

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain investments in securities (see note 1(f)), derivative financial instruments (see note 1(g)) and employee benefit assets (see note 1(x)(ii)) are stated at their fair value.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 37.

### (c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Subsidiaries and non-controlling interests (continued)

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

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

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

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

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

### (d) Associates and joint ventures

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

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control.

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has joint control over its share of future economic benefits earned from the assets.

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Associates and joint ventures (continued)

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

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

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

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

### (e) Goodwill

Goodwill represents the excess of

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

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Other investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less accumulated impairment losses (see note 1(m)(i)).

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in the income statement. Dividend income from these investments is recognised in the income statement in accordance with the policy set out in note 1(u)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement in accordance with the policy set out in note 1(u)(iv). When these investments are derecognised or impaired (see note 1(m)(i)), the cumulative gain or loss is reclassified from equity to the income statement.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

### (g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the income statement, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(h)).

### (h) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the income statement in the same period or periods during which the hedged forecast transaction affects the income statement.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Cash flow hedges (continued)

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the income statement.

### (i) Investment properties

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

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(m)(ii)). Depreciation is calculated to write off the cost of investment properties using the straight-line method over the shorter of their estimated useful lives of 40 years and the unexpired terms of the leases. No depreciation is provided for property that is being constructed or developed for future use as investment property.

Rental income from investment properties is accounted for as described in note 1(u)(vi).

### (j) Other property, plant and equipment

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

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

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

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

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

No depreciation is provided for buses under construction.

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Leased assets

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

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

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

### (l) Intangible assets (other than goodwill)

Media assets represent advertising rights which are the costs of acquiring operating rights for the placement of advertisements in advertising display panels in the People's Republic of China ("the PRC") and include any directly attributable costs of bringing advertising display panels to their present condition and location for their intended use. Advertising rights are stated at cost less accumulated amortisation and impairment losses (see note 1(m)(ii)).

Advertising rights are amortised to the income statement on a straight-line basis over 5 to 10 years, being the agreed periods of use of the advertising rights.

Passenger service licences and transport operating rights acquired by the Group that have definite useful lives are stated at cost less accumulated amortisation and impairment losses (see note 1(m)(ii)). They are amortised to the consolidated income statement on a straight-line basis over their estimated useful lives. For those passenger service licences and transport operating rights that are assessed and regarded by the Group to have indefinite useful lives, they are stated in the balance sheet at cost less accumulated impairment losses (see note 1(m)(ii)).

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets

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

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

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

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

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

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets (continued)

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

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

#### (ii) Impairment of other assets

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

- property, plant and equipment;
- investment properties;
- investment property under development;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, goodwill and intangible assets that have indefinite useful lives are tested for impairment annually even when there is no indication of impairment.

- Calculation of the recoverable amount

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

- Recognition of impairment losses

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



# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets (continued)

#### (ii) Impairment of other assets (continued)

- Reversals of impairment losses

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

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

#### (iii) Interim financial reporting and impairment

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

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

### (n) Completed property held for sale

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

### (o) Spare parts and stores

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

### (p) Trade and other receivables

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

### (q) Interest-bearing borrowings

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (s) Cash and cash equivalents

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

### (t) Financial guarantees issued, provisions and contingent liabilities

#### (i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When the Company issues a financial guarantee for borrowings of a subsidiary, the fair value of the guarantee is initially recognised as deferred income within accounts payable and accruals, and a corresponding increase in the Company's investment in the subsidiary is recognised on initial recognition of the deferred income.

The amount of the guarantee initially recognised as deferred income is amortised to the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(t)(iii) if and when it becomes probable that the holder of the guarantee will call upon the Company under the guarantee, and the amount of that claim on the Company is expected to exceed the amount currently carried in accounts payable and accruals in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

#### (ii) Contingent liabilities assumed in business combinations

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

#### (iii) Other provisions and contingent liabilities

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

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Revenue recognition

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

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

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

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

### (v) Borrowing costs

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) Translation of foreign currencies

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

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

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

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

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

### (x) Employee benefits

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

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

#### (ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds or government bonds (where there is no deep markets in such corporate bonds) that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in the income statement.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (x) Employee benefits (continued)

#### (ii) Defined benefit retirement plan obligations (continued)

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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

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

#### (iv) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

#### (v) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (y) Income tax

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

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

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

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

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

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

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

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (y) Income tax (continued)

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

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

### (z) Related parties

#### (i) A person, or a close member of that person's family, is related to the Group if that person:

- (1) has control or joint control over the Group;
- (2) has significant influence over the Group; or
- (3) is a member of the key management personnel of the Group or the Group's parent.

#### (ii) An entity is related to the Group if any of the following conditions applies:

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (aa) Segment reporting

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

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

## 2 CHANGES IN ACCOUNTING POLICIES

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

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)
- Amendments to HK(IFRIC) 14, HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction - Prepayments of a minimum funding requirement

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38).

The amendments to HK(IFRIC) 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group.

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvement to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.



## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 19 to the financial statements.

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

	2011 \$'000	2010 \$'000
Fare revenue from franchised public bus services	6,177,135	6,060,373
Revenue from non-franchised transport services	265,021	256,986
Revenue from sales of properties	109,084	29,263
Media sales revenue	374,817	327,000
Gross rentals from investment properties	21,487	13,214
	<b>6,947,544</b>	<b>6,686,836</b>

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

#### 4 OTHER NET INCOME

	2011	2010
	\$'000	\$'000
Net movement in balance of passenger rewards (note (a))	28,066	26,657
Net income recognised in respect of defined benefit retirement plans (note 22(e))	84,673	73,990
Interest income on instalments receivable from sales of properties	143	284
Interest income on other financial assets not at fair value through profit or loss	46,667	36,310
Claims received	23,272	27,059
Dividend income from unlisted equity securities	31,000	16,145
Net miscellaneous business receipts	7,826	8,642
Net exchange gain	10,954	15,519
Net gain on disposal of fixed assets	3,636	3,345
Reversal of net gain on property sales previously recognised (note (b))	–	(38,628)
Sundry revenue	12,234	17,247
	<b>248,471</b>	<b>186,570</b>

Notes: (a) Under the revised Modified Basket of Factors ("MBOF") approach, which is the existing basis for the assessment of bus fare adjustment applications, 50% of any return on a franchised bus operator in a given year in excess of a prescribed triggering point of return on its average net fixed assets is required to be set aside and accumulated in a balance of passenger reward which would be available to relieve the pressure for future fare increases and to facilitate the offer of bus fare concessions. The prescribed triggering point of return for 2011 and 2010 was 9.7% per annum. The balance of passenger rewards of the Group as at 31 December 2011, included in accounts payable and accruals, was \$3,695,000 (2010: \$31,572,000) (see note 27).

(b) During the year ended 31 December 2010, as the purchasers of two property units had defaulted in the settlement of the purchase consideration, the Group cancelled the sales of the two property units entered into in previous years pursuant to the Agreements for Sale and Purchase. In accordance with the terms of the Agreements for Sale and Purchase, the Group had retained the forfeited deposits of 10% of the purchase price, and the deposits received in excess of the deposit forfeited were to be refunded to the purchasers. As a result, a net loss on cancellation of property sales of \$38,628,000 was recognised in 2010, and completed property held for sale was increased by \$9,072,000. The net loss included the reversal of revenue from the cancelled properties recognised in prior years, net of the related selling and marketing expenses of \$999,000, amounted to \$53,111,000.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 5 PROFIT BEFORE TAXATION

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

	2011 \$'000	2010 \$'000
<b>(a) Staff costs</b>		
Contributions to defined contribution retirement plans	73,094	68,048
Movements in provision for long service payments (note 30)	14,994	5,593
Salaries, wages and other benefits	2,987,016	2,967,064
	<b>3,075,104</b>	<b>3,040,705</b>
<b>(b) Finance costs</b>		
Interest on bank loans and overdrafts not at fair value through profit or loss	8,630	6,618
<b>(c) Other items</b>		
Auditors' remuneration		
– audit services	4,389	4,810
– other services	2,647	1,738
Operating lease charges on properties, temporary bus depots, buses and terminal shelters	36,963	31,417
Depreciation	881,479	896,987
Amortisation of land lease premium	2,012	2,056
Amortisation of media assets	–	205
Impairment loss on trade and other receivables	104	663
Impairment loss on media assets	–	171
Write-back of impairment loss on trade and other receivables	–	(731)
Write-down of spare parts and stores	4,817	12,440
Rentals receivable from investment properties less direct outgoings of \$7,471,000 (2010: \$6,961,000) (note)	(14,016)	(6,253)

Note: Included contingent rental income of \$510,000 (2010: \$324,000).

## 6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

	2011 \$'000	2010 \$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	33,991	71,902
Revision of prior years' tax provision (note)	(104,527)	–
(Over)/under-provision in respect of prior years	(196)	1,923
	<b>(70,732)</b>	<b>73,825</b>
<b>Current tax – PRC Income Tax</b>		
Provision for the year	–	260
Over-provision in respect of prior years	–	(401)
	<b>–</b>	<b>(141)</b>
<b>PRC withholding tax</b>	<b>1,477</b>	<b>1,400</b>
<b>Deferred tax</b>		
Effect of revision of prior years' tax provision (note)	104,527	–
Origination and reversal of other temporary differences	5,981	268
	<b>110,508</b>	<b>268</b>
	<b>41,253</b>	<b>75,352</b>

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries in the PRC is charged at the appropriate current rates of taxation ruling in the PRC.

Note: During the year ended 31 December 2011, the Hong Kong Inland Revenue Department ("the IRD") revised its assessing practice regarding the tax treatment of defined benefit retirement schemes. In prior years, net income/expenses recognised in respect of defined benefit retirement plans were treated as taxable income/deductible expenses in the tax computations of a subsidiary of the Company. Under the revised assessing practice, such income/expenses are non-taxable or non-deductible. Instead, any cash refund from the defined benefit retirement schemes is taxable and any actual ordinary contribution made by the subsidiary, subject to a limitation as prescribed in the Inland Revenue Ordinance, is tax deductible. Due to the IRD's change in assessing practice, a subsidiary is eligible for additional tax deductions and a resulting tax refund from the IRD in respect of previous years. As a result, the subsidiary has revised its Hong Kong Profits Tax computations for prior years, resulting in an increase in current taxation recoverable relating to prior years of \$104,527,000 (2010: Nil) and a corresponding increase in deferred tax liabilities. This has no material impact on the Group's net assets as at 31 December 2011 and its profit for the year then ended.

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

	2011 \$'000	2010 \$'000
Profit before taxation	275,368	930,726
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	47,128	151,416
Tax effect of non-deductible expenses	22,431	23,008
Tax effect of non-taxable income	(28,661)	(102,022)
Tax effect of unused tax losses not recognised	1,746	1,078
(Over)/under – provision in prior years	(196)	1,522
Others	(1,195)	350
Actual tax expense	<b>41,253</b>	<b>75,352</b>

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 7 DIRECTORS' REMUNERATION

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

	2011				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Executive Directors</b>					
Charles Lui Chung Yuen	360	840	43	–	1,243 <sup>(1)</sup>
Edmond Ho Tat Man	450	4,064	400	488	5,402 <sup>(1)</sup>
Evan Au Yang Chi Chun	360	3,590	352	197	4,499 <sup>(1)</sup>
<b>Non-executive Directors</b>					
Kwok Ping-luen, Raymond	600	–	–	–	600
Dr Kwok Ping-sheung, Walter	360	–	–	–	360
Ng Siu Chan	360	–	–	–	360
William Louey Lai Kuen	360	–	–	–	360
Winnie Ng	750	–	–	–	750 <sup>(1)</sup>
John Anthony Miller	480	–	–	–	480 <sup>(1)</sup>
Yung Wing Chung	178	–	–	–	178 <sup>(2)</sup>
George Chien Yuan Hwei <sup>(3)</sup>	208	–	–	–	208
<b>Independent Non-executive Directors</b>					
The Hon Sir Sze-yuen Chung	504	–	–	–	504
Dr Norman Leung Nai Pang	738	–	–	–	738
Dr John Chan Cho Chak <sup>(4)</sup>	756	–	–	–	756 <sup>(1)</sup>
Dr Eric Li Ka Cheung	648	–	–	–	648 <sup>(1)</sup>
Siu Kwing-chue, Gordon	420	–	–	–	420
Professor Liu Pak-wai (Appointed on 1 September 2011)	120	–	–	–	120
	7,652	8,494	795	685	17,626

**7 DIRECTORS' REMUNERATION** (continued)

	2010				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Executive Directors</b>					
Charles Lui Chung Yuen	360	840	67	–	1,267 <sup>(1)</sup>
Edmond Ho Tat Man	450	3,963	1,000	476	5,889 <sup>(1)</sup>
Evan Au Yang Chi Chun (Appointed on 20 May 2010)	223	3,501	502	200	4,426 <sup>(1)</sup>
<b>Non-executive Directors</b>					
Kwok Ping-luen, Raymond	600	–	–	–	600
Dr Kwok Ping-sheung, Walter	360	–	–	–	360
Ng Siu Chan	360	–	–	–	360
William Louey Lai Kuen	360	–	–	–	360
Dr John Chan Cho Chak <sup>(4)</sup>	756	–	–	–	756 <sup>(1)</sup>
Winnie Ng	750	–	–	–	750 <sup>(1)</sup>
John Anthony Miller	450	–	–	–	450 <sup>(1)</sup>
Yung Wing Chung	178	–	–	–	178 <sup>(2)</sup>
George Chien Yuan Hwei <sup>(3)</sup>	420	–	–	–	420
<b>Independent Non-executive Directors</b>					
The Hon Sir Sze-yuen Chung	504	–	–	–	504
Dr Norman Leung Nai Pang	738	–	–	–	738
Dr Eric Li Ka Cheung	648	–	–	–	648 <sup>(1)</sup>
Siu Kwing-chue, Gordon	420	–	–	–	420
Dr Kung Ziang Mien, James <sup>(5)</sup>	159	–	–	–	159
	7,736	8,304	1,569	676	18,285

Notes: (1) The amounts included emoluments from the Company and certain of its subsidiaries.

(2) Mr Yung Wing Chung, Alternate Director to Mr Kwok Ping-luen, Raymond, has been appointed as a Non-executive Director of RoadShow Holdings Limited ("RoadShow") with effect from 20 November 2008. His emolument was solely in respect of his services as a director of RoadShow.

(3) Mr George Chien Yuan Hwei resigned on 1 July 2011.

(4) Dr John Chan Cho Chak was redesignated as Independent Non-executive Director with effect from 4 January 2012.

(5) Dr Kung Ziang Mien, James passed away on 9 May 2010.

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2010: two) are Directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) are as follows:

	2011	2010
	\$'000	\$'000
Fees	810	673
Salaries, allowances and benefits in kind	13,617	14,089
Discretionary bonuses	1,147	2,655
Retirement scheme contributions	795	888
	<b>16,369</b>	<b>18,305</b>

The emoluments of the five (2010: five) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2011	2010
\$2,000,001 – \$2,500,000	3	1
\$2,500,001 – \$3,000,000	–	2
\$4,000,001 – \$4,500,000	1	1
\$5,000,001 – \$5,500,000	1	–
\$5,500,001 – \$6,000,000	–	1

### 9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of \$701,084,000 (2010: \$900,895,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2011	2010
	\$'000	\$'000
Amount of consolidated profit attributable to equity shareholders of the Company dealt with in the Company's financial statements	701,084	900,895
Final dividend from subsidiary attributable to the profits of the previous financial year, approved and paid during the year	–	50,631
Company's profit for the year (note 31(a))	<b>701,084</b>	<b>951,526</b>

## 10 OTHER COMPREHENSIVE INCOME

	2011 \$'000	2010 \$'000
<b>Available-for-sale debt securities:</b>		
Change in fair value recognised during the year	(1,023)	8,222

## 11 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of \$242,351,000 (2010: \$866,886,000) and 403,639,413 shares in issue during the years ended 31 December 2011 and 2010. The calculation of basic earnings per share arising from sales of building and interest in leasehold land and Manhattan Hill properties and the Group's other operations is based on profits arising from the respective operations of \$72,869,000 (2010: \$471,952,000) and \$169,482,000 (2010: \$394,934,000) respectively and 403,639,413 shares in issue during the years ended 31 December 2011 and 2010.

### (b) Diluted earnings per share

The diluted earnings per share for the current and previous years are not presented as there are no dilutive potential ordinary shares during the years.

## 12 DIVIDENDS

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

	2011		2010	
	Per share \$	Total \$'000	Per share \$	Total \$'000
Interim dividend declared and paid	0.15	60,546	0.30	121,092
Ordinary final dividend proposed after the balance sheet date	0.45	181,638	1.05	423,821
	0.60	242,184	1.35	544,913

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

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

	2011		2010	
	Per share \$	Total \$'000	Per share \$	Total \$'000
Final dividend in respect of the previous financial year, approved and paid during the year	1.05	423,821	1.05	423,821
Special dividend in respect of the previous financial year, approved and paid during the year	–	–	1.00	403,639
	1.05	423,821	2.05	827,460



# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 13 SEGMENT REPORTING

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

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

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

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

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

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

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

### 13 SEGMENT REPORTING (continued)

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

Information regarding the Group's reportable segments for the years ended 31 December 2011 and 2010 is set out below.

	Franchised bus operation		Media sales business		Property development		All other segments		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	6,180,941	6,062,437	371,491	325,231	109,512	29,633	285,600	269,535	6,947,544	6,686,836
Inter-segment revenue	101,318	102,072	–	–	–	–	22,971	28,010	124,289	130,082
<b>Reportable segment revenue</b>	<b>6,282,259</b>	<b>6,164,509</b>	<b>371,491</b>	<b>325,231</b>	<b>109,512</b>	<b>29,633</b>	<b>308,571</b>	<b>297,545</b>	<b>7,071,833</b>	<b>6,816,918</b>
<b>Reportable segment profit/(loss)</b>	<b>69,045</b>	<b>328,028</b>	<b>(43,744)</b>	<b>(57,155)</b>	<b>72,869</b>	<b>(16,999)</b>	<b>64,321</b>	<b>73,078</b>	<b>162,491</b>	<b>326,952</b>
Interest income	2,952	1,044	9,815	12,024	–	–	142	284	12,909	13,352
Interest expense	(8,630)	(5,993)	–	–	–	–	–	(625)	(8,630)	(6,618)
Depreciation and amortisation for the year	(835,740)	(859,399)	(9,699)	(6,498)	–	–	(38,052)	(33,351)	(883,491)	(899,248)
Write-back/(provision) of impairment losses on receivables	–	731	–	(318)	–	–	(104)	(345)	(104)	68
Impairment loss on other financial assets	–	–	(109,606)	(110,000)	–	–	–	–	(109,606)	(110,000)
Impairment loss on media assets	–	–	–	(171)	–	–	–	–	–	(171)
Staff costs	(2,916,398)	(2,886,038)	(60,047)	(54,454)	–	–	(90,224)	(91,445)	(3,066,669)	(3,031,937)
Share of profits of associates	–	–	–	–	–	–	31,292	33,821	31,292	33,821
Income tax (expense)/credit	(10,847)	(63,266)	(12,863)	(8,269)	(9,163)	1,846	(8,335)	(5,663)	(41,208)	(75,352)
<b>Reportable segment assets</b>	<b>5,430,052</b>	<b>5,113,638</b>	<b>766,074</b>	<b>806,756</b>	<b>36,653</b>	<b>64,610</b>	<b>1,163,533</b>	<b>1,087,663</b>	<b>7,396,312</b>	<b>7,072,667</b>
– including interest in associates	–	–	–	–	–	–	668,136	640,263	668,136	640,263
Additions to non-current segment assets during the year	626,790	1,044,774	66,567	1,303	–	–	60,966	34,112	754,323	1,080,189
<b>Reportable segment liabilities</b>	<b>2,654,887</b>	<b>2,415,519</b>	<b>124,344</b>	<b>71,088</b>	<b>154,944</b>	<b>176,156</b>	<b>56,536</b>	<b>49,373</b>	<b>2,990,711</b>	<b>2,712,136</b>

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 13 SEGMENT REPORTING (continued)

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

	2011	2010
	\$'000	\$'000
<b>Revenue</b>		
Reportable segment revenue	6,763,262	6,519,373
Revenue from all other segments	308,571	297,545
Elimination of inter-segment revenue	(124,289)	(130,082)
Consolidated turnover	6,947,544	6,686,836
<b>Profit</b>		
Reportable segment profit	98,170	253,874
Profit from all other segments	64,321	73,078
Gain on disposal of building and interest in leasehold land	–	489,052
Unallocated profits	71,624	39,370
Consolidated profit after taxation	234,115	855,374
<b>Assets</b>		
Reportable segment assets	6,232,779	5,985,004
Assets from all other segments	1,163,533	1,087,663
Unallocated assets	2,335,954	2,619,260
Consolidated total assets	9,732,266	9,691,927
<b>Liabilities</b>		
Reportable segment liabilities	2,934,175	2,662,763
Liabilities from all other segments	56,536	49,373
Unallocated liabilities	39,218	37,574
Consolidated total liabilities	3,029,929	2,749,710

#### (c) Geographic information

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

	Specified non-current assets	
	2011	2010
	\$'000	\$'000
Hong Kong (place of domicile)	4,218,166	4,354,299
The PRC	678,020	648,109
	4,896,186	5,002,408

## 14 FIXED ASSETS

### (a) The Group

	Buildings	Buses and other motor vehicles	Buses under construction	Tools and others	Sub-total	Investment property under development	Investment properties	Interest in leasehold land	Total fixed assets
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost:</b>									
At 1 January 2010	1,423,742	9,133,778	129,930	2,834,680	13,522,130	–	120,959	126,120	13,769,209
Additions	10,261	40,553	703,686	335,051	1,089,551	5,236	1,093	–	1,095,880
Disposals	–	(318,591)	–	(266,047)	(584,638)	–	–	(2,020)	(586,658)
Exchange adjustments	–	87	–	43	130	–	–	–	130
Transfers	(25,978)	341,080	(341,080)	–	(25,978)	2,020	32,545	(8,587)	–
At 31 December 2010	1,408,025	9,196,907	492,536	2,903,727	14,001,195	7,256	154,597	115,513	14,278,561
<b>Accumulated depreciation, amortisation and impairment losses:</b>									
At 1 January 2010	874,179	6,405,087	–	2,403,528	9,682,794	–	5,034	48,174	9,736,002
Charge for the year	31,695	555,237	–	304,897	891,829	–	5,158	2,056	899,043
Written back on disposal	–	(318,436)	–	(262,200)	(580,636)	–	–	(2,020)	(582,656)
Exchange adjustments	–	73	–	26	99	–	–	–	99
Transfers	(16,523)	–	–	–	(16,523)	2,020	20,638	(6,135)	–
At 31 December 2010	889,351	6,641,961	–	2,446,251	9,977,563	2,020	30,830	42,075	10,052,488
<b>Net book value:</b>									
At 31 December 2010	518,674	2,554,946	492,536	457,476	4,023,632	5,236	123,767	73,438	4,226,073
Add: Deposits paid in respect of buses on order					50,221	–	–	–	50,221
					4,073,853	5,236	123,767	73,438	4,276,294

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 14 FIXED ASSETS (continued)

#### (a) The Group (continued)

	Buildings	Buses and other motor vehicles	Buses under construction	Tools and others	Sub-total	Investment property under development	Investment properties	Interest in leasehold land	Total fixed assets
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost:</b>									
At 1 January 2011	1,408,025	9,196,907	492,536	2,903,727	14,001,195	7,256	154,597	115,513	14,278,561
Additions	14,660	37,227	388,829	334,071	774,787	6,505	1,363	–	782,655
Disposals	–	(300,830)	–	(90,041)	(390,871)	–	–	–	(390,871)
Exchange adjustments	–	–	–	40	40	–	–	–	40
Transfers	(7,199)	621,046	(621,046)	–	(7,199)	–	7,199	–	–
At 31 December 2011	1,415,486	9,554,350	260,319	3,147,797	14,377,952	13,761	163,159	115,513	14,670,385
<b>Accumulated depreciation, amortisation and impairment losses:</b>									
At 1 January 2011	889,351	6,641,961	–	2,446,251	9,977,563	2,020	30,830	42,075	10,052,488
Charge for the year	30,337	527,357	–	317,531	875,225	–	6,254	2,012	883,491
Written back on disposal	–	(299,861)	–	(86,116)	(385,977)	–	–	–	(385,977)
Exchange adjustments	–	–	–	33	33	–	–	–	33
Transfers	(2,940)	–	–	–	(2,940)	–	2,940	–	–
At 31 December 2011	916,748	6,869,457	–	2,677,699	10,463,904	2,020	40,024	44,087	10,550,035
<b>Net book value:</b>									
At 31 December 2011	498,738	2,684,893	260,319	470,098	3,914,048	11,741	123,135	71,426	4,120,350
Add: Deposits paid in respect of buses on order					207	–	–	–	207
					3,914,255	11,741	123,135	71,426	4,120,557

#### (b) The Company

	Other fixed assets	
	2011	2010
	\$'000	\$'000
<b>Cost:</b>		
At 1 January and 31 December	201	201
<b>Accumulated depreciation:</b>		
At 1 January and 31 December	201	201
<b>Net book value:</b>		
At 31 December	–	–

**14 FIXED ASSETS** (continued)

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

	<b>The Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Medium-term leases	450,396	462,614
Short-term leases	254,644	258,501
	<b>705,040</b>	<b>721,115</b>
<b>Representing:</b>		
Buildings	498,738	518,674
Interest in leasehold land	71,426	73,438
Investment properties	123,135	123,767
Investment property under development	11,741	5,236
	<b>705,040</b>	<b>721,115</b>

- (d) Investment properties and investment property under development are stated at cost less accumulated depreciation and impairment loss. The fair values of the investment properties and investment property under development were \$1,065,910,000 and \$1,065,000,000 respectively as at 31 December 2011 (2010: \$790,900,000 and \$775,000,000 respectively). The valuations were carried out by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The valuations were performed on an open market value basis. As at 31 December 2011, the investment property under development recognised in the fixed assets of \$11,741,000 (2010: \$5,236,000) is related to the Group's interests in the jointly controlled asset.
- (e) The Group leased out investment properties during the year ended 31 December 2011. The leases typically run for an initial period from two to three years, with an option to renew the leases after that date at which time all terms are renegotiated. The leases include contingent rentals being the excess of a percentage of the monthly turnover generated by the lessees over the monthly minimum lease rentals.

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

	<b>The Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Within 1 year	17,233	13,315
After 1 year but within 5 years	16,174	5,236
	<b>33,407</b>	<b>18,551</b>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 15 INTANGIBLE ASSETS

### Passenger service licences and transport operating rights

	The Group	
	2011	2010
	\$'000	\$'000
<b>Cost and net book value:</b>		
At 1 January	22,536	21,536
Additions	21,642	1,000
At 31 December	44,178	22,536

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

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

## 16 GOODWILL

	The Group	
	2011	2010
	\$'000	\$'000
<b>Cost:</b>		
At 1 January and 31 December	75,802	75,802
<b>Accumulated impairment losses:</b>		
At 1 January and 31 December	12,487	12,487
<b>Carrying amount:</b>		
At 31 December	63,315	63,315

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

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

## 16 GOODWILL (continued)

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

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

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

	2011	2010
	%	%
Growth rate	3.0	3.0
Discount rate	7.8	8.1

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

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

## 17 MEDIA ASSETS

	The Group	
	2011	2010
	\$'000	\$'000
<b>Cost:</b>		
At 1 January	2,053	2,030
Exchange adjustments	–	23
Disposals	(2,053)	–
At 31 December	–	2,053
<b>Accumulated amortisation and impairment losses:</b>		
At 1 January	2,053	1,658
Amortisation for the year	–	205
Exchange adjustments	–	19
Impairment loss	–	171
Written back on disposal	(2,053)	–
At 31 December	–	2,053
<b>Net book value:</b>		
At 31 December	–	–



## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 18 NON-CURRENT PREPAYMENTS

Non-current prepayments consist of deposits for purchase of fixed assets and advanced payments for concession and rights for advertising and media programme placement on transit vehicles and transit network furniture. The amounts are neither past due nor impaired.

### 19 INTEREST IN SUBSIDIARIES

#### (a) Investments in subsidiaries

	The Company	
	2011	2010
	\$'000	\$'000
Unlisted shares, at cost	1,188,423	1,188,423

#### (b) Amounts due from/(to) subsidiaries

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

#### (c) Particulars of principal subsidiaries

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

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

**19 INTEREST IN SUBSIDIARIES** (continued)**(c) Particulars of principal subsidiaries** (continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Percentage of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by subsidiaries	
Chomang Travel Transport Company Limited	Hong Kong	10,000 shares of \$1 each	100	–	100	Provision of non-franchised bus services in Hong Kong
Bun Tang Bus Service Company Limited	Hong Kong	120,000 shares of \$1 each	100	–	100	Provision of non-franchised bus services in Hong Kong
Sau Luen P.L.B. Co., Limited	Hong Kong	10,000 shares of \$1 each	100	–	100	Provision of non-franchised bus services in Hong Kong
New Hong Kong Bus Company Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	1,000 shares of \$1 each	100	–	100	Provision of cross-boundary shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen)
Hoi Tai Tours Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	20,000 shares of \$100 each	100	–	100	Provision of non-franchised bus services
Lai Chi Kok Properties Investment Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	–	100	Property development
LCK Real Estate Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	–	100	Property investment
LCK Commercial Properties Limited	Hong Kong	1 share of \$1	100	–	100	Property investment
KT Real Estate Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	–	100	Property investment

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 19 INTEREST IN SUBSIDIARIES (continued)

### (c) Particulars of principal subsidiaries (continued)

Name of company	Place of incorporation/ establishment/ and operation	Particulars of issued/ registered and paid-up capital	Percentage of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by subsidiaries	
TM Properties Investment Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	–	100	Property investment
TIH Financial Services Limited	Hong Kong	2 shares of \$1 each	100	–	100	Provision of second mortgage loan services
KMB Financial Services Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	–	100	Investment holding
RoadShow Holdings Limited	Incorporated in Bermuda and operates in Hong Kong	997,365,332 shares of \$0.1 each	73	–	73	Investment holding
RoadShow Creations Limited	Hong Kong	2 shares of \$1 each	73	–	100	Trading of bus souvenirs
RoadShow Media Limited	Hong Kong	2 shares of \$1 each	73	–	100	Provision of media sales and management services for advertising on transit vehicles, shelters and for the Multi-media On-board business
RoadShow Productions Limited	Hong Kong	2 shares of \$1 each	73	–	100	Production of content for Multi-media On-board systems
Bus Power Limited	Hong Kong	1 share of \$1	73	–	100	Provision of media sales services for advertising on transit vehicle exteriors

The market value of the Group's interest in a listed subsidiary, RoadShow Holdings Limited, at 31 December 2011 amounted to \$444,157,000 (2010: \$473,282,000).

## 20 INTEREST IN ASSOCIATES

	The Group	
	2011	2010
	\$'000	\$'000
Share of net assets	579,296	581,364
Goodwill	66,657	63,821
Amount due from an associate	27,105	–
Amount due to an associate	(4,922)	(4,922)
	<b>668,136</b>	<b>640,263</b>

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

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

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Percentage of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by subsidiaries	
Beijing Beiqi Kowloon Taxi Company Limited	Sino-foreign joint stock company	The PRC	RMB 166,600,000	31.4	–	31.4	Provision of taxi hire and car rental services
Shenzhen Bus Group Company Limited	Sino-foreign joint stock company	The PRC	RMB 951,430,306	35	–	35	Provision of bus and taxi hire services

### Summary financial information on associates

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Net profit \$'000
<b>2011</b>					
100 per cent	4,785,305	(3,095,624)	1,689,681	2,643,273	90,122
Group's effective interest	1,656,443	(1,077,147)	579,296	910,964	31,292
<b>2010</b>					
100 per cent	3,573,937	(1,944,990)	1,628,947	2,625,011	96,375
Group's effective interest	1,287,401	(706,037)	581,364	905,507	33,821

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 21 OTHER FINANCIAL ASSETS

	The Group	
	2011	2010
	\$'000	\$'000
Instalments receivable from sales of properties	2,437	3,019
Unlisted equity securities, at cost	15,355	38,925
Loans to investee	–	97,218
Amount due from investee	–	15,882
Available-for-sale debt securities		
– listed outside Hong Kong	431,944	442,717
– unlisted	37,761	38,501
	487,497	636,262
Less: unlisted available-for-sale debt securities classified as current assets	(15,032)	–
Other financial assets classified as non-current assets	472,465	636,262

- (a) Instalments receivable from sales of properties are neither past due nor impaired. Instalments receivable from sales of properties relate to customers for whom there was no recent history of default. Properties sold to the customers serve as collateral.
- (b) During the year ended 31 December 2011, RoadShow and its subsidiaries ("RoadShow Group") requested AdSociety Daye Advertising Company Limited (the "investee") to repay the loans totalling \$70,154,000 due upon expiry. However, the investee had defaulted on the agreed repayment schedule. In addition, the RoadShow Group has undertaken various discussions with the investee to restructure the investment in and loans to the investee. Up to the date of these financial statements, the RoadShow Group has not been able to obtain a viable proposal from the investee. The RoadShow Group has engaged PRC lawyers and issued legal letter to the investee to demand settlement. Up to the date of these financial statements, no settlement has been made and the loans are overdue.

The default of loan repayment has instigated re-assessment of the recoverable amount of the unlisted available-for-sale equity interest in and the outstanding amounts due from the investee totalling \$109,606,000. Based on the latest information available to the RoadShow Group, it is considered that the prospect of any significant recovery of the investment and outstanding amounts is highly uncertain. Accordingly, additional impairment losses of \$109,606,000 have been made against the RoadShow Group's investment in, loans to and amount due from the investee resulting in full impairment losses made on such assets as at 31 December 2011.

The remaining unlisted equity securities of \$15,355,000 relate to another investment of the Group for which no impairment loss is considered necessary.

- (c) Debt securities are issued by corporate entities with credit rating ranging from BBB+ to AAA. As at 31 December 2011 and 2010, the Group's available-for-sale debt securities were neither past due nor impaired. Debt securities that will mature within one year are classified as current assets.

## 22 EMPLOYEE RETIREMENT BENEFITS

The Group makes contributions to two defined benefit retirement schemes which provide pension benefits to eligible employees of the Group. The schemes are administered by an independent trustee and the assets are held separately from those of the Group.

The latest independent actuarial valuations of the plans were at 31 December 2011 and were prepared by Towers Watson Hong Kong Limited which has among its staff fellow members of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 108% (2010: 147%) covered by the plan assets held by the trustee.

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

	The Group	
	2011	2010
	\$'000	\$'000
Present value of funded obligations	(3,124,902)	(2,700,389)
Fair value of plan assets	3,388,105	3,973,271
Net unrecognised actuarial losses/(gains)	537,453	(482,899)
	800,656	789,983

A portion of the above asset/liability is expected to be recovered/paid after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable/payable in the next twelve months, as future refund or reduction of contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The expected annual contribution to defined benefit retirement plans for 2012 is Nil.

(b) Plan assets consist of the following:

	The Group	
	2011	2010
	\$'000	\$'000
Equity securities	2,452,502	2,955,833
Bonds	776,605	894,688
Cash and others	158,998	122,750
	3,388,105	3,973,271

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 22 EMPLOYEE RETIREMENT BENEFITS (continued)

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

	The Group	
	2011	2010
	\$'000	\$'000
At 1 January	2,700,389	2,886,274
Benefits paid by the plans	(191,409)	(199,878)
Current service cost	122,599	135,474
Interest cost	80,089	74,139
Actuarial losses/(gains)	413,234	(195,620)
At 31 December	3,124,902	2,700,389

#### (d) Movements in plan assets:

	The Group	
	2011	2010
	\$'000	\$'000
At 1 January	3,973,271	3,816,704
Benefits paid by the plans	(191,409)	(199,878)
Actuarial expected return on plan assets	273,384	283,647
Actuarial (losses)/gains	(593,141)	72,798
Refund of scheme surplus	(74,000)	–
At 31 December	3,388,105	3,973,271

#### (e) Net income recognised in the consolidated income statement is as follows:

	The Group	
	2011	2010
	\$'000	\$'000
Current service cost	122,599	135,474
Interest cost	80,089	74,139
Actuarial expected return on plan assets	(273,384)	(283,647)
Net actuarial (gains)/losses recognised	(13,977)	44
	(84,673)	(73,990)

The above net income is included in other net income in the consolidated income statement. The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions received and benefits paid) was net loss of \$319,757,000 (2010: net gain of \$356,445,000).

**22 EMPLOYEE RETIREMENT BENEFITS** (continued)

(f) The principal actuarial assumptions used at the respective year-ends are as follows:

	The Group	
	2011	2010
	%	%
Discount rate	1.5	3.0
Expected rate of return on plan assets	7.0	7.0
Future salary increases	4.5	4.5

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

(g) Historical information

	The Group				
	2011	2010	2009	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Fair value of plan assets	3,388,105	3,973,271	3,816,704	3,110,517	4,782,207
Present value of the defined benefit obligations	(3,124,902)	(2,700,389)	(2,886,274)	(3,443,631)	(2,755,991)
Surplus/(deficit) in the plans	263,203	1,272,882	930,430	(333,114)	2,026,216
Experience gains/(losses) arising on plan liabilities	18,413	85,373	125,284	(47,681)	84,445
Experience (losses)/gains arising on plan assets	(593,141)	72,798	644,339	(1,846,847)	866,572

**23 EQUITY SETTLED SHARE-BASED TRANSACTIONS**

RoadShow operates a share option scheme ("the Scheme") which was adopted on 7 June 2001 whereby the directors of RoadShow are authorised, at their discretion, to offer any employee (including any director) of RoadShow or any of its wholly-owned subsidiaries options to subscribe for shares in RoadShow. Each option gives the holder the right to subscribe for one ordinary share of RoadShow. The Scheme was valid and effective for a period of ten years and expired on 6 June 2011.

No option was granted during the year and there were no outstanding options at 31 December 2011 and 2010.



## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24 ACCOUNTS RECEIVABLE

	The Group	
	2011	2010
	\$'000	\$'000
Trade and other receivables	330,649	242,408
Instalments receivable from sales of properties	1,003	409
Interest receivable	16,896	14,156
Less: Allowance for doubtful debts (note 24(b))	(104)	(345)
	348,444	256,628

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

#### (a) Ageing analysis

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

	The Group	
	2011	2010
	\$'000	\$'000
Current	105,951	97,294
1 to 3 months past due	50,888	18,427
More than 3 months past due	8,037	7,934
	164,876	123,655

The Group's credit policy is set out in note 34(a) to the financial statements.

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

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

**24 ACCOUNTS RECEIVABLE** (continued)**(b) Impairment of trade and other receivables and instalments receivable from sales of properties**  
(continued)

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

	<b>The Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
At 1 January	345	4,529
Impairment loss recognised	104	663
Write-back of impairment loss	–	(731)
Uncollectible amounts written off	(345)	(4,116)
At 31 December	104	345

At 31 December 2011, the Group's trade and other receivables of \$206,000 (2010: \$814,000) were individually determined to be impaired. The individually impaired receivables related to customers that have defaulted on repayment and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of \$104,000 (2010: \$345,000) were recognised as at 31 December 2011.

**(c) Accounts receivable that is not impaired**

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

	<b>The Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Neither past due nor impaired	289,519	230,267
1 to 3 months past due	50,888	18,427
More than 3 months past due	7,935	7,465
	58,823	25,892
	348,342	256,159

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 24 ACCOUNTS RECEIVABLE (continued)

### (c) Accounts receivable that is not impaired (continued)

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

## 25 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

	The Group		The Company	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	301,141	185,208	38,368	31,590
Bank deposits	2,672,920	2,615,489	–	–
	2,974,061	2,800,697	38,368	31,590
Less: Pledged and restricted bank deposits (note)	(45,455)	(73,921)	–	–
Cash and cash equivalents in the balance sheets	2,928,606	2,726,776	38,368	31,590
Less: Bank deposits with original maturities of over three months	(1,239,038)	(2,084,485)		
Bank overdrafts	(40)	(229)		
Cash and cash equivalents in the consolidated cash flow statement	1,689,528	642,062		

Note: Pursuant to certain licence agreements between certain subsidiaries of the Group and certain subsidiaries of RoadShow, the subsidiaries of RoadShow have provided bank guarantees in favour of the subsidiaries of the Group regarding their due performance and payment under the respective licence agreements. The Group has pledged bank deposits of \$41,200,000 (2010: \$41,200,000) to banks for the bank guarantees issued.

In addition, the Group is required to maintain the balance of passenger rewards (see note 4) in designated bank accounts under the revised MBOF approach. As at 31 December 2011, the related restricted bank deposits amounted to \$4,255,000 (2010: \$32,721,000).

**25 CASH AND CASH EQUIVALENTS** (continued)**(b) Reconciliation of profit before taxation to cash generated from operations:**

	2011 \$'000	2010 \$'000
<b>Profit before taxation</b>	<b>275,368</b>	930,726
Adjustments for:		
– dividend income from unlisted equity securities	(31,000)	(16,145)
– interest income	(46,810)	(36,594)
– finance costs	8,630	6,618
– impairment loss on other financial assets	109,606	110,000
– depreciation and amortisation	883,491	899,248
– impairment loss on media assets	–	171
– net gain on disposal of fixed assets	(3,636)	(492,397)
– loss on disposal of subsidiaries	468	–
– share of profits of associates	(31,292)	(33,821)
Effect of foreign exchange rate	(6,904)	(3,495)
<b>Operating profit before changes in working capital</b>	<b>1,157,921</b>	1,364,311
Decrease/(increase) in non-current prepayments	9,580	(25,106)
Increase in employee benefit assets	(10,673)	(73,990)
Decrease in spare parts and stores	2,612	10,344
Increase in trade and other receivables	(88,823)	(10,433)
(Increase)/decrease in instalments receivable from sale of properties	(12)	149,410
Decrease in deposits and prepayments	2,229	7,505
Decrease/(increase) in completed property held for sale	25,543	(3,163)
Increase/(decrease) in accounts payable and accruals	16,700	(5,360)
Increase in third party claims payable	5,175	3,580
Increase/(decrease) in contingency provision – insurance	9,280	(4,772)
Increase/(decrease) in provision for long service payments	7,369	(4,395)
<b>Cash generated from operations</b>	<b>1,136,901</b>	1,407,931

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 26 BANK LOANS AND OVERDRAFTS

At 31 December 2011, the bank loans and overdrafts were repayable as follows:

	The Group	
	2011	2010
	\$'000	\$'000
Within 1 year or on demand	70,040	197,592
After 1 year but within 2 years	200,000	69,916
After 2 years but within 5 years	597,901	400,000
	797,901	469,916
	867,941	667,508

### 27 ACCOUNTS PAYABLE AND ACCRUALS

	The Group		The Company	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Trade payables	220,642	237,737	–	–
Balance of passenger rewards (see note 4)	3,695	31,572	–	–
Other payables and accruals	842,539	839,735	41,182	41,615
Financial liabilities measured at amortised cost	1,066,876	1,109,044	41,182	41,615
Financial guarantees issued	–	–	118	473
	1,066,876	1,109,044	41,300	42,088

No financial guarantees issued (2010: \$151,000) by the Company are expected to be recognised as income after more than one year. All other accounts payable and accruals at 31 December 2011 and 2010 are expected to be settled within one year.

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

	The Group	
	2011	2010
	\$'000	\$'000
Due within 1 month or on demand	197,655	202,101
Due after 1 month but within 3 months	17,219	33,120
Due after more than 3 months	5,768	2,516
	220,642	237,737

## 28 CONTINGENCY PROVISION – INSURANCE

	The Group	
	2011	2010
	\$'000	\$'000
At 1 January	431,417	432,609
Provision charged to the consolidated income statement	50,976	39,466
Payments made during the year	(36,521)	(40,658)
At 31 December	445,872	431,417
<b>Representing:</b>		
Current portion	136,297	131,122
Non-current portion	309,575	300,295
	445,872	431,417

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

## 29 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	The Group	
	2011	2010
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	33,991	71,902
Provisional Profits Tax paid	(13,209)	(75,473)
	20,782	(3,571)
Balance of Profits Tax recoverable relating to prior years	(127,258)	(70)
	(106,476)	(3,641)
PRC Income Tax payable	260	260
	(106,216)	(3,381)
<b>Representing:</b>		
Current taxation recoverable	(110,757)	(15,781)
Current taxation payable	4,541	12,400
	(106,216)	(3,381)

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 29 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

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

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

Deferred tax arising from:	The Group					
	Depreciation allowances in excess of the related depreciation \$'000	Provisions \$'000	Tax losses \$'000	Defined benefit assets \$'000	Others \$'000	Total \$'000
At 1 January 2010	513,148	(37,180)	(31,832)	41,877	7,120	493,133
Charged/(credited) to the consolidated income statement	3,837	(4,491)	4,694	(50)	(3,722)	268
At 31 December 2010	516,985	(41,671)	(27,138)	41,827	3,398	493,401
At 1 January 2011	516,985	(41,671)	(27,138)	41,827	3,398	493,401
Charged/(credited) to the consolidated income statement	29,907	(3,719)	(4,719)	90,282	(1,243)	110,508
At 31 December 2011	546,892	(45,390)	(31,857)	132,109	2,155	603,909

	The Group	
	2011 \$'000	2010 \$'000
<b>Amounts recognised in the consolidated balance sheet:</b>		
Net deferred tax assets	(3,536)	(6,055)
Net deferred tax liabilities	607,445	499,456
	603,909	493,401

#### (c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of \$30,357,000 (2010: \$29,385,000) in respect of tax losses of \$183,826,000 (2010: \$177,007,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Except for tax losses of \$308,000 (2010: \$2,107,000) which will expire in five years, the tax losses do not expire under the current tax legislation.

### 30 PROVISION FOR LONG SERVICE PAYMENTS

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

	The Group	
	2011	2010
	\$'000	\$'000
At 1 January	29,885	34,280
Provision charged to the consolidated income statement (note 5(a))	14,994	5,593
Payments made during the year	(7,625)	(9,988)
At 31 December	37,254	29,885

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

### 31 CAPITAL AND RESERVES

#### (a) Movements in components of equity

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

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

	Share capital	Contributed surplus	Retained profits	Total equity
	\$'000	\$'000	\$'000	\$'000
At 1 January 2010	403,639	1,300,000	4,079	1,707,718
<b>Changes in equity for 2010:</b>				
Dividends approved in respect of the previous year (note 12(b))	–	–	(827,460)	(827,460)
Profit and total comprehensive income for the year	–	–	951,526	951,526
Dividend approved in respect of the current year (note 12(a))	–	–	(121,092)	(121,092)
At 31 December 2010	403,639	1,300,000	7,053	1,710,692
At 1 January 2011	403,639	1,300,000	7,053	1,710,692
<b>Changes in equity for 2011:</b>				
Dividend approved in respect of the previous year (note 12(b))	–	–	(423,821)	(423,821)
Profit and total comprehensive income for the year	–	–	701,084	701,084
Dividend approved in respect of the current year (note 12(a))	–	–	(60,546)	(60,546)
At 31 December 2011	403,639	1,300,000	223,770	1,927,409



## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 31 CAPITAL AND RESERVES (continued)

#### (a) Movements in components of equity (continued)

The Company's reserves available for distribution to shareholders at 31 December 2011 amounted to \$1,523,770,000 (2010: \$1,307,053,000). After the balance sheet date, the Directors proposed an ordinary final dividend of \$0.45 per share (2010: \$1.05 per share), amounting to \$181,638,000 (2010: \$423,821,000). The ordinary final dividend proposed has not been recognised as liability at the balance sheet date.

#### (b) Share capital

##### Authorised and issued share capital

	2011 \$'000	2010 \$'000
<b>Authorised:</b>		
600,000,000 ordinary shares of \$1 each	600,000	600,000
<b>Issued and fully paid:</b>		
403,639,413 ordinary shares of \$1 each	403,639	403,639

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

#### (c) Nature and purpose of reserves

##### (i) Exchange reserve

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

##### (ii) Fair value reserve

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

#### (d) Capital management

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

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

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

**31 CAPITAL AND RESERVES** (continued)**(d) Capital management** (continued)

Net cash and equity at 31 December 2011 and 2010 were as follows:

	The Group		The Company	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents (note 25(a))	2,928,606	2,726,776	38,368	31,590
Pledged and restricted bank deposits (note 25(a))	45,455	73,921	–	–
Less: Bank loans and overdrafts (note 26)	(867,941)	(667,508)	–	–
Net cash	2,106,120	2,133,189	38,368	31,590
Total equity	6,702,337	6,942,217	1,927,409	1,710,692

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

**32 COMMITMENTS**

- (a) At 31 December 2011, the Group had the following capital commitments in relation to the purchase of property, plant and equipment not provided for in the financial statements:

	The Group	
	2011	2010
	\$'000	\$'000
Contracted for	120,045	530,314
Authorised but not contracted for	229,254	111,006
	349,299	641,320

At 31 December 2011, the Group's share of capital commitments of the jointly controlled investment property under development not provided for in the financial statements is as follows:

	The Group	
	2011	2010
	\$'000	\$'000
Contracted for	23,308	11,200
Authorised but not contracted for	1,767,976	1,785,900
	1,791,284	1,797,100

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 32 COMMITMENTS (continued)

- (b) At 31 December 2011, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	The Group	
	2011	2010
	\$'000	\$'000
Within 1 year	6,044	2,326
After 1 year but within 5 years	14,668	1,523
	20,712	3,849

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

- (c) Certain exclusive licences to conduct media sales management services for Multi-media On-board business have been granted to the Group, the respective licences expire in 2012. Under such licences, the Group has committed to pay licence fees or royalty fees at a pre-determined percentage of the net advertising rental received. The future minimum guaranteed licence fees or royalty fees are as follows:

	The Group	
	2011	2010
	\$'000	\$'000
Within 1 year	16,696	29,713
After 1 year but within 5 years	–	16,696
	16,696	46,409

### 33 CONTINGENT LIABILITIES

#### Financial guarantee issued

At 31 December 2011, the Company has undertaken to guarantee a banking facility granted to a subsidiary to the extent of \$140,000,000 (2010: \$140,000,000).

As at the balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the balance sheet date under the guarantee issued is the outstanding amount of the loan advanced by the bank to the subsidiary of \$70,000,000 (2010: \$70,000,000).

Deferred income in respect of the guarantee issued is disclosed in note 27 to the financial statements.

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, currency and fuel price risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

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

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

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

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

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

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables are set out in notes 21 and 24.

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (b) Liquidity risk

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

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

#### The Group

	2011					2010				
	Contractual undiscounted cash flow				Balance sheet carrying amount	Contractual undiscounted cash flow				Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	
	\$'000	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000	\$'000	
Bank loans	79,206	207,628	609,429	896,263	867,901	205,120	74,575	403,592	683,287	667,279
Bank overdrafts	40	–	–	40	40	229	–	–	229	229
Accounts payable and accruals	1,066,876	–	–	1,066,876	1,066,876	1,109,044	–	–	1,109,044	1,109,044
	1,146,122	207,628	609,429	1,963,179	1,934,817	1,314,393	74,575	403,592	1,792,560	1,776,552

#### The Company

	2011					2010				
	Contractual undiscounted cash flow				Balance sheet carrying amount	Contractual undiscounted cash flow				Balance sheet carrying amount
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	
	\$'000	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000	\$'000	
Amounts due to subsidiaries	7,437,109	–	–	7,437,109	7,437,109	7,357,759	–	–	7,357,759	7,357,759
Other payables and accruals	41,182	–	–	41,182	41,182	41,615	–	–	41,615	41,615
	7,478,291	–	–	7,478,291	7,478,291	7,399,374	–	–	7,399,374	7,399,374
<b>Financial guarantee issued:</b>										
Maximum amount guaranteed (note 33)	70,000	–	–	70,000	118	70,000	–	–	70,000	473

### 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (c) Interest rate risk

It is the Group's policy to closely monitor the market conditions and devise suitable strategies against interest rate risk. As at 31 December 2011 and 2010, all the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. The Group regularly reviews its strategy on interest rate risk management in the light of the prevailing market condition.

##### (i) Interest rate profile

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

	The Group			
	2011		2010	
	Effective interest rate p.a. %	Amount \$'000	Effective interest rate p.a. %	Amount \$'000
<b>Fixed rate assets:</b>				
Bank deposits	1.9	2,672,920	0.7	2,615,489
Loans to investee	–	–	5.3	97,218
Available-for-sale debt securities	3.7	469,705	3.7	481,218
		<u>3,142,625</u>		<u>3,193,925</u>
<b>Variable rate assets/(liabilities):</b>				
Cash at bank	0.1	45,198	0.1	75,898
Instalments receivable	5.0	2,616	5.0	3,428
Bank overdrafts	5.0	(40)	5.0	(229)
Bank loans	1.1	(867,901)	0.9	(667,279)
		<u>(820,127)</u>		<u>(588,182)</u>

##### (ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately \$6,773,000 (2010: \$4,786,000). Other components of consolidated equity would have decreased/increased by approximately \$9,455,000 (2010: \$13,662,000) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2010.

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (d) Currency risk

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

The Group hedges approximately 35% (2010: 56%) of its estimated foreign currency exposure in respect of highly probable forecast purchases. During the years ended 31 December 2011 and 2010, the Group used forward foreign exchange contracts to hedge its currency risk and classified these as cash flow hedges.

At 31 December 2011 and 2010, the Group had no forward foreign exchange contracts outstanding.

#### (i) Exposure to currency risk

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

#### The Group

	Exposure to foreign currencies (expressed in Hong Kong dollars)					
	2011			2010		
	Renminbi	British Pounds Sterling	United States dollars	Renminbi	British Pounds Sterling	United States dollars
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	32,731	623	200,748	4,112	20,963	194,191
Accounts payable and accruals	–	(38,067)	(2,487)	–	(52,516)	(3,168)
Available-for-sale debt securities	–	–	431,944	–	–	442,717
Amount due from associate	27,105	–	–	–	–	–
Amount due from investee	–	–	–	–	–	15,882
Loans to investee	–	–	–	27,064	–	70,154
Overall net exposure	59,836	(37,444)	630,205	31,176	(31,553)	719,776

In addition, the Group is exposed to currency risk arising from inter-company receivables denominated in Renminbi which is not the functional currency of the lender. Such inter-company receivables amounted to RMB123,730,000 as at 31 December 2011, equivalent to \$152,361,000 (2010: RMB123,734,000, equivalent to \$145,882,000).

**34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES** (continued)**(d) Currency risk** (continued)**(ii) Sensitivity analysis**

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

**The Group**

	2011			2010		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits (increase/ (decrease)) \$'000	Effect on other components of equity (increase/ (decrease)) \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits (increase/ (decrease)) \$'000	Effect on other components of equity (increase/ (decrease)) \$'000
Renminbi	4%	9,348	–	3%	5,319	–
	(4%)	(9,348)	–	(3%)	(5,319)	–
British Pounds Sterling	4%	(1,247)	–	4%	(916)	–
	(4%)	1,247	–	(4%)	916	–
United States dollars	1%	1,987	4,319	1%	2,776	4,427
	(1%)	(1,987)	(4,319)	(1%)	(2,776)	(4,427)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2010.

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



# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

### (e) Fuel price risk

It is the Group's policy to closely monitor the fuel oil price movements and enter into fuel oil swap contracts in a strategic manner when opportunities arise to hedge against fuel oil price fluctuations. There was no outstanding fuel oil swap contract as at 31 December 2011 and 2010.

### (f) Fair values

#### (i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, Financial instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

#### 2011

	The Group		
	Level 1	Level 2	Total
	\$'000	\$'000	\$'000
<b>Assets</b>			
Available-for-sale debt securities			
– Listed	431,944	–	431,944
– Unlisted	–	37,761	37,761
	431,944	37,761	469,705

#### 2010

	The Group		
	Level 1	Level 2	Total
	\$'000	\$'000	\$'000
<b>Assets</b>			
Available-for-sale debt securities			
– Listed	442,717	–	442,717
– Unlisted	–	38,501	38,501
	442,717	38,501	481,218

During the year there were no transfers between instruments in Level 1 and Level 2.

### 34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (f) Fair values (continued)

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

All financial instruments carried at cost or amortised cost are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010 except as follows:

- (1) Amounts due from/to subsidiaries, associates and investee of the Group and the Company are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose their fair values.
- (2) Unlisted equity securities of \$15,355,000 (2010: \$38,925,000) do not have a quoted market price in an active market and therefore their fair values cannot be reliably measured. They are stated at cost less accumulated impairment losses at the balance sheet date.

#### (g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

##### (i) Available-for-sale debt securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

##### (ii) Interest-bearing loans and borrowings

Fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

##### (iii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates can be made.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 35 MATERIAL RELATED PARTY TRANSACTIONS

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

### (a) Transactions with related companies

	Note	2011 \$'000	2010 \$'000
Service fees for provision of coach services	(i)	42,379	36,612
Insurance premium paid	(ii)	71,134	67,869
Amount paid and accrued for management contractor services for property under development	(iii)	–	–
Amount recoverable for letting and sales agency agreement	(iv)	–	(127)
Amount paid and accrued for management agreement	(v)	4,472	4,659
Amount paid and accrued for property project management services	(vi)	–	–
Amount paid and accrued for management contractor services for investment property under development	(vii)	–	–
Interest income received and receivable from unsecured fixed rate notes	(viii)	396	396
Gain on disposal of building and interest in leasehold land	(ix)	–	489,052
Amount paid and accrued for project management service and lease modification	(x)	2,000	2,920

Notes: (i) During the year, the Group provided coach services to certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP"), a substantial shareholder of the Company. Amounts due from these companies at 31 December 2011 amounted to \$10,740,000 (2010: \$10,067,000).

(ii) During the year, the Group entered into a contract with a subsidiary of SHKP, Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of insurance services to the Group (the "2011 Insurance Arrangements"). The amount paid and payable under the 2011 Insurance Arrangements amounted to \$71,134,000 (2010: \$67,869,000). Outstanding balance due to SHKPI at 31 December 2011 amounted to \$10,000 (2010: \$25,000).

(iii) In 2003, Lai Chi Kok Properties Investment Limited ("LCKPI"), an indirectly wholly-owned subsidiary of the Company, entered into a prime cost contract ("the Prime Cost Contract") with Chun Fai Construction Co. Ltd. ("CFCCL"), a subsidiary of SHKP, for the provision of management contractor services relating to the property under development of the Group ("Manhattan Hill"). In 2004, a supplementary agreement to the Prime Cost Contract ("the Supplementary Agreement") was entered into between LCKPI and CFCCL for the purposes of upgrading the design, materials and quality of the workmanship of Manhattan Hill. Pursuant to the Prime Cost Contract, as supplemented by the Supplementary Agreement, the aggregate consideration payable to CFCCL should not exceed \$1,617,743,000. Outstanding balance payable for this contract at 31 December 2011 amounted to \$95,805,000 (2010: \$101,845,000).

(iv) LCKPI entered into a Letting and Sales Agency Agreement (the "Original Agreement") with Sun Hung Kai Real Estate Agency Limited ("SHKRE"), a subsidiary of SHKP, on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and the car parking spaces of Manhattan Hill. On 15 August 2007, the Original Agreement was terminated and replaced by a letter agreement (the "Letter Agreement") pursuant to which LCKPI continues to appoint SHKRE as the letting and sales agent of Manhattan Hill under the same terms and conditions of the Original Agreement except that the maximum amount of the agency fees payable under the Original Agreement and the Letter Agreement shall, altogether, not exceed \$65,000,000. Outstanding balance payable for this contract at 31 December 2011 amounted to \$2,676,000 (2010: \$3,605,000).

(v) In 2003, LCKPI entered into the Management Agreement with Hong Yip Service Company Limited ("Hong Yip"), a subsidiary of SHKP, to agree to appoint Hong Yip as the manager of Manhattan Hill and to engage its services in relation to the terms and conditions set out in deed(s) of mutual covenant and management agreement(s) of Manhattan Hill to be entered into by LCKPI, Hong Yip and the first purchaser of a completed unit of the property.

In 2007, a supplemental deed had been entered into between LCKPI, Hong Yip and Royal Elite Service Company Limited ("Royal Elite"), a fellow subsidiary of Hong Yip, to amend and supplement the management agreement (the "Supplemental Deed"). It is agreed among the three parties that Royal Elite will replace Hong Yip as the Manager and to perform and discharge the duties and obligations as the manager under the deed(s) of mutual covenant. All terms defined in the Management Agreement are adopted in the Supplemental Deed. Outstanding balance payable for this contract at 31 December 2011 amounted to \$330,000 (2010: Nil).

### 35 MATERIAL RELATED PARTY TRANSACTIONS (continued)

#### (a) Transactions with related companies (continued)

Notes: (continued)

- (vi) In 1999, the Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to Manhattan Hill. The contract sum of the project management services is \$15,000,000, or the lower of 1% of the project costs and \$20,000,000, whichever is higher. Management service fees payable for this contract at 31 December 2011 amounted to \$3,800,000 (2010: \$3,800,000).
- (vii) On 16 April 2008, LCK Commercial Properties Limited ("LCKCP"), an indirectly wholly-owned subsidiary of the Company, entered into a prime cost agreement ("the Prime Cost Agreement") with CFCL for the provision of management contractor services involving the alteration and addition works to the retail podium of Manhattan Hill ("Manhattan Mid-town"). Pursuant to the Prime Cost Agreement, the aggregate consideration payable to CFCL should not exceed \$37,400,000. Outstanding balance payable for this contract at 31 December 2011 amounted to \$2,419,000 (2010: \$4,229,000).
- (viii) On 6 March 2009, KMB Financial Services Limited ("KMBFS"), a wholly-owned subsidiary of the Company, purchased certain unsecured fixed rate notes (the "Fixed Rate Notes") issued by Sun Hung Kai Properties (Capital Market) Limited ("SHKPCM"), a wholly-owned subsidiary of SHKP, with a total nominal value of \$15,000,000 from a bank in an open secondary market, at a cost of \$15,000,000. The Fixed Rate Notes are interest bearing at 2.65% per annum. The principal amount of the Fixed Rate Notes will be repaid by SHKPCM on the maturity date on 12 February 2012 and the interest on the Fixed Rate Notes is payable quarterly. At 31 December 2011, the Fixed Rate Notes held by KMBFS were carried at a fair value of \$15,032,000 (2010: \$15,282,000) and there was no material outstanding interest receivable in current and prior years.
- (ix) At a special general meeting of the Company held on 21 January 2010, the independent shareholders of the Company approved the disposal of 50% of the Group's building and leasehold land interest in an industrial site at Kwun Tong (the "KT Site") to Turbo Result Limited ("TRL"), a subsidiary of SHKP, at a consideration of \$490,000,000, which was determined by reference to a valuation performed by Knight Frank Petty Limited, an independent property valuer. The transaction was completed on 25 January 2010, resulting in a gain on disposal of \$489,052,000.

At the same special general meeting, the independent shareholders of the Company also approved the development agreement entered into between the Group and TRL to jointly develop the KT Site on a 50-50 basis. In accordance with the development agreement, all income and profits, less all costs and expenses, deriving from the KT Site shall be shared by the Group and TRL in equal shares. The KT Site is a jointly controlled asset of the Group and is included in fixed assets (see note 14(d)). Capital commitment in respect of the Group's interests in the jointly controlled asset as at 31 December 2011 has been disclosed in note 32(a) to the consolidated financial statements.

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

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

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

Outstanding balance payable for this contract as at 31 December 2011 amounted to \$2,000,000 (2010: Nil).

#### (b) Key management personnel remuneration

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

### 36 NON-ADJUSTING POST BALANCE SHEET EVENT

After the balance sheet date, the Directors proposed an ordinary final dividend for the year. Further details are disclosed in note 12(a) to the financial statements.

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 37 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 16, 22(f) and 34(g) contain information about the assumptions and their risk factors relating to impairment of goodwill and intangible assets with indefinite useful lives, employee benefit assets and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

**(a) Contingency provision – insurance**

Estimation of the contingency provision – insurance, as disclosed in note 28, is based on past claims experience and recent claims development. As the ultimate claim amount will be affected by future external events, for example the amount of court awards, changes in standards of liability and the attitude of claimants towards settlement of their claims, actual claims may deviate from these estimations. Any increase or decrease in the provision would affect the Group's results in future years.

**(b) Depreciation/amortisation**

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

**(c) Impairment of assets**

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

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

**(d) Net realisable value of completed property held for sale**

Management determines the net realisable value of completed property held for sale with reference to recent sale transactions of the property and those in nearby areas. Estimated costs to be incurred in selling the property are taken into account in estimating net realisable value. These estimates require management judgement as to the anticipated future selling prices, rate of new property sales, marketing costs and general market conditions. Changes in market conditions affect the actual selling price when the property is sold and may affect profit or loss in future years.

**(e) Recognition of deferred tax assets**

At 31 December 2011, the Group has recognised deferred tax assets which arose from unused tax losses and deductible temporary differences as set out in note 29(b). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax asset may arise, which will be recognised in the consolidated income statement for the period in which such a reversal takes place.

### 38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets	1 July 2011
Amendments to HKAS 12, Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
HKFRS 10, Consolidated financial statements	1 January 2013
HKFRS 11, Joint arrangements	1 January 2013
HKFRS 12, Disclosure of interests in other entities	1 January 2013
HKFRS 13, Fair value measurement	1 January 2013
HKAS 27, Separate financial statements (2011)	1 January 2013
HKAS 28, Investments in associates and joint ventures	1 January 2013
Revised HKAS 19, Employee benefits	1 January 2013
HKFRS 9, Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments and interpretations and new standards is expected to be in the period of initial application. So far it has concluded that the above developments are relevant to the Group's financial statements but the adoption of them, except Revised HKAS 19, is unlikely to have a material impact on the Group's results of operations and financial position.

Revised HKAS 19 is effective for annual periods beginning on or after 1 January 2013, with earlier adoption permitted.

Changes in accounting policies arising from the adoption of Revised HKAS 19 are expected to include the following:

- Actuarial gains and losses will be recognised immediately in other comprehensive income. Currently only the portion of cumulative unrecognised actuarial gain or loss at the end of the previous reporting period exceeding ten percent of the greater of the present value of the defined benefit obligation at that date (before deducting plan assets) and the fair value of any plan assets at that date is recognised over the expected average remaining working lives of the employees, and that amount is recognised in the income statement.
- Expected return on plan assets recognised in the income statement will be calculated based on the rate used to discount the defined benefit obligation. Currently, this is recognised based on the Group's expected long-term rate of return on plan assets.

In addition, Revised HKAS 19 introduces additional disclosures for defined benefit plans.

The adoption of the revised standard may have a significant impact on amounts reported in respect of the Group's net assets and financial results. However, it is not practicable to provide a reasonable estimate of the impact until a detailed review has been completed.