The Group

REVIEW OF 2010 FINANCIAL PERFORMANCE

The Group's Results for the Year

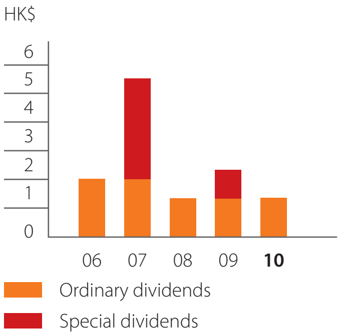
The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2010 was HK$866.9 million, an increase of HK$193.4 million compared to HK$673.5 million for 2009. Earnings per share increased from HK$1.67 for 2009 to HK$2.15 for 2010. The increase was mainly due to the recognition of the non-recurrent capital gain of HK$489.1 million arising from the disposal of 50% of the Group's interest in an industrial site at Kwun Tong in January 2010, but was partly offset by the reduction in the number of Manhattan Hill residential units sold during the year. If these non-recurrent profits from property sale and disposal were excluded, the profit attributable to equity shareholders for 2010 would have been HK$394.9 million, representing a decrease of 19.0% compared to 2009.

For the year ended 31 December 2010, the Group's turnover amounted to HK$6,686.8 million (2009: HK$6,842.2 million), a decrease of HK$155.4 million or 2.3% compared to 2009. The decrease was mainly due to the fact that Manhattan Hill residential units were mostly sold out by the end of 2009 and only one unit (2009: five) and three car parking spaces (2009: 13) were sold in 2010, resulting in total sales revenue of HK$29.3 million was recognised in 2010 (2009: HK$156.2 million). Furthermore, fare revenue generated from the Group's transport operations decreased by HK$124.4 million from HK$6,441.8 million for 2009 to HK$6,317.4 million for 2010, due mainly to the decline in ridership as a result of the shift of passengers to the expanded railway network. The turnover of the Group's media sales business increased by HK$90.5 million from HK$236.5 million for 2009 to HK$327.0 million for 2010. Such increase was mainly attributable to the growth of the bus exterior and interior advertising businesses in Hong Kong.

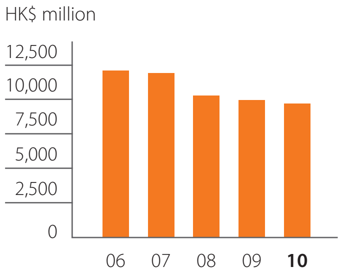
The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2010 are shown below:

	Turnover		Profit/(Loss) before taxation	
HK$ million	**2010**	2009	**2010**	2009
Franchised Public Bus Operations Division	**6,062.4**	6,200.0	**397.3**	474.3
Non-franchised Transport Operations Division	**256.7**	295.3	**26.7**	22.1
Property Holdings and Development Division	**42.5**	163.9	**493.6**	230.1
Media Sales Business Division	**325.2**	183.0	**(48.3)**	22.7
Financial Services Division	**–**	–	**23.3**	21.8
China Mainland Transport Operations Division	**–**	–	**33.8**	38.4
	6,686.8	6,842.2	**926.4**	809.4
Finance costs			**(6.6)**	(12.1)
Unallocated net operating income			**10.9**	2.5
Profit before taxation and non-controlling interests			**930.7**	799.8
Income tax			**(75.3)**	(117.7)
Non-controlling interests			**11.5**	(8.6)
Profit attributable to equity shareholders of the Company			**866.9**	673.5

Dividends per share

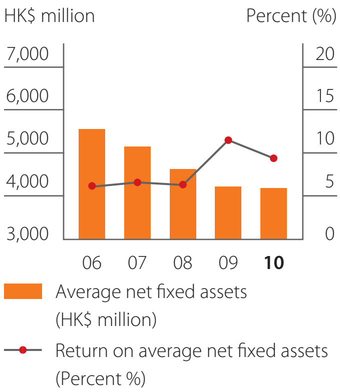


Total assets at 31 December

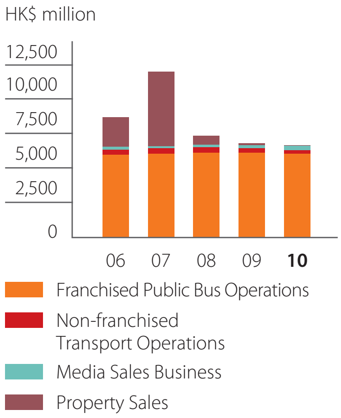


Return on average net fixed assets employed

(exclude property sales and disposal)



Group turnover



The Group's total operating expenses for the year amounted to HK$6,348.9 million (2009: HK$6,143.6 million), an increase of HK$205.3 million or 3.3% compared to 2009. The increase was mainly attributable to the increase in fuel and oil costs of HK$180.3 million as a result of the significant rebound of the international fuel oil prices in 2010. More detailed information in respect of the Group's individual business units is set out on pages 84 to 89 of this Annual Report.

The Group's share of profits of associates in 2010 amounted to HK$33.8 million (2009: HK$29.6 million), an increase of HK$4.2 million compared to 2009.

Income tax expense for the year amounted to HK$75.3 million (2009: HK$117.7 million). The breakdown of the income tax expense is set out in note 6(a) to the financial statements on page 157 of this Annual Report.

Segment information on the Group's main businesses is set out in note 13 to the financial statements on pages 162 to 164 of this Annual Report.

Dividend Policy

The Group has adopted a dividend policy which aims to maintain steady ordinary dividends that can be supported by the earnings performance of its various businesses, after taking into account the need to retain sufficient funds to keep the Group's total debt at a reasonable level, and to fund the growth of existing business operations as well as potential investments for future business expansion. In general, special dividends will only be considered and proposed in the event there are surplus funds arising from non-recurrent earnings of special projects such as the sale of the Manhattan Hill residential units.

The Board has recommended an ordinary final dividend of HK$1.05 per share (2009: an ordinary final dividend of HK$1.05 per share and a special dividend of HK$1.00 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 19 May 2011, the proposed final dividend, together with the interim dividend of HK$0.30 per share (2009: HK$0.30 per share) paid in October 2010, would result in a total dividend of HK$1.35 per share for 2010 (2009: HK$2.35 per share).

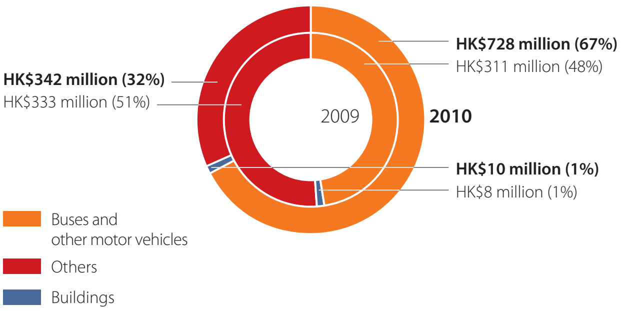
KEY CHANGES TO FINANCIAL POSITION

Fixed Assets and Capital Expenditure

The Group's fixed assets in the consolidated balance sheet mainly comprise buildings, buses and other motor vehicles, buses under construction, tools and others, investment properties, and interest in leasehold land. None of the Group's fixed assets was pledged or charged as at 31 December 2010.

In 2010, the Group incurred capital expenditure of HK$1,080.2 million (2009: HK$651.5 million). The increase was mainly attributable to the purchase of new buses for the franchised public bus operations. The breakdown of the capital expenditure is shown in note 14(a) to the financial statements on pages 165 and 166 of this Annual Report.

Capital expenditure



Current Assets and Liabilities

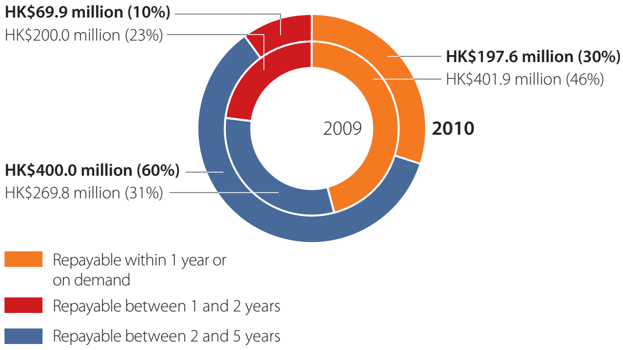
At 31 December 2010, the Group's total current assets amounted to HK$3,213.0 million (2009: HK$4,100.0 million), mainly comprising completed property held for sale of HK$45.2 million (2009: HK$42.1 million), accounts receivable of HK$256.6 million (2009: HK$384.6 million) and liquid funds of HK$2,800.7 million (2009: HK$3,553.1 million). Completed property held for sale represents the cost of the unsold residential units and car parking spaces of Manhattan Hill held at the balance sheet date. The Group's liquid funds at the end of 2010 were mainly denominated in Hong Kong Dollars, United States Dollars, Renminbi and British Pounds Sterling.

Total current liabilities at 31 December 2010 amounted to HK$1,450.2 million (2009: HK$1,646.1 million), which principally included the current portion of bank loans, accounts payable and other accruals. The decrease was mainly due to the repayment of bank loans.

Bank Loans and Overdrafts

At 31 December 2010, bank loans and overdrafts, all unsecured, was HK$667.5 million (2009: HK$871.8 million). The maturity profile of bank loans and overdrafts of the Group at 31 December 2010 and 31 December 2009 is shown in the chart below:

Debt maturity profile at 31 December



Net Cash

At 31 December 2010, the Group's net cash (i.e. cash and deposits at banks less total borrowings) amounted to HK$2,133.2 million (2009: HK$2,681.3 million). The details of the Group's net cash by currency at 31 December 2010 are given below:

Currency	Cash and deposits at bank in foreign currency million	Cash and deposits at bank HK$ million	Bank loans and overdrafts HK$ million	Net cash HK$ million
At 31 December 2010				
Hong Kong Dollars		**2,455.1**	**(667.5)**	**1,787.6**
United States Dollars	**25.0**	**194.1**	**–**	**194.1**
British Pounds Sterling	**1.7**	**21.0**	**–**	**21.0**
Renminbi	**110.2**	**130.5**	**–**	**130.5**
Total		**2,800.7**	**(667.5)**	**2,133.2**
At 31 December 2009				
Hong Kong Dollars		3,072.1	(871.8)	2,200.3
United States Dollars	39.9	309.4	–	309.4
British Pounds Sterling	1.7	21.5	–	21.5
Renminbi	132.8	150.1	–	150.1
Total		3,553.1	(871.8)	2,681.3

Capital Commitments

Capital commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2010 amounted to HK$2,438.4 million (2009: HK$940.7 million). These commitments are to be financed by borrowings and working capital of the Group. A summary of the capital commitments is set out below:

HK$ million	2010	2009
Development of the Kwun Tong Site	1,797.1	–
Purchase of buses and other motor vehicles	346.3	582.5
Purchase of other fixed assets	293.0	356.7
Construction of depots and other depot facilities	2.0	1.5
Total	2,438.4	940.7

As at 31 December 2010, the Group had 385 (2009: 333) new buses on order for delivery in 2011.

FUNDING AND FINANCING

Liquidity and Financial Resources

The Group closely monitors its liquidity and financial resources to ensure that a healthy financial position is maintained so that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the demand for daily operational needs, loan repayments, capital expenditure and potential business expansion and development. The Group's operations are mainly financed by shareholders' funds, bank loans and overdrafts. In general, the Group's major operating companies arrange their own financing to meet their operational and investment needs. The Group's other subsidiaries are mainly financed by the holding company from its capital base. Through proper planning and close monitoring of the level of debts, the Group is able to effectively meet its funding and investment requirements. As at 31 December 2010, the Group had unutilised banking facilities totalling HK$1,329.8 million (2009: HK$720.0 million).

Gearing Ratio and Liquidity Ratio

The Group was in a net cash position as at 31 December 2010 and 31 December 2009. Its liquidity ratios at the year end of 2010 and 2009 are set out below:

	2010	2009
Liquidity ratio at 31 December *(the ratio of current assets to current liabilities)*	2.2	2.5

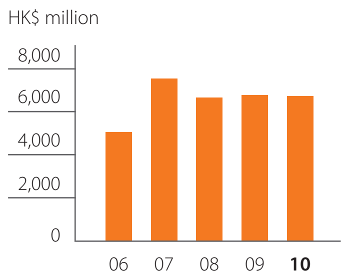
The Group's net cash as at 31 December 2010 amounted to HK$2,133.2 million (2009: HK$2,681.3 million). This decrease was mainly attributable to the decrease in liquid funds for the purchase of new buses, payment of dividends and for the repayment of bank loans.

Finance Costs and Interest Cover

For the year ended 31 December 2010, the finance costs incurred by the Group decreased to HK$6.6 million from HK$12.1 million for 2009. The decrease was mainly due to the decreases in interest rates and average bank borrowings during the year. The average interest rate in respect of the Group's borrowings for 2010 was 0.80%, a decrease of nine basis points compared to 0.89% for 2009.

For the year ended 31 December 2010, the Group's interest income exceeded the total finance costs by HK$30.0 million (i.e. a net interest income position) (2009: HK$25.1 million).

Shareholders' fund at 31 December



Net Cash Flow

During the year, the cash flow generated from the operations of the franchised public bus business and the disposal of 50% of the Group's interest in an industrial site at Kwun Tong were the principal sources of our liquidity. For the year ended 31 December 2010, there was a net decrease in cash and cash equivalents of HK$34.7 million (2009: HK$1,708.7 million) and the sources are set out below:

HK$ million	2010	2009
Net cash generated from / (used in):		
• Operating activities	**1,315.1**	1,990.6
• Investing activities	**(188.8)**	(2,690.6)
• Financing activities	**(1,161.0)**	(1,008.7)
Total	**(34.7)**	(1,708.7)

In 2010, the net cash inflow generated from the operating and investing activities of the Group was HK$1,126.3 million (2009: cash outflow of HK$700.0 million). The main components included: (i) net cash generated from the operating activities of the franchised public bus operations of HK$1,126.6 million (2009: HK$1,346.8 million); (ii) cash proceeds received from the sales of Manhattan Hill residential units of HK$133.8 million (2009: HK$328.1 million); (iii) payment of capital expenditure of HK$1,035.2 million (2009: HK$618.9 million); and (iv) a decrease in bank deposits placements with original maturities of over three months of HK$743.0 million (2009: increase of HK$2,183.3 million).

During the year, the bank loans decreased by HK$200.0 million (2009: HK$435.9 million). Before the payment of dividends to equity shareholders in 2010, the net cash inflow for 2010 was HK$913.9 million, compared to net cash outflow of HK$1,163.7 million for 2009.

Details of the Group's cash flow movement for the year ended 31 December 2010 are set out in the consolidated cash flow statement on page 137 of this Annual Report.

Treasury Policies

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

Credit Risk

The Group's credit risk is mainly attributable to trade and other receivables, instalments receivable from property sales, loans to investee and debt investments. The Group's credit policy monitors exposure to these credit risks on an ongoing basis. In respect of trade and other receivables, credit evaluations are performed on all major customers requiring credit in excess of a certain specified amount. These evaluations focus on a customer's past history of making payments when due and ability to pay, and take into account information specific to the customer as well as relating the economic environment in which the customer operates. As regards instalments receivable from property sales, the properties sold serve as collateral. Debt investments are only made with counterparties with a high credit rating. The Group regularly reviews the recoverability status of receivables and conducts appropriate follow-up measures to minimise its exposure to credit risk. The Group also performs regular ageing analysis on receivables and monitors any credit risk associated with these receivables. The Group has no significant concentrations of credit risk and provides no guarantees to third parties which would expose the Group to credit risk.

Cash Flow and Liquidity Risk Management

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

The Group has not been exposed to significant cash flow and liquidity risks since maintaining an adequate level of cash reserves resulting from the sale of the Manhattan Hill residential units. Under normal circumstances and barring a drastic upsurge of fuel oil prices for a prolonged period of time, the cash flow and liquidity risk of the Group's major subsidiary, KMB, which arranges its own financing, will be low as its revenue is essentially received on a cash basis. However, if fuel prices continuously stay at a high level and the expected fare increase magnitude and timing are insufficient to mitigate the escalating costs, this will put pressure on the gearing ratio of KMB. The Group will continue to review its strategy to ensure that cost-efficient funding is available in line with the unique operating environment of each of its subsidiaries.

Interest Rate Risk Management

The Group manages its exposure to interest rate risk in a prudent manner by means of a variety of techniques and instruments, including natural hedges achieved by spreading loans over different rollover and maturity dates. Derivative financial instruments such as interest rate swaps are used as and when appropriate. As at 31 December 2010, all of the Group's borrowings were denominated in Hong Kong Dollars and on a floating interest rate basis, enabling the Group to take advantage of the very low interest rates in 2010. The Group regularly reviews its strategy on interest rate risk management in the light of prevailing market conditions and devises suitable strategies to cope with its risk exposure. The Group's major subsidiary, KMB, has held a good and stable "A" credit rating from Standard & Poor's since 14 January 2002. With this credit rating, KMB has been able to obtain the funding it requires at favourable borrowing rates from financial institutions.

Foreign Currency Risk Management

The Group is exposed to foreign currency risk, being the risk of loss due to adverse movements in exchange rates relating to investments and transactions denominated in foreign currencies. The Group's foreign currency exposure primarily arises through purchases of buses and overseas motor vehicle components, which are denominated in British Pounds Sterling (GBP). The currency giving rise to this risk is primarily British Pounds Sterling. Although foreign currency exposure does not pose a significant risk to the Group, as the levels of foreign currency assets and liabilities are low compared to its total asset base, the Group will continue to monitor foreign exchange movements and enter into forward foreign exchange contracts in a strategic manner when opportunities arise to hedge foreign currency fluctuations. The Group entered into a number of forward foreign exchange contracts to hedge approximately 56% (2009: 27%) of the total GBP requirement for the year 2010. At 31 December 2010, the Group had no forward foreign exchange contracts outstanding.

Equity Price Risk

The Group's risk exposure to equity price changes arising from investment in equity securities is considered to be insignificant, as the carrying amount of such investments is insignificant compared to the total assets of the Group.

Fuel Price Risk

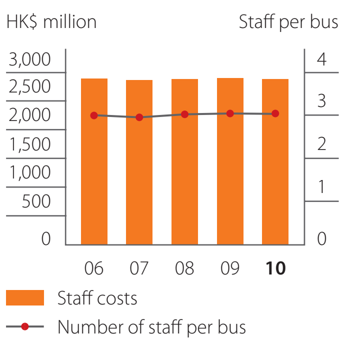
Fuel price movements can have a significant impact on the results of the Group's core franchised public bus businesses. The Group has carefully considered the pros and cons of entering into fuel price hedging arrangements and has concluded that fuel price hedging would be equally as risky as not hedging, and would not necessarily result in a better financial position for the Group in the long term. As a result, the Group did not enter into any fuel oil hedging contracts in 2010. To address the fuel price risk effectively, the Group's two major subsidiaries, KMB and LWB, will consider applying for fare increases when the impact of the surge in fuel oil prices is significant and will rigorously explore with the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") other measures to mitigate this impact. Accordingly, KMB and LWB submitted applications to the Transport Department of the HKSAR Government on 30 July 2010 for fare increases of 8.6% and 7.4% respectively. These applications are still being considered by the Government. The Group will continue to monitor the fuel price movements and will constantly review its strategy on fuel price risk management.

EMPLOYEES AND REMUNERATION POLICIES

Transport operations are labour intensive and staff costs accounted for a substantial portion of the total operating cost of the Group. The Group closely monitors its headcount and staff remuneration against productivity and market trends. For the year ended 31 December 2010, total remuneration of employees of the Group (including employees of the Group's subsidiary companies on the China Mainland) amounted to HK$2,967.1 million (2009: HK$2,988.8 million). As a result of natural attrition and strict control of headcount, the number of employees of the Group at the year end of 2010 was 12,863, a decrease of 1.6% compared to 13,074 at the year end of 2009.

Staff costs and staff per bus

(Franchised Public Bus Operations)



Individual Business Units

FRANCHISED PUBLIC BUS OPERATIONS

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

	Unit	**2010**	2009
Turnover	HK$ million	**5,829.7**	5,928.6
Gain on disposal of building and interest in leasehold land	HK$ million	**105.7**	980.0
Other net income	HK$ million	**114.0**	19.3
Deemed income/(loss) recognised in respect of defined benefit retirement plans	HK$ million	**74.3**	(36.4)
Total operating expenses	HK$ million	**(5,648.2)**	(5,465.6)
Finance costs	HK$ million	**(5.6)**	(9.5)
Profit before taxation	HK$ million	**469.9**	1,416.4
Income tax expense	HK$ million	**(58.9)**	(71.9)
Profit after taxation (including gain on disposal of building and interest in leasehold land)	HK$ million	**411.0**	1,344.5
Profit after taxation (excluding gain on disposal of building and interest in leasehold land)	HK$ million	**305.3**	364.5
Net profit margin (including gain on disposal of building and interest in leasehold land)		**7.1%**	22.7%
Net profit margin (excluding gain on disposal of building and interest in leasehold land)		**5.2%**	6.1%
Passenger volume	Million passenger trips	**946.7**	965.2
Kilometres travelled	Million km	**309.7**	320.8
Staff number at year-end	Number of staff	**11,674**	11,870
Fleet size at year-end	Number of buses	**3,822**	3,880
Total assets value	HK$ million	**4,826.5**	4,801.4

The profit after taxation of KMB for the year amounted to HK$411.0 million, which included (i) a non-recurrent non-cash capital gain of HK$105.7 million arising from the transfer of an industrial site at Tuen Mun to a fellow subsidiary (2009: a non-recurrent non-cash capital gain of HK$980.0 million arising from the transfer of an industrial site at Kwun Tong to two fellow subsidiaries) under the Group's Property Holdings and Development Division; and (ii) a non-cash deemed income of HK$74.3 million (2009: deemed loss of HK$36.4 million) determined by independent actuaries in respect of two defined benefit staff retirement schemes operated by KMB in accordance with Hong Kong Accounting Standard 19, Employee Benefits. If these non-cash items were excluded, KMB's profit after taxation for 2010 would have been HK$243.3 million, a decrease of HK$151.6 million or 38.4% compared to HK$394.9 million for 2009.

KMB's fare revenue for 2010 amounted to HK$5,723.7 million, a decrease of HK$97.6 million or 1.7% compared to HK$5,821.3 million for 2009. Total ridership for 2010 was 946.7 million passenger trips (a daily average of 2.59 million passenger trips), a decrease of 1.9% compared to 965.2 million passenger trips (a daily average of 2.64 million passenger trips) for 2009. Such decreases were mainly attributable to the expansion of the railway network. Advertising revenue for the year amounted to HK$103.7 million, a decrease of 1.2% compared with HK$105.0 million for the previous year.

Total operating expenses for 2010 amounted to HK$5,648.2 million, representing an increase of HK$182.6 million compared to HK$5,465.6 million for 2009. The increase was mainly due to the year-on-year increase in fuel costs by HK$184.5 million or 21.9% as a result of the significant rebound of the international fuel oil prices.

The average price of Singapore 0.5% Sulphur Gas Oil ("Gasoil"), on which the prices of Near Zero Sulphur Diesel used by our franchised buses are based, increase by 29.7% from US$69.1 per barrel in 2009 to US$89.6 per barrel in 2010. Since the increase in fuel costs was largely beyond KMB's control and in order to maintain the financial viability and the existing service levels of its bus operations, KMB submitted an application to the Transport Department of the HKSAR Government on 30 July 2010 for a fare increase of 8.6%, which is still being considered by the Government.

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

Long Win Bus Company Limited ("LWB")

	Unit	2010	2009
Turnover	HK$ million	**336.9**	326.9
Other net income/(losses)	HK$ million	**1.3**	(3.5)
Deemed loss recognised in respect of defined benefit retirement plans	HK$ million	**(0.3)**	(3.0)
Total operating expenses	HK$ million	**(310.3)**	(292.1)
Finance costs	HK$ million	**(0.4)**	(0.4)
Profit before taxation	HK$ million	**27.2**	27.9
Income tax expense	HK$ million	**(4.4)**	(4.5)
Profit after taxation	HK$ million	**22.8**	23.4
Net profit margin		**6.8%**	7.2%
Passenger volume	Million passenger trips	**29.4**	28.2
Kilometres travelled	Million km	**25.6**	25.8
Staff number at year-end	Number of staff	**458**	457
Fleet size at year-end	Number of buses	**166**	167
Total assets value	HK$ million	**288.7**	299.2

The profit after taxation of LWB for the year amounted to HK$22.8 million, representing a decrease of HK$0.6 million or 2.6% compared with HK$23.4 million for the previous year.

LWB's fare revenue for 2010 amounted to HK$336.6 million, representing an increase of HK$11.5 million or 3.5% compared to HK$325.1 million for 2009. During the year, LWB recorded a total ridership of 29.4 million passenger trips (a daily average of 80,579 passenger trips), an increase of 4.4% compared to 28.2 million passenger trips (a daily average of 77,151 passenger trips) in 2009. The increase in ridership was mainly due to the increase in travel demand to and from the Hong Kong International Airport as a result of the economic recovery, and the holding of a one-off, special exhibition event "Animated version of Riverside Scene at Qingming Festival" at the AsiaWorld-Expo in November 2010 which attracted a lot of visitors.

LWB's total operating expenses for the year amounted to HK$310.3 million, an increase of HK$18.2 million compared to HK$292.1 million for 2009. The increase was mainly due to the rise in fuel costs of HK$12.1 million or 25.9% as a result of the surge of Gasoil prices, as well as the increase in staff costs, tunnel toll charges and cost of spare parts due to inflationary pressure. To address the issue on rising operating costs and to maintain the financial viability of its bus operations, LWB submitted an application to the Transport Department of HKSAR Government for a fare increase of 7.4% on 30 July 2010, which is still being considered by the Government.

NON-FRANCHISED TRANSPORT OPERATIONS

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK$23.0 million for 2010, representing an increase of HK$4.1 million or 21.7% compared to HK$18.9 million for 2009. Turnover decreased by 13.1% from HK$295.3 million for 2009 to HK$256.7 million for 2010.

Financial Review

A review of the operations of the principal business units in this Division is set out as follows:

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

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

Turnover of the SBH Group for the year amounted to HK$216.7 million, an increase of HK$5.9 million or 2.8% compared to HK$210.8 million for 2009. The increase was mainly attributable to the improvement in the economic environment and the strengthening of SBH Group's market share in the residential service segment.

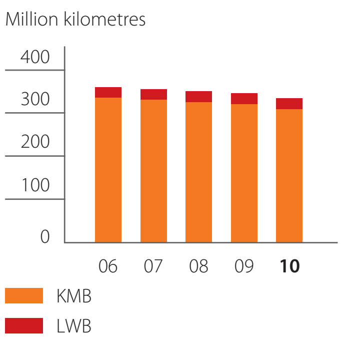
As at 31 December 2010, the SBH Group had a fleet of 382 buses (2009: 377 buses). During the year, 38 buses (2009: 38 buses) were purchased for business expansion, service enhancement and fleet replacement.

New Hong Kong Bus Company Limited ("NHKB")

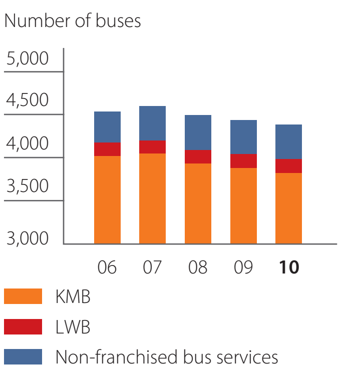
NHKB jointly operates with its Shenzhen（深圳）counterpart a direct, economical, 24-hour cross-boundary shuttle bus service (commonly known as the "Huang Bus" service) serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang（皇崗）in Shenzhen. NHKB's ridership has been decreasing since the opening of the Lok Ma Chau Spur Line and the Lok Ma Chau Public Transport Interchange in August 2007, and the launch of direct charter flights between Taiwan and China Mainland in July 2008. For 2010, NHKB's total patronage was 5.6 million passenger trips (an average monthly ridership of 0.46 million passenger trips), a decrease of 3.5% compared to 5.8 million passenger trips (an average monthly ridership of 0.48 million passenger trips) for 2009. At the end of 2010, NHKB operated a total of 15 buses, the same number as at the end of 2009.

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

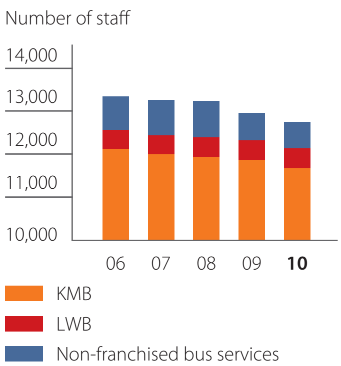
Bus kilometres operated
(Franchised Public Bus Operations)



Number of licensed buses at 31 December



Number of staff at 31 December



PROPERTY HOLDINGS AND DEVELOPMENT

Lai Chi Kok Properties Investment Limited ("LCKPI")

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

Up to the end of 2009, 1,112 residential units of Manhattan Hill with a total saleable gross floor area ("saleable GFA") of about 1,186,100 square feet (representing 99.2% of the total saleable GFA) and 367 car parking spaces had been sold. During 2010, an additional residential unit with a total saleable GFA of about 2,300 square feet and three car parking spaces were sold, generating an after-tax profit of HK$22.2 million. However, two residential units with a total saleable GFA of about 4,700 square feet, which were sold in previous years but still pending for completion of transactions, were foreclosed during 2010. As disclosed in note 4(b) to the financial statements on page 155 of this Annual Report, such foreclosures have resulted in a reversal of after-tax profits previously recognised of HK$35.0 million in 2010 and has completely offset the profit generated from the current year sales, leading LCKPI to record an after-tax loss of HK$17.0 million for 2010 (2009: an after-tax profit of HK$186.1 million). These two foreclosed residential units were subsequently resold in January 2011 at a profit, which will be recognised in 2011.

As at 31 December 2010, the carrying value of completed property held for sale (classified under current assets on the consolidated balance sheet), comprising four residential units and 27 car parking spaces, amounted to HK$45.2 million (2009: HK$42.1 million).

There were no outstanding bank loans in respect of the construction of Manhattan Hill as at 31 December 2010 (2009: Nil).

LCK Commercial Properties Limited ("LCKCP")

LCKCP, a wholly-owned subsidiary of the Group, is the owner of shopping mall, "Manhattan Mid-town". Positioned as a high-end retail complex, the 50,000 square feet shopping mall complements the image of Manhattan Hill, providing Manhattan Hill residents, as well as local householders and office staff, with high quality retail facilities including a mix of shops and restaurants. The mall was opened in the second quarter of 2009 and was fully leased out at the end of 2010, generating additional rental income for the Group.

As at 31 December 2010, the carrying value of the shopping mall (classified under investment property on the consolidated balance sheet), which was stated at cost less accumulated depreciation and impairment losses, amounted to HK$110.9 million (2009: HK$115.9 million).

LCK Real Estate Limited ("LCKRE")

LCKRE, a wholly-owned subsidiary of the Group, is the owner of a 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, which has a total gross floor area of about 156,700 square feet. The building is currently held by the Group mainly for its own use and partially for rental purposes, and was stated at cost less accumulated depreciation and impairment losses in the amount of HK$35.2 million on the consolidated balance sheet as at 31 December 2010 (2009: HK$35.9 million).

KT Real Estate Limited ("KTRE") and KT Properties Investment Limited ("KTPI")

At the end of 2009, KTRE and KTPI, which are indirect wholly-owned subsidiaries of the Company, held the industrial site situated at Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kowloon, Hong Kong (the "KT Site") in equal shares as tenants in common. At the special general meeting of the Company held on 21 January 2010, the independent shareholders of the Company approved the disposal of KTPI's 50% interest in the KT Site to Turbo Result Limited ("TRL"), a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"), at a consideration of HK$490.0 million, which was determined by reference to the valuation performed by Knight Frank Petty Limited, an independent property valuer. Following the completion of the aforesaid disposal on 25 January 2010, the KT Site was owned by KTRE and TRL in equal shares as tenants in common, and a gain on disposal of 50% interest in the KT Site of HK$489.1 million was recognised in the consolidated income statement of the Company for the year ended 31 December 2010.

Pursuant to an agreement dated 11 December 2009, KTRE, TRL, the Company and SHKP have agreed to jointly develop the KT Site for non-residential (excluding hotel) purposes. The project costs, estimated to be HK$3.6 billion, shall be borne by KTRE and TRL in equal shares. On 26 April 2010, Sun Hung Kai Real Estate Agency Limited ("SHKRE"), a wholly-owned subsidiary of SHKP, was appointed as project manager to ensure that quality levels are of high standards throughout the development of the KT Site. The project manager is currently handling matters relating to the modification of the lease and the submission of the building plan. Site demolition and building work will start once the relevant statutory approvals have been granted.

The capital commitment outstanding and not provided for as at 31 December 2010 was HK$1,797.1 million (2009: Nil).

MEDIA SALES BUSINESS

RoadShow Holdings Limited and its subsidiaries (the “RoadShow Group”)

HK$ million	2010	2009
Turnover	325.2	196.3
Other revenue	31.2	26.8
Total operating revenue	356.4	223.1
Total operating expenses	(295.3)	(186.3)
Impairment loss of unlisted equity securities	(110.0)	(9.8)
Share of loss of associate	–	(4.4)
(Loss)/Profit before taxation	(48.9)	22.6
Income tax expense	(8.3)	(4.4)
(Loss)/Profit after taxation	(57.2)	18.2
Non-controlling interests	(4.4)	(4.2)
(Loss)/Profit attributable to equity shareholders	(61.6)	14.0

For the year ended 31 December 2010, the RoadShow Group reported a total operating revenue of HK$356.4 million (2009: HK$223.1 million) and a loss attributable to equity shareholders of HK$61.6 million (2009: profit of HK$14.0 million). The loss was mainly attributable to the provision for impairment loss of approximately HK$110.0 million (2009: HK$9.8 million) made by the RoadShow Group on the carrying value of the unlisted equity interest in AdSociety Daye Advertising Company Limited based on Hong Kong Accounting Standard 39 issued by the Hong Kong Institute of Certified Public Accountants.

The revenue generated from the RoadShow Group’s Hong Kong media sales services in 2010 amounted to HK$324.1 million, an increase of 67.0% compared to HK$194.1 million in 2009. The increase was mainly attributed to the bus exterior advertising business, which commenced in November 2009, the growth in the bus interior advertising business following the upgrading of the bus television broadcasting system, and the enhancement of the RoadShow Group’s unique marketing services to advertisers through the integrated 3-in-1 media (bus-television, bus-body and in-bus) platform on the road.

The total operating expenses of the RoadShow Group for 2010 amounted to HK$295.3 million, an increase of 58.5% compared to HK$186.3 million for 2009, which is in line with the growth of the media sales business.

Further information relating to the RoadShow Group is available in its 2010 final results announcement and annual report.

CHINA MAINLAND TRANSPORT OPERATIONS

As at 31 December 2010, the Group’s total interests in associates within the China Mainland Transport Operations Division amounted to HK$640.3 million (2009: HK$612.0 million). Such investments are mainly related to the operation of passenger public transport services in Shenzhen (深圳), and taxi and car rental services in Beijing (北京). For the year ended 31 December 2010, the Group’s China Mainland Transport Operations Division reported a profit of HK$33.8 million (2009: HK$38.4 million).

Summary of Investments in China Mainland Transport Operations as at 31 December 2010

	Beijing	Shenzhen
Nature of business	Taxi and car rental services	Bus and taxi hire services
Form of business structure	Sino-foreign joint stock company	Sino-foreign joint stock company
Operation commenced	April 2003	January 2005
The Group's investment cost (RMB million)	80	387
The Group's effective interest	31.38%	35%
Fleet size at year-end 2010 (Number of vehicles)	4,437	5,248
Bus passenger volume (Million trips)	N/A	932.5
Bus kilometres travelled (Million km)	N/A	392.1
Staff number at year-end 2010	4,656	21,950

Beijing

Beijing Beiqi Kowloon Taxi Company Limited (北京北汽九龍出租汽車股份有限公司) ("BBKT"), a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT's shareholders include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限責任公司) and three other Mainland investors. The Group has invested RMB80.0 million (equivalent to HK$75.5 million at the investment date) in BBKT, representing an equity interest of 31.38%. BBKT primarily engages in taxi hire and car rental businesses with a fleet of around 4,437 vehicles and 4,656 employees. It made steady progress and continued to record a profit in 2010.

Shenzhen

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) ("SBG"), which commenced operation in January 2005, is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four other Mainland investors. The Group has invested RMB387.1 million (equivalent to HK$363.9 million at the investment date) in SBG, representing a stake of 35%. SBG principally provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province (廣東省深圳市), with about 5,248 vehicles serving 251 routes. In 2010, SBG continued to make steady progress and recorded a ridership of 932.5 million passenger trips, representing an increase of 8.1% compared to 862.8 million passenger trips in 2009.

Connected Transactions and Continuing Connected Transactions

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

CONNECTED TRANSACTIONS

(a) KT REAL ESTATE LIMITED ("KTRE")

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

On 26 April 2010, KTRE, a wholly-owned subsidiary of the Company, and Turbo Result Limited ("TRL"), a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"), who are the owners (the "Owner") of Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kowloon, Hong Kong (the "KT Site") as tenants in common, entered into a project management agreement (the "Project Management Agreement") with SHKRE, a wholly-owned subsidiary of SHKP, pursuant to which SHKRE was appointed as the project manager for the development of the KT Site (the "Project"). The appointment took effect from 26 April 2010 until the date of expiry of (i) the latest defects liability period under contracts entered into in respect of the Project; or (ii) the date of issuance of the architect's final certificate under the main building contract for the Project, whichever shall be the later. Under the Project Management Agreement, KTRE and TRL shall pay SHKRE a project management fee and a lease modification fee in equal shares. The project management fee shall be a sum equivalent to whichever is the higher of (1) HK$20,000,000; and (2) the lower of (a) 1% of the costs, charges and expenses (excluding any land premium payable to the Government for modification of the Government Grant, the project management fee and the lease modification fee payable to SHKRE and the expenses incurred by SHKRE to employ personnel to carry out its services) incurred in respect of the Project (the "Project Costs") and (b) HK$25,000,000, which fee shall be paid by instalments according to the progress of the development as set out in the Project Management Agreement. The project management fee is calculated on the presumption of a maximum gross floor area of 1,150,000 square feet as permitted under the lease terms of the Government Grant to be modified. In the event that bonus plot ratio is obtained under the Building (Planning) Regulations resulting in an increase in the aforesaid maximum gross floor area and such increased bonus plot ratio is utilised for the Project, the project management fee shall be revised to be a sum equivalent to the higher of (1) HK$20,000,000; and (2) the lower of (a) 1% of the Project Costs and (b) HK$26,000,000. In addition, the Owner shall pay to SHKRE a lease modification fee for the handling and obtaining of the modification of the lease terms of the Government Grant in the sum of the lower of (1) HK$3.2 for each square foot of the permitted maximum gross floor area as approved under the lease modification; and (2) HK$3,840,000, of which HK$1,840,000 shall be payable upon the signing of the Project Management Agreement and the balance thereof shall be payable upon payment of the balance of the premium to the Government for modification of the lease terms of the Government Grant. In 2010, project management fee of HK$2,000,000 and lease modification fee of HK$920,000 were paid by KTRE (being half share of the respective fees) to SHKRE. Particulars of these connected transactions were disclosed in the announcement of the Company dated 26 April 2010.

CONTINUING CONNECTED TRANSACTIONS

(b) The Group

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

As detailed in note 36(a)(ii) to the financial statements on page 196 of this Annual Report, the Group entered into various insurance arrangements with SHKPI, a wholly-owned subsidiary of SHKP, during the year pursuant to which SHKPI agreed to provide insurance coverage and services to the Group (the "2010 Insurance Arrangements"), and such insurance policies took effect from 1 January 2010 for a period of one year. The transactions under the 2010 Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2010, the annual insurance premium paid and payable by the Group to SHKPI under the 2010 Insurance Arrangements amounted to HK$67,869,000. On 24 November 2010, the Group further entered into various insurance arrangements (the "2011 Insurance Arrangements") with SHKPI pursuant to which SHKPI will continue to provide insurance coverage and services to the Group. The insurance policies entered into pursuant to the 2011 Insurance Arrangements commenced on 1 January 2011 and will last for one year from the effective date of the policies. It is estimated that the annual insurance premium paid and payable by the Group to SHKPI under the 2011 Insurance Arrangements for the financial year ending 31 December 2011 will not exceed HK$77,250,000. The transactions under the 2010 Insurance Arrangements and the 2011 Insurance Arrangements are only subject to the reporting and announcement requirements of the Listing Rules and are exempt from the independent shareholders' approval requirement. Particulars of these continuing connected transactions were disclosed in the announcements of the Company dated 20 November 2009 and 24 November 2010.

(c) Lai Chi Kok Properties Investment Limited ("LCKPI")

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

LCKPI entered into a Letting and Sales Agency Agreement with SHKRE, a wholly-owned subsidiary of SHKP, on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and car parking spaces of Manhattan Hill (the "Original Agreement"). On 15 August 2007, the Original Agreement was terminated and replaced by a letter agreement entered into between LCKPI and SHKRE (the "Letter Agreement"), pursuant to which LCKPI continues to appoint SHKRE as the exclusive letting and sales agent under the same terms and conditions of the Original Agreement except that the aggregate amount of the agency fees payable under the Original Agreement and the Letter Agreement shall not exceed HK$65,000,000. The appointment of SHKRE under the Letter Agreement shall be for a period of three years commencing from the date of the Letter Agreement. As detailed in note 36(a)(iv) to the financial statements on page 196 of this Annual Report, the letting and sales agency fees recoverable from SHKRE by LCKPI due to the foreclosure of two residential units for the year ended 31 December 2010 amounted to HK$127,000. The aggregate amount of letting and sales agency fees paid and payable under the Original Agreement and the Letter Agreement up to 31 December 2010 was HK$64,122,000. Particulars of these continuing connected transactions were disclosed in the announcements of the Company dated 21 July 2003 and 16 August 2007.

(d) Bus Focus Limited ("Bus Focus")

Service Agreement with JCDecaux Cityscape Limited ("JCDecaux Cityscape") (formerly known as JCDecaux Texon Limited)

On 12 November 2008, Bus Focus, an indirect non-wholly owned subsidiary of the Company and RoadShow Holdings Limited ("RoadShow"), and JCDecaux Cityscape, a connected person of the Company and RoadShow within the meaning of the Listing Rules, entered into a Service Agreement pursuant to which Bus Focus agreed to appoint JCDecaux Cityscape exclusively to provide the media sales agency services and maintenance and operational services in respect of selected bus shelters owned by KMB for a term commencing from 1 August 2008 to 31 July 2012. Pursuant to the Service Agreement, the following considerations were payable/receivable by Bus Focus for the year ended 31 December 2010:

(a) Management fee payable by Bus Focus to JCDecaux Cityscape in the amount of HK$16,738,000; and

(b) Shortfall of guarantee rental receivable by Bus Focus from JCDecaux Cityscape in the amount of HK$7,474,000.

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

Conditional Waivers

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

1. each of the foregoing continuing connected transactions with SHKPI, SHKRE and JCDecaux Cityscape was entered into:–

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

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

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

2. the annual insurance premium paid and payable by the Group to SHKPI for the year ended 31 December 2010 did not exceed the cap amount of HK$72,000,000 as disclosed in the announcement dated 20 November 2009;

3. the agency fees for the year ended 31 December 2010 paid and payable by LCKPI under the Original Agreement and the Letter Agreement did not exceed the higher of HK$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2009;

4. the agency fees for the year ended 31 December 2010 paid and payable by LCKPI under the Letter Agreement did not exceed the cap amount of HK$12,426,000, and the aggregate amount of the agency fees paid and payable under the Original Agreement and the Letter Agreement did not exceed the cap amount of HK$65,000,000, as disclosed in the announcement dated 16 August 2007; and

5. the management fee paid and payable by Bus Focus to JCDecaux Cityscape and the shortfall of guarantee rental received and receivable by Bus Focus from JCDecaux Cityscape under the Service Agreement for the year ended 31 December 2010 did not exceed the cap amount of HK$18,000,000 and HK$47,100,000 respectively as disclosed in the Joint Announcement of the Company and RoadShow dated 13 November 2008.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified letters containing their findings and conclusions in respect of the continuing connected transactions set out in paragraphs (b), (c) and (d) above in accordance with Rule 14A.38 of the Listing Rules. Copies of the auditor's letters have been provided by the Company to The Stock Exchange of Hong Kong Limited.