

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as “the Group”) and the Group’s interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain investments in securities (see note 1(g)), and employee benefit assets (see note 1(w)(ii)) are stated at their fair value, as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

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

- Amendments to HKAS 1, *Presentation of financial statements - presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 11, *Joint arrangements*

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- Revised HKAS 19, *Employee benefits*
- *Annual improvements to HKFRSs 2009-2011 cycle*
- Amendments to HKFRS 7 – *Financial instruments: disclosures – offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

(i) **Amendments to HKAS 1, *Presentation of financial statements – presentation of items of other comprehensive income***

The amendments to HKAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

(ii) **HKFRS 10, *Consolidated financial statements***

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements*, relating to the preparation of consolidated financial statements and HK-SIC 12, *Consolidation – special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

(iii) **HKFRS 11, *Joint arrangements***

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements.

Upon adoption of HKFRS 11, the Group has reclassified investments in jointly controlled assets to joint operations. The investments continue to be recognised on a line-by-line basis and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.



1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(iv) HKFRS 12, *Disclosure of interests in other entities*

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 18 and 19.

(v) HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 14 and 32(f). The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

(vi) Revised HKAS 19, *Employee benefits*

Revised HKAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised HKAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

As a result of the adoption of revised HKAS 19, the Group has changed its accounting policy with respect to defined benefit plans, for which the "corridor method" was previously applied. This change in accounting policy has been applied retrospectively by restating the balances as at 1 January 2012 and 31 December 2012, with consequential adjustments to comparatives for the year ended 31 December 2012 as shown in the following page.

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(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(vi) Revised HKAS 19, *Employee benefits* (continued)

| | As previously reported \$'000 | Effect of adopting revised HKAS 19 \$'000 | As restated \$'000 |
|--|--|---|-----------------------|
| Consolidated income statement for the year ended 31 December 2012: | | | |
| Other net income | 228,544 | (42,715) | 185,829 |
| Staff costs | 3,238,980 | 128,974 | 3,367,954 |
| Income tax expense | 34,297 | (28,329) | 5,968 |
| Profit for the year | 334,076 | (143,360) | 190,716 |
| Basic and diluted earnings per share | \$0.77 | \$(0.36) | \$0.41 |
| Consolidated statement of comprehensive income for the year ended 31 December 2012: | | | |
| Remeasurement of employee benefit assets | – | 231,005 | 231,005 |
| Total comprehensive income for the year | 344,146 | 87,645 | 431,791 |
| Consolidated balance sheet at 31 December 2012: | | | |
| Employee benefit assets | 758,371 | (432,489) | 325,882 |
| Deferred tax liabilities | 602,796 | (71,361) | 531,435 |
| Net assets/total equity | 6,781,849 | (361,128) | 6,420,721 |
| Retained profits | 4,914,741 | (361,128) | 4,553,613 |
| Consolidated balance sheet at 1 January 2012: | | | |
| Employee benefit assets | 800,656 | (537,453) | 263,203 |
| Deferred tax liabilities | 607,445 | (88,680) | 518,765 |
| Net assets/total equity | 6,702,337 | (448,773) | 6,253,564 |
| Retained profits | 4,847,728 | (448,773) | 4,398,955 |

The Group's net employee benefit assets at 31 December 2013 are lower by \$223,615,000 than it would have been if the policy had not been changed.

The impact of the adjustments on profit attributable to equity shareholders of the Company for the year ended 31 December 2012 is set out as follows:

| | 2012 \$'000 |
|----------------------------------|----------------|
| As previously reported | 309,197 |
| Adjustment to other net income | (42,715) |
| Adjustment to staff costs | (128,974) |
| Adjustment to income tax expense | 28,329 |
| As restated | 165,837 |



1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(vii) Annual improvements to HKFRSs 2009-2011 cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening balance sheet is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening balance sheet. The amendments also remove the requirement to present related notes to the opening balance sheet when such statement is presented.

Since the group considers that the restatement resulting from the adoption of revised HKAS 19 has a material impact on the opening financial position, an additional consolidated balance sheet as at 1 January 2012 has been presented in these financial statements.

(viii) Amendments to HKFRS 7 – *Financial instruments: disclosures – offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

(e) Associates and joint operations

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement.

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

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

If an investment in an associate becomes an investment in a joint venture, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated income statement. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).



1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates and joint operations (continued)

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

(f) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

(g) Other investments in debt and equity securities

The Group's and the Company's accounting policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

Investments in securities which are not held for trading are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(l)).

Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in the income statement in accordance with the accounting policies set out in notes 1(t)(v) and 1(t)(iv) respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in the income statement.

When these investments are derecognised or impaired (see note 1(l)(i)), the cumulative gain or loss is reclassified to the income statement. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investment properties

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

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(l)(ii)).

Depreciation is calculated to write off the cost of investment properties using the straight-line method over the shorter of their estimated useful lives of 40 years and the unexpired terms of the leases. No depreciation is provided for property that is being constructed or developed for future use as investment property.

Rental income from investment properties is accounted for as described in the accounting policy set out in note 1(t)(vi).

(i) Other property, plant and equipment

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

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Government grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense. Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions.

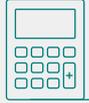
Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment using the straight-line method over their estimated useful lives as follows:

| | |
|--|---|
| Buildings situated on leasehold land | – The shorter of 40 years and the unexpired terms of the leases |
| Leasehold land classified as being held under finance leases | – The unexpired terms of the leases |
| Buses | – 14 years |
| Other motor vehicles | – 5 to 14 years |
| Others | – 2 to 7 years |

No depreciation is provided for buses under construction.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.



1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Assets acquired under finance leases

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

(ii) Operating leases

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

(k) Intangible assets (other than goodwill)

Passenger service licences and transport operating rights that are assessed and regarded by the Group to have indefinite useful lives are stated at cost less accumulated impairment losses (see note 1(l)(ii)).

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and amortisation is charged to the consolidated income statement on a straight-line basis over the asset's estimated remaining useful life.

(l) Impairment of assets

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

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

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Impairment of assets (continued)

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

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

- For investments in associates accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with the accounting policies set out in note 1(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with the accounting policies set out in note 1(l)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the financial asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

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

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

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



1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Impairment of assets (continued)

(ii) Impairment of other assets

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

- fixed assets;
- intangible assets;
- goodwill; and
- investment in subsidiaries in the Company's balance sheet.

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

– Calculation of the recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

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1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not the income statement.

(m) Completed property held for sale

Inventories in respect of completed property held for sale are carried at the lower of cost and net realisable value. Cost of completed property developed by the Group is determined by apportionment of the total development costs for that development project attributable to the unsold property. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

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

(n) Spare parts and stores

Spare parts and stores are included within current assets and stated at cost, using the first-in-first-out method. Provision is made for obsolescence where appropriate.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(l)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.



1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance the accounting policies set out in note 1(s)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with the accounting policies set out in note 1(s)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

- (i) Fare revenue from franchised public bus services and revenue from non-franchised transport services are recognised when the related services are provided.
- (ii) Revenue arising from the sale of completed property held for sale is recognised upon the later of the signing of the sale and purchase agreement and the completion of properties, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on property sold prior to the date of revenue recognition are included in accounts payable and accruals in the balance sheet.

Where property is sold under deferred terms with part of the sale proceeds being receivable after an interest-free period, that portion of the differences between the sale prices with and without such terms representing finance income is allocated to the income statement on a basis that takes into account the effective yield on the amounts of the sale proceeds receivable over the interest-free period.

- (iii) Income from media sales is recognised when the related advertisements are telecast or commercials appear before the public. Income from production of advertising content and materials is recognised when the related services are provided.
- (iv) Interest income is recognised as it accrues using the effective interest method.
- (v) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- (vi) Rental income receivable under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(v) Translation of foreign currencies

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

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

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

The results of operations outside Hong Kong are translated into Hong Kong dollars at the average foreign exchange rates for the year. Balance sheet items, including goodwill arising on consolidation of operations outside Hong Kong acquired on or after 1 January 2005, are translated into Hong Kong dollar at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of an operation outside Hong Kong acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the operation outside Hong Kong.

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

(w) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.



1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Employee benefits (continued)

(ii) Defined benefit retirement plan obligations (continued)

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in the income statement. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the income statement at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds (where there is no deep market in such corporate bonds, government bonds) that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

(iii) Lump sum long service amounts payable on cessation of employment

The Group's net obligation in respect of lump sum long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at the balance sheet date on high quality corporate bonds (where there is no deep market in such corporate bonds, government bonds) that have maturity dates approximating the terms of the Group's obligations.

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(x) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Income tax (continued)

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.



1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Related parties

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

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

(z) Segment reporting

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

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

2 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 16 and 21(f) contain information about the assumptions and their risk factors relating to impairment of goodwill and intangible assets with indefinite useful lives, employee benefit assets and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Contingency provision – insurance

Estimation of the contingency provision – insurance, as disclosed in note 26, is based on past claims experience and recent claims development. As the ultimate claim amount will be affected by future external events, for example the amount of court awards, changes in standards of liability and the attitude of claimants towards settlement of their claims, actual claims may deviate from these estimations. Any increase or decrease in the provision would affect the Group's results in future years.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Depreciation/amortisation

Fixed assets are depreciated/amortised on a straight-line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation/amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation/amortisation expense for future periods is adjusted if there are material changes from previous estimates.

(c) Impairment of assets

Internal and external sources of information are reviewed by the Group at each balance sheet date to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually even if there is no indication of impairment.

(d) Recognition of deferred tax assets

At 31 December 2013, the Group has recognised deferred tax assets which arose from unused tax losses and deductible temporary differences as set out in note 27(b). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax asset may arise, which will be recognised in the income statement for the period in which such a reversal takes place.

3 TURNOVER

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

Turnover comprises fare revenue from the operation of franchised public bus and non-franchised transport services, revenue from sales of properties, revenue from media sales and gross rentals from investment properties recognised during the year and is analysed as follows:

| | 2013 | 2012 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| Fare revenue from franchised public bus services | 6,596,373 | 6,315,180 |
| Revenue from non-franchised transport services | 326,371 | 301,417 |
| Media sales revenue | 466,359 | 424,673 |
| Revenue from sales of properties | 1,600 | 112,720 |
| Gross rentals from investment properties | 29,671 | 27,020 |
| | 7,420,374 | 7,181,010 |

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



4 OTHER NET INCOME

| | 2013 | 2012 |
|--|----------------|----------------------|
| | \$'000 | \$'000 (Restated) |
| Reversal of development cost accrual relating to Manhattan Hill (note (a)) | 108,246 | – |
| Interest income on other financial assets not at fair value through profit or loss | 66,237 | 67,695 |
| Interest income on instalments receivable from sales of properties | 29 | 66 |
| Dividend income from unlisted equity securities | 37,200 | 77,252 |
| Net movement in balance of passenger rewards (note (b)) | (4,160) | (2,851) |
| Claims received | 34,286 | 21,546 |
| Net miscellaneous business receipts | 6,512 | 7,147 |
| Net gain on disposal of fixed assets | 2,756 | 580 |
| Available-for-sale debt securities: reclassified from equity on maturity (note 10) | 292 | 1 |
| Net foreign exchange loss | (957) | (2,463) |
| Sundry revenue | 20,909 | 16,856 |
| | 271,350 | 185,829 |

Notes:

- (a) In 2003, Lai Chi Kok Properties Investment Limited ("LCKPI"), an indirectly wholly-owned subsidiary of the Company, entered into a prime cost contract (the "Prime Cost Contract") with Chun Fai Construction Co. Ltd. ("CFCCCL"), a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), a substantial shareholder of the Company, for the provision of management contractor services relating to the property under development of the Group ("Manhattan Hill"). In 2004, a supplementary agreement to the Prime Cost Contract (the "Supplementary Agreement") was entered into between LCKPI and CFCCCL for the purposes of upgrading the design, materials and quality of the workmanship of Manhattan Hill. Pursuant to the Prime Cost Contract, as supplemented by the Supplementary Agreement, the aggregate consideration payable to CFCCCL should not exceed \$1,617,743,000.
- In prior years, LCKPI has accrued the amount payable to CFCCCL in accordance with the terms set out in the Prime Cost Contract and the Supplementary Agreement. At 31 December 2012, outstanding balance payable for this contract amounted to \$95,805,000. During the year, the statement of final account in respect of this contract has been concluded and a finalised amount of \$21,413,000 is confirmed to be payable to CFCCCL. The balance of the accrued amount of \$74,392,000 is reversed during the period.
- Further, a provision of \$33,854,000 made in prior years in respect of sub-contractors for the development of Manhattan Hill was also reversed during the current period upon the finalisation of the statement of final account.
- (b) Under the revised Modified Basket of Factors ("MBOF") approach, which is the existing basis for the assessment of bus fare adjustment applications, 50% of any return on a franchised bus operator in a given year in excess of a prescribed triggering point of return on its average net fixed assets is required to be set aside and accumulated in a balance of passenger rewards which would be available to relieve the pressure for future fare increases and to facilitate the offer of bus fare concessions. The prescribed triggering point of return for 2013 and 2012 was 9.7% per annum. The balance of passenger rewards of the Group as at 31 December 2013, included in accounts payable and accruals (note 25), was \$10,706,000 (2012: \$6,546,000).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

| | 2013 \$'000 | 2012 \$'000 (Restated) |
|---|------------------|------------------------------|
| (a) Staff costs | | |
| Defined benefit retirement plan expense (note 21(e)) | 135,754 | 128,974 |
| Contributions to defined contribution retirement plans | 95,145 | 81,618 |
| Movements in provision for long service payments (note 28) | (1,062) | 689 |
| Total retirement cost | 229,837 | 211,281 |
| Salaries, wages and other benefits | 3,299,238 | 3,156,673 |
| | 3,529,075 | 3,367,954 |
| (b) Finance costs | | |
| Interest on bank loans and overdrafts not at fair value through profit or loss | 7,307 | 9,433 |
| (c) Rentals received and receivable from investment properties | | |
| Gross rentals (note) | (29,671) | (27,020) |
| Less: direct outgoings | 9,033 | 8,256 |
| | (20,638) | (18,764) |
| Note: Included contingent rental income of \$50,000 (2012: \$343,000). | | |
| (d) Other items | | |
| Amortisation of land lease premium | 2,012 | 2,012 |
| Depreciation | 766,782 | 840,713 |
| Impairment loss on trade and other receivables (note 22(b)) | | |
| – recognised | 27 | 912 |
| – written-back | (75) | (27) |
| (Write-back)/write-down of spare parts and stores | (1,518) | 16,691 |
| Operating lease charges: minimum lease payments in respect of properties, buses and terminal shelters | 37,934 | 37,481 |
| Auditors' remuneration | | |
| – audit services | 5,602 | 5,121 |
| – other services | 1,857 | 1,488 |
| Acquisition related costs | – | 861 |



6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

| | 2013 \$'000 | 2012 \$'000 (Restated) |
|--|----------------|------------------------------|
| Current tax – Hong Kong Profits Tax | | |
| Provision for the year | 44,453 | 53,033 |
| (Over)/under-provision in respect of prior years | (714) | 315 |
| | 43,739 | 53,348 |
| Current tax – The People's Republic of China ("PRC") Income Tax | | |
| Provision for the year | 611 | 163 |
| PRC withholding tax | 2,911 | 1,525 |
| | 47,261 | 55,036 |
| Deferred tax | | |
| Origination and reversal of temporary differences | 7,826 | (49,068) |
| | 55,087 | 5,968 |

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries in the PRC is charged at the appropriate current rates of taxation ruling in the PRC.

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

| | 2013 \$'000 | 2012 \$'000 (Restated) |
|--|----------------|------------------------------|
| Profit before taxation | 458,481 | 196,684 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | 81,248 | 34,265 |
| Tax effect of non-deductible expenses | 7,533 | 5,650 |
| Tax effect of non-taxable income | (34,124) | (36,514) |
| Tax effect of unused tax losses not recognised | 995 | 1,739 |
| (Over)/under-provision in respect of prior years | (714) | 315 |
| Others | 149 | 513 |
| Actual tax expense | 55,087 | 5,968 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION

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

| | | 2013 | | | | |
|--|-----------|-----------------|---|-----------------------|---------------------------------|---------------|
| | Note | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Executive Directors | | | | | | |
| Charles Lui Chung Yuen | (a) | 264 | 840 | 65 | – | 1,169 |
| Edmond Ho Tat Man | (a) | 374 | 4,815 | – | 578 | 5,767 |
| Evan Au Yang Chi Chun | (a) | 264 | 4,254 | 3 | 213 | 4,734 |
| Non-executive Directors | | | | | | |
| Raymond Kwok Ping Luen | | 495 | – | – | – | 495 |
| Ng Siu Chan | | 264 | – | – | – | 264 |
| William Louey Lai Kuen | | 264 | – | – | – | 264 |
| Winnie Ng | (a) | 671 | – | – | – | 671 |
| John Anthony Miller | (a) | 440 | – | – | – | 440 |
| Roger Lee Chak Cheong | (b) | – | – | – | – | – |
| Godwin So Wai Kei | (c) | – | – | – | – | – |
| Dr Walter Kwok Ping Sheung | (d) | 264 | – | – | – | 264 |
| Yung Wing Chung | (e) | 50 | – | – | – | 50 |
| Independent Non-executive Directors | | | | | | |
| Dr Norman Leung Nai Pang | | 693 | – | – | – | 693 |
| Dr John Chan Cho Chak | (a) & (f) | 726 | – | – | – | 726 |
| Dr Eric Li Ka Cheung | (a) | 614 | – | – | – | 614 |
| Gordon Siu Kwing Chue | | 352 | – | – | – | 352 |
| Professor Liu Pak Wai | | 297 | – | – | – | 297 |
| The Hon Sir Sze-yuen Chung | (g) | – | – | – | – | – |
| | | 6,032 | 9,909 | 68 | 791 | 16,800 |



7 DIRECTORS' REMUNERATION (continued)

| | Note | 2012 | | | | Total \$'000 |
|--|-----------|-----------------|---|-----------------------|---------------------------------|-----------------|
| | | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | |
| | | \$'000 | \$'000 | \$'000 | \$'000 | |
| Executive Directors | | | | | | |
| Charles Lui Chung Yuen | (a) | 264 | 840 | 62 | – | 1,166 |
| Edmond Ho Tat Man | (a) | 374 | 4,240 | 400 | 509 | 5,523 |
| Evan Au Yang Chi Chun | (a) | 264 | 3,746 | 353 | 187 | 4,550 |
| Non-executive Directors | | | | | | |
| Raymod Kwok Ping Luen | | 495 | – | – | – | 495 |
| Ng Siu Chan | | 264 | – | – | – | 264 |
| William Louey Lai Kuen | | 264 | – | – | – | 264 |
| Winnie Ng | (a) | 671 | – | – | – | 671 |
| John Anthony Miller | (a) | 440 | – | – | – | 440 |
| Godwin So Wai Kei | (c) | – | – | – | – | – |
| Dr Walter Kwok Ping Sheung | (d) | 264 | – | – | – | 264 |
| Yung Wing Chung | (e) | 218 | – | – | – | 218 |
| Independent Non-executive Directors | | | | | | |
| Dr Norman Leung Nai Pang | | 671 | – | – | – | 671 |
| Dr John Chan Cho Chak | (a) & (f) | 690 | – | – | – | 690 |
| Dr Eric Li Ka Cheung | (a) | 592 | – | – | – | 592 |
| Gordon Siu Kwing Chue | | 330 | – | – | – | 330 |
| Professor Liu Pak Wai | | 285 | – | – | – | 285 |
| The Hon Sir Sze-yuen Chung | (g) | 139 | – | – | – | 139 |
| | | 6,225 | 8,826 | 815 | 696 | 16,562 |

Notes:

- (a) The amounts included emoluments from the Company and certain of its subsidiaries.
- (b) Mr Roger Lee Chak Cheong served as Alternate Director to Mr Raymond Kwok Ping Luen for the period from 1 April 2013 to 2 March 2014 and appointed as Director on 3 March 2014.
- (c) Mr Godwin So Wai Kei served as Alternate Director to Dr Walter Kwok Ping Sheung for the period from 1 January 2013 to 27 January 2014 and appointed as Alternate Director to Mr Raymond Kwok Ping Luen on 3 March 2014.
- (d) Dr Walter Kwok Ping Sheung resigned on 27 January 2014.
- (e) Mr Yung Wing Chung served as Alternate Director to Mr Raymond Kwok Ping Luen until 31 March 2013. He has been appointed as a Non-executive Director of RoadShow Holdings Limited ("RoadShow") with effect from 20 November 2008. His emolument was solely in respect of his services as a director of RoadShow for the period from 1 January 2013 to 31 March 2013.
- (f) Dr John Chan Cho Chak was redesignated as Independent Non-executive Director with effect from 4 January 2012.
- (g) The Hon Sir Sze-yuen Chung retired on 17 May 2012.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2012: two) are Directors whose emoluments are disclosed in note 7.

The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) are as follows:

| | 2013 | 2012 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Fees | 748 | 638 |
| Salaries, allowances and benefits in kind | 15,473 | 14,138 |
| Discretionary bonuses | 2,673 | 2,774 |
| Retirement scheme contributions | 1,045 | 825 |
| | 19,939 | 18,375 |

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

| | Number of individuals | |
|---------------------------|-----------------------|------|
| | 2013 | 2012 |
| \$2,000,001 – \$2,500,000 | 1 | 2 |
| \$2,500,001 – \$3,000,000 | 1 | – |
| \$3,500,001 – \$4,000,000 | – | 1 |
| \$4,000,001 – \$4,500,000 | 1 | – |
| \$4,500,001 – \$5,000,000 | 1 | 1 |
| \$5,500,001 – \$6,000,000 | 1 | 1 |

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of \$120,000 (2012: \$299,884,000) which has been dealt with in the financial statements of the Company.

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

10 OTHER COMPREHENSIVE INCOME

| | 2013 | 2012 |
|---|----------------|--------------|
| | \$'000 | \$'000 |
| Available-for-sale debt securities: | | |
| Change in fair value recognised during the year | (7,518) | 8,996 |
| Reclassification adjustment for amount transferred to profit or loss on maturity (note 4) | (292) | (1) |
| | (7,810) | 8,995 |



11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of \$371,319,000 (2012 (restated): \$165,837,000) and 403,639,413 shares in issue during the years ended 31 December 2013 and 2012. The calculation of basic earnings per share arising from Manhattan Hill properties and the Group's other operations is based on profits arising from the respective operations of \$93,854,000 (2012: \$76,320,000) and \$277,465,000 (2012 (restated): \$89,517,000) respectively and 403,639,413 shares in issue during the years ended 31 December 2013 and 2012.

(b) Diluted earnings per share

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

12 DIVIDENDS

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

| | 2013 | | 2012 | |
|--|-------------|----------------|-------------|----------------|
| | Per share | Total | Per share | Total |
| | \$ | \$'000 | \$ | \$'000 |
| Interim dividend declared and paid | 0.15 | 60,546 | 0.15 | 60,546 |
| Final dividend proposed after the balance sheet date | 0.45 | 181,638 | 0.45 | 181,638 |
| | 0.60 | 242,184 | 0.60 | 242,184 |

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

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

| | 2013 | | 2012 | |
|---|-----------|---------|-----------|---------|
| | Per share | Total | Per share | Total |
| | \$ | \$'000 | \$ | \$'000 |
| Final dividend in respect of the previous financial year, approved and paid during the year | 0.45 | 181,638 | 0.45 | 181,638 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 SEGMENT REPORTING

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

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

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

(a) Segment results, assets and liabilities

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

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

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



13 SEGMENT REPORTING (continued)

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

Information regarding the Group's reportable segments for the years ended 31 December 2013 and 2012 is set out below.

| | Franchised bus operation | | Media sales business | | Property development | | All other segments | | Total | |
|--|--------------------------|------------------|----------------------|----------------|----------------------|----------------|--------------------|------------------|------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | | (Restated) | | | | | | | | (Restated) |
| Revenue from external customers | 6,602,469 | 6,318,984 | 462,002 | 421,154 | 2,466 | 113,197 | 353,437 | 327,675 | 7,420,374 | 7,181,010 |
| Inter-segment revenue | 111,700 | 110,028 | - | - | - | - | 62,021 | 25,586 | 173,721 | 135,614 |
| Reportable segment revenue | 6,714,169 | 6,429,012 | 462,002 | 421,154 | 2,466 | 113,197 | 415,458 | 353,261 | 7,594,095 | 7,316,624 |
| Reportable segment profit/(loss) | 14,198 | (168,502) | 108,622 | 79,499 | 93,854 | 76,320 | 77,921 | 80,288 | 294,595 | 67,605 |
| Interest income | 4,806 | 9,762 | 9,921 | 11,885 | - | - | 29 | 213 | 14,756 | 21,860 |
| Interest expense | (7,307) | (9,433) | - | - | - | - | - | - | (7,307) | (9,433) |
| Depreciation and amortisation for the year | (713,349) | (793,676) | (11,262) | (10,784) | - | - | (44,183) | (38,265) | (768,794) | (842,725) |
| Reversal/(provision) of impairment loss on trade and other receivables | - | - | - | - | - | - | 48 | (885) | 48 | (885) |
| Reversal of impairment loss on other financial assets | - | - | 25,611 | - | - | - | - | - | 25,611 | - |
| Reversal of development cost accrual relating to Manhattan Hill | - | - | - | - | 108,246 | - | - | - | 108,246 | - |
| Staff costs | (3,332,876) | (3,190,174) | (81,973) | (72,743) | - | - | (107,443) | (98,192) | (3,522,292) | (3,361,109) |
| Share of profits of associates | - | - | - | - | - | - | 34,765 | 34,526 | 34,765 | 34,526 |
| Income tax (expense)/credit | (3,768) | 33,596 | (15,871) | (16,991) | (18,522) | (10,991) | (16,912) | (11,569) | (55,073) | (5,955) |
| Reportable segment assets | 5,810,785 | 4,944,061 | 778,623 | 766,483 | 2,505 | 3,080 | 1,542,326 | 1,488,383 | 8,134,239 | 7,202,007 |
| - including interest in associates | - | - | - | - | - | - | 723,953 | 671,521 | 723,953 | 671,521 |
| Additions to non-current segment assets during the year | 1,358,228 | 544,787 | 11,226 | 6,696 | - | - | 38,988 | 148,641 | 1,408,442 | 700,124 |
| Reportable segment liabilities | 2,680,417 | 2,557,478 | 94,171 | 110,369 | 11,538 | 149,161 | 104,968 | 71,290 | 2,891,094 | 2,888,298 |

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(Expressed in Hong Kong dollars unless otherwise indicated)

13 SEGMENT REPORTING (continued)

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

| | 2013 | 2012 |
|--------------------------------------|-------------------|----------------------|
| | \$'000 | \$'000 (Restated) |
| Revenue | | |
| Reportable segment revenue | 7,178,637 | 6,963,363 |
| Revenue from all other segments | 415,458 | 353,261 |
| Elimination of inter-segment revenue | (173,721) | (135,614) |
| Consolidated turnover | <u>7,420,374</u> | <u>7,181,010</u> |
| Profit/(loss) | | |
| Reportable segment profit/(loss) | 216,674 | (12,683) |
| Profit from all other segments | 77,921 | 80,288 |
| Unallocated profits | 108,799 | 123,111 |
| Consolidated profit after taxation | <u>403,394</u> | <u>190,716</u> |
| Assets | | |
| Reportable segment assets | 6,591,913 | 5,713,624 |
| Assets from all other segments | 1,542,326 | 1,488,383 |
| Unallocated assets | 2,102,557 | 2,158,806 |
| Consolidated total assets | <u>10,236,796</u> | <u>9,360,813</u> |
| Liabilities | | |
| Reportable segment liabilities | 2,786,126 | 2,817,008 |
| Liabilities from all other segments | 104,968 | 71,290 |
| Unallocated liabilities | 44,960 | 51,794 |
| Consolidated total liabilities | <u>2,936,054</u> | <u>2,940,092</u> |

(c) Geographic information

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

| | Specified non-current assets | |
|-------------------------------|------------------------------|------------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Hong Kong (place of domicile) | 4,615,665 | 3,981,540 |
| The PRC | 811,360 | 757,935 |
| | <u>5,427,025</u> | <u>4,739,475</u> |



14 FIXED ASSETS

(a) The Group

| | Buildings \$'000 | Buses and other motor vehicles \$'000 | Buses under construction \$'000 | Tools and others \$'000 | Sub-total \$'000 | Investment property under development \$'000 | Investment properties \$'000 | Interest in leasehold land \$'000 | Total fixed assets \$'000 |
|--|---------------------|--|--|----------------------------------|---------------------|--|------------------------------------|--|---------------------------------|
| Cost: | | | | | | | | | |
| At 1 January 2012 | 1,415,486 | 9,554,350 | 260,319 | 3,147,797 | 14,377,952 | 13,761 | 163,159 | 115,513 | 14,670,385 |
| Additions | | | | | | | | | |
| – through acquisition of subsidiaries (note 31(b)) | – | 12,081 | – | – | 12,081 | – | – | – | 12,081 |
| – others | 37,613 | 33,398 | 137,067 | 309,336 | 517,414 | 1,656 | 1,375 | – | 520,445 |
| Disposals | (2,860) | (279,353) | – | (218,024) | (500,237) | – | – | – | (500,237) |
| Exchange adjustments | – | – | – | 8 | 8 | – | – | – | 8 |
| Transfers | (4,467) | 334,388 | (334,388) | – | (4,467) | – | 4,467 | – | – |
| At 31 December 2012 | 1,445,772 | 9,654,864 | 62,998 | 3,239,117 | 14,402,751 | 15,417 | 169,001 | 115,513 | 14,702,682 |
| Accumulated depreciation, amortisation and impairment losses: | | | | | | | | | |
| At 1 January 2012 | 916,748 | 6,869,457 | – | 2,677,699 | 10,463,904 | 2,020 | 40,024 | 44,087 | 10,550,035 |
| Charge for the year | 29,310 | 479,370 | – | 325,229 | 833,909 | – | 6,804 | 2,012 | 842,725 |
| Written back on disposal | (2,860) | (278,724) | – | (201,158) | (482,742) | – | – | – | (482,742) |
| Exchange adjustments | – | – | – | 8 | 8 | – | – | – | 8 |
| Transfers | (1,775) | – | – | – | (1,775) | – | 1,775 | – | – |
| At 31 December 2012 | 941,423 | 7,070,103 | – | 2,801,778 | 10,813,304 | 2,020 | 48,603 | 46,099 | 10,910,026 |
| Net book value: | | | | | | | | | |
| At 31 December 2012 | 504,349 | 2,584,761 | 62,998 | 437,339 | 3,589,447 | 13,397 | 120,398 | 69,414 | 3,792,656 |
| Add: Deposits paid in respect of buses on order | | | | | 58,825 | – | – | – | 58,825 |
| Deposits acquired through acquisition of subsidiaries (note 31(b)) | | | | | 300 | – | – | – | 300 |
| | | | | | 3,648,572 | 13,397 | 120,398 | 69,414 | 3,851,781 |
| Cost: | | | | | | | | | |
| At 1 January 2013 | 1,445,772 | 9,654,864 | 62,998 | 3,239,117 | 14,402,751 | 15,417 | 169,001 | 115,513 | 14,702,682 |
| Additions | 21,989 | 44,992 | 1,092,875 | 284,905 | 1,444,761 | 1,516 | (704) | – | 1,445,573 |
| Disposals | (18,318) | (454,882) | – | (116,982) | (590,182) | – | – | – | (590,182) |
| Exchange adjustments | – | – | – | 24 | 24 | – | – | – | 24 |
| Transfers | (4,625) | 679,148 | (679,148) | – | (4,625) | – | 4,625 | – | – |
| At 31 December 2013 | 1,444,818 | 9,924,122 | 476,725 | 3,407,064 | 15,252,729 | 16,933 | 172,922 | 115,513 | 15,558,097 |
| Accumulated depreciation, amortisation and impairment losses: | | | | | | | | | |
| At 1 January 2013 | 941,423 | 7,070,103 | – | 2,801,778 | 10,813,304 | 2,020 | 48,603 | 46,099 | 10,910,026 |
| Charge for the year | 31,272 | 452,870 | – | 275,641 | 759,783 | – | 6,999 | 2,012 | 768,794 |
| Written back on disposal | (18,318) | (454,821) | – | (112,515) | (585,654) | – | – | – | (585,654) |
| Exchange adjustments | – | – | – | 26 | 26 | – | – | – | 26 |
| Transfers | (1,982) | – | – | – | (1,982) | – | 1,982 | – | – |
| At 31 December 2013 | 952,395 | 7,068,152 | – | 2,964,930 | 10,985,477 | 2,020 | 57,584 | 48,111 | 11,093,192 |
| Net book value: | | | | | | | | | |
| At 31 December 2013 | 492,423 | 2,855,970 | 476,725 | 442,134 | 4,267,252 | 14,913 | 115,338 | 67,402 | 4,464,905 |
| Add: Deposits paid in respect of buses on order | | | | | 21,994 | – | – | – | 21,994 |
| | | | | | 4,289,246 | 14,913 | 115,338 | 67,402 | 4,486,899 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

14 FIXED ASSETS (continued)

(b) The Company

| | Other fixed assets | |
|----------------------------------|--------------------|--------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Cost: | | |
| At 1 January and 31 December | 201 | 201 |
| Accumulated depreciation: | | |
| At 1 January and 31 December | 201 | 201 |
| Net book value: | | |
| At 31 December | – | – |

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

| | The Group | |
|---------------------------------------|-----------|---------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Medium-term leases | 438,557 | 429,653 |
| Short-term leases | 251,519 | 277,905 |
| | 690,076 | 707,558 |
| Representing: | | |
| Buildings | 492,423 | 504,349 |
| Investment properties | 115,338 | 120,398 |
| Investment property under development | 14,913 | 13,397 |
| Interest in leasehold land | 67,402 | 69,414 |
| | 690,076 | 707,558 |

- (d) Investment properties and investment property under development are stated at cost less accumulated depreciation and impairment loss. The fair values of the investment properties and investment property under development were \$2,642,910,000 and \$1,835,000,000 respectively (2012: \$1,607,000,000 and \$1,640,000,000 respectively) as at 31 December 2013. The valuations were carried out by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The Group's management have had discussions with the surveyors on the valuation assumptions and valuation results when the valuation was performed at each interim and annual reporting date. As at 31 December 2013, investment property under development recognised in fixed assets of \$14,913,000 (2012: \$13,397,000) is related to the Group's interests in a joint operation.



14 FIXED ASSETS (continued)

(e) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties and investment property under development disclosed at the balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

| | The Group | | | |
|---|------------|--|-------------------|-------------------|
| | 2013 | | | |
| | Fair value | Fair value measurements categorised into | | |
| | \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
| <i>Recurring fair value disclosures</i> | | | | |
| Investment properties in Hong Kong: | | | | |
| – commercial properties | 1,673,910 | – | – | 1,673,910 |
| – industrial property | 969,000 | – | – | 969,000 |
| Investment property under development in Hong Kong: | 1,835,000 | – | – | 1,835,000 |

During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

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(Expressed in Hong Kong dollars unless otherwise indicated)

14 FIXED ASSETS (continued)

(e) Fair value measurement of properties (continued)

(ii) Information about Level 3 fair value disclosures

| | Valuation techniques | Unobservable inputs | Range |
|--|----------------------------|--|------------------------------------|
| Investment properties in Hong Kong – commercial properties | Investment approach | Discount/premium on market rent | -30% to 35% |
| | Market comparison approach | Discount/premium on quality of shops | -30% to 10% |
| Investment properties in Hong Kong – industrial property | Market comparison approach | Discount/premium on quality of redevelopment | -10% to 10% |
| | | Estimated construction cost adjustment | \$3,000 to \$3,500 per square foot |
| | | Estimated lease modification cost adjustment | \$300,000,000 |
| Investment property under development in Hong Kong | Market comparison approach | Discount/premium on location characteristics of the property | -20% to 15% |

The fair values of currently leased and currently vacant commercial properties in Hong Kong are determined by investment approach and direct comparison approach respectively. The investment approach takes into account the current rental income and expected future market rental, adjusted by quality of the properties. The capitalisation rate used is the average yield rate of same type of properties in Hong Kong published by the Government of Hong Kong Special Administrative Region (“the HKSAR Government”) for 2013. The fair value measurement is positively correlated to the expected premium on future market rental and negatively correlated to the capitalisation rate. The fair value of commercial properties using direct comparison approach is determined by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to quality of the Group’s commercial properties to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

The fair value of the industrial property in Hong Kong, taken into account its future redevelopment value, is determined using market comparison approach. The market comparison approach determined the fair value of the gross development value with reference to recent transaction data of nearby project, adjusted for a premium or a discount specific to the quality of the Group’s property compared to the recent transaction. Higher premium for higher quality redevelopment will result in a higher gross development value. The fair value measurement has also taken into account the estimated development cost (including construction cost and lease modification cost) to arrive at the fair value of the industrial property. The fair value measurement is negatively correlated to the estimated development cost. The redevelopment of the industrial property is considered as its highest and best use under HKFRS 13.

The fair value of investment property under development located in Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group’s investment property under development compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.



14 FIXED ASSETS (continued)

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

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

| | The Group | |
|---------------------------------|---------------|---------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Within 1 year | 20,952 | 26,501 |
| After 1 year but within 5 years | 6,993 | 22,118 |
| | 27,945 | 48,619 |

- (g) In 2013, the Group received a subsidy of \$1,650,000 from the HKSAR Government for bus purchases. The purpose of the subsidy is to encourage the use of diesel-electric hybrid buses by granting financial assistance to franchised public bus operators to purchase the diesel-electric hybrid buses for trial. The Group has to use the diesel-electric hybrid buses for trial on certain routes agreed by the HKSAR Government for two years. The subsidy received has been deducted from the carrying amount of the assets directly in accordance with the accounting policy set out in note 1(i).

15 INTANGIBLE ASSETS

(a) Passenger service licences and transport operating rights

| | The Group | |
|--|----------------|----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Cost and net book value: | | |
| At 1 January | 132,122 | 44,178 |
| Additions through acquisition of subsidiaries (note 31(b)) | – | 87,944 |
| At 31 December | 132,122 | 132,122 |

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

- (b) Intangible assets that are regarded to have indefinite useful lives have been allocated to the cash-generating unit of non-franchised transport operations for the purpose of impairment testing. Details of impairment testing are set out in note 16 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

16 GOODWILL

| | The Group | |
|--|-----------|--------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Cost and carrying amount: | | |
| At 1 January | 84,051 | 63,315 |
| Additions through acquisition of subsidiaries (note 31(b)) | – | 20,736 |
| At 31 December | 84,051 | 84,051 |

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

Goodwill and intangible assets with indefinite useful lives belong to the Group's non-franchised transport operations as a cash-generating unit.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below.

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

| | 2013 | 2012 |
|----------------|-------------|------|
| | % | % |
| Growth rate | 3.0 | 3.0 |
| Discount rates | 10.8 – 11.5 | 12.3 |

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

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

17 NON-CURRENT PREPAYMENTS

Non-current prepayments and deposits comprise prepayments and deposits for purchase of fixed assets, security for the due payment of licence fees and office rental. The amounts are neither past due nor impaired.

18 INTEREST IN SUBSIDIARIES

(a) Investments in subsidiaries

| | The Company | |
|--------------------------|-------------|-----------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Unlisted shares, at cost | 1,188,423 | 1,188,423 |



18 INTEREST IN SUBSIDIARIES (continued)

(b) Amounts due from/(to) subsidiaries

Amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of settlement/repayment. The amounts due from subsidiaries are neither past due nor impaired.

(c) Particulars of principal subsidiaries

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

| Name of company | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Percentage of ownership interest | | | Principal activity |
|--|--|---|----------------------------------|---------------------|----------------------|--|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| KMB Resources Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | 100 | – | Investment holding |
| The Kowloon Motor Bus Company (1933) Limited | Hong Kong | 403,639,413 shares of \$1 each | 100 | – | 100 | Provision of franchised public bus services in Hong Kong |
| Long Win Bus Company Limited | Hong Kong | 100,000,000 shares of \$1 each | 100 | – | 100 | Provision of franchised public bus services for North Lantau and Hong Kong International Airport |
| Sun Bus Limited | Hong Kong | 2 shares of \$1 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong |
| Chomang Travel Transport Company Limited | Hong Kong | 10,000 shares of \$1 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong |
| Bun Tang Bus Service Company Limited | Hong Kong | 120,000 shares of \$1 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong |
| Sau Luen P.L.B. Co., Limited | Hong Kong | 10,000 shares of \$1 each | 100 | – | 100 | Provision of non-franchised bus services in Hong Kong |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTEREST IN SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries (continued)

| Name of company | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Percentage of ownership interest | | | Principal activity |
|--|--|---|----------------------------------|---------------------|----------------------|---|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| New Hong Kong Bus Company Limited | Incorporated in Hong Kong and operates in Hong Kong and the PRC | 1,000 shares of \$1 each | 100 | – | 100 | Provision of cross-boundary shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen) |
| Hoi Tai Tours Limited | Incorporated in Hong Kong and operates in Hong Kong and the PRC | 20,000 shares of \$100 each | 100 | – | 100 | Provision of non-franchised bus services |
| GD Bonwell Champion Tours Co. Limited | Incorporated in Hong Kong and operates in Hong Kong and the PRC | 10,000 shares of \$1 each | 100 | – | 100 | Provision of non-franchised bus services |
| GD Bonwell Yip Wai Tours Co. Limited | Incorporated in Hong Kong and operates in Hong Kong and the PRC | 10,000 shares of \$1 each | 100 | – | 100 | Provision of non-franchised bus services |
| Zhan Gang Tourist Transportation Company Limited | Incorporated in Hong Kong and operates in Hong Kong and the PRC | 500,000 shares of \$1 each | 100 | – | 100 | Provision of non-franchised bus services |
| Right Concept Transportation Limited | Incorporated in Hong Kong and operates in Hong Kong and the PRC | 5 shares of \$1 each | 100 | – | 100 | Provision of non-franchised bus services |
| Lai Chi Kok Properties Investment Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Property development |



18 INTEREST IN SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries (continued)

| Name of company | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Percentage of ownership interest | | | Principal activity |
|---|--|---|----------------------------------|---------------------|----------------------|---------------------|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| LCK Real Estate Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Property investment |
| LCK Commercial Properties Limited | Hong Kong | 1 share of \$1 | 100 | – | 100 | Property investment |
| KT Real Estate Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Property investment |
| TM Properties Investment Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Property investment |
| KMB Financial Services Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Investment holding |
| KMB (Beijing) Taxi Investment Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Investment holding |
| KMB (Shenzhen) Transport Investment Limited | Incorporated in the British Virgin Islands and operates in Hong Kong | 1 share of US\$1 | 100 | – | 100 | Investment holding |
| RoadShow Holdings Limited | Incorporated in Bermuda and operates in Hong Kong | 997,365,332 shares of \$0.1 each | 73 | – | 73 | Investment holding |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTEREST IN SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries (continued)

| Name of company | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Percentage of ownership interest | | | Principal activity |
|------------------------------|---|---|----------------------------------|---------------------|----------------------|--|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| RoadShow Creations Limited | Hong Kong | 2 shares of \$1 each | 73 | – | 100 | Trading of bus souvenirs |
| RoadShow Media Limited | Hong Kong | 2 shares of \$1 each | 73 | – | 100 | Provision of media sales and management services for advertising on transit vehicles, shelters and for the Multi-media On-board business |
| RoadShow Productions Limited | Hong Kong | 2 shares of \$1 each | 73 | – | 100 | Production of content for Multi-media On-board systems |
| Bus Power Limited | Hong Kong | 1 share of \$1 | 73 | – | 100 | Provision of media sales services for advertising on transit vehicle exteriors |

The market value of the Group's interest in a listed subsidiary, RoadShow Holdings Limited, at 31 December 2013 amounted to \$757,252,000 (2012: \$524,251,000).



18 INTEREST IN SUBSIDIARIES (continued)

(c) Particulars of principal subsidiaries (continued)

The following table lists out the information relating to RoadShow Holdings Limited, the only subsidiary of the Group which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

| | 2013 | 2012 |
|--------------------------------------|----------|----------|
| | \$'000 | \$'000 |
| NCI percentage | 27% | 27% |
| Current assets | 711,193 | 629,706 |
| Non-current assets | 73,316 | 136,777 |
| Current liabilities | 99,928 | 110,212 |
| Non-current liabilities | 129 | 157 |
| Net assets | 684,452 | 656,114 |
| Carrying amount of NCI | 192,588 | 184,706 |
| Revenue | 488,214 | 443,173 |
| Profit for the year | 108,622 | 79,499 |
| Total comprehensive income | 107,140 | 81,323 |
| Profit allocated to NCI | 32,075 | 24,879 |
| Dividend paid to NCI | 22,450 | 24,193 |
| Cash flows from operating activities | 25,627 | 51,582 |
| Cash flows from investing activities | 59,764 | 29,961 |
| Cash flows from financing activities | (80,002) | (85,939) |

Note: The amount includes the amount of NCI of RoadShow Holdings Limited.

19 INTEREST IN ASSOCIATES

| | The Group | |
|---|----------------|----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Share of net assets | 610,719 | 584,241 |
| Goodwill | 69,272 | 66,766 |
| Amount due from an associate (note (a)) | 48,884 | 25,436 |
| Amount due to an associate (note (a)) | (4,922) | (4,922) |
| | 723,953 | 671,521 |

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 INTEREST IN ASSOCIATES (continued)

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

| Name of associate | Form of business structure | Place of incorporation/ establishment and operation | Particulars of issued/ registered and paid-up capital | Percentage of ownership interest | | | Principal activity |
|--|----------------------------------|---|---|----------------------------------|---------------------|----------------------|--|
| | | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| Beijing Beiqi First Company Limited ("BBF") (note (b)) | Sino-foreign joint stock company | The PRC | RMB 100,000,000 | 31.4 | – | 31.4 | Provision of car rental services (note (a)) |
| Beijing Beiqi Kowloon Taxi Company Limited ("BBKT") | Sino-foreign joint stock company | The PRC | RMB 66,000,000 | 31.4 | – | 31.4 | Provision of taxi hire services (note (a)) |
| Shenzhen Bus Group Company Limited | Sino-foreign joint stock company | The PRC | RMB 951,430,306 | 35 | – | 35 | Provision of bus and taxi hire services (note (a)) |

Notes:

- (a) BBF, BBKT and Shenzhen Bus Group Company Limited, transportation operators in the PRC, enable the Group to have exposure to this market through local expertise.
- (b) In April 2013, the car rental business of BBKT was transferred to a newly incorporated company, BBF. BBF has the same shareholding structure as BBKT. The spin-off of business has had no impact on the Group's interest in associates.

Summarised financial information of a material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

| | Shenzhen Bus Group Company Limited | |
|---------------------------------------|------------------------------------|-----------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Gross amounts of the associate | | |
| Current assets | 1,234,367 | 1,824,290 |
| Non-current assets | 2,248,370 | 2,314,601 |
| Current liabilities | 1,557,037 | 2,244,008 |
| Non-current liabilities | 515,237 | 537,836 |
| Total equity | 1,410,463 | 1,357,047 |
| Revenue | 1,937,233 | 2,113,330 |
| Profit for the year | 78,254 | 79,173 |
| Other comprehensive income | – | – |
| Total comprehensive income | 78,254 | 79,173 |
| Dividend received from the associate | 25,030 | 25,436 |



19 INTEREST IN ASSOCIATES (continued)

Summarised financial information of a material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below: (continued)

| | Shenzhen Bus Group Company Limited | |
|---|---|----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Reconciled to the Group's interests in the associate | | |
| Gross amounts of net assets of the associate | 1,410,463 | 1,357,047 |
| Group's effective interest | 35% | 35% |
| Group's share of net assets of the associate | 493,662 | 474,966 |
| Goodwill | 69,272 | 66,766 |
| Carrying amount in the consolidated financial statements | 562,934 | 541,732 |

Aggregate information of associates that are not individually material:

| | 2013 | 2012 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | 47,785 | 42,509 |
| Aggregate amounts of the Group's share of those associates | | |
| Profit for the year | 7,470 | 5,571 |
| Other comprehensive income | – | – |
| Total comprehensive income | 7,470 | 5,571 |

20 OTHER FINANCIAL ASSETS

| | The Group | |
|---|------------------|-----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Instalments receivable from sales of properties (note (a)) | – | 1,040 |
| Unlisted equity securities, at cost (note (b)) | 15,355 | 15,355 |
| Loans to investee (note (c)) | 25,611 | – |
| Available-for-sale debt securities, at fair value (note (d)) | | |
| – listed in Hong Kong | 68,638 | 69,131 |
| – listed outside Hong Kong | 477,615 | 531,592 |
| – unlisted | 10,043 | 22,337 |
| | 597,262 | 639,455 |
| Less: Loans to investee classified as current assets | (25,611) | – |
| Available-for-sale debt securities classified as current assets | | |
| – listed outside Hong Kong | (332,253) | (36,249) |
| – unlisted | (10,043) | (12,186) |
| | (367,907) | (48,435) |
| Other financial assets classified as non-current assets | 229,355 | 591,020 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 OTHER FINANCIAL ASSETS (continued)

- (a) At 31 December 2012, instalments receivable from sales of properties were neither past due nor impaired. Such receivable was fully repaid by customer in 2013.
- (b) The unlisted equity securities of \$15,355,000 (2012: \$15,355,000) relate to an investment of the Group for which no impairment loss is considered necessary.
- (c) During the year ended 31 December 2011, the Group requested an investee to repay the loans totaling \$70,154,000 due to the Group upon expiry. However, the investee had defaulted on the agreed repayment schedule. As a result, the Group recorded full impairment losses of \$70,154,000 and \$15,882,000 on the loans to and amount due from the investee, respectively. During the year ended 31 December 2013, the Group began the negotiations with two independent third parties to dispose of the Group's entire interest in the investee and the loans to and amount due from the investee (the "Disposals"). At 31 December 2013, the management considered that the conclusion of the agreements in relation to the Disposals was highly probable and a portion of the loans to the investee amounting to \$25,611,000 was expected to be recovered. Accordingly, a reversal of impairment loss on the loans to investee of \$25,611,000 was recognised during the year ended 31 December 2013. Agreements in relation to the Disposals have been subsequently executed after the year end (see note 34(a)).
- (d) Debt securities are issued by corporate entities with credit rating ranging from BBB- to AAA. As at 31 December 2013 and 2012, the Group's available-for-sale debt securities were neither past due nor impaired. Debt securities that will mature within one year are classified as current assets.

21 EMPLOYEE RETIREMENT BENEFITS

The Group makes contributions to two defined benefit retirement schemes which provide pension benefits for employees upon retirement. Both schemes are formally established under trust and are registered under the Occupational Retirement Schemes Ordinance. The schemes are administered by an independent trustee and the assets are held separately from those of the Group. The trustees are required by the Trust Deed to act in the best interest of the plan participants and are responsible for setting investment policies of the plans. The members' benefits are determined based on the employees' final remuneration and length of service.

The plans are funded by contributions from the Group in accordance with an actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuations of the plans were at 31 December 2013 and were prepared by Towers Watson Hong Kong Limited which has among its staff fellow members of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 137% (2012: 110%) covered by the plan assets held by the trustee.



21 EMPLOYEE RETIREMENT BENEFITS (continued)

The plans expose the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk. Since the two retirement plans have similar risks and features, information about the two plans is aggregated and disclosed below:

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

| | The Group | |
|--|------------------|----------------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 (Restated) |
| Present value of funded obligations (note (c)) | (2,781,769) | (3,278,016) |
| Fair value of plan assets (note (b)) | 3,799,383 | 3,603,898 |
| | 1,017,614 | 325,882 |

A portion of the above asset/liability is expected to be recovered/paid after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable/payable in the next twelve months, as future refund or reduction of contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The expected annual contribution to defined benefit retirement plans for the year ending 31 December 2014 is \$Nil.

(b) Plan assets consist of the following:

| | The Group | |
|-----------------------|------------------|-----------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Equity securities: | | |
| – Hong Kong and China | 962,051 | 1,020,484 |
| – Europe | 571,286 | 457,113 |
| – North America | 697,473 | 603,128 |
| – Other Asia Pacific | 656,721 | 586,159 |
| | 2,887,531 | 2,666,884 |
| Bonds | 773,460 | 817,503 |
| Cash and others | 138,392 | 119,511 |
| | 3,799,383 | 3,603,898 |

All of the equity securities and bonds have quoted prices in active markets.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21 EMPLOYEE RETIREMENT BENEFITS (continued)

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

| | The Group | |
|--|-----------|-----------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| At 1 January | 3,278,016 | 3,124,902 |
| Remeasurements: | | |
| – Actuarial gains arising from changes in demographic assumptions | - | (104,530) |
| – Actuarial (gains)/losses arising from changes in financial assumptions | (398,639) | 255,060 |
| – Actuarial (gains)/losses arising from liability experience | (24,365) | 13,014 |
| | (423,004) | 163,544 |
| Benefits paid by the plans | (229,412) | (188,039) |
| Current service cost | 136,814 | 132,553 |
| Interest cost | 19,355 | 45,056 |
| | (73,243) | (10,430) |
| At 31 December | 2,781,769 | 3,278,016 |

The weighted average duration of the Monthly Rated and Daily Rated defined benefit obligations are 10.7 and 6.9 years respectively (2012: 11.3 years and 7.4 years respectively).

(d) Movements in plan assets:

| | The Group | |
|--|-----------|-----------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| At 1 January | 3,603,898 | 3,388,105 |
| Administrative expenses paid | (769) | (888) |
| Benefits paid by the plans | (229,412) | (188,039) |
| Interest income | 21,184 | 49,523 |
| Return on plan assets, excluding interest income | 446,482 | 440,197 |
| Refund of scheme surplus (note) | (42,000) | (85,000) |
| At 31 December | 3,799,383 | 3,603,898 |

Note: In accordance with terms set out in the Group's two defined benefit retirement schemes, upon settlement of all employee benefit obligations, any excessive assets can be refunded to the Group. During the year ended 31 December 2013, an amount of \$42,000,000 (2012: \$85,000,000) has been refunded to the Group.



21 EMPLOYEE RETIREMENT BENEFITS (continued)

(e) Amounts recognised in the consolidated statement of comprehensive income are as follows:

| | The Group | |
|--|-----------|----------------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 (Restated) |
| Current service cost | 136,814 | 132,553 |
| Net interest on net defined benefit asset | (1,829) | (4,467) |
| Administrative expenses paid | 769 | 888 |
| Total amounts recognised in profit or loss | 135,754 | 128,974 |
| Actuarial (gains)/losses | (423,004) | 163,544 |
| Return on plan assets, excluding interest income | (446,482) | (440,197) |
| Total amounts recognised in other comprehensive income | (869,486) | (276,653) |
| Total defined benefit income | (733,732) | (147,679) |

(f) Significant actuarial assumptions and sensitivity analysis are as follows:

| | The Group | |
|----------------------------------|-----------|------|
| | 2013 | 2012 |
| Discount rates | | |
| – Monthly Rated Employees Scheme | 2.4% | 0.6% |
| – Daily Rated Employees Scheme | 2.0% | 0.6% |
| Future salary increases | 4.5% | 4.5% |

The below analysis shows how the defined benefit obligation as at 31 December 2013 would have increased/(decreased) as a result of a 0.25% change in the significant actuarial assumptions:

| | The Group | |
|-------------------------|-------------------|-------------------|
| | Increase in 0.25% | Decrease in 0.25% |
| | \$'000 | \$'000 |
| Discount rate | (55,293) | 58,224 |
| Future salary increases | 51,552 | (50,117) |

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

22 ACCOUNTS RECEIVABLE

| | The Group | |
|---|----------------|----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Trade and other receivables | 431,667 | 432,212 |
| Instalments receivable from sale of properties | – | 52 |
| Interest receivable | 18,004 | 22,960 |
| Less: allowance for doubtful debts (note 22(b)) | (105) | (153) |
| | 449,566 | 455,071 |

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

(a) Ageing analysis

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

| | The Group | |
|-----------------------------|----------------|----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Current | 220,302 | 189,407 |
| 1 to 3 months past due | 37,977 | 57,367 |
| More than 3 months past due | 20,946 | 9,873 |
| | 279,225 | 256,647 |

According to the Group's credit policy set out in note 32(a) to the financial statements, credit period granted to customers is generally between 30 days and 90 days. Therefore, all the balances which are not past due as disclosed above are within three months from the invoice date.

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

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



22 ACCOUNTS RECEIVABLE (continued)

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

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

| | The Group | |
|---|------------|--------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| At 1 January | 153 | 104 |
| Impairment loss recognised (note 5(d)) | 27 | 912 |
| Write-back of impairment loss (note 5(d)) | (75) | (27) |
| Uncollectible amounts written off | – | (836) |
| At 31 December | 105 | 153 |

At 31 December 2013, the Group's trade and other receivables of \$105,000 (2012: \$194,000) were individually determined to be impaired. The individually impaired receivables related to customers that have defaulted on repayment and management assessed that none or only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of \$105,000 (2012: \$153,000) were recognised as at 31 December 2013.

(c) Accounts receivable that is not impaired

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

| | The Group | |
|-------------------------------|----------------|---------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Neither past due nor impaired | 390,643 | 387,816 |
| Past due but not impaired | | |
| 1 to 3 months past due | 37,977 | 57,366 |
| More than 3 months past due | 20,946 | 9,848 |
| | 58,923 | 67,214 |
| | 449,566 | 455,030 |

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

The remaining receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

| | The Group | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Cash at bank and in hand | 272,351 | 262,413 | 6,734 | 31,859 |
| Bank deposits | 2,356,461 | 2,834,175 | - | - |
| | 2,628,812 | 3,096,588 | 6,734 | 31,859 |
| Less: pledged and restricted bank deposits (note (b)) | (65,682) | (62,885) | - | - |
| Cash and cash equivalents in the balance sheets | 2,563,130 | 3,033,703 | 6,734 | 31,859 |
| Less: bank deposits with original maturities of over three months | (1,619,991) | (2,597,011) | | |
| Bank overdrafts | (3) | (82) | | |
| Cash and cash equivalents in the consolidated cash flow statement | 943,136 | 436,610 | | |

- (b) Pursuant to certain licence agreements between certain subsidiaries of the Group and certain subsidiaries of RoadShow and between a third party and certain subsidiaries of RoadShow, the subsidiaries of RoadShow have provided bank guarantees regarding the due performance of its subsidiaries under the respective licence agreements. RoadShow has pledged bank deposits of \$61,400,000 (2012: \$60,200,000) to banks for the bank guarantees issued.

In addition, the Group is required to maintain the balance of passenger rewards (note 4) in designated bank accounts under the revised MBOF approach. As at 31 December 2013, the related restricted bank deposits amounted to \$4,282,000 (2012: \$2,685,000).



23 CASH AND CASH EQUIVALENTS (continued)

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

| | 2013 \$'000 | 2012 \$'000 (Restated) |
|---|------------------|------------------------------|
| Profit before taxation | 458,481 | 196,684 |
| Adjustments for: | | |
| Depreciation and amortisation | 768,794 | 842,725 |
| Reversal of impairment loss on other financial assets | (25,611) | – |
| Finance costs | 7,307 | 9,433 |
| Dividend income from unlisted equity securities | (37,200) | (77,252) |
| Interest income | (66,266) | (67,761) |
| Share of profits of associates | (34,765) | (34,526) |
| Transaction costs for acquisition of subsidiaries | – | 861 |
| Net gain on disposal of fixed assets | (2,756) | (580) |
| Reversal of development cost accrual relating to Manhattan Hill | (108,246) | – |
| Effect of foreign exchange rate | (30,156) | 5,115 |
| Operating profit before changes in working capital | 929,582 | 874,699 |
| Change in working capital: | | |
| Increase in non-current prepayments | (1,107) | – |
| Decrease in employee benefit assets | 177,754 | 213,974 |
| (Increase)/decrease in spare parts and stores | (14,120) | 13,196 |
| Decrease/(increase) in trade and other receivables | 497 | (101,514) |
| Decrease in instalments receivable from sale of properties | 1,092 | 2,348 |
| Decrease in deposits and prepayments | 664 | 2,488 |
| Decrease in completed property held for sale | 351 | 19,351 |
| (Decrease)/increase in accounts payable and accruals | (29,697) | 32,516 |
| (Decrease)/increase in contingency provision – insurance | (8,095) | 843 |
| Decrease in provision for long service payments | (9,053) | (8,395) |
| Cash generated from operations | 1,047,868 | 1,049,506 |

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(Expressed in Hong Kong dollars unless otherwise indicated)

24 BANK LOANS AND OVERDRAFTS

At 31 December 2013, the bank loans and overdrafts were repayable as follows:

| | The Group | |
|----------------------------------|----------------|----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Within 1 year or on demand | 200,003 | 200,082 |
| After 1 year but within 2 years | – | 200,000 |
| After 2 years but within 5 years | 399,093 | 398,497 |
| | 399,093 | 598,497 |
| | 599,096 | 798,579 |

All of the bank loans and overdrafts were unsecured.

25 ACCOUNTS PAYABLE AND ACCRUALS

| | The Group | | The Company | |
|---------------------------------------|------------------|------------------|---------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade payables | 211,276 | 235,858 | – | – |
| Balance of passenger rewards (note 4) | 10,706 | 6,546 | – | – |
| Other payables and accruals | 963,725 | 874,473 | 39,895 | 39,781 |
| | 1,185,707 | 1,116,877 | 39,895 | 39,781 |

All accounts payable and accruals as at 31 December 2013 and 2012 are expected to be settled within one year.

Included in accounts payable and accruals are trade payables with the following ageing analysis, based on the due date, as of the balance sheet date:

| | The Group | |
|---------------------------------------|----------------|----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Due within 1 month or on demand | 197,075 | 200,236 |
| Due after 1 month but within 3 months | 12,697 | 33,862 |
| Due after more than 3 months | 1,504 | 1,760 |
| | 211,276 | 235,858 |

Credit period granted to the Group is generally between 30 days and 90 days. Therefore, all the balances which are due within 1 month or on demand as disclosed above are within three months from the invoice date.



26 CONTINGENCY PROVISION – INSURANCE

| | The Group | |
|--|-----------|----------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| At 1 January | 446,715 | 445,872 |
| Provision charged to the consolidated income statement | 43,115 | 47,746 |
| Payments made during the year | (51,210) | (46,903) |
| At 31 December | 438,620 | 446,715 |
| Representing: | | |
| Current portion | 140,999 | 135,997 |
| Non-current portion | 297,621 | 310,718 |
| | 438,620 | 446,715 |

The Group is involved from time to time in litigation and claims in connection with its bus operations. Contingency provision – insurance represents amounts set aside annually by the Group to meet liabilities which are expected to arise from third party claims for incidents which have occurred prior to the balance sheet date in connection with the Group's bus operations.

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

| | The Group | |
|---|-----------|----------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Provision for Hong Kong Profits Tax for the year | 44,453 | 53,033 |
| Provisional Profits Tax paid | (52,717) | (56,927) |
| | (8,264) | (3,894) |
| Profits Tax recoverable acquired through acquisition of subsidiaries (note 31(b)) | – | (389) |
| | (8,264) | (4,283) |
| PRC Income Tax payable | 455 | 329 |
| Net current tax recoverable | (7,809) | (3,954) |
| Representing: | | |
| Current tax recoverable | (17,617) | (21,581) |
| Current tax payable | 9,808 | 17,627 |
| Net current tax recoverable | (7,809) | (3,954) |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised:

- (i) The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated balance sheet and the movements during the year are as follows:

| Deferred tax arising from: | The Group | | | | | | |
|--|---|-------------------|------------|------------|------------------------|--------|----------|
| | Depreciation allowances in excess of the related depreciation | Intangible assets | Provisions | Tax losses | Defined benefit assets | Others | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 January 2012 | 546,892 | – | (45,390) | (31,857) | 132,109 | 2,155 | 603,909 |
| Impact of change in accounting policy | – | – | – | – | (88,680) | – | (88,680) |
| Restated balance at 1 January 2012 | 546,892 | – | (45,390) | (31,857) | 43,429 | 2,155 | 515,229 |
| Addition through acquisition of subsidiaries (note 31(b)) | 1,900 | 14,511 | – | (1,284) | – | – | 15,127 |
| (Credited)/charged to the consolidated income statement (restated) | (31,154) | – | 9,210 | 7,979 | (35,307) | 204 | (49,068) |
| Charged to the other comprehensive income (restated) | – | – | – | – | 45,648 | – | 45,648 |
| | (29,254) | 14,511 | 9,210 | 6,695 | 10,341 | 204 | 11,707 |
| At 31 December 2012 (restated) | 517,638 | 14,511 | (36,180) | (25,162) | 53,770 | 2,359 | 526,936 |
| At 1 January 2013 | 517,638 | 14,511 | (36,180) | (25,162) | 53,770 | 2,359 | 526,936 |
| Charged/(credited) to the consolidated income statement | 114,641 | – | 9,385 | (89,334) | (29,348) | 2,482 | 7,826 |
| Charged to the other comprehensive income | – | – | – | – | 143,465 | – | 143,465 |
| At 31 December 2013 | 632,279 | 14,511 | (26,795) | (114,496) | 167,887 | 4,841 | 678,227 |



27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

(ii) Amounts recognised in the consolidated balance sheet:

| | The Group | |
|------------------------------|----------------|----------------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 (Restated) |
| Net deferred tax assets | (4,790) | (4,499) |
| Net deferred tax liabilities | 683,017 | 531,435 |
| | 678,227 | 526,936 |

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of \$32,692,000 (2012: \$31,697,000) in respect of tax losses of \$198,129,000 (2012: \$191,922,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. At 31 December 2013, the tax losses do not expire under the current tax legislation. At 31 December 2012, tax losses of \$349,000 would expire in the coming five years.

28 PROVISION FOR LONG SERVICE PAYMENTS

Details of the provision for long service payments of the Group are as follows:

| | The Group | |
|---|---------------|---------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| At 1 January | 28,859 | 37,254 |
| Movements (credited)/charged to the consolidated income statement (note 5(a)) | (1,062) | 689 |
| Payments made during the year | (7,991) | (9,084) |
| At 31 December | 19,806 | 28,859 |

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement schemes that are attributable to contributions made by the Group. The Group does not set aside any assets to fund the above remaining obligations.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

29 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Note | Share capital \$'000 | Contributed surplus \$'000 | Retained profits \$'000 | Total equity \$'000 |
|--|-------|-------------------------|-------------------------------|----------------------------|------------------------|
| At 1 January 2012 | | 403,639 | 1,300,000 | 223,770 | 1,927,409 |
| Changes in equity for 2012: | | | | | |
| Dividend approved in respect of the previous year | 12(b) | – | – | (181,638) | (181,638) |
| Profit and total comprehensive income for the year | 9 | – | – | 299,884 | 299,884 |
| Dividend approved in respect of the current year | 12(a) | – | – | (60,546) | (60,546) |
| At 31 December 2012 | | 403,639 | 1,300,000 | 281,470 | 1,985,109 |
| At 1 January 2013 | | 403,639 | 1,300,000 | 281,470 | 1,985,109 |
| Changes in equity for 2013: | | | | | |
| Dividend approved in respect of the previous year | 12(b) | – | – | (181,638) | (181,638) |
| Profit and total comprehensive income for the year | 9 | – | – | 120 | 120 |
| Dividend approved in respect of the current year | 12(a) | – | – | (60,546) | (60,546) |
| At 31 December 2013 | | 403,639 | 1,300,000 | 39,406 | 1,743,045 |

The Company's reserves available for distribution to shareholders at 31 December 2013 amounted to \$1,339,406,000 (2012: \$1,581,470,000). After the balance sheet date, the Directors proposed a final dividend of \$0.45 (2012: \$0.45) per share, amounting to \$181,638,000 (2012: \$181,638,000). The final dividend proposed has not been recognised as liability at the balance sheet date.



29 CAPITAL AND RESERVES (continued)

(b) Authorised and issued share capital

| | 2013 \$'000 | 2012 \$'000 |
|---|----------------|----------------|
| Authorised: | | |
| 600,000,000 ordinary shares of \$1 each | 600,000 | 600,000 |
| Issued and fully paid: | | |
| 403,639,413 ordinary shares of \$1 each | 403,639 | 403,639 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Nature and purpose of reserves

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of entities outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(v).

(ii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale debt securities held at the balance sheet date and is dealt with in accordance with the accounting policies set out in note 1(g).

(d) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital structure on the basis of the level of net cash compared to the amount of capital. For this purpose the Group defines net cash as cash and cash equivalents and pledged and restricted bank deposits less interest-bearing loans and borrowings in the balance sheet. Capital comprises all components of equity.

Net cash and equity at 31 December 2013 and 2012 were as follows:

| | The Group | | The Company | |
|---|----------------|------------------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 (Restated) | 2013 \$'000 | 2012 \$'000 |
| Cash and cash equivalents (note 23(a)) | 2,563,130 | 3,033,703 | 6,734 | 31,859 |
| Pledged and restricted bank deposits (note 23(a)) | 65,682 | 62,885 | – | – |
| Less: Bank loans and overdrafts (note 24) | (599,096) | (798,579) | – | – |
| Net cash | 2,029,716 | 2,298,009 | 6,734 | 31,859 |
| Total equity | 7,300,742 | 6,420,721 | 1,743,045 | 1,985,109 |

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

30 COMMITMENTS

(a) Capital commitments

- (i) At 31 December 2013, the Group had the following capital commitments in relation to the purchase of property, plant and equipment not provided for in the financial statements:

| | The Group | |
|-----------------------------------|----------------|------------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Contracted for | 335,061 | 1,032,702 |
| Authorised but not contracted for | 111,006 | 242,337 |
| | 446,067 | 1,275,039 |

- (ii) At 31 December 2013, the Group's share of capital commitments of the joint operation in respect of investment property under development not provided for in the financial statements is as follows:

| | The Group | |
|-----------------------------------|------------------|------------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Contracted for | 22,320 | 22,338 |
| Authorised but not contracted for | 1,765,834 | 1,766,507 |
| | 1,788,154 | 1,788,845 |

(b) Operating leases

At 31 December 2013, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

| | The Group | |
|---------------------------------|---------------|---------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Within 1 year | 6,843 | 6,743 |
| After 1 year but within 5 years | 5,130 | 8,020 |
| | 11,973 | 14,763 |

The Group leases a number of properties under operating leases. The leases typically run for a period of one to five years. The leases do not include contingent rentals.



30 COMMITMENTS (continued)

- (c) Certain exclusive licences to conduct media sales agency and management business on selected bus shelters and to solicit advertising business on billboards and advertising spaces owned by the Government of the Hong Kong Special Administrative Region and other independent third parties have been granted to the Group, and the respective licences will expire in periods from 2014 to 2017. Under such licences, the Group has committed to pay licence fees or royalty fees at a pre-determined percentage of the net advertising rental received. The future minimum guaranteed licence fees or royalty fees are as follows:

| | The Group | |
|---------------------------------|----------------|----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Within 1 year | 49,178 | 41,588 |
| After 1 year but within 5 years | 79,161 | 114,117 |
| | 128,339 | 155,705 |

31 BUSINESS COMBINATIONS

(a) Acquisition of subsidiaries

- (i) On 23 May 2012, the Group acquired the entire equity interests in GD Bonwell Yip Wai Tours Co. Limited, GD Bonwell Champion Tours Co. Limited and Hong Kong Champion Transportation Company Limited for business expansion and service enhancement. These newly acquired subsidiaries were incorporated in Hong Kong and together carry out a business in the provision of non-franchised transport services.

The total turnover and total loss after taxation contributed by this acquisition for the period from the date of acquisition to 31 December 2012 were \$2,448,000 and \$831,000 respectively. If this acquisition had occurred on 1 January 2012, the Group's turnover and profit for the year would have been approximately \$7,184,727,000 and \$191,313,000 (restated) respectively. In determining these amounts, the Group has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012 together with the consequential tax effects.

- (ii) On 13 September 2012, the Group acquired the entire equity interests in Zhan Gang Tourist Transportation Company Limited and Right Concept Transportation Limited, for business expansion and service enhancement. These newly acquired subsidiaries were incorporated in Hong Kong and together carry out a business in the provision of non-franchised transport services.

The total turnover and total loss after taxation contributed by this acquisition for the period from the date of acquisition to 31 December 2012 were \$2,009,000 and \$293,000 respectively. If this acquisition had occurred on 1 January 2012, the Group's turnover and profit for the year would have been approximately \$7,190,624,000 and \$188,668,000 (restated) respectively. In determining these amounts, the Group has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012 together with the consequential tax effects.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

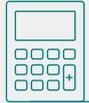
31 BUSINESS COMBINATIONS (continued)

(b) Consideration transferred and identifiable assets acquired and liabilities assumed

The acquisitions completed during the year ended 31 December 2012 had the following effect on the Group's assets and liabilities on the dates of acquisition:

| | 2012 |
|--|----------|
| | \$'000 |
| Fixed assets | |
| – buses and other motor vehicles (note 14(a)) | 12,081 |
| – deposits paid in respect of buses on order (note 14(a)) | 300 |
| Intangible assets (note 15(a)) | 87,944 |
| Cash and cash equivalents | 1,117 |
| Deposits and prepayments | 94 |
| Current tax recoverable (note 27(a)) | 389 |
| Accounts payable and accruals | (1,834) |
| Deferred tax liabilities (note 27(b)(i)) | (15,127) |
| Fair value of identifiable net assets | 84,964 |
| Total consideration, satisfied in cash | 105,700 |
| Goodwill (note 16 and note (i)) | 20,736 |
| Cash consideration paid | 105,700 |
| Cash and cash equivalents acquired | (1,117) |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | 104,583 |

Note (i): The goodwill is attributable mainly to the synergies expected to be achieved from integrating the entities into the Group's existing businesses. None of the goodwill recognised is expected to be deductible for income tax purposes.



32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, currency and fuel price risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, instalments receivable from sale of properties and debt investments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all major customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and their ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. A credit period of between 30 days and 90 days is normally granted to customers of the Group's non-franchised transport operations and media sales business. All the trade and other receivables included in current assets are expected to be recoverable within one year.

For instalments receivable from sale of properties, the properties sold serve as collateral.

Debt investments are only made with counterparties of a high credit rating. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations. Cash at bank and bank deposits are placed with licensed financial institutions with high credit ratings and the Group monitors the exposure to each financial institution.

Regular review and follow up actions are carried out on overdue amounts to minimise the Group's exposure to credit risk. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables.

The Group has no significant concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk without taking account into any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantee to third parties which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables are set out in notes 20 and 22.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk

The Group closely monitors its liquidity and financial resources to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the requirements for loan repayments, daily operational needs, capital expenditure, as well as potential business expansion and development. Major operating companies of the Group arrange for their own financing to meet specific requirements. The Group's other subsidiaries are mainly financed by the Company's capital base. The Group reviews its strategy from time to time to ensure that cost-efficient funding is available to cater for the unique operating environment of each subsidiary.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using interest rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

| | 2013 | | | | | 2012 | | | | |
|-------------------------------|------------------------------------|--|---|------------------|-------------------------------|------------------------------------|--|---|------------------|-------------------------------|
| | Contractual undiscounted cash flow | | | | Balance sheet carrying amount | Contractual undiscounted cash flow | | | | Balance sheet carrying amount |
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Bank loans | 204,065 | 3,640 | 400,534 | 608,239 | 599,093 | 207,200 | 204,379 | 404,486 | 816,065 | 798,497 |
| Bank overdrafts | 3 | - | - | 3 | 3 | 82 | - | - | 82 | 82 |
| Accounts payable and accruals | 1,185,707 | - | - | 1,185,707 | 1,185,707 | 1,116,877 | - | - | 1,116,877 | 1,116,877 |
| | 1,389,775 | 3,640 | 400,534 | 1,793,949 | 1,784,803 | 1,324,159 | 204,379 | 404,486 | 1,933,024 | 1,915,456 |

The Company

| | 2013 | | | | | 2012 | | | | |
|-----------------------------|------------------------------------|--|---|------------------|-------------------------------|------------------------------------|--|---|------------------|-------------------------------|
| | Contractual undiscounted cash flow | | | | Balance sheet carrying amount | Contractual undiscounted cash flow | | | | Balance sheet carrying amount |
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Amounts due to subsidiaries | 7,591,529 | - | - | 7,591,529 | 7,591,529 | 7,591,422 | - | - | 7,591,422 | 7,591,422 |
| Other payables and accruals | 39,895 | - | - | 39,895 | 39,895 | 39,781 | - | - | 39,781 | 39,781 |
| | 7,631,424 | - | - | 7,631,424 | 7,631,424 | 7,631,203 | - | - | 7,631,203 | 7,631,203 |



32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk

It is the Group's policy to closely monitor the market conditions and devise suitable strategies against interest rate risk. As at 31 December 2013 and 2012, all the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. The Group regularly reviews its strategy on interest rate risk management in the light of the prevailing market condition.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest bearing assets and liabilities at the balance sheet date.

| | The Group | | | |
|--|------------------------------------|-----------|------------------------------------|-----------|
| | 2013 | | 2012 | |
| | Effective interest rate p.a. | Amount | Effective interest rate p.a. | Amount |
| | % | \$'000 | % | \$'000 |
| Fixed rate assets: | | | | |
| Bank deposits | 2.3 | 2,356,461 | 1.6 | 2,834,175 |
| Available-for-sale debt securities | 3.6 | 556,296 | 3.6 | 623,060 |
| | | 2,912,757 | | 3,457,235 |
| Variable rate assets/(liabilities): | | | | |
| Cash at bank | 0.1 | 67,805 | 0.1 | 51,401 |
| Instalments receivable | - | - | 5.0 | 1,092 |
| Bank overdrafts | 5.0 | (3) | 5.0 | (82) |
| Bank loans | 0.9 | (599,093) | 1.1 | (798,497) |
| | | (531,291) | | (746,086) |

(ii) Sensitivity analysis

At 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately \$4,324,000 (2012: \$6,145,000). Other components of consolidated equity would have decreased/increased by approximately \$6,150,000 (2012: \$11,354,000) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2012.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through purchases of new buses and motor vehicle components from overseas, investments in debt securities and deposits placed at banks that are denominated in a currency other than the functional currency of the entity to which it relates. The currencies giving rise to this risk are primarily British Pounds Sterling, United States dollars and Renminbi.

The Group hedges approximately 5% (2012: 21%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. During the years ended 31 December 2013 and 2012, the Group used forward foreign exchange contracts to hedge its currency risk.

At 31 December 2013 and 2012, the Group had no forward foreign exchange contracts outstanding.

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the balance sheet date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

The Group

| | Exposure to foreign currencies (expressed in Hong Kong dollars) | | | | | |
|------------------------------------|---|---|---------------------------------------|--------------------|---|---------------------------------------|
| | 2013 | | | 2012 | | |
| | Renminbi \$'000 | British Pounds Sterling \$'000 | United States dollars \$'000 | Renminbi \$'000 | British Pounds Sterling \$'000 | United States dollars \$'000 |
| Cash and cash equivalents | 823,383 | 26 | 139,645 | 187,147 | 661 | 208,808 |
| Accounts payable and accruals | (2,337) | (264,039) | (3,613) | (1,758) | (45,017) | (4,953) |
| Available-for-sale debt securities | - | - | 546,253 | - | - | 600,723 |
| Loan to investee | 25,611 | - | - | - | - | - |
| Amount due from an associate | 48,884 | - | - | 25,436 | - | - |
| Overall net exposure | 895,541 | (264,013) | 682,285 | 210,825 | (44,356) | 804,578 |

In addition, the Group is exposed to currency risk arising from inter-company receivables denominated in Renminbi which is not the functional currency of the lender. Such inter-company receivables amounted to RMB122,836,000 as at 31 December 2013, equivalent to \$157,193,000 (2012: RMB123,050,000, equivalent to \$151,770,000).



32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies.

The Group

| | 2013 | | | 2012 | | |
|-------------------------|--|--|--|--|--|--|
| | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits (increase/ (decrease)) \$'000 | Effect on other components of equity (increase/ (decrease)) \$'000 | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits (increase/ (decrease)) \$'000 | Effect on other components of equity (increase/ (decrease)) \$'000 |
| Renminbi | 4% | 42,133 | – | 1% | 3,631 | – |
| | (4%) | (42,133) | – | (1%) | (3,631) | – |
| British Pounds Sterling | 2% | (4,409) | – | 5% | (1,846) | – |
| | (2%) | 4,409 | – | (5%) | 1,846 | – |
| United States dollars | 1% | 1,362 | 5,463 | 1% | 2,039 | 6,007 |
| | (1%) | (1,362) | (5,463) | (1%) | (2,039) | (6,007) |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2012.

Renminbi is not a fully convertible currency. All foreign exchange transactions involving Renminbi must take place either through the People's Bank of China or other institutions authorised to buy and sell foreign exchange.

(e) Fuel price risk

It is the Group's policy to closely monitor the fuel price movements. The Company had not entered into any fuel oil swap contract during the years ended 31 December 2013 and 2012.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair values

(i) Financial instruments carried at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

| | The Group | | | | | |
|--|------------|--|-------------------|------------|--|-------------------|
| | 2013 | | | 2012 | | |
| | Fair value | Fair value measurements categorised into | | Fair value | Fair value measurements categorised into | |
| | \$'000 | Level 1 \$'000 | Level 2 \$'000 | \$'000 | Level 1 \$'000 | Level 2 \$'000 |
| <i>Recurring fair value measurements</i> | | | | | | |
| Assets: | | | | | | |
| Available-for-sale debt securities | | | | | | |
| – Listed | 546,253 | 546,253 | – | 600,723 | 600,723 | – |
| – Unlisted | 10,043 | – | 10,043 | 22,337 | – | 22,337 |

During the years ended 31 December 2013 and 2012, there were no transfers between instruments in Level 1 and Level 2.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of unlisted available-for-sale debt securities in Level 2 is determined by discounting the future cash flows of the securities at the current market interest rate.

(iii) Fair values of financial instruments carried at other than fair value

All financial instruments carried at cost or amortised cost are carried at amounts not materially different from their fair values as at 31 December 2013 and 2012 except as follows:

- (1) Amounts due from/to subsidiaries and associates of the Group and the Company are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose their fair values.
- (2) Unlisted equity securities of \$15,355,000 (2012: \$15,355,000) do not have a quoted market price in an active market and therefore their fair values cannot be reliably measured. They are stated at cost less accumulated impairment losses at the balance sheet date.



33 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group has entered into the following material related party transactions:

(a) Transactions with related companies

| | Note | 2013 \$'000 | 2012 \$'000 |
|---|------------|----------------|----------------|
| Service fees for provision of coach services | (i) & (ii) | 59,059 | 52,312 |
| Insurance premium paid | (iii) | 70,875 | 68,675 |
| Reversal of accrual for management contractor services for property under development | 4(a) | 74,392 | – |
| Amount paid for letting and sales agency agreement | (iv) | 14 | – |
| Amount paid and accrued for management agreement | (v) | 4,839 | 5,073 |
| Amount paid and accrued for property project management services | (vi) | – | – |
| Reversal of accrual for management contractor services for investment property | (vii) | 1,489 | – |
| Interest income received and receivable from unsecured fixed rate notes | (viii) | – | 51 |
| Repayment of principal of unsecured fixed rate notes on maturity | (viii) | – | 15,000 |
| Amount paid and accrued for project management service and lease modification | (ix) | – | – |

Notes:

- (i) During the year, the Group provided coach services to certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP"), a substantial shareholder of the Company. The amounts received and receivable for these coach services amounted to \$6,906,000 (2012: \$2,189,000). Outstanding balances due from these companies at 31 December 2013 amounted to \$1,908,000 (2012: \$264,000).
- (ii) The Group also provided coach services to residents of certain residential property developments managed by certain members of SHKP and its subsidiaries ("SHKP Group") where the SHKP Group acts as agent for collection of the service fees ("Coach Service Arrangement"). The amounts received and receivable for these Coach Service Arrangements amounted to \$52,153,000 (2012: \$50,123,000). Outstanding balances due from these companies at 31 December 2013 amounted to \$13,485,000 (2012: \$15,365,000).
- (iii) In 2012, the Group entered into a contract with a subsidiary of SHKP, Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of insurance services to the Group in 2013 (the "2013 Insurance Arrangements"). The amount paid and payable under the 2013 Insurance Arrangements amounted to \$70,875,000 (2012: \$68,675,000). Outstanding balance payable for this contract at 31 December 2013 amounted to \$97,000 (2012: \$Nil).
- (iv) LCKPI entered into a Letting and Sales Agency Agreement (the "Original Agreement") with Sun Hung Kai Real Estate Agency Limited ("SHKRE"), a subsidiary of SHKP, on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and the car parking spaces of Manhattan Hill. On 15 August 2007, the Original Agreement was terminated and replaced by a letter agreement (the "Letter Agreement") pursuant to which LCKPI continues to appoint SHKRE as the letting and sales agent of Manhattan Hill under the same terms and conditions of the Original Agreement except that the maximum amount of the agency fees payable under the Original Agreement and the Letter Agreement shall, altogether, not exceed \$65,000,000. The amount paid and payable under the contract during the year amounted to \$14,000. There was no outstanding balance payable for this contract at 31 December 2013 (2012: \$2,676,000).
- (v) In 2003, LCKPI entered into the Management Agreement with Hong Yip Service Company Limited ("Hong Yip"), a subsidiary of SHKP, to agree to appoint Hong Yip as the manager of Manhattan Hill and to engage its services in relation to the terms and conditions set out in deed(s) of mutual covenant and management agreement(s) of Manhattan Hill to be entered into by LCKPI, Hong Yip and the first purchaser of a completed unit of the property.
- In 2007, a supplemental deed had been entered into between LCKPI, Hong Yip and Royal Elite Service Company Limited ("Royal Elite"), a fellow subsidiary of Hong Yip, to amend and supplement the management agreement (the "Supplemental Deed"). It is agreed among the three parties that Royal Elite will replace Hong Yip to be the manager and to perform and discharge the duties and obligations as the manager under the deed(s) of mutual covenant. All terms defined in the Management Agreement are adopted in the Supplemental Deed. Amount paid and payable for the Management Agreement amounted to \$4,839,000 (2012: \$5,073,000). There was no outstanding balance payable for this contract at 31 December 2013 (2012: \$22,000).
- (vi) In 1999, the Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to Manhattan Hill. The contract sum of the project management services is \$15,000,000, or the lower of 1% of the project costs and \$20,000,000, whichever is higher. There was no outstanding balance payable for this contract at 31 December 2013 (2012: \$3,800,000).
- (vii) On 16 April 2008, LCK Commercial Properties Limited ("LCKCP"), an indirectly wholly-owned subsidiary of the Company, entered into a prime cost agreement ("the Prime Cost Agreement") with CFCL for the provision of management contractor services and for carrying out and completing the alteration and addition works to the retail podium of Manhattan Hill ("Manhattan Mid-town"). Pursuant to the Prime Cost Agreement, the aggregate consideration payable to CFCL should not exceed \$37,400,000. During the year, the statement of final account in respect of this contract has been concluded and a finalised amount of \$930,000 was confirmed payable to CFCL. The remaining balance of \$1,489,000 was reversed during this year. There was no outstanding balance payable for this contract at 31 December 2013 (2012: \$2,419,000).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

33 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related companies (continued)

Notes: (continued)

(viii) On 6 March 2009, KMB Financial Services Limited ("KMBFS"), a wholly-owned subsidiary of the Company, purchased certain unsecured fixed rate notes (the "Fixed Rate Notes") issued by Sun Hung Kai Properties (Capital Market) Limited ("SHKPCM"), a wholly-owned subsidiary of SHKP, with a total nominal value of \$15,000,000 from a bank in an open secondary market, at a cost of \$15,000,000. The Fixed Rate Notes are interest bearing at 2.65% per annum. Interest income received from SHKPCM amounted to \$51,000 in 2012. The principal amount of the Fixed Rate Notes have been repaid by SHKPCM upon maturity on 17 February 2012.

(ix) On 26 April 2010, KT Real Estate Limited ("KTRE"), a wholly-owned subsidiary of the Company, and Turbo Result Limited ("TRL"), a subsidiary of SHKP, entered into an agreement with SHKRE, pursuant to which KTRE and TRL agreed to appoint SHKRE as the project manager for the management, supervision and control of the application for planning permission, the surrender and regrant of an industrial site at Kwun Tong (the "Kwun Tong Site") and the construction of the Kwun Tong Site.

The amount payable for project management services shall be a sum equivalent to whichever is the higher of (1) \$20,000,000; and (2) the lower of (a) 1% of the project cost and (b) \$25,000,000.

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

Outstanding balance payable for this contract as at 31 December 2013 amounted to \$2,000,000 (2012: \$2,000,000).

(b) Key management personnel remuneration

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

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions as described in notes (a)(i), (a)(iv) and (a)(v) above constitute continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules. However, other than coach services provide to Park Island Transport Company Limited ("Park Island") amounted to \$5,439,000 (2012: \$Nil), they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules pursuant to Rule 14A.33(3) of the Listing Rules. Regarding the coach services provided to Park Island, the Company has complied with the reporting requirement under Chapter 14A of the Listing Rules by including the relevant disclosure in the section headed "Continuing Connected Transactions" under "Financial Review" on pages 91 to 93 of the Annual Report.

The Coach Service Arrangement as described in note (a)(ii) above, in which the relevant SHKP Group companies acted as agents for collection of the coach service fees, did not fall within the definition of connected transactions under Chapter 14A of the Listing Rules.

The related party transaction as described in note (a)(iii) above constitutes a continuing connected transaction of the Company as defined in Chapter 14A of the Listing Rules. The Company has complied with the reporting requirement under Chapter 14A of the Listing Rules by including the relevant disclosure in the section headed "Continuing Connected Transactions" under "Financial Review" on pages 91 to 93 of the Annual Report.

The related party transactions as described in notes (a)(vi), (a)(vii), (a)(viii) and (a)(ix) and note 4(a) above constitute connected transactions of the Company as defined in Chapter 14A of the Listing Rules. The relevant reporting requirements pursuant to Chapter 14A of the Listing Rules have been complied with by including disclosures in the Company's annual report published immediately following the entering into of such transactions. No transaction amounts in respect of those transactions have been incurred during the year ended 31 December 2013 except for reversal of prior year accruals (2012: \$Nil).



34 NON-ADJUSTING POST BALANCE SHEET EVENT

- (a) On 9 January 2014, AdSociety Advertising Agency Limited, a wholly-owned subsidiary of the Company entered into an equity transfer agreement to sell and transfer its entire equity interest in an investee to an independent third party at RMB30,000,000 (equivalent to \$38,370,000) and a creditor's rights transfer agreement to sell and assign its entire interest in the loans to and amount due from the investee to another independent third party at RMB20,000,000 (equivalent to \$25,611,000). Up to the date of these financial statements, an aggregate of RMB20,000,000 (equivalent to \$25,611,000) has been received from an independent third party for the transfer of the loans to and amount due from investee.
- (b) After the balance sheet date, the Directors proposed an ordinary final dividend for the year. Further details are disclosed in note 12(a) to the financial statements.

35 COMPARATIVE FIGURES

As a result of the application of Revised HKAS 19, *Employee benefits*, certain comparative figures have been adjusted to conform to the current period's presentation. Further details of this development are disclosed in note 1(c).

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|--|
| Amendments to HKAS 32, <i>Financial instruments: Presentation</i> – <i>offsetting financial assets and financial liabilities</i> | 1 January 2014 |
| HKFRS 9, <i>Financial instruments</i> | Not yet determined |

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