# THE GROUP

## REVIEW OF 2009 FINANCIAL PERFORMANCE

### The Group's Results for the Year

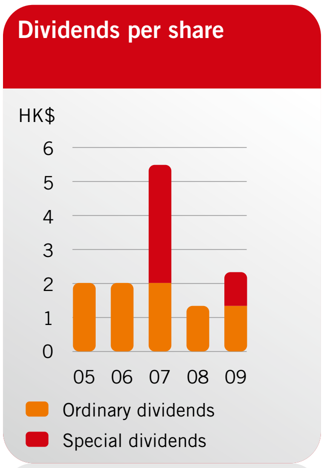
The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2009 was HK$673.5 million, an increase of HK$14.8 million compared to HK$658.7 million for 2008. Earnings per share increased from HK$1.63 for 2008 to HK$1.67 for 2009. The profit included the non-recurrent after-tax profit of HK$186.1 million (2008: HK$366.2 million) arising from the further sales of a number of the remaining residential units and car parking spaces of Manhattan Hill by Lai Chi Kok Properties Investment Limited, a wholly-owned subsidiary of the Company. If such non-recurrent after-tax profits for 2009 and 2008 were excluded, the profit attributable to equity shareholders for 2009 would have been HK$487.4 million, representing an increase of 66.6% compared to HK$292.5 million for 2008.

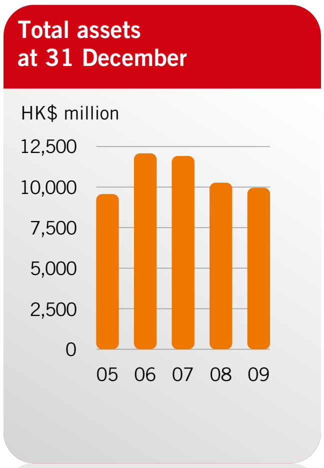
The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2009 are shown below:

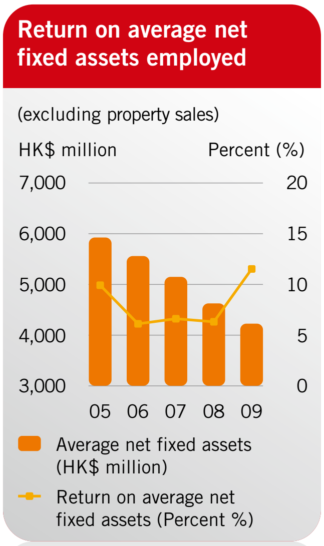
For the year ended 31 December 2009, the Group's turnover amounted to HK$6,842.2 million (2008: HK$7,353.1 million), a decrease of HK$510.9 million or 6.9% compared to 2008. The decrease was mainly due to the fact that only five (2008: 27) residential units and 13 (2008: 23) car parking spaces were sold in 2009, resulting in a total sales revenue of HK$156.2 million was recognised in 2009 compared to HK$619.0 million in 2008. Furthermore, fare revenue and other income generated from the Group's transport operations and other businesses decreased by HK$48.1 million from HK$6,734.1 million for 2008 to HK$6,686.0 million for 2009, due mainly to the adverse impact arising from the economic downturn and the outbreak of human swine influenza in 2009.

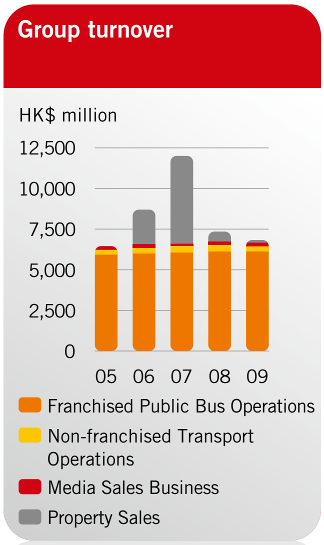
The Group's total operating expenses for the year amounted to HK$6,143.6 million (2008: HK$7,087.8 million), a decrease of HK$944.2 million or 13.3% compared to 2008. The decrease was mainly attributable to the decrease in fuel and oil costs of HK$683.7 million as a result of lower fuel oil prices, particularly in the first half of 2009, and the decrease in the cost of properties sold of HK$106.4 million in line with fewer Manhattan Hill

| | Turnover | | Profit before taxation | |
|---|---|---|---|---|
| **HK$ million** | **2009** | 2008 | **2009** | 2008 |
| Franchised Public Bus Operations Division | **6,200.0** | 6,201.6 | **474.3** | 82.5 |
| Non-franchised Transport Operations Division | **295.3** | 399.7 | **22.1** | 23.0 |
| Property Holdings and Development Division | **163.9** | 619.0 | **230.1** | 415.2 |
| Media Sales Business Division | **183.0** | 132.8 | **22.7** | 57.1 |
| Financial Services Division | **–** | – | **21.8** | 50.2 |
| Mainland Transport Operations Division | **–** | – | **38.4** | 106.9 |
| | **6,842.2** | 7,353.1 | **809.4** | 734.9 |
| Finance costs | | | **(12.1)** | (32.6) |
| Unallocated net operating income/(expenses) | | | **2.5** | (8.6) |
| Profit before taxation and minority interests | | | **799.8** | 693.7 |
| Income tax | | | **(117.7)** | (17.8) |
| Minority interests | | | **(8.6)** | (17.2) |
| Profit attributable to equity shareholders of the Company | | | **673.5** | 658.7 |




residential units sold in 2009. More detailed information in respect of the Group's individual business units is set out on pages 102 to 107 of this Annual Report.

The Group's share of profits of associates in 2009 amounted to HK$29.6 million (2008: HK$59.8 million), a decrease of HK$30.2 million compared to 2008. The decrease was mainly due to the fact that the Group's entire 45% equity interest in Wuxi Kowloon Public Transport Company Limited ("WKPT"), a Sino-foreign joint stock company, was disposed of in December 2008 and there was no profit contribution from WKPT in 2009, and a share of loss of the RoadShow Group's interest in AdSociety Daye Advertising Company Limited was incurred in 2009.

Income tax expense for the year amounted to HK$117.7 million (2008: HK$17.8 million). The breakdown of the income tax expense is set out in note 6(a) to the financial statements on page 155 of this Annual Report.

Segment information on the Group's main businesses is set out in note 13 to the financial statements on pages 160 to 163 of this Annual Report.

## Dividend Policy

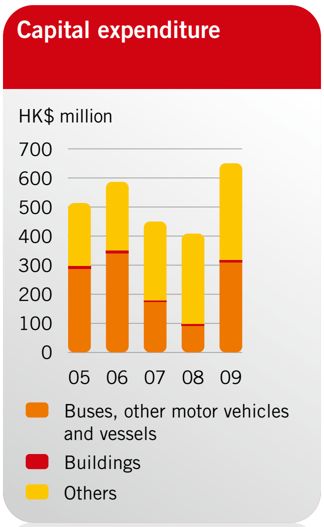
The Group's dividend policy aims to maintain steady ordinary dividends which can be supported by the earnings performance of the business, after taking into account the need to retain sufficient funds to keep the Group's total debt at a reasonable level, and to fund the growth of existing business operations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

The Board has recommended an ordinary final dividend of HK$1.05 per share (2008: HK$1.05 per share), and a special dividend of HK$1.00 per share (2008: Nil) to be paid out of the profits from the Manhattan Hill redevelopment. Subject to the approval of the shareholders at the 2010 Annual General Meeting, these proposed dividends, together with the interim dividend of HK$0.30 per share (2008: HK$0.30 per share) paid in October 2009, would result in a total dividend of HK$2.35 per share for 2009 (2008: HK$1.35 per share).

## KEY CHANGES TO FINANCIAL POSITION

### Fixed Assets and Capital Expenditure

The Group's fixed assets in the consolidated balance sheet mainly comprise buildings, buses and other motor vehicles, buses under construction, tools and others, investment property, and interest in leasehold land held for own use under operating leases. None of the Group's fixed assets was pledged or charged as at 31 December 2009.




During 2009, the Group incurred capital expenditure of HK$651.5 million (2008: HK$409.5 million). The increase was mainly attributable to the purchase of new buses for the franchised public bus operations. The breakdown of the capital expenditure is shown in note 14(a) to the financial statements on pages 164 and 165 of this Annual Report.

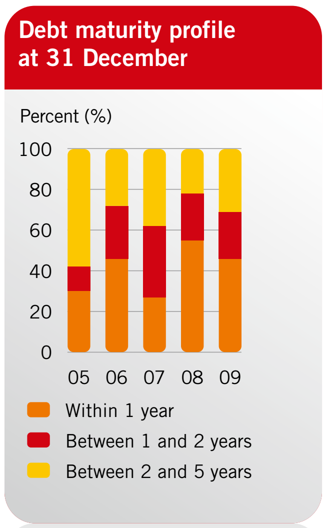
### Current Assets and Liabilities

At the end of 2009, the Group's total current assets amounted to HK$4,100.0 million (2008: HK$3,960.1 million), which mainly comprised completed property held for sale of HK$42.1 million (2008: HK$78.5 million), accounts receivable of HK$384.6 million (2008: HK$717.8 million) and liquid funds of HK$3,553.1 million (2008: HK$3,034.1 million). Completed property held for sale represents the cost of the unsold residential units and car parking spaces of Manhattan Hill held at the balance sheet date. Accounts receivable included instalments receivable of HK$143.6 million (2008: HK$299.9 million) arising from the property sales in respect of Manhattan Hill. The Group's liquid funds at the end of 2009 were mainly denominated in Hong Kong Dollars, United States Dollars, Renminbi and British Pound Sterling ("GBP").

Total current liabilities at 31 December 2009 amounted to HK$1,646.1 million (2008: HK$1,876.6 million), which principally included the current portion of bank loans, bank overdrafts, accounts payable and other accruals. The decrease was mainly due to the repayment of bank loans.

### Bank Loans and Overdrafts

At 31 December 2009, bank loans and overdrafts, all unsecured, was HK$871.8 million (2008: HK$1,315.1 million). The maturity profile of bank loans and overdrafts of the Group at 31 December 2009 and 31 December 2008 is shown in the chart below:



## Net Cash

At 31 December 2009, the Group's net cash (i.e. cash and deposits at banks less total borrowings) amounted to HK$2,681.3 million (2008: HK$1,719.0 million). The details of the Group's net cash by currency at 31 December 2009 are given below:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Currency | Net cash in foreign currency million | Net cash in HK$ million | Net cash in foreign currency million | Net cash in HK$ million |
| Hong Kong Dollars | | 2,200.3 | | 1,207.3 |
| United States Dollars | 39.9 | 309.4 | 47.1 | 365.3 |
| British Pound Sterling | 1.7 | 21.5 | 1.7 | 19.2 |
| Renminbi | 132.8 | 150.1 | 112.5 | 127.2 |
| Total | | 2,681.3 | | 1,719.0 |

## Capital Commitments

Capital commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2009 amounted to HK$940.7 million (2008: HK$326.7 million). These commitments are to be financed by borrowings and working capital of the Group. A summary of the capital commitments is set out below:

| HK$ million | 2009 | 2008 |
|---|---|---|
| Purchase of buses and other motor vehicles | 582.5 | 68.1 |
| Purchase of other fixed assets | 356.7 | 257.3 |
| Construction of depots and other depot facilities | 1.5 | 1.3 |
| Total | 940.7 | 326.7 |

As at 31 December 2009, the Group had 333 (2008: 44) new buses on order for delivery in 2010 and 2011.

# FUNDING AND FINANCING

## Liquidity and Financial Resources

Under the principle of prudent financial management, the Group closely monitored 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 demands for daily operational needs, loan repayments, capital expenditure and potential business expansion and development. The Group's operations are mainly financed by shareholders' funds, bank loans and overdrafts. In general, the Group's major operating companies arrange for their own financing to meet their operational and investment needs. The Group's other subsidiaries are mainly financed by the holding company from its capital base. The Group's funding strategy is regularly reviewed by management to ensure that cost-efficient and flexible funding is available to cater for the unique operating environment of each subsidiary. As at 31 December 2009, the Group had unutilised banking facilities totalling HK$720.0 million (2008: HK$535.0 million).

## Gearing Ratio and Liquidity Ratio

The Group was in a net cash position as at 31 December 2009 and 31 December 2008. Its liquidity ratios at the year end of 2009 and 2008 are set out below:

| | 2009 | 2008 |
|---|---|---|
| Liquidity ratio at 31 December *(the ratio of current assets to current liabilities)* | 2.49 | 2.11 |

The Group's net cash as at 31 December 2009 amounted to HK$2,681.3 million (2008: HK$1,719.0 million). This increase was mainly attributable to the increase in liquid funds arising from the receipt of proceeds from the sales of Manhattan Hill residential units and the disposal of the Group's interests in WKPT and Park Island Transport Company Limited, a portion of which had been utilised as working capital and for the repayment of bank loans.

## Finance Costs and Interest Cover

For the year ended 31 December 2009, the finance costs incurred by the Group decreased to HK$12.1 million from HK$32.6 million for 2008. The decrease was mainly due to the decreases in interest rates and average bank borrowings during the year. The average interest rate in respect of the Group's borrowings for 2009 was 0.89%, a decrease of 126 basis points compared to 2.15% for 2008.

For the year ended 31 December 2009, the Group's interest income exceeded the total finance costs by HK$25.1 million (i.e. a net interest income position) (2008: HK$88.6 million).


## Net Cash Flow

During the year, the net cash flow generated from the operations of the franchised public bus business and the further sales of the residential units of Manhattan Hill was the principal sources of our liquidity. For the year ended 31 December 2009, there was a net decrease in cash and cash equivalents of HK$1,708.7 million (2008: increase of HK$577.6 million) and the sources are set out below:

| HK$ million | 2009 | 2008 |
|---|---|---|
| Net cash generated from/ (used in): | | |
| • Operating activities | **1,990.6** | 2,167.3 |
| • Investing activities | **(2,690.6)** | 257.6 |
| • Financing activities | **(1,008.7)** | (1,847.3) |
| Total | **(1,708.7)** | 577.6 |

In 2009, the net cash outflow generated from the operating and investing activities of the Group was HK$700.0 million (2008: cash inflow of HK$2,424.9 million). The main components included: (i) net cash generated from the operating activities of the franchised public bus operations of HK$1,346.8 million (2008: HK$631.0 million); (ii) cash proceeds received from the sales of Manhattan Hill residential units of HK$328.1 million (2008: HK$1,782.1 million); (iii) payment of capital expenditure of HK$618.9 million (2008: HK$402.1 million); and (iv) an increase in bank deposits placements with original maturities of over three months of HK$2,183.3 million (2008: a decrease of HK$617.4 million).

During the year, the bank loans decreased by HK$434.0 million (2008: HK$257.2 million). Before the payment of dividends to equity shareholders in 2009, the net cash outflow for 2009 was HK$1,163.7 million, compared to net cash inflow of HK$2,143.7 million for 2008.

Details of the Group's cash flow movement for the year ended 31 December 2009 are set out in the consolidated cash flow statement on page 137 of this Annual Report.

## Treasury Policies

The Group's activities are exposed to a variety of financial risks, including potential risks on credit, cash flow and liquidity, interest rate, foreign currency, equity price and fuel price. The overall risk management policies and practices of the Group focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's performance.

### Credit Risk

The Group's credit risk is mainly attributable to trade and other receivables, instalments receivable from sale of properties, loans to investee and debt investments. The Group 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. For instalments receivable from sale of properties, the properties sold serve as the collateral. Debt investments are only made with counterparties of high credit ratings. The Group regularly reviews the recoverability status of the receivables and carries out appropriate follow up measures to minimise its exposure to credit risk. 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 and does not provide any guarantee to third parties that would expose the Group to credit risk.

### Cash Flow and Liquidity Risk Management

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

The Group has not been exposed to significant cash flow and liquidity risks since it has maintained an adequate level of cash reserve on hand resulting from the sales of the Manhattan Hill residential units. Under normal circumstances and barring unforeseen drastic upsurge in fuel oil prices, the cash flow and liquidity risk of the Group's major subsidiary, KMB, which arranges its own financing, would also be low as its revenue is essentially received on a cash basis. Through proper planning and close monitoring of the level of debts, the Group is able to effectively meet its funding and investment requirements.

### Interest Rate Risk Management

The Group manages its exposure to interest rate risk in a prudent manner with a variety of techniques and instruments, including natural hedges achieved by spreading loans over different rollover and maturity dates. Derivative financial instruments such as interest rate swaps are used, as and when appropriate. As at 31 December 2009, all of the Group's borrowings were denominated in Hong Kong Dollars and on a floating interest rate basis. This enabled the Group to take advantage of the very low interest rates in 2009. The Group constantly reviews its strategy on interest rate risk management in the light of prevailing market conditions and devises suitable strategies to cope with the risk exposure. The Group's major subsidiary, KMB, has been continuously granted a good and stable "A" credit rating by Standard & Poor's since 14 January 2002. With this credit rating, KMB has been able to obtain the required funding at favourable borrowing rates from financial institutions.

### Foreign Currency Risk Management

Foreign currency risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments and transactions denominated in foreign currencies. The Group's foreign currency exposure mainly arises from the payments for new buses and overseas motor vehicle components, which are mainly denominated in GBP. Although foreign currency exposure does not pose a significant risk to the Group as the levels of foreign currency assets and liabilities are relatively low compared to its total asset base, the Group will continue to closely monitor foreign exchange movements and enter into forward exchange contracts in a strategic manner when opportunities arise to hedge foreign currency fluctuations. The Group entered into a number of forward foreign exchange contracts to hedge approximately 27% (2008: 30%) of the total GBP requirement for the year of 2009.

### Equity Price Risk

The Group is exposed to equity price changes arising from investment in equity securities. As the carrying amount of such investments is insignificant compared to the total assets of the Group, management considers the exposure to equity price risk to be insignificant.

### Fuel Price Risk

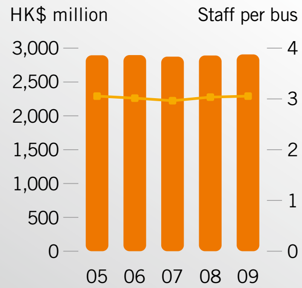
Fuel price movements can have a significant impact on the results of the Group's core franchised public bus businesses. The Group has carefully considered the pros and cons of entering into fuel price hedging arrangements, and has concluded that fuel price hedging would be equally risky as not hedging, and would not necessarily result in a better financial position for the Group in the long run. As a result, the Group has not entered into any fuel oil hedging contracts during 2009. To address the fuel price risk effectively, the Group's two major subsidiaries, KMB and LWB, will consider applying for fare increases when the impact of the surge in fuel oil prices is significant and will rigorously explore with the HKSAR Government other measures to mitigate this impact. The Group will continue to closely monitor the fuel price movements and constantly review its strategy on fuel price risk management.

## EMPLOYEES AND REMUNERATION POLICIES

Transport operations are labour intensive and staff costs accounted for a substantial portion of the total cost of the Group. The Group closely monitors the number and remuneration of its employees against productivity and market trends. For the year ended 31 December 2009, total remuneration of employees of the Group (including employees of the Group's subsidiary companies on the Mainland) amounted to HK$2,988.8 million (2008: HK$2,985.6 million). The number of employees of the Group at the year end of 2009 decreased by 1.8% to 13,074 (2008: 13,321). The decrease was due mainly to natural attrition and strict control of headcount.

**Staff costs and staff per bus**

(Franchised Public Bus Operations)



# INDIVIDUAL BUSINESS UNITS

## FRANCHISED PUBLIC BUS OPERATIONS

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

| | Unit | 2009 | 2008 |
|---|---|---|---|
| Turnover | HK$ million | **5,928.6** | 5,910.4 |
| Gain on disposal of building and interest in leasehold land | HK$ million | **980.0** | – |
| Other net income | HK$ million | **19.3** | 100.9 |
| Deemed (loss)/income recognised in respect of defined benefit retirement plans | HK$ million | **(36.4)** | 152.0 |
| Total operating expenses | HK$ million | **(5,465.6)** | (6,096.5) |
| Finance costs | HK$ million | **(9.5)** | (23.7) |
| Profit before taxation | HK$ million | **1,416.4** | 43.1 |
| Income tax (expense)/credit | HK$ million | **(71.9)** | 32.6 |
| Profit after taxation (including gain on disposal of building and interest in leasehold land) | HK$ million | **1,344.5** | 75.7 |
| Profit after taxation (excluding gain on disposal of building and interest in leasehold land) | HK$ million | **364.5** | 75.7 |
| Net profit margin (including gain on disposal of building and interest in leasehold land) | | **22.7%** | 1.3% |
| Net profit margin (excluding gain on disposal of building and interest in leasehold land) | | **6.1%** | 1.3% |
| Passenger volume | Million passenger trips | **965.2** | 986.5 |
| Kilometres travelled | Million km | **320.8** | 325.4 |
| Staff number at year-end | Number of staff | **11,870** | 11,947 |
| Fleet size at year-end | Number of buses | **3,880** | 3,933 |
| Total assets value | HK$ million | **4,801.4** | 5,054.8 |

The profit after taxation of KMB for the year amounted to HK$1,344.5 million, which comprised HK$364.5 million (2008: HK$75.7 million) derived from franchised public bus operations and a one-off non-cash capital gain of HK$980.0 million (2008: Nil) arising from the transfer of an industrial site at Kwun Tong to two fellow subsidiaries under the Group's Property Holdings and Development Division.

KMB's fare revenue and ridership for the year amounted to HK$5,821.3 million (2008: HK$5,816.3 million) and 965.2 million passenger trips (2008: 986.5 million passenger trips) respectively. The increase in fare revenue was due mainly to the fare increase of 4.5% which took effect from 8 June 2008, but was partly offset by a decrease in total ridership of 2.2% for 2009 due to intensified competition from the railways and the decreased travel demand resulting from the economic downturn and higher unemployment rate. Advertising revenue for the year amounted to HK$105.0 million, an increase of 15.8% compared to HK$90.7 million for the previous year. The increase was mainly due to the introduction of bus interior advertising since February 2009.

Total operating expenses for the year amounted to HK$5,465.6 million (2008: HK$6,096.5 million), representing a decrease of HK$630.9 million. The decrease was mainly due to the decrease in fuel costs by HK$595.8 million or 41.4% compared to 2008 as a result of the fall in the price of Singapore 0.5% Sulphur Gas Oil, on which the price of the ultra-low sulphur diesel used by our franchised public bus fleets is based. The decrease in fuel costs was, however, partly offset by the increase in staff costs and toll charges, as well as the increase in costs incurred for the defined benefit retirement plans, totalling HK$222.3 million.

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

### Long Win Bus Company Limited ("LWB")

| | Unit | 2009 | 2008 |
|---|---|---|---|
| Turnover | HK$ million | **326.9** | 323.1 |
| Other net (losses)/income | HK$ million | **(3.5)** | 3.6 |
| Deemed (loss)/income recognised in respect of defined benefit retirement plans | HK$ million | **(3.0)** | 1.2 |
| Total operating expenses | HK$ million | **(292.1)** | (312.1) |
| Finance costs | HK$ million | **(0.4)** | (1.9) |
| Profit before taxation | HK$ million | **27.9** | 13.9 |
| Income tax expense | HK$ million | **(4.5)** | (2.2) |
| Profit after taxation | HK$ million | **23.4** | 11.7 |
| Net profit margin | | **7.2%** | 3.6% |
| Passenger volume | Million passenger trips | **28.2** | 28.9 |
| Kilometres travelled | Million km | **25.8** | 25.6 |
| Staff number at year-end | Number of staff | **457** | 451 |
| Fleet size at year-end | Number of buses | **167** | 157 |
| Total assets value | HK$ million | **299.2** | 231.2 |

The profit after taxation of LWB for the year amounted to HK$23.4 million (2008: HK$11.7 million), representing an increase of HK$11.7 million or 100.0% compared to the previous year.

LWB's fare revenue for the year amounted to HK$325.1 million, representing an increase of 1.2% compared to HK$321.3 million for 2008. During the year, LWB recorded a total ridership of 28.2 million (a daily average of 77,151) passenger trips, a decrease of 2.4% compared to 28.9 million (a daily average of 78,890) passenger trips in 2008. The increase in fare revenue was mainly due to the fare increase of 4.5% which took effect from 8 June 2008. The decrease in ridership was mainly due to the adverse impact of the economic downturn, which affected both recreational and business demand. In addition, the widespread incidence of human swine influenza had a negative impact on air travel demand, as reflected in the decline in passenger throughput at Hong Kong International Airport in 2009. The advertising revenue of LWB for the year amounted to HK$1.5 million (2008: HK$1.8 million).

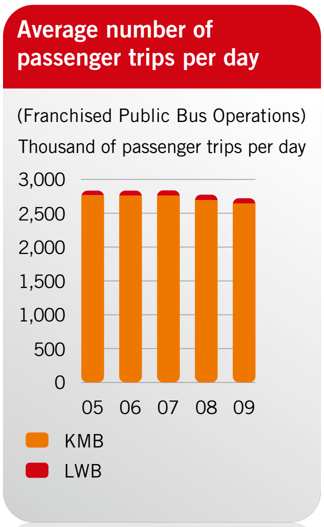
LWB's total operating expenses for the year amounted to HK$292.1 million (2008: HK$312.1 million), a decrease of HK$20.0 million compared to 2008. The decrease was mainly due to the decrease in fuel costs of HK$30.8 million during the year as compared to 2008, but was partly offset by increases in other operating expenses such as staff costs, tunnel tolls and depreciation charges due to service enhancement. Finance costs for 2009 decreased by HK$1.5 million to HK$0.4 million (2008: HK$1.9 million) due mainly to the decrease in market interest rates compared to the previous year.

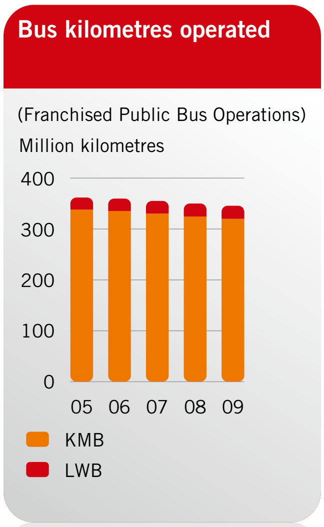
## NON-FRANCHISED TRANSPORT OPERATIONS

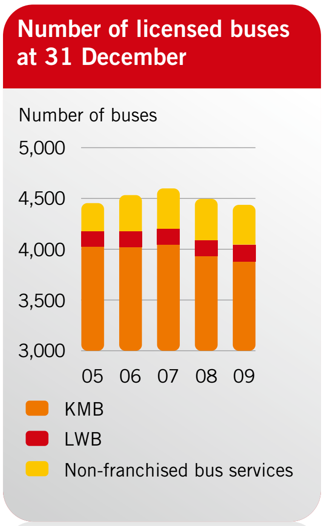
The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK$18.9 million for 2009 (2008: HK$19.3 million), representing a decrease of 2.1% compared to 2008. Turnover decreased by 26.1% to HK$295.3 million for 2009 from HK$399.7 million for 2008. A review of the operations of the principal business units in this Division is set out as follows:

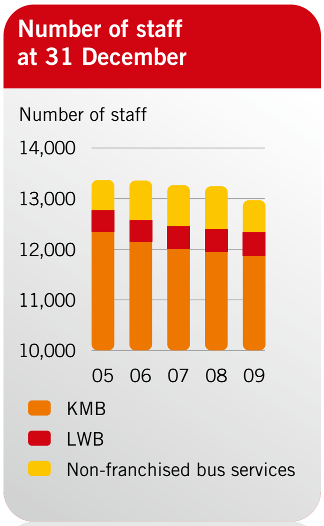
### Sun Bus Holdings Limited and its subsidiaries (the "SBH Group")

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




Turnover of the SBH Group for the year amounted to HK$210.8 million, a decrease of 3.7% compared to 2008. The decrease was mainly due to the negative impact of the economic downturn and the outbreak of human swine influenza in 2009.

As at 31 December 2009, the SBH Group had a fleet of 377 buses (2008: 367 buses). During the year, 38 buses (2008: 19 buses) were purchased for business expansion, service enhancement and fleet replacement.

## Park Island Transport Company Limited ("PITC")

PITC provides quality shuttle bus and ferry services for residents of and visitors to Park Island, a prestigious development on Ma Wan Island. On 1 June 2009, the Group disposed of its entire interest in PITC to Sun Hung Kai Transport Company Limited, a subsidiary of Sun Hung Kai Properties Limited. Details of the transaction are set out on page 108 of this Annual Report.

### New Hong Kong Bus Company Limited ("NHKB")

NHKB jointly operates with its Shenzhen (深圳) counterpart a direct, economical, 24-hour cross-boundary shuttle bus service (commonly known as the "Huang Bus" service) for regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang (皇崗) in Shenzhen. The opening of the Lok Ma Chau Spur Line and the Lok Ma Chau Public Transport Interchange in August 2007, the launch of direct charter flights between Taiwan and China Mainland in July 2008, and the outbreak of human swine influenza in the first half of 2009 coupled with economic downturn has resulted in NHKB's patronage decreasing by 17.1% from 7.0 million passenger trips in 2008 to 5.8 million passenger trips in 2009. At the end of 2009, NHKB operated a total of 15 buses, the same number as at the end of 2008.

## PROPERTY HOLDINGS AND DEVELOPMENT

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

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

Up to the end of 2008, 1,107 residential units of Manhattan Hill with a total saleable gross floor area ("saleable GFA") of about 1,173,600 square feet (representing 98.6% of the total saleable GFA) and 354 car parking spaces had been sold. In 2009, a further 5 residential units with a total saleable GFA of about 13,300 square feet (representing 1.1% of the total saleable GFA) and 13 car parking spaces were sold, generating an after-tax profit of HK$186.1 million (2008: HK$366.2 million).

As at 31 December 2009, completed property held for sale (classified under current assets in the consolidated balance sheet) amounted to HK$42.1 million (2008: HK$78.5 million).

There were no outstanding bank loans in respect of the construction of Manhattan Hill as at 31 December 2009 (2008: Nil).

### LCK Real Estate Limited ("LCKRE")

LCKRE, a wholly-owned subsidiary of the Group, is the owner of a 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, which has a total gross floor area of about 156,700 square feet. The building is currently held by the Group mainly for its own use and partially for rental purposes, and was stated at cost less accumulated depreciation in the amount of HK$35.9 million (2008: HK$37.5 million) on its consolidated balance sheet as at 31 December 2009.

### LCK Commercial Properties Limited ("LCKCP")

LCKCP, a wholly-owned subsidiary of the Group, is the owner of the new shopping mall, "Manhattan Mid-town", which is providing Manhattan Hill residents, as well as local householders and office staff, with high quality retail facilities. Positioned as a high-end retail complex to complement the image of Manhattan Hill, Manhattan Mid-town's mix of shops and restaurants covers a total floor area of around 50,000 square feet. The mall was opened in March 2009 and about 95% of the lettable area of the shopping mall had been leased out as at 31 December 2009, generating additional rental income for the Group.

At 31 December, 2009, LCKCP had no capital commitment outstanding and not provided for (2008: Nil).

## MEDIA SALES BUSINESS

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

| HK$ million | 2009 | 2008 |
|---|---|---|
| Turnover | **196.3** | 148.4 |
| Other revenue | **26.8** | 35.6 |
| Total operating expenses | **(186.3)** | (141.0) |
| Finance costs | **–** | (0.3) |
| Share of (loss)/profit of associate | **(4.4)** | 14.1 |
| Impairment loss on unlisted equity securities | **(9.8)** | – |
| Profit before taxation | **22.6** | 56.8 |
| Income tax expense | **(4.4)** | (7.1) |
| Profit after taxation | **18.2** | 49.7 |
| Minority interests | **(4.2)** | (7.1) |
| Profit attributable to equity shareholders | **14.0** | 42.6 |

For the year ended 31 December 2009, the RoadShow Group reported a total operating revenue of HK$223.1 million (2008: HK$184.0 million) and a profit attributable to equity shareholders of HK$14.0 million (2008: HK$42.6 million).

The total operating expenses of the RoadShow Group for 2009 amounted to HK$186.3 million, an increase of 32.1% compared to HK$141.0 million for 2008.

Further information relating to the RoadShow Group is available in its 2009 final results announcement and annual report.

## MAINLAND TRANSPORT OPERATIONS

As at 31 December 2009, the Group's total interests in associates (2008: associates and jointly controlled entities) within the Mainland Transport Operations Division amounted to HK$612.0 million (2008: HK$597.2 million). Such investments are mainly related to the operation of passenger public transport services in Shenzhen (深圳), and taxi and car rental services in Beijing (北京).

For the year ended 31 December 2009, the Group's Mainland Transport Operations Division reported a profit of HK$38.4 million (2008: HK$106.9 million). The decrease in profit was mainly due to the fact that a one-off gain on disposal of the Group's entire 45% equity interest in Wuxi Kowloon Public Transport Company Limited (無錫九龍公共交通股份有限公司) was recognised in 2008.

## Summary of Investments in Mainland Transport Operations as at 31 December 2009

| | Beijing | Shenzhen |
|---|---|---|
| Nature of business | Taxi and car rental services | Bus and taxi hire services |
| Form of business structure | Sino-foreign joint stock company | Sino-foreign joint stock company |
| Operation commenced | April 2003 | January 2005 |
| The Group's investment cost (RMB million) | 80 | 387 |
| The Group's effective interest | 31.38% | 35% |
| Fleet size at year-end 2009 (Number of vehicles) | 4,346 | 4,951 |
| Bus passenger volume (Million trips) | N/A | 862.8 |
| Bus kilometres travelled (Million km) | N/A | 358.7 |
| Staff number at year-end 2009 | 4,257 | 19,842 |

## Dalian

This co-operative joint venture ("CJV") in Dalian, Liaoning Province (遼寧省), was established in July 1997 by a 60% owned subsidiary of the Group and Dalian Public Transportation Group Co., Ltd. (大連公交客運集團有限公司), formerly known as Dalian City No.1 Bus Company (大連市第一公共汽車公司). The Dalian CJV has a fleet of about 84 single-deck buses operating on three routes serving Dalian City. In view of the fact that the scale of the Dalian CJV's operation was relatively small with limited prospects for expansion, the Group has disposed of its entire interest in the Dalian CJV in 2009 at a reasonable profit.

## Beijing

Beijing Beiqi Kowloon Taxi Company Limited (北京北汽九龍出租汽車股份有限公司) ("BBKT"), a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT's shareholders include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限責任公司) and three other Mainland investors. The Group has invested RMB80.0 million (HK$75.5 million) in BBKT, representing an equity interest of 31.38%. BBKT principally engages in taxi hire and car rental businesses with a fleet of around 4,346 vehicles and 4,257 employees. It made steady progress and continued to record a profit in 2009.

## Shenzhen

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) ("SBG"), which started operating in January 2005, is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four other Mainland investors. The Group has invested RMB387.1 million (HK$363.9 million) in SBG, representing a stake of 35%. SBG principally provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province (廣東省深圳市), which includes the Shenzhen Special Economic Zone and the Bao-an (寶安) and Longgang (龍崗) areas, with about 4,951 vehicles serving 222 routes. In 2009, it continued to make steady progress and recorded a ridership of 862.8 million passenger trips, representing an increase of 13.6% compared to 759.2 million passenger trips in 2008.

# CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

## CONNECTED TRANSACTIONS

### (a) KMB Financial Services Limited ("KMBFS")

#### Transactions relating to the purchase of the Fixed Rate Notes issued by Sun Hung Kai Properties (Capital Market) Limited ("SHKPCM") on open secondary market

As detailed in note 37(a)(x) to the financial statements on page 200 of this Annual Report, on 6 March 2009, KMBFS, an indirect wholly-owned subsidiary of the Company purchased certain short-term unsecured fixed rate notes (the "Fixed Rate Notes") with a total nominal value of HK$15,000,000 issued by Sun Hung Kai Properties (Capital Market) Limited ("SHKPCM"), a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"), from a bank at market price on an open secondary market under normal commercial terms. The consideration for the purchase was paid to the bank and no consideration was passed to SHKPCM in connection with the purchase. The principal amount of the Fixed Rate Notes will be repaid by SHKPCM on the maturity date of 17 February 2012 and the interest on the Fixed Rate Notes at coupon rate of 2.65% per annum will be payable on a quarterly basis by SHKPCM to KMBFS so long as KMBFS continues to hold the Fixed Rate Notes. The Fixed Rate Notes are guaranteed by SHKP. Particulars of these connected transactions were disclosed in the announcement of the Company dated 15 April 2009.

### (b) Park Island Transport Holdings Limited ("PITH")

#### Transactions with Sun Hung Kai Transport Company Limited ("SHKTC")

As detailed in note 33(b) to the financial statements on page 189 of this Annual Report, on 21 May 2009, PITH, a wholly-owned subsidiary of the Company, as vendor and SHKTC, a wholly-owned subsidiary of SHKP, as purchaser entered into an agreement for the sale and purchase of 100% equity interest in Park Island Transport Company Limited ("PITC"), a wholly-owned subsidiary of PITH, at PITC's audited net book value as at 31 May 2009 of HK$40,600,000 and the loan due by PITC to PITH at its face value as at 31 May 2009 of HK$70,000,000. The transactions were completed on 1 June 2009. Particulars of these connected transactions were disclosed in the announcement of the Company dated 25 May 2009.

### (c) The Company, KT Properties Investment Limited ("KTPI") and KT Real Estate Limited ("KTRE")

#### Transactions with Turbo Result Limited ("TRL") and Sun Hung Kai Properties Limited ("SHKP")

On 11 December 2009, KTPI, a wholly-owned subsidiary of the Company, and TRL, a wholly-owned subsidiary of SHKP, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") pursuant to which KTPI agreed to sell and TRL agreed to purchase 50% of the interest of Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kowloon, Hong Kong (the "KT Site") at a consideration of HK$490,000,000. Upon completion of the disposal, the KT Site will be owned in equal shares by KTRE, a wholly-owned subsidiary of the Company, and TRL as tenants in common.

On 11 December 2009, KTRE, TRL, the Company and SHKP entered into a development agreement (the "Development Agreement") pursuant to which the parties agreed to jointly develop the KT Site for non-residential (excluding hotel) purpose. The costs and expenses incurred in respect of the application for planning permission, the application for the surrender and regrant of the KT Site and the construction of the KT Site are estimated to be HK$3.6 billion and shall be borne by KTRE and TRL in equal shares.

A circular of the Company in relation to the Sale and Purchase Agreement and the Development Agreement was issued to the shareholders on 30 December 2009 (the "Circular"). The transactions contemplated under each of the aforesaid two agreements were approved by the independent shareholders of the Company at the Special General Meeting held on 21 January 2010 (the "SGM"). In view of the interest of SHKP in the Sale and Purchase Agreement and the Development Agreement as described in the Circular, SHKP and its associates were required to abstain and did abstain from voting on the transactions at the SGM.

Particulars of these connected transactions were disclosed in the announcements of the Company dated 11 December 2009 and 21 January 2010.

## CONTINUING CONNECTED TRANSACTIONS

### (d) The Group

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

As detailed in note 37(a)(ii) to the financial statements on page 199 of this Annual Report, the Group entered into various insurance arrangements with SHKPI, a wholly-owned subsidiary of SHKP, during the year pursuant to which SHKPI agreed to provide insurance coverage and services to the Group (the "2009 Insurance Arrangements"), and such insurance policies took effect from 1 January 2009 for a period of one year. The transactions under the 2009 Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2009, the annual insurance premium paid and payable by the Group to SHKPI under the 2009 Insurance Arrangements amounted to HK$67,798,000. On 19 November 2009, the Group further entered into various insurance arrangements (the "2010 Insurance Arrangements") with SHKPI pursuant to which SHKPI will continue to provide insurance coverage and services to the Group. The insurance policies entered into pursuant to the 2010 Insurance Arrangements commenced on 1 January 2010 and will last for one year from the effective date of the policies. It is estimated that the annual insurance premium paid and payable by the Group to SHKPI under the 2010 Insurance Arrangements for the financial year ending 31 December 2010 will not exceed HK$72,000,000. The transactions under the 2009 Insurance Arrangements and the 2010 Insurance Arrangements are only subject to the reporting and announcement requirements of the Listing Rules and are exempt from the independent shareholders' approval requirement. Particulars of these continuing connected transactions were disclosed in the announcements of the Company dated 27 November 2008 and 20 November 2009.

### (e) Park Island Transport Company Limited ("PITC")

#### Transactions with Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW")

Pursuant to an agreement dated 23 May 2001 entered into between PITC, formerly a wholly-owned subsidiary of the Company, and SHKMW, a wholly-owned subsidiary of SHKP (the "Transport Agreement"), SHKMW engaged PITC to provide bus and ferry services for Ma Wan Island. The Transport Agreement was subsequently amended and supplemented by seven supplemental letters dated 4 December 2002, 1 August 2003, 29 February 2004, 6 December 2005, 28 November 2006, 6 December 2007 and 25 November 2008 (collectively, the "Previous Supplemental Agreements"), with the operating term extended to 13 December 2009. The transactions executed under the Transport Agreement, as modified by the Previous Supplemental Agreements, constitute continuing connected transactions of the Company (only up to 1 June 2009, the completion date of the disposal of PITC) under the Listing Rules. Particulars of these continuing connected transactions were disclosed in the announcements of the Company dated 25 May 2001, 5 December 2006, 10 December 2007 and 26 November 2008. As detailed in note 37(a)(vii) to the financial statements on page 200 of this Annual Report, the permitted return to which PITC was entitled for the period from 1 January 2009 to 31 May 2009 was HK$2,730,000.

### (f) Lai Chi Kok Properties Investment Limited ("LCKPI")

### LCK Commercial Properties Limited ("LCKCP")

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

LCKPI entered into a Letting and Sales Agency Agreement with SHKRE, a wholly-owned subsidiary of SHKP, on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and car parking spaces of Manhattan Hill (the "Original Agreement"). On 15 August 2007, the Original Agreement was terminated and replaced by a letter agreement entered into between LCKPI and SHKRE (the "Letter Agreement"), pursuant to which LCKPI continues to appoint SHKRE as the exclusive letting and sales agent under the same terms and conditions of the Original Agreement except that the aggregate amount of the agency fees payable under the Original Agreement and the Letter Agreement shall not exceed HK$65,000,000. The appointment of SHKRE under the Letter Agreement shall be for a period of three years commencing from the date of the Letter Agreement. As detailed in note 37(a)(iv) to the financial statements on page 199 of this Annual Report, the letting and sales agency fees paid and payable by LCKPI to SHKRE amounted to HK$1,899,000 for the year ended 31 December 2009. The aggregate amount of letting and sales agency fees paid and payable under the Original Agreement and the Letter Agreement up to 31 December 2009 was HK$64,249,000. Particulars of these continuing connected transactions were disclosed in the announcements of the Company dated 21 July 2003 and 16 August 2007.

### (ii) Transactions with Royal Elite Service Company Limited ("Royal Elite")

LCKPI also entered into a Management Agreement with Hong Yip Service Company Limited ("Hong Yip"), a wholly-owned subsidiary of SHKP, on 17 July 2003 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 the 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 unit of the completed Manhattan Hill. On 21 June 2007, LCKPI entered into a supplemental deed with Hong Yip and Royal Elite, a wholly-owned subsidiary of SHKP (the "Supplemental Deed"), pursuant to which LCKPI appointed Royal Elite as the manager of Manhattan Hill in place of Hong Yip. All terms defined in the Management Agreement are adopted in the Supplemental Deed. On 20 December 2007, the commercial accommodation of Manhattan Hill was transferred from LCKPI to LCKCP. As a result, LCKCP has to observe and comply with all the terms and conditions contained in the deed of mutual covenant and management agreement of Manhattan Hill. For the year ended 31 December 2009, the total amount of management fee paid and payable by LCKPI and LCKCP to Royal Elite under the Management Agreement was HK$5,323,000.

The transactions contemplated under each of the aforesaid two agreements constitute continuing connected transactions of the Company under the Listing Rules.

## (g) Bus Focus Limited ("Bus Focus")

### Service Agreement with JCDecaux Texon Limited ("JTL")

On 12 November 2008, Bus Focus, an indirect non-wholly owned subsidiary of the Company and RoadShow Holdings Limited ("RoadShow"), and JTL, a connected person of the Company and RoadShow within the meaning of the Listing Rules, entered into a Service Agreement pursuant to which Bus Focus agreed to appoint JTL exclusively to provide the media sales agency services and maintenance and operational services in respect of selected bus shelters owned by KMB for a term commencing from 1 August 2008 to 31 July 2012. Pursuant to the Service Agreement, the following considerations were payable/receivable by Bus Focus for the year ended 31 December 2009:

(a) Management fee payable by Bus Focus to JTL in the amount of HK$16,500,000; and

(b) Shortfall of guarantee rental receivable by Bus Focus from JTL in the amount of HK$19,774,000.

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

## Conditional Waivers

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

1. each of the foregoing continuing connected transactions with SHKPI, SHKMW, SHKRE, Royal Elite and JTL was entered into:-

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

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

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

2. the annual insurance premium paid and payable by the Group to SHKPI for the year ended 31 December 2009 did not exceed the cap amount of HK$74,000,000 as disclosed in the announcement dated 27 November 2008;

3. the permitted return for the period from 1 January 2009 to 1 June 2009, the completion date of the disposal of PITC, to which PITC was entitled under the Transport Agreement, as modified by the supplemental agreement dated 25 November 2008, did not exceed the cap amount of HK$16,000,000 as disclosed in the announcement dated 26 November 2008;

4. the agency fees for the year ended 31 December 2009 paid and payable by LCKPI under the Original Agreement and the Letter Agreement did not exceed the higher of HK$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2008;

5. the agency fees for the year ended 31 December 2009 paid and payable by LCKPI under the Letter Agreement did not exceed the cap amount of HK$12,426,000, and the aggregate amount of the agency fees paid and payable under the Original Agreement and the Letter Agreement did not exceed the cap amount of HK$65,000,000, as disclosed in the announcement dated 16 August 2007;

6. the annual aggregate amount for the year ended 31 December 2009 paid and payable by the Group under the Management Agreement did not exceed the higher of HK$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2008; and

7. the management fee paid and payable by Bus Focus to JTL and the shortfall of guarantee rental received and receivable by Bus Focus from JTL under the Service Agreement for the year ended 31 December 2009 did not exceed the cap amount of HK$18,000,000 and HK$46,400,000 respectively as disclosed in the joint announcement of the Company and RoadShow dated 13 November 2008.

The auditors of the Company had also performed agreed-upon procedures on the above continuing connected transactions and, on the basis of such procedures, advised the Board that the continuing connected transactions (a) had received the approval of the boards of directors of the relevant companies; (b) had been entered into in accordance with the relevant agreements governing the transactions; and (c) had not exceeded the caps as stated above.