THE GROUP

REVIEW OF 2008 FINANCIAL PERFORMANCE

The Group's Results for the Year

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

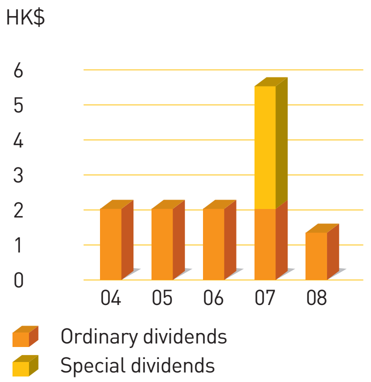
The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2008 are given below:

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

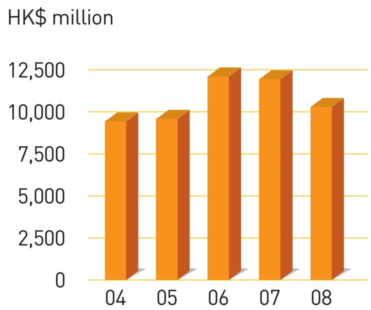
The Group's total operating expenses for the year amounted to HK$7,087.8 million (2007: HK$8,182.2 million), a decrease of HK$1,094.4 million or 13.4% compared to 2007. The decrease was mainly attributable to the decrease in the cost of properties sold of HK$1,226.4 million and the decrease in selling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

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

Dividends per share

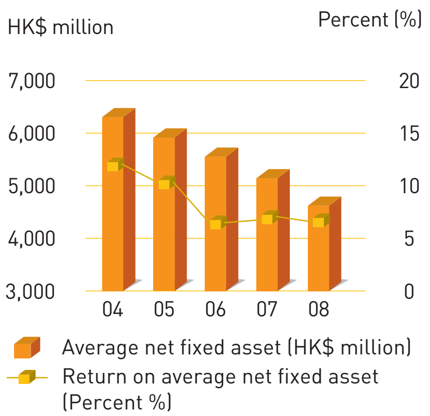


Total assets at 31 December

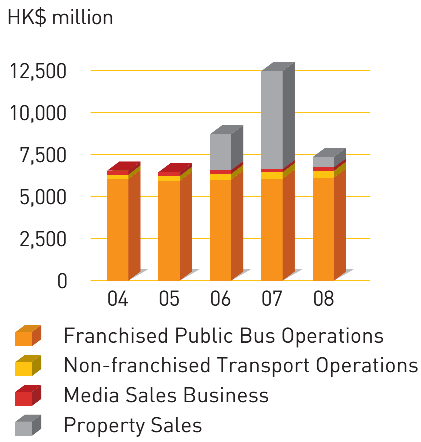


Return on average net fixed asset employed

(excluding property sales)



Group turnover



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

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

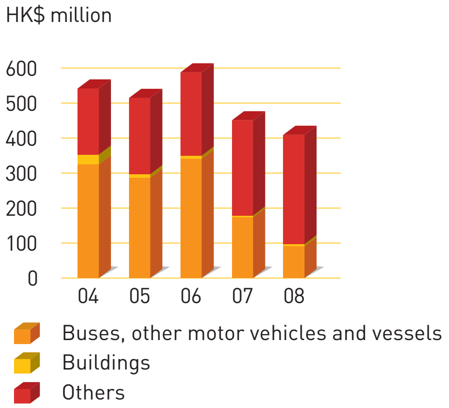
Segment information on the Group's main businesses is set out in note 11 to the financial statements on page 168 of this Annual Report.

KEY CHANGES TO FINANCIAL POSITION

Fixed Assets and Capital Expenditure

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

Capital expenditure



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

Current Assets and Liabilities

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

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

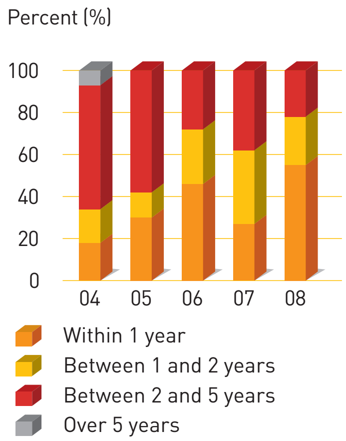
Total current liabilities at 31 December 2008 amounted to HK$1,876.6 million (2007: HK$1,936.7 million), which principally included the current portion of bank loans, bank overdrafts, accounts payable and other accruals. The decrease was mainly due to the decrease in current tax payables as a result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

Bank Loans and Overdrafts

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

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

Debt maturity profile at 31 December



Net Cash

At 31 December 2008, the Group's net cash (i.e. cash and deposits at banks less total borrowings) amounted to HK$1,719.0 million (2007: HK$1,541.8 million). The details of the Group's net cash by currency at 31 December 2008 are given below:

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

Capital Commitments

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

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

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

FUNDING AND FINANCING

Liquidity and Financial Resources

The Group consistently adopts a prudent financial management policy in the management of its financial affairs. Its liquidity and financial resources are closely monitored to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the demands for daily operational needs, loan repayments, capital expenditure and potential business expansion and development. The Group's operations are mainly financed by shareholders' funds, bank loans and overdrafts. In general, the Group's major operating companies arrange for their own financing to meet their operational and investment needs. The Group's other subsidiaries are mainly financed by the holding company from its capital base. The Group's funding strategy is regularly reviewed by management to ensure that cost-efficient and flexible funding is available to cater for the unique operating environment of each subsidiary. At 31 December 2008, the Group had unutilised banking facilities totalling HK$535.0 million (2007: HK$692.0 million).

Gearing Ratio and Liquidity Ratio

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

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

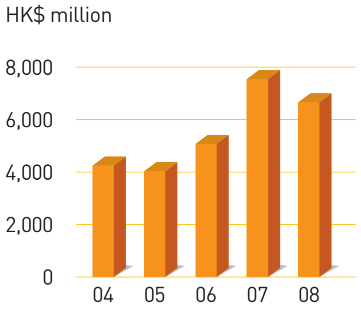
The Group's net cash at 31 December 2008 amounted to HK$1,719.0 million (2007: HK$1,541.8 million). This increase was mainly attributable to the increase in liquid funds arising from the sales of Manhattan Hill residential units, a portion of which had been utilised as working capital and for repayment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

Finance Costs and Interest Cover

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

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

Shareholders' fund at 31 December



Net Cash Flow

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

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

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

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

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

Treasury Policies

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

Credit Risk

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

Cash Flow and Liquidity Risk Management

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

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

Interest Rate Risk Management

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

Foreign Currency Risk Management

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

Equity Price Risk

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

Fuel Price Risk

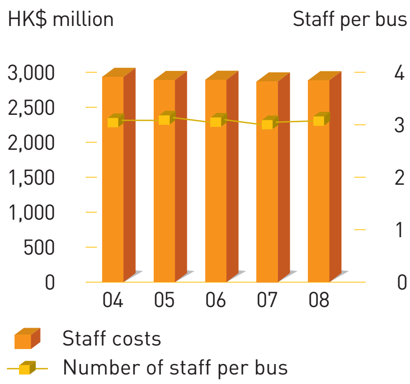
Management constantly monitors fuel oil price movements. When opportunities arise, it may recommend entering into fuel oil swap contracts to hedge against fuel oil price fluctuations in a strategic manner. For the year ended 31 December 2008, the Group did not enter into any fuel oil swap contracts.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

EMPLOYEES AND REMUNERATION POLICIES

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

Staff costs and staff per bus

(Franchised Public Bus Operations)



INDIVIDUAL BUSINESS UNITS

FRANCHISED PUBLIC BUS OPERATIONS

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

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

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

(i) a deemed income of HK$152.0 million (2007: HK$65.2 million) determined by independent actuaries in respect of the two defined benefit schemes operated by KMB, and recognised in KMB's income statement in accordance with the requirement of Hong Kong Accounting Standard 19 "Employee Benefits"; and

(ii) a deferred tax credit of HK$38.6 million (2007: nil) arising from the adjustment to the opening deferred tax balance due to the reduction in the Hong Kong Profits Tax rate from 17.5% to 16.5% with effect from the fiscal year 2008/09.

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

KMB's fare revenue and ridership for the year amounted to HK$5,816.3 million (2007: HK$5,768.8 million) and 986.5 million passenger trips (2007: 1,008.1 million passenger trips). The increase in fare revenue was due mainly to the fare increase of 4.5% which took effect from 8 June 2008, but was partly offset by a decrease in total ridership of 2.2% for 2008 due to intensified competition for patronage following the merger of the two local rail networks together with the offer of rail fare discounts starting from December 2007. Advertising revenue for the year amounted to HK$90.7 million, an increase of 21.4% compared to HK$74.7 million for the previous year. The increase was mainly due to the renewal of advertising licence agreements with more favourable terms.

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

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

Long Win Bus Company Limited ("LWB")

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

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

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

LWB's total operating expenses for the year amounted to HK$312.1 million (2007: HK$279.0 million), an increase of HK$33.1 million compared to 2007. In addition to the significant increase in fuel costs of HK$24.0 million, other major operating expenses such as staff costs, tunnel tolls and depreciation charges also increased as a result of the addition of new buses to cope with the growing travel demand and to enhance service quality. Finance costs for 2008 decreased by HK$2.6 million to HK$1.9 million (2007: HK$4.5 million) due mainly to the decreases in average bank borrowings and market interest rates compared to the previous year.

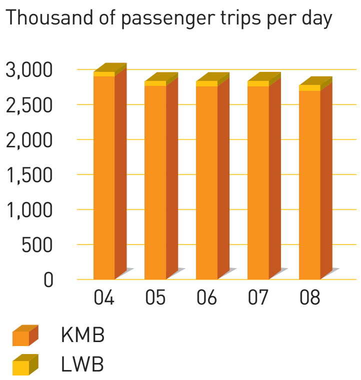
NON-FRANCHISED TRANSPORT OPERATIONS

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

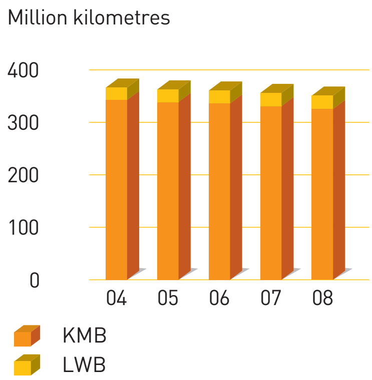
Sun Bus Holdings Limited and its subsidiaries (the "SBH Group")

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

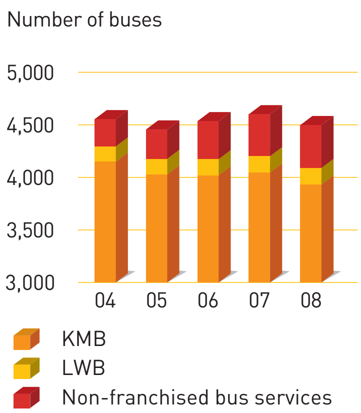
Average number of passenger trips per day
(Franchised Public Bus Operations)



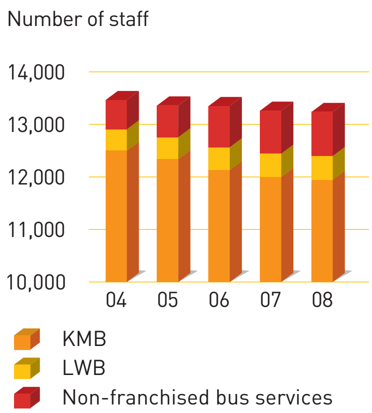
Bus kilometres operated
(Franchised Public Bus Operations)



Number of licensed buses at 31 December



Number of staff at 31 December



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

During 2008, the SBH Group's flagship company, Sun Bus Limited, was awarded a contract by the Airport Authority to provide quality airport-hotel coach services. As at 31 December 2008, the SBH Group had a fleet of 367 buses (2007: 360 buses). During the year, 19 buses (2007: 58 buses) were purchased for business expansion, service enhancement and fleet replacement.

Park Island Transport Company Limited ("PITC")

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

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

New Hong Kong Bus Company Limited ("NHKB")

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

PROPERTY HOLDINGS AND DEVELOPMENT

Lai Chi Kok Properties Investment Limited ("LCKPI")

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

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

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

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

LCK Real Estate Limited ("LCKRE")

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

LCK Commercial Properties Limited ("LCKCP")

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

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

MEDIA SALES BUSINESS

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

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

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

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

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

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

MAINLAND TRANSPORT OPERATIONS

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

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

Dalian

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

Beijing

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

Shenzhen

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

Wuxi

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

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

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

CONNECTED TRANSACTIONS

LCK Commercial Properties Limited ("LCKCP")

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

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

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

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

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

CONTINUING CONNECTED TRANSACTIONS

The Group

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

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

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

Park Island Transport Company Limited ("PITC")

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

Pursuant to an agreement dated 23 May 2001 entered into between PITC and SHKMW, a wholly-owned subsidiary of SHKP (the "Transport Agreement"), SHKMW engaged PITC to provide bus and ferry services for Ma Wan Island. The Transport Agreement was subsequently amended and supplemented by six supplemental letters dated 4 December 2002, 1 August 2003, 29 February 2004, 6 December 2005, 28 November 2006 and 6 December 2007 (the "2007 Supplemental Agreement") (collectively, the "Previous Supplemental Agreements"), with the operating term extended to 13 December 2008. On 25 November 2008, PITC and SHKMW entered into another supplemental letter (the "2008 Supplemental Agreement") to further extend the operating term for a period of one year from 14 December 2008 to 13 December 2009, and to amend certain terms and conditions of the Transport Agreement. The transactions executed under the Transport Agreement, as modified by the Previous Supplemental Agreements and the 2008 Supplemental Agreement, constitute continuing connected transactions of the Company under the Listing Rules. Particulars of these connected transactions were disclosed in the announcements of the Company dated 25 May 2001, 5 December 2006, 10 December 2007 and 26 November 2008. As detailed in note 35(a)(vii) to the financial statements on page 197 of this Annual Report, the annual permitted return to which PITC was entitled for the year ended 31 December 2008 was HK$7,807,000. It is estimated that the permitted return for the period from 1 January 2009 to 13 December 2009 will not exceed HK$16,000,000.

Lai Chi Kok Properties Investment Limited ("LCKPI")

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

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

(ii) Transactions with Royal Elite Service Company Limited ("Royal Elite")

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

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

Bus Focus Limited ("Bus Focus")

Service Agreement with JCDecaux Texon Limited ("JTL")

On 12 November 2008, Bus Focus, an indirect non-wholly owned subsidiary of the Company and RoadShow Holdings Limited ("RoadShow"), and JCDecaux Texon Limited ("JTL"), a connected person of the Company and RoadShow within the meaning of the Listing Rules, entered into a Service Agreement pursuant to which Bus Focus agreed to appoint JTL exclusively to provide the media sales agency services and maintenance and operational services in respect of selected bus shelters owned by KMB for a term commencing from 1 August 2008 to 31 July 2012. Pursuant to the Service Agreement, the following considerations were payable/receivable by Bus Focus for the year ended 31 December 2008:

(a) Management fee payable by Bus Focus to JTL in the amount of HK$14,144,000; and

(b) Shortfall of guarantee rental receivable by Bus Focus from JTL in the amount of HK$9,785,000.

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

Conditional Waivers

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

1. each of the foregoing continuing connected transactions with SHKPI, SHKMW, SHKRE, Royal Elite and JTL was entered into:-

   (i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;

2. the annual insurance premium paid and payable by the Group to SHKPI for the year ended 31 December 2008 did not exceed the cap amount of HK$71,500,000 as disclosed in the announcement dated 10 December 2007;

3. the permitted return for the period from 1 January 2008 to 13 December 2008 to which PITC was entitled under the Transport Agreement, as modified by the 2007 Supplemental Agreement, did not exceed the cap amount of HK$15,665,000 as disclosed in the announcement dated 10 December 2007;

4. the permitted return for the period from 14 December 2008 to 31 December 2008 to which PITC was entitled under the Transport Agreement, as modified by the 2008 Supplemental Agreement, did not exceed the cap amount of HK$828,000 as disclosed in the announcement dated 26 November 2008;

5. the agency fees for the year ended 31 December 2008 paid and payable by LCKPI under the Original Agreement and the Letter Agreement did not exceed the higher of HK$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2007;

6. the agency fees for the year ended 31 December 2008 paid and payable by LCKPI under the Letter Agreement did not exceed the cap amount of HK$12,426,000, and the aggregate amount of the agency fees paid and payable under the Original Agreement and the Letter Agreement did not exceed the cap amount of HK$65,000,000, as disclosed in the announcement dated 16 August 2007;

7. the annual aggregate amount for the year ended 31 December 2008 paid and payable by the Group under the Management Agreement did not exceed the higher of HK$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2007; and

8. the management fee paid and payable by Bus Focus to JTL and the shortfall of guarantee rental received and receivable by Bus Focus from JTL under the Service Agreement for the year ended 31 December 2008 did not exceed the cap amount of HK$15,500,000 and HK$23,400,000 respectively as disclosed in the Joint Announcement of the Company and RoadShow dated 13 November 2008.

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