Financial Review

The Group

REVIEW OF 2011 FINANCIAL PERFORMANCE

The Group's Results for the Year

The Group's profit attributable to equity shareholders for the year ended 31 December 2011 was HK$242.4 million, representing a decrease of HK$624.5 million or 72.0% compared to HK$866.9 million for 2010. Earnings per share for the year decreased correspondingly to HK$0.60 for 2011 from HK$2.15 for 2010. The decrease in profit was mainly attributed to the deterioration in the financial performance of The Kowloon Motor Bus Company (1933) Limited ("KMB") in 2011, which was mainly owing to the drastic increase in international fuel oil prices compared with 2010. Another main reason for the year-on-year decrease in profit was that a one-off, 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 (the "KT Site") was recognised in 2010.

The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2011 are shown below:

For the year ended 31 December 2011, the Group's turnover amounted to HK$6,947.5 million (2010: HK$6,686.8 million), an increase of HK$260.7 million or 3.9% compared to 2010. The increase was due mainly to the sale of three Manhattan Hill residential units (2010: one) and 13 car parking spaces (2010: three) in 2011, resulting in total sales revenue of HK$109.1 million being recognised in 2011 (2010: HK$29.3 million). Turnover generated from the Group's franchised public bus operations and non-franchised transport operations divisions also increased by HK$126.3 million from HK$6,319.1 million for 2010 to HK$6,445.4 million for 2011, due mainly to the fare increases of 3.6% and 3.2% for KMB and Long Win Bus Company Limited ("LWB") respectively which became effective on 15 May 2011. Furthermore, the turnover of the Group's media sales business division increased by HK$46.3 million from HK$325.2 million for 2010 to HK$371.5 million for 2011. Such increase was mainly attributable to the growth of the bus exterior advertising business in Hong Kong.

The Group's total operating expenses for 2011 amounted to HK$6,833.7 million (2010: HK$6,348.9 million), an increase

	Turnover		Profit/(Loss) before taxation	
HK$ million	**2011**	2010	**2011**	2010
Franchised Public Bus Operations Division	**6,180.9**	6,062.4	**88.5**	397.3
Non-franchised Transport Operations Division	**264.5**	256.7	**20.5**	26.7
Property Holdings and Development Division	**130.6**	42.5	**112.1**	493.6
Media Sales Business Division	**371.5**	325.2	**(30.9)**	(48.3)
Financial Services Division	**–**	–	**35.0**	23.3
China Mainland Transport Operations Division	**–**	–	**31.3**	33.8
	6,947.5	6,686.8	**256.5**	926.4
Finance costs			**(8.6)**	(6.6)
Unallocated net operating income			**27.5**	10.9
Profit before taxation and non-controlling interests			**275.4**	930.7
Income tax			**(41.2)**	(75.3)
Non-controlling interests			**8.2**	11.5
Profit attributable to equity shareholders of the Company			**242.4**	866.9

of HK$484.8 million or 7.6% compared to 2010. The increase was mainly due to the drastic increase in international fuel oil prices, which resulted in our fuel costs for the year 2011 surging to HK$1,533.8 million, a substantial increase of HK$406.8 million or 36.1% compared to HK$1,127.0 million for 2010. More detailed information in respect of the Group's individual business units is set out on pages 88 to 93 of this Annual Report.

The Group's share of profits of associates for 2011 amounted to HK$31.3 million (2010: HK$33.8 million), a decrease of HK$2.5 million or 7.4% compared to 2010.

Income tax expense for the year amounted to HK$41.2 million (2010: HK$75.3 million). The breakdown of the income tax expense is set out in note 6(a) to the financial statements on page 161 of this Annual Report.

Segment information on the Group's main businesses is set out in note 13 to the financial statements on pages 166 to 168 of this Annual Report.

Dividend

The Board has recommended an ordinary final dividend of HK$0.45 per share (2010: HK$1.05 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 17 May 2012, the proposed final dividend, together with the interim dividend of HK$0.15 per share (2010: HK$0.30 per share) paid in October 2011, would result in a total dividend of HK$0.60 per share for 2011 (2010: HK$1.35 per share).

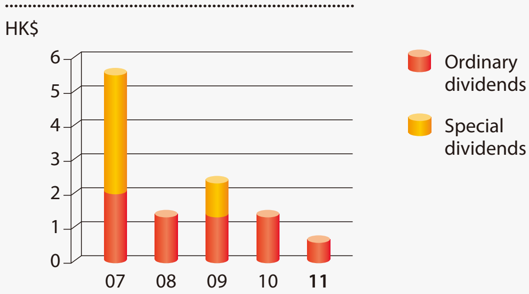
KEY CHANGES TO FINANCIAL POSITION

Fixed Assets and Capital Expenditure

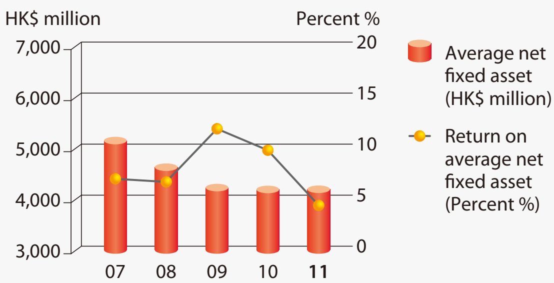
The Group's fixed assets in the consolidated balance sheet mainly comprise buildings, buses and other motor vehicles, buses under construction, tools and other equipment, investment properties, and interest in leasehold land. None of the Group's fixed assets was pledged or charged as at 31 December 2011.

In 2011, the Group incurred capital expenditure of HK$754.3 million (2010: HK$1,080.2 million). The decrease was mainly attributable to the fact that fewer new buses were purchased for our franchised public bus operations during the year. The breakdown of the capital expenditure is shown in notes 14(a) and 15 to the financial statements on pages 170 and 172 respectively of this Annual Report.

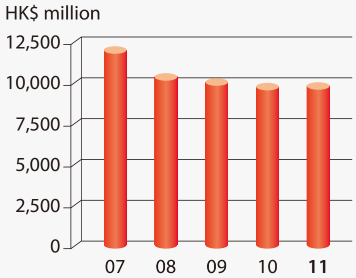
Dividends per share



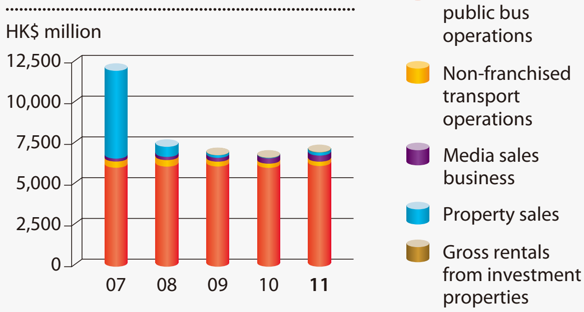
Return on average net fixed asset employed
(exclude property sales and disposal)



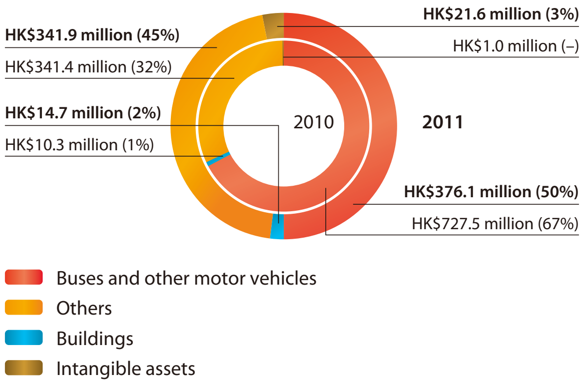
Total assets at 31 December



Group turnover



Capital expenditure



Current Assets and Liabilities

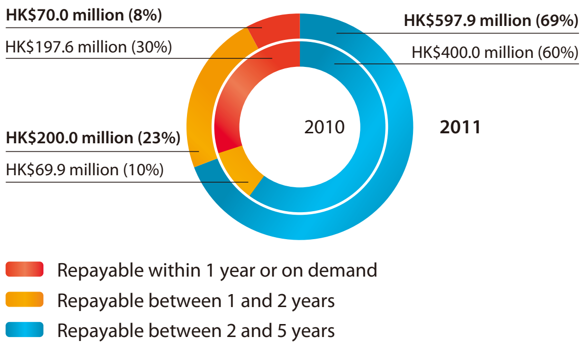
At 31 December 2011, the Group's total current assets amounted to HK$3,577.8 million (2010: HK$3,213.0 million), mainly comprising liquid funds of HK$2,974.1 million (2010: HK$2,800.7 million), accounts receivable of HK$331.5 million (2010: HK$256.6 million), and completed property held for sale of HK$19.7 million (2010: HK$45.2 million). Completed property held for sale represents the cost of one residential unit and 14 car parking spaces of Manhattan Hill held at the balance sheet date. The Group's liquid funds at the end of 2011 were mainly denominated in Hong Kong dollars, United States dollars and Renminbi.

Total current liabilities at 31 December 2011 amounted to HK$1,277.8 million (2010: HK$1,450.2 million), which principally included the current portion of bank loans, accounts payable and other accruals. The decrease was due mainly to decreases in current portion of bank loans and accounts payable.

Bank Loans and Overdrafts

At 31 December 2011, bank loans and overdrafts, all unsecured, amounted to HK$867.9 million (2010: HK$667.5 million). The maturity profile of bank loans and overdrafts of the Group at 31 December 2011 and 31 December 2010 is shown in the chart below:

Debt maturity profile at 31 December



Net Cash

At 31 December 2011, the Group's net cash (i.e. cash and deposits at banks less total borrowings) amounted to HK$2,106.1 million (2010: HK$2,133.2 million). The details of the Group's net cash by currency at 31 December 2011 are given below:

Currency	Cash and deposits at bank in foreign currency	Cash and deposits at bank	Bank loans and overdrafts	Net cash
	million	HK$ million	HK$ million	HK$ million
At 31 December 2011				
Hong Kong dollars		**2,568.1**	**(867.9)**	**1,700.2**
Renminbi	**165.6**	**204.3**	**–**	**204.3**
United States dollars	**25.8**	**201.0**	**–**	**201.0**
British Pounds Sterling	**–**	**0.6**	**–**	**0.6**
Total		**2,974.0**	**(867.9)**	**2,106.1**
At 31 December 2010				
Hong Kong dollars		2,455.1	(667.5)	1,787.6
Renminbi	110.2	130.5	–	130.5
United States dollars	25.0	194.1	–	194.1
British Pounds Sterling	1.7	21.0	–	21.0
Total		2,800.7	(667.5)	2,133.2

Capital Commitments

Capital commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2011 amounted to HK$2,140.6 million (2010: HK$2,438.4 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	2011	2010
Development of the Kwun Tong Site	**1,791.3**	1,797.1
Purchase of buses and other motor vehicles	**119.3**	346.3
Purchase of other fixed assets	**229.9**	293.0
Construction of depots and other depot facilities	**0.1**	2.0
Total	**2,140.6**	2,438.4

At 31 December 2011, the Group had 114 (2010: 385) new buses on order for delivery in 2012.

FUNDING AND FINANCING

Liquidity and Financial Resources

The Group closely monitors its liquidity and financial resources in a prudent manner by preparing and reviewing a rolling 12-month cash flow projection on a monthly basis 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 demands for daily operational needs, loan repayments, capital expenditure and potential business expansion and development. The Group's operations are mainly financed by shareholders' funds, bank loans and overdrafts. In general, the Group's major operating companies arrange their own financing to meet their operational and investment needs. The Group's other subsidiaries are mainly financed by the holding company from its capital base. Management regularly reviews the Group's funding strategy to ensure that cost-efficient and flexible funding is available to cater for the unique operating environment of each subsidiary. Adequate stand-by banking facilities are maintained to facilitate routine treasury operations. 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 2011, the Group had unutilised banking facilities totalling HK$730.0 million (2010: HK$1,329.8 million).

Gearing Ratio and Liquidity Ratio

The Group was in a net cash position as at the year end of 2011 and 2010. At 31 December 2011, its liquidity ratio (the ratio of current assets to current liabilities) was 2.8 (2010: 2.2).

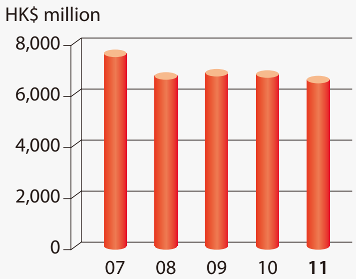
The Group's net cash as at 31 December 2011 amounted to HK$2,106.1 million (2010: HK$2,133.2 million).

Finance Costs and Interest Cover

For the year ended 31 December 2011, the finance costs incurred by the Group increased to HK$8.6 million from HK$6.6 million for 2010. The increase was due mainly to the increases in interest rates and average bank borrowings during the year. The average interest rate in respect of the Group's borrowings for 2011 was 0.95%, an increase of 15 basis points compared to 0.80% for 2010.

For the year ended 31 December 2011, the Group's interest income exceeded the total finance costs by HK$38.2 million (i.e. a net interest income position) (2010: HK$30.0 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 was the principal source of our liquidity. For the year ended 31 December 2011, there was a net increase in cash and cash equivalents of HK$1,039.8 million (2010: a net decrease of HK$34.7 million) and the sources are set out below:

	2011 HK$ million	2010 HK$ million
Net cash generated from/ (used in):		
• Operating activities	**1,150.8**	1,315.1
• Investing activities	**186.4**	(188.8)
• Financing activities	**(297.4)**	(1,161.0)
Total	**1,039.8**	(34.7)

In 2011, the net cash inflow generated from the operating and investing activities of the Group was HK$1,337.2 million (2010: HK$1,126.3 million). The main components included: (i) net cash generated from the operating activities of the franchised public bus operations of HK$850.4 million (2010: HK$1,126.6 million); (ii) cash proceeds received from the sale of Manhattan Hill residential units of HK$108.3 million (2010: HK$133.8 million); (iii) payment of capital expenditure of HK$779.8 million (2010: HK$1,035.2 million); and (iv) a decrease in bank deposits placements with original maturities of over three months of HK$845.4 million (2010: HK$743.0 million).

During the year, the bank loans increased by HK$200.0 million (2010: decreased by HK$200.0 million). Before the payment of dividends to equity shareholders in 2011, the net cash inflow for 2011 was HK$1,524.2 million, compared to HK$913.9 million for 2010.

Details of the Group's cash flow movement for the year ended 31 December 2011 are set out in the consolidated cash flow statement on page 141 of this Annual Report.

Treasury Policies

The Group's activities are exposed to a variety of financial risks, including fuel prices, foreign currencies, interest rates, as well as potential risks on cash flow and liquidity, and credit risk. 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.

Fuel Price Risk

The results of the Group's core franchised public bus businesses can be significantly affected by fuel price movements. 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 has not entered into any fuel oil hedging contracts during 2011. The Group's two major subsidiaries, KMB and LWB, will consider applying for fare increases to counter the adverse impact of rapid increases in fuel oil prices on the financial viability of their franchised public bus operations, and will also rigorously explore other measures, including but not limited to the implementation of more route rationalisation plans and the introduction of new local or boundary routes with growing demands, with the HKSAR Government to mitigate this impact. The Group will continue to monitor fuel price movements and will constantly review its strategy on fuel price risk management.

Foreign Currency Risk Management

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). Although foreign currency exposure does not pose a significant risk to the Group as the levels of foreign currency assets and liabilities are relatively low compared to its total asset base, the Group will continue to closely monitor foreign exchange movements and enter into forward 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 for the hedging of approximately 35% (2010: 56%) of the total GBP requirements for the year 2011. At 31 December 2011 and 31 December 2010, the Group had no forward foreign exchange contracts outstanding.

Interest Rate Risk Management

The Group manages its exposure to interest rate risk in a prudent manner with a variety of techniques and instruments, including natural hedges achieved by spreading loans over different rollover and maturity dates. Derivative financial instruments such as interest rate swaps are used as and when appropriate. As at 31 December 2011, all of the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. This enabled the Group to take advantage of the low interest rates in 2011. The Group regularly reviews its strategy on interest rate risk management in the light of prevailing market conditions and devises appropriate 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.

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 and the 50% interest in KT Site. By means of proper planning and close monitoring of the level of debt, the Group will be able to effectively meet its funding and investment requirements. 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 are continuously at a high level and we are not able to obtain sufficient fare increase magnitude from the HKSAR Government 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.

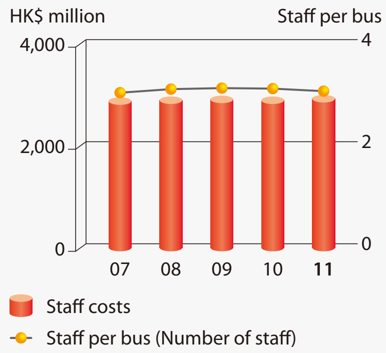
Credit Risk

The Group's credit risk is mainly attributable to trade and other receivables, instalments receivable from property sales 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 to 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.

EMPLOYEES AND REMUNERATION POLICIES

As 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 2011, total remuneration amounted to HK$2,987.0 million (2010: HK$2,967.1 million). The number of employees of the Group at the year end of 2011 was 12,879, an increase of 0.1% compared to 12,863 at the year end of 2010.

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



Individual Business Units

FRANCHISED PUBLIC BUS OPERATIONS

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

	Unit	2011	2010
Turnover	HK$ million	**5,929.1**	5,829.7
Other net income	HK$ million	**103.8**	114.0
Total operating expenses	HK$ million	**(6,050.7)**	(5,648.2)
Operating (loss)/profit before deemed income recognised in respect of defined benefit retirement plans	HK$ million	**(17.8)**	295.5
Deemed income recognised in respect of defined benefit retirement plans	HK$ million	**84.8**	74.3
Finance costs	HK$ million	**(8.2)**	(5.6)
Gain on disposal of building and interest in leasehold land	HK$ million	**–**	105.7
Profit before taxation	HK$ million	**58.8**	469.9
Income tax expense	HK$ million	**(7.4)**	(58.9)
Profit after taxation	HK$ million	**51.4**	411.0
Net profit margin		**0.9%**	7.1%
Passenger volume	Million passenger trips	**936.4**	946.7
Kilometres operated	Million km	**303.8**	309.7
Staff number at year-end	Number of staff	**11,654**	11,674
Fleet size at year-end	Number of buses	**3,891**	3,822
Total assets value	HK$ million	**5,139.5**	4,826.5

The profit after taxation of KMB for 2011 amounted to HK$51.4 million, a decrease of HK$359.6 million or 87.5% compared to HK$411.0 million for 2010. Such profit included a deemed income of HK$84.8 million (2010: HK$74.3 million) recognised in respect of two defined benefit staff retirement schemes operated by KMB in accordance with Hong Kong Accounting Standard 19, Employee Benefits. When excluding such deemed income, KMB recorded an operating loss of HK$17.8 million for 2011, an unfavourable change of HK$313.3 million compared to an operating profit of HK$295.5 million for 2010.

KMB's fare revenue for 2011 amounted to HK$5,822.8 million, an increase of HK$99.1 million or 1.7% compared to HK$5,723.7 million for 2010. Total ridership for 2011 was 936.4 million passenger trips (a daily average of 2.56 million passenger trips), a decrease of 1.1% compared to 946.7 million passenger trips (a daily average of 2.59 million passenger trips) for 2010. The increase in fare revenue was mainly due to the fare increase of 3.6% which took effect from 15 May 2011, but was partly offset by the loss of ridership due to continuing passenger shifts to the railways, in particular, after the commencement of the operations of the Kowloon Southern Link. Advertising revenue for the year amounted to HK$104.5 million, an increase of 0.8% compared with HK$103.7 million for the previous year.

Total operating expenses for 2011 amounted to HK$6,050.7 million, an increase of HK$402.5 million or 7.1% compared to HK$5,648.2 million for 2010. The increase was mainly due to drastic increase in international fuel oil prices, which resulted in the fuel costs for 2011 surging to HK$1,403.4 million, a substantial increase of HK$374.7 million compared to HK$1,028.7 million for 2010. 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, increased by 39.1% from US$89.6 per barrel in 2010 to US$124.6 per barrel in 2011. Although a 3.6% fare increase was granted by the HKSAR Government and implemented with effect from 15 May 2011, such fare increase magnitude was grossly insufficient to offset the increase in fuel costs alone, which was largely beyond the control of KMB.

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	2011	2010
Turnover	HK$ million	**354.8**	336.9
Other net income	HK$ million	**3.1**	1.3
Total operating expenses	HK$ million	**(336.2)**	(310.3)
Operating profit before deemed loss recognised in respect of defined benefit retirement plans	HK$ million	**21.7**	27.9
Deemed loss recognised in respect of defined benefit retirement plans	HK$ million	**(0.1)**	(0.3)
Finance costs	HK$ million	**(0.4)**	(0.4)
Profit before taxation	HK$ million	**21.2**	27.2
Income tax expense	HK$ million	**(3.5)**	(4.4)
Profit after taxation	HK$ million	**17.7**	22.8
Net profit margin		**5.0%**	6.8%
Passenger volume	Million passenger trips	**30.3**	29.4
Kilometres operated	Million km	**25.3**	25.6
Staff number at year-end	Number of staff	**469**	458
Fleet size at year-end	Number of buses	**164**	166
Total assets value	HK$ million	**292.9**	288.7

The profit after taxation of LWB for the year amounted to HK$17.7 million, representing a decrease of HK$5.1 million or 22.4% compared with HK$22.8 million for the previous year.

LWB's fare revenue for 2011 amounted to HK$354.4 million, an increase of HK$17.8 million or 5.3% compared to HK$336.6 million for 2010. The increase was mainly due to the implementation of the 3.2% fare increase which took effect from 15 May 2011 and the year-on-year increase in ridership. During the year, LWB recorded a total ridership of 30.3 million passenger trips (a daily average of 82,889 passenger trips), an increase of 2.9% compared to 29.4 million passenger trips (a daily average of 80,579 passenger trips) in 2010. The increase in ridership was attributable to the increased demand for transport generated by travellers from China Mainland and by construction workers involved in new developments at the airport.

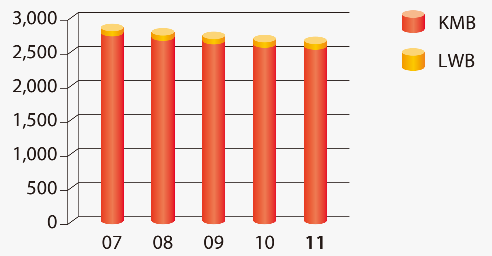
LWB's total operating expenses for the year amounted to HK$336.2 million, an increase of HK$25.9 million compared to HK$310.3 million for 2010. The increase was mainly due to the rise in fuel costs of HK$21.7 million or 37.0% as a result of the surge of fuel oil prices, as well as increases in staff costs, tunnel toll charges and other operating costs due to inflationary pressure.

NON-FRANCHISED TRANSPORT OPERATIONS

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK$17.5 million for 2011, representing a decrease of HK$5.5 million or 23.9% compared to HK$23.0 million for 2010. Turnover increased by 3.1% from HK$256.7 million for 2010 to HK$264.5 million for 2011.

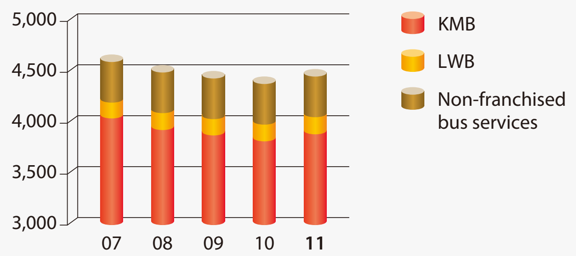
Average number of passenger trips per day
(Franchised public bus operations)

Thousand of passenger trips per day



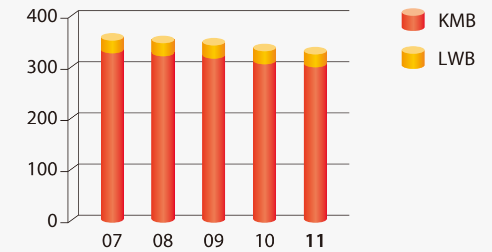
Number of licensed buses at 31 December

Number of buses



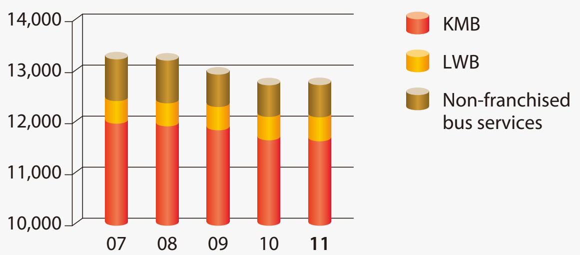
Bus kilometres operated
(Franchised public bus operations)

Million kilometres



Number of staff at 31 December

Number of staff



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 tailor-made transport services to a variety of customers, including servicing 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.

In spite of the rise in fuel prices which also had a negative effect on coach services, the SBH Group was able to adjust coach hiring charges to meet the increased operating costs. As a result, its turnover for the year increased by HK$9.6 million or 4.4% from HK$216.7 million in 2010 to HK$226.3 million in 2011. In line with the SBH Group's commitment to quality service and environmental protection, the SBH Group added 25 Euro V buses to its fleet in replacement of older buses in 2011.

As at 31 December 2011, the SBH Group had a fleet of 388 buses (2010: 382 buses). During the year, 33 buses (2010: 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. Following 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, NHKB's ridership has been decreasing. For 2011, NHKB's total patronage was 5.2 million passenger trips (an average monthly ridership of 0.43 million passenger trips), a decrease of 6.8% compared to 5.6 million passenger trips (an average monthly ridership of 0.46 million passenger trips) for 2010. The negative impact from the decrease in ridership was partly offset by a fare increase from HK$7 per trip to HK$8 per trip for overnight and day services which took effect from 5 May 2010 and 21 November 2011 respectively. At the end of 2011, NHKB operated a total of 15 buses, the same number as at the end of 2010.

PROPERTY HOLDINGS AND DEVELOPMENT

Lai Chi Kok Properties Investment Limited ("LCKPI")

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

During 2011, three Manhattan Hill residential units with a total saleable GFA of about 6,963 square feet and 13 car parking spaces were sold, generating an after-tax profit of HK$72.9 million (2010: an after-tax loss of HK$17.0 million).

As at 31 December 2011, the residential units of Manhattan Hill had nearly all been sold, with only one specialty residential unit with a saleable GFA of 5,008 square feet and 14 car parking spaces (classified under current assets in the consolidated balance sheet) at a total carrying value of HK$19.7 million (2010: HK$45.2 million) available for sale.

There were no outstanding bank loans in respect of the construction of Manhattan Hill as at 31 December 2011 (2010: Nil).

LCK Commercial Properties Limited ("LCKCP")

LCKCP, a wholly-owned subsidiary of the Group, is the owner of the upscale "Manhattan Mid-town" shopping mall. Since opening in March 2009, the mall has provided Manhattan Hill residents, as well as local householders and office staff, with a mix of high quality shops and restaurants. In 2011, the entire lettable area of the 50,000 square feet shopping mall was completely leased out, generating a steady income stream for the Group.

As at 31 December 2011, 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$105.9 million (2010: HK$110.9 million).

LCK Real Estate Limited ("LCKRE")

LCKRE, a wholly-owned subsidiary of the Group, is the owner of a 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, which has a total gross floor area of about 156,700 square feet. The building is currently held by the Group mainly for its own use and partially for rental purposes. As at 31 December 2011, the building was stated on the consolidated balance sheet at cost less accumulated depreciation and impairment losses in the amount of HK$33.9 million (2010: HK$35.2 million).

KT Real Estate Limited ("KTRE")

KTRE, a wholly-owned subsidiary of the Company, and Turbo Result Limited ("TRL"), a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), jointly own the industrial site situated at Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kowloon, Hong Kong (the "KT Site") in equal shares as tenants in common.

On 11 December 2009, KTRE, TRL, the Company and SHKP entered into an agreement to jointly develop the KT Site for non-residential (excluding hotel) purposes. Since April 2010, Sun Hung Kai Real Estate Agency Limited ("SHKRE"), a wholly-owned subsidiary of SHKP, has been appointed as the project manager to oversee the development of the KT Site. SHKRE 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. Upon completion, the Group intends to hold the development for long-term investment purposes.

As at 31 December 2011, the carrying value of the KT Site (classified under investment property under development on the consolidated balance sheet) amounted to HK$11.7 million (2010: HK$5.2 million). The capital commitment outstanding and not provided for as at 31 December 2011 was HK$1,791.3 million (2010: HK$1,797.1 million).

TM Properties Investment Limited ("TMPI")

TMPI owns an industrial property, comprising a single-storey high ceiling structure and a three-storey workshop building with a total gross floor area of about 105,900 square feet, at 1 Kin Fung Circuit, Tuen Mun. The property became vacant in 2010 and has been leased out since March 2011 to generate additional rental income.

As at 31 December 2011, the carrying value of the industrial property (classified under investment property on the consolidated balance sheet), which was stated at cost less accumulated depreciation and impairment losses, amounted to HK$9.9 million (2010: HK$10.3 million).

MEDIA SALES BUSINESS

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

HK$ million	2011	2010
Turnover	371.5	325.2
Other revenue	25.8	31.2
Total operating revenue	397.3	356.4
Total operating expenses	(318.5)	(295.3)
Profit from operations	78.8	61.1
Impairment loss of other non-current financial assets	(109.6)	(110.0)
Loss before taxation	(30.8)	(48.9)
Income tax expense	(12.9)	(8.3)
Loss after taxation	(43.7)	(57.2)
Non-controlling interests	(4.9)	(4.4)
Loss attributable to equity shareholders	(48.6)	(61.6)

For the year ended 31 December 2011, the RoadShow Group reported a total operating revenue of HK$397.3 million (2010: HK$356.4 million) and a loss attributable to equity shareholders of HK$48.6 million (2010: a loss of HK$61.6 million). The loss was mainly attributable to an impairment loss of HK$109.6 million (2010: HK$110.0 million) made by the RoadShow Group on its other non-current financial assets. The impairment loss, which was non-cash in nature, would be the last and full provision for the amount of the RoadShow Group's investment in and loans to AdSociety Daye Advertising Company Limited, a joint venture in Mainland China. Despite the impairment loss made, the core business of the RoadShow Group remains strong and the profit from operations for the year ended 31 December 2011 was HK$78.8 million, an increase of HK$17.7 million or 29.0% compared to HK$61.1 million for 2010.

The revenue generated from the RoadShow Group's Hong Kong media sales services in 2011 amounted to HK$370.6 million, an increase of 14.3% compared to HK$324.1 million in 2010. 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 2011 amounted to HK$318.5 million, an increase of 7.9% compared to HK$295.3 million for 2010, which is in line with the growth of the media sales business.

Further information relating to the RoadShow Group is available in its 2011 final results announcement and annual report.

CHINA MAINLAND TRANSPORT OPERATIONS

As at 31 December 2011, the Group's total interests in associates within the China Mainland Transport Operations Division amounted to HK$668.1 million (2010: HK$640.3 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 2011, the Group's China Mainland Transport Operations Division reported a profit of HK$31.3 million (2010: HK$33.8 million).

Summary of Investments in China Mainland Transport Operations as at 31 December 2011

	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 2011 (Number of vehicles)	4,637	5,946
Bus passenger volume (Million trips)	N/A	907.0
Bus kilometres travelled (Million km)	N/A	407.2
Staff number at year-end 2011	4,934	23,323

Beijing

Beijing Beiqi Kowloon Taxi Company Limited (北京北汽九龍出租汽車股份有限公司) ("BBKT"), a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT's shareholders include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限責任公司) and three other China Mainland investors. The Group has invested RMB80.0 million (equivalent to HK$75.5 million at the investment date) in BBKT, representing an equity interest of 31.38%. BBKT primarily engages in taxi hire and car rental businesses with a fleet of around 4,637 vehicles and 4,934 employees. It made steady progress and continued to record a profit in 2011.

Shenzhen

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) ("SBG"), which commenced operations in January 2005, is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four other Mainland investors. The Group has invested RMB387.1 million (equivalent to HK$363.9 million at the investment date) in SBG, representing a stake of 35%. SBG principally provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province (廣東省深圳市), with about 5,946 vehicles serving 267 routes. In 2011, SBG continued to make steady progress and recorded a ridership of 907.0 million passenger trips (2010: 932.5 million passenger trips).

Continuing Connected Transactions

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

(a) THE GROUP

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

As detailed in note 35(a)(ii) to the financial statements on page 200 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 "2011 Insurance Arrangements"), and such insurance policies took effect from 1 January 2011 for a period of one year. The transactions under the 2011 Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2011, the annual insurance premium paid and payable by the Group to SHKPI under the 2011 Insurance Arrangements amounted to HK$71,134,000. On 23 November 2011, the Group further entered into various insurance arrangements (the "2012 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 2012 Insurance Arrangements commenced on 1 January 2012 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 2012 Insurance Arrangements for the financial year ending 31 December 2012 will not exceed HK$76,000,000. The transactions under the 2011 Insurance Arrangements and the 2012 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 24 November 2010 and 23 November 2011.

(b) 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 (the "Service Agreement"). Pursuant to the Service Agreement, the following considerations were payable/receivable by Bus Focus for the year ended 31 December 2011:

(i) Management fee payable by Bus Focus to JCDecaux Cityscape in the amount of HK$16,975,000; and

(ii) Shortfall of guarantee rental receivable by Bus Focus from JCDecaux Cityscape in the amount of HK$557,000.

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 and in an announcement of RoadShow dated 29 March 2011.

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 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 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 2011 did not exceed the cap amount of HK$77,250,000 as disclosed in the announcement dated 24 November 2010; and

3. 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 2011 did not exceed the cap amount of HK$18,000,000 and HK$24,000,000 respectively as disclosed in the announcement of RoadShow dated 29 March 2011 which sets out the annual caps for the year ended 31 December 2011 and for the seven months ending 31 July 2012.

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