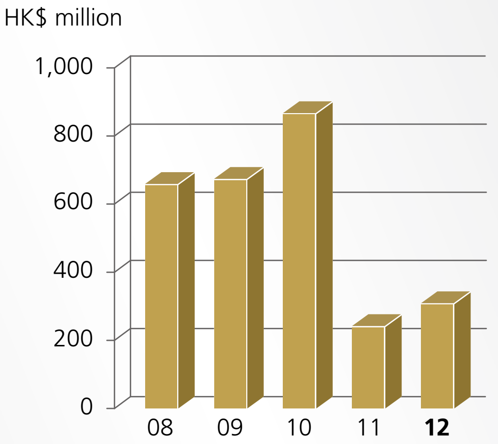

Huanggang
Sheung Shui
Lok Ma Chau
Fanling
Tin Shui Wai
Tai Po
Yuen Long
NEW TERRITORIES
Sha Tin
Ma On Shan
Sai Kung
Tsuen Wan
Tsing Yi
KOWLOON
Tseung Kwan O
HONG KONG ISLAND
The Group's bus termini, depots and customer service centres in Hong Kong
The Group's headquarters
Depots of The Kowloon Motor 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 2012

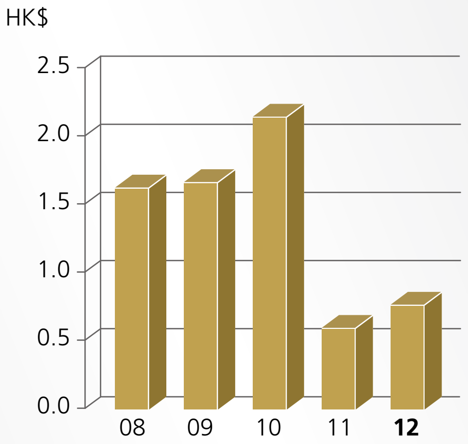
	Unit	2012	2011	Increase/ (decrease) %
Financial Highlights				
Turnover:	HK$ million	7,181.0	6,947.5	3%
– Fare revenue	HK$ million	6,616.6	6,442.1	3%
– Property sales	HK$ million	112.7	109.1	3%
– Media sales revenue	HK$ million	424.7	374.8	13%
– Gross rentals from investment properties	HK$ million	27.0	21.5	26%
Profit before taxation	HK$ million	368.4	275.4	34%
Profit attributable to equity shareholders of the Company	HK$ million	309.2	242.4	28%
Earnings per share	HK$	0.77	0.60	28%
Ordinary dividends per share	HK$	0.60	0.60	–
Total equity attributable to equity shareholders of the Company	HK$ million	6,597.1	6,520.1	1%
Total assets	HK$ million	9,793.3	9,732.3	1%
Net cash	HK$ million	2,298.0	2,106.1	9%
Net finance income	HK$ million	58.3	38.2	53%
Cash generated from operations	HK$ million	1,049.5	1,136.9	(8%)
Financial Ratios				
Profit margin		4.3%	3.5%	23%
Profit margin (excluding property sales)		3.3%	2.5%	32%
Return on equity attributable to equity shareholders of the Company		4.7%	3.7%	27%
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	1.28	1.00	28%
Share price per share at year-end	HK$	16.08	15.20	6%
Market capitalisation at year-end	HK$ million	6,490.5	6,135.3	6%
Operational Highlights				
Hong Kong				
Franchised Public Bus Operations:				
Average number of passenger trips per day	Million trips	2.66	2.65	–
Number of licensed buses at year-end		3,985	4,055	(2%)
Number of staff at year-end		12,466	12,123	3%
Average number of staff per licensed bus at year-end		3.13	2.99	5%
Non-franchised Transport Operations:				
Number of licensed buses at year-end		409	403	1%
Number of staff at year-end		656	633	4%
China Mainland				
China Mainland Transport Operations:				
Number of licensed buses at year-end		5,363	5,496	(2%)
Number of taxis and vehicles for rental at year-end		5,130	5,087	1%

Profit attributable to equity shareholders of the Company



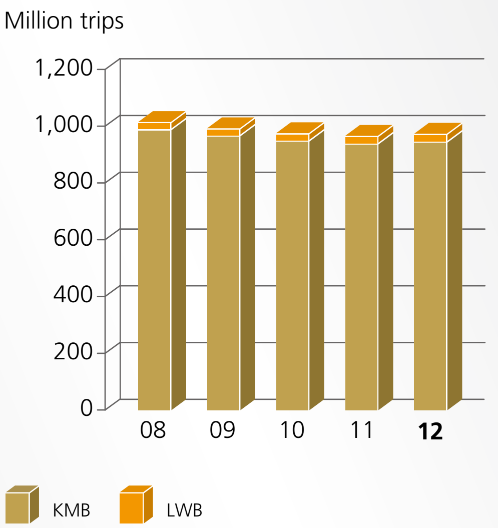
Profit attributable to equity shareholders for 2012 was HK$309.2 million, up from HK$242.4 million for 2011

Earnings per share



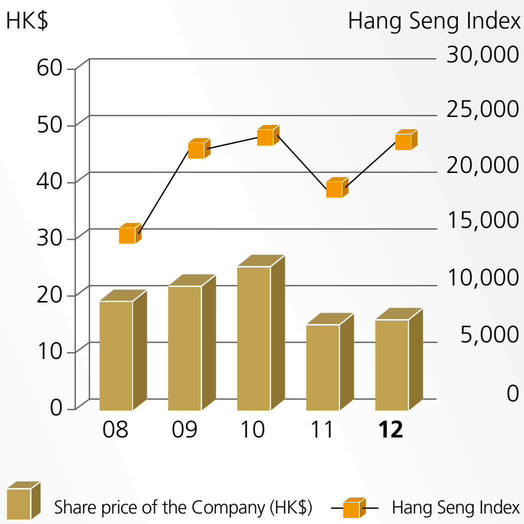
Earnings per share for 2012 was HK$0.77, up from HK$0.60 for 2011

Number of passenger trips
(Franchised public bus operations)



Number of passenger trips in 2012 was 974.2 million, up from 966.7 million for 2011

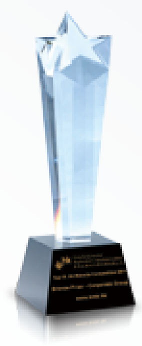
Share price of the Company and Hang Seng Index at year-end



The closing share price of the Company at 2012 year-end was HK$16.08 per share, up 6% compared with that of 2011 year-end

Corporate Milestones 2012

JAN



KMB website selected as Top Ten.hk Website for second consecutive year

KMB website won the Bronze Prize in the 2011 Top Ten.hk Website Competition organised by the Hong Kong Internet Registration Corporation Limited, recognising the website's innovation, business marketing, web care design and contribution to society.

FEB

KMB hotline representative won customer service excellence award

A KMB Customer Service Hotline representative won silver in the "Contact Centre Service Individual Award" of the 2011 Customer Service Excellence Award organised by the Hong Kong Association for Customer Service Excellence.

MAR

Priority seats launched by KMB

Following a "Priority Seats" trial scheme in May 2011, KMB launched the scheme fleet-wide to promote a culture of caring for passengers.

APR

Trial of next generation supercapacitor bus "gBus²"

KMB began the trial of the next generation zero-emission "gBus²", which has a higher electricity storage capacity and achieves twice the driving range of the previous generation.

MAY

Farewell to KMB non air-conditioned buses

Non air-conditioned buses have been progressively replaced since the introduction of air-conditioned buses in 1988. Following the retirement of the last batch of non air-conditioned double-deck buses on 8 May 2012, all KMB bus routes provide a full air-conditioned service.

KMB recognised as good corporate citizen

KMB won the "Total Caring Award" in the Caring Company Scheme 2011/12, organized by the Hong Kong Council of Social Service, for its outstanding performance in caring for the community, for employees and for the environment.

JUN

KMB received President's Award from The Community Chest

KMB received the President's Award from The Community Chest of Hong Kong in recognition of the company's strong commitment to fulfilling corporate social responsibility.

JUL

KMB's gBus promotion won silver award

KMB's gBus promotion won Silver in the "Environmental Protection" category of the 10th China Best Public Relations Case Competition organised by The China International Public Relations Association.

KMB "Corporate Social Responsibility Charter" won international award

"KMB's Corporate Social Responsibility Charter 2011" won the Award of Excellence in the US-based 2012 Apex Awards for Publication Excellence.

AUG

KMB became the first local bus company to receive OHSAS 18001 certification

KMB's Operations Division was awarded the Occupational Health and Safety Assessment Series ("OHSAS") 18001 Certificate by the Hong Kong Quality Assurance Agency, becoming the first franchised bus company in Hong Kong to receive the certification.

KMB and LWB rolled out the HKSAR Government's HK$2 Public Transport Fare Concession Scheme for the elderly and eligible persons with disabilities

Starting from 5 August 2012, KMB and LWB launched the Government's fare concession scheme to encourage the elderly and the disabled's further engagement with the community. These passengers enjoy a flat fare of HK$2.00 or the current applicable fare, whichever is lower, for each passenger trip on every day of the week. The concessionary fare applies to all KMB routes (except racecourse routes) and all LWB routes (except Airport "A" routes).

KMB won Yahoo! Emotive Brand Award for third consecutive year

KMB won in the Logistics/Transportation category of the 2011-2012 Yahoo! Emotive Brand Awards in a poll conducted by Yahoo! Hong Kong.

SEP

KMB and LWB launched Smartphone App Version 2

Following KMB's launch as first mover of its Smartphone App in March 2011, KMB and LWB rolled out the Smartphone App Version 2, which allows passengers to access real-time traffic information, conduct route searches by map or major landmark and select the most competitive bus routes in each district.

OCT

TIH's 2011 annual report won local and international awards

TIH's 2011 annual report received a Bronze Award in the Hong Kong Management Association Best Annual Reports Awards. It also won two awards in the International ARC Awards: Silver for Cover Photo/ Design and Bronze for Financial Data.

NOV

LWB obtained ISO 9001:2008 accreditation

In pursuit of service excellence, LWB obtained ISO 9001:2008 quality management system certification, a milestone for the company in its provision of high quality bus services.

Submission of application for fare increase by KMB

On 29 November 2012, KMB submitted an application to the Transport Department of the HKSAR Government for a fare increase of 8.5%. On 19 February 2013, the HKSAR Government announced that an approved average rate of increase of 4.9% would take effect on 17 March 2013.

DEC

KMB won prestigious corporate brand award

KMB won the Grand Jury Prize in the Public Transport Category of the Prestigious Corporate Brand Awards 2012, jointly organised by The Chinese University of Hong Kong and Ming Pao.

TIH won Corporate Governance Excellence Award

TIH won the Hong Kong Corporate Governance Excellence Award 2012, jointly organised by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University, for the excellence of its comprehensive corporate social responsibility strategy and for providing an example to follow in applying best corporate governance practices.

KMB launched Tuen Mun Road Bus-Bus Interchange Scheme

Phase 1 of the Tuen Mun Road Bus-Bus Interchange was launched on 26 December 2012, providing Tuen Mun residents with time- and money-saving services. KMB also introduced the pioneering Estimated Time of Arrival System to notify passengers of the next bus arrival time.

KMB and Alexander Dennis Limited ("ADL") co-developed new generation of E500 Bus

KMB and the bus manufacturer, ADL, co-developed the new generation E500 Euro V air-conditioned double-deck bus, which can further reduce carbon emissions and is compatible with future Euro VI engine development and hybrid technology.

Chairman's Letter

"With our commitment to introducing innovations and to developing and implementing the most environment-friendly solutions as strong as ever, we can look back across the long history of our flagship subsidiary, The Kowloon Motor Bus Company (1933) Limited, from today's perspective and truly say that we have been contributing to the growth of Hong Kong for 80 years."

Norman LEUNG Nai Pang
Chairman

DEAR SHAREHOLDERS AND PARTNERS,

On behalf of the Board, I am pleased to report that, although the financial performance of our transport businesses reflected the effects of high fuel oil prices and spiralling costs brought about by inflationary pressure, Transport International Holdings Limited ("TIH") was able to achieve satisfactory results in 2012. With our commitment to introducing innovations and to developing and implementing the most environment-friendly solutions as strong as ever, we can look back across the long history of our flagship subsidiary, The Kowloon Motor Bus Company (1933) Limited ("KMB"), from today's perspective and truly say that we have been contributing to the growth of Hong Kong for 80 years.

OUR FINANCIAL PERFORMANCE

The Group's profit attributable to equity shareholders for the year ended 31 December 2012 was HK$309.2 million, representing an increase of HK$66.8 million or 27.6% compared to HK$242.4 million for 2011. Earnings per share increased correspondingly from HK$0.60 for 2011 to HK$0.77 for 2012. The increase in profit was mainly due to the fact that no further provision for impairment loss (2011: HK$109.6 million) was made by the RoadShow Group on an investment in Mainland China in 2012. When excluding the impairment loss provision made by the RoadShow Group in 2011, the Group's profit attributable to equity shareholders for 2012 represents a 4.1% decrease compared with that for 2011. The decrease was mainly due to the deterioration in the financial performance of the Group's core franchised public bus business operated by KMB, which, having posted a profit after taxation of HK$51.4 million in 2011, recorded a loss after taxation of HK$51.5 million in 2012, mainly as a result of high fuel prices and a significant increase in wages and other operating expenses, but without having a corresponding reasonable adjustment to its bus fares in 2012.

KMB continued to face a very challenging operating environment in 2012. Despite the fact that KMB's fare revenue for 2012 increased by 2.1% from HK$5,822.8 million for 2011 to HK$5,942.7 million for 2012 as a result of the implementation of the 3.6% fare increase which took effect on 15 May 2011 and a slight year-on-year increase in ridership of 0.7%, these increases were insufficient to offset the increase in staff costs of HK$138.9 million, which was mainly attributable to the annual pay rise of 5%, which took effect for KMB's operations and maintenance staff on 1 June 2012 and for other staff on 1 September 2012, and the cost of hiring additional bus captains for service enhancement. In addition, fuel costs increased by HK$41.8 million as international fuel prices remained at high levels in 2012 and there was an increase in the number of bus-kilometres travelled as service levels were further enhanced. This, together with the increase in toll charges and other operating expenses arising from inflation, further adversely affected the financial performance of KMB and resulted in it reporting a post-tax loss of HK$51.5 million for 2012.

As for Long Win Bus Company Limited ("LWB"), its fare revenue for 2012 increased by 5.1% to HK$372.5 million as compared with HK$354.4 million for 2011. This increase was mainly due to the fare increase of 3.2%, which took effect on 15 May 2011, and an increase in the average daily ridership of 3.3% as compared with 2011 as a result of increasing transport demand from international travellers, and construction workers involved in various infrastructural projects at the airport and the expanding Hong Kong Disneyland. These positive factors were partially offset by the increase in staff costs resulting from the annual pay rise, and the increase in international fuel prices and other operating expenses. LWB reported a post-tax profit of HK$26.3 million for 2012, an increase of 48.6% compared with HK$17.7 million in 2011.

With Sun Bus Limited as the flagship company, the Group's non-franchised transport businesses performed strongly in 2012 with turnover and profit after taxation rising by 13.8% and 74.3% year-on-year, respectively. These increases were mainly due to business growth, in particular on cross-boundary passenger services, and an upward adjustment in coach hiring charges upon contract renewal in line with rising fuel and other operating costs. In respect of our China Mainland Transport Operations Division, our joint ventures in Beijing and Shenzhen were stable in 2012.

The results of the Group's media businesses operated by the RoadShow Group improved in 2012, reflected in its post-tax profit of HK$74.8 million, representing a favourable change of HK$123.4 million compared with a post-tax loss of HK$48.6 million for 2011. The loss for 2011 was mainly due to an impairment loss of HK$109.6 million made by the RoadShow Group on an investment in the Mainland, whereas no such provision was made in 2012.

DIVIDENDS

The Board has declared an ordinary final dividend of HK$0.45 per share (2011: HK$0.45 per share). Together with the ordinary interim dividend of HK$0.15 per share (2011: HK$0.15 per share) paid on 16 October 2012, total dividends for the year will amount to HK$0.60 per share (2011: HK$0.60 per share). The total dividend payout for the year will amount to HK$242.2 million (2011: HK$242.2 million).

80 YEARS OF CONTRIBUTION TO THE GROWTH OF HONG KONG

KMB has come a long way since it was established in 1933 and commenced operations running services in Kowloon and the New Territories with a fleet of 106 small single-deck buses operating on 18 routes. After operations came to a virtual standstill during the war years in the early 1940s, KMB worked hard to resume services and introduced its first double-deck buses in 1949 to meet the needs of Kowloon's booming population. Indeed, KMB's growth has mirrored that of Hong Kong, with services being added and strengthened to meet the needs of the residents of Kowloon's first public housing estates in the 1960s and the burgeoning development of new towns such as Sha Tin and Tuen Mun in the New Territories in the 1970s and 1980s.

Mindful of the need for passengers to have a more comfortable form of transportation in Hong Kong's steamy summers, KMB overcame a series of obstacles with regard to identifying a suitably robust air-conditioning system to introduce air-conditioned double-deck buses in 1988, opening the way for the eventual implementation of a full air-conditioned service on 8 May 2012.

In 1997, KMB introduced the world's first super-low floor, wheelchair accessible double-deck bus, providing a model which other bus operators globally were to adopt to better serve the disabled, the elderly and those in need. As to bus emission standards, KMB has always taken the lead to introduce buses equipped with the latest generation of Euro standard engines. For instance, Hong Kong's first Euro V double-deck bus was launched by KMB in February 2009 when legislation, which is still effective today, required only that newly-registered diesel vehicles meet Euro IV emission standards. KMB's commitment to continuous improvement was further evidenced in 2012 by the launch of the KMB Smartphone App Version 2 in September and the opening of the Tuen Mun Road Bus-Bus Interchange in December. This interchange is set to be the first of a series in Hong Kong which will allow residents faster and more direct access to and from the urban areas.

A SOCIALLY RESPONSIBLE CORPORATION

The Group fully understands its responsibility for providing its customers with the best possible service while fulfilling its social responsibilities in respect of core aspects such as safety and environmental performance. As it enters its ninth decade of operations, KMB does so with its efforts to enhance performance in key areas such as safety and reliability recognised by the award of Occupational Health and Safety Assessment Series (OHSAS) 18001 certification for its fit-for-purpose safety management system, having become the first local public bus operator to obtain this distinction in August 2012.

KMB will continue to upgrade its bus fleet with the latest technologies while also exploring and trialling different zero-emission bus technologies. We are currently undertaking a substantial investment programme for the purchase of environment-friendly buses equipped with engines of Euro V or higher standard. As well as being equipped with a host of safety features, these buses feature new driveline technology, new air-conditioning systems, and a lighter build, which reduces fuel consumption and results in 10% lower emissions. In addition, their chassis design is compatible with future Euro VI engine development and even hybrid technologies. In terms of zero-emission solutions, KMB hopes to work with the HKSAR Government to progressively introduce supercapacitor buses (gBuses) and battery-powered electric buses (eBuses) upon completion of satisfactory testing and trialling.

CORPORATE GOVERNANCE ATTAINMENT

The Group is committed to achieving the highest corporate governance standards in its operations in line with international developments. We recognise that sound corporate governance is an element that is central to the maintenance of stakeholder confidence and the furtherance of our competitiveness. I am particularly pleased to report that our constant quest for corporate governance excellence has been recognised by prestigious organisations. The Company won the 2012 Hong Kong Corporate Governance Excellence Award in the category "Other Main Board and GEM Board Companies" in the annual awards organised by the Chamber of Hong Kong Listed Companies. The award is a tribute to the Company's excellence in the application of best corporate governance practices, particularly in areas relating to outstanding commitment to shareholder rights, compliance, integrity, accountability, transparency, board independence and leadership, and corporate social responsibility. In addition, the Company's 2011 annual report received the Bronze Award in the Hong Kong Management Association's Best Annual Reports Awards.

LOOKING AHEAD

With an expanding rail network in Hong Kong, high fuel prices and continuous increases in staff costs and other operating expenses, it is inevitable that the Group's franchised pubic bus operations will continue to face significant financial and operational challenges. The response of our flagship, KMB, to these changes in market conditions is founded in constant review of the viability of bus routes that have been adversely affected as a result of railway expansion. Route reorganisation and the benefits it brings will enable passengers to arrive at their destinations more quickly, while reducing the number of empty buses running on the roads, easing traffic congestion, enhancing the environment, raising the productivity of the city and easing the pressure for a fare increase through improved resource utilisation.

Although we have submitted various bus service reorganisation proposals to the HKSAR Government in a bid to improve resource utilisation and secure the financial viability of our operations, progress has been rather slow and limited. Since piecemeal route-level service reorganisation has had a minimal impact on reshaping the bus network and enabling us to deliver the best services to our customers, we have adopted an 'area approach' to review and reorganise bus services on a district basis. By considering the demand for bus transport across a wider area, rather than focusing on individual routes, it is expected that changes can be made more speedily and effectively.

We welcome the Chief Executive's words in his 2013 Policy Address about the importance of bus route reorganisation. We hope that, with the support of the Government, we will be better positioned to communicate our plans for consultation with the District Councils so that bus route reorganisation can be successfully implemented. Through the adoption of the area approach, incorporating bus-bus interchange schemes such as that already adopted in Tuen Mun, our objective of improving the efficiency of our bus network by reorganising routes with low demand, increasing the service on routes with growing demand and introducing new express routes can be achieved.

In the meantime, in view of the losses incurred by KMB due to factors beyond its control and for the purpose of restoring its financial viability for the provision of sustainable quality services, on 29 November 2012, KMB submitted to the Transport Department an application for a fare increase of 8.5%. On 19 February 2013, the HKSAR Government announced that an approved average rate of increase of 4.9% would take effect on 17 March 2013. Given the tough operating conditions currently faced by KMB, such a rate of increase is insufficient to offset the high operating costs generated by surging fuel prices, wages, toll charges and other operating expenses, and therefore route reorganisation must be implemented on a large scale and at a faster pace to enable us to make better use of our limited resources to meet our customers' needs and expectations.

It is gratifying to report that our non-franchised transport businesses saw strong profit growth in 2012, in large part owing to improved economies of scale. We will continue to enhance the service quality of our local and cross-boundary coach services and explore business opportunities in both Hong Kong and the Mainland.

The development of the industrial site at 98 How Ming Street, East Kowloon, in which the Group has a 50% stake, is under way. The site is set for development for non-residential (excluding hotel) use, and upon completion it will be held by the Group for long-term investment purposes. The Group's Manhattan Mid-town shopping mall at 1 Po Lun Street, Lai Chi Kok, with a total area of 50,000 square feet, and the shops in our headquarters building at 9 Po Lun Street, Lai Chi Kok, together with the industrial property at 1 Kin Fung Circuit, Tuen Mun, have been leased out and will continue to provide steady rental income for the Group.

ACKNOWLEDGEMENTS

Having had the privilege of being appointed Chairman of the Company and its subsidiaries, KMB and LWB, on 17 May 2012, I would like to express my sincere thanks to my predecessor, The Hon Sir Sze-yuen Chung, under whose leadership the Group has taken many great strides forward over the past 13 years.

In closing this letter, my first one to our shareholders and partners as Chairman of the Board, I wish to sincerely thank my fellow Directors, our management team and staff at all levels for their dedication and contributions to the Group over the years. With their continued support, in tandem with the support of all our stakeholders in the larger Hong Kong community, I am confident that we will be able to ride out the challenges that face us today, just as KMB has overcome the many obstacles of the past 80 years to take its place as one of Hong Kong's leading public transport carriers.

Norman LEUNG Nai Pang
Chairman
21 March 2013

Conversation with the Managing Director

"KMB has grown up with the people of Hong Kong, helping to contribute to the success story of which we are all so justly proud."

Edmond HO Tat Man
Managing Director

Q 2013 sees the landmark occasion of KMB's 80th anniversary. What do you see as the major contributions that KMB has made over the years?

A As the flagship of Transport International Holdings Limited ("TIH"), The Kowloon Motor Bus Company (1933) Limited ("KMB") has always stood out for the innovations it introduces. Nothing provides a better example of this than the fact that KMB, which researched, trialled and developed environmental and service quality innovations that run far in advance of the government's stipulated regulations. The innovations we adopt not only result in a better travelling experience for our passengers, they also help improve connectivity and mobility, thereby enhancing productivity and contributing to the economic development of Hong Kong.

In a very real sense, KMB has grown up with the people of Hong Kong, helping to contribute to the success story of which we are all so justly proud. Some people will still remember the introduction of Hong Kong's first double-deck bus in 1949. We have come a long way since then, progressively introducing the latest Euro engine technologies, including Hong Kong's first Euro V double-deck bus, which we rolled out in February 2009 when legislation, which is still effective today, only required that newly-registered diesel vehicles meet Euro IV emission standards. More recently, we became the first local public bus operator to introduce ETA ("Estimated Time of Arrival") technology on trial at the Tuen Mun Road Bus-Bus Interchange. Our smartphone app also enables passengers to check departure times in the vicinity of selected bus termini. Although KMB is now 80 years old, its constant quest for innovation and service excellence helps it retain its vigour.

Q What vision do you have for KMB's future?

A The key to KMB's future development lies in new technologies. Electric bus is a very good example of this, as we look forward to deploying eight supercapacitor buses ("gBus") and ten battery-electric buses ("eBus") to serve our customers on seven routes in 2014. At the same time, the mounting financial pressure faced by KMB means that further impetus needs to be given to bus network reorganisation, which will allow KMB to generate the resources needed to continue to provide passengers with high quality bus services. At present, about 55% of KMB's 400 bus routes have a pressing need for route reorganisation. We will continue to proactively communicate our plans in consultation with the HKSAR Government and the District Councils under the 'area approach' so that bus route reorganisation can be implemented in North District and other areas in the New Territories starting from 2013.

Q What is the rationale behind the route reorganisation proposals?

A Essentially, bus route reorganisation is a means of achieving improved bus service coverage, speed and efficiency which results in a win-win situation for the people of Hong Kong and KMB. Once fully implemented, the benefits would be felt in terms of faster and better bus services, less congestion and improved roadside air quality. Through extensive consultation with local communities and the Transport Department, we aim to reorganise outdated, inefficient and duplicated routes which have low patronage. The objectives are to "expressify" and "straighten" bus routes for greater efficiency, while leveraging bus interchanges to enhance connectivity and reduce duplication. We would expect, as an outcome of a successful bus route reorganisation, duplicated resources would be redeployed to serve routes with higher demand. With the concerted efforts of all the relevant parties, we look forward to progressively introducing a raft of enhanced options for our customers: more express services, more direct services and more interchanges such as the Tuen Mun Road Bus-Bus Interchange, which opened on 26 December 2012.

Q What are the benefits of bus interchange schemes such as the one operating at the Tuen Mun Road Bus-Bus Interchange? Are there any plans to extend such schemes to other areas?

A Even in the relatively short period of time in which it has been operating, the Tuen Mun Road Bus-Bus Interchange has won praise from Tuen Mun residents for the benefits it brings in terms of saving time and money through its provision of efficient feeder services to access the urban areas speedily. The success of this scheme provides further momentum to our plans to upgrade some of our other major transport hubs, such as those at the Cross-Harbour Tunnel, the Tai Lam Tunnel and the Shing Mun Tunnels. Such interchange schemes will allow passengers to enjoy improved connectivity through a wider choice of different bus routes, in addition to faster, more direct and, in many cases, more economical services.

Q How could the HKSAR Government improve the efficiency and effectiveness of public transport in Hong Kong in the medium to long term?

A While the existing transport system in Hong Kong is undoubtedly one of the best in the world, traffic congestion is becoming an ever more alarming concern. There are a number of ways in which more efficient use can be made of road space to reduce congestion and benefit both the travelling public and the environment. The most effective medium to long term way to improve Hong Kong's above-ground transport would be to introduce technology-based transport management practices combined with a bus priority system, similar to those introduced in many places overseas. In the meantime, a commitment to removing unnecessary duplication of bus routes and to enhancing the cooperation between the operators of different transport modes can reap immediate benefits.

Q 2013 is also an important year for Long Win Bus Company Limited (LWB), whose franchise has been renewed to run for a further ten years from May 2013. How do you see LWB developing in the next decade?

A Long Win Bus Company Limited ("LWB") continues to record patronage growth and perform well as it is less affected by recent railway development. In view of the planned opening of the Hong Kong-Zhuhai-Macao Bridge and the Tuen Mun – Chek Lap Kok Link in 2016, when LWB's Airport ("A") and External ("E") routes from New Territories West and North District in particular are expected to see significant growth, plans are being formulated to take advantage of this opportunity in making improvements to its services accordingly. Residents in the North-west New Territories will be major beneficiaries of this new infrastructure, as it will cut both journey distance and journey time to and from the airport, as well as creating opportunities for LWB to expand and enhance its services. To meet the increasing demand for its services, the next few years will see the replacement of the LWB fleet with the latest environment-friendly buses.

Q In view of rising public expectations regarding corporate social responsibility, what measures has the Group taken to strengthen its Environmental, Social and Corporate Governance ("ESG") performance?

A I am a firm believer that sound corporate governance is essential not only for maintaining stakeholder confidence but also for furthering our competitiveness. Enhancing communication with our key stakeholders enables us to share our latest developments while receiving feedback for further improvement. Our continuous dedication to the community is demonstrated through our ongoing support for, participation in and sponsorship of a wide range of community service and charity activities. We are likewise committed to working for a better environment through our contributions to environmental protection in three major areas: optimising resources, combating climate change and fostering a sustainable workplace.

To enhance environmental protection, in the next few years, we will continue to introduce buses with the latest Euro standards and trial zero-emission electric buses. In terms of community engagement work, KMB has recently established the External Affairs Section to further foster communication with our key stakeholders, including District Councillors, politicians, academics, green groups, transport policy thinks tanks and bus fan bodies, so that input from the widest possible range of parties can be assimilated in our strategic route reorganisation planning and implementation.

Q Can you outline some of the ways in which the Group keeps its business outlook consumer-centred?

A Now in its eighteenth year, our volunteer club "FRIENDS OF KMB" continues to thrive. A total of 3,650 members participate in a host of different community activities, such as the "KMB Elderly Safety Programme", an initiative which raises bus safety awareness across all of Hong Kong's 18 districts. In terms of technological advances, the launch of the KMB and LWB Smartphone App Version 2 in September 2012 allows more than one million users each day to access real-time traffic information, conduct route searches and select the most competitive bus routes in any district. The popular, award-winning KMB Website, specially adapted for use by the visually impaired and novice users, achieves an average hit-rate of ten million each day. In December 2012, KMB won the Grand Jury Prize in the Public Transport Category of the Prestigious Corporate Brand Awards, jointly organised by The Chinese University of Hong Kong and Ming Pao. The award, based on large-scale consumer surveys and jury reviews of companies achieving the highest scores in brand building, leadership and vision, was a strong endorsement of KMB's dedication to providing quality bus services.

Q What are the plans for the Group's Non-franchised Transport Division?

A The Group's Non-franchised Transport Division performed strongly in 2012 with a significant rise in both turnover and post-tax profit, which was largely attributable to business growth, particularly in cross-boundary passenger services, including the acquisition of two cross-boundary non-franchised bus operators. We will continue to leverage the high demand for both cross-boundary services and local tailor-made transport and chartered hire services by means of organic growth and prudent acquisition.

Q How did the Group's media sales business and Mainland transport operations perform in 2012?

A The Group's media businesses operated by the RoadShow Group performed satisfactorily in 2012, as it extended its advertising service portfolio to include billboards in addition to its existing core competencies of Bus-TV, as well as Bus-Body, In-Bus and Bus-Shelter advertisements. As one of Hong Kong's leading integrated media groups, RoadShow is set to further diversify its business portfolio as part of its ongoing expansion strategy. With regard to our China Mainland Transport Operations Division, our joint ventures in Beijing and Shenzhen performed steadily in 2012. Shenzhen Bus Group continues to serve around 2.4 million passenger trips a day and to trial buses and taxis using environment-friendly energy sources such as electricity and liquefied natural gas.

From left to right:
Kenrick FOK Choi Fook, *Operations Director*
Vivien CHAN Pik Kwan, *Corporate Affairs Director*
William HO Sai Kei, *Finance and Administration Director*
Edmond HO Tat Man, *Managing Director*
Evan AU YANG Chi Chun, *Deputy Managing Director*
James Conrad LOUEY, *Commercial Director*
Mark Andre SAVELLI, *Transport Development Director*

Business Review

Sustainability Report

Financial Review

Hong Kong Franchised Public Bus Operations

Franchised public bus operations are at the core of the Group's business. The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited provide passengers with world-class, innovative and value-for-money bus services covering Kowloon, the New Territories and Hong Kong Island, while pioneering technological advances in bus design and environmental protection.

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

Celebrating its 80th anniversary in 2013, TIH's wholly-owned subsidiary KMB has a proud history as one of Hong Kong's leading transport service providers, contributing significantly to the growth of Hong Kong. KMB currently employs around 12,000 staff, including around 8,400 bus captains, and owns a modern bus fleet of more than 3,800 buses running on some 390 routes serving approximately 2.6 million passengers trips each day. For eight decades KMB has shown unwavering dedication to offering the very best in service provision.

OPERATIONAL EXCELLENCE

A leader in the bus industry since its foundation, KMB's contribution to the development of public transport in Hong Kong is seen in the following milestones which testify to its dedication and commitment.

1933

With a fleet of 106 small single-deck buses, KMB commenced franchised public bus operations in Kowloon and the New Territories.

1949

KMB became the first bus company in Hong Kong to introduce double-deck buses with the arrival of 20 Daimler A buses from England.

1950s and 1960s

KMB's bus network widened extensively to meet the influx of immigrants from China Mainland and the construction of public housing estates in Kowloon.

1972

KMB extended its network onto Hong Kong Island with the opening of the Hung Hom Cross-Harbour Tunnel.

1980s

KMB reorganised its routing structure and introduced feeder bus routes to connect up with the Kowloon-Canton Railway and the Mass Transit Railway.

1988

KMB introduced air-conditioned double-deck buses to its fleet.

1992

KMB installed environment-friendly Euro I engines on its buses, the first of a series of upgrades to meet or exceed the most stringent emission standards.

1997

KMB introduced the world's first super-low floor double-deck buses, providing easier access for the young and the elderly as well as offering wheelchair access for the disabled. This bus type has been adopted as a global standard for public bus services.

1998

KMB launched the On-board Electronic Bus Stop Announcement System to give the name of the next bus stop via a voice announcement and a light emitting diode display.

2000

KMB equipped all its buses with the convenient Octopus Smart Card System for fare payment. It also introduced Hong Kong's first "Multi-media On-board" buses offering infotainment to passengers.

2001

KMB's first Euro III environment-friendly double-deck bus went into service, the first of its kind in Hong Kong.

2003
KMB pioneered the introduction of a new generation of buses offering a wider bus saloon and entrance, a revolutionary straight staircase design and a new air-conditioning system with enhanced circulation inside the bus compartment.

2006
KMB took the lead in the industry by bringing Euro IV environment-friendly double-deck buses to Hong Kong. It also pioneered the launch of the "Digital Map Passenger Enquiry System" in multi-media kiosks at its customer service centres, providing a convenient way for passengers to search for bus service information.

2007
KMB launched Route B1, a boundary service running between Yuen Long Railway Station and Lok Ma Chau. This route serves the growing demand for transport between Hong Kong and Shenzhen.

2008
KMB's bus fleet started adopting the more environment-friendly Near Zero Sulphur Diesel.

2009
KMB introduced Asia's first Euro V air-conditioned double-deck bus, when legislation, which is still effective today, required only that newly-registered diesel vehicles meet Euro IV emission standards. In addition, KMB's pioneering luminous crystal bus stop poles, illuminated by LED lighting, were launched.

2010
KMB led Hong Kong's public transport industry into a new era by trialling Hong Kong's first zero-emission supercapacitor bus (the "gBus").

2011
As a first mover, KMB launched its free smartphone app, offering "point-to-point", "route number" and "nearby bus stop searches", as well as the "alight reminder" function.

2012
KMB rolled out the Tuen Mun Road Bus-Bus Interchange Scheme providing Tuen Mun residents with time- and money-saving services. The interchange features the pioneering Estimated Time of Arrival System, which notifies passengers of the next bus arrival time. KMB and a British bus manufacturer co-developed the new generation E500 Euro V air-conditioned double-deck bus, which can further reduce carbon emissions and is compatible with future Euro VI engine development and hybrid technology.

Complementing the innovations introduced by KMB over the years is the commitment to establishing the highest standards in its operations. The accreditation which the bus company has obtained for the various aspects of its operations, including management, environmental, and occupational health and safety, testifies to this lifelong dedication.

In 1999, KMB was the first public bus company and the fourth organisation in Hong Kong to obtain ISO 9001:1994 certification on a corporate-wide basis for its quality management systems. In 2002, the excellence of KMB's management systems was further recognised by its successful upgrading to ISO 9001:2000 certification. In 2003, KMB's Lai Chi Kok and Sha Tin Depots were awarded ISO 14001:1996 certification for their environmental management systems, making KMB the only franchised bus company in Hong Kong with both ISO 9001 and ISO 14001 accreditation. In the following two years, KMB's Lai Chi Kok and Sha Tin Depots were further upgraded to ISO 14001:2004 certification. In 2007, KMB's four main operating depots 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 in the Hong Kong Green Mark Certification Scheme. In 2009, KMB obtained the latest ISO 9001:2008 certificates from the Hong Kong Quality Assurance Agency ("HKQAA") on completion of upgrading audits in its four certification areas: KMB Headquarters; Traffic Department and the four main operating depots; the Overhaul Centre; and the Unit Overhaul Depot.

KMB brings you to the heart of the city

In addition, in 2012, KMB's Operations Division was awarded Occupational Health and Safety Assessment Series (OHSAS) 18001 certification by the HKQAA. The accreditation recognised KMB's implementation of effective risk management systems in its bus operations and maintenance activities. KMB is the first franchised bus company in Hong Kong to achieve this certification.

In 2012, KMB's Operations Division was awarded Occupational Health and Safety Assessment Series (OHSAS) 18001 certification by the HKQAA.

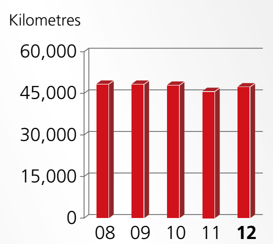
PERFORMANCE PLEDGE

We aim to provide our customers with the most secure and efficient bus services of the highest quality. The operational performance of our public bus services is measured according to two key performance indicators, namely, mechanical reliability and operational capability.

Mechanical reliability refers to the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. In 2012, the mechanical reliability of KMB's fleet was 47,427 km : 1 against a target of 45,000 km : 1.

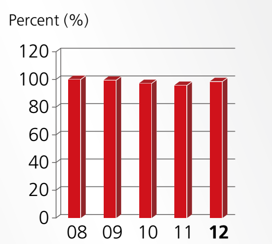
Operational capability refers to the ratio of actual to scheduled departures in the peak direction during the peak operational hours of 7:00 a.m. to 9:00 a.m. across the entire bus network. In 2012, the operational capability achieved was 98.6% against a target of 100%.

Mechanical reliability – KMB



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

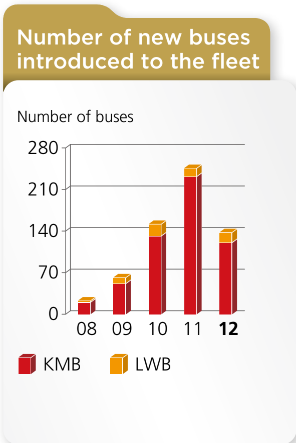
Operational capability – KMB

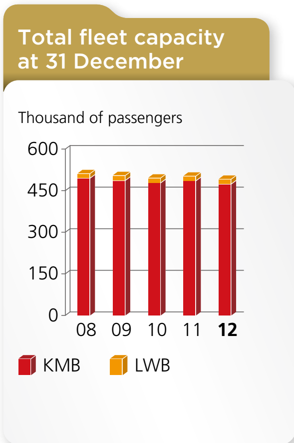


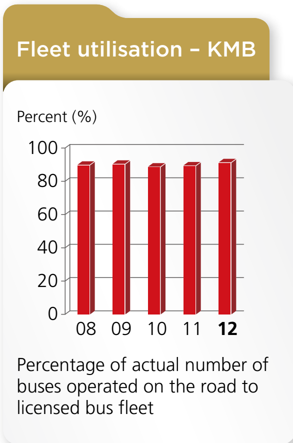
Percentage of actual number of bus departures to scheduled number of bus departures during morning peak hours (7am-9am) in the peak direction

KMB's bus terminus at Hung Hom Ferry Concourse


7B
297
KMB







The state-of-the-art E500 Euro V air-conditioned double-deck bus will come into service in Hong Kong in 2013

BUS FLEET AND FLEET UPGRADE

Bus fleet modernisation in collaboration with our bus suppliers is one of KMB's ongoing operational priorities. We have made continuous investment in new environment-friendly buses featuring the latest designs and safety measures since the introduction to Hong Kong of the world's first super-low floor, wheelchair accessible double-decker in 1997.

The design of today's double-deck bus models adopts an array of innovative features, including wider bodies, straight staircases for easier access to the upper deck, 2+2 seating, priority seats, a wheelchair space near the entrance or exit, brightly coloured handrails, easy-reach bell pushes, and air-conditioning systems with advanced temperature and humidity control and electrostatic air filtration. In 2009, KMB demonstrated its leadership in environment-friendly bus services by becoming the first public bus company in Asia to deploy the Euro V double-deck bus. To further improve its fleet's environmental performance, KMB has collaborated with the British bus manufacturer, Alexander Dennis Limited ("ADL"), to co-develop the new generation Euro V double-deck E500 bus for deployment in Hong Kong. As well as being equipped with a host of safety features, the new E500 bus, which features a new driveline technology and a more energy-efficient air-conditioning system, has a lighter build which reduces fuel consumption and results in 10% lower emissions. Furthermore, its chassis has been designed to accommodate future Euro VI engine development and even hybrid technology.

Another part of our fleet upgrade has been the continuous replacement of retiring single-deck buses with brand new wheelchair accessible super-low floor single-deck buses. These single-deckers combine stylish design with greater headroom to provide passengers with a comfortable ride.

In 2012, we continued to make substantial investments in new buses featuring the latest safety, environmental and design features. A total of 120 new super-low floor air-conditioned buses, consisting of 92 Euro V double-deck buses and 28 Euro V single-deck buses, were added to KMB's fleet.

Following the retirement of the last batch of non air-conditioned buses on 8 May 2012, the entire bus fleet of KMB is now air-conditioned. As at 31 December 2012, KMB operated a total of 3,820 air-conditioned buses, comprising 3,652 double-deck buses and 168 single-deck buses.

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 2012	3,676	165	50	3,891
Additions during year	107	28	–	135
Disposals during year	(131)	(25)	(50)	(206)
As at 31 Dec 2012	3,652	168	–	3,820

At the end of 2012, KMB had on order 370 air-conditioned double-deck Euro V buses and 11 air-conditioned single-deck Euro V buses for delivery in 2013.

BUS SERVICE NETWORK

At the end of 2012, KMB operated a network of 394 bus routes covering Kowloon, the New Territories and Hong Kong Island. To improve the efficiency of its bus network, KMB continues to review the viability of bus routes that are no longer required as a result of railway expansion and to seek to reorganise routes with low passenger demand. The resources saved from such route reorganisation will be redeployed to areas where existing demand is high and to areas with increasing demand. This will not only benefit our passengers, but will also help relieve traffic congestion, thereby protecting the environment, and ease the pressure on fare adjustment. Strategic bus network reorganisation thus remains at the centre of KMB's response to the ongoing changes in market conditions.

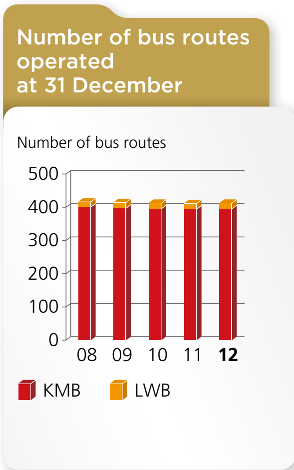
In 2012, we submitted to the Government 40 route reorganisation proposals, two-thirds of which were put forward for consultation with District Councils. In addition, 63 proposals relating to service frequency were also submitted to the Government for consideration. While KMB proposed a reduction of 220 buses in total, since only two of the reorganisation proposals and 28 of the service frequency proposals were approved and implemented, the actual number of buses saved was 30.

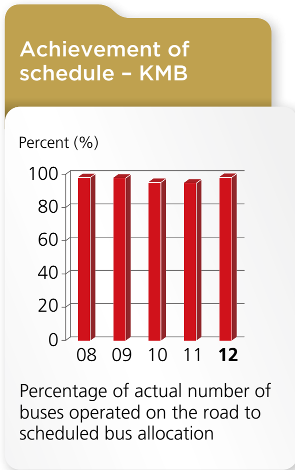
A summary of the bus network reorganisation carried out in 2012 is tabulated below:

	Proposed		Implemented	
	Number of proposals	Number of buses to be saved	Number of proposals	Number of buses saved
Reorganisation	40	156	2	2 (1.3%)#
Frequency reduction	63	64	28	28 (43.8%)#
Total	**103**	**220**	**30**	**30 (13.6%)#**

as percentage of proposed number of buses to be saved

To improve the efficiency of its bus network, KMB continues to review the viability of bus routes that are no longer required as a result of railway expansion and to seek to reorganise routes with low passenger demand.





Route B1 serves the growing demand for transport between Hong Kong and Shenzhen

Since piecemeal route-level service reorganisation has had minimal effect on reshaping the bus network, we plan to adopt an 'area approach' for reviewing and revamping bus services on a district basis. By considering the demand for bus services across an entire area, rather than focusing on individual route evaluation on a stand-alone basis, it is expected that changes can be made more speedily and effectively. Pilot plans would be communicated to the District Councils concerned for consultation from early 2013.

The main objective of the 'area approach' network reorganisation is to make the bus network more responsive to the needs of passengers by moving bus resources from low demand routes to high demand routes or new routes. To this end, we will engage local communities and work closely with them to identify their needs. It is expected that the public will lend their support to an approach that meets their expectations by providing more direct and speedy bus routes, as unpopular circuitous routes are dropped. Part of the approach will also see the better use of Hong Kong's new highway infrastructure, as more express routes are introduced. A publicity programme will help ensure that an area's simplified and enhanced route network is promoted and local passengers made aware of how to reap the benefits of the new arrangements.

BUS ROUTE PROMOTION

An extensive route promotion programme was launched in 2012 to publicise a total of 39 bus routes. Besides the use of bus-stop poles, mega panels at bus shelters, the KMB smartphone app and the KMB website, promotional flyers were distributed to local communities and leaflets were mailed to residents of targeted districts.

In addition to the bus route promotion programme, KMB has continued to participate in joint promotion campaigns with numerous shopping malls.

	Promotion schemes	Routes involved
1	Promotional stickers for boundary service	B1
2	Recreational routes for Lei Yue Mun	14, 14C
3	Recreational routes for Sha Tau Kok	78K, 270A, 277X, 278X, 279X
4	Commuting to Kowloon Bay commercial area	11X, 13X, 98D, 215X, 219X, 296D, 297
5	Recreational services for Clear Water Bay	91
6	New Bus-Bus Interchange Scheme for Tuen Mun residents	960, 961, 968
7	New service for Tai Wai	286X
8	Overnight bus service to Yuen Long	N368
9	Public Transport Fare Concession Scheme for Elderly and Eligible Persons with Disabilities	1, 2B, 11C, 11K, 103
10	Opening of Tuen Mun Road Bus-Bus Interchange	58M, 59M, 60M, 60X, 61M, 61X, 66M/P, 67M, 68A, 259D, 260X, 263

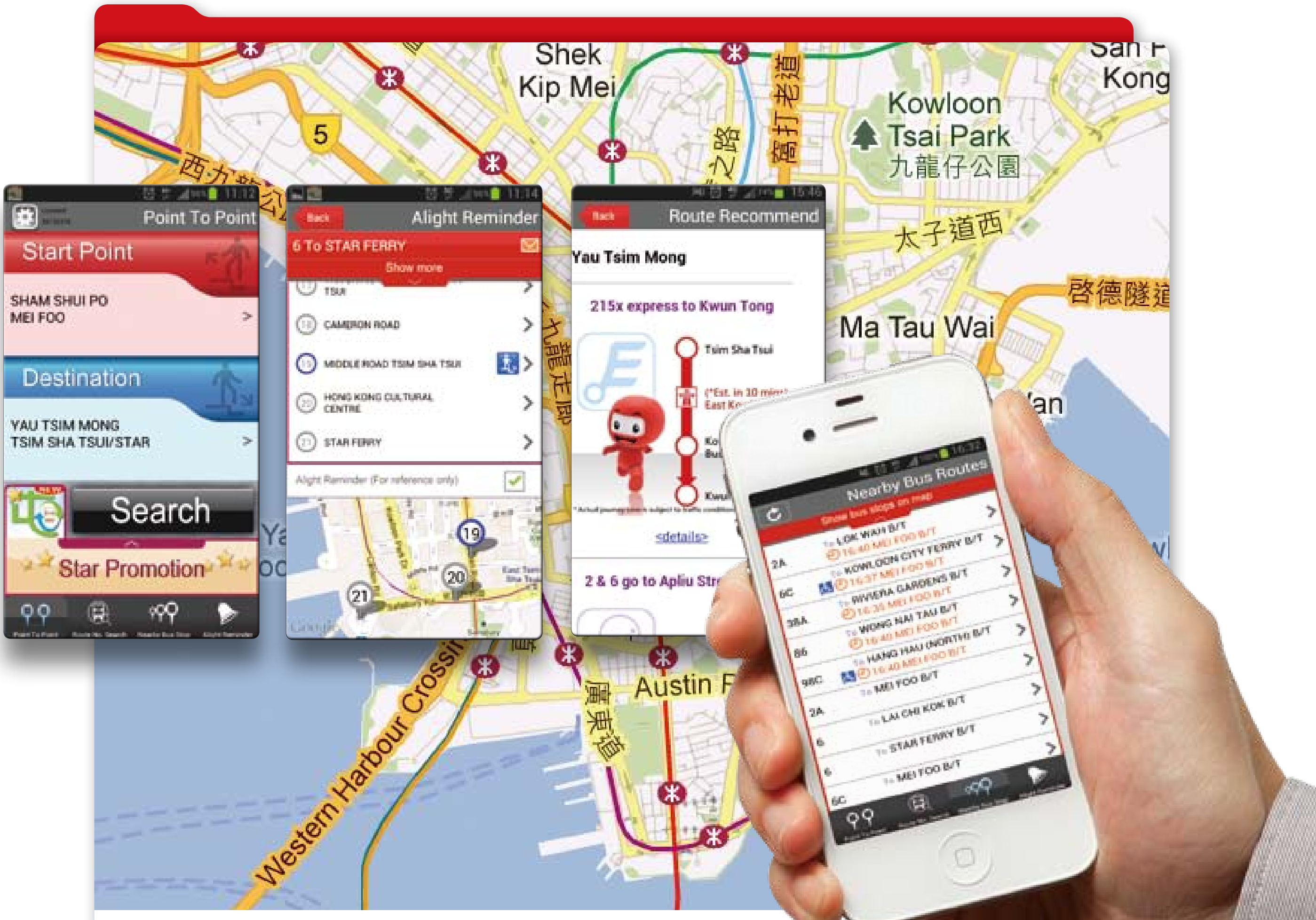
DEPOTS

Depot facilities are constantly upgraded to help improve the productivity and service quality of our bus operations. Besides the four major depots at Kowloon Bay, Sha Tin, Lai Chi Kok and Tuen Mun, which provide routine maintenance and repair services for our entire bus fleet, KMB has ten other smaller depots that provide parking and minor maintenance services, while major bus overhaul services are undertaken at the KMB Overhaul Centre.

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 2012	Year in which operations commenced	Remarks
KMB depots:					
Kowloon Bay Depot	East Kowloon	768,038	1,028	1990	The depot land was acquired at market price from the Government in 1986 under Private Treaty Grant
Sha Tin Depot	North and East New Territories	720,005	1,102	1988	The depot land was acquired at public auction in 1984
Lai Chi Kok Depot	South and West Kowloon	648,946	839	2002	The depot land has been leased from the Government through short term tenancy#
Tuen Mun Depot	West New Territories	148,961	851	1979	The depot land was acquired at public auction in 1974
KMB Overhaul Centre	Bus overhaul	380,915	N/A	1983	The depot land was acquired at market price from the Government in 1979 under Private Treaty Grant
LWB depot:					
Siu Ho Wan Depot	Lantau Island	82,422	165	1998	The depot land has been leased from the Government through short term tenancy#
Total		**2,749,287**	**3,985**		

Under the short term tenancy, rentals at market rates are payable to the HKSAR Government.

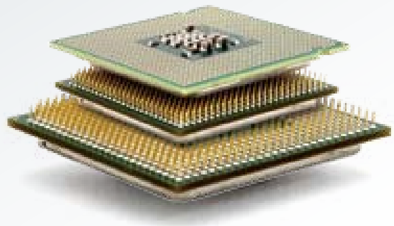


KMB SMARTPHONE APP

In September 2012, KMB and LWB launched their free Smartphone App Version 2 (the "App"), which had been downloaded by more than 1.2 million iPhone, iPad, iPod Touch, Android and Windows phone users by the end of the year. The App allows users to access real-time special traffic information and conduct route searches directly on the map, while giving information on the lowest fare to the destination of a passenger's choice and suggestions on bus routes with the fewest en-route stops. It also offers users a variety of ways to search for a bus route, while providing route maps, timetables and photos of every bus stop. The App's powerful "Nearby Bus Stop" function uses global positioning technology to automatically identify the location of the user and list all bus routes within a 200-metre radius together with the location of their corresponding bus stops. The App also features the pioneering "Alight Reminder" function, which emits an alert sound (or vibration) two bus stops before the selected destination is reached. The App comes in traditional Chinese, simplified Chinese and English versions.

iPhone Version | Android Version | Windows Version

INFORMATION TECHNOLOGY



The adoption of advanced information technology allows KMB to monitor the performance of its daily operations and improve internal and external communications, while enhancing productivity.

CUSTOMER SERVICE

Bus Estimated Time of Arrival Display

Developed in-house, the Bus Estimated Time of Arrival ("ETA") display installed at the Tuen Mun Road Bus-Bus Interchange is the first system of its kind in Hong Kong. With the help of global positioning technology, the ETA system calculates the arrival time of buses travelling via the interchange. Under a pilot scheme, the system currently displays this information for the five KMB long-haul routes using the interchange.

Electronic Bus Stop Announcement System

KMB's entire fleet is equipped with the On-Board Electronic Bus Stop Announcement System, which broadcasts voice announcements in Cantonese, English and Putonghua and shows the name of the next bus stop on light emitting diode ("LED") displays, providing passengers with details of the next stop in advance. The system also broadcasts safety reminders and bus service messages.

Integrated Bus Service Information Display System

KMB's major bus termini feature the Integrated Bus Service Information Display System ("IBSID"), which displays information on bus route destinations, departure times and fares as well as major traffic disruptions on large LED display panels. IBSID also relays pictures of the traffic and operating conditions in the area surrounding the termini at headquarters and at the termini themselves via closed circuit television. At the end of 2012, IBSID had been installed in 28 bus termini.

Lost Property Management System

The Lost Property Management System ("LPM"), which keeps track of lost items from initial recovery to reclaim by passengers or eventual disposal, enables lost property claims and inquiries to be handled efficiently. Besides improving the handling of passenger inquiries, LPM allows our staff to keep accurate track of the status of lost property. In 2012, the system processed an average of around 2,100 lost property cases a month, representing approximately 5,700 lost property items.

OPERATION

Bus Onboard Monitoring System

The Bus Onboard Monitoring System ("BOM") generates reports on the driving performance of bus captains for analysis by the depots and relevant departments, raising training standards in respect of driving safety and passenger comfort to new levels.

Terminus Management System

By automatically displaying the next departure time and special instructions upon bus captains presenting their personalised Octopus cards to report their arrival at bus termini, KMB's Terminus Management System ("TER") eases daily bus operations management at 163 termini. Bus arrival and departure data are recorded and made available to headquarters, depots and relevant departments so that any necessary service adjustments can be made in a timely manner.

KMB started using computers in the 1970s for inventory control and wages calculation purposes. Over the years, our information systems have been expanded significantly and now cover all areas of our daily operations. As an industry leader, we have developed innovative information systems that help improve efficiency and streamline workflows. Information technology is used extensively for performance monitoring, internal and external communications and productivity enhancement. At the end of 2012, a total of 1,895 personal computers were installed across our facilities, interlinked via high-speed communication lines to 113 computer servers located at our headquarters. This sophisticated data network fully integrates the operations of our headquarters, bus depots, bus termini and Customer Service Centres. Some 38 software applications, including in-house developed programs and proprietary software, are used for day-to-day operational purposes and financial management. By constantly upgrading our information technology systems, we can improve our customer service through enhanced fleet and depot operations, human resources management and cost control.

Traffic Operations Management System

KMB's Traffic Operations Management System ("TOM") facilitates bus captain duty assignment by means of handheld radio frequency identification ("RFID") readers which depot staff use to identify the parking location of buses for retrieval by bus captains at our duty dispatch offices. TOM also keeps management up to speed on duty dispatch matters, as well as prioritising the deployment of buses with lower emissions to run on busy corridors.

Operations Communications Management System

KMB's Operations Communications Management System ("OCM") improves the speed and accuracy of message dissemination to depots and relevant departments by streamlining the recording and distribution of real-time information on operational incidents such as traffic accidents, road congestion and adverse weather conditions logged by KMB's Radio Control Section.

Bus Maintenance Information System

The Bus Maintenance Information System ("BMS") facilitates the assignment of jobs and the monitoring of maintenance costs by providing management with information such as bus type, repair and maintenance records, overhaul of major units and maintenance workers' work records. BMS also keep tracks of the performance and durability of retreaded tyres, optimising their use and ensuring safety and environmental protection.

Octopus Management System

Developed by our Information Technology Department, the Octopus Management System ("OMS") provides accurate reports on Octopus revenue reconciliation by retrieving detailed maintenance records of Octopus readers and tracing any card readers whose fare revenue record has not been downloaded or which lack the latest fare information. OMS, which came into operation in 2011, also enhances user interface and data analysis functions.

Advanced Finance and Administration Systems

KMB uses SAP ERP e-Business Software for financial and human resources management. Besides improving the overall quality of administration and planning, the proprietary software improves the efficiency of the financial planning, control and reporting systems. In tandem with an advanced electronic document management system, e-tendering, e-payslip, and company-wide email, this software has seen a substantial reduction in paper use and an improvement in internal and external communications, document distribution, filing and retrieval. To enable even better cost control, KMB's Route Costing System was redeveloped and upgraded in 2012.

LWB began providing franchised public bus services linking the New Territories with Hong Kong International Airport and North Lantau on 1 June 1997. By continuously improving its coverage, the areas currently served by LWB's network include not just the Airport and Tung Chung, but also leisure and tourism developments such as Hong Kong Disneyland, the Ngong Ping 360 cable car and AsiaWorld-Expo.

LONG WIN BUS COMPANY LIMITED ("LWB")

Passenger demand for LWB's bus services continued to grow in 2012, led by Mainland travellers, new developments at the Airport and construction work in nearby areas. LWB was well placed to provide transport services to construction workers on the Hong Kong-Zhuhai-Macao Bridge and those working at the new air cargo terminal.

PERFORMANCE ASSURANCE

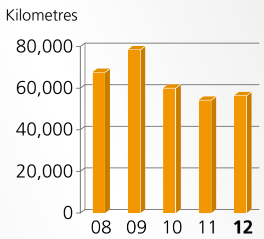
LWB maintains the highest levels of safety and efficiency by constantly reviewing its bus services. In doing so, LWB adopts two key performance indicators, namely, mechanical reliability and operational capability, to measure its operational performance. Mechanical reliability is defined as the average 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 hours of 7:00 a.m. to 9:00 a.m. across the whole bus network. In 2012, LWB's buses achieved 56,491 km : 1 in mechanical reliability and 98.1% in operational capability, against a target of 50,000 km : 1 and 100% respectively.

In pursuit of service excellence, LWB obtained ISO 9001:2008 quality management system certification in November 2012, a milestone for the company in its provision of high quality bus services.

BUS FLEET AND FLEET UPGRADE

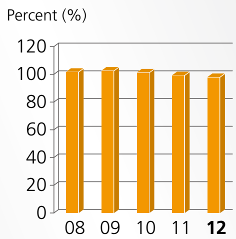
To meet the demand for enhanced services and better environmental protection, LWB further modernised its fleet in 2012 by introducing 18 new Euro V super-low floor air-conditioned double-deck buses to replace older buses. The new buses boast enhanced features that improve passenger safety and comfort.

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

As at 31 December 2012, LWB operated 165 air-conditioned super-low floor double-deck buses, all offering wheelchair access as well as being equipped with the electronic bus stop announcement system and the electronic tachograph, which records vehicle speed and other operational information. CCTV systems were installed in bus cabins to monitor passengers' luggage and enhance security.

LWB's air-conditioned double-deck bus fleet	Total number of buses
As at 1 Jan 2012	164
Additions during year	18
Disposals during year	(17)
As at 31 Dec 2012	165

To meet the increasing passenger demand and improve its overall service, LWB had on order 22 Euro V super-low floor air-conditioned double-deck buses for delivery in 2013.

BUS SERVICE NETWORK

At the end of 2012, LWB had 19 routes in operation. For further service enhancement, LWB added two buses to Route E33/E33P in March 2012 and two buses to Route E34 in September 2012. Express services providing convenience to passengers were also provided on Routes X1, X33, X34 and X41 at the conclusion of events held at AsiaWorld-Expo. As a special service for passengers, combined tickets for entrance to Hong Kong Disneyland together with LWB Route R33, R42 or Route A41 were on sale at LWB's Airport Customer Service and Ticket Office.

LWB will continue to explore ways to support the growing passenger needs arising from burgeoning tourism and leisure activities, while maintaining its high standards of network coverage and service for all its passenger groups. By continuing to provide efficient, direct and user-friendly bus services, LWB will meet both its mission and the needs and expectations of its customers.

DEPOT

LWB's depot at Siu Ho Wan provides daily bus maintenance, refuelling, bus washing and parking for its buses. A waste water treatment system is installed at the depot 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

LWB's buses are inspected under a stringent maintenance regime to ensure that the highest maintenance standards are adhered to, while the safe driving performance and customer service provision of bus captains are monitored by driving instructors. The holding of safety briefings and the circulation of safety reminders ensure that bus captains are kept apprised of the latest safety messages. Quality campaigns are also organised to reinforce good performance.

To provide passengers with convenient access to route information, the new LWB website www.lwb.hk was launched in 2012. LWB enhanced the route information displays at its en-route bus stops by providing the estimated arrival time for buses on some bus routes, and upgraded its smartphone app to facilitate customers retrieving bus information via their smartphones.

ENVIRONMENTAL PROTECTION

To reduce the emission of particulate matter, LWB has retrofitted Diesel Particulate Filters on all its Euro II and Euro III buses. The introduction of 18 new Euro V buses in 2012 (representing about 11% of the LWB fleet) has contributed to a cleaner environment by reducing nitrogen oxide emissions.

The air quality in LWB's bus compartments has been greatly improved by the electrostatic air filtration function in the air-conditioning system of its buses, and the Eco-driveline system has effectively reduced fuel consumption and exhaust emissions.

LWB's network provides efficient, direct and user-friendly bus services to Hong Kong International Airport

Hong Kong Non-franchised Transport Operations

The Group's non-franchised transport operations offer a variety of transport services to business commuters, tourists, shoppers, students and residents of large housing estates, as well as providing chartered hire services to the general public and cross-boundary shuttle bus services to travellers.

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

The SBH Group is a leading non-franchised bus operator in Hong Kong, providing both premium and value-for-money tailor-made transport services to a variety of customers.

With Sun Bus Limited ("SBL") as its flagship subsidiary, the SBH Group offers a range of bus services designed for specific markets. Large residential estates, shopping malls, major employers, theme parks, travel agents and schools are all served by its fleet of 394 buses, in addition to the general public through its chartered hire services.

HIGH QUALITY TAILOR-MADE TRANSPORT SERVICES

Travel Agents

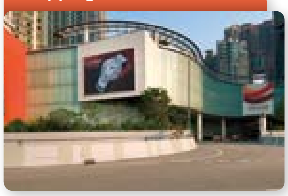
Schools

Large Residential Estates

Theme Parks

Major Employers

Shopping Malls



Sun Bus provides tailor-made services for a wide range of customers

During the year, the SBH Group continued to strengthen its services by purchasing the latest environment-friendly buses available on the market. In 2012, 25 Euro V buses were added to its fleet to replace older buses. The SBH Group also acquired two cross-boundary non-franchised bus operators with a total of 17 buses. The increase in fleet size reflects the SBH Group's strategy of expanding into business segments such as the cross-boundary bus services sector. The SBH Group will continue to introduce more new Euro V buses as part of its fleet upgrade programme. At the end of 2012, the SBH Group had a fleet of 394 buses.

SBL is committed to continuous strengthening of all aspects of its management and operations. Since becoming the first commercial non-franchised bus company in Hong Kong to achieve ISO 9001:2000 certification in 2008, SBL has been upgraded by the Hong Kong Quality Assurance Agency to ISO 9001:2008 certification, confirming the superb quality of its quality management systems.

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

NEW HONG KONG BUS COMPANY LIMITED ("NHKB")

In 2012, NHKB operated a fleet of 15 air-conditioned super-low floor single-deck buses on its 24-hour cross-boundary shuttle bus service between Lok Ma Chau and Huanggang. Further passenger comfort and convenience was provided by the four comfortable air-conditioned waiting lounges and the integrated information display system at its terminal building in the San Tin Public Transport Interchange.

The opening of the Lok Ma Chau Spur Line, the Lok Ma Chau Public Transport Interchange and the Hong Kong-Shenzhen Western Corridor has brought NHKB intense competition from both rail and public minibus services. In addition, the relocation of the Control Point Office in Huanggang which requires passengers to walk further for immigration clearance has also had an impact on patronage growth. As a result, the demand for NHKB's cross-boundary bus services has declined, with a fall in patronage from 5.2 million passenger trips in 2011 to 4.9 million passenger trips in 2012.

NHKB's bus termini

By offering convenient and quality services, NHKB aims to maintain its shuttle bus service as a preferred means of transport for cross-boundary travellers.

NHKB offers speedy and convenient services between Lok Ma Chau and Huanggang

Notwithstanding these challenges, the demand for cross-boundary bus services is projected to grow in line with the forging of closer social and economic ties between Hong Kong and China Mainland, and the expected influx of visitors as more residents from other major Mainland cities are expected to become eligible for the Individual Visit Scheme. By offering convenient and quality services, NHKB aims to maintain its shuttle bus service as a preferred means of transport for cross-boundary travellers.

China Mainland Transport Operations

In 2012, the Group operated a range of transport services in Shenzhen (深圳) and Beijing (北京). We will continue to explore transport related business opportunities in China Mainland that can give reasonable returns in line with our investment strategy.

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

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

Since commencing operations in January 2005, SBG has provided public bus, minibus and taxi services in Shenzhen City (深圳市). As at 31 December 2012, SBG had 5,813 vehicles operating on around 270 routes. In 2012, owing to the impact of the opening of new rail lines within Shenzhen's underground railway system, the number of bus passenger trips served by SBG decreased by 3.3% to 877.3 million compared to 907.0 million passenger trips in 2011.

In the face of strong competition from Shenzhen's underground railway and continuing inflation in China Mainland, SBG further improved its operational efficiency and strengthened its cost control measures during 2012. To stay competitive in the public transport market, various measures, including fleet upgrade and strategic reorganisation of its bus network, were taken by SBG to increase productivity without compromising its service quality. Rigorous budgetary control measures were also adopted to mitigate the impact of escalating operating costs. In 2012, SBG continued to introduce more feeder bus routes connecting neighbourhoods with underground railway stations and to extend its route network to nearby districts.

SBG's electric taxi fleet helps to create a green city

SBG carries passengers in comfort to their destination

SBG continues to trial buses and taxis using new clean energy sources such as liquefied natural gas and electricity.

SBG has been ISO 9001:2000 certified for the provision of transport services, transit designs and support services in the city of Shenzhen since 2007. To improve the environmental performance of its bus fleet, SBG has adopted the use of environment-friendly fuel and engines meeting up to Euro IV emission standards. It also continues to trial buses and taxis using new clean energy sources such as liquefied natural gas and electricity, and to collect more research data for better application of these new technologies. SBG will continue to upgrade its services and enhance its competitiveness in Shenzhen and other markets.

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

Established in 2003, BBKT was the first Sino-foreign joint stock company to enter China Mainland's taxi hire and car rental business sectors. KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, holds an equity interest of 31.38% in BBKT.

Being one of the leading operators in the taxi hire and car rental business in Beijing, BBKT is well placed to offer the highest levels of service in a competitive market, having been ISO 9001:2000 certified for its quality management systems in taxi services since 2006. With a fleet of 4,680 vehicles, BBKT is ideally positioned to capture additional business opportunities afforded by the wide variety of events, conferences and exhibitions that are held in the national capital. The growing affluence and increasing internationalisation of the Mainland bode well for the identification of new market opportunities, especially in the chartered vehicle services sector.

Despite the continuing challenges posed by rising staff costs and other operating expenses, BBKT made satisfactory progress in 2012 and will continue to build on its solid reputation for quality service provision while exploring profitable avenues for seizing new business opportunities.

BBKT made satisfactory progress in 2012 and will continue to build on its solid reputation for quality service provision while exploring profitable avenues for seizing new business opportunities.

BBKT's taxis bring all of Beijing within reach of its customers

Property Holdings and Development

The Group's portfolio of investment properties, spearheaded by the prestigious Manhattan Mid-town shopping mall, generates a stream of rental income for the Group.

LAI CHI KOK PROPERTIES INVESTMENT LIMITED ("LCKPI")

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

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, comprising 1,115 apartments ranging from 668 square feet to 5,008 square feet. Two luxurious private clubhouses provide residents with comprehensive sporting and leisure facilities.

The sale of Manhattan Hill's residential units began in November 2006. In 2012, the last residential unit with a total saleable gross floor area of 5,008 square feet and 13 car parking spaces were sold, leaving only one car parking space available for sale at the end of the year.

LCK COMMERCIAL PROPERTIES LIMITED ("LCKCP")

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

LCKCP owns the upscale Manhattan Mid-town shopping mall, the two-level retail podium at Manhattan Hill, which enjoys high connectivity by bus, rail and car to all parts of the city, including Hong Kong Island and Hong Kong International Airport. The shopping mall has provided Manhattan Hill residents and other shoppers with high quality retail facilities since its opening in March 2009. At the end of 2012, the entire lettable area of the 50,000 square feet shopping mall had been leased out to a mix of shops and restaurants, 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 located at 9 Po Lun Street, Lai Chi Kok, Kowloon, with a total gross floor area of about 156,700 square feet. The building is situated next to the Manhattan Hill development. About 70% of the area is used by the Group as headquarters with the remaining area set aside for the provision of shops and restaurants. At the end of 2012, approximately 83% of the lettable floor area had been leased out to a number of restaurants and shops to generate steady rental income for the Group.

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 "Kwun Tong Site") at 98 How Ming Street, Kowloon, as tenants in common in equal shares.

The Kwun Tong Site will be jointly developed by KTRE and TRL for non-residential (excluding hotel) purpose. 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 Kwun Tong Site to ensure that the whole development meets the highest standards.

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

The Group's Property Holdings and Development

Property	Usage	Total Gross Floor Area (square feet)	Group's Interest (%)	Remarks
Kwun Tong Inland Lot 240 98 How Ming Street, Kwun Tong, Kowloon	(Note)	1,150,000	50	The site was acquired at public auction in 1967
Manhattan Mid-town 1 Po Lun Street, Lai Chi Kok, Kowloon	Shopping Center	50,000	100	The site was acquired at market price through private purchase in 1955
TIH Headquarters Building 9 Po Lun Street, Lai Chi Kok, Kowloon	Office/ Shops	156,700	100	The site was acquired at market price through private purchase in 1955
Tuen Mun Town Lot No.80 1 Kin Fung Circuit, Tuen Mun, New Territories	Industrial/ Godown	105,900	100	The site was acquired at public auction in 1974

Note: Application for lease modification to non-residential (excluding hotel) use is in process.

Media Sales Business

RoadShow offers marketers and advertisers an unparalleled variety of innovative and effective means for spreading their messages to their target audiences every day.

ROADSHOW HOLDINGS LIMITED AND ITS SUBSIDIARIES

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

BUS-TV

RoadShow's Bus-TV business specialises in the broadcast of tailor-made programmes and advertisements, handling programme content production and sourcing as well as the marketing and selling of airtime. In July 2012, RoadShow's exclusive contract with New World First Bus and Citybus came to an end, leading to a reduction in the number of buses with Bus-TV from 4,800 to 3,600. This means that, as at 31 December 2012, a variety of programmes on culture, lifestyle, entertainment and news were being shown to an estimated 2.6 million bus passengers in Hong Kong each day on around 14,400 liquid crystal display ("LCD") units.

In the coming year, RoadShow will continue to integrate Bus-TV with other RoadShow platforms with the aim of offering advertisers enhanced brand service through greater synergy.

IN-BUS

Since its launch in 2009, In-Bus advertising has performed well. In 2012, the platform's attractiveness was enhanced by rolling out new advertising formats as well as enhancing creativity and interactivity by means of more innovative use of technology.

BUS-BODY

Since 2009, Bus-Body has been a powerful means for advertisers to penetrate Hong Kong with their messages. Currently, advertising on the exteriors of around 3,700 franchised buses is managed by RoadShow. Advertisers and agencies have responded positively to the unique integration of Bus-TV, Bus-Body and In-Bus via RoadShow's "Theme Bus" advertising package, thereby endorsing Bus-Body as a highly creative and effective platform for brand promotion.

BUS-SHELTERS

The licence for RoadShow's Bus-Shelter advertising business, operated in conjunction with JCDecaux Cityscape Limited since 2001, was extended on 3 July 2012 for the period from 1 August 2012 to 30 June 2017. In 2012, Bus-Shelter advertising continued to boost RoadShow's market share and enhance its status as Hong Kong's foremost out-of-home advertising specialist.

INTEGRATED MARKETING SERVICES

2012 saw marked growth in the demand for RoadShow's market-leading Integrated Marketing Services. Key customers include advertisers and event management and production specialists, as well as creative development and public relations professionals. The upswing in demand was accompanied by a rise in the number of integrated campaigns organised for RoadShow clients.

In 2012, RoadShow's Integrated Marketing Services platform extended its coverage beyond Bus-TV and Bus-Body to include Billboard, E-Portal and Mobile Application Software, incorporating the widespread production of customised programmes. Event management services provided included the organisation of product launches, catwalk shows, talent contests, award presentation ceremonies and concerts, including the "2011 Hong Kong Awards for Environmental Excellence" and the "Konica Minolta Green Concert 2012".

RoadShow remains well positioned to meet agencies and advertisers' needs in the area of integrated media and marketing services.

BILLBOARD

Since December 2012, a wholly owned subsidiary of RoadShow has become the Government Property Agency's exclusive media representative for the management of outdoor billboards at Hung Hing Road, Causeway Bay. Prominently situated at the entrance to the busy Cross-Harbour Tunnel, RoadShow's prime display area offers unprecedented exposure and impact to advertisers wishing to reach a vast target audience.

In 2012, RoadShow also entered into a licence agreement with Route 3 (CPS) Company Limited for the management of billboard advertising spaces on Route 3 in the New Territories commencing in March 2013. By expanding its operations into the billboard business segment, RoadShow is not only solidifying its leading role in the out-of-home media market, but also accelerating the integration of its multi-dimensional platforms.

In the coming year, RoadShow will continue to expand its Billboard network and further strengthen its market share.

Care for Customers

We are dedicated to meeting our customers' needs and providing them with the best possible service so that they may enjoy safe and comfortable journeys. This commitment is in line with the goal we have pursued since we first began operating 80 years ago: to deliver high quality services to our customers and thus contribute to the growth of Hong Kong.

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

At the end of 2012, KMB operated 81 Octopus BBI Schemes covering 264 routes, while LWB had six Octopus BBI Schemes covering 12 routes, including those serving Hong Kong Disneyland and AsiaWorld-Expo. The Octopus BBI Schemes not only broaden our network coverage but also provide our passengers with fare discounts on the second leg of journeys.

BBI Schemes contribute towards a cleaner environment by improving bus utilisation and reducing traffic congestion. We will continue to explore ways of further enhancing our Octopus BBI coverage, both on the KMB and LWB networks and through inter-modal schemes operated with other public transport operators.

TUEN MUN ROAD BUS INTERCHANGE

Phase I of the Tuen Mun Road Bus-Bus Interchange came into operation on 26 December 2012, serving passengers heading from Tuen Mun towards Kowloon. To tie in with the opening, KMB launched an interchange scheme involving eight Tuen Mun-based short-haul routes and five long-haul routes to provide local residents with time- and money-saving services. KMB also introduced the pioneering Estimated Time of Arrival System ("ETA System") at this interchange. The ETA System, through its LED display panels, notifies passengers of the arrival time of the next bus.

BUS FARE DISCOUNT SCHEME

Under a discount scheme introduced on 28 January 2006 and expiring on 4 August 2012, KMB and LWB offered Sunday and public holiday fare discounts for passengers aged 65 and over paying by Octopus card. These passengers travelled at a flat fare of HK$2.00 or half fare, whichever was lower, on Sundays and public holidays on all KMB and LWB routes, excluding Airport "A" and racecourse routes. Starting from 5 August 2012, KMB and LWB rolled out the Government's Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities. These passengers enjoy a flat fare of HK$2.00

Our goal since we first began operating 80 years ago is to deliver high quality services to our customers and contribute to the growth of Hong Kong.

or the current applicable fare, whichever is lower, for each passenger trip on every day of the week. The concessionary fare applies to all KMB routes (except racecourse routes) and all LWB routes (except Airport "A" routes).

THE OCTOPUS SMART CARD

Introduced in 1997, the electronic Octopus Smart Card System is widely used by public transport users in Hong Kong. It is now 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 2012, more than 90% of our franchised bus fare revenue was collected via Octopus cards, which are both convenient for passengers and cost-efficient for the Group in respect of cash collection and administration.

LUMINOUS CRYSTAL BUS STOP POLES

In 2012, KMB added 90 new luminous crystal bus stop poles in busy urban areas, raising the total number of such poles to around 200. The pole's multi-sided, 360-degree rotating route information panel gives passengers access to route information quickly and easily. Designed for clarity and readability, the pole features a rectangular crystal bus-stop sign showcasing the traditional KMB red circular pattern. As well as relevant route numbers, the sign gives bus stop names in English and Chinese in larger fonts than traditional bus stop poles. The environment-friendly pole's pollution-free LED lighting is powered by a silicon rechargeable battery and has treble the lifespan and over six times the electricity-saving capacity of fluorescent tubes. A timer is installed to regulate the lighting operating time to further save energy.

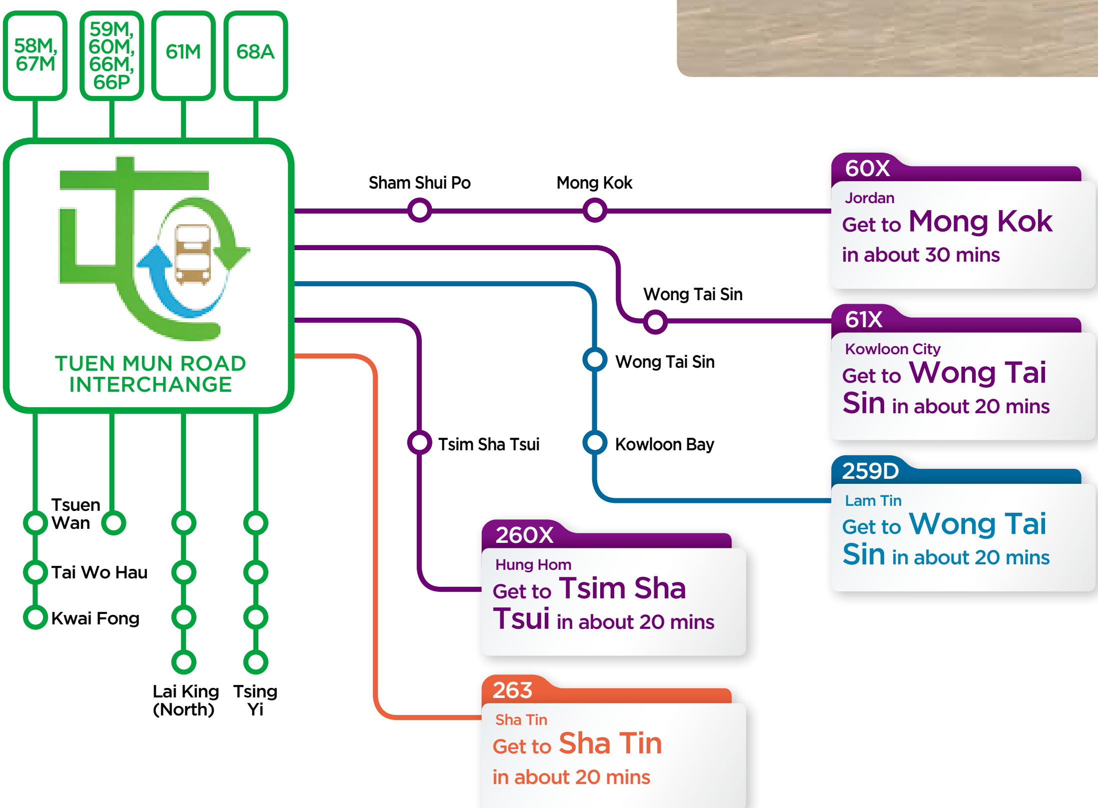
BUS SHELTERS

We aim to make the environment more pleasant for our passengers while waiting for buses through our bus shelter improvement programme. In 2012, KMB added 20 new bus shelters, raising the total to 2,443, while LWB added one new bus shelter, raising the total to 31. With 2,650 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's eight customer service centres, situated at public transport interchange hubs in Tsim Sha Tsui, Hung Hom, Lam Tin, Mei Foo, Tsuen Wan, Sha Tin, Tuen Mun and Tin Shui Wai, provide a convenient one-stop service to passengers. Bus route information may be obtained from our customer service ambassadors. Octopus card services and KMB souvenirs are also available from the centres.

By using the Digital Map Passenger Enquiry System in the centres' multimedia kiosks, customers can make route searches that show landmarks on routes of their choice on a three-dimensional map. A simplified Chinese version of the system has been developed to meet the needs of the growing number of Mainland visitors. Customers may also use the multimedia kiosks to browse the KMB website.



The Tuen Mun Road Bus-Bus Interchange offers local residents savings in terms of time and money

LWB's customer service and ticketing office at the airport 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) continues to prove to be a popular channel for our customers to communicate with us. In 2012, it handled more than 2.9 million calls, an average of about 242,000 calls a month. A hotline operator service is available every day from 7:00 a.m. to 11:00 p.m., and is complemented by a trilingual 24-hour hotline system which provides bus route information, service updates and traffic news in Cantonese, English and Putonghua, as well as a voicemail service. 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) dealt with a total of 17,934 calls in 2012, an average of 1,495 calls a month. In addition to responding to passengers' enquiries, comments and suggestions, the helpline handles lost and found enquiries.

INFORMATION FACILITIES AT BUS TERMINI

In 2012, KMB improved information facilities at one major bus termini and one bus-bus interchange, introducing large information boards which help passengers who are unfamiliar with the location find their desired bus stops by means of an enlarged floor plan. Accompanying route information tables provide bilingual destination names, grid reference codes, platform numbers and fares. A total of 22 termini and interchanges are now equipped with this feature.

SAFETY POLICY

KMB is committed to providing safe, reliable and quality bus services for all of its passengers. The Safety Policy is predicated on a commitment made by all members of staff to providing a safe and healthy environment for everyone who may be affected by our bus operations and work activities with the aim of minimising the risk of injury and ill health. We recognise that safety is everyone's responsibility and such recognition is embedded in everything that we do. It is the duty of staff members at all levels to ensure that all legal requirements and other requirements applicable to our bus operations and work activities are complied with.

As a world-class public bus operator, we accord top priority to safety in our daily operations to meet or exceed our customers' expectations. We promote the adoption of a Plan-Do-Check-Act ("PDCA") framework for safety and health management. We also strive for continual improvement in safety performance in all aspects of our business.

Our Safety Policy is reviewed regularly to ensure its appropriateness for sustaining our operational excellence.

KMB's ISO-certified maintenance procedures keep its fleet in tip-top condition

SAFETY MANAGEMENT SYSTEM

KMB has a well-structured safety governance framework which ensures that the highest levels of safety performance and sustainable operations are achieved in line with international standards.

To provide a good foundation for a safety culture, a strategic plan is in place for developing, implementing and reviewing a safety management system that goes beyond legal and statutory requirements. In January 2012, KMB fully implemented a fit-for-purpose safety management system based on Occupational Health and Safety Assessment Series ("OHSAS") 18001 requirements, which is compatible with ISO 9001 (quality) and ISO 14001 (environmental) management system standards. In pursuit of the highest achievable safety standards, KMB's (PDCA) approach seeks continual improvements in the safety performance and sustained operational excellence of all aspects of its business, as well as enhancement of frontline staff's awareness of occupational health and safety issues. To this end, a series of safety management training courses have been provided to inform staff of safety management strategy and procedures.

Recognising that taking a proactive approach to risk management is key to all safety management activities, KMB has executed effective risk management measures based on OHSAS 18001 in the areas of bus operations and maintenance activities. We plan further to implement an effective risk control system which ensures that safety risks are controlled to levels appropriate to the nature of our operations.

On 1 August 2012, KMB's Operations Division was awarded the Occupational Health and Safety Assessment Series (OHSAS) 18001 Certificate by the Hong Kong Quality Assurance Agency, the first franchised bus company in Hong Kong to receive the certification.

SAFE DRIVING CULTURE

Bus Design and Maintenance

KMB's engineers continue to co-develop with leading manufacturers new bus types that are specially suited to Hong Kong's climate and operating environment. New KMB double-deck buses are equipped with the three-in-one integrated safety monitoring system, allowing bus captains

In August 2012, KMB's Operations Division was awarded the Occupational Health and Safety Assessment Series (OHSAS) 18001 Certificate by the Hong Kong Quality Assurance Agency, the first franchised bus company in Hong Kong to receive the certification.

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 decks and the staircase are being trialled. Various technological measures to improve safety, including speed limiting devices, which limit the speed of buses to 70 km/h, and electronic tachographs, which record vehicle speed and other operational information, are installed across our fleets. At the end of 2012, 3,819 KMB buses and 165 LWB buses were equipped with electronic tachographs.

All buses in the KMB and LWB bus fleets are subject to an ISO-certified maintenance regime, consisting of daily, monthly, half-yearly and annual road-worthiness inspections carried out at our depots. The rigour of our maintenance procedures results in mechanical reliability standards that our passengers can trust. Our franchised buses are subject to regular random checks by the Transport Department of the HKSAR Government.

Bus Captain Training and Development

To safeguard passenger safety and enable the provision of reliable bus services, we are dedicated to bus captain training. KMB's Bus Captain Training School at Sha Tin Depot provides new and existing bus captains with comprehensive training and improvement training programmes to ensure that our bus captains give top priority to safe driving. The Training School is equipped with a state-of-the-art Driving Simulator Studio, which recreates real-world driving environments that enable bus captains to improve their overall driving skills and in particular their response to difficult situations. We also organise a number of safety awards and competitions which promote the concept of excellence in driving to our bus captains.

To heighten bus captains' awareness of safe driving and reinforce our safe driving messages, bus captains are provided with driving aids which contain driving regulations and safety notes relevant to a bus captain's daily work, including the "Bus Captain Safe Driving Handbook", the "Safe Driving Card" and "Driving Tips". To enhance bus captains' defensive driving skills and awareness, a 90-minute training programme has been developed to remind bus captains to pay special attention to road situations and to maintain safe driving practices. Bus captains are also required to comply with the Bus Captain Working Procedures, as well as the procedures relating to Bus Terminus Safety Operations and Traffic Accident Handling.

Incentive schemes, including the Route Safety Performance Award and the Route Safety Improvement Award, were introduced in 2011 as part of our continuous effort to enhance safe driving performance. To encourage our bus captains to uphold the principle of traffic safety, these award schemes continued to be run in 2012 to promote the importance of safe driving.

In pursuit of continuous improvement in delivering high quality services, KMB has put a great deal of effort into building up a team of professional and safety-oriented bus captains committed to providing service excellence.

In October 2012, KMB launched the "KMBuddy Driver Programme" with the aim of helping new bus captains to quickly adapt to their new work environment and make them more aware of road safety.

In October 2012, the company launched the "KMBuddy Driver Programme" with the aim of helping new bus captains to quickly adapt to their new work environment and make them more aware of road safety. Retired bus captains with extensive driving experience and good safety performance are appointed to ride with newly appointed bus captains and help impart a positive driving attitude by sharing their driving experience.

DRIVING TIPS DATABASE FOR BUS CAPTAINS

A database of "Driving Tips in Special Attention Areas" is available on our staff website to help bus captains drive more smoothly and safely. The first of its kind in Hong Kong, the database provides bus captains with practical driving tips and suggestions in special attention areas across KMB's operating 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. Providing structured instructions and tips on best driving practices enables the expertise and knowledge of experienced bus captains to be shared with their colleagues.

To enhance communications between bus captains and management, a Frontline Operations Support Team has been established. The team encourages two-way communication on various topics, including safety and ideas for service improvement. In addition, the staff website provides a channel for bus captains to give any suggestions they might have on driving tips. This allows the database to be continuously fine-tuned and updated in conjunction with the ongoing study of the routes involved so that the most up-to-date and accurate information is made available to bus captains. 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

In line with its policy of providing passengers, especially the elderly, with safe bus journeys, KMB disseminates its safety messages to the elderly through many channels, including

The "Priority Seat" Scheme encourages passengers to offer their seat to those in need

leaflets and the bus stop announcement system. In 2012, frontline staff, in collaboration with police representatives, distributed safety leaflets and environment-friendly bags bearing the "Hold the Handrail – Safety First" message to elderly passengers at bus stops frequently used by senior citizens. This provided an effective platform for reminding elderly passengers to raise their safety awareness when taking the bus.

PROMOTION OF PRIORITY SEATS

We launched the "Priority Seats" scheme in March 2012 to encourage passengers to express their concern for passengers in need by giving their seat to the elderly, the disabled, pregnant women and passengers with infants. Four priority seats with eye-catching headrests have been set aside near the exit door on the lower deck of around 3,500 double-deck buses. Messages reminding passengers to offer their seat to passengers in need are also broadcast on the bus stop announcement system.

Care for Employees

We regard our workforce as our most valuable asset and are committed to developing our people for the delivery of the highest quality service. Continued investment in our workforce through the provision of comprehensive training and recognition programmes acts to motivate staff and create a work environment that values performance.

HUMAN RESOURCES POLICY

To ensure the provision of a safe, respectful and harmonious workplace, KMB strictly adheres to a set of comprehensive human resources policies stipulating staff management principles including the promotion of gender equality, the elimination of sexual harassment, the prevention of bribery and the protection of personal privacy. These policies, along with other company guidelines, are published on the staff website. We strictly observe all labour laws and ensure that our suppliers respect labour rights regarding employment and freedom of association and prohibit child labour and forced labour in all aspects relating to our business. All members of our staff are covered by collective bargaining agreements.

LONGER MEAL TIME

The Government's "Guidelines on Bus Captain Working Hours, Rest Times and Meal Breaks" were revised in October 2010. While KMB has endeavoured to meet the Transport Department's implementation timeline for the new arrangements by the third quarter of 2012, since safety is the prerequisite, there should be no compromise on bus captain hiring and training quality on account of the accelerated timeline, including, but not limited to, the number of training days, new bus captain intake quality, the supply and quality of new driving instructors, and resources dedicated to ongoing safety improvement initiatives.

In addition to the need to fill positions left vacant by natural processes, extra bus captains have been recruited and trained to cover the service gaps arising from the increase in rest time and meal break time. In addition, we have equipped many bus termini with further amenities for use by bus captains and other frontline staff, including rest areas, toilets, drinking water dispensers, microwave ovens and refrigerators.

RECRUITMENT

To maintain sufficient manpower to support the delivery of quality bus services, in 2012, we introduced more recruitment channels to attract bus captain applicants. These included the Bus Captain Referral Programme, under which staff are given incentives to encourage qualified candidates to apply for the post of bus captain, recruitment days in bus termini and joint recruitment days with non-government organisations.

A breakdown of the workforce of the Group by division at the end of 2012 is given below together with figures for 2011:

Division	2012	2011
Franchised Public Bus Operations		
• KMB	12,006	11,654
• LWB	460	469
Sub-total	12,466	12,123
Non-franchised Transport Operations	656	633
Media Sales Business (1)	145	117
Mainland Transport Operations (2)	5	6
Total	**13,272**	12,879

(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.

STAFF COMMUNICATIONS

Six Joint Consultative Committees have been established to provide a direct communication platform between management and staff representatives from KMB and LWB so that matters of common interest can be discussed in depth. The Committee meets every month at KMB and every two months at LWB to review issues such as safety and operating procedures, the working environment and staff welfare. The staff website provides KMB and LWB employees with a variety of useful information such as company announcements, highlights of past activities, annual leave balances, weather updates and details of upcoming events.

The monthly corporate magazine KMB Today and video compact discs (VCDs) are additional channels for keeping staff informed of corporate developments as well as those in the industry.

STAFF DEVELOPMENT

The Group sees staff development as a key investment in its human capital. To maintain and upgrade our service quality, we are committed to developing our staff at all levels. Relevant training and development courses are arranged from time to time to strengthen the management and operational skills of both managerial and frontline staff.

KMB's Driving Simulator Studio provides state-of-the-art training for our bus captains

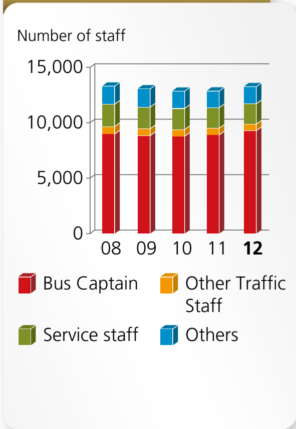
In 2012, we offered a range of training and development courses for our management staff, including programmes covering presentation skills, project management skills, and problem solving and decision making skills. Workshops on Enhancing Personal Competencies were arranged for supervisory and clerical staff throughout 2012 to equip them with the skills and knowledge to help them tackle upcoming challenges. We also ran a series of customer services skills workshops for our frontline supervisors to reinforce good customer service habits at the highest level.

In 2012, 576 staff attended courses organised by the Occupational Safety and Health Council and the Labour Department of the HKSAR Government. The Equal Opportunities Commission was also invited to conduct a series of seminars for our management staff and frontline operations staff to keep them up to speed on the latest legal requirements. In addition, for the seventh successive year, KMB and LWB management attended a seminar given by a renowned Harvard Business School professor specialising in business strategy on the latest developments in the business world.

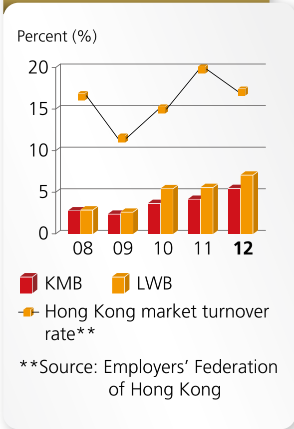
BUS CAPTAIN TRAINING

Committed to providing safe and comfortable public bus services, KMB puts the training of bus captains at the top of its agenda and sets strict requirements for their driving performance. Each year, the KMB Bus Captain Training School at Sha Tin provides comprehensive training and improvement training courses to about 6,000 drivers, including both new bus and experienced bus captains. In 2012, a team of 57 experienced driving instructors and 42 training buses were employed at the Training School.

Number of staff in the Group at 31 December



Staff turnover rate (voluntary resignation only)



The quality of KMB's apprentice training programme was once again recognised in 2012 as two apprentices won recognition in the Vocational Training Council's Best Apprentice in the Automobile Trade Competition.

Drawing on the accumulated experience of years of bus driving training, KMB's Bus Captain Training School provides systematic training to enhance the defensive driving skills of bus captains through comprehensive and carefully designed courses. New bus captains receive a series of basic training courses which focus on handling a bus, road safety awareness, safe driving techniques, road regulations, bus parking, night driving, different bus types, and familiarisation with bus routes and on-board facilities, as well as customer service skills. Before delivering services to the public, all new bus captains must go through rigorous internal assessments to ensure that they can carry out their duties effectively. Continuous improvement training courses are designed to reinforce the road safety awareness and driving skills of experienced bus captains. All bus captains receive eco-driving training, which promotes good practices such as switching off idling engines, to strengthen environmental awareness.

Through simulation of the real-world environment and vehicle behaviour, the Training School's state-of-the-art Driving Simulator Studio enables bus captains to improve their driving skills and sharpen their responses to various unpredictable situations on the roads. The Training School's four simulator stations feature a driving cabin equipped with driving seat, steering wheel, accelerator, brake and instrument panel, as well as multiple 42-inch plasma displays broadcasting high-resolution three-dimensional images. Further authenticity is provided by the simulation of the interaction between the bus and the road surface and by sounds which are typical in a bus cabin. To ensure training effectiveness, instructors provide on the spot individual feedback, and a report covering speed, trip duration and passenger comfort is given to each trainee.

The content of training programmes is regularly reviewed by the driving instructors and updated to cater for new bus types and training items. To release more time for on-road practice, on-line training has replaced classroom lectures for tutoring new bus captains in traffic rules, safety tips and company regulations. To promote a self-learning culture, a dedicated e-learning platform is being set up for the use of all grades of staff.

TECHNICAL AND APPRENTICE TRAINING

KMB's Technical Training School has been training maintenance staff in the latest bus technologies since 1973. In 2012, 211 in-house training sessions were run for 1,525 skilled workers and nine training sessions were arranged for 116 engineers, supervisors and foremen in collaboration with our bus manufacturers.

To ensure an adequate supply of skilled maintenance workers for our bus fleet, the School runs a four-year apprenticeship training scheme for school leavers. 44 apprentices graduated in 2012, bringing the total number of graduates since the School's establishment to 2,275. At the end of 2012, 149 apprentices were enrolled.

The quality of KMB's apprentice training programme was once again recognised in 2012 as two KMB apprentices placed Second Runner-up and Fifth Runner-up in the Vocational Training Council's Best Apprentice in the Automobile Trade Competition. They were invited to the United Kingdom to visit Gateshead College and the nearby automotive manufacturing base.

At December 2012's Long Service Award Presentation Ceremony, the loyal service of our long service staff was recognised and rewarded.

PERFORMANCE ASSESSMENT

To enhance overall performance standards, KMB and LWB run a systematic performance assessment mechanism to monitor the performance of our bus captains to ensure that their services are 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 is recognised by means of bonus schemes and awards.

REWARDING SERVICE EXCELLENCE

To drive staff development and encourage dedication to customer service, KMB has organised a number of competitions and awards to reward outstanding performers.

Long Service Award

In December 2012, we organised the Long Service Award Presentation Ceremony to recognise the loyal service of our long service staff. 36 employees received the 40-year award and a further 315 the 30-year award. The theme of the ceremony was "Moving Forward from the 80th Anniversary into a New Era". Another 634 members of staff who had completed 20 years of service were issued with a certificate of appreciation, a badge and a pen.

Safe Driving Award

The Safe Driving Award was introduced in 1990 to promote road safety and recognise bus captains who have driven without any liable accidents for periods of five years, ten years, 15 years, 20 years, 25 years and 30+ years, respectively. In 2012, a total of 668 KMB and LWB bus captains received the Safe Driving Award in recognition of their outstanding safety records.

Safe Driving Annual Awards and Good Service Annual Awards

In 2012, in recognition of consistently good performance, 5,368 Good Service Annual Awards and 3,761 Safe Driving Annual Awards were presented to KMB and LWB bus captains, while 332 Good Service Annual Awards were granted to KMB and LWB Terminus Supervisors/Assistant Terminus Supervisors/Customer Service Assistants.

Outstanding Service Awards

The Outstanding Service Awards are organised annually to recognise the outstanding contributions of staff across the Company. In 2012, 52 staff members received the award in recognition of their excellent performance. Team awards were made to groups who worked together to outstanding effect.

The operating companies within the Group's Non-franchised Transport Operations Division once again ran their own good service and safe driving award programmes in 2012 to recognise exemplary performance.

MEDICAL CENTRES

Dedicated outpatient services are offered to our staff at the four Medical Centres set up on KMB premises, which also provide medical checks for new employees and annual medical checks as required.

REST AREAS FOR FRONTLINE STAFF

Based on the results of staff surveys, we have renovated several staff canteens as self-service cafeterias where frontline staff can take their meal breaks or rest. Refrigerators, microwave ovens and televisions are also provided for the convenience of staff.

WORK-LIFE BALANCE

To promote healthy work-life balance, health talks are organised regularly for members of staff and their families.

To encourage life-long learning, books and other materials in our in-house library may be accessed via the electronic category on the staff website.

STAFF ACTIVITIES

Run for Charity

In 2012, our Long Distance Running Team participated again in charity runs such as the Community Chest Corporate Challenge and the Standard Chartered Hong Kong Marathon and won a number of prizes. In December 2012, the team was Team Champion in the newly organised Race to ICC-100-SHKP Vertical Run for the Chest.

Inter-depot Competitions

Various inter-depot competitions and tournaments were organised in 2012, including match-ups in badminton, football and long-distance running, as well as a quiz to promote team spirit and a sense of belonging.

KMB's Operations Division celebrates the award of Occupational Health and Safety Assessment Series (OHSAS) 18001 certification

Care for the Environment

The Group continues to demonstrate its dedication to working for a better environment through its various contributions to environmental preservation.

ENVIRONMENTAL POLICY

KMB is committed to building a better environment through environmental conservation and protection.

KMB recognises the potential environmental impacts associated with its services and is dedicated to mitigating and minimising these impacts by implementing the following measures:

- Preventing pollution and continuously improving our environmental performance through the establishment and achievement of objectives and targets
- Conserving resources by reducing waste at source and recycling and reusing resources
- Minimising and controlling emissions from our buses by implementing control measures and by providing professional bus repair and maintenance engineering services
- Enhancing staff environmental awareness by providing training in relation to our environmental policy and our environmental objectives and targets, as well as in relation to the potential environmental impacts arising from our operations
- Communicating our environmental policy and relevant environmental requirements to our contractors and suppliers, and making the policy available to the public
- Responding to environmental inquiries from external parties promptly and ensuring effective communication on environmental issues internally
- Ensuring compliance with all applicable local environmental legislation and other relevant requirements

EXCELLENCE IN ENVIRONMENTAL MANAGEMENT

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. As early as 2003, KMB's Sha Tin and Lai Chi Kok Depots were awarded ISO 14001 certification from the Hong Kong Quality Assurance Agency.

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

Retreading trebles the life span of a bus tyre

We seek to reduce the potential environmental impacts associated with our services in the following four main areas: environment-friendly buses, green use of consumables, environmental waste treatment and green workplace.

ENVIRONMENT-FRIENDLY BUSES

KMB and LWB strive to build a better environment through continuous upgrading of our bus fleet with the latest environmental technology and equipment. New buses introduced to our fleets generally have environmental performances far exceeding the legal requirements in Hong Kong. The Group is pleased to fulfill its role as an industry leader by introducing innovative technologies and equipment that improve our environmental performance and contribute to the development of a sustainable environment in Hong Kong.

The zero-emission gBus is expected to become operational in 2014

Euro IV and Euro V Engines

With the aim of further enhancing emission standards, KMB pioneered the launch of Euro IV and Euro V double-deck buses in May 2006 and February 2009 respectively. Currently, it operates the largest fleet of Euro IV and V buses in Hong Kong.

At 31 December 2012, 23 urea solution dispensing units were installed at KMB's depots to further improve the environmental performance of Euro IV and Euro V buses. 435 KMB Euro IV and Euro V buses are equipped with a Selective Catalytic Reduction ("SCR") catalytic converter, which when used with urea solution can reduce the emission of nitrogen oxides, since ammonia formed from the solution can convert nitrogen oxides into nitrogen gas and water vapour. To meet the future growth in the number of environment-friendly buses operated by KMB, the depots at Tseung Kwan O and Tsing Yi will be equipped with urea solution dispensing units in 2013 and more such units will be installed at the depots at Lai Chi Kok, Kowloon Bay, Tuen Mun and Yuen Long, bringing the total number of urea solution dispensing units to around 47 by the end of the year.

A total of 355 buses are equipped with Euro III, Euro IV or Euro V engines in the fleets of the Group's Non-franchised Transport Operations Division (comprising the SBH Group and New Hong Kong Bus Company Limited).

Green Fleet

At the end of 2012, KMB and LWB had a total of 3,985 buses, all of them meeting the strict exhaust emission standards of the European Council of Environmental Ministers. In order to bring their exhaust emissions to higher Euro standards in terms of particulate matter, a total of 3,135 buses have been equipped with either Diesel Oxidation Catalysts ("DOC") or Diesel Particulate Filters ("DPF"). Compared with emission levels in 1992, the year when the Euro I emission standard was first introduced in the European Union, the average particulate emission levels of the entire KMB bus fleet has been reduced by about 93%, while the level of nitrogen oxide emissions has been reduced by about 59%.

The number of KMB and LWB buses meeting the respective emission standards at 31 December 2012 is shown below:

	Number of Buses			Emission Level (in terms of particulate matter)		
Engine Type	**KMB**	**LWB**	**Total**	**Euro II**	**Euro III**	**Euro IV/V**
Euro I#	653	–	653	653	–	–
Euro II	200	–	200	200	–	–
Euro II*	1,334	84	1,418	–	–	1,418
Euro III	42	9	51	–	51	–
Euro III*	1,056	8	1,064	–	–	1,064
Euro IV	106	32	138	–	–	138
Euro V	429	32	461	–	–	461
	3,820	**165**	**3,985**	**853**	**51**	**3,081**

Equipped with DOC

* Equipped with DOC or DPF

Exploring Zero- and Low-emission Bus Technologies

We have been putting a great deal of effort into enhancing environmental protection by exploring various kinds of zero-emission technologies in recent years.

We conducted trials of the zero-emission supercapacitor bus (the "gBus") in Hong Kong from August 2010 to April 2011, during which a satisfactory result was achieved. Following the trials of the first generation gBus, KMB introduced the next generation of supercapacitor bus (the "gBus^2"), which has double the electricity storage capacity and hence twice the driving range.

The performance of the gBus^2 in its trials from March to September 2012 was satisfactory. The gBus^2, after being fully charged, can run continuously for 8-10 kilometres, which is equivalent to a journey from Tsim Sha Tsui to Kwai Fong. This is twice the driving range of the first generation gBus, which means fewer charging stations need to be installed en-route. This is an advantage when operating on Hong Kong's busy roads and represents savings in infrastructure costs. It is also means that the gBus^2 can operate on some short-distance routes without any charging stations en-route.

In common with the first generation, the gBus^2 is powered by supercapacitor technology and does not require an extensive network of continuous overhead cables to operate. Because of the rapid charging rate of supercapacitors, charging can be conducted at bus stops while passengers board and alight, taking approximately 30 seconds to store enough electricity in the gBus^2 to run an extra kilometre. In line with KMB's commitment to environmental protection, used supercapacitors and batteries will be collected by suppliers for recycling.

At the end of March 2012, KMB submitted a proposal to the HKSAR Government and received approval for the proposed trial deployment of supercapacitor buses on two routes. They are Route 284, a circular route in Sha Tin, and a new route, numbered 5M, a circular route running between Fuk To Street in Ngau Tau Kok and Tak Long Estate in the Kai Tak Development Area, with a total of four bus stops. Charging stations are proposed to be set up at two bus stops. The routes are expected to be operational from early 2014.

At the same time, we continue to explore other zero-emission technologies, including the battery-electric bus (the "eBus"), which has made significant advances in its operating range. In September 2012, KMB took delivery of its first fully battery-powered single-deck bus, which was jointly developed by KMB and a renowned electric bus manufacturer for road testing to assess its suitability for Hong Kong's operating environment.

The HKSAR 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. KMB and LWB will be receiving funding assistance from the Government to procure 14 single-deck eBuses and eight gBuses for trial deployment.

With funding support from the HKSAR Government, KMB placed an order for three diesel-electric air-conditioned 3-axle 12-metre double-deck buses in the third quarter of 2012. Upon their arrival in Hong Kong in 2014, these hybrid buses will be deployed for trial operation on urban routes.

Since zero-emission buses are more operationally flexible and require significantly less capital investment than other zero-emission mass transport solutions such as rail, we will continue to work with the HKSAR Government to explore the feasibility of deploying these buses in areas that are especially suited to such services, in particular, busy corridors and the Kai Tak Development Area. We will continue to follow the development of the latest bus technologies and will collaborate with our manufacturers and suppliers to develop zero-emission buses suitable for Hong Kong's unique operating environment.

GREEN USE OF CONSUMABLES

Near Zero Sulphur Diesel

Since 2009, Near Zero Sulphur Diesel ("NZSD"), which contains only 0.001% sulphur, has been adopted on all KMB and LWB buses. NZSD significantly reduces the exhaust emission levels of sulphur oxides and particulates, helping bring about a cleaner environment.

Synthetic Transmission Oil

Since being introduced fleet-wide in 2005, synthetic transmission oil has reduced waste oil by 80% and lengthened the oil drain interval from 30,000 to 150,000 kilometres.

Since 2001, KMB has collected for recycling a total of 5,782 cartridges from printers and fax machines in support of the cartridge recycling programme run by Friends of the Earth (HK).

Eco-Driveline System

The Eco-Driveline System has been a standard feature on all our new buses since its introduction in 2003. The system has proved to be effective in reducing exhaust emissions by an average of 6% to 10% compared with conventional drivelines through improvement in fuel economy. The system integrates a high-torque engine, a six-speed double-overdrive automatic gearbox controlled by a sophisticated gear-shift programme and an optimised final drive to provide a smoother and more comfortable ride.

Electrostatic Filters

KMB has equipped its air-conditioned buses with electrostatic filters, which provide effective filtration of very fine particles. Electrostatic precipitation involving multi-layered collecting plates enables the filters to capture micron-sized contaminants and particles such as dust and pollen more effectively than traditional air filters. Tests demonstrate that electrostatic filters can filter out 80% of fine dust. At the end of 2012, 1,338 KMB buses had been equipped with electrostatic filters.

Foam-element Air Filters

KMB and LWB continue to replace 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. While maintaining the operational performance of our buses, the use of foam-element air filters significantly reduces the amount of solid waste requiring disposal.

Variable Capacity Air-conditioning Compressor

All KMB buses ordered after 2008 are equipped with power-saving variable capacity air-conditioning compressors. The compressors provide more adaptive and refined thermal control in the bus compartment in the most fuel-efficient manner, coping well with the dynamic urban operating environment in all weather conditions.

Tyre Retreading and Recycling

In 2012, 30,800 used tyres were retreaded in KMB's retreading workshop, bringing the total number of tyres retreaded since 1972 to more than 750,000. Additionally, more than 19,000 scrapped tyres and 220 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. Through retreading, the life span of a new bus tyre, which can typically be used for seven months, can be extended by around 14 months, as each tyre can generally be retreaded twice.

Cartridge Recycling Programme

KMB has supported the cartridge recycling programme run by Friends of the Earth (HK) since 2001. At the end of 2012, KMB had collected for recycling a total of 5,782 cartridges from printers and fax machines.

ENVIRONMENTAL WASTE TREATMENT

To reduce the amount of solid waste requiring disposal, KMB has in place a company-wide waste reduction programme. Excellent results were again achieved in 2012 in the recycling of commonly used items, including the plastic cartridges used in fax machines and printers, rechargeable batteries, fluorescent tubes and waste paper. Since 2009, around 637 kilograms of print circuit boards, which would otherwise have been 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 2012.

Environmental Treatment of Chemical Waste and Waste Oil

During 2012, around 329,000 kilograms of solid chemical waste were first treated and stored by type in areas set aside at our bus depots, then disposed of by a registered chemical waste collector at the Government's Chemical Waste Treatment Centre. In addition, some 738,000 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.

Waste Water Recycling

KMB adopts a number of environment-friendly measures in its daily operations. KMB's depots are equipped with 11 automatic waste water treatment and recycling systems with a daily treatment capacity of 520 cubic metres. Chemicals are added to separate solid impurities from the waste water that is produced during daily depot operations, then the impurities are disposed of at landfills and the treated water discharged into public drains. 70% of the water that is used every day to clean our bus fleet is treated and recycled through these systems, helping reduce water consumption. A "Save Water" campaign is in place to remind our depot and headquarters staff to conserve water.

Waste Scrap Metal Recycling

In 2012, more than 851 tonnes of scrap metal from aged bus parts that were replaced at the daily, monthly, half-yearly and annual inspections were collected from KMB depots for recycling, significantly reducing the disposal of solid waste. About 95% of that metal was scrap iron, which, together with non-ferrous metals, can be recycled repeatedly at low cost and with low energy consumption, especially when compared with the costs of the refining process from the original ores. To enable more effective scrap collection, KMB has set up collection points at its four main depots and its overhaul centre. The collected scrap metal is handled by waste collectors appointed by KMB in accordance with its annual tendering process for recycling and re-use.

GREEN WORKPLACE

Dedicated green facilities promoting energy conservation installed at all our depots include waste water treatment and recycling systems, and environment-friendly fire service systems. Energy-saving features are also built into the lighting, air-conditioning and ventilation systems. Air sampling is conducted regularly in depot areas to ensure that a healthy work environment is maintained.

Building on the success of a pilot scheme at Sha Tin Depot which saw high bay lamps replaced with long-life energy saving fluorescent tubes and resulted in a 12% saving in electricity consumption, KMB is progressively adopting energy efficient lamps in its depots as part of its commitment to promoting a low carbon economy. In 2012, the use of energy saving induction lamps at Kowloon Bay Depot reduced monthly electricity consumption by 11%. Lamp replacement work is currently underway at KMB's other depots.

KMB was the first organisation in Hong Kong to participate in the fluorescent tube recycling campaign. In 2012, around 72,000 used fluorescent tubes were sent to the Government's Chemical Waste Treatment Centre for recycling, bringing the total number recycled to around 537,000 since KMB launched the campaign in 2006. 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 one. The used fluorescent tubes are then stored in a designated area, from which a licensed contractor 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.

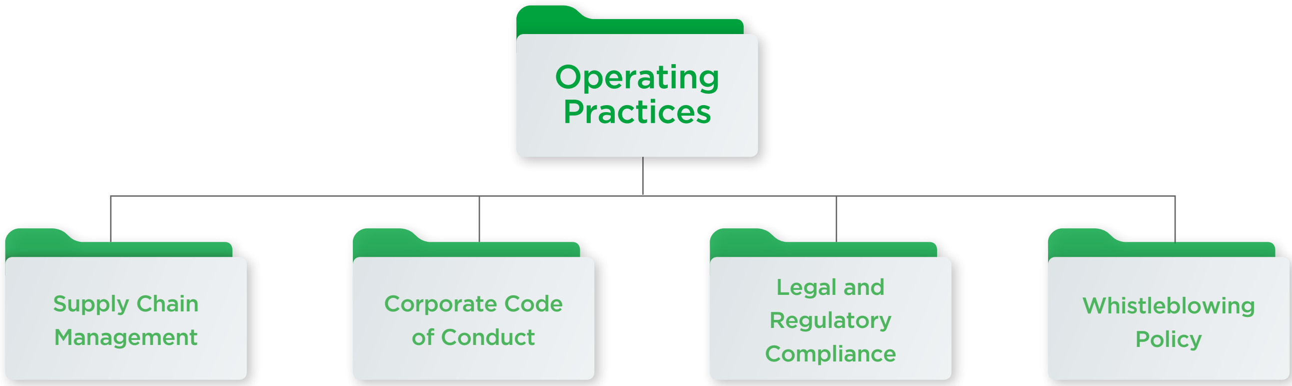
At the Group's Lai Chi Kok headquarters, the Green Office concept drove both the design and renovation of the premises. In addition to the use of pre-set timers to turn lights off when they are not needed or when natural light is sufficient, air-conditioning thermostats are set to 25.5°C to conserve energy and enhance air quality in support of the Government's Action Blue Sky Campaign. Lower-energy LED lighting has also been introduced 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

With the introduction of the in-house developed Filter Compressing Machine at KMB's Sha Tin Depot, the volume of solid chemical waste in the form of disposed fuel or oil filters has been reduced by 60%. In addition, the waste oil squeezed from the filters during the compressing process can be recycled.

Operating Practices

Our operating practices are firmly established on policies and procedures relating to supply chain management, corporate code of conduct, legal and regulatory compliance and whistleblowing policy.



SUPPLY CHAIN MANAGEMENT

Policies on Managing Environmental and Social Risks in the Supply Chain

All of our new vendors are required to declare their compliance with KMB's "Environmental Care, Health and Safety of Suppliers / Sub-contractors" guidelines. For major purchasing projects, such as the purchase of new buses, we will also incorporate "Corporate Responsibility Considerations" in tender assessment criteria.

Operating Practices Relating to Engaging Suppliers and Sub-contractors

We expect our suppliers and sub-contractors' operations to be conducted in a socially and environmentally responsible manner as well as to comply with all legal and regulatory requirements.

CORPORATE CODE OF CONDUCT

Environmental Care, Health and Safety of Suppliers / Sub-contractors

We expect all of our suppliers and their sub-contractors to be committed to environmental care and to providing a healthy and a safe workplace for their employees, and to adopt the following measures:

- Continual improvement of environmental performance by preventing pollution through:
  - Enhancing employee awareness of environmental issues;
  - Encouraging energy conservation;
  - Promoting reduction of waste by proper treatment and finding alternative uses for waste; and
  - Complying with all relevant legislative requirements.
- Implementation and enforcement of proper health and safety procedures by:
  - Providing and maintaining a safe and risk-free operating environment by adopting good systems, equipment and tools at works;
  - Enforcing appropriate procedures for the use, handling, storage and transport of materials, as well as safe working methods; and
  - Complying with all relevant legislative requirements.

Forced Labour and Child Labour

Suppliers and their sub-contractors undertake not to use forced labour in any form or child labour (persons below the local minimum age or below the age of 16).

In ensuring that our suppliers conduct their operations with full consideration of the environmental and social aspects, we require our tenderers to provide us with an account of their background on the following aspects of their operations and view their performance in these areas as a key factor when considering the awarding of contracts:

- The tenderer's awareness of
  - environmental care, health and safety; and
  - the prevention of use of forced labour and child labour.
- Measures taken by the tenderer to check compliance of its key suppliers / sub-contractors with its standards on Environmental Care, Health and Safety of Suppliers / Sub-contractors, and Forced Labour and Child Labour.
- Any major social controversies, fines or settlements related to activities of the tenderer's suppliers / sub-contractors.

We promote fair and open competition and aim at developing and securing long-term relationships with suppliers and sub-contractors based on mutual trust.

LEGAL AND REGULATORY COMPLIANCE

Our suppliers are expected to undertake all our contracts in a proper and lawful manner and under no circumstances do anything in violation of the Laws of the HKSAR.

Personal conduct of Directors and Employees

Our policy is to prohibit directors or employees from soliciting any advantage from clients, suppliers or any other person in connection with our business. In particular, detailed guidelines are laid down in KMB's Code of Conduct for Directors and Employees on the following aspects:

- Soliciting, accepting and offering advantages;
- Entertainment;
- Use of proprietary information;
- Handling of conflicts of interest;
- Misuse of assets and resources;
- Loans;
- Gambling;
- Outside employment; and
- Proper use of official position.

In addition, the Staff Handbook reminds all staff members that they should not make use of their position to solicit or receive any advantage from the public; also, that in the event of their encountering a situation in which they are offered gifts or money from the public while carrying out their daily duties, they must inform the management to receive instructions with regard to the proper handling of the gift / money. The Code of Conduct for Directors and Employees and the Staff Handbook are published on the Company's staff website.

Prevention of Bribery and of Corrupt Practices in Procurement

We manage all suppliers, sub-contractors and consultants equally without any preference between local and overseas parties. We promote fair and open competition and aim at developing and securing long-term relationships with suppliers and sub-contractors based on mutual trust. We ensure that the procurement of supplies and services will be conducted with the highest ethical standards, thus ensuring a high quality end product as well as the continued confidence of customers, suppliers and the public. In this way, we also ensure that those involved in the selection of and purchase from suppliers and sub-contractors avoid misuse of authority or engagement in situations which could interfere, of appear to interfere, with their ability to make free and independent decisions regarding purchase and procurement.

Procurement and Tendering Procedures

The criteria for the procurement and tendering of services or goods are based solely upon price, quality, need and other relevant factors, including environmental and social responsibility standards.

Our procurement and tendering actions are based on the following principles:

- Impartial selection of capable and responsible suppliers and sub-contractors;
- Maximum use of competition;
- Selection of appropriate contract types according to needs;
- Compliance with laws, relevant regulations and contractual obligations; and
- Adoption of an effective monitoring system and management controls to detect and prevent bribery, fraud or other malpractices in the processes of procurement and tendering. Procurement and tendering procedures implementing this policy will specifically include procedures and practices designed to detect and prevent fraudulent activity.

Suppliers are requested to declare any close personal or business relationship with our directors, staff or handling agents. They are also requested to report to the Independent Commission Against Corruption any case in which they find any employee to have committed any offence of corruption under the Prevention of Bribery Ordinance (Chapter 201, Laws of Hong Kong). Should any supplier or sub-contractor be found to have committed any offence of corruption under the said Ordinance, we reserve the right to immediately terminate all outstanding contract(s) without allowing the supplier or sub-contractor recourse to any compensation or claim for loss.

WHISTLEBLOWING POLICY

The Group is committed to the highest possible standards of openness, probity and accountability. In line with that commitment, the Group encourages employees, business partners, suppliers and any third party who have concerns about any suspected misconduct or malpractice within the Group to come forward and voice those concerns. The Group will endeavour to respond to the concerns expressed fairly and properly.

The Group's whistleblowing policy and procedures, which are published on the Company's website, applies to employees at all levels and in all divisions as well as to business partners, suppliers and any third party that deals with the Group.

The Audit Committee has overall responsibility for the whistleblowing policy, but has delegated day-to-day responsibility for overseeing and implementing it to the Company Secretary. Responsibility for monitoring and reviewing the operation of the policy and any recommendations for action resulting from investigation into complaints lies with the Audit Committee.
The Company Secretary will monitor and review the use and effectiveness of the whistleblowing policy on a regular basis.

Communications with Stakeholders

Frequent communications are maintained with all our stakeholders, including passengers, suppliers, manufacturers, the Government, and political and community groups, through a variety of channels.

The 2012 Corporate Social Responsibility Charter detailed 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.

CORPORATE SOCIAL RESPONSIBILITY CHARTER

In 2012, 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. The excellence of KMB's 2011 Corporate Social Responsibility Charter was recognised with the Award of Excellence in the 2012 Apex Awards for Publication Excellence organised by Communications Concepts.

MEDIA OUTREACH

In 2012, a number of press sessions and briefings were held by KMB to promote various initiatives and increase public awareness of its provision of customer-friendly services. The sessions covered the professional "Bus Captain Training Programme", the "KMBuddy Programme" aimed at helping new bus captains deliver excellent service, the launch of KMB and LWB's "Smartphone App V2" which provides mobile access to KMB and LWB route information, and the introduction of the "Tuen Mun Road Bus-Bus Interchange", an initiative that expands the bus network coverage for Tuen Mun passengers.

KMB also held press sessions to showcase its initiatives in the provision of safe and high quality bus services. These included "KMB Creates a Caring Culture for the Elderly", "KMB Bus Captains Achieved a 'Zero Accident' Record of 30 Years", "Recruitment and Professional Development of KMB Apprentices", "KMB Operations Division receives Occupational Health and Safety Assessment Series (OHSAS) 18001 Certification" and the "KMB Elderly Safety Programme".

Another major focus of KMB's press briefings was the latest environmental achievements of the KMB bus fleet, which included sessions on KMB's green bus fleet, the trial of the supercapacitor "gBus^2" and the introduction of the new generation E500 double-deck buses.

KMB also conducted regular gatherings with the media for enhanced partnership relations.

KMB Managing Director, Mr Edmond Ho, briefs the media at a press session introducing KMB's environmental initiatives

Our Passenger Liaison Group Meetings bring together passengers and management to discuss ideas for service improvement

PASSENGER LIAISON GROUP MEETINGS

Since 1993 and 2000 respectively, KMB and LWB have held Passenger Liaison Group ("PLG") meetings to collect the opinions of passengers and better understand their expectations. In 2012, KMB held six PLG meetings, with wide-ranging discussion of frontline services, bus services and model passengers. Its bus operations have been enhanced and adjusted in a number of ways as a result of the suggestions received over the years.

KMB's 2012 PLG Report is available for browsing on the KMB website. LWB similarly held six PLG meetings in 2012, adopting a number of suggestions made by participants in line with its goal of continuous improvement of its service provision.

INFORMATION PUBLICATIONS

"KMB's Efforts in Environmental Protection" was again published in 2012 to highlight the green measures and policies the company has adopted in the areas of emissions reduction, energy and resource management, reuse and recycling, and waste management. There are also sections which focus on KMB's corporate governance and its contribution to the economic and social development of Hong Kong.

In 2012, LWB distributed various information leaflets providing bus route and departure information for LWB's Airport routes, including the "LWB Bus Services for North Lantau and the Airport" leaflet, the Airbus Card and

KMB's award-winning 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 at a couple of clicks.

individual route leaflets, as well as location maps for hotels and Hong Kong Disneyland. Leaflets for tourists and Hong Kong Tourism Board giving hotel and transport information have been distributed since June 2010.

CORPORATE WEBSITES

The TIH website (www.tih.hk) keeps investors informed of the activities of the Group and its various businesses. KMB's award-winning website (www.kmb.hk) caters for the needs of special groups while taking into consideration 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 at a couple of clicks. The "Street View" feature on its point-to-point route search function gives passengers a 360-degree photo tour of the street near their chosen bus stop, helping them to orientate themselves with their surroundings in advance.

The KMB website won the Bronze Prize in the Top 10.hk Website Competition, organised by the Hong Kong Internet Registration Corporation Limited and once again the Diamond Award in the 2012 Web Care Award, organised by the Internet Professional Association, for being a barrier-free website.

Community Outreach

The Group's commitment to community service and charity sponsorship gained recognition once again in 2012, with KMB and RoadShow being granted an extension to the "10 Consecutive Years Caring Company Logo" in the Caring Company Award, organised by the Hong Kong Council of Social Service, and also winning the Total Caring Award, organised by the same body. In addition, KMB received the President's Award from The Community Chest of Hong Kong.

COMMUNITY SPONSORSHIP

The Group regularly sponsors and participates in different community programmes, including the New Territories Walk for Millions, Dress Casual Day and the Corporate Challenge Half Marathon, which are organised by The Community Chest of Hong Kong, and the Friends of the Earth's (HK) Earth Partner programme. It also takes part in other events and activities organised by the HKSAR Government, charities and professional and environmental groups.

In addition to industry-improvement campaigns and social awareness initiatives, the Group also sponsored various sporting and cultural events in 2012. 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 2011-2012.

In 2012, RoadShow continued to support a wide range of charities by broadcasting community service messages and charity appeals on the Multi-media On-board ("Bus-TV") systems installed on KMB buses.

FRIENDS OF KMB

FRIENDS OF KMB, KMB's volunteer club, has been promoting environmental protection, civic education and other social service activities since its establishment in 1995. In 2012, 3,650 members volunteered more than 16,000 hours of their time to community service, volunteering at children's homes and old people's centres and participating in a number of charity and environmental protection events. Two new volunteer campaigns were rolled out in 2012. In collaboration with Tung Wah Group of Hospitals, KMB launched the "KMB Elderly Safety Programme" to help foster a caring culture for senior citizens and spread bus trip safety tips. Passengers aged 65 and over from Hong Kong's 18 districts who have demonstrated exemplary safety behaviour on buses were selected as Elderly Safety Ambassadors. Together with members of FRIENDS OF KMB, the Elderly Safety Ambassadors helped to promote the safety of elderly people riding on buses. A new programme, "Healthy Family Tips", was run in partnership with International Social Service – Hong Kong Branch ("ISS-HK") to help families in need. Single-parent and low income families from ISS-HK's Tin Shui Wai Integrated Family Service Centre attended briefing sessions on positive thinking, green living and family harmony. Over the past 16 years, FRIENDS OF KMB has amassed more than 132,000 hours of voluntary service. The club's work was honoured with the award of first runner-up in the Highest Service Hour Award (Private Organisation – Best Customer Participation) and the award of merit in the Highest Service Hour Award (Private Organisation – Category 1) organised by the Social Welfare Department.

REACHING OUT TO PASSENGERS WITH SPECIAL NEEDS

The Group continues to provide 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 11 November 2012. KMB and LWB also offered free rides to passengers aged 65 and over on Senior Citizens' Day, 18 November 2012.

The Group continues to invest in equipment that makes travel easier for passengers with special needs. At the front of buses, large characters and numbers are displayed on the liquid crystal display ("LCD") destination panels for passengers waiting at bus stops. The entire KMB fleet is equipped with the Electronic Bus Stop Announcement System, which provides voice announcements in Cantonese, English and Putonghua, as well as displaying the name of the next bus stop in Chinese and English. All new buses are equipped with a super-low floor step-free entrance, a wheelchair space and a non-slip handrail near the entrance.

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

THE GROUP

SUMMARY OF FINANCIAL PERFORMANCE

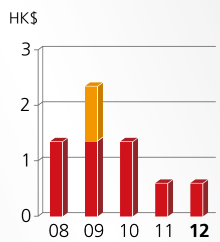
	2012	2011	Change	
	HK$ million	HK$ million	HK$ million	%
Turnover	**7,181.0**	6,947.5	233.5	+3.4
Other net income	**228.5**	248.5	(20.0)	-8.0
Operating expenses	**(7,066.2)**	(6,833.7)	232.5	+3.4
Finance costs	**(9.4)**	(8.6)	0.8	+9.3
Share of profits of associates	**34.5**	31.3	3.2	+10.2
Impairment loss on other financial assets	**–**	(109.6)	(109.6)	-100.0
Profit before taxation	**368.4**	275.4	93.0	+33.8
Profit attributable to equity shareholders of the Company	**309.2**	242.4	66.8	+27.6
Earnings per share (HK$)	**0.77**	0.60	0.17	+27.6

REVIEW OF 2012 FINANCIAL PERFORMANCE

The Group's Results for the Year

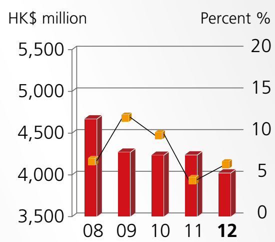
The Group's profit attributable to equity shareholders for the year ended 31 December 2012 was HK$309.2 million, representing an increase of HK$66.8 million or 27.6% compared to HK$242.4 million for 2011. Earnings per share increased correspondingly from HK$0.60 for 2011 to HK$0.77 for 2012. The increase in profit was mainly attributed to the fact that no further provision for impairment loss (2011: HK$109.6 million) was made by the RoadShow Group on an investment in Mainland China in 2012. When excluding the impairment loss provision made by the RoadShow Group in 2011, the Group's profit attributable to equity shareholders for 2012 represents a 4.1% decrease compared with that for 2011. The decrease was mainly due to the deterioration in the financial performance of the Group's core franchised public bus business operated by The Kowloon Motor Bus Company (1933) Limited ("KMB"), which, having posted a profit after taxation of HK$51.4 million in 2011, recorded a loss after taxation of HK$51.5 million in 2012, mainly as a result of high fuel prices and a significant increase in wages and other operating expenses, but without having a corresponding reasonable adjustment to its bus fares in 2012.

Dividends per share



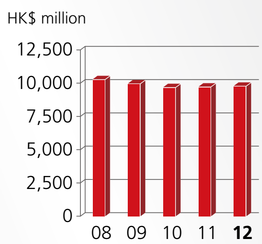
Ordinary dividends
Special dividends

Return on average net fixed asset employed (exclude property sales and disposal)

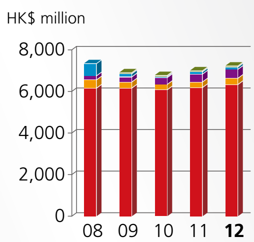


Average net fixed asset
Return on average net fixed asset

Total assets at 31 December



Group turnover



Franchised public bus operations
Non-franchised transport operations
Media sales business
Property sales
Gross rentals from investment properties

The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2012 are shown below:

HK$ million	Turnover 2012	Turnover 2011	Profit/(loss) before taxation 2012	Profit/(loss) before taxation 2011
Franchised Public Bus Operations Division	**6,319.0**	6,180.9	**(30.4)**	88.5
Non-franchised Transport Operations Division	**301.1**	264.5	**34.6**	20.5
Property Holdings and Development Division	**139.7**	130.6	**120.5**	112.1
Media Sales Business Division	**421.2**	371.5	**96.5**	(30.9)
Financial Services Division	**–**	–	**44.3**	35.0
China Mainland Transport Operations Division	**–**	–	**34.5**	31.3
	7,181.0	6,947.5	**300.0**	256.5
Finance costs			**(9.4)**	(8.6)
Unallocated net operating income			**77.8**	27.5
Profit before taxation and non-controlling interests			**368.4**	275.4
Income tax			**(34.3)**	(41.2)
Non-controlling interests			**(24.9)**	8.2
Profit attributable to equity shareholders of the Company			**309.2**	242.4

Segment information on the Group's main businesses is set out in note 13 to the financial statements on pages 177 to 179 of this Annual Report.

Key Changes to the Group's Revenue and Operating Expenses

For the year ended 31 December 2012, the Group's turnover amounted to HK$7,181.0 million (2011: HK$6,947.5 million), an increase of HK$233.5 million or 3.4% compared to 2011. The increase was due mainly to the increase in the turnover of the Group's franchised public bus operations by HK$138.1 million from HK$6,180.9 million for 2011 to HK$6,319.0 million for 2012, primarily as a result of the full year effect of the fare increases of 3.6% and 3.2% for KMB and LWB respectively which took effect from 15 May 2011. Furthermore, the turnover of the Group's media sales business division also increased by HK$49.7 million from HK$371.5 million for 2011 to HK$421.2 million for 2012. Such increase was mainly attributable to the growth of the bus exterior advertising business in Hong Kong.

The Group's total operating expenses for 2012 amounted to HK$7,066.2 million (2011: HK$6,833.7 million), an increase of HK$232.5 million or 3.4% compared to 2011. The increase was mainly due to the year-on-year increase in staff costs of HK$163.9 million as a result of the annual staff pay rise of 5% in 2012, and the increase in headcount for the franchised bus service enhancement. In addition, fuel and oil cost also increased by HK$45.1 million over the previous year due mainly to the continuous increase in international fuel oil prices.

The Group's share of profits of associates for 2012 amounted to HK$34.5 million (2011: HK$31.3 million), an increase of HK$3.2 million or 10.2% compared to 2011. The increase was mainly due to an improvement in the results of the Group's China Mainland transport operations, namely Beijing Beiqi Kowloon Taxi Company Limited and Shenzhen Bus Group Company Limited, in which the Group held an effective interest of 31.4% and 35%, respectively.

Income tax expense for the year amounted to HK$34.3 million (2011: HK$41.2 million). The breakdown of the income tax expense is set out in note 6 to the financial statements on page 172 of this Annual Report.

More detailed information in respect of the Group's individual business units is set out on pages 98 to 103 of this Annual Report.

Dividend

The Board has recommended an ordinary final dividend of HK$0.45 per share (2011: HK$0.45 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 23 May 2013 or at any adjournment thereof, the proposed final dividend, together with the interim dividend of HK$0.15 per share (2011: HK$0.15 per share) paid in October 2012, would result in a total dividend of HK$0.60 per share for 2012 (2011: HK$0.60 per share).

KEY CHANGES TO FINANCIAL POSITION

Fixed Assets and Capital Expenditure

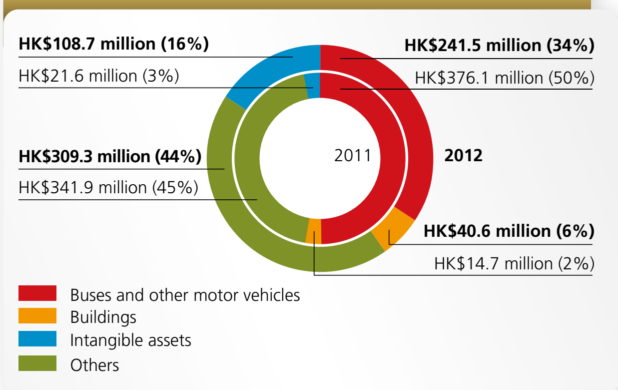
The Group's fixed assets mainly comprise buildings, buses and other motor vehicles, buses under construction, tools and other equipment, investment properties, and interest in leasehold land. None of the Group's fixed assets was pledged or charged as at 31 December 2012.

In 2012, the Group incurred capital expenditure of HK$700.1 million (2011: HK$754.3 million). The decrease was mainly attributable to the fact that fewer new buses were added to the fleet during the year. The breakdown of the capital expenditure is shown in notes 14(a) and 15 to the financial statements on pages 181 and 183 respectively of this Annual Report.

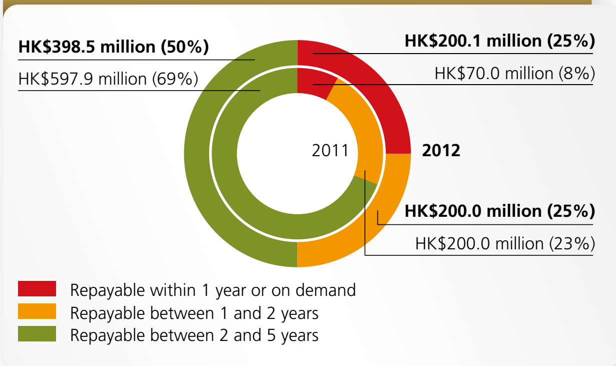
Intangible Assets and Goodwill

As at 31 December 2012, the Group's intangible assets and goodwill amounted to HK$132.1 million (2011: HK$44.2 million) and HK$84.1 million (2011: HK$63.3 million) respectively. The increases were mainly due to the acquisition of two non-franchised transport operators during the year. The intangible assets represent passenger service licences and transport operating rights of the Group's non-franchised transport operations.

Capital Expenditure



Debt maturity profile at 31 December



Current Assets and Current Liabilities

As at 31 December 2012, the Group's total current assets amounted to HK$3,696.2 million (2011: HK$3,577.8 million), mainly comprising liquid funds of HK$3,096.6 million (2011: HK$2,974.0 million) and accounts receivable of HK$432.1 million (2011: HK$331.5 million). The Group's liquid funds at the end of 2012 were mainly denominated in Hong Kong dollars, United States dollars and Renminbi.

Total current liabilities as at 31 December 2012 amounted to HK$1,470.6 million (2011: HK$1,277.8 million), which mainly included the current portion of bank loans, accounts payable and other accruals.

Bank Loans and Overdrafts

As at 31 December 2012, bank loans and overdrafts, all unsecured, amounted to HK$798.6 million (2011: HK$867.9 million). The maturity profile of bank loans and overdrafts of the Group as at 31 December 2012 and 31 December 2011 is shown in the chart above.

As at 31 December 2012, the Group had undrawn banking facilities totaling HK$609.9 million (2011: HK$730.0 million), of which HK$600.0 million (2011: HK$720.0 million) was of a committed nature.

Capital Commitments

The Group's capital commitments as at 31 December 2012, including those authorised by the Board but not provided for, amounted to HK$3,063.9 million (2011: HK$2,140.6 million). The increase was mainly in respect of bus purchases. These commitments are to be financed by borrowings and from the Group's working capital. A summary of the capital commitments is set out below:

HK$ million	2012	2011
Development of the Kwun Tong Site	1,788.8	1,791.3
Purchase of buses and other motor vehicles	1,097.5	119.3
Purchase of other fixed assets	177.6	229.9
Construction of depots and other depot facilities	–	0.1
Total	3,063.9	2,140.6

As at 31 December 2012, the Group had 407 (2011: 114) new buses on order for delivery in 2013.

FUNDING AND FINANCING

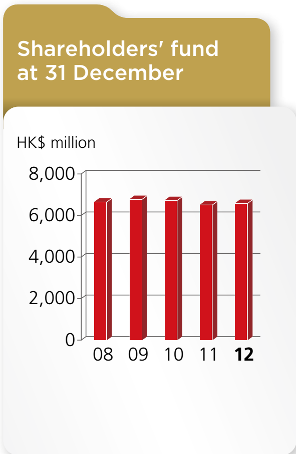
Liquidity, Financial Resources and Gearing

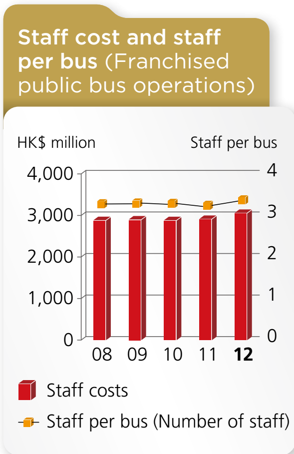
Under the principle of prudent financial management, the Group closely monitors its liquidity and financial resources by preparing and reviewing a rolling 12-month cash flow projection on a monthly basis to ensure that cash inflows from operating activities together with undrawn committed banking facilities 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. For the other subsidiaries, they are mainly financed by their parent company from its capital base. The Group's funding strategy is regularly reviewed by management to ensure that cost-efficient and flexible funding is available to meet the unique operating environment of each subsidiary. Through maintaining adequate stand-by banking facilities and proper planning and close monitoring of the level of debts, management ensures that the Group's routine treasury operation is able to effectively meet its normal funding and ad hoc investment requirements.

Net Cash and Liquidity Ratio

The Group has consistently maintained a highly liquid position. As at 31 December 2012, the Group was in a net cash position (i.e. cash and deposits at banks less total borrowings) of HK$2,298.0 million (2011: HK$2,106.1 million) and with a liquidity ratio (the ratio of current assets to current liabilities) of 2.5 (2011: 2.8). The details of the Group's net cash by currency are set out as follows:

Currency	Cash and deposits at bank in foreign currency	Cash and deposits at bank	Bank loans and overdrafts	Net cash
	million	HK$ million	HK$ million	HK$ million
At 31 December 2012				
Hong Kong dollars		2,527.8	(798.6)	1,729.2
Renminbi	290.1	359.3	–	359.3
United States dollars	26.8	208.8	–	208.8
British Pounds Sterling	0.1	0.7	–	0.7
Total		3,096.6	(798.6)	2,298.0
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





Finance Costs and Interest Cover

The finance costs incurred by the Group for the year ended 31 December 2012 was HK$9.4 million (2011: HK$8.6 million). The increase was mainly due to the rise in the Group's average interest rate for borrowings from 0.95% per annum for 2011 to 1.14% per annum for 2012, an increase of 19 basis points.

For the year ended 31 December 2012, the Group was in a net interest income position as its interest income exceeded the total finance costs by HK$58.3 million (2011: HK$38.2 million).

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 2012, there was a net decrease in cash and cash equivalents of HK$1,248.8 million (2011: a net increase of HK$1,039.8 million) and the sources are set out below:

	2012 **HK$ million**	2011 HK$ million
Net cash generated from/ (used in):		
• Operating activities	**1,160.7**	1,149.3
• Investing activities	**(2,074.9)**	187.9
• Financing activities	**(334.6)**	(297.4)
Total	**(1,248.8)**	1,039.8

In 2012, the net cash used in the operating and investing activities of the Group was HK$914.2 million (2011: net cash inflow of HK$1,337.2 million). The main components included: (i) net cash generated from the operating activities of the franchised public bus operations of HK$855.6 million (2011: HK$850.4 million); (ii) cash proceeds received from the sale of Manhattan Hill residential unit of HK$113.5 million (2011: HK$108.3 million); (iii) payment of capital expenditure of HK$686.5 million (2011: HK$779.8 million); and (iv) an increase in bank deposits placements with original maturities of over three months of HK$1,358.0 million (2011: a decrease of HK$845.4 million).

During the year, bank loans decreased by HK$70.0 million (2011: increased by HK$200.0 million). Before the payment of dividends to equity shareholders in 2012, the net cash outflow for 2012 was HK$1,006.6 million, compared to the net cash inflow of HK$1,524.2 million for 2011.

Details of the Group's cash flow movement for the year ended 31 December 2012 are set out in the consolidated cash flow statement on page 153 of this Annual Report.

Treasury Policies

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

Foreign Currency Risk Management

Foreign currency risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments and transactions denominated in foreign currencies. The Group's foreign currency exposure mainly arises from the payments for new buses and overseas motor vehicle components, which are denominated in British Pounds Sterling (GBP). Although the amounts of foreign currency assets and liabilities of the Group are relatively low compared to its total asset base and therefore will not pose significant foreign exchange risk to the Group, the Group's treasury team will continue to closely monitor the prevailing foreign exchange market conditions and enter into forward foreign exchange contracts in a strategic manner when opportunities arise to hedge foreign currency fluctuations. For the year ended 31 December 2012, the Group entered into a number of forward foreign exchange contracts for the hedging of approximately 21% (2011: 35%) of the total GBP requirements. There were no forward foreign exchange contracts outstanding as at the year ends of 2012 and 2011.

Interest Rate Risk Management

Interest rate risk is the risk where fluctuation of interest rates impacts the Group's financial performance. 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 periods and maturity dates. Derivative financial instruments such as interest rate swaps are used as and when appropriate. As at 31 December 2012, all of the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. This strategy enabled the Group to take full advantage of the continuous low interest rates environment in 2012. The Group will review its strategy on interest rate risk management on a regular basis in the light of prevailing market conditions and devise appropriate strategies to cope with its interest rate risk exposure.

The Group's major subsidiary, KMB, has been assigned a good and stable "A" credit rating by Standard & Poor's since 14 January 2002. The credit rating agency viewed KMB as an integrated economic entity of Transport International Holdings Limited. Accordingly, their ratings on KMB also reflect the Group's credit profile.

Fuel Price Risk

Fuel cost movements can have a significant impact on the results of the Group's core franchised public bus operations. The Group has carefully evaluated and considered the pros and cons of entering into fuel price hedging arrangements and has come to a conclusion 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. Therefore, in 2012, the Group did not enter into any fuel oil hedging contracts. To mitigate the impact of high fuel prices, the Group's two major subsidiaries, KMB and LWB, have rigorously explore ways to conserve fuel consumption, such as working with bus manufacturers to reduce the weight of new generation buses and conducting eco-driving training for our bus captains. In addition, we will work with the HKSAR Government on other measures, including but not limited to the reorganisation of bus services on a district-wide basis. Management will constantly review its strategy on fuel price risk management and find ways to counter the adverse impact of high fuel prices. However, if these measures are not effective to restore the financial viability of the Group's franchised public bus operations, it is inevitable that the Group will have to seek for fare increases in order to maintain the provision of a sustainable quality service.

Credit Risk

The Group's credit risk is mainly attributable to trade and other receivables 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 over 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. Debt investments are only made with counterparties with high credit ratings. 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 does not provide guarantees to third parties which would expose the Group to credit risk.

Cash Flow and Liquidity Risk Management

Cash flow and liquidity risk is the risk that funds will not be available to meet liabilities as they fall 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 as it has maintained an adequate level of cash reserves on hand arising from the sales of properties. By means of proper planning and close monitoring of the level of debts, the Group will be able to effectively meet its funding and investment requirements. 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.

Under normal circumstances and barring unforeseen drastic upsurge in 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 also be low as its revenue is essentially received on a cash basis. However, if fuel prices continuously stayed at a high level and KMB is not able to obtain sufficient fare increase magnitude from the HKSAR Government to counter the escalating costs, this will pose financial pressure on KMB's daily operations.

EMPLOYEES AND REMUNERATION POLICIES

Transport operations are labour intensive and staff costs accounted for over 45.8% of the total operating cost of the Group in 2012. The Group closely monitors its headcount and staff remuneration against productivity and market trends. For the year ended 31 December 2012, total remuneration of employees of the Group amounted to HK$3,156.7 million (2011: HK$2,987.0 million). The number of employees of the Group at the year end of 2012 increased by 3.1% from 12,879 at the year end of 2011 to 13,272 at the year end of 2012. The increase in headcount was mainly due to the recruitment of more bus captains for our franchised bus service enhancement and for compliance with the new meal break requirements of lengthening meal break for bus captains from 45 minutes to 60 minutes with effect from 30 September 2012.

Individual Business Units

FRANCHISED PUBLIC BUS OPERATIONS

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

	Unit	2012	2011
Turnover	HK$ million	6,056.2	5,929.1
Other net income	HK$ million	78.3	103.8
Total operating expenses	HK$ million	(6,230.8)	(6,050.7)
Operating loss before deemed income recognised in respect of defined benefit retirement plans	HK$ million	(96.3)	(17.8)
Deemed income recognised in respect of defined benefit retirement plans	HK$ million	43.7	84.8
Finance costs	HK$ million	(9.3)	(8.2)
(Loss)/profit before taxation	HK$ million	(61.9)	58.8
Income tax credit/(expense)	HK$ million	10.4	(7.4)
(Loss)/profit after taxation	HK$ million	(51.5)	51.4
Net (loss)/profit margin		(0.9)%	0.9%
Passenger volume	Million passenger trips	942.9	936.4
Kilometres operated	Million km	307.6	303.8
Staff number at year-end	Number of staff	12,006	11,654
Fleet size at year-end	Number of buses	3,820	3,891
Total assets value	HK$ million	5,110.9	5,139.5

The loss after taxation of KMB for 2012 amounted to HK$51.5 million, an unfavourable change of HK$102.9 million compared to the profit after taxation of HK$51.4 million for 2011. Such results included a deemed income of HK$43.7 million (2011: HK$84.8 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 the aforesaid deemed income, KMB recorded a pre-tax operating loss of HK$96.3 million for 2012, an unfavourable change of HK$78.5 million compared to that of HK$17.8 million for 2011.

KMB's fare revenue for the year amounted to HK$5,942.7 million, an increase of HK$119.9 million or 2.1% compared to HK$5,822.8 million for 2011. Total ridership for 2012 was 942.9 million passenger trips (a daily average of 2.58 million passenger trips) compared to 936.4 million passenger trips (a daily average of 2.56 million passenger trips) for 2011. The increase in fare revenue was mainly due to the full year effect of the 3.6% fare increase which was implemented with effect from 15 May 2011, and a slight year-on-year increase in ridership of 0.7%. Advertising revenue for the year also increased by 7.2% from HK$104.5 million for 2011 to HK$112.0 million for 2012.

Total operating expenses for 2012 amounted to HK$6,230.8 million, an increase of HK$180.1 million or 3.0% compared to HK$6,050.7 million for 2011. The increase was due mainly to the increase in staff costs of HK$138.9 million resulting from the annual pay rise of 5%, which took effect for KMB's operations and maintenance staff on 1 June 2012 and for other staff on 1 September 2012, and the recruitment of additional bus captains for service enhancement and for compliance with the new 60-minute meal break requirements by 30 September 2012. In addition, fuel costs also increased by HK$41.8 million compared with 2011. Such increase was mainly due to the rise in 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, from US$124.6 per barrel in 2011 to US$125.9 per barrel in 2012, as well as the increase in the number of bus-kilometres travelled as service levels were further enhanced. These unfavourable factors, together with additional costs incurred on spare parts, toll charges and other operating expenses due to general inflation, further adversely affected the financial performance of KMB for 2012. In order to maintain the financial viability and the existing service levels of its bus operations, KMB submitted an application to the Transport Department of the HKSAR Government on 29 November 2012 for a fare increase of 8.5%. On 19 February 2013, the HKSAR Government granted KMB a fare increase at an average rate of 4.9% with effect from 17 March 2013. Given the tough operating conditions currently faced by KMB, the approved rate of increase is insufficient to offset the high operating costs generated by escalating wages, fuel prices and toll charges, which are largely beyond the control of KMB.

Long Win Bus Company Limited ("LWB")

	Unit	**2012**	2011
Turnover	HK$ million	**374.2**	354.8
Other net (loss)/income	HK$ million	**(1.7)**	3.1
Total operating expenses	HK$ million	**(339.8)**	(336.2)
Operating profit before deemed loss recognised in respect of defined benefit retirement plans	HK$ million	**32.7**	21.7
Deemed loss recognised in respect of defined benefit retirement plans	HK$ million	**(1.0)**	(0.1)
Finance costs	HK$ million	**(0.2)**	(0.4)
Profit before taxation	HK$ million	**31.5**	21.2
Income tax expense	HK$ million	**(5.2)**	(3.5)
Profit after taxation	HK$ million	**26.3**	17.7
Net profit margin		**7.0%**	5.0%
Passenger volume	Million passenger trips	**31.3**	30.3
Kilometres operated	Million km	**25.4**	25.3
Staff number at year-end	Number of staff	**460**	469
Fleet size at year-end	Number of buses	**165**	164
Total assets value	HK$ million	**268.2**	292.9

The profit after taxation of LWB for 2012 amounted to HK$26.3 million, representing an increase of HK$8.6 million or 48.6% compared with HK$17.7 million for 2011.

LWB's fare revenue for 2012 amounted to HK$372.5 million, an increase of HK$18.1 million or 5.1% compared to HK$354.4 million for 2011. The increase was mainly due to the full year effect of the 3.2% fare increase, which took effect from 15 May 2011. In addition, LWB recorded a total ridership of 31.3 million passenger trips (a daily average of 85,409 passenger trips) for 2012, an increase of 3.3% compared to 30.3 million passenger trips (a daily average of 82,889 passenger trips) for 2011. The increase in ridership was mainly due to the increasing transport demand from international travellers and from construction workers involved in various infrastructural projects at the Airport and in the expanding Hong Kong Disneyland.

LWB's total operating expenses for the year amounted to HK$339.8 million, an increase of HK$3.6 million compared to HK$336.2 million for 2011. The increase was mainly due to the increase in staff costs as a result of annual pay rise, as well as increase in fuel costs and in other operating expenses due to inflationary pressure.

NON-FRANCHISED TRANSPORT OPERATIONS

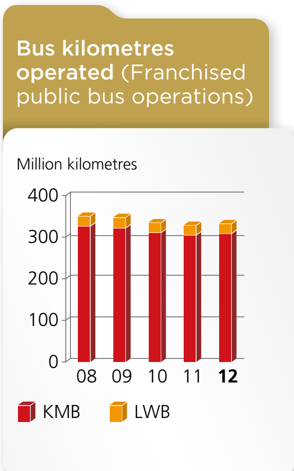
The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK$30.5 million for 2012, representing an increase of HK$13.0 million or 74.3% compared to HK$17.5 million for 2011. Turnover increased by 13.8% from HK$264.5 million for 2011 to HK$301.1 million for 2012. A review of the operations of the principal business units in this Division is set out as follows:

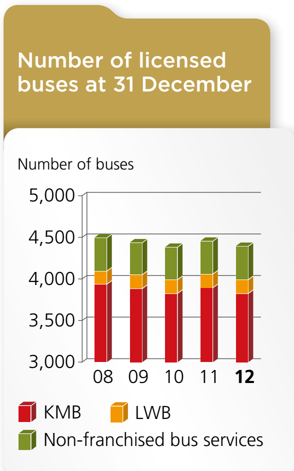
Sun Bus Holdings Limited and its subsidiaries (the "SBH Group")

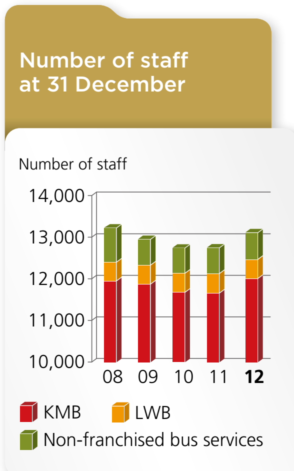
The SBH Group, with Sun Bus Limited as the flagship company, is a leading non-franchised bus operator in Hong Kong. It provides customized high quality transport services to a wide range of customers, including large residential estates, shopping malls, major employers, theme parks, travel agents and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

The turnover of the SBH Group increased by HK$35.4 million or 15.6% from HK$226.3 million in 2011 to HK$261.7 million in 2012. The increase was mainly attributed to business growth and general increase in coach hiring charges upon contract renewal. Total operating costs for 2012 also increased as a result of increases in salaries, fuel costs and other operating expenses due to general inflation.

During the year, the SBH Group acquired two non-franchised bus operators for business expansion. 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 2012. As at 31 December 2012, the SBH Group had a fleet of 394 buses (2011: 388 buses).







New Hong Kong Bus Company Limited ("NHKB")

In conjunction with its Shenzhen (深圳) counterpart, NHKB operates 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. With the opening of the Lok Ma Chau Spur Line and the Lok Ma Chau Public Transport Interchange, and the increasing number of cross-boundary transport options available for passengers, NHKB faced keen competition from railway and public minibus services and its ridership has been decreasing. NHKB's total patronage decreased by 5.8% from 5.2 million passenger trips (an average monthly ridership of 0.43 million passenger trips) for 2011 to 4.9 million passenger trips (an average monthly ridership of 0.41 million passenger trips) for 2012. The adverse impact from the loss of ridership was, however, partly compensated by the fare increase for day-time services from HK$7 per trip to HK$8 per trip which took effect from 21 November 2011. At the end of 2012, NHKB had a fleet of 15 buses, same as the number as at the end of 2011.

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 2012, the last residential unit of Manhattan Hill with a total saleable gross floor area of about 5,008 square feet and 13 car parking spaces were sold, generating an after-tax profit of HK$76.3 million (2011: HK$72.9 million).

As at 31 December 2012, only one car parking space (classified as completed property held for sale under current assets on the consolidated balance sheet) at a carrying value of HK$0.4 million (2011: HK$19.7 million) was available for sale.

There were no outstanding bank loans in respect of the construction of Manhattan Hill as at 31 December 2012 (2011: Nil).

LCK Commercial Properties Limited ("LCKCP")

LCKCP, a wholly-owned subsidiary of the Group, is the owner of the shopping mall, "Manhattan Mid-town", which was opened in March 2009. The mall provides Manhattan Hill residents, as well as local householders and office staff, with a mix of high quality shops and restaurants. As at 31 December 2012, the shopping mall's entire lettable area of the 50,000 square feet was fully leased out, generating a steady income stream for the Group.

As at 31 December 2012, the carrying value of the shopping mall (classified as investment property on the consolidated balance sheet), which was stated at cost less accumulated depreciation and impairment losses, amounted to HK$100.8 million (2011: HK$105.9 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 2012, the building was stated on the consolidated balance sheet at cost less accumulated depreciation and impairment losses in the amount of HK$33.2 million (2011: HK$33.9 million).

KT Real Estate Limited ("KTRE")

KTRE, a wholly-owned subsidiary of the Group, 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 "Kwun Tong 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 Kwun Tong 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 Kwun Tong Site. SHKRE is currently handling matters relating to the modification of the lease and the submission of the building plan. The Group intends to hold the development for long-term investment purposes.

As at 31 December 2012, the carrying value of the Kwun Tong Site (classified as investment property under development on the consolidated balance sheet) amounted to HK$13.4 million (2011: HK$11.7 million). The capital commitment outstanding and not provided for as at 31 December 2012 was HK$1,788.8 million (2011: HK$1,791.3 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 has been leased out since March 2011 to generate additional rental income for the Group.

As at 31 December 2012, the carrying value of the industrial property (classified as investment property on the consolidated balance sheet), which was stated at cost less accumulated depreciation and impairment losses, amounted to HK$8.6 million (2011: HK$9.9 million).

MEDIA SALES BUSINESS

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

HK$ million	**2012**	2011
Turnover	**421.2**	371.5
Other revenue	**22.0**	25.8
Total operating revenue	**443.2**	397.3
Total operating expenses	**(346.7)**	(318.5)
Profit from operations	**96.5**	78.8
Impairment loss of other financial assets	**–**	(109.6)
Profit/(loss) before taxation	**96.5**	(30.8)
Income tax expense	**(17.0)**	(12.9)
Profit/(loss) after taxation	**79.5**	(43.7)
Non-controlling interests	**(4.7)**	(4.9)
Profit/(loss) attributable to equity shareholders	**74.8**	(48.6)

For the year ended 31 December 2012, the RoadShow Group reported a total operating revenue of HK$443.2 million (2011: HK$397.3 million) and a profit attributable to equity shareholders of HK$74.8 million (2011: a loss attributable to equity shareholders of HK$48.6 million). The improvement in the results was mainly attributable to business growth as well as the fact that no provision for impairment loss was made by the RoadShow Group in 2012 whereas a provision of HK$109.6 million was made on an investment in Mainland China in 2011.

The revenue generated from the RoadShow Group's Hong Kong media sales services in 2012 amounted to HK$417.0 million, an increase of HK$46.4 million or 12.5% compared with HK$370.6 million in 2011. Such increase was mainly attributable to the growth in the bus body advertising business.

The total operating expenses for 2012 increased by HK$28.2 million or 8.9% from HK$318.5 million in 2011 to HK$346.7 million in 2012, which was in line with the growth of the media sales business.

Further information relating to the RoadShow Group is available in its 2012 final results announcement and annual report.

CHINA MAINLAND TRANSPORT OPERATIONS

As at 31 December 2012, the Group's total interests in associates within the China Mainland Transport Operations Division amounted to HK$671.5 million (2011: HK$668.1 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 2012, the Group's China Mainland Transport Operations Division reported an after-tax profit of HK$34.5 million (2011: HK$31.3 million).

Summary of Investments in China Mainland Transport Operations as at 31 December 2012

	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 2012 (Number of vehicles)	4,680	5,813
Bus passenger volume (Million trips)	N/A	877.3
Bus kilometres travelled (Million km)	N/A	429.4
Staff number at year-end 2012	5,174	22,966

Beijing

Beijing Beiqi Kowloon Taxi Company Limited (北京北汽九龍出租汽車股份有限公司) ("BBKT"), a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT's shareholders include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限責任公司) and three other 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 principally engages in taxi hire and car rental businesses with a fleet of around 4,680 vehicles and 5,174 employees. Its business was stable and continued to record a profit in 2012.

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 mainly provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province (廣東省深圳市), operating some 5,813 vehicles serving on 265 routes. In 2012, SBG recorded a total ridership of 877.3 million passenger trips, a decrease of 3.3% compared with 907.0 million passenger trips for 2011, due mainly to the shift of passengers to new railway lines. SBG has continued to make steady progress by enhancing its productivity and management capability, and recorded a profit in 2012.

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 34(a)(iii) to the financial statements on pages 211 and 212 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 "2012 Insurance Arrangements"), and such insurance policies took effect from 1 January 2012 for a period of one year. The transactions under the 2012 Insurance Arrangements constituted continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2012, the annual insurance premium paid and payable by the Group to SHKPI under the 2012 Insurance Arrangements amounted to HK$68,675,000. On 18 October 2012, the Group further entered into various insurance arrangements (the "2013 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 2013 Insurance Arrangements commenced on 1 January 2013 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 2013 Insurance Arrangements for the financial year ending 31 December 2013 will not exceed HK$76,000,000. The transactions under the 2012 Insurance Arrangements and the 2013 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 23 November 2011 and 18 October 2012.

(b) BUS FOCUS LIMITED ("BUS FOCUS")

Service Agreement and Supplemental 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").

On 3 July 2012, Bus Focus and JCDecaux Cityscape agreed to extend the term of the Service Agreement for a further period from 1 August 2012 to 30 June 2017 (the "Supplemental Service Agreement").

Pursuant to Service Agreement and the Supplemental Service Agreement, the management fee payable by Bus Focus to JCDecaux Cityscape for the year ended 31 December 2012 was HK$20,991,000. There was no sales rebate payable by Bus Focus to JCDecaux Cityscape and no shortfall of guarantee rental receivable by Bus Focus from JCDecaux Cityscape.

The transactions contemplated under the Service Agreement and the Supplemental Service Agreement are only subject to the reporting and announcement requirements of the Listing Rules and are exempt from the independent shareholders' approval requirement. Particulars of these continuing connected transactions were disclosed in the joint announcement of the Company and RoadShow dated 13 November 2008, the announcement of RoadShow dated 29 March 2011 and the circular of RoadShow dated 30 July 2012.

In compliance with the Listing Rules, the Directors, including the Independent Non-executive Directors of the Company, have reviewed and confirmed the following:

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 2012 did not exceed the cap amount of HK$76,000,000 as disclosed in the announcement dated 23 November 2011;
3. the management fee paid and payable by Bus Focus to JCDecaux Cityscape under the Service Agreement and the Supplemental Service Agreement for the year ended 31 December 2012 did not exceed the aggregate cap amount of HK$21,400,000 as disclosed in the announcement of RoadShow dated 29 March 2011 and the circular of RoadShow dated 30 July 2012;
4. the sales rebate paid and payable by Bus Focus to JCDecaux Cityscape under the Supplemental Service Agreement for the period from 1 August 2012 to 31 December 2012 did not exceed the cap amount of HK$3,100,000 as disclosed in the circular of RoadShow dated 30 July 2012; and
5. the shortfall of guaranteed rental received and receivable by Bus Focus from JCDecaux Cityscape under the Service Agreement and the Supplemental Service Agreement for the year ended 31 December 2012 did not exceed the aggregate cap amount of HK$24,000,000 as disclosed in the announcement of RoadShow dated 29 March 2011 and the circular of RoadShow dated 30 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 his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions set out 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.

TIH is committed to operating a business platform that is commercially and environmentally sustainable, enabling the Group to provide services that meet customer needs and support the overall development of the communities in which it operates, while also generating a consistent level of profitability for its shareholders. The Group's governance framework is built on the four cornerstones of accountability, transparency, honesty and integrity, which form the basis for the policies that are formulated and deployed by the Board of Directors to guide senior management in conducting the businesses of the Group. We endeavour 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 at all levels from board members to frontline staff.

CORPORATE GOVERNANCE FRAMEWORK

We believe that sound corporate governance is essential for maintaining stakeholder confidence and furthering the Company's competitiveness, while enabling it to fulfil its mission and attain business excellence. The Company's Corporate Governance Framework (the "Framework") is a performance-oriented benchmark for evaluating business performance which helps the Directors and senior management conduct the Group's businesses in line with planned strategic goals that meet environmental and community needs, and satisfy the expectations of shareholders, customers, employees, creditors and suppliers. The sound management policies and practices that proceed from the Framework cover the full spectrum of the Group's commercial dealings to ensure the highest standards of governance across the Group's businesses. The Framework retains sufficient flexibility to accommodate evolving regulatory requirements, satisfy environmental and local community needs, as well as meet changes in social expectations and international developments. Sound corporate governance principles, including accountability, transparency, honesty, integrity, openness, performance orientation, mutual respect and commitment, are crucial elements in the planning and design of the Framework. The management policies and practices adopted at all levels of operation throughout the Group's businesses enable us to achieve the highest standards of corporate governance.

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

- Optimal board composition, efficient management reporting systems, a professional management team 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 provide safeguards against risks, protect the Group's assets and ensure that its policies and management practices are executed as planned, and that any irregularities, deviations and abuses can be quickly identified and corrected; and
- Effective communication channels, which guarantee that the Group's affairs are communicated to shareholders, customers and other stakeholders promptly.

We realise that good corporate governance is the key to sustainable business success and our management team is committed to continuously improving our current practices to ensure compliance with new regulatory developments and to finding ways to mitigate risk whenever possible.

This Corporate Governance Report describes the corporate governance policies and practices that have been applied throughout the Group for the management of our businesses. Such disclosure is in compliance with the requirements for Corporate Governance Reporting contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CORPORATE GOVERNANCE PRACTICES

The Group pays close attention to the recommended corporate governance practices set out in the Principles of Good Governance, Code Provisions and Recommended Best Practices (the "CG Code") contained in Appendix 14 of the Listing Rules. The CG Code allows 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 cover principally the following areas:

- Board of Directors
- Delegation by Board of Directors
- Accountability and Audit
- Engagement with Stakeholders

The Company complied with the applicable code provisions in the former Code on Corporate Governance Practices (effective until 31 March 2012) and the revised Corporate Governance Code (effective from 1 April 2012) set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2012, except that, pertaining to code provision A.6.7, two of the Non-executive Directors of the Company, Mr Raymond Kwok Ping-luen and Dr Walter Kwok Ping-sheung, were unable to attend the Annual General Meeting of the Company held on 17 May 2012 due to other engagements. The Company adopted the Recommended Best Practices as set out in the CG Code where appropriate, and meets or exceeds the code provisions in all major areas, including the following:

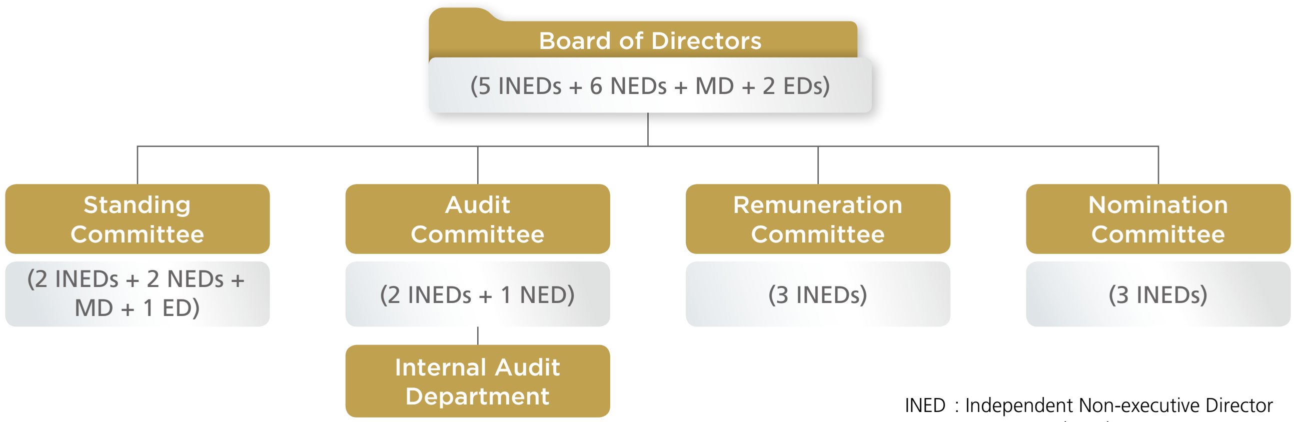
- A comprehensive Corporate Governance Framework has been established to ensure that the best corporate governance practices are identified and adopted across the Group's different lines of businesses in the best interests of its stakeholders.
- The Board and the Standing Committee both meet regularly (six times each in 2012) to discuss major strategic and operational matters pertaining to the Group's businesses.
- 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.
- The majority of the members of the Audit Committee are 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 high-calibre candidates in an objective way and in the best interests of the Company and its shareholders.
- We have drawn up a written Code of Conduct applicable to all Directors and staff. This code, which emphasises the role of ethical values and conscience in business activities, is published on KMB's intranet.

- In addition to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of 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 the relevant ISO Standards, which together provide comprehensive guidance for our corporate governance practices.
- All members of the Remuneration Committee are Independent Non-executive Directors. The Committee ensures that the remuneration of both Executive and Non-executive Directors are properly benchmarked against the level of remuneration of comparable companies in respect of workload, scale and complexity of business and determined according to tried and tested methodology in an objective manner.
- 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.
- A whistleblowing policy with a well-structured reporting system has been established to enable employees, business partners, suppliers and any third party to raise concerns, in confidence, to the Audit Committee about possible improprieties in any matter related to the Company. The policy is published on the Company's website.
- The Company has established a Communications Policy with the aim of providing shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile). The Policy is published on the Company's website.

As a testament to the Company's excellence in the application of best corporate governance practices, the Company won the Hong Kong Corporate Governance Excellence Award 2012 organised by The Chamber of Hong Kong Listed Companies. The Company was the sole award winner in the category "Other Main Board and GEM Board Companies". The award recognised the Company's outstanding commitment to shareholder rights, compliance, integrity, accountability, transparency, board independence and leadership, and corporate social responsibility.

BOARDROOM FRAMEWORK

The Company's Board of Directors comprises 14 members, of whom five are Independent Non-executive Directors, six are Non-executive Directors and three are Executive Directors (including the Managing Director and the Deputy Managing Director). Responsibility for running the Group's day-to-day 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 outlined below:



INED : Independent Non-executive Director
NED : Non-executive Director
MD : Managing Director
ED : Executive Director

BOARD OF DIRECTORS

Composition of the Board of Directors

The Board is responsible for the strategic leadership of the Group and for running the Group in a way designed to maximise shareholder value while taking due account of the broad range of stakeholder interests.

The primary responsibilities of the Board include:

- Formulating the Group's objectives, strategies, policies, business plans and corporate values
- Reviewing the effectiveness of internal controls and risk management
- Ensuring the integrity of the Group's accounting and financial reporting system and public announcements
- Monitoring management performance
- Setting dividend policy
- Approving major financing arrangements
- Evaluating major acquisitions and disposals
- Reviewing the compliance of connected transactions
- Assessing and evaluating the skills and expertise needed on the Board
- Overseeing the management of relationships with stakeholders, including shareholders, customers, the HKSAR Government, suppliers, employees and the community.

The Board of Directors comprises Executive and Non-executive Directors (including Independent Non-executive Directors) with a diversity of experience from different business and professional backgrounds, which ensures that the Board possesses a balance of expertise and a strong independent element allowing it to effectively exercise independent judgement and act in the best interests of its shareholders.

The composition of the Board of Directors broken down by age group and gender is given below:

Age Group	Male	Female
41 – 50	1	1
51 – 60	4	0
61 – 70	5	0
Over 70	3	0
Total	**13**	**1**

The Independent Non-executive Directors (whose designations as Independent Non-executive Directors are explicitly given in all corporate communications of the Company) help ensure 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, the Company has five Independent Non-executive Directors, out of a total of 14 Board Directors, thereby complying with Rule 3.10A of the Listing Rules, which stipulates that at least one-third of Board members should be Independent Non-executive Directors, and exceeding the requirements of Rules 3.10(1) and (2), which stipulate that a 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 accordance 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	Dr Norman LEUNG Nai Pang, GBS, JP (Chairman) (Note 1) Dr John CHAN Cho Chak, GBS, JP (Deputy Chairman) (Note2) Dr Eric LI Ka Cheung, GBS, OBE, JP Mr SIU Kwing-chue, Gordon, GBS, CBE, JP Professor LIU Pak-wai, SBS, JP
Non-executive Directors	Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate) Dr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin as alternate) Mr NG Siu Chan (with Ms Winnie NG as alternate) Mr William LOUEY Lai Kuen 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. Appointed as Chairman of the Company in place of the retired The Hon Sir Sze-yuen CHUNG at the conclusion of the annual general meeting of the Company held on 17 May 2012.
2. Re-designated from Non-executive Director to Independent Non-executive Director with effect from 4 January 2012 and appointed as Deputy Chairman of the Company at the conclusion of the annual general meeting of the Company held on 17 May 2012.

Detailed biographies of the Directors are set out on pages 130 to 135 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, and 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 current term of office of not longer than three years.

Obligations of Directors

Code of Conduct

The Company has drawn up a written Code of Conduct for Directors and employees which is published on the staff website. The code provides guidance on personal conduct, relations with suppliers and contractors, responsibilities to shareholders, relations with customers, employment practices and responsibilities to the community, as well as procedures for monitoring compliance and means of enforcement. The code emphasises ethical values and conscience in business activities, and requires Directors and employees to adhere to the code when discharging their delegated duties. A whistleblowing policy, which is also published on the Company website and staff website, has been established to formalise the procedures for reporting actual or potential violations of the code and other suspected irregularities.

Securities Transactions by Directors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct to regulate Directors' securities transactions in respect of the Company's shares. In response to the Company's specific enquiry, all Directors confirmed that they had complied throughout 2012 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 2012 are set out on pages 140 and 141 of this Annual Report.

Induction and Professional Development

Our 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 to ensure that the Directors have a proper understanding of the Company's operations and businesses and are fully aware of their responsibilities under the Listing Rules, and legal and other regulatory requirements. Information on latest developments regarding the Listing Rules and other applicable governance matters is provided to the Directors as appropriate. The Directors are provided with detailed monthly management reports, as well monthly media reports including press articles relevant to the Company's businesses. In 2012, a seminar was run by a professional services firm to update the Directors on the latest developments in corporate governance. Directors are encouraged to participate in continuous professional development programmes organised by qualified institutions and are asked to provide the Company with a record of any training they have received.

Appointment, Re-election, Cessation and Rotation of Directors

The Company follows a formal, considered and transparent procedure for the appointment of new 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 on the recommendation of the Nomination Committee when it is necessary to fill a casual vacancy. 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 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 or her period of office by passing a special resolution at a general meeting properly convened in accordance with the Bye-laws of the Company for such a purpose.

In compliance with the Listing Rules, the election of individual Directors is subject to a separate resolution to be approved by shareholders. In respect of the re-appointment of an Independent Non-executive Director who has served on the Board for more than nine years, the Company will give reasons in the circular it sends to shareholders giving notice of the annual general meeting why it considers that such Independent Non-executive Director continues to be independent and why it recommends that shareholders vote in favour of his or her re-election.

At the annual general meeting held on 17 May 2012, (the "2012 AGM"), six Directors, namely, 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, retired by rotation and were re-elected as Directors of the Company. The Hon Sir Sze-yuen CHUNG, the former Chairman of the Company, retired as Director of the Company, KMB and LWB with effect from the conclusion of the 2012 AGM and did not offer himself for re-election. At the same time, two of the Directors of the Company, Dr Norman LEUNG Nai Pang and Dr John CHAN Cho Chak, were appointed as Chairman and Deputy Chairman of the Company, respectively.

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.

At the forthcoming annual general meeting to be held on 23 May 2013 (the "2013 AGM"), Dr Norman LEUNG Nai Pang, Dr KWOK Ping-sheung, Walter, and Mr William LOUEY Lai Kuen will retire by rotation 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 2013 AGM. The election of each Director will be subject to the vote of shareholders by a separate resolution.

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

Shareholders may put forward a proposal for election of a person as a Director at a general meeting of the Company. The procedures for making proposals to nominate a person for election as a Director are available on the websites of the Company and the Stock Exchange.

Distinctive Roles of the Chairman and the Managing Director

Neither the Company's former Chairman, The Hon Sir Sze-yuen CHUNG nor his successor, Dr Norman LEUNG Nai Pang, both Independent Non-executive Directors, have any financial, business, family or other relationship with the Company's Managing Director, Mr Edmond HO Tat Man. This separation of posts ensures that there is a clear distinction between the roles and responsibilities of the Chairman and the Managing Director.

An Independent Non-executive Chairman can provide independent oversight of the management team and ensure that the Board remains fully cognisant of the interests of shareholders.

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

Responsibilities of the Chairman

- Chairing the Board and shareholders' meetings
- Ensuring the operations of the Board are managed effectively
- Ensuring all key and appropriate issues are discussed by the Board in a timely and constructive manner
- Taking appropriate steps to provide effective communication with shareholders and to ensure that shareholders' views are communicated to the Board as a whole
- Ensuring good corporate governance practices are followed

Responsibilities of the Managing Director

- Developing, recommending and implementing the Group's policies and strategies so that they reflect the 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
- Representing the Company and managing the Group's day-to-day businesses
- Developing and leading an effective executive team
- Closely monitoring operational and financial results in accordance with plans and budgets
- Putting adequate operational, planning and financial-control systems in place

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 18 October 2012.

Board Meetings

The Board 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 code provisions contained in the CG Code, as summarised below:

- The annual schedule of regular Board meetings is provided to Board members at the start of each year and any amendments to the schedule are notified to Directors at least 14 days before regular meetings;
- 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
- The Company Secretary is responsible for taking minutes of all Board meetings, recording 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, and circulating them 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

All 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. The declaration of interest will be recorded in the minutes. Directors having 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 2012, the Company was involved in two continuing connected transactions, details of which are disclosed on pages 104 to 105 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 liability incurred in connection with the Company's activities. These indemnities were in force during 2012 and remain in force.

DELEGATION BY THE BOARD OF DIRECTORS

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 its 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^ (Note 1)	Chairman			
Dr John CHAN Cho Chak, GBS, JP^ (Note 2)	Member		Chairman	Chairman
Dr Eric LI Ka Cheung, GBS, OBE, JP^		Chairman	Member	Member
Mr KWOK Ping-luen, Raymond, JP#	Member			
Mr SIU Kwing-chue, Gordon, GBS, CBE, JP^		Member		Member
Ms Winnie NG#	Member			
Mr John Anthony MILLER, SBS, OBE#		Member		
Mr Charles LUI Chung Yuen, M.H.*	Member			
Mr Edmond HO Tat Man*	Member			
Professor LIU Pak-wai, SBS, JP^ (Note 3)			Member	

^ Independent Non-executive Director
# Non-executive Director
* Executive Director

Notes:

1. Resigned as the Chairman of the Remuneration Committee and of the Nomination Committee with effect from the conclusion of the annual general meeting held on 17 May 2012.
2. Re-designated from Non-executive Director to Independent Non-executive Director with effect from 4 January 2012 and appointed as the Chairman of the Remuneration Committee (formerly, a member of the Remuneration Committee) and of the Nomination Committee with effect from the conclusion of the annual general meeting held on 17 May 2012.
3. Appointed as a member of the Remuneration Committee with effect from the conclusion of the annual general meeting held on 17 May 2012.

Standing Committee

The Standing Committee was set up by the Board with specific terms of reference to advise and assist the Board in formulating policies, and to monitor their implementation by management. In 2012, the Standing Committee held six meetings with senior management 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 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. 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 diverse experience in various business and professional fields as set down in the Directors' biographies on pages 130 to 135 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 regularly updated with reference to the recommendations of the CG Code of the Listing Rules.

In 2012, 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 noted during the course of the audit and any other matters which they might like 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 key tasks performed by the Audit Committee in 2012 included:

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

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

- Established a whistleblowing policy and reporting system to enable employees, business partners, suppliers and any third party to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company. The Audit Committee has overall responsibility for monitoring and reviewing the operation of the policy and for any recommendations for action resulting from investigation into complaints. The Company Secretary is delegated with the responsibility to manage and review the day-to-day operations of the whistleblowing system. The whistleblowing policy and procedures are posted on the Company's website.

Based on the conclusions drawn from these reviews and discussions, the Audit Committee recommended to the Board that the unaudited interim financial report of the Company for the six months ended 30 June 2012 and the annual financial statements for the year ended 31 December 2012 be approved.

(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 2013.

Remuneration Committee

The role of the Remuneration Committee is to formulate remuneration policies, including the establishment of guidelines to determine terms and conditions of employment, and remuneration and retirement benefits of Directors and employees of the Group. It also establishes 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 2012 are set out in the Remuneration Report on pages 126 to 129 of this Annual Report.

Nomination Committee

The Nomination Committee is charged with the responsibility of identifying appropriate candidates with suitable skills and experience for consideration by the Board and for ensuring that the appointment of Directors undergoes formal, stringent and transparent procedures. All members, including the Chairman, of the Nomination Committee are Independent Non-executive Directors of the Company. The principal terms of reference of the Nomination Committee include:

- Formulating nomination policy for consideration by the Board and implementing the nomination policy 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 for the appointment or re-appointment of Directors and regarding 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 2012 is given below:

Members of the Board of Directors	Meetings Attended/Held					
	2012 AGM	Board	Standing Committee	Audit Committee	Remuneration Committee	Nomination Committee
Independent Non-executive Directors						
The Hon Sir Sze-yuen CHUNG, GBM, GBE, JP (ex-Chairman) (Note 1)	1/1	2/2				
Dr Norman LEUNG Nai Pang, GBS, JP (Chairman) (Note 2)	1/1	6/6	6/6		1/1	1/1
Dr John CHAN Cho Chak, GBS, JP (Deputy Chairman) (Note 3)	1/1	6/6	6/6		2/2	
Dr Eric LI Ka Cheung, GBS, OBE, JP	1/1	6/6		2/2	2/2	1/1
Mr SIU Kwing-chue, Gordon, GBS, CBE, JP	1/1	6/6		2/2		1/1
Professor LIU Pak-wai, SBS, JP (Note 4)	1/1	6/6			1/1	
Non-executive Directors						
Mr KWOK Ping-luen, Raymond, JP (with Mr YUNG Wing Chung as alternate)	0/1	1/6	6/6			
Dr KWOK Ping-sheung, Walter, JP (with Mr SO Wai Kei, Godwin, as alternate)	0/1	0/6				
Mr NG Siu Chan (with Ms Winnie NG as alternate)	1/1	5/6				
Mr William LOUEY Lai Kuen	1/1	5/6				
Ms Winnie NG	1/1	6/6	6/6			
Mr John Anthony MILLER, SBS, OBE	1/1	6/6		2/2		
Executive Directors						
Mr Charles LUI Chung Yuen, M.H.	1/1	6/6	4/6			
Mr Edmond HO Tat Man (Managing Director)	1/1	6/6	6/6			
Mr Evan AU YANG Chi Chun (Deputy Managing Director)	1/1	6/6				
Alternate Directors						
Ms Winnie NG (Alternate Director to Mr NG Siu Chan)		1/1				
Mr YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond, JP)	1/1	5/5				
Mr SO Wai Kei, Godwin (Alternate Director to Dr KWOK Ping-sheung, Walter, JP)	1/1	6/6				
In attendance						
External Auditor	1/1			2/2		

Notes:

1. Retired as Chairman of the Company at the conclusion of the annual general meeting held on 17 May 2012.
2. Appointed as Chairman of the Company and resigned as Chairman of the Remuneration Committee and of the Nomination Committee at the conclusion of the annual general meeting held on 17 May 2012.
3. Re-designated from Non-executive Director to Independent Non-executive Director with effect from 4 January 2012 and appointed as Deputy Chairman of the Company and as Chairman of the Remuneration Committee and of the Nomination Committee with effect from the conclusion of the annual general meeting held on 17 May 2012.
4. Appointed as a member of the Remuneration Committee with effect from the conclusion of the annual general meeting held on 17 May 2012.

The Board meets in person regularly. Six Board meetings were held in 2012, exceeding the minimum of four board meetings a year as required by the Code Provisions set out in the CG Code. On average, regular Board meetings and Board Committee meetings lasted at least one hour.

Delegation of Responsibilities to Senior Management

Responsibility for delivering the Group's strategies and for day-to-day management is delegated under the supervision of the Board and the relevant Board Committees to senior management, comprising Executive Directors of the Company and its management team, who possess wide experience and expertise in different areas. The senior management team provide accurate, adequate and detailed financial and operational information in a timely manner to the Board to keep them abreast of 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, Miss Lana Woo, 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 for facilitating the induction and professional development of Directors. The Company Secretary is an officer of the Company and is appointed by the Board. During 2012, the Company Secretary undertook over 15 hours of professional training to update her knowledge.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its 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") issued by the Hong Kong Institute of Certified Public Accountants ("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 comply with the statutory requirements.

The Company announces 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 2012 given on pages 147 to 215 of this Annual Report represent a true and fair view of the state of affairs of the Company and the Group, and the results and cash flow for the year. These financial statements are prepared according to the HKFRS issued by the HKICPA. The responsibilities of the external auditors, KPMG, are set out in the auditors' report on page 146 of this Annual Report.

The Audit Committee of the Company, together with management and the Company's external auditors, has reviewed the accounting principles and policies adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the financial results for the year ended 31 December 2012. The preliminary announcement of the financial results of the Company for the year ended 31 December 2012 has been reviewed by the Company's auditors in accordance with Hong Kong Standard on Related Services 4400, "Engagements to perform agreed-upon procedures regarding financial information", and with reference to Practice Note 730, "Guidance for auditors regarding preliminary announcements of annual results", issued by the HKICPA.

Internal Controls and Risk Management

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's internal control system with a view to safeguarding the assets of the Group, minimising operational system risks, and providing reasonable assurance against material misstatement of information (whether financial or non-financial). Stringent 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 crucial role in ensuring that an effective system of internal control is in place. 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

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

The Group has a well-defined organisational structure with delineated lines of authority and control responsibilities which are clearly set out in writing and documented in organisation charts and job manuals for individual operating and business units. Management is responsible for promulgating a culture of high moral standards at both management and staff levels, ensuring that an effective risk management system is in place, for designing, adopting and maintaining internal controls, and for 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 benchmarks for monitoring the implementation results. The Board and the Audit Committee oversee management performance and measure the effectiveness of the internal controls. Specialised Board committees and cross-departmental working committees are established from time to time to deal with specific issues.

Internal Control Framework

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

<table>
<tr><th colspan="2">The Board</th></tr>
<tr><td colspan="2">• 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</td></tr>
<tr><th colspan="2">The Audit Committee</th></tr>
<tr><td colspan="2">• 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
• approves audit plans and ensures that the findings of the Internal Audit Department are properly addressed by management
• promotes coordination between the internal and external auditors
• reports to the Board on the performance of the Company's internal control system</td></tr>
<tr><th>The Internal Audit Department</th><th>Management</th></tr>
<tr><td>• 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</td><td>• 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</td></tr>
</table>

Business Ethics

The Group's internal control environment is built on the culture of moral consciousness, high ethical values and management integrity. The Code of Conduct and the Staff Handbook, which are published on KMB's staff website, set down the rules and policies which all Directors and staff are expected to follow. 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. A whistleblowing policy has been established by the Audit Committee of the Company to encourage employees, business partners, suppliers and any third party to report potential violations of the code and other suspected irregularities.

Effective and Efficient Quality Management System

The Group has implemented an effective and efficient Quality Management System ("QMS"), which is based on the benchmarks required by the International Organisation for Standardisation ("ISO"), for its three major subsidiaries, KMB, Sun Bus Limited ("SBL") and LWB. Following the ISO 9001:1994 accreditation of KMB's QMS on a company-wide basis in 1999, KMB's two major bus depots were ISO 14001 certified for their environmental management systems in 2003. In 2008, SBL was awarded ISO 9001:2000 certification for the provision of non-franchised bus services. In 2009, new ISO 9001:2008 certificates were issued to KMB and SBL upon the successful completion of the upgrading audits. In November 2012, LWB also obtained ISO 9001:2008 quality management system certification.

A well-structured and systematic documentation model facilitates the Group's development of strategic and operational planning and serves as a performance indicator against which a business unit may measure its effectiveness. Under the ISO requirements, all major financial and operational procedures and instructions, including illustrative flow charts, need to be clearly documented and approved by authorised persons. Such documentation, covering KMB, SBL and LWB's major operational processes with the responsibility and authority of each member of staff in charge of his or her respective process well defined, is reviewed and updated from time to time to ensure that it complies 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. Preventive and corrective measures will be taken immediately upon the detection of any non-conformity. 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 effectiveness still further.

Each year, an external ISO certification organisation, the Hong Kong Quality Assurance Agency ("HKQAA"), 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 2012, no non-conformity in the QMS was found in the ISO audits of KMB and SBL.

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. The Group has 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. This framework helps the Group identify potential risks that are related to different business processes and relevant to the Group's objectives, and assess them in terms of impact and likelihood by deploying appropriate quantitative and qualitative techniques. Depending on their level of significance, the risks inherent in various business processes will be duly prioritised and identified, with each risk item properly measured and

controlled, and potential improvements or follow-up measures put in place to minimise the risk exposure. Relevant information is generated and communicated to management periodically to monitor the effectiveness of the risk management process.

The risk management process is illustrated as follows:

Business Continuity Plan

The Group's flagship subsidiary, KMB, has formulated and documented a Business Continuity Plan ("BCP"), which is reviewed and updated from time to time according to changes in circumstances. The BCP, an integral part of the risk management process, provides a systematic approach for building an effective response that enables management to safeguard shareholder value in the event of a crisis by responding promptly to the situation and resuming KMB's critical business operations and services at an acceptable pre-defined level. It identifies and evaluates major risks of business functions affected in terms of likelihood and disruption consequence, 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 feasible and viable.

An emergency management team under the leadership of the Managing Director works to ensure that, in the event of a contingency, effective management will be maintained and responses that ameliorate the disruption will be taken promptly.

Enterprise Resources Planning System

A comprehensive Enterprise Resources Planning system, including SAP e-business Software, provides 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 in 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 providing the Audit Committee and senior management with independent and objective assurance that the internal control system of the Group is effective in achieving its objectives and any risks and internal control weaknesses have been adequately addressed. This objective is accomplished through the implementation of a systematic, disciplined, risk-based audit approach to examine and evaluate the internal controls of the Group according to the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors. This involves reviewing the inherent risks associated with each key business process and evaluating the internal controls to mitigate these risks, testing compliance of the internal controls, and carrying out substantive tests, such as transaction tests, stocktaking, physical inspection and analytical reviews in major areas to substantiate the effectiveness of the internal control system and the correctness of the accounting data, as well as recommending potential improvement opportunities where appropriate to enhance the internal control system.

The Head of Internal Audit Department supervises the implementation of comprehensive audits and reviews the financial and operational procedures and practices of the Group on both a regular and an ad hoc basis. To ensure the independence of the internal audit function of the Group, the Head of Internal Audit Department reports directly to the Audit Committee and the Managing Director.

In 2012, 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, communicating the findings, recommending follow-up action to the relevant operating units, and reporting to the Audit Committee and the Managing Director;

- Independently reviewing the risks and controls of the Group, and ensuring that the risks and internal control weaknesses were adequately addressed;
- Carrying out internal consulting services to help improve the operational and financial performance of the Group's various business units; and
- 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 2012.

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

The Company recognises its obligations under the Listing Rules and the Securities and Futures (Amendment) Ordinance and has proper procedures and internal control measures in place to preserve the confidentiality of price-sensitive and/or inside information relating to the Group. The Board, senior management and nominated executives who have access to price-sensitive and/or inside information are bound by the Model Code for Securities Transactions under the Listing Rules. Additionally, every employee is required to follow the Code of Conduct and the Staff Handbook in relation to keeping unpublished price-sensitive and/or inside information strictly confidential.

External Audit

The external auditors play a substantial role in assuring the integrity of the disclosure of financial information. Major findings, if any, noted by the auditors during the course of the review of the Company's interim financial report and audit of the Company's annual financial statements will be reported directly to the Audit Committee and the Board. 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 to act as external auditors. The external auditors are also required to review annually their relationship with the Group and give written confirmation to the Audit Committee of their independent status.

The Company engaged KPMG as external auditors to audit the financial statements of the Company for the year ended 31 December 2012. KPMG has formally confirmed in writing to the Audit Committee that for the year ended 31 December 2012 and up to the date of this Annual Report, it remains independent of the Group in accordance with the independence requirements of the HKICPA.

The fees for services rendered by KPMG to the Group for the year ended 31 December 2012 are set out below:

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

ENGAGEMENT WITH STAKEHOLDERS

Shareholders

At 31 December 2012, the Company had 4,453 registered shareholders. Besides individual shareholders, some of these shares are held by institutional investors, or by people and organisations via financial intermediaries such as nominees, investment funds and the Central Clearing and Settlement System ("CCASS") of Hong Kong.

The names of the shareholders, other than Directors of the Company, holding 5% or more of the shares of the Company as at 31 December 2012 are disclosed in the Report of the Directors on page 142 of this Annual Report. The largest single shareholder of the Company is Sun Hung Kai Properties Limited, which retains an equity interest of about 33.0% in the Company.

At the end of 2012, the shareholding distributions of the Company were as follows:

Size of registered shareholding	Number of shareholders	% of shareholders	Number of shares (Note)	% of issued share capital
0 – 1,000	1,452	32.61	482,565	0.12
1,001 – 5,000	1,739	39.05	4,160,500	1.03
5,001 – 10,000	528	11.86	4,052,538	1.00
10,001 – 100,000	612	13.74	18,404,431	4.56
Above 100,000	122	2.74	376,539,379	93.29
	4,453	100.00	403,639,413	100.00

Note: 39.58% of all TIH's issued shares were held through CCASS.

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.

Shareholders' Communication Policy

The Board believes that transparency is the cornerstone of good corporate governance. To that end, the Board has established a Shareholders' Communication Policy, which is posted on the Company's website and is reviewed regularly to ensure its effectiveness. The Group uses various communication means, including press releases, announcements, interim and annual reports, and circulars, to convey its messages to shareholders. Other information of interest to shareholders is available on the Company's website www.tih.hk as well as on 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.

Annual Reports

Management recognises that our annual report is an important source of information for our shareholders and other stakeholders wishing to understand our businesses. As such, we work hard to ensure that our annual report is informative, comprehensible and transparent, with an excellent level of disclosure. Over the years, the Company's annual reports have won widespread recognition in local and international award programmes. In 2012, the Company won the following prestigious awards:

- Bronze Award in the Hong Kong Management Association ("HKMA") Best Annual Reports Awards; and
- Silver Award for Cover Photo/Design and Bronze Award for Financial Data in the International ARC Awards.

This Annual Report is produced in English and Chinese and is available in both printed and electronic versions. Shareholders can elect to receive a printed version (in English, Chinese or both languages) or the electronic version. We recommend that shareholders access by electronic means the Company's corporate communications, including annual and interim reports, notices of meetings, listing documents, circulars and forms of proxy, in order to preserve the environment and save costs. Shareholders may at any time change their choice of language or means of receiving the Company's corporate communications free of charge by giving written notice of not less than seven days to the Company's share registrar, Computershare Hong Kong Investor Services Limited, or by email to tih.ecom@computershare.com.hk.

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 confirmation by the Company's Share Registrars that the request is valid, the Company Secretary will arrange to convene a SGM by serving sufficient notice to all the registered shareholders in accordance with the Company's Bye-laws and the statutory requirements.

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. The amendments to Bye-laws 2(e), 160 and 161 relating to the use of electronic means for communication with shareholders were approved by the shareholders at the 2012 AGM and updated in the consolidated version of the Bye-laws. Details of the amendments were given in the Circular to Shareholders dated 17 April 2012, which was published on the Company and the Stock Exchange websites.

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 procedures for making proposals at general meetings are set out in the Company's Shareholder's Communication Policy, which is available on the Company's website.

Annual General Meeting

The Company's general meetings are important platforms for the Directors to communicate with shareholders directly. The annual general meetings or other general meetings are normally attended by all Directors and senior management as well as the Company's external auditors so that they can respond to any comments or questions raised by shareholders.

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 2012 AGM was held on 17 May 2012 and the matters resolved are summarised below:

As ordinary business:

- Approval of the audited financial statements and reports of the Directors and Auditors for the year ended 31 December 2011;
- Approval of an ordinary final dividend of HK$0.45 per share for the year ended 31 December 2011;
- Re-election of 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 as Directors of the Company;
- Re-appointment of KPMG as auditors of the Company, and authorisation of the Directors to fix their remuneration;
- Fixing the fees of the Chairman and each of the other Directors of the Board and of the Audit Committee, Remuneration Committee and Standing Committee;
- 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.

As an item of special business:

- Approval of certain amendments to the Bye-laws of the Company to allow the use of the Company's website or the Stock Exchange's website and other electronic means to send or make available notices or documents to shareholders.

The details and poll voting results of the 2012 AGM were published on the websites of the Company and the Stock Exchange on 17 May 2012.

The 2013 Financial Calendar of the Company is set out as follows:

Announcement of 2012 final results	**21 March 2013**
Dispatch of 2012 Annual Report and accompanying circular to shareholders	**22 April 2013**
Last day to register transfer to qualify to attend and vote at the 2013 AGM	**15 May 2013**
Book closure for 2013 AGM (both dates inclusive)	**16 - 23 May 2013**
Date of 2013 AGM	**23 May 2013**
Last day to register transfer to qualify for 2012 final dividend	**28 May 2013**
Book closure for 2012 final dividend	**29 May 2013**
Payment of 2012 final dividend	**7 June 2013**
Announcement of 2013 interim results	**mid-August 2013**
Payment of 2013 interim dividend	**mid-October 2013**
Financial year end date	**31 December 2013**

Directors meet TIH shareholders at the 2012 AGM

Procedure for Sending Enquiries to the Board

Shareholders may send their enquiries to the Board. All enquiries should be addressed to the Board or Company Secretary of the Company and sent to its head office 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.

General Public

We are dedicated to keeping the general public informed of what the Group has done and how our achievements relate to them by using 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 date 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 on their services and operations.

In 2012, the KMB website won the Bronze Prize in the 2011 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.

Employees

Strong two-way communication between management and staff is vital to our continued success by strengthening loyalty and efficiency.

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

The Group's staff website is another important channel to enable 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 of news and events relating to the Group and the industry. The monthly column "Message from the Managing Director" in KMB Today is an important channel for enhanced communication between management and staff.

The Staff Handbook sets out the Company's human resources policies and provides clear guidelines for staff at all levels to follow. The Handbook can be accessed via our staff website.

Remuneration Report

The Remuneration Committee was established in 2003. It is currently chaired by Dr John CHAN Cho Chak, 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 Professor LIU Pak-wai, both are Independent Non-executive Directors of the Company.

The Remuneration Committee has been delegated by the Board with the responsibility of ensuring that the Company adopts 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. It also formulates policies on the remuneration of Directors and employees of the Company and its subsidiaries (the "Group") for approval by the Board. Remuneration levels are determined according to the principles of individual performance, fairness, transparency and market competitiveness. A variety of remuneration elements, including basic salary, performance related bonuses and retirement benefits are incorporated in order to attract and retain people who are fully motivated to contribute to the Group.

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 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, job responsibilities 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 main duties of the Committee include:

- Establishing guidelines for determining the remuneration of Directors (including terms and conditions of employment, remuneration and retirement benefits of the Executive Directors), and making recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management;
- Reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, as well as Non-executive Directors;
- 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;
- Setting appropriate criteria for awarding performance related bonuses to employees of the Group, having regard to the Group's business objectives and targets, and making recommendations to the Board on the awarding of annual performance related bonuses for employees according to their achievements as benchmarked against the assessment criteria and the market norms;
- Reviewing and considering proposals from the Managing Director regarding human resource or related policies and making appropriate recommendations to the Board; and
- Ensuring that no Director or any of his or her associates is involved in deciding his or her own remuneration.

In 2012, the Remuneration Committee:

- Reviewed the remuneration policy for 2012;
- Reviewed the remuneration of Executive and Non-executive Directors by benchmarking against the level of remuneration of major listed companies in respect of workload, scale and complexity of business;
- Reviewed the annual performance related bonuses for Group employees, with reference to 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 line with good corporate governance practices, the remuneration of Directors was assessed based on formalised principles, which take into account both market practices and a tried and tested methodology.

The fee scale for Directors in 2012 as set out below was determined based on the methodology developed in the "Higgs Report" in the United Kingdom on the "Review of the Role and Effectiveness of Non-executive Directors", taking into account the expected workload, the scale and complexity of the business, and the responsibility of Directors. Reference was also made 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.

	Fee per annum HK$
Board Members	
– Chairman	369,600
– Other Director	264,000
Audit Committee Members	
– Chairman	92,400
– Other member	66,000
Remuneration Committee Members	
– Chairman	46,200
– Other member	33,000
Standing Committee Members (except Executive Directors)	
– Chairman	323,400
– Other member	231,000

The above fee structure was approved by the shareholders at the annual general meeting of the Company held in 2012 and will remain effective until the Company in general meeting determines otherwise.

Apart from 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 2012, together with 2011 comparatives, are set out in note 7 to the consolidated financial statements on pages 173 and 174 of this Annual Report.

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

In determining the remuneration of senior management members, namely Mr Charles LUI Chung Yuen, Mr Edmond HO Tat Man and Mr Evan AU YANG Chi Chun, who are Executive Directors of the Company and whose biographies are set out in the Directors' Profiles on pages 130 to 135 of this Annual Report, and other employees, the Group makes reference to the remuneration for similar positions in comparable local companies. This aligns with the Group's remuneration policy of matching 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 the 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. The Group 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 ("the Hong Kong MPF 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 an independent actuary who values 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. 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 employment terms and 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 MPF Ordinance, subject to a cap of monthly relevant income of HK$20,000, which level has been adjusted to HK$25,000 with effect from 1 June 2012.

Directors' Profiles

DR NORMAN LEUNG NAI PANG

GBS, JP, LLD, BA

Chairman and Independent Non-executive Director, aged 72. 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 has been appointed as the Chairman of the Company with effect from the conclusion of the Annual General Meeting of the Company held on 17 May 2012. Dr Leung is the Chairman of the Standing Committee of the Company. He is the Executive Chairman of Television Broadcasts Limited and an Independent Non-executive Director of Sun Hung Kai Properties Limited, both of which are companies 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.

DR JOHN CHAN CHO CHAK

GBS, JP, DBA(Hon), DSocSc (Hon), BA, DipMS, CCMI, FCILT, FHKIoD

Deputy Chairman and Independent Non-executive Director, aged 69. 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, and was re-designated as Independent Non-executive Director of the Company with effect from 4 January 2012. He was appointed as the Deputy Chairman of the Company with effect from the conclusion of the Annual General Meeting of the Company held on 17 May 2012. He is the Chairman of the Remuneration Committee and the Nomination Committee as well as a member of the Standing Committee of the Company. He is also the Chairman and Non-executive Director of RoadShow Holdings Limited, an indirect subsidiary of the Company listed on The Stock Exchange of Hong Kong Limited and an Independent Non-executive Director of Hang Seng Bank Limited, 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, The University of Hong Kong in 2011 and Lingnan University in 2012. 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.

KWOK PING-LUEN, RAYMOND

JP, MA(Cantab), MBA, Hon DBA, Hon LLD

Non-executive Director, aged 59. 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 and a Non-executive Director of Wing Tai Properties 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 Vice Chairman of the Council of The Chinese University of Hong Kong. Mr Kwok is a 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 62. 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 Fellow 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, a Non-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.

NG SIU CHAN

Non-executive Director, aged 82. Mr Ng has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He is also a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 3 March 1983 and 8 May 1997 respectively. Mr Ng is also an Independent Non-executive Director of Century City International Holdings Limited, Paliburg Holdings Limited and Regal Hotels International Holdings Limited.

Mr Ng is the father of Ms Winnie Ng, who is a Director of the Company, KMB and LWB, and also Founder and Deputy Chairman and Non-executive Director of RoadShow Holdings Limited.

WILLIAM LOUEY LAI KUEN

BSc(Econ)

Non-executive Director, aged 53. 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 and was subsequently appointed a member of Vice-Chancellor's Circle in June 2011. In recognition of his contribution to education, Mr Louey was presented the Elizabeth Wordsworth Fellowship in February 2013 by St. Hugh's College, the first ever in the history of Oxford University. Mr Louey has also served as an Executive Committee Member of The Friends of Cambridge University in Hong Kong from 2003 to 2012. 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 78. Mr Lui has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively. He is also a member of the Standing Committee of the Company. Joined KMB in 1960 as Accountant and promoted to Chief Accountant, Assistant General Manager and appointed as General Manager on 1 March 1989. Retired as General Manager on 21 July 1999 on reaching the retirement age of 65 years. Mr Lui was appointed the Deputy Managing Director of KMB (China) Holdings Limited ("KMB (China)") on 1 September 1999. Relinquished the post of Deputy Managing Director to assume the post of Chairman of KMB (China) on 13 August 2003.

WINNIE NG

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

Non-executive Director, aged 49, 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 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, Vice Chairperson and Director of Friends of Bauhinia, 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. She is a Fellow of the Chartered Institute of Marketing.

DR ERIC LI KA CHEUNG

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

Independent Non-executive Director, aged 59. Dr Li has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. Dr Li was appointed an Independent Non-executive Director of RoadShow Holdings Limited since 16 September 2004. He is the Senior Partner of Li, Tang, Chen & Co., Certified Public Accountants. Dr Li is an Independent Non-executive Director of SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Limited, Hang Seng Bank Limited, China Resources Enterprise, Limited and Bank of Communications Co. Ltd., all of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was formerly an Independent Non-executive Director of China Vanke Co., Ltd., Sinofert Holdings Limited, CATIC International Holdings Limited and Meadville Holdings Limited (a company listed on the Stock Exchange until its withdrawal of its listing status on 19 April 2010). He is also an Independent Non-executive Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is a member of the 12th National Committee of the Chinese People's Political Consultative Conference and the Chairman of the Legal Aid Services Council. 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 51. 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. Mr Ho is currently a Director of the Business Environment Council and a member of the General Committee of the Employers' Federation of Hong Kong. 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 67. 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 positions in Government included Deputy Secretary for the Civil Service (1981-1985), Secretary-General of OMELCO (1985-1988), Postmaster General (1988-1989), Commissioner for Transport (1989-1992), Director, New Airport Projects Co-ordination Office (1992-1993), Secretary for Economic Services (1993-1996), Secretary for Transport (1996-1997), Head, Central Policy Unit (1997-1999) and Secretary for Planning, Environment & Lands (1999-2002). Mr Siu was awarded the honours of Commander of the Most Excellent Order of the British Empire (CBE) in 1997 and Gold Bauhinia Star (GBS) in 2002, and appointed a non-official Justice of the Peace in 2003.

JOHN ANTHONY MILLER

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

Non-executive Director, aged 62. 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. He is also a Non-executive Director of SUNeVision Holdings Ltd. and SmarTone Telecommunications Holdings Limited. 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 41. 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 Environment Steering Group. He is also a member of the Advisory Committee for the School of Energy and Environment at City University of Hong Kong. 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 65. Professor Liu 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 1 September 2011. He was appointed as a member of the Remuneration Committee with effect from the conclusion of the Annual General Meeting of the Company held on 17 May 2012. 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 Executive Committee Chairman of the Institute of Global Economics and Finance, 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. In public service, he serves as a member of the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials, and the Products Advisory Committee of the Securities and Futures Commission. He was a past member of the Independent Review Committee for the Prevention and Handling of Potential Conflicts of Interests, and the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR.

Key Corporate Executives

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 Choi Fook CMILT
Corporate Affairs Director	Vivien CHAN Pik Kwan BA, MA, EMBA
Transport Development Director	Mark Andre SAVELLI BSc, FCILT, CDir, MIoD
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	Osbert W C KWAN BA, MSc
Head of Customer Service Department	CHAN Pik Yin BA
Head of Commercial Deployment Department	WAN Kin Tim BSc
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 Purchasing Department	Eric M H LEE MBA, BMath, R.Inst.Pa
Head of Safety and Service Quality Department	Gary K F 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, FCCA, CMILT
Acting General Manager (Kowloon Bay Depot)	Paul K H YEUNG BA, MBA
Acting General Manager (Lai Chi Kok Depot)	Andrew C W KWAN CMILT
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	MA Siu Wah BA, CMILT, AMInstTA, PgD
KMB (China) Holdings Limited and New Hong Kong Bus Company Limited	
General Manager	Simon S M TU 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

Financial Reports

Report of the Directors

The Directors have pleasure in submitting their Annual Report and the audited financial statements for Transport International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2012.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in Bermuda and is domiciled in Hong Kong 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 18 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 2012 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 147 to 215 of this Annual Report.

TRANSFER TO RESERVES

Profits attributable to equity shareholders of the Company, before dividends, of HK$309,197,000 (2011: HK$242,351,000) 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 (2011: HK$0.15) per share was paid to the shareholders on 16 October 2012. The Directors now recommend that a final dividend of HK$0.45 (2011: HK$0.45) per share in respect of the year ended 31 December 2012 be paid to shareholders on 7 June 2013.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$504,000 (2011: HK$285,000).

FIXED ASSETS

During the year, major additions to the fixed assets of the Group were buses under construction with a total cost of HK$137,067,000 (2011: HK$388,829,000) and tools and other fixed assets with a total cost of HK$309,336,000 (2011: HK$334,071,000). Buses with a total cost of HK$334,388,000 (2011: HK$621,046,000) 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 29(b) to the financial statements. There were no movements during the year.

DIRECTORS

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

Dr Norman LEUNG Nai Pang*, GBS, JP	(Chairman)
Dr John CHAN Cho Chak*, GBS, JP	(Deputy Chairman, re-designated as Independent Non-executive Director with effect from 4 January 2012)
KWOK Ping-luen, Raymond, JP	
Dr KWOK Ping-sheung, Walter, JP	
NG Siu Chan	
William LOUEY Lai Kuen	
Charles LUI Chung Yuen, M.H.	
Winnie NG	(Director and Alternate Director to Mr NG Siu Chan)
Dr Eric LI Ka Cheung*, GBS, OBE, JP	
Edmond HO Tat Man	(Managing Director)
SIU Kwing-chue, Gordon*, GBS, CBE, JP	
John Anthony MILLER, SBS, OBE	
Evan AU YANG Chi Chun	(Deputy Managing Director)
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)
The Hon Sir Sze-yuen CHUNG*, GBM, GBE, PhD, FREng, JP	(retired on 17 May 2012)

* 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"), Dr Norman Leung Nai Pang, Dr Kwok Ping-sheung, Walter and Mr William Louey Lai Kuen retire from the Board by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 130 to 135 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 2012 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 of the Company

	Ordinary shares of HK$1 each					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
Dr Norman LEUNG Nai Pang*	–	–	–	–	–	–
Dr John CHAN Cho Chak*	2,000	–	–	–	2,000	–
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%
Charles LUI Chung Yuen	12,427	–	–	2,651,750 (Note 1)	2,664,177	0.660%
Winnie NG	41,416	–	–	21,000,609 (Note 2)	21,042,025	5.213%
Dr 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.

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

(b) Interests in issued shares of RoadShow Holdings Limited ("RoadShow"), a subsidiary of the Company

	Ordinary shares of HK$0.1 each					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
Dr Norman LEUNG Nai Pang*	–	–	–	–	–	–
Dr John CHAN Cho Chak*	–	–	–	–	–	–
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%
Charles LUI Chung Yuen	–	–	–	209,131 (Note 1)	209,131	0.021%
Winnie NG	1,000,000	–	–	123,743 (Note 2)	1,123,743	0.113%
Dr 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 2012, none of the Directors had any non-beneficial interest in the share capital of the Company.

Apart from the foregoing, 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 34(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.

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

At 31 December 2012, 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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under either the Company's Bye-laws or the laws in Bermuda.

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 132, 134 and 135 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.

(a) 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 2013 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 overleaf) 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 2011 Hong Kong Life Tables; and normal retirement age of 65.

(iii) The market value of the scheme assets at 31 December 2012 was HK$1,139,345,000 (2011: HK$1,040,741,000).

(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 years ended 31 December 2012 and 2011.

(v) The ongoing funding surplus in the scheme was HK$396,072,000 (2011: HK$307,698,000) and the solvency surplus was HK$397,142,000 (2011: HK$307,756,000) at 31 December 2012.

STAFF RETIREMENT SCHEMES (continued)

(a) Defined benefit retirement schemes (continued)

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 2011 Hong Kong Life Tables; and normal retirement age of 60.

(iii) The market value of the scheme assets at 31 December 2012 was HK$2,464,553,000 (2011: HK$2,347,364,000).

(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 years ended 31 December 2012 and 2011.

(v) The ongoing funding surplus in the scheme was HK$908,635,000 (2011: HK$790,566,000) and the solvency surplus was HK$976,885,000 (2011: HK$865,470,000) at 31 December 2012.

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(y)(ii) and 21 to the financial statements).

(b) 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$25,000 (HK$20,000 prior to 1 June 2012). 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 2012 were insignificant to the Group.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts of the Group as at 31 December 2012 are set out in note 24 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 216 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 with the applicable code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2012, except that pertaining to the code provision A.6.7, two of the Non-executive Directors of the Company, Mr Raymond Kwok Ping-luen and Dr Kwok Ping-sheung, Walter were unable to attend the Annual General Meeting of the Company held on 17 May 2012 due to other engagements. A report on the principal corporate governance practices adopted by the Company is set out on pages 106 to 125 of this Annual Report.

PROPERTIES

Particulars of the investment properties and completed property held for sale of the Group are shown on pages 101 and 102 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 2012.

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

Norman LEUNG Nai Pang
Chairman
Hong Kong, 21 March 2013

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 147 to 215, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 2012 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

21 March 2013

Consolidated Income Statement

for the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Turnover	3 & 13	**7,181,010**	6,947,544
Other net income	4	**228,544**	248,471
Cost of properties sold		**(21,489)**	(25,103)
Staff costs	5(a)	**(3,238,980)**	(3,075,104)
Depreciation and amortisation		**(842,725)**	(883,491)
Fuel and oil		**(1,593,553)**	(1,548,498)
Spare parts and stores		**(239,412)**	(219,080)
Toll charges		**(390,883)**	(383,563)
Selling and marketing expenses for property sales		**(3,334)**	(1,206)
Other operating expenses		**(735,898)**	(697,658)
Profit from operations		**343,280**	362,312
Finance costs	5(b)	**(9,433)**	(8,630)
Share of profits of associates		**34,526**	31,292
Impairment loss on other financial assets	20(d)	**–**	(109,606)
Profit before taxation	5	**368,373**	275,368
Income tax	6(a)	**(34,297)**	(41,253)
Profit for the year		**334,076**	234,115
Attributable to:			
Equity shareholders of the Company		**309,197**	242,351
Non-controlling interests		**24,879**	(8,236)
Profit for the year		**334,076**	234,115
Profit for the year attributable to equity shareholders of the Company:			
Arising from sale of Manhattan Hill properties		**76,320**	72,869
Arising from the Group's other operations		**232,877**	169,482
		309,197	242,351
Earnings per share – basic and diluted:	11		
Arising from sale of Manhattan Hill properties		**$0.19**	$0.18
Arising from the Group's other operations		**$0.58**	$0.42
		$0.77	$0.60

The notes on pages 154 to 215 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 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Profit for the year		**334,076**	234,115
Other comprehensive income for the year (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements of entities outside Hong Kong		**1,075**	26,552
Available-for-sale debt securities: net movement in the fair value reserve, net of nil tax	10	**8,995**	(1,023)
Reclassification of exchange reserve on disposal of an operation outside Hong Kong		**–**	(751)
Total comprehensive income for the year		**344,146**	258,893
Attributable to:			
Equity shareholders of the Company		**319,267**	267,129
Non-controlling interests		**24,879**	(8,236)
Total comprehensive income for the year		**344,146**	258,893

The notes on pages 154 to 215 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current assets			
Fixed assets	14(a)		
– Investment properties		**120,398**	123,135
– Investment property under development		**13,397**	11,741
– Interest in leasehold land		**69,414**	71,426
– Other properties, plant and equipment		**3,648,572**	3,914,255
		3,851,781	4,120,557
Intangible assets	15	**132,122**	44,178
Goodwill	16	**84,051**	63,315
Non-current prepayments	17	**3,741**	1,667
Interest in associates	19	**671,521**	668,136
Other financial assets	20	**591,020**	472,465
Employee benefit assets	21(a)	**758,371**	800,656
Deferred tax assets	27(b)	**4,499**	3,536
		6,097,106	6,174,510
Current assets			
Completed property held for sale		**351**	19,702
Spare parts and stores		**46,224**	59,420
Accounts receivable	22	**455,071**	348,444
Other financial assets	20	**48,435**	15,032
Deposits and prepayments		**27,946**	30,340
Current tax recoverable	27(a)	**21,581**	110,757
Pledged and restricted bank deposits	23(a)	**62,885**	45,455
Cash and cash equivalents	23(a)	**3,033,703**	2,928,606
		3,696,196	3,557,756
Current liabilities			
Bank loans and overdrafts	24	**200,082**	70,040
Accounts payable and accruals	25	**1,116,877**	1,066,876
Contingency provision – insurance	26	**135,997**	136,297
Current tax payable	27(a)	**17,627**	4,541
		1,470,583	1,277,754
Net current assets		**2,225,613**	2,280,002
Total assets less current liabilities		**8,322,719**	8,454,512

Consolidated balance sheet

at 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current liabilities			
Bank loans	24	**598,497**	797,901
Deferred tax liabilities	27(b)	**602,796**	607,445
Contingency provision – insurance	26	**310,718**	309,575
Provision for long service payments	28	**28,859**	37,254
		1,540,870	1,752,175
Net assets		**6,781,849**	6,702,337
Capital and reserves			
Share capital	29(b)	**403,639**	403,639
Reserves		**6,193,504**	6,116,421
Total equity attributable to equity shareholders of the Company		**6,597,143**	6,520,060
Non-controlling interests		**184,706**	182,277
Total equity		**6,781,849**	6,702,337

Approved and authorised for issue by the Board of Directors on 21 March 2013

Norman LEUNG Nai Pang
Chairman

Edmond HO Tat Man
Managing Director

The notes on pages 154 to 215 form part of these financial statements.

Balance sheet

at 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Non-current assets			
Plant and equipment	14(b)	**–**	–
Investments in subsidiaries	18(a)	**1,188,423**	1,188,423
		1,188,423	1,188,423
Current assets			
Deposits and prepayments		**726**	801
Amounts due from subsidiaries	18(b)	**8,395,304**	8,178,226
Cash and cash equivalents	23(a)	**31,859**	38,368
		8,427,889	8,217,395
Current liabilities			
Accounts payable and accruals	25	**39,781**	41,300
Amounts due to subsidiaries	18(b)	**7,591,422**	7,437,109
		7,631,203	7,478,409
Net current assets		**796,686**	738,986
Net assets		**1,985,109**	1,927,409
Capital and reserves	29(a)		
Share capital		**403,639**	403,639
Reserves		**1,581,470**	1,523,770
Total equity		**1,985,109**	1,927,409

Approved and authorised for issue by the Board of Directors on 21 March 2013

Norman LEUNG Nai Pang
Chairman

Edmond HO Tat Man
Managing Director

The notes on pages 154 to 215 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
		Share capital	Other reserves	Exchange reserve	Fair value reserve	Retained profits	Total		
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
				(note 29(c)(i))	(note 29(c)(ii))				
Balance at 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 for the year		–	–	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)
		–	(237)	–	–	(484,130)	(484,367)	(14,406)	(498,773)
Balance at 31 December 2011 and 1 January 2012		**403,639**	**1,102,614**	**158,874**	**7,205**	**4,847,728**	**6,520,060**	**182,277**	**6,702,337**
Changes in equity for 2012:									
Profit for the year		**–**	**–**	**–**	**–**	**309,197**	**309,197**	**24,879**	**334,076**
Other comprehensive income for the year		**–**	**–**	**1,075**	**8,995**	**–**	**10,070**	**–**	**10,070**
Total comprehensive income for the year		**–**	**–**	**1,075**	**8,995**	**309,197**	**319,267**	**24,879**	**344,146**
Dividend approved in respect of the previous year	12(b)	**–**	**–**	**–**	**–**	**(181,638)**	**(181,638)**	**–**	**(181,638)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(22,450)**	**(22,450)**
Dividend approved in respect of the current year	12(a)	**–**	**–**	**–**	**–**	**(60,546)**	**(60,546)**	**–**	**(60,546)**
		–	**–**	**–**	**–**	**(242,184)**	**(242,184)**	**(22,450)**	**(264,634)**
Balance at 31 December 2012		**403,639**	**1,102,614**	**159,949**	**16,200**	**4,914,741**	**6,597,143**	**184,706**	**6,781,849**

The notes on pages 154 to 215 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012
(Expressed in Hong Kong dollars)

	Note	2012 $'000	2011 $'000
Operating activities			
Cash generated from operations	23(c)	**1,049,506**	1,136,901
Interest received		**72,449**	53,994
Interest paid		**(8,848)**	(8,011)
Tax refunded/(paid)			
– Hong Kong Profits Tax		**49,234**	(32,103)
– The People's Republic of China ("PRC") income tax		**(94)**	–
– PRC withholding tax		**(1,525)**	(1,477)
Net cash generated from operating activities		**1,160,722**	1,149,304
Investing activities			
(Increase)/decrease in pledged and restricted bank deposits		**(17,430)**	28,466
(Increase)/decrease in bank deposits with original maturities of over three months		**(1,357,973)**	845,447
Payment for the purchase of fixed assets		**(565,474)**	(758,142)
Payment for purchase of intangible assets		**–**	(21,642)
Payment for purchase of available-for-sale debt securities		**(171,047)**	–
Proceeds from disposal of fixed assets		**18,075**	8,530
Proceeds on maturity of available-for-sale debt securities		**15,000**	–
Acquisition of subsidiaries, net of cash acquired	32(b)	**(104,583)**	–
Transaction costs for acquisition of subsidiaries		**(861)**	–
Net cash outflow from disposal of subsidiaries		**–**	(2,337)
Decrease in loans to investee		**–**	27,064
Dividends received from associates		**32,142**	29,560
Dividends received from unlisted equity securities		**77,252**	31,000
Net cash (used in)/generated from investing activities		**(2,074,899)**	187,946
Financing activities			
Proceeds from new bank loans		**–**	550,000
Repayment of bank loans		**(70,000)**	(350,000)
Dividends paid to equity shareholders of the Company		**(242,184)**	(484,367)
Dividends paid to non-controlling interests		**(22,450)**	(13,058)
Net cash used in financing activities		**(334,634)**	(297,425)
Net (decrease)/increase in cash and cash equivalents		**(1,248,811)**	1,039,825
Cash and cash equivalents at 1 January		**1,689,528**	642,062
Effect of foreign exchange rate changes		**(4,107)**	7,641
Cash and cash equivalents at 31 December	23(a)	**436,610**	1,689,528

The notes on pages 154 to 215 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 1(c) 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 2012 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(g)), derivative financial instruments (see note 1(h)) and employee benefit assets (see note 1(y)(ii)) are stated at their fair value, as explained in the accounting policies set out below.

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 2.

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of these developments have a significant impact on the Group's results of operations and financial position.

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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.

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 the consolidated income statement. 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(g)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(e)).

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

(e) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates and joint ventures (continued)

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(f) and 1(n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees 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 investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the 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 the consolidated income statement. 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(g)).

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 assets 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 assets, 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.

(f) Goodwill

Goodwill represents the excess of

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

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

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

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

(g) Other investments in debt and equity securities

The Group's and the Company's accounting 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(n)(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 accounting policies set out in note 1(v)(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 accounting policies set out in note 1(v)(iv). When these investments are derecognised or impaired (see note 1(n)(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.

(h) 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(i)).

(i) 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).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Cash flow hedges (continued)

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

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above accounting 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 immediately.

(j) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(l)) 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 at cost less accumulated depreciation and impairment losses (see note 1(n)(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 the accounting policies set out in note 1(v)(vi).

(k) Other properties, 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(n)(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(w)).

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)

(l) 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.

(i) Assets acquired under finance leases

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, in accordance with the accounting policies as set out in note 1(k). Impairment losses are accounted for in accordance with the accounting policies as set out in note 1(n)(ii). All of the Group's leasehold land classified as held under finance lease has been fully paid.

(ii) Operating leases

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.

(m) Intangible assets (other than goodwill)

Passenger service licences and transport operating rights that are assessed and regarded by the Group to have indefinite useful lives are stated at cost less accumulated impairment losses (see note 1(n)(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 consolidated income statement on a straight-line basis over the asset's estimated remaining useful life.

(n) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of assets (continued)

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

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

- For investments in subsidiaries and associates (including those recognised using the equity method (see note 1(e))), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with the accounting policies set out in note 1(n)(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 the accounting policies set out in note 1(n)(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 financial 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 financial 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 financial asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of assets (continued)

(ii) Impairment of other assets

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

– fixed assets;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, their recoverable amounts are estimated annually whether or not there is indication of impairment.

– Calculation of the recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

(o) 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.

The cost of completed properties held for sale comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(p) 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.

(q) 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(n)(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.

(r) 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.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with the accounting policies set out in note 1(u)(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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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.

(u) 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 the accounting policies set out in note 1(u)(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 the accounting policies set out in note 1(u)(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 the accounting policies set out in note 1(u)(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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) 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 in the balance sheet.

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.

(w) 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)

(x) 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 ("RMB"). 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.

(y) 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 (where there is no deep market in such corporate bonds, government 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) 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 (where there is no deep market in such corporate bonds, government bonds) that have maturity dates approximating the terms of the Group's obligations.

(iv) 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.

(z) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Income tax (continued)

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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) 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.

(ab) 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 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 16, 21(f) and 33(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 26, 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) Recognition of deferred tax assets

At 31 December 2012, the Group has recognised deferred tax assets which arose from unused tax losses and deductible temporary differences as set out in note 27(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 income statement for the period in which such a reversal takes place.

3 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries of the Company are set out in note 18 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:

	2012 $'000	2011 $'000
Fare revenue from franchised public bus services	**6,315,180**	6,177,135
Revenue from non-franchised transport services	**301,417**	265,021
Media sales revenue	**424,673**	374,817
Revenue from sales of properties	**112,720**	109,084
Gross rentals from investment properties	**27,020**	21,487
	7,181,010	6,947,544

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

	2012 $'000	2011 $'000
Interest income on other financial assets not at fair value through profit or loss	**67,695**	46,667
Interest income on instalments receivable from sales of properties	**66**	143
Dividend income from unlisted equity securities	**77,252**	31,000
Net income recognised in respect of defined benefit retirement plans (note 21(e))	**42,715**	84,673
Net movement in balance of passenger rewards (note)	**(2,851)**	28,066
Claims received	**21,546**	23,272
Net miscellaneous business receipts	**7,147**	7,826
Net gain on disposal of fixed assets	**580**	3,636
Available-for-sale debt securities: reclassified from equity on maturity (note 10)	**1**	–
Net foreign exchange (loss)/gain	**(2,463)**	10,954
Sundry revenue	**16,856**	12,234
	228,544	248,471

Note: Under the revised Modified Basket of Factors ("MBOF") approach, which is the existing basis for the assessment of bus fare adjustment applications, 50% of any return on a franchised bus operator in a given year in excess of a prescribed triggering point of return on its average net fixed assets is required to be set aside and accumulated in a balance of passenger rewards which would be available to relieve the pressure for future fare increases and to facilitate the offer of bus fare concessions. The prescribed triggering point of return for 2012 and 2011 was 9.7% per annum. The balance of passenger rewards of the Group as at 31 December 2012, included in accounts payable and accruals (note 25), was $6,546,000 (2011: $3,695,000).

5 PROFIT BEFORE TAXATION

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

	2012 $'000	2011 $'000
(a) Staff costs		
Contributions to defined contribution retirement plans	**81,618**	73,094
Movements in provision for long service payments (note 28)	**689**	14,994
Salaries, wages and other benefits	**3,156,673**	2,987,016
	3,238,980	3,075,104
(b) Finance costs		
Interest on bank loans and overdrafts not at fair value through profit or loss	**9,433**	8,630
(c) Rentals received and receivable from investment properties		
Gross rentals (note)	**(27,020)**	(21,487)
Less: direct outgoings	**8,256**	7,471
	(18,764)	(14,016)

Note: Included contingent rental income of $343,000 (2011: $510,000).

	2012 $'000	2011 $'000
(d) Other items		
Amortisation of land lease premium	**2,012**	2,012
Depreciation	**840,713**	881,479
Impairment loss on trade and other receivables (note 22(b))		
– recognised	**912**	104
– written-back	**(27)**	–
Write-down of spare parts and stores	**16,691**	4,817
Operating lease charges: minimum lease payments in respect of properties, buses and terminal shelters	**37,481**	36,963
Auditors' remuneration		
– audit services	**4,754**	4,389
– other services	**1,855**	2,647
Acquisition related costs	**861**	–

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012 $'000	2011 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**53,033**	33,991
Revision of prior years' tax provision (note)	**–**	(104,527)
Under/(over) – provision in respect of prior years	**315**	(196)
	53,348	(70,732)
Current tax – PRC Income Tax		
Provision for the year	**163**	–
PRC withholding tax	**1,525**	1,477
	55,036	(69,255)
Deferred tax		
Effect of revision of prior years' tax provision (note)	**–**	104,527
Origination and reversal of other temporary differences	**(20,739)**	5,981
	(20,739)	110,508
	34,297	41,253

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 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 as at 31 December 2011, 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:

	2012 $'000	2011 $'000
Profit before taxation	**368,373**	275,368
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**62,594**	47,128
Tax effect of non-deductible expenses	**5,650**	22,431
Tax effect of non-taxable income	**(36,514)**	(28,661)
Tax effect of unused tax losses not recognised	**1,739**	1,746
Under/(over) – provision in prior years	**315**	(196)
Others	**513**	(1,195)
Actual tax expense	**34,297**	41,253

7 DIRECTORS' REMUNERATION

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

		2012				
	Note	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	(a)	264	840	62	–	1,166
Edmond Ho Tat Man	(a)	374	4,240	400	509	5,523
Evan Au Yang Chi Chun	(a)	264	3,746	353	187	4,550
Non-executive Directors						
Kwok Ping-luen, Raymond		495	–	–	–	495
Dr Kwok Ping-sheung, Walter		264	–	–	–	264
Ng Siu Chan		264	–	–	–	264
William Louey Lai Kuen		264	–	–	–	264
Winnie Ng	(a)	671	–	–	–	671
John Anthony Miller	(a)	440	–	–	–	440
Yung Wing Chung	(b)	218	–	–	–	218
So Wai Kei, Godwin		–	–	–	–	–
Independent Non-executive Directors						
Dr Norman Leung Nai Pang		671	–	–	–	671
Dr John Chan Cho Chak	(a) & (c)	690	–	–	–	690
Dr Eric Li Ka Cheung	(a)	592	–	–	–	592
Siu Kwing-chue, Gordon		330	–	–	–	330
Professor Liu Pak-wai		285	–	–	–	285
The Hon Sir Sze-yuen Chung	(d)	139	–	–	–	139
		6,225	8,826	815	696	16,562

7 DIRECTORS' REMUNERATION (continued)

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

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

(b) 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.

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

(d) The Hon Sir Sze-yuen Chung retired on 17 May 2012.

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

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2011: 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:

	2012 $'000	2011 $'000
Fees	**638**	810
Salaries, allowances and benefits in kind	**14,138**	13,438
Discretionary bonuses	**2,774**	2,509
Retirement scheme contributions	**825**	807
	18,375	17,564

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

	Number of individuals	
	2012	2011
$2,000,001 – $2,500,000	**2**	2
$3,000,001 – $3,500,000	**–**	1
$3,500,001 – $4,000,000	**1**	–
$4,000,001 – $4,500,000	**–**	1
$4,500,001 – $5,000,000	**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 $299,884,000 (2011: $701,084,000) which has been dealt with in the financial statements of the Company.

Details of dividends paid and payable to equity shareholders of the Company are set out in note 12.

10 OTHER COMPREHENSIVE INCOME

	2012 $'000	2011 $'000
Available-for-sale debt securities:		
Change in fair value recognised during the year	**8,996**	(1,023)
Reclassification adjustment for amount transferred to profit or loss on maturity (note 4)	**(1)**	–
	8,995	(1,023)

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 $309,197,000 (2011: $242,351,000) and 403,639,413 shares in issue during the years ended 31 December 2012 and 2011. The calculation of basic earnings per share arising from sale of Manhattan Hill properties and the Group's other operations is based on profits arising from the respective operations of $76,320,000 (2011: $72,869,000) and $232,877,000 (2011: $169,482,000) respectively and 403,639,413 shares in issue during the years ended 31 December 2012 and 2011.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years presented and diluted earnings per share are the same as basic earnings per share.

12 DIVIDENDS

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

	2012		2011	
	Per share	**Total**	Per share	Total
	$	**$'000**	$	$'000
Interim dividend declared and paid	**0.15**	**60,546**	0.15	60,546
Final dividend proposed after the balance sheet date	**0.45**	**181,638**	0.45	181,638
	0.60	**242,184**	0.60	242,184

The 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

	2012		2011	
	Per share	**Total**	Per share	Total
	$	**$'000**	$	$'000
Final dividend in respect of the previous financial year, approved and paid during the year	**0.45**	**181,638**	1.05	423,821

13 SEGMENT REPORTING

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

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

Other operating segments which do not meet the quantitative thresholds prescribed by HKFRS 8, Operating segments, for determining reportable segments are combined as "all other segments". Such operating segments generate profits mainly from the provision of non-franchised transport services, leasing of investment properties and interest 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 2012 and 2011 is set out below.

	Franchised bus operation		Media sales business		Property development		All other segments		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**6,318,984**	6,180,941	**421,154**	371,491	**113,197**	109,512	**327,675**	285,600	**7,181,010**	6,947,544
Inter-segment revenue	**110,028**	101,318	**–**	–	**–**	–	**25,586**	22,971	**135,614**	124,289
Reportable segment revenue	**6,429,012**	6,282,259	**421,154**	371,491	**113,197**	109,512	**353,261**	308,571	**7,316,624**	7,071,833
Reportable segment (loss)/profit	**(25,142)**	69,045	**79,499**	(43,744)	**76,320**	72,869	**80,288**	64,321	**210,965**	162,491
Interest income	**9,762**	2,952	**11,885**	9,815	**–**	–	**213**	142	**21,860**	12,909
Interest expense	**(9,433)**	(8,630)	**–**	–	**–**	–	**–**	–	**(9,433)**	(8,630)
Depreciation and amortisation for the year	**(793,676)**	(835,740)	**(10,784)**	(9,699)	**–**	–	**(38,265)**	(38,052)	**(842,725)**	(883,491)
Provision of impairment loss on trade and other receivables	**–**	–	**–**	–	**–**	–	**(885)**	(104)	**(885)**	(104)
Impairment loss on other financial assets	**–**	–	**–**	(109,606)	**–**	–	**–**	–	**–**	(109,606)
Staff costs	**(3,061,200)**	(2,916,398)	**(72,743)**	(60,047)	**–**	–	**(98,192)**	(90,224)	**(3,232,135)**	(3,066,669)
Share of profits of associates	**–**	–	**–**	–	**–**	–	**34,526**	31,292	**34,526**	31,292
Income tax credit/(expense)	**5,267**	(10,847)	**(16,991)**	(12,863)	**(10,991)**	(9,163)	**(11,569)**	(8,335)	**(34,284)**	(41,208)
Reportable segment assets	**5,376,550**	5,430,052	**766,483**	766,074	**3,080**	36,653	**1,488,383**	1,163,533	**7,634,496**	7,396,312
– including interest in associates	**–**	–	**–**	–	**–**	–	**671,521**	668,136	**671,521**	668,136
Additions to non-current segment assets during the year	**544,787**	626,790	**6,696**	66,567	**–**	–	**148,641**	60,966	**700,124**	754,323
Reportable segment liabilities	**2,628,839**	2,654,887	**110,369**	124,344	**149,161**	154,944	**71,290**	56,536	**2,959,659**	2,990,711

13 SEGMENT REPORTING (continued)

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

	2012 $'000	2011 $'000
Revenue		
Reportable segment revenue	**6,963,363**	6,763,262
Revenue from all other segments	**353,261**	308,571
Elimination of inter-segment revenue	**(135,614)**	(124,289)
Consolidated turnover	**7,181,010**	6,947,544
Profit		
Reportable segment profit	**130,677**	98,170
Profit from all other segments	**80,288**	64,321
Unallocated profits	**123,111**	71,624
Consolidated profit after taxation	**334,076**	234,115
Assets		
Reportable segment assets	**6,146,113**	6,232,779
Assets from all other segments	**1,488,383**	1,163,533
Unallocated assets	**2,158,806**	2,335,954
Consolidated total assets	**9,793,302**	9,732,266
Liabilities		
Reportable segment liabilities	**2,888,369**	2,934,175
Liabilities from all other segments	**71,290**	56,536
Unallocated liabilities	**51,794**	39,218
Consolidated total liabilities	**3,011,453**	3,029,929

(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	
	2012 $'000	2011 $'000
Hong Kong (place of domicile)	**3,981,540**	4,218,166
The PRC	**757,935**	678,020
	4,739,475	4,896,186

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 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

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 2012	1,415,486	9,554,350	260,319	3,147,797	14,377,952	13,761	163,159	115,513	14,670,385
Additions									
– through acquisition of subsidiaries (note 32(b))	–	12,081	–	–	12,081	–	–	–	12,081
– others	37,613	33,398	137,067	309,336	517,414	1,656	1,375	–	520,445
Disposals	(2,860)	(279,353)	–	(218,024)	(500,237)	–	–	–	(500,237)
Exchange adjustments	–	–	–	8	8	–	–	–	8
Transfers	(4,467)	334,388	(334,388)	–	(4,467)	–	4,467	–	–
At 31 December 2012	1,445,772	9,654,864	62,998	3,239,117	14,402,751	15,417	169,001	115,513	14,702,682
Accumulated depreciation, amortisation and impairment losses:									
At 1 January 2012	916,748	6,869,457	–	2,677,699	10,463,904	2,020	40,024	44,087	10,550,035
Charge for the year	29,310	479,370	–	325,229	833,909	–	6,804	2,012	842,725
Written back on disposal	(2,860)	(278,724)	–	(201,158)	(482,742)	–	–	–	(482,742)
Exchange adjustments	–	–	–	8	8	–	–	–	8
Transfers	(1,775)	–	–	–	(1,775)	–	1,775	–	–
At 31 December 2012	941,423	7,070,103	–	2,801,778	10,813,304	2,020	48,603	46,099	10,910,026
Net book value:									
At 31 December 2012	504,349	2,584,761	62,998	437,339	3,589,447	13,397	120,398	69,414	3,792,656
Add: Deposits paid in respect of buses on order					58,825	–	–	–	58,825
Deposits acquired through acquisition of subsidiaries (note 32(b))					300	–	–	–	300
					3,648,572	13,397	120,398	69,414	3,851,781

14 FIXED ASSETS (continued)

(b) The Company

	Other fixed assets	
	2012	2011
	$'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	**–**	–

(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	
	2012	2011
	$'000	$'000
Medium-term leases	**429,653**	450,396
Short-term leases	**277,905**	254,644
	707,558	705,040
Representing:		
Buildings	**504,349**	498,738
Investment property under development	**13,397**	11,741
Investment properties	**120,398**	123,135
Interest in leasehold land	**69,414**	71,426
	707,558	705,040

(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 $1,607,000,000 and $1,640,000,000 respectively (2011: $1,065,910,000 and $1,065,000,000 respectively) as at 31 December 2012. 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 2012, investment property under development recognised in fixed assets of $13,397,000 (2011: $11,741,000) is related to the Group's interests in the jointly controlled asset.

14 FIXED ASSETS (continued)

(e) The Group leased out investment properties under operating leases. 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. Certain 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	
	2012	2011
	$'000	$'000
Within 1 year	**26,501**	17,233
After 1 year but within 5 years	**22,118**	16,174
	48,619	33,407

15 INTANGIBLE ASSETS

(a) Passenger service licences and transport operating rights

	The Group	
	2012	2011
	$'000	$'000
Cost and net book value:		
At 1 January	**44,178**	22,536
Additions		
– through acquisition of subsidiaries (note 32(b))	**87,944**	–
– other	**–**	21,642
At 31 December	**132,122**	44,178

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.

(b) 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	
	2012	2011
	$'000	$'000
Cost and carrying amount:		
At 1 January	**63,315**	63,315
Additions through acquisition of subsidiaries (note 32(b))	**20,736**	–
At 31 December	**84,051**	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.

The recoverable amount of the cash-generating unit 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:

	2012	2011
	%	%
Growth rate	**3.0**	3.0
Discount rate	**12.3**	10.9

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

The recoverable amount of the cash-generating unit 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 NON-CURRENT PREPAYMENTS

Non-current prepayments consist of deposits for purchase of fixed assets. The amounts are neither past due nor impaired.

18 INTEREST IN SUBSIDIARIES

(a) Investments in subsidiaries

	The Company	
	2012	2011
	$'000	$'000
Unlisted shares, at cost	**1,188,423**	1,188,423

18 INTEREST IN SUBSIDIARIES (continued)

(b) Amounts due from/(to) subsidiaries

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

			Percentage of ownership interest			
Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid–up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
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
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

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTEREST IN SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries (continued)

			Percentage of ownership interest			
Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid–up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
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
GD Bonwell Champion Tours Co. Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	10,000 shares of $1 each	100	–	100	Provision of non-franchised bus services
GD Bonwell Yip Wai Tours Co. Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	10,000 shares of $1 each	100	–	100	Provision of non-franchised bus services
Zhan Gang Tourist Transportation Company Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	500,000 shares of $1 each	100	–	100	Provision of non-franchised bus services
Right Concept Transportation Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	5 shares of $1 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

18 INTEREST IN SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries (continued)

			Percentage of ownership interest			
Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
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
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

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTEREST IN SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries (continued)

			Percentage of ownership interest			
Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid–up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
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 2012 amounted to $524,251,000 (2011: $444,157,000).

19 INTEREST IN ASSOCIATES

	The Group	
	2012	2011
	$'000	$'000
Share of net assets	**584,241**	579,296
Goodwill	**66,766**	66,657
Amount due from an associate (note (a))	**25,436**	27,105
Amount due to an associate (note (a))	**(4,922)**	(4,922)
	671,521	668,136

(a) 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.

(b) 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: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
Beijing Beiqi Kowloon Taxi Company Limited	Sino-foreign joint stock company	The PRC	RMB 166,000,000	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

(c) Summary financial information on associates

	Assets	Liabilities	Equity	Revenue	Net profit
	$'000	$'000	$'000	$'000	$'000
2012					
100 per cent	**4,671,482**	**2,966,995**	**1,704,487**	**2,539,835**	**99,964**
Group's effective interest	**1,614,940**	**1,030,700**	**584,241**	**873,482**	**34,526**
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

20 OTHER FINANCIAL ASSETS

	The Group	
	2012	2011
	$'000	$'000
Instalments receivable from sales of properties (note (a))	**1,040**	2,437
Unlisted equity securities, at cost (note (b))	**15,355**	15,355
Available-for-sale debt securities, at fair value (note (c))		
– listed in Hong Kong	**69,131**	–
– listed outside Hong Kong	**531,592**	431,944
– unlisted	**22,337**	37,761
	639,455	487,497
Less: available-for-sale debt securities classified as current assets		
– listed outside Hong Kong	**(36,249)**	–
– unlisted	**(12,186)**	(15,032)
	(48,435)	(15,032)
Other financial assets classified as non-current assets	**591,020**	472,465

(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) The unlisted equity securities of $15,355,000 (2011: $15,355,000) relate to an 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 2012 and 2011, 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.

(d) During the year ended 31 December 2011, RoadShow Holdings Limited 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.

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. Additional impairment losses of $109,606,000 had 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 loans to and amount due from the investee remain unsettled as at 31 December 2012.

21 EMPLOYEE RETIREMENT BENEFITS

The Group makes contributions to two defined benefit retirement schemes which provide pension benefits to eligible employees of the Group. The schemes are administered by an independent trustee and the assets are held separately from those of the Group.

The latest independent actuarial valuations of the plans were at 31 December 2012 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 110% (2011: 108%) covered by the plan assets held by the trustee.

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

	The Group	
	2012	2011
	$'000	$'000
Present value of funded obligations (note (c))	**(3,278,016)**	(3,124,902)
Fair value of plan assets (note (b))	**3,603,898**	3,388,105
Net unrecognised actuarial losses	**432,489**	537,453
	758,371	800,656

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 the year ending 31 December 2013 is Nil.

(b) Plan assets consist of the following:

	The Group	
	2012	2011
	$'000	$'000
Equity securities	**2,790,112**	2,452,502
Bonds	**694,275**	776,605
Cash and others	**119,511**	158,998
	3,603,898	3,388,105

21 EMPLOYEE RETIREMENT BENEFITS (continued)

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

	The Group	
	2012	2011
	$'000	$'000
At 1 January	**3,124,902**	2,700,389
Benefits paid by the plans	**(188,039)**	(191,409)
Current service cost	**132,553**	122,599
Interest cost	**45,056**	80,089
Actuarial losses	**163,544**	413,234
At 31 December	**3,278,016**	3,124,902

(d) Movements in plan assets:

	The Group	
	2012	2011
	$'000	$'000
At 1 January	**3,388,105**	3,973,271
Benefits paid by the plans	**(188,039)**	(191,409)
Actuarial expected return on plan assets	**231,113**	273,384
Actuarial gains/(losses)	**257,719**	(593,141)
Refund of scheme surplus (note)	**(85,000)**	(74,000)
At 31 December	**3,603,898**	3,388,105

Note: In accordance with the terms set out in the Group's two defined benefit retirement schemes, upon settlement of all employee benefit obligations, any excessive assets can be refunded to the Group. During the year ended 31 December 2012, an amount of $85,000,000 (2011: $74,000,000) has been refunded to the Group.

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

	The Group	
	2012	2011
	$'000	$'000
Current service cost	**(132,553)**	(122,599)
Interest cost	**(45,056)**	(80,089)
Actuarial expected return on plan assets	**231,113**	273,384
Net actuarial (losses)/gains recognised	**(10,789)**	13,977
Net income recognised in respect of defined benefit retirement plans (note 4)	**42,715**	84,673

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 gain of $488,832,000 (2011: net loss of $319,757,000).

21 EMPLOYEE RETIREMENT BENEFITS (continued)

(f) The principal actuarial assumptions used at the respective balance sheet dates are as follows:

	The Group	
	2012	2011
	%	%
Discount rate	**0.6**	1.5
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				
	2012	2011	2010	2009	2008
	$'000	$'000	$'000	$'000	$'000
Fair value of plan assets	**3,603,898**	3,388,105	3,973,271	3,816,704	3,110,517
Present value of the defined benefit obligations	**(3,278,016)**	(3,124,902)	(2,700,389)	(2,886,274)	(3,443,631)
Surplus/(deficit) in the plans	**325,882**	263,203	1,272,882	930,430	(333,114)
Experience (losses)/gains arising on plan liabilities	**(13,014)**	18,413	85,373	125,284	(47,681)
Experience gains/(losses) arising on plan assets	**257,719**	(593,141)	72,798	644,339	(1,846,847)

22 ACCOUNTS RECEIVABLE

	The Group	
	2012	2011
	$'000	$'000
Trade and other receivables	**432,165**	330,649
Instalments receivable from sale of properties	**52**	1,003
Interest receivable	**22,960**	16,896
Less: allowance for doubtful debts (note 22(b))	**(106)**	(104)
	455,071	348,444

All of the accounts receivable are expected to be recovered within one year.

22 ACCOUNTS RECEIVABLE (continued)

(a) Ageing analysis

Included in accounts receivable are trade receivables and instalments receivable from sale of properties (net of allowance for doubtful debts) with the following ageing analysis, based on the due date, as of the balance sheet date:

	The Group	
	2012	2011
	$'000	$'000
Current	**189,407**	105,951
1 to 3 months past due	**57,367**	50,888
More than 3 months past due	**9,873**	8,037
	256,647	164,876

According to the Group's credit policy set out in note 33(a) to the financial statements, credit period granted to customers is generally between 30 days and 90 days. Therefore, all the balances which are not past due as disclosed above are within three months from the invoice date.

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

Impairment losses in respect of trade and other receivables and instalments receivable from sale of properties are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables and instalments receivable from sale of properties directly (see note 1(n)(i)).

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

	The Group	
	2012	2011
	$'000	$'000
At 1 January	**104**	345
Impairment loss recognised (note 5(d))	**912**	104
Write-back of impairment loss (note 5(d))	**(27)**	–
Uncollectible amounts written off	**(883)**	(345)
At 31 December	**106**	104

At 31 December 2012, the Group's trade and other receivables of $147,000 (2011: $206,000) 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 $106,000 were recognised as at 31 December 2012 (2011: $104,000).

22 ACCOUNTS RECEIVABLE (continued)

(c) Accounts receivable that is not impaired

The ageing analysis of accounts receivable that is neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2012	2011
	$'000	$'000
Neither past due nor impaired	**387,816**	289,519
1 to 3 months past due	**57,366**	50,888
More than 3 months past due	**9,848**	7,935
	67,214	58,823
	455,030	348,342

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

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.

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**262,413**	301,141	**31,859**	38,368
Bank deposits	**2,834,175**	2,672,920	**–**	–
	3,096,588	2,974,061	**31,859**	38,368
Less: pledged and restricted bank deposits (note (b))	**(62,885)**	(45,455)	**–**	–
Cash and cash equivalents in the balance sheets	**3,033,703**	2,928,606	**31,859**	38,368
Less: bank deposits with original maturities of over three months	**(2,597,011)**	(1,239,038)		
Bank overdrafts	**(82)**	(40)		
Cash and cash equivalents in the consolidated cash flow statement	**436,610**	1,689,528		

23 CASH AND CASH EQUIVALENTS (continued)

(b) 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 $60,200,000 (2011: $41,200,000) to banks for the bank guarantees issued.

In addition, the Group is required to maintain the balance of passenger rewards (note 4) in designated bank accounts under the revised MBOF approach. As at 31 December 2012, the related restricted bank deposits amounted to $2,685,000 (2011: $4,255,000).

(c) Reconciliation of profit before taxation to cash generated from operations:

	2012 $'000	2011 $'000
Profit before taxation	**368,373**	275,368
Adjustments for:		
– Depreciation and amortisation	**842,725**	883,491
– Impairment loss on other financial assets	**–**	109,606
– Finance costs	**9,433**	8,630
– Dividend income from unlisted equity securities	**(77,252)**	(31,000)
– Interest income	**(67,761)**	(46,810)
– Share of profits of associates	**(34,526)**	(31,292)
– Transaction costs for acquisition of subsidiaries	**861**	–
– Net gain on disposal of fixed assets	**(580)**	(3,636)
– Loss on disposal of subsidiaries	**–**	468
Effect of foreign exchange rate	**5,115**	(6,904)
Operating profit before changes in working capital	**1,046,388**	1,157,921
Change in working capital:		
Decrease in non-current prepayments	**–**	9,580
Decrease/(increase) in employee benefit assets	**42,285**	(10,673)
Decrease in spare parts and stores	**13,196**	2,612
Increase in trade and other receivables	**(101,514)**	(88,823)
Decrease/(increase) in instalments receivable from sale of properties	**2,348**	(12)
Decrease in deposits and prepayments	**2,488**	2,229
Decrease in completed property held for sale	**19,351**	25,543
Increase in accounts payable and accruals	**32,516**	16,700
Increase in contingency provision – insurance	**843**	14,455
(Decrease)/increase in provision for long service payments	**(8,395)**	7,369
Cash generated from operations	**1,049,506**	1,136,901

24 BANK LOANS AND OVERDRAFTS

At 31 December 2012, the bank loans and overdrafts were repayable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year or on demand	**200,082**	70,040
After 1 year but within 2 years	**200,000**	200,000
After 2 years but within 5 years	**398,497**	597,901
	598,497	797,901
	798,579	867,941

All of the bank loans and overdrafts were unsecured.

25 ACCOUNTS PAYABLE AND ACCRUALS

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Trade payables	**235,858**	220,642	**–**	–
Balance of passenger rewards (note 4)	**6,546**	3,695	**–**	–
Other payables and accruals	**874,473**	842,539	**39,781**	41,182
Financial liabilities measured at amortised cost	**1,116,877**	1,066,876	**39,781**	41,182
Financial guarantees issued (note 31)	**–**	–	**–**	118
	1,116,877	1,066,876	**39,781**	41,300

All accounts payable and accruals as at 31 December 2012 and 2011 are expected to be settled within one year.

Included in accounts payable and accruals are trade payables with the following ageing analysis, based on the due date, as of the balance sheet date:

	The Group	
	2012	2011
	$'000	$'000
Due within 1 month or on demand	**200,236**	197,655
Due after 1 month but within 3 months	**33,862**	17,219
Due after more than 3 months	**1,760**	5,768
	235,858	220,642

Credit period granted to the Group is generally between 30 days and 90 days. Therefore, all the balances which are due within 1 month or on demand as disclosed above are within three months from the invoice date.

26 CONTINGENCY PROVISION – INSURANCE

	The Group	
	2012	2011
	$'000	$'000
At 1 January	**445,872**	431,417
Provision charged to the consolidated income statement	**47,746**	50,976
Payments made during the year	**(46,903)**	(36,521)
At 31 December	**446,715**	445,872
Representing:		
Current portion	**135,997**	136,297
Non-current portion	**310,718**	309,575
	446,715	445,872

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.

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2012	2011
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**53,033**	33,991
Provisional Profits Tax paid	**(56,927)**	(13,209)
	(3,894)	20,782
Balance of Profits Tax recoverable relating to prior years	**–**	(127,258)
Profits Tax recoverable acquired through acquisition of subsidiaries (note 32(b))	**(389)**	–
	(4,283)	(106,476)
PRC Income Tax payable	**329**	260
Net current tax recoverable	**(3,954)**	(106,216)
Representing:		
Current tax recoverable	**(21,581)**	(110,757)
Current tax payable	**17,627**	4,541
Net current tax recoverable	**(3,954)**	(106,216)

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group						
Deferred tax arising from:	Depreciation allowances in excess of the related depreciation	Intangible assets	Provisions	Tax losses	Defined benefit assets	Others	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
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
At 1 January 2012	**546,892**	**–**	**(45,390)**	**(31,857)**	**132,109**	**2,155**	**603,909**
Addition through acquisition of subsidiaries (note 32(b))	**1,900**	**14,511**	**–**	**(1,284)**	**–**	**–**	**15,127**
(Credited)/charged to the consolidated income statement	**(31,154)**	**–**	**9,210**	**7,979**	**(6,978)**	**204**	**(20,739)**
At 31 December 2012	**517,638**	**14,511**	**(36,180)**	**(25,162)**	**125,131**	**2,359**	**598,297**

(ii) Amounts recognised in the consolidated balance sheet:

	The Group	
	2012	2011
	$'000	$'000
Net deferred tax assets	**(4,499)**	(3,536)
Net deferred tax liabilities	**602,796**	607,445
	598,297	603,909

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of $31,697,000 (2011: $30,357,000) in respect of tax losses of $191,922,000 (2011: $183,826,000) 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 $349,000 (2011: $308,000) which will expire in five years, the tax losses do not expire under the current tax legislation.

28 PROVISION FOR LONG SERVICE PAYMENTS

Details of the provision for long service payments of the Group are as follows:

	The Group	
	2012	2011
	$'000	$'000
At 1 January	**37,254**	29,885
Provision charged to the consolidated income statement (note 5(a))	**689**	14,994
Payments made during the year	**(9,084)**	(7,625)
At 31 December	**28,859**	37,254

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.

29 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Contributed surplus	Retained profits	Total equity
		$'000	$'000	$'000	$'000
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	12(b)	–	–	(423,821)	(423,821)
Profit and total comprehensive income for the year	9	–	–	701,084	701,084
Dividend approved in respect of the current year	12(a)	–	–	(60,546)	(60,546)
At 31 December 2011		403,639	1,300,000	223,770	1,927,409
At 1 January 2012		**403,639**	**1,300,000**	**223,770**	**1,927,409**
Changes in equity for 2012:					
Dividend approved in respect of the previous year	12(b)	**–**	**–**	**(181,638)**	**(181,638)**
Profit and total comprehensive income for the year	9	**–**	**–**	**299,884**	**299,884**
Dividend approved in respect of the current year	12(a)	**–**	**–**	**(60,546)**	**(60,546)**
At 31 December 2012		**403,639**	**1,300,000**	**281,470**	**1,985,109**

29 CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

The Company's reserves available for distribution to shareholders at 31 December 2012 amounted to $1,581,470,000 (2011: $1,523,770,000). After the balance sheet date, the Directors proposed a final dividend of $0.45 (2011: $0.45) per share, amounting to $181,638,000 (2011: $181,638,000). The final dividend proposed has not been recognised as liability at the balance sheet date.

(b) Authorised and issued share capital

	2012 **$'000**	2011 $'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 policies set out in note 1(x).

(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 policies set out in note 1(g).

(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.

29 CAPITAL AND RESERVES (continued)

(d) Capital management (continued)

Net cash and equity at 31 December 2012 and 2011 were as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Cash and cash equivalents (note 23(a))	**3,033,703**	2,928,606	**31,859**	38,368
Pledged and restricted bank deposits (note 23(a))	**62,885**	45,455	**–**	–
Less: Bank loans and overdrafts (note 24)	**(798,579)**	(867,941)	**–**	–
Net cash	**2,298,009**	2,106,120	**31,859**	38,368
Total equity	**6,781,849**	6,702,337	**1,985,109**	1,927,409

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

30 COMMITMENTS

(a) Capital commitments

(i) At 31 December 2012, 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	
	2012	2011
	$'000	$'000
Contracted for	**1,032,702**	120,045
Authorised but not contracted for	**242,337**	229,254
	1,275,039	349,299

(ii) At 31 December 2012, 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	
	2012	2011
	$'000	$'000
Contracted for	**22,338**	23,308
Authorised but not contracted for	**1,766,507**	1,767,976
	1,788,845	1,791,284

30 COMMITMENTS (continued)

(b) Operating leases

At 31 December 2012, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year	**6,743**	6,044
After 1 year but within 5 years	**8,020**	14,668
	14,763	20,712

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 agency and management business on selected bus shelters and to solicit advertising business on bill board owned by the Government of the Hong Kong Special Administrative Region have been granted to the Group, and the respective licences will expire in periods from 2014 to 2017. 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	
	2012	2011
	$'000	$'000
Within 1 year	**41,588**	16,696
After 1 year but within 5 years	**114,117**	–
	155,705	16,696

31 FINANCIAL GUARANTEES ISSUED

At 31 December 2011, the Company had undertaken to guarantee a banking facility granted to a subsidiary to the extent of $140,000,000. The Directors did not consider it probable that a claim would be made against the Company under the guarantee. The maximum liability of the Company at 31 December 2011 under the guarantee issued was the outstanding amount of the loan advanced by the bank to the subsidiary of $70,000,000.

Deferred income in respect of the guarantee issued was disclosed in note 25 to the financial statements. The financial guarantee was released during the year ended 31 December 2012.

32 BUSINESS COMBINATIONS

(a) Acquisition of subsidiaries

(i) On 23 May 2012, the Group acquired the entire equity interests in GD Bonwell Yip Wai Tours Co. Limited, GD Bonwell Champion Tours Co. Limited and Hong Kong Champion Transportation Company Limited for business expansion and service enhancement. These newly acquired subsidiaries were incorporated in Hong Kong and together carry out a business in the provision of non-franchised transport services.

The total turnover and total loss after taxation contributed by this acquisition for the period from the date of acquisition to 31 December 2012 were $2,448,000 and $831,000 respectively. If this acquisition had occurred on 1 January 2012, the Group's turnover and profit for the year would have been approximately $7,184,727,000 and $334,673,000 respectively. In determining these amounts, the Group has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012 together with the consequential tax effects.

(ii) On 13 September 2012, the Group acquired the entire equity interests in Zhan Gang Tourist Transportation Company Limited and Right Concept Transportation Limited for business expansion and service enhancement. These newly acquired subsidiaries were incorporated in Hong Kong and together carry out a business in the provision of non-franchised transport services.

The total turnover and total loss after taxation contributed by this acquisition for the period from the date of acquisition to 31 December 2012 were $2,009,000 and $293,000 respectively. If this acquisition had occurred on 1 January 2012, the Group's turnover and profit for the year would have been approximately $7,190,624,000 and $332,028,000 respectively. In determining these amounts, the Group has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012 together with the consequential tax effects.

(b) Consideration transferred and identifiable assets acquired and liabilities assumed

The acquisitions completed during the year ended 31 December 2012 had the following effect on the Group's assets and liabilities on the dates of acquisition:

	$'000
Fixed assets	
– bus and other motor vehicles (note 14(a))	**12,081**
– deposits paid in respect of buses on order (note 14(a))	**300**
Intangible assets (note 15(a) and note (i))	**87,944**
Cash and cash equivalents	**1,117**
Deposits and prepayments	**94**
Current tax recoverable (note 27(a))	**389**
Accounts payable and accruals	**(1,834)**
Deferred tax liabilities (note 27(b)(i))	**(15,127)**
Fair value of identifiable net assets	**84,964**
Total consideration, satisfied in cash	**105,700**
Goodwill (note 16 and note (ii))	**20,736**
Cash consideration paid	**105,700**
Cash and cash equivalents acquired	**(1,117)**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**104,583**

Notes: (i) The fair value of intangible assets has been determined provisionally pending completion of management valuation.

(ii) The goodwill is attributable mainly to the synergies expected to be achieved from integrating the entities into the Group's existing businesses. None of the goodwill recognised is expected to be deductible for income tax purposes.

32 BUSINESS COMBINATIONS (continued)

(b) Consideration transferred and identifiable assets acquired and liabilities assumed (continued)

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, the acquisition accounting will be revised.

33 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 into account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantee to third parties which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables are set out in notes 20 and 22.

33 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 interest rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2012					2011				
	Contractual undiscounted cash flow					Contractual undiscounted cash flow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Bank loans	207,200	204,379	404,486	816,065	798,497	79,206	207,628	609,429	896,263	867,901
Bank overdrafts	82	–	–	82	82	40	–	–	40	40
Accounts payable and accruals	1,116,877	–	–	1,116,877	1,116,877	1,066,876	–	–	1,066,876	1,066,876
	1,324,159	204,379	404,486	1,933,024	1,915,456	1,146,122	207,628	609,429	1,963,179	1,934,817

The Company

	2012					2011				
	Contractual undiscounted cash flow					Contractual undiscounted cash flow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Amounts due to subsidiaries	7,591,422	–	–	7,591,422	7,591,422	7,437,109	–	–	7,437,109	7,437,109
Other payables and accruals	39,781	–	–	39,781	39,781	41,182	–	–	41,182	41,182
	7,631,203	–	–	7,631,203	7,631,203	7,478,291	–	–	7,478,291	7,478,291
Financial guarantees issued:										
Maximum amount guaranteed (note 31)	–	–	–	–	–	70,000	–	–	70,000	118

33 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 2012 and 2011, 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			
	2012		2011	
	Effective interest rate p.a.	Amount	Effective interest rate p.a.	Amount
	%	$'000	%	$'000
Fixed rate assets:				
Bank deposits	**1.6**	**2,834,175**	1.9	2,672,920
Available-for-sale debt securities	**3.6**	**623,060**	3.7	469,705
		3,457,235		3,142,625
Variable rate assets/(liabilities):				
Cash at bank	**0.1**	**51,401**	0.1	45,198
Instalments receivable	**5.0**	**1,092**	5.0	2,616
Bank overdrafts	**5.0**	**(82)**	5.0	(40)
Bank loans	**1.1**	**(798,497)**	1.1	(867,901)
		(746,086)		(820,127)

(ii) Sensitivity analysis

At 31 December 2012, 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 $6,145,000 (2011: $6,773,000). Other components of consolidated equity would have decreased/increased by approximately $11,354,000 (2011: $9,455,000) 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 2011.

33 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 to which it relates. The currencies giving rise to this risk are primarily British Pound Sterling, United States dollars and Renminbi.

The Group hedges approximately 21% (2011: 35%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. During the years ended 31 December 2012 and 2011, the Group used forward foreign exchange contracts to hedge its currency risk and classified these as cash flow hedges.

At 31 December 2012 and 2011, 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 balance sheet 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)					
	2012			2011		
	Renminbi	British Pounds Sterling	United States dollars	Renminbi	British Pounds Sterling	United States dollars
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	187,147	661	208,808	32,731	623	200,748
Accounts payable and accruals	(1,758)	(30,108)	(4,953)	–	(38,067)	(2,487)
Available-for-sale debt securities	–	–	600,723	–	–	431,944
Amount due from an associate	25,436	–	–	27,105	–	–
Overall net exposure	210,825	(29,447)	804,578	59,836	(37,444)	630,205

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 RMB123,050,000 as at 31 December 2012, equivalent to $151,770,000 (2011: RMB123,730,000, equivalent to $152,361,000).

33 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

	2012			2011		
	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	1%	3,631	–	4%	9,348	–
	(1%)	(3,631)	–	(4%)	(9,348)	–
British Pounds Sterling	5%	(1,224)	–	4%	(1,247)	–
	(5%)	1,224	–	(4%)	1,247	–
United States dollars	1%	2,039	6,007	1%	1,987	4,319
	(1%)	(2,039)	(6,007)	(1%)	(1,987)	(4,319)

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 2011.

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.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Fuel price risk

It is the Group's policy to closely monitor the fuel price movements. The Company had not entered into any fuel oil swap contract during the years ended 31 December 2012 and 2011.

(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

	The Group					
	2012			2011		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Assets						
Available-for-sale debt securities						
– Listed	**600,723**	**–**	**600,723**	431,944	–	431,944
– Unlisted	**–**	**22,337**	**22,337**	–	37,761	37,761
	600,723	**22,337**	**623,060**	431,944	37,761	469,705

During the years ended 31 December 2012 and 2011, there were no transfers between instruments in Level 1 and Level 2.

(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 2012 and 2011 except as follows:

(1) Amounts due from/to subsidiaries and associates 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 (2011: $15,355,000) do not have a quoted market price in an active market and therefore their fair values cannot be reliably measured. They are stated at cost less accumulated impairment losses at the balance sheet date.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values:

(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.

(iv) Intangible assets

The fair value of intangible assets recognised as a result of business combinations is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

34 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	**2012**	2011
		$'000	$'000
Service fees for provision of coach services	(i) & (ii)	**52,312**	42,379
Insurance premium paid	(iii)	**68,675**	71,134
Amount paid and accrued for management contractor services for property under development	(iv)	**–**	–
Amount recoverable for letting and sales agency agreement	(v)	**–**	–
Amount paid and accrued for management agreement	(vi)	**5,073**	4,472
Amount paid and accrued for property project management services	(vii)	**–**	–
Amount paid and accrued for management contractor services for investment property under development	(viii)	**–**	–
Interest income received and receivable from unsecured fixed rate notes	(ix)	**51**	396
Repayment of principal of unsecured fixed rate notes on maturity	(ix)	**15,000**	–
Amount paid and accrued for project management service and lease modification	(x)	**–**	2,000

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related companies (continued)

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. The amounts received and receivable for these coach services amounted to $2,189,000 (2011: $5,419,000). Outstanding balances due from these companies at 31 December 2012 amounted to $264,000 (2011: $1,382,000).

(ii) The Group also provided coach services to residents of certain residential property developments managed by certain members of SHKP and its subsidiaries ("SHKP Group") where the SHKP Group acts as agent for collection of the service fees ("Coach Service Arrangement"). The amounts received and receivable for these Coach Service Arrangements amounted to $50,123,000 (2011: $36,960,000). Outstanding balances due from these companies at 31 December 2012 amounted to $15,365,000 (2011: $9,358,000).

(iii) In 2011, 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 "2012 Insurance Arrangements"). The amount paid and payable under the 2012 Insurance Arrangements amounted to $68,675,000 (2011: $71,134,000). There was no outstanding balance due to SHKPI at 31 December 2012 (2011: $10,000).

(iv) In 2003, Lai Chi Kok Properties Investment Limited ("LCKPI"), an indirectly wholly-owned subsidiary of the Company, entered into a prime cost contract ("the Prime Cost Contract") with Chun Fai Construction Co. Ltd. ("CFCCL"), a subsidiary of SHKP, for the provision of management contractor services relating to the property under development of the Group ("Manhattan Hill"). In 2004, a supplementary agreement to the Prime Cost Contract ("the Supplementary Agreement") was entered into between LCKPI and CFCCL for the purposes of upgrading the design, materials and quality of the workmanship of Manhattan Hill. Pursuant to the Prime Cost Contract, as supplemented by the Supplementary Agreement, the aggregate consideration payable to CFCCL should not exceed $1,617,743,000. Outstanding balance payable for this contract at 31 December 2012 amounted to $95,805,000 (2011: $95,805,000).

(v) 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 2012 amounted to $2,676,000 (2011: $2,676,000).

(vi) 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 to be 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. Amount paid and payable for the Management Agreement amounted to $5,073,000 (2011: $4,472,000). Outstanding balance payable for this contract at 31 December 2012 amounted to $22,000 (2011: $330,000).

(vii) 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 2012 amounted to $3,800,000 (2011: $3,800,000).

(viii) On 16 April 2008, LCK Commercial Properties Limited ("LCKCP"), an indirectly wholly-owned subsidiary of the Company, entered into a prime cost agreement ("the Prime Cost Agreement") with CFCCL for the provision of management contractor services and for carrying out and completing the alteration and addition works to the retail podium of Manhattan Hill ("Manhattan Mid-town"). Pursuant to the Prime Cost Agreement, the aggregate consideration payable to CFCCL should not exceed $37,400,000. Outstanding balance payable for this contract at 31 December 2012 amounted to $2,419,000 (2011: $2,419,000).

(ix) 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. Interest income received from SHKPCM amounted to $51,000 (2011: $396,000). At 31 December 2011, the Fixed Rate Notes held by KMBFS were carried at a fair value of $15,032,000 and the principal amount of the Fixed Rate Notes have been repaid by SHKPCM upon maturity on 17 February 2012.

(x) On 26 April 2010, KT Real Estate Limited ("KTRE"), a wholly-owned subsidiary of the Company, and Turbo Result Limited ("TRL"), a subsidiary of SHKP, 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 an industrial site at Kwun Tong (the"Kwun Tong Site") and the construction of the Kwun Tong 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 2012 amounted to $2,000,000 (2011: $2,000,000).

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel remuneration

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

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions as described in notes (a)(i) and (a)(vi) above constitute continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules. However, they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules pursuant to Rule 14A.33(3) of the Listing Rules.

The Coach Service Arrangement as described in note (a)(ii) above, in which the relevant SHKP Group companies acted as agents for collection of the coach service fees, did not fall within the definition of connected transactions under Chapter 14A of the Listing Rules.

The related party transaction as described in note (a)(iii) above constitutes a continuing connected transaction of the Company as defined in Chapter 14A of the Listing Rules. The Company has complied with the reporting requirement under Chapter 14A of the Listing Rules by including the relevant disclosure in the section headed "Continuing Connected Transactions" under "Financial Review" on pages 104 to 105 of this Annual Report.

The related party transactions as described in notes (a)(iv), (a)(vii), (a)(viii) and (a)(x) above constitute connected transactions of the Company as defined in Chapter 14A of the Listing Rules. The relevant reporting requirements pursuant to Chapter 14A of the Listing Rules have been complied with by including disclosures in the Company's Annual Reports published immediately following the entering into of such transactions. No transaction amounts in respect of those transactions have been incurred during the year ended 31 December 2012 (2011: For related party transactions described in notes (a)(iv), (a)(vii) and (a)(viii): Nil, for related party transaction described in note (a)(x): $2,000,000).

The related party transaction as described in note (a)(v) above constitutes a continuing connected transaction of the Company as defined in Chapter 14A of the Listing Rules, but there was no such transaction during the year ended 31 December 2012 (2011: Nil).

The related party transaction as described in note (a)(ix) above constitutes a connected transaction of the Company as defined in Chapter 14A of the Listing Rules. The relevant reporting requirements pursuant to the Listing Rules have been complied with by including disclosures in the Company's 2009 Annual Report.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 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.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 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 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
Annual improvements to HKFRSs 2009 – 2011 Cycle	1 January 2013
Amendments to HKFRS 7, Financial instruments: Disclosures – disclosures – offsetting financial assets and financial liabilities	1 January 2013
Amendments to HKAS 32, Financial instruments: Presentation – offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9, Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these developments 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 is unlikely to have a significant impact on the consolidated financial statements, except for Revised HKAS 19.

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 previous balance sheet date exceeding ten percent of the greater of the present value of the defined benefit obligation at that date 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 consolidated income statement.

– Expected return on plan assets recognised in the consolidated 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.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

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

Based on the Group's preliminary assessment, the adoption of Revised HKAS 19 will result in retrospective restatement of the amounts reported as follows:

	31 December 2012 $'000	1 January 2012 $'000
Consolidated balance sheet		
Decrease in net assets	**361,128**	**448,773**

	2012 $'000
Consolidated income statement for the year	
Decrease in profit for the year	**143,360**
Decrease in basic and diluted earnings per share	**$0.36**
Consolidated statement of comprehensive income for the year	
Increase in total comprehensive income for the year	**87,645**

Financial Summary

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

	2012 $'M	2011 $'M	2010 $'M	2009 $'M	2008 $'M	2007 $'M	2006 $'M	2005 $'M	2004 $'M	2003 $'M
Income statement										
Turnover	**7,181**	6,948	6,687	6,842	7,353	12,013	8,705	6,456	6,544	6,540
Profit before taxation	**368**	275	931	800	694	4,074	2,002	691	913	857
Income tax	**(34)**	(41)	(75)	(118)	(18)	(206)	(133)	(96)	(169)	(259)
Profit after taxation	**334**	234	856	682	676	3,868	1,869	595	744	598
Non-controlling interests	**(25)**	8	11	(9)	(18)	(21)	(31)	(11)	(13)	(1)
Profit attributable to equity shareholders of the Company	**309**	242	867	673	658	3,847	1,838	584	731	597
Balance sheet										
Fixed assets	**3,852**	4,121	4,276	4,100	4,466	4,981	5,463	5,720	6,119	6,491
Intangible assets	**132**	44	23	22	15	14	8	–	–	–
Goodwill	**84**	63	63	63	63	52	49	33	30	50
Media assets	**–**	–	–	–	1	1	1	96	115	61
Non-current prepayments	**4**	2	44	19	29	38	48	63	470	105
Interest in associates	**672**	668	640	612	834	911	834	776	330	162
Interest in jointly controlled entities	**–**	–	–	–	20	23	23	16	5	1
Other financial assets	**591**	472	636	334	136	138	46	34	15	15
Employee benefit assets	**758**	801	790	716	755	602	537	485	414	339
Net current assets	**2,226**	2,280	1,763	2,455	2,083	3,224	1,426	184	253	548
Employment of funds	**8,319**	8,451	8,235	8,321	8,402	9,984	8,435	7,407	7,751	7,772
Financed by:										
Share capital	**404**	404	404	404	404	404	404	404	404	404
Reserves	**6,193**	6,116	6,334	6,385	6,257	7,145	4,670	3,628	3,847	3,935
Total equity attributable to equity shareholders of the Company	**6,597**	6,520	6,738	6,789	6,661	7,549	5,074	4,032	4,251	4,339
Non-controlling interests	**185**	182	205	229	253	249	245	269	289	260
Total equity	**6,782**	6,702	6,943	7,018	6,914	7,798	5,319	4,301	4,540	4,599
Contingency provision – insurance	**311**	310	300	305	337	295	271	52	59	106
Long term bank loans	**598**	798	470	470	590	1,155	2,052	2,218	2,298	2,218
Other liabilities	**628**	641	522	528	561	736	793	836	854	849
Funds employed	**8,319**	8,451	8,235	8,321	8,402	9,984	8,435	7,407	7,751	7,772
Earnings per share ($)	**0.77**	0.60	2.15	1.67	1.63	9.53	4.55	1.45	1.81	1.48
Dividends per share ($)	**0.60**	0.60	1.35	2.35	1.35	5.53	2.03	2.03	2.03	2.03
Total assets per share ($)	**24.24**	24.11	24.01	24.71	25.49	29.57	29.98	23.78	23.32	23.44
Net assets per share ($)	**16.80**	16.60	17.20	17.39	17.13	19.32	13.18	10.65	11.25	11.39

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 2012 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

Dr Norman LEUNG Nai Pang^
GBS, JP, LLD, BA
Chairman

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

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 John CHAN Cho Chak▲
Dr Eric LI Ka Cheung
SIU Kwing-chue, Gordon

Remuneration Committee

Dr John CHAN Cho Chak▲
Dr Eric LI Ka Cheung
Professor LIU Pak-wai

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

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AUDITOR

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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
26 Burnaby Street
Hamilton HM 11
Bermuda

REGISTER OF MEMBERS

Book closure for 2013 AGM:
16 May 2013 to 23 May 2013
(both dates inclusive)

Book closure for 2012 final dividend:
29 May 2013

DIVIDENDS

Interim
HK$0.15 per share,
paid on 16 October 2012

Final (proposed)
HK$0.45 per share,
payable on 7 June 2013

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 Director of the Company)
(# Non-executive Director of the Company)
(▲ Committee Chairman)

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

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Stock Code: 62

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