Financial Review

THE GROUP

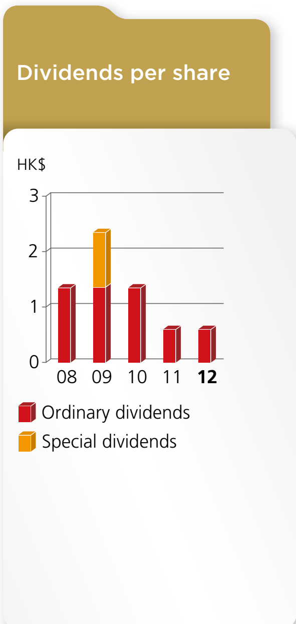
SUMMARY OF FINANCIAL PERFORMANCE

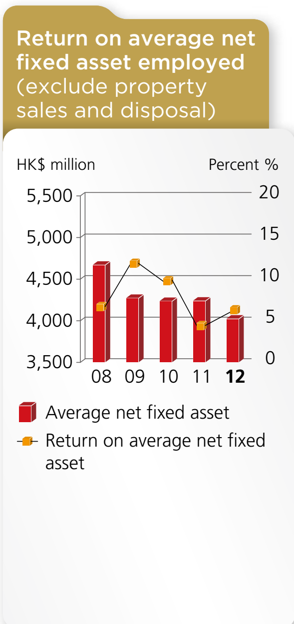
	2012	2011	Change	
	HK$ million	HK$ million	HK$ million	%
Turnover	**7,181.0**	6,947.5	233.5	+3.4
Other net income	**228.5**	248.5	(20.0)	-8.0
Operating expenses	**(7,066.2)**	(6,833.7)	232.5	+3.4
Finance costs	**(9.4)**	(8.6)	0.8	+9.3
Share of profits of associates	**34.5**	31.3	3.2	+10.2
Impairment 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

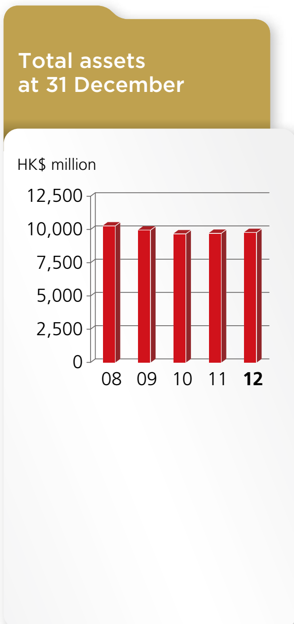
REVIEW OF 2012 FINANCIAL PERFORMANCE

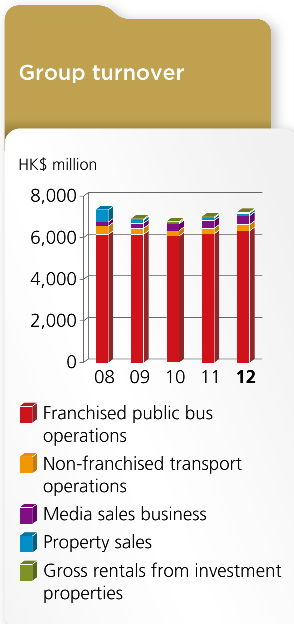
The Group's Results for the Year

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.









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

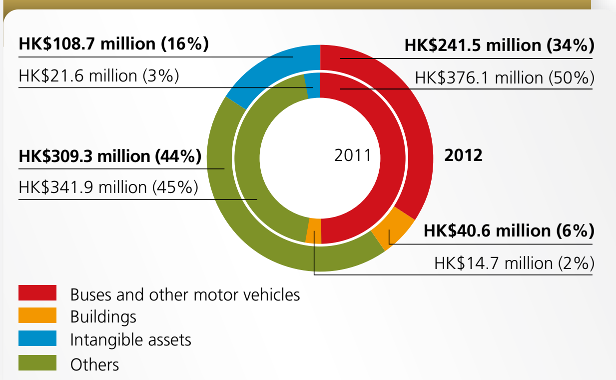
The Group's fixed assets mainly comprise buildings, buses and other motor vehicles, buses under construction, tools and other equipment, investment properties, and interest in leasehold land. None of the Group's fixed assets was pledged or charged as at 31 December 2012.

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.

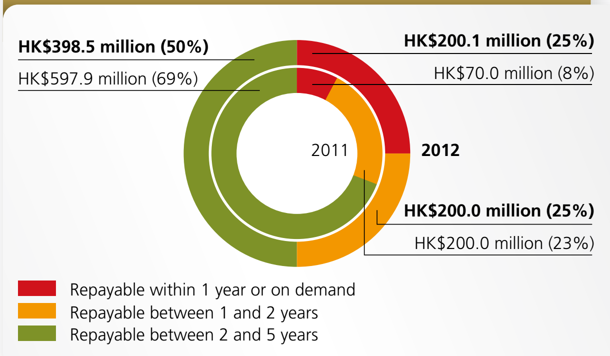
Intangible Assets and Goodwill

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

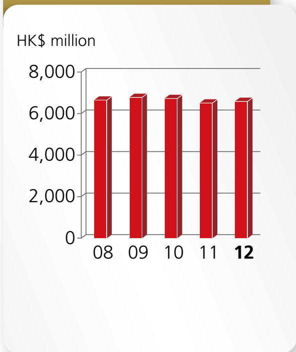
Under the principle of prudent financial management, the Group closely monitors its liquidity and financial resources by preparing and reviewing a rolling 12-month cash flow projection on a monthly basis to ensure that cash inflows from operating activities together with undrawn committed banking facilities 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

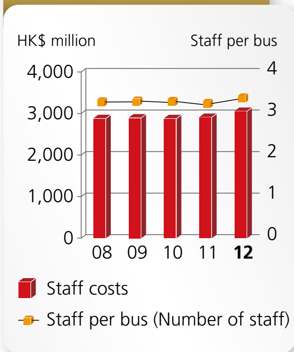
The Group has consistently maintained a highly liquid position. As at 31 December 2012, the Group was in a net cash position (i.e. cash and deposits at banks less total borrowings) of HK$2,298.0 million (2011: HK$2,106.1 million) and with a liquidity ratio (the ratio of current assets to current liabilities) 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

Shareholders' fund at 31 December



Staff cost and staff per bus (Franchised public bus operations)



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:

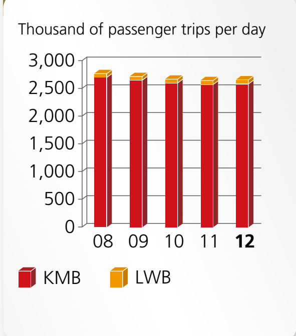
Sun Bus Holdings Limited and its subsidiaries (the "SBH Group")

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.

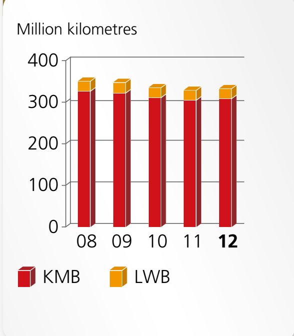
The turnover of the SBH Group increased by HK$35.4 million or 15.6% from HK$226.3 million in 2011 to HK$261.7 million in 2012. The increase was mainly attributed to business growth and general increase in coach hiring charges upon contract renewal. Total operating costs for 2012 also increased as a result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

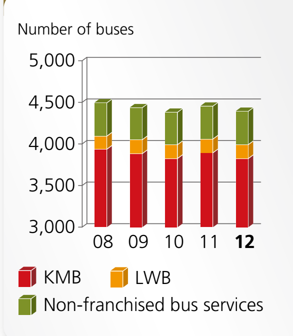
Average number of passenger trips per day (Franchised public bus operations)



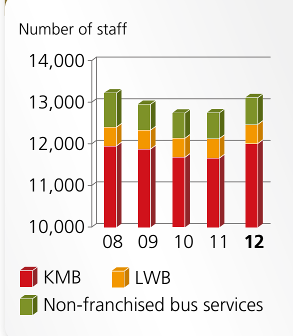
Bus kilometres operated (Franchised public bus operations)



Number of licensed buses at 31 December



Number of staff at 31 December



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.