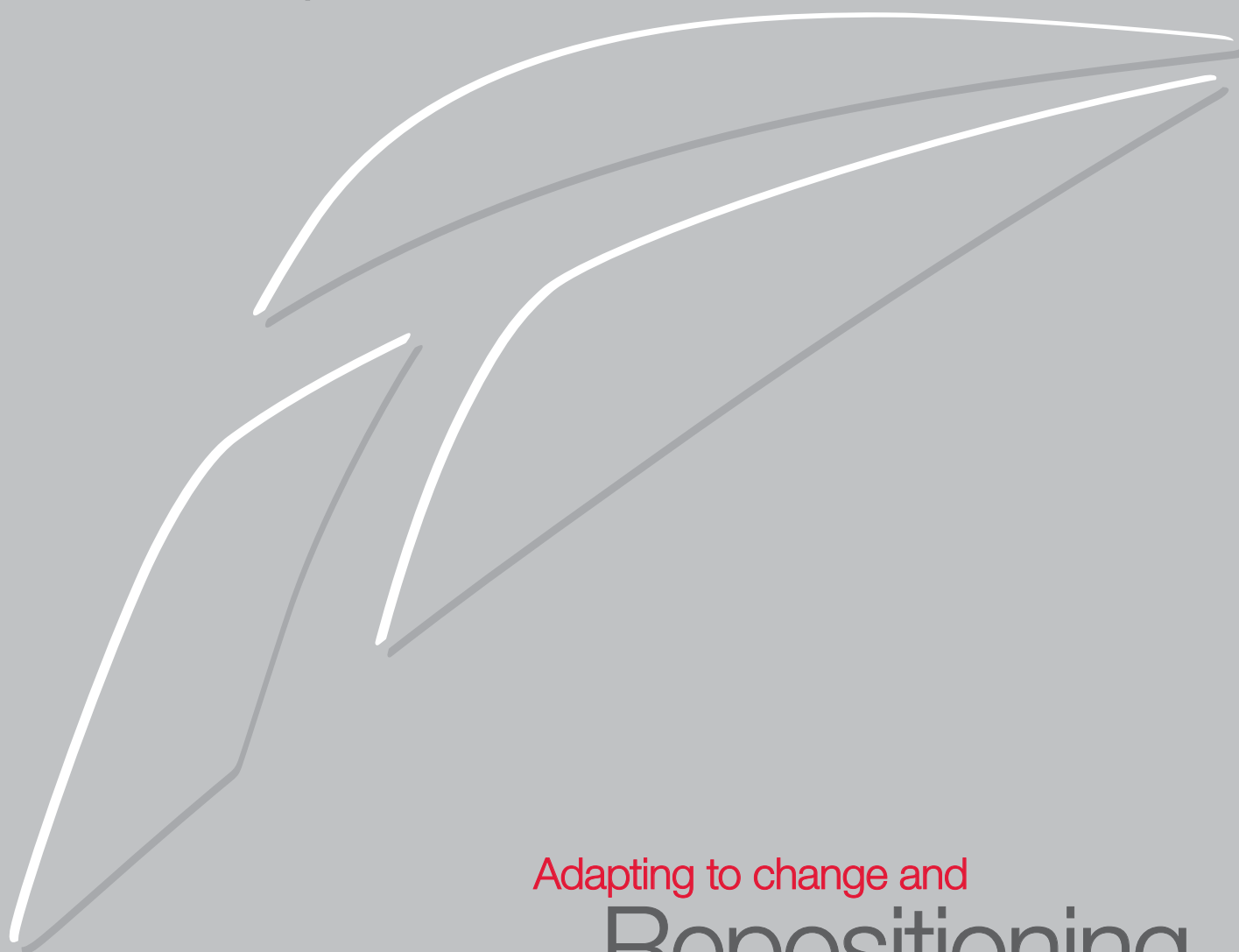


Transport International Holdings Limited
2005 Annual Report



載通國際
Transport International



Adapting to change and
Repositioning
for growth

Adapting to change and Repositioning for growth



Rapid responses to the challenges of a changing environment are critical to commercial success. Over the years, Transport International Holdings Limited, formerly known as The Kowloon Motor Bus Holdings Limited, has faced the challenges of change. Its renaming in November 2005 encapsulates its vision to be recognised as a world-class public transport innovator, not just in Hong Kong, but across the Greater China region.

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Transport International

Transport International Holdings Limited (“TIH” or “the Company”) is a leading public transport operator in Hong Kong and in selected cities across the China Mainland. TIH’s wholly-owned Hong Kong-based subsidiary, The Kowloon Motor Bus Company (1933) Limited (“KMB”), has over 70 years of history and is one of the world’s premier bus transportation providers. KMB’s reputation is founded on reliability and efficiency, safety and innovation. Today, KMB is just one of many companies operating as part of the TIH group. Other subsidiaries, irrespective of their businesses, geographical areas of operation and scale, adhere to the same standards and benchmarks that have upheld KMB’s reputation as a world-class public bus operator.

A Driving



TIH and its subsidiaries (the “Group”) form a highly evolved group focused on delivering value to its customers, shareholders and the communities in which the various subsidiaries operate. We are committed to driving forward service standards for public transport.



Force

The Group's Marathon Team

Behind the Brand

Mission

Our mission is to drive shareholder value as well as the social and economic development of Greater China. We achieve this by providing:

- D** istinctive customer service
- R** eliable performance
- I** nnovation
- V** alue for money
- E** nvironmental responsibility

At TIH, we understand our markets, know when to sharpen our competitive edge and how to lead performance improvements across our geographically complex business footprint.

with more than 13,000



Vision

Our vision is to be a world-class leader in public transportation. This means we will drive forward with our ambitions, surpassing the expectations of our customers by introducing new services, designs, technologies and standards to the market place.

Corporate Values

Our corporate values are based on a commitment to delivering service standards that satisfy customer needs, operating with a consistent record of profitability for shareholders, and supporting the communities within which we work.



committed staff

Business at a Glance

Transport International Holdings Limited

Hong Kong

Franchised Public Bus Operations



The Kowloon Motor Bus Company (1933) Limited

provides franchised public bus services across Kowloon, the New Territories and on Hong Kong Island.

Non-franchised Transport Operations



Sun Bus Holdings Limited and its subsidiaries

provide bus services to large residential estates, shopping malls, major corporations, schools and travel agents, as well as the general public through chartered hire services.

Property Holdings and Development



Lai Chi Kok Properties Investment Limited

owns and develops the "Manhattan Hill", a prestigious multi-storey residential and commercial complex situated at Lai Chi Kok, Kowloon, Hong Kong.



Long Win Bus Company Limited

provides franchised public bus services between Hong Kong International Airport, North Lantau Island and the New Territories.



New Hong Kong Bus Company Limited

jointly operates the cross-boundary shuttle bus service (commonly known as the "Huang Bus" service) with its Shenzhen counterpart between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.



LCK Real Estate Limited

owns a 17-storey commercial office building situated at No. 1 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.



Park Island Transport Company Limited

provides shuttle bus and ferry services for Park Island, a prestigious residential development on Ma Wan Island.

China Mainland

Media Sales Business



RoadShow Holdings Limited and its subsidiaries

provide media sales and management services and market transport-related advertising space on buses and associated shelters and termini in Hong Kong and on the Mainland.

Mainland Transport Operations



Shenzhen Bus Group Company Limited

is a Sino-foreign joint stock company which operates public bus and taxi hire services in Shenzhen.



Wuxi Kowloon Public Transport Company Limited

is a Sino-foreign joint stock company which operates public bus services in and around Wuxi City.



Beijing Beiqi Kowloon Taxi Company Limited

is a Sino-foreign joint stock company which operates taxi hire and car rental services in Beijing.



Dalian HK Macau Motor Bus Services Limited

is a co-operative joint venture which operates public bus services in Dalian City.

Internal Financial Services



KMB Financial Services Limited

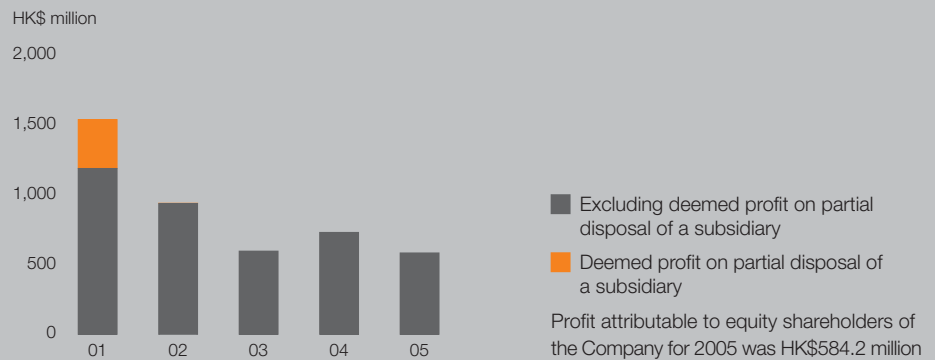
provides internal support services in relation to finance and treasury management to companies of the Group.

Financial and Operational Highlights

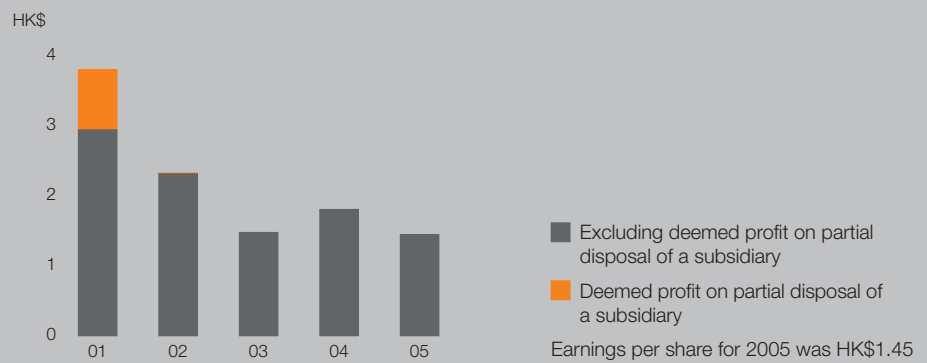
for the year ended 31 December 2005

	Unit	2005	2004 (restated)	Variance Increase/ (Decrease) %
Financial Highlights				
Turnover	HK\$ million	6,456.4	6,544.3	(1%)
Profit before taxation	HK\$ million	690.7	912.7	(24%)
Profit attributable to equity shareholders of the Company	HK\$ million	584.2	731.2	(20%)
Earnings per share	HK\$	1.45	1.81	(20%)
Dividends per share	HK\$	2.03	2.03	0%
Total equity attributable to equity shareholders of the Company	HK\$ million	4,032.1	4,250.4	(5%)
Total assets	HK\$ million	9,580.3	9,428.1	2%
Net borrowings	HK\$ million	2,046.3	1,621.8	26%
Net finance charges	HK\$ million	48.1	2.4	1,904%
Cash generated from operations	HK\$ million	966.8	1,445.9	(33%)
Financial Ratios				
Profit margin		9.0%	11.2%	(20%)
Return on equity attributable to equity shareholders of the Company		14.5%	17.2%	(16%)
Gearing ratio (ratio of net borrowings to total equity attributable to equity shareholders of the Company)	Times	0.51	0.38	34%
Interest cover (ratio of profit before finance costs and taxation to net finance charges)	Times	15.8	393.1	(96%)
Dividend cover (ratio of profit attributable to equity shareholders of the Company to total dividends paid and proposed for the year)	Times	0.71	0.89	(20%)
Share price per share at year-end	HK\$	45.7	38.3	19%
Market capitalisation at year-end	HK\$ million	18,446.3	15,459.4	19%
Operational Highlights				
Hong Kong				
Franchised Public Bus Operations:				
Average number of passenger trips per day	Million trips	2.83	2.97	(5%)
Number of licensed buses at year-end		4,177	4,295	(3%)
Number of staff at year-end		12,756	12,906	(1%)
Average number of staff per licensed bus at year-end		3.05	3.00	2%
Non-franchised Transport Operations:				
Number of licensed buses at year-end		279	259	8%
Number of catamarans at year-end		7	7	0%
Number of staff at year-end		604	557	8%
China Mainland				
Mainland Transport Operations:				
Number of licensed buses at year-end		5,021	1,827	175%
Number of taxis and vehicles for rental at year-end		4,685	3,668	28%

Profit attributable to equity shareholders of the Company

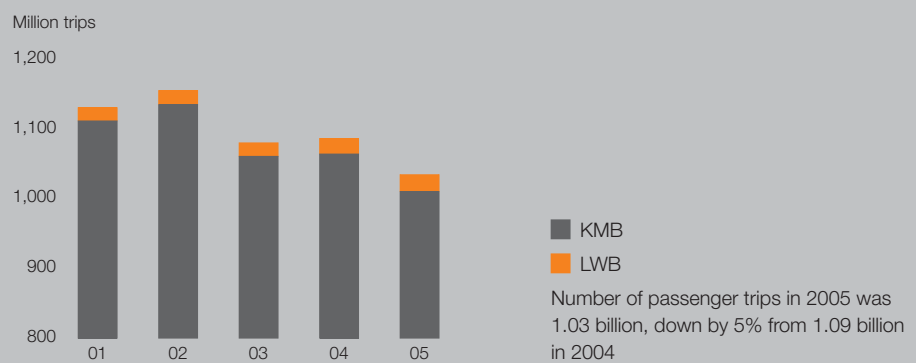


Earnings per share

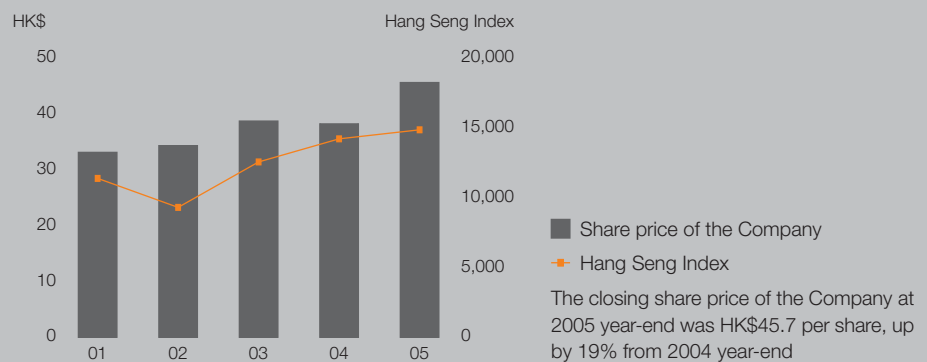


Number of passengers trips

(Franchised Public Bus Operations)



Share price of the Company and Hang Seng Index at year-end



The Group's Strategic Locations

Our Presence in Hong Kong and on China Mainland



Beijing

Joint venture operating taxi and car rental businesses

Dalian and Wuxi

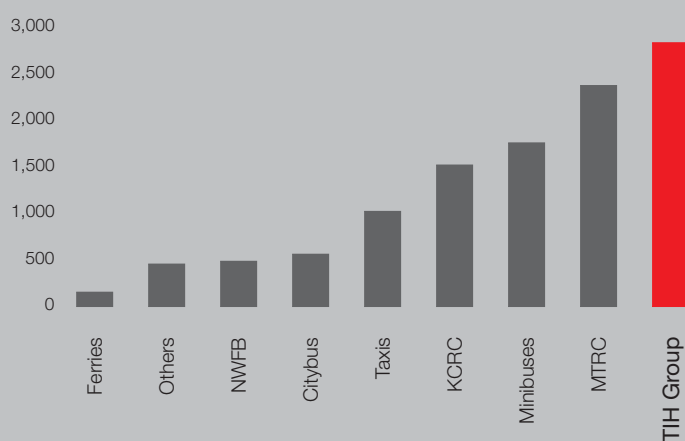
Joint ventures operating public bus business

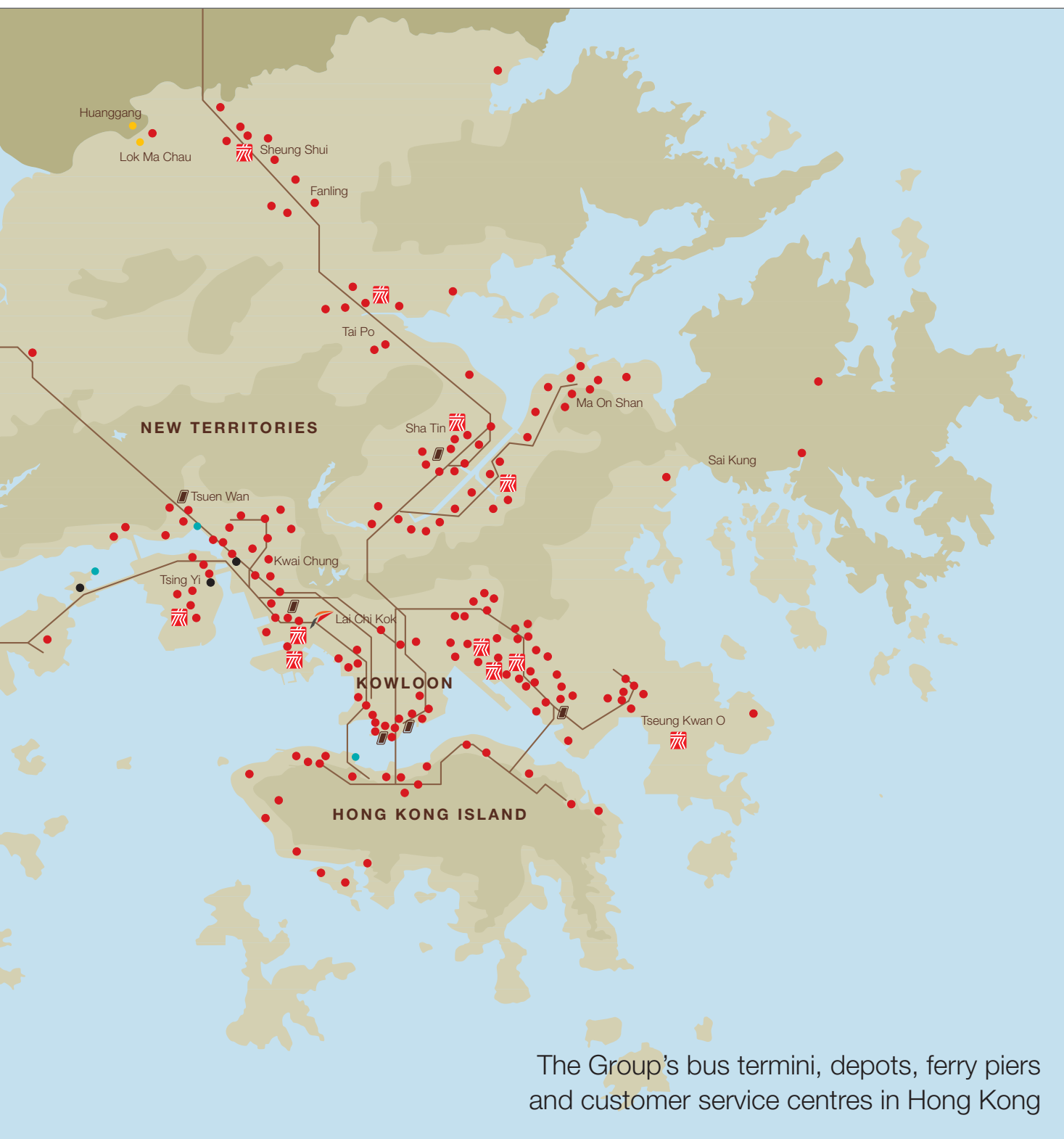
Shenzhen











Joint venture operating public bus and taxi hire businesses

Average number of passenger trips per day by mode of public transport in Hong Kong in 2005

Thousand of passenger trips per day





- | | | | |
|---|--|---|--|
|  | The Group's headquarters |  | Bus termini of "Huang Bus" |
|  | Depots of The Kowloon Motor Bus Company (1933) Limited ("KMB") |  | Ferry piers of Park Island Transport Company Limited |
|  | Depot of Long Win Bus Company Limited ("LWB") |  | Bus termini of Park Island Transport Company Limited |
|  | Bus termini of KMB and LWB |  | High land area |
|  | Customer service centres of KMB and LWB |  | Railways |

Corporate Milestones 2005

January



SBG Commenced Operations

Shenzhen Bus Group Company Limited ("SBG"), a Sino-foreign joint stock company formed by a wholly-owned subsidiary of the Group and four Mainland investors, commenced operations on 1 January 2005. The Group holds a 35% stake in SBG which operates about 3,500 vehicles on some 120 routes in Shenzhen.

Donation Made to Help Tsunami Victims

In an effort to help the victims of the earthquake and tsunami that swept across South Asia on 26 December 2004, the Group donated HK\$1 million to the relief funds in a fund-raising activity held on 1 January 2005.

February

Super-Intelligent Bus Introduced

The Kowloon Motor Bus Company (1933) Limited ("KMB") introduced two Super-Intelligent buses which are equipped with a fully-integrated electronic network system to enhance bus monitoring and maintenance and to make the bus journeys more comfortable for the passengers. One of these Super-Intelligent buses has an "Enviro 500" body and the other a "Wright" body. The specifications of these buses will be used as guidelines for future bus purchases.

KMB Won Customer Service Excellence Award



KMB won a Silver Award in the Hong Kong Association for Customer Service Excellence Award 2004. The award recognised KMB's advanced technology which provides up-to-date and instant bus service information to customers at service counters.

April

Enhanced Air-Conditioning System Introduced on New Buses

KMB once again leads the industry by introducing an "Enhanced" air-conditioning system to its new buses. Combining heating and cooling systems, intelligent temperature control and a variable compressor, the system monitors and controls the temperature and humidity inside buses, resulting in greater comfort for passengers.

July

Civic Education Campaign Received Accolades

To promote the importance of proper conduct on buses, a "Civic Education Campaign" which mainly comprised a series of 10-second civic education television programmes was re-launched by KMB in 2005. The Campaign won the Gold Award at the 2005 EFFIE Awards organised by the Association of Accredited Advertising Agents of Hong Kong (4As) as well as the Prime Award for Brand Excellence 2005, organised by PRIME magazine.



August

The World's First Air-conditioned Double-deck Bus Retired from Service



The world's first air-conditioned double-deck bus, developed by KMB, retired from KMB's bus fleet after 17 years of service. The development of this historic bus introduced a new era of double-deckers, using just one engine to control both the driveline and the air-conditioning system. The fuel savings achieved, as well as the environment-friendly design, set new benchmarks.

August

Commitment to High Standards of Social Responsibility



Being socially responsible corporate citizens, each of KMB and Long Win Bus Company Limited published its first “Corporate Social Responsibility Report” which

details corporate governance standards and practices, products and services, relationships with employees and customers, involvement in the community and environmental protection.

September

Achievements Obtained International Recognition

Transport International Holdings Limited (“TIH”) was again included as a component company of the Dow Jones Sustainability Index (“DJSI”). The DJSI is based on sustainability assessments undertaken on a global basis to gauge the company’s performance across economic, environmental and social criteria. TIH has been a component company of DJSI since 2000.

Annual Report Won International Awards



TIH’s 2004 Annual Report won two awards in the 2005 ARC International Awards — Silver Award in the Financial Data category and Bronze Award in the Overall Annual Report (Transportation Category). These awards recognised our commitment to transparency and our efforts in ensuring an excellent level of disclosure across all aspects of our business.

October

TIH Created Green Office

The Environmental Protection Department of the HKSAR Government awarded the Group’s headquarters building a “Good Class” certificate for its indoor air quality in recognition of the achievement of maintaining a hygienic working environment with good air quality. TIH has been putting tremendous effort in providing a healthy working environment for its staff.

November

Change of Company Name

With effect from 28 November 2005, the Company (hitherto known as The Kowloon Motor Bus Holdings Limited) changed its name to Transport International Holdings Limited. The new name reflects more accurately the increasing diversity of the Group’s business activities and the geographical spread of its operations.



The Community Chest Recognised KMB

KMB won the Award of Distinction given by The Community Chest. With the principle of “Caring for the Community”, KMB has been actively supporting various fund-raising activities organised by The Community Chest to help those in need for many years.



December

PITC Became a Wholly-Owned Subsidiary

The Group acquired the remaining 35% shareholding of Park Island Transport Company Limited (“PITC”). PITC is now an indirect wholly-owned subsidiary of TIH and the acquisition reflects both the Group’s business diversification strategy and the importance of its bus and ferry services to Ma Wan Island in Hong Kong.

Chairman's Letter

S. Y. CHUNG
Chairman



Rebranding our business

Over the past year, we have refined our business models to ready ourselves for a new phase in the Group's development

Transport
International
Holdings Limited
is a new name
signifying our
status as an
international entity,
crossing
boundaries of
geography and
nationality

Dear Shareholders and Partners,

On behalf of the Board, I am pleased to report that with effect from 28 November 2005, the Company has taken a new identity under its new name — Transport International Holdings Limited. This new identity encapsulates our vision to be an innovative driving force of public transport that is growing across the Greater China Region. We will operate as an international entity to seek opportunities within Hong Kong and on the Mainland of China. While the operation of franchised public bus services remains the core business of the Group, we will continue to leverage on our experience and take the Group into other related areas.

Our Financial Performance

2005 was a challenging year for the Group. The Group's profit attributable to equity shareholders amounted to HK\$584.2 million, a decrease of 20.1% compared with HK\$731.2 million for 2004. Earnings per share decreased correspondingly from HK\$1.81 for 2004 to HK\$1.45 for 2005. The profit for 2005 included a one-off capital gain of HK\$90.5 million arising from the disposal of the Group's property at Kwai Chung which was previously owned by our subsidiary, The Kowloon Motor Bus Company (1933) Limited ("KMB") and used as a bus depot. Excluding this capital gain item, the Group's earnings for 2005 decreased by 32.5% over the previous year. Against the background of historically high global oil prices and substantially increased competition from the new railways in Hong Kong, the decrease in our earnings for 2005 was not unexpected. On a positive note, revenue and earnings of our non-franchised transport operations in Hong Kong showed healthy growth, and the results of our joint ventures on the Mainland were encouraging.

Despite the challenging operating conditions, the Directors have proposed a final dividend for 2005 of HK\$1.58 per share (2004: HK\$1.58 per share). Together with the interim dividend of HK\$0.45 per share paid on 13 October 2005, total dividends for the year will amount to HK\$2.03 per share (2004: HK\$2.03 per share). The total dividend payout for the year will amount to HK\$819.4 million, same as the 2004 figure.

Meeting the Challenges

During 2005, KMB, the Group's flagship company providing franchised public bus services in Hong Kong, continued to face strong competition from the rail networks. The new railways launched by the Kowloon Canton Railway Corporation (West Rail, Ma On Shan Rail and Tsim Sha Tsui Extension) and the MTR Corporation Limited (Tseung Kwan O Line) over the past three years have caused a significant decrease in our patronage. We have rationalised our franchised public bus services in a timely manner and re-deployed the resources as necessary to cope with this change. As no large scale new railway is scheduled to commence operation in our operating areas in the following year, we expect our patronage will stabilise and may increase slightly with the improving economy.

Escalating operating costs, particularly oil, wages, tunnel toll charges and interest expenses, have exerted tremendous pressure on our franchised public bus business in Hong Kong. All these cost elements are wholly or largely beyond our control. At the same time, we have continued to face public pressure for fare reductions. As a responsible corporate citizen, we have responded positively to these requests and introduced three new fare concession schemes for both KMB and Long Win Bus Company Limited ("LWB") earlier this year which focus on long and medium distance travellers and the elderly. As mitigation measures to counterbalance our rising costs, we have strived for rationalisation of bus routes, better deployment of resources and greater service efficiencies. However, none of these measures has compromised our service standards.

On the positive side, we see revenue rising at our subsidiary, LWB, as a result of the continuous population intake at Tung Chung New Town, growth in the numbers of passengers travelling to and from the Hong Kong International Airport and new transport demand associated with the newly opened Hong Kong Disneyland. We will monitor our existing services and patronage trends closely and adjust our resources as appropriate to meet the increasing service demand.

We have successfully renewed KMB's franchise until 1 July 2017

As we drive forward with our plans, I am confident that we will emerge from these challenging times as a stronger and more diverse conglomerate

Our non-franchised transport operations in Hong Kong continued to grow in 2005. The extension of the Individual Visit Scheme to additional Mainland cities helped increase patronage on our cross-boundary shuttle bus service. The commitment of the HKSAR Government to promote tourism in Hong Kong also benefits our non-franchised bus business operated under the Sun Bus Group. Media advertising business of the RoadShow Group finished the year with improved net profit and revenues as a result of business growth in Hong Kong, Macau and key Mainland cities. Our Mainland transport operations, in particular our new joint venture in Shenzhen, contributed positive returns in 2005.

Franchise Renewal

We are pleased to have successfully renewed KMB's franchise for operating franchised public bus services in Hong Kong until 1 July 2017. This has added certainty for our investment planning as our operating assets have relatively long useful lives. The new fare adjustment mechanism introduced by the HKSAR Government has, to a certain extent, improved the objectivity and transparency of the fare adjustment process. We are optimistic that under the new mechanism, KMB and LWB will be able to adjust their bus fares upward when the need to do so is clearly proven. This is of great importance for the healthy development of the franchised public bus industry in Hong Kong.

Repositioning for Growth

The Group has recognisably improved service standards across all networks and catchments. We continue to receive international quality management recognition. Our mechanical and operational standards remain high. Investment in new generation buses that offer greater journey comfort continues. All these enhance the competitiveness and reinforce our leading position in the Hong Kong public transport sector.

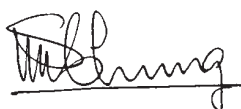
When compared with the growing public transport industry on the Mainland, the Hong Kong market is relatively mature. It has therefore been imperative that we continue to apply proven joint venture models in public bus operations and in taxi and car hire businesses on China Mainland for sustainable business growth. We are also positioning ourselves to tap the transport opportunities associated with the 2008 Beijing Olympics.

We expect to launch the sale campaign in the middle of 2006 for the residential flats of Manhattan Hill. This project is scheduled for completion by the end of 2006 and is expected to generate considerable income and cash flow for the Group in the near future.

The Group is moving forward in a clear direction with strategies at various stages of implementation. Based on our strengths and expertise, we create and deliver value to all our stakeholders. As we drive forward with our plans, I am confident that we will emerge from these challenging times as a stronger and more diverse conglomerate.

Acknowledgement

Our achievements have only been made possible through team efforts, largely attributable to the dedication and hard work of my fellow Board members and our management team, as well as our staff at all levels and within all companies of the Group. Our staff have continued to work to our Group's mission of remaining a leader in world class public transport. On behalf of the Board, I thank all our staff for their enormous contributions.



S. Y. CHUNG
Chairman
16 March 2006

Corporate Governance Report

The Group works to maintain the highest standards of corporate governance and meet the statutory and regulatory requirements by adopting a range of sound policies, procedures and rules that are followed by board members and staff alike in a culture of integrity. Our business is conducted in the interest of shareholders but with an acute awareness of community expectations.

Throughout the year 2005, the Group complied with the Code on Corporate Governance Practices

To achieve our corporate governance objectives, we ensure that the processes of corporate decision-making, internal audit and controls, disclosure of information and communication with shareholders are conducted in accordance with sound management practices and in full compliance with regulatory standards.

During 2004, The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) issued the Code on Corporate Governance Practices (the “Code”), which became effective for any accounting year commencing on or after 1 January 2005. The Code provides a comprehensive guide for listed issuers in Hong Kong to evaluate and improve their corporate governance practices. The Code, which contains two levels of recommendations — the Code Provisions and the Recommended Best Practices, sets out the principles of good corporate governance in the following areas:

- Board of Directors
- Delegation by the Board of Directors
- Remuneration of Directors and Senior Management
- Accountability and Audit
- Communication with Stakeholders

Throughout the year ended 31 December 2005, the Group complied with the Code Provisions as set out in this report.

Board of Directors

Composition of the Board of Directors

The Board has a balance of skills and experience appropriate to the requirements of the business of the Group and also consists of a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that independent judgment can be effectively exercised.

The Company’s Board of Directors has a balance of skills and experience appropriate to the requirements of the Group’s business

The Company’s Board of Directors, whose profiles are presented on pages 92 to 97 of this Annual Report, currently comprises 16 Directors, five of whom are Independent Non-executive Directors. During the year, the Group fully complied with Rules 3.10(1) and (2) of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) regarding the number of independent non-executive directors and the requirement that at least one of these directors must hold appropriate professional qualifications. The Company has received confirmation from each Independent Non-executive Director about his independence under the Listing Rules, and continues to consider each of them to be independent. The Independent Non-executive Directors are explicitly identified in all corporate communications.

Directors of the Company at 16 March 2006 are:

Independent Non-executive Directors	<p>The Hon Sir Sze-yuen CHUNG, <i>GBM, GBE, PhD, FEng, JP</i> (Chairman)</p> <p>Dr Norman LEUNG Nai Pang, <i>GBS, JP</i> (Deputy Chairman)#</p> <p>Dr KUNG Ziang Mien, James, <i>GBS, OBE</i> (with Mr KUNG Lin Cheng, Leo as alternate)</p> <p>Dr Eric LI Ka Cheung, <i>GBS, OBE, JP</i></p> <p>Mr SIU Kwing-chue, Gordon, <i>GBS, CBE, JP</i></p>
Non-executive Directors	<p>Mr KWOK Ping-luen, Raymond, <i>JP</i> (with Mr YUNG Wing Chung as alternate)</p> <p>Mr KWOK Ping-sheung, Walter, <i>JP</i> (with Ms Susanna LAU Shung Oi as alternate)</p> <p>Mr YU Shu Chuen</p> <p>Mr NG Siu Chan</p> <p>Mr William LOUEY Lai Kuen</p> <p>Mr George CHIEN Yuan Hwei</p>
Executive Directors	<p>Mr John CHAN Cho Chak, <i>GBS, JP</i> (Managing Director)</p> <p>Mr Charles LUI Chung Yuen, <i>M.H.</i></p> <p>Ms Winnie NG</p> <p>Mr LUI Pochiu</p> <p>Mr Edmond HO Tat Man (Deputy Managing Director)</p>

Dr Norman Leung Nai Pang was formerly a Non-executive Director of the Company and has become an Independent Non-executive Director with effect from 1 February 2006.

Board Committees

Board committees have been formed with specific written terms of reference that deal with their authorities and duties.

The Board currently has four committees — the Standing Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. These committees play a key role in overseeing various aspects of the Group. Members of the above committees are appointed by the Board with reference to their respective terms of reference. Details of each of the above committees are set out in the relevant sections below.

Appointment, Re-election and Removal of Directors

Formal, considered and transparent procedures have been established for the appointment, re-election and removal of Directors.

Established by the Board in November 2005, the Nomination Committee currently comprises four Independent Non-executive Directors, namely Dr Norman Leung Nai Pang, Dr Kung Ziang Mien, James, Dr Eric Li Ka Cheung and Mr Siu Kwing-chue, Gordon. The Nomination Committee is chaired by Dr Norman Leung Nai Pang. The principal functions of the Nomination Committee include:

- reviewing and monitoring the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board regarding any proposed changes;
- identifying and nominating for the approval of the Board suitably qualified candidates for appointment as directors;
- making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Managing Director; and
- assessing the independence of Independent Non-executive Directors.

As of the date of this Annual Report, one meeting has been held by the Nomination Committee.

All Directors appointed to fill casual vacancies are subject to election by shareholders at the first general meeting after their appointment. Each Director, including each Non-executive and Independent Non-executive Directors of the Company, is appointed for specific term and is subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with the Listing Rules and the Bye-laws. Accordingly, five of the Directors, namely Mr Kwok Ping-luen, Raymond, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung and Mr Edmond Ho Tat Man, will retire and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting of the Company.

Responsibilities of Directors

All Directors (including Non-executive Directors) have kept abreast of their responsibilities as directors of a listed issuer and of the conduct, business activities and development of the Group.

The senior management and corporate executives provide appropriate and sufficient information to the Board of Directors in a timely manner to keep them apprised of the latest developments of the Group and to enable them to discharge their responsibilities. Induction programmes are organised for new Directors to help them familiarise with the Group's management, business and governance practices. The Company also encourages the Directors to participate in continuous professional development organised by qualified institutions to ensure that they continually update their skills and knowledge on the latest development of, or changes in, rules and regulations that are relevant to their responsibilities.

A written Code of Conduct for Directors and employees has been drawn up and is updated from time to time to take into account changes in legislation and the business environment. The Code of Conduct provides guidance on the personal conduct of Directors and employees, relations with suppliers and contractors, responsibilities to shareholders and the financial community, relations with customers, employment practices and responsibilities to the community, as well as procedures for monitoring of compliance and means of enforcement.

The Group has adopted the Model Code for Securities Transactions as set out in Appendix 10 to the Listing Rules during the year and all Directors have confirmed that they have complied with the required standard of dealings set out therein.

The details of the share interests held by the Directors and senior management in the Company and its indirect non-wholly owned subsidiary, RoadShow Holdings Limited, are set out on pages 103 to 105 of this Annual Report.

Distinctive Roles of the Chairman and the Managing Director

A clear division of responsibilities between the separate offices of the Chairman and the Managing Director have been maintained to ensure balance of power and authority.

The Chairman of the Board, The Hon Sir Sze-yuen Chung, is an Independent Non-executive Director of the Company, who is responsible for chairing the meetings and managing the operations of the Board, and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. The Managing Director of the Company, Mr John Chan Cho Chak, is delegated with the authority and responsibility

for running the Group's businesses and implementing the Group's strategy to achieve the business goals. The roles and duties of the Chairman and the Managing Director of the Company, which are distinct and carried out by different individuals, have been clearly defined in writing.

Board Meetings

The Board has assumed responsibility for leadership and control of the Group as well as directing and supervising its business affairs.

Board meetings are normally held monthly to discuss and decide on major corporate, strategic and operational issues as well as evaluate major investment opportunities. The Directors may request inclusion of items in the agenda of the Board meetings. The notice of a Board meeting is normally served to the Directors one month in advance with the agenda and discussion papers for the Board meeting circulated at least 7 days prior to such meeting. Minutes of all Board meetings, which record the matters considered by the Board and decisions reached, are kept by the Company Secretary of the Company and are open for inspection by all Directors.

There were 12 Board meetings held during the year ended 31 December 2005. The following table shows the attendance records of the Directors of the Company during the year 2005:

Directors	Attendance of individual Directors at Board Meeting in 2005
The Hon Sir Sze-yuen CHUNG (Chairman)	12/12
Dr Norman LEUNG Nai Pang (Deputy Chairman)	9/12
Mr KWOK Ping-luen, Raymond (with Mr YUNG Wing Chung as alternate)	9/12
Mr KWOK Ping-sheung, Walter (with Ms Susanna LAU Shung Oi as alternate)	10/12
Mr YU Shu Chuen	5/12
Mr NG Siu Chan	9/12
Mr William LOUEY Lai Kuen	12/12
Mr John CHAN Cho Chak (Managing Director)	12/12
Mr Charles LUI Chung Yuen	8/12
Ms Winnie NG	9/12
Dr KUNG Ziang Mien, James (with Mr KUNG Lin Cheng, Leo as alternate)	12/12
Mr George CHIEN Yuan Hwei	12/12
Dr Eric LI Ka Cheung	10/12
Mr LUI Pochiu	11/12
Mr Edmond HO Tat Man (Deputy Managing Director)	12/12
Mr SIU Kwing-chue, Gordon	12/12
Mr Rafael HUI	4 / 4 (note)

Note: Mr Rafael Hui resigned as a Director of the Company on 1 May 2005.

The Group has a formal schedule of delegations of responsibilities to the Board Committees and senior management

Delegation by the Board of Directors

Delegation of Responsibilities to Senior Management

The Group has a formal schedule of delegations of responsibilities to the Board Committees and to senior management, as well as of matters reserved to the Board for its decision. The Board has given clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Group.

In general, the Board makes decisions on overall strategy, major operational and financial affairs as well as investments. It also monitors the overall operating results. The general management and day-to-day administrative decisions are delegated to the senior management and corporate executives under the instruction or supervision of the relevant Board Committees. This facilitates a prompt response to a rapidly changing market environment. All the Independent Non-executive Directors and Non-executive Directors of the Company are not involved in the day-to-day management of the Group's affairs and therefore are able to analyse management issues with different perspectives during decision-making processes. All material transactions or transactions where there is a conflict of interest are reserved for the Board's decision.

Standing Committee

The Board has set up the Standing Committee to review and monitor the financial, operational and strategic issues of the Group.

The Standing Committee was set up in December 2005 and has replaced and taken over the functions of the former Executive Committee, starting from January 2006.

During 2005, the former Executive Committee consisted of the following members who normally met with the senior management once a month to review and discuss financial, operational and strategic issues in relation to current businesses and potential investment opportunities. It reported its findings and recommendations to the Board of Directors directly. The attendance record of the members of the Executive Committee for 2005 is set out below:

Directors	Attendance of individual members at Executive Committee Meeting in 2005
Dr Norman LEUNG Nai Pang	7/7 (note 1)
Mr KWOK Ping-luen, Raymond	11/11
Mr NG Siu Chan	11/11
Mr John CHAN Cho Chak	11/11
Mr Charles LUI Chung Yuen	9/11
Mr Rafael HUI	4/4 (note 2)

Notes: 1 Dr Norman Leung Nai Pang was appointed a member of the Executive Committee with effect from 7 May 2005.

2 Mr Rafael Hui resigned as a Director of the Company and ceased to be a member of the Executive Committee with effect from 1 May 2005.

The Remuneration Committee is responsible for formulating policies on remuneration of Directors and employees of the Group

The Standing Committee consists of five Directors, namely Dr Norman Leung Nai Pang, Mr Kwok Ping-luen, Raymond, Mr Ng Siu Chan, Mr John Chan Cho Chak and Mr Charles Lui Chung Yuen. It has been established with clearly written terms of reference to advise and assist the Board in formulating policies and to monitor the performance of management in carrying out and implementing the policies laid down by the Board for the Group. The Standing Committee aims to meet once a month or as and when the Committee considers appropriate. The first meeting of the Standing Committee was held in January 2006.

Remuneration of Directors and Senior Management

Remuneration Committee

A formal and transparent procedure has been established for formulating policies on remuneration of the Directors and the employees of the Group. No Director is involved in deciding his or her own remuneration.

The Group's Remuneration Committee, established in December 2003, comprises three Independent Non-executive Directors, namely Dr Norman Leung Nai Pang, Dr Kung Ziang Mien, James and Dr Eric Li Ka Cheung. This committee is chaired by Dr Norman Leung Nai Pang who became an Independent Non-executive Director with effect from 1 February 2006. The role of the Remuneration Committee is to formulate policies on remuneration, including establishing guidelines to determine terms and conditions of employment, remuneration and retirement benefits of Directors and employees of the Group. It also sets appropriate criteria for performance-related bonuses, and reviews and makes recommendations on human resources related policies to the Board of Directors by reference to the goals and objectives of the Group. No Director or member of the senior management can determine his or her own remuneration. The terms of reference of the Remuneration Committee comply with the Code Provisions.

The following is a summary of the work performed by the Remuneration Committee during 2005:

- review of the remuneration policy for 2005 and 2006;
- review of the remuneration of Executive and Non-executive Directors;
- review of the annual performance-related bonuses for the employees of the Group, having regard to their achievements against the assessment criteria and by reference to the market norms; and
- examination of employees' wage and salary increments in 2005.

Details of the remuneration of each of the Directors for the year ended 31 December 2005 are set out in note 7 to the consolidated financial statements.

Two Remuneration Committee meetings were held during the year 2005. The attendance record of the members of the Remuneration Committee for 2005 is set out below:

Non-executive Directors	Attendance of individual members at Remuneration Committee Meeting in 2005
Dr Norman LEUNG Nai Pang	2/2
Dr KUNG Ziang Mien, James	2/2
Dr Eric LI Ka Cheung	2/2

Accountability and Audit

Financial Reporting

The Board has presented a balanced, clear and comprehensible assessment of the Group's performance, position and prospects.

The Directors acknowledge their responsibility for preparing the Group's financial statements. This responsibility extends to annual and interim reports, other "price-sensitive" announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements. The responsibility of the external auditors for the audit of the financial statements of the Company for the year ended 31 December 2005 is set out in the auditors' report on page 109 of this Annual Report.

The Board receives management accounts, explanations and relevant information both on a monthly and as-needed basis which enable the Board to make an informed assessment of the financial and other information of the Group put before the Board for approval.

Internal Controls

The Board has maintained a sound and effective internal control system to safeguard the shareholders' investment and the Group's assets.

A sound and effective internal control system has been maintained to safeguard the assets of the Group

The internal control system of the Group is designed to safeguard the assets of the Group, to manage risks of failure in operational systems and to provide reasonable assurance against material misstatement of information. The key procedures that the Board has established to provide effective internal controls include:

- the implementation of an effective and efficient Quality Management System in the Group's flagship subsidiary company, KMB, in accordance with the requirements of the International Organisation for Standardisation (ISO) 9001:2000 system for quality management on a company-wide basis and ISO 14001:1996 for environmental management at two bus depots. Under the ISO requirements, all major financial and operational procedures and instructions with illustrative flow charts are clearly documented. Responsible persons and their respective functions and responsibilities are also well defined. Compliance with the procedures and instructions is closely monitored on an ongoing basis by internal quality auditors under the supervision of the Head of Internal Audit Department. Each year, an external ISO certification organisation, the Hong Kong Quality Assurance Agency (HKQAA), carries out an independent audit on the Quality Management System to ensure the effectiveness and efficiency of the ISO systems. Recommendations are made for follow-up actions when areas for improvement are identified during the course of the ISO audit. KMB's 12,000 strong workforce is highly aware of the need for quality and integrity and they are required to work towards achieving or even exceeding the ISO standards;
- the design of a clear and distinct organisational structure with defined lines of authority and control responsibilities. The senior management and corporate executives are responsible for the preparation of the operational plans and financial budgets on an annual basis;
- the deployment of a comprehensive management accounting system which provides financial and operational performance measurement indicators for day-to-day monitoring, and relevant financial information for reporting and disclosure purposes. Variances against budgets are analysed and explained, and appropriate and timely actions are taken, if necessary, to rectify deficiencies noted;

- the implementation of systems and procedures to identify, measure, manage and control risks; and
- independent reviews of the Internal Audit Department of risks and internal controls to provide reasonable assurance to management and the Audit Committee that any such risks and internal control weaknesses have been adequately addressed.

To ensure the independence of the internal audit function of the Group, the Head of Internal Audit Department, who supervises the implementation of comprehensive audits and reviews on the financial and operational procedures and practices of the Group on both regular and ad-hoc basis, reports directly to the Managing Director and the Audit Committee.

Audit Committee

The Audit Committee has a set of clearly written terms of reference, including arrangements for considering how it applies the financial reporting and internal controls principles and maintains an appropriate relationship with the Company's auditors.

The Group's Audit Committee comprises three Non-executive Directors, namely Dr Eric Li Ka Cheung, Dr Kung Ziang Mien, James and Mr George Chien Yuan Hwei, of whom the first two are Independent Non-executive Directors. The Audit Committee is chaired by Dr Eric Li Ka Cheung, who is a certified public accountant with appropriate professional qualifications as required under the Listing Rules. As can be seen from the Directors' biographical details on pages 92 to 97 of this Annual Report, the Chairman and all the other members of the Audit Committee have a wide range of experience in various business and professional fields. None of the Audit Committee members is a former or existing partner of the external auditors of the Company. The responsibilities of the Audit Committee are largely based on the recommendations provided in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. The tasks performed by the Audit Committee during the year included, but were not limited to, the following:

- review with senior management of the accounting principles and practices adopted by the Group, the accuracy and fairness of the financial statements, and the scope of both internal and external audit works;
- review and discuss with management regarding the effectiveness of internal controls and practices of the Group;
- ensure the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- review and approve the remuneration and terms of engagement of the external auditors;
- meet with the external auditors and review of their work and findings relating to interim and annual published financial statements; and
- recommend to the Board the re-appointment of the existing external auditors for 2006.

Two Audit Committee meetings were held together with the senior management and the external auditors during 2005. After the Audit Committee meetings, the external auditors were also invited to discuss with the Audit Committee members on issues arising from the audit and other matters which they may wish to discuss without the presence of the senior management. After each meeting, the Chairman of the Audit Committee submitted a report to the Board of Directors and gave a briefing on all significant issues.

Non-executive Directors	Attendance of individual members at Audit Committee Meeting in 2005
Dr Eric LI Ka Cheung	2/2
Dr KUNG Ziang Mien, James	2/2
Mr George CHIEN Yuan Hwei	2/2

External Audit

The Audit Committee is responsible for making recommendations to the Board on the appointment, resignation and dismissal of external auditors.

KPMG was the Company's external auditors in respect of its financial statements for the year ended 31 December 2005. The Audit Committee monitors the audit and non-audit services rendered to the Group by its external auditors, and has developed a formal policy to ensure that the engagement of the external auditors in other non-audit services will not impair their audit independence or objectivity. The external auditors are also required to review their relationship with the Group and furnish independence confirmation to the Audit Committee confirming their independence status.

For the year ended 31 December 2005, the fees for services provided by KPMG to the Group are set out below:

	HK\$ million
Audit related services	5.2
Non-audit related services	0.6
Total	<u>5.8</u>

An independence confirmation has been obtained from KPMG which confirms that for the year ended 31 December 2005 and thereafter to the date of this Annual Report, KPMG is independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

In accordance with the recommendation of the Audit Committee, the Board has proposed to re-appoint KPMG as the external auditors of the Company in respect of the financial statements for the year ending 31 December 2006. Such proposal will be presented for approval by the shareholders of the Company at the upcoming annual general meeting.

Communication with Stakeholders

Communication with the Shareholders

The Board has endeavoured to maintain an ongoing dialogue with shareholders and in particular, use the annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

The Board recognises the importance of transparency and provides information relating to the Group to the shareholders on a regular basis through press releases, publication of interim and final results announcements in the newspapers, and circulation of the Group's interim and annual reports to the shareholders. The financial reports released to

The Group endeavours to maintain an ongoing dialogue with shareholders, the general public and employees

the shareholders as set out in the Company's 2005 interim and final results announcements and 2005 Interim and Annual Reports have been reviewed by the Audit Committee and the external auditors, and are in full compliance with the relevant statutory requirements.

The annual general meetings or other general meetings are normally attended by all Directors. Shareholders are invited to ask questions during the meetings. Besides, shareholders and investors may email their enquiries to the Board of Directors through the Group's email address "director@tih.hk", to which the Company Secretary of the Company will attend.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors. Circulars containing the relevant details such as proposed resolutions, particulars of the biography of each of the Directors standing for election at the annual general meeting, and poll voting procedures and rights of shareholders to demand a poll, are despatched to the shareholders together with the annual reports.

A wide range of information which is of interest to the shareholders, including the Group's press releases, announcements, and financial reports, is conveniently placed in the Group's corporate website "www.tih.hk" which is updated on a regular basis.

During 2005, the following meetings were held with the Company's shareholders:

2005 Annual General Meeting	19 May 2005
Special General Meeting for proposed change of name of the Company	24 November 2005

The details and results of the above meetings have been published in newspapers and on the Stock Exchange's website.

The 2006 Financial Calendar of the Company is as follows:

Announcement of 2005 final results	16 March 2006
2005 Annual Report dispatch to shareholders	26 April 2006
Last day to register for 2005 final dividend	8 May 2006
Book closure period	9 May – 18 May 2006
2006 Annual General Meeting	18 May 2006
Payment of 2005 final dividend	19 May 2006
Announcement of 2006 interim results	mid-September 2006
Payment of 2006 interim dividend	mid-October 2006
Financial year end date	31 December 2006

Communication with the General Public

The Group has maintained good communication channels with the general public to enhance their understanding of the Group's businesses.

The Group publishes reports and brochures that focus on specific aspects of operations from time to time. KMB and LWB, two of the Company's major subsidiaries, publish and distribute the following reports and brochures to enhance our customers' and the community's understanding of our services and operations. The reports and brochures are also available on the corporate website of KMB, www.kmb.hk, for public information.

- More about KMB
- More about Long Win
- KMB Service Charter
- KMB Performance Pledge
- KMB Corporate Social Responsibility Report
- Long Win Corporate Social Responsibility Report
- KMB/Long Win Passenger Liaison Group Report
- KMB — The Green Transporter
- KMB's Efforts in Environmental Protection
- KMB Today (a monthly magazine)
- Introduction on KMB's four bus depots

Other corporate and financial information of the Group are made available on the Company's corporate website, which is updated regularly.

Communication with the Employees

The Group has efficient communication channels to enhance mutual understanding and promote cooperation between the management and the staff.

The Group has maintained various communication channels to promote two-way communications between the management and the staff, including the establishment of various joint consultative committees through which the management and the staff representatives can freely discuss and exchange views on matters that affect their daily operations. The Group also maintains a staff website where relevant management announcements and information on staff affairs are placed and updated on a timely basis. The website also incorporates on-line orientation training courses and e-learning programmes. A forum has also been introduced to strengthen the communication channel with our staff. Periodic video compact discs and a monthly in-house magazine are published to keep each of our field staff informed of developments within both the Group and the industry.

A Conversation with the Managing Director



John CHAN Cho Chak
Managing Director

Reinforcing our leadership

We will be a major participant in the development of public transport systems across the China Mainland

A matter of considerable interest to the Group's stakeholders over the past year was the progress of negotiations with the Government of the Hong Kong Special Administrative Region ("HKSAR" or "Hong Kong") on a new franchise for The Kowloon Motor Bus Company (1933) Limited ("KMB") and a new fare adjustment mechanism for the franchised public bus industry in Hong Kong. In the following interview, the Managing Director of Transport International Holdings Limited ("Transport International"), Mr John Chan Cho Chak, discusses the challenges that the Group faced in the past year, the implications of the new fare adjustment mechanism for the Group and the strategy to drive the Group forward.

Q Do you think 2005 has been a particularly challenging year for Transport International? What is your key message to shareholders this year?

A Transport International continues to be a solid, well regarded, progressive, community-orientated Group. If you look closely at our figures of last year, or indeed those of the last couple of years, you will see there has been a downward adjustment in profits. This is mainly due to influences which are very largely beyond our control — increases in oil prices, tunnel toll charges, interest rates and wages, coupled with a continuing drop in patronage as a result of the commissioning of new railway lines. But there have been some very positive outcomes for the year as well — our continued expansion into the Mainland of China, the introduction of a more transparent and objective fare adjustment mechanism by the Government, and of course the successful renewal of KMB's franchise until 1 July 2017.

Q While the Group is becoming increasingly diverse in terms of business interests, KMB remains your flagship company. How important is the new franchise agreement it has reached with the Hong Kong Government?

A Quite simply, it gives KMB the right to continue to provide quality franchised public bus services in Hong Kong through to 1 July 2017. It is an agreement that assures our ongoing role as a leader in Hong Kong's public transport sector. Remember, we have more than 70 years of history here. That is quite a reputation to live up to. Over the years, KMB has evolved into one of the most cost effective public bus operators in the world. Today, its average bus fare is just about HK\$5.60. And for that price passengers enjoy riding on buses that are superbly designed and maintained, offering standards of safety and comfort that are far better than those of many other operators in the world's major cities. It is a standard that Hong Kong passengers have come to expect. While rising costs might prompt us to consider lowering our service standards, it would certainly not please our customers. Nor would it fit in with our commitment to seek the best for our passengers. It has always been our mission to provide an efficient, reliable and user-friendly bus service that gives our customers excellent value for money. And we operate to that maxim in Hong Kong and elsewhere in the region.

Q In that case, how does the new fare adjustment mechanism, which came into effect on 10 January 2006, benefit your company?

A In addition to those factors specified under the previous fare determination mechanism namely: changes in operating costs and revenue since the last fare adjustment; forecasts of future costs, revenue and return; the need to provide the operator with a reasonable return; public acceptability and affordability; and the quality and quantity of service provided which are mostly subjective and qualitative in nature, the new mechanism includes a measurable formula that will cater for both upward and downward fare adjustments based on objective criteria and actual statistics. Under this new formula which is to be applied for the next 3 years, the extent of a fare adjustment is based on 50 percent of the change in the composite consumer price index ("CCPI") and 50 percent of the change in the wage index of the transport sector ("Wage Index"), minus a fixed value of 0.3% per annum. The CCPI and the Wage Index are data published periodically by the Government's Census and Statistics Department, both of which are easily accessible and understood by the general public. The fixed value of 0.3% per annum represents 50% of the productivity gain for the bus industry in Hong Kong based on the data for 1995 to 2004. Although the new formula will not operate as the sole determinant of a fare adjustment, the Government will use the outcome of this formula as the reference indicator in considering whether a fare adjustment rate is supportable. The introduction of the new formula into the mechanism not only improves the objectivity of the fare adjustment process and provides greater responsiveness to changing economic conditions, but also depoliticises any future fare increase to be approved by the Government.

Q The previous fare adjustment mechanism had a profit sharing element. Does the new mechanism contain such an element?

A There was no ceiling rate of return for the franchised bus industry in Hong Kong. In the past, any profit in excess of a stipulated rate of return was shared between the operator and passengers on a 50/50 basis. The previous triggering point for this profit sharing arrangement for the period between 12 December 2000 and 9 January 2006 was 13% on the average net fixed assets (ANFA) of the franchised bus companies. Under the new fare adjustment mechanism, the triggering point has been set at 9.7%. This rate is calculated by the Government based on the weighted average cost of capital (WACC) for the bus industry which is considered more in line with the prevailing economic conditions. The balance of any excess return will either be used to reduce the magnitude of fare increases required in the future, or be used to provide fare concessions to passengers.

Q So, in the negotiations you faced a win-lose scenario?

A The new fare adjustment mechanism is not ideal from our point of view. As a company representing shareholders, we would have liked something more favourable. But we must recognise that we are operating under a franchise granted by the Government and we are entrusted by the public too. The new franchise has extended KMB's operating right for another nine years and eleven months. That is a good base for planning purposes.

Q Is the controlled nature of the Hong Kong market the reason for Transport International to expand into the Mainland of China?

A Hong Kong is a mature market for public transport services. There is little potential for significant growth. On the other hand, business potential on the Mainland is vast. Rapid economic growth in the Mainland accelerates the demand for improvement in both the quality and quantity of public transport services. It is an opportune time for a company like Transport International, with its strong Hong Kong experience and its international reputation, to enter this market. Our team is continuing to identify promising projects and suitable partners on the Mainland.

Q What profile do you see for Transport International in 10 years' time?

A We will be far more regionally orientated. Our business model may well be based on multi-modal transport operations. We will certainly be a major participant in the development of public transport on the Mainland. And we will continue to be a globally-recognised motivator for innovative bus designs and a standard setter for quality service.

Management Discussion and Analysis



Mr Edmond HO Tat Man
Deputy Managing Director

Ms Winnie NG
Executive Director

Mr John CHAN Cho Chak
Managing Director

Operational Review

Hong Kong

- 36** Franchised Public Bus Operations
- 46** Non-franchised Transport Operations
- 50** Property Holdings and Development
- 52** Media Sales Business

China Mainland

- 56** Mainland Transport Operations

Our ambition, direction and strategy give us
the edge in a competitive market



Mr LUI Pochiu
Operations Director

Mr William HO Sai Kei
Finance and Administration Director

Mr James C LOUEY
Commercial Director

Corporate Social Responsibility

- 62 Customer Service Initiatives
- 66 Safety and Training
- 70 Human Resources
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- 74 Caring for the Environment

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- 78 The Group
- 83 Individual Business Units
- 88 Connected Transactions



Strengthening our partnerships

Key partnerships are critical to maintaining our leading status in the public transport industry



Overview and Strategies

TIH's reputation as one of the world's top providers of public transport has continued to grow. Statistics show that we keep on attaining higher efficiency levels. Our safety and mechanical records reflect our world-class operating standards. At the same time, we continue to focus on innovation. We work closely with our bus suppliers and engine manufacturers to seek operational improvements without compromising our stringent environmental standards and safety codes. As a result, our customers are experiencing smoother and safer bus rides. Our bus fleet is constantly being upgraded both in respect of engine performance and in terms of bus saloon design. With these upgrades, we are able to achieve higher environmental protection standards and improve passenger comfort.

All of the above reflects TIH's business and operational philosophy. It is based on offering quality service and value for money to our customers. We continue to review our service frequency, and the number of buses and ferries to be deployed in the light of actual travel demand. When and where necessary, we strengthen or rationalise our operations — be they franchised public bus or non-franchised transport services. These strategies are constantly reviewed internally for cost effectiveness and operational excellence.

1	2	4
	3	5

- 1 Franchised public buses of The Kowloon Motor Bus Company (1933) Limited
- 2 Non-franchised bus of Sun Bus Limited
- 3 Ferry of Park Island Transport Company Limited
- 4 Media production of RoadShow Holdings Limited
- 5 "Manhattan Hill" of Lai Chi Kok Properties Investment Limited

Franchised Public Bus Operations

- The Kowloon Motor Bus Company (1933) Limited
- Long Win Bus Company Limited



The Kowloon Motor Bus Company (1933) Limited (“KMB”)

KMB operates extensive bus services covering Kowloon, the New Territories and Hong Kong Island. It currently employs some 12,000 staff and owns a fleet of more than 4,000 buses serving about 2.7 million passenger trips a day on around 400 routes.

Aiming for Excellence

The service philosophy underpinning KMB's operations focuses on safety, comfort and convenience of passengers. Its operational efficiency is based on innovation and the ongoing improvement of all aspects of KMB's operations. KMB has been operating in Hong Kong for over 72 years. It has in-depth understanding of the local public transport market. Being the flagship of TIH, KMB has a reputation as one of the world's best public transport operators.

KMB adapts and designs its operations to suit Hong Kong's market conditions and service requirements. Most of its buses are air-conditioned double-deckers. The latest generation buses feature straight staircases for easier access to the upper deck. Surveys undertaken over the years show that passengers recognise these innovations which have enhanced the quality, reliability and excellent value for money of KMB's services.

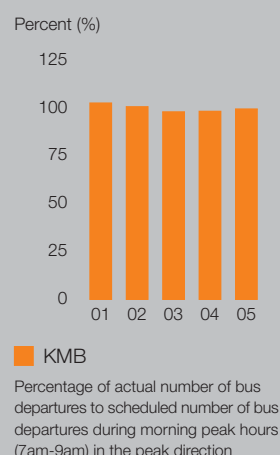
KMB was ISO 9001:1994 certified on an organisation-wide basis in 1999. The upgrade audits for ISO 9001:2000 certificates over the last few years have reconfirmed the quality of KMB's management systems at the headquarters level, within the traffic department and depots, and at the overhaul centre and bus body construction depot. A similar approach to quality management is reflected in the ISO 14001:1996 Environmental Management System certification awarded to the depots at Lai Chi Kok and Sha Tin, demonstrating KMB's commitment to high standards of environmental protection. We believe that KMB is the only public bus company in Hong Kong accredited with ISO 9001 and ISO 14001 certifications.

Performance Assurance

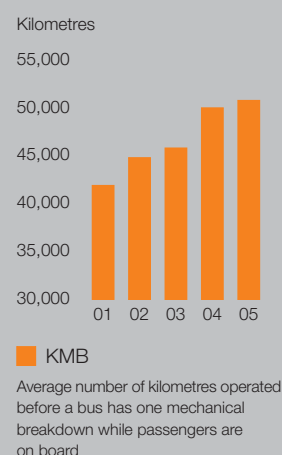
Performance statistics are key benchmarks of operational standards across all TIH companies. KMB's statistics show that for the 12 months ended 31 December 2005,

the fleet achieved 50,857:1 on mechanical reliability against a target of 45,000:1. For the same period, the operational capability achieved by KMB was 99.8% against a target of 100%. Mechanical reliability is defined as the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. Operational capability is the ratio of actual to scheduled departures in the peak direction during the peak operational hours of 7:00 a.m. to 9:00 a.m. across the entire bus network.

Operational capability



Mechanical reliability



Depots

We have continued to improve productivity at our depots. Currently, KMB's four permanent depots offer routine maintenance and repair services for its entire fleet. In addition, there are 12 satellite depots which provide bus parking spaces and minor maintenance services, a bus body construction depot for the assembly of new buses and a centre for the major overhaul of buses.



The skyline of Hong Kong Island forms a splendid backdrop to KMB's Star Ferry Bus Terminus at Tsim Sha Tsui

Our Depot Network Serving KMB and LWB Buses:

Depot	Areas served/ purpose of depot	Gross floor area (square metres)	Number of buses served at 31 December 2005	Year in which operations commenced
KMB depots:				
Kowloon Bay Depot*	East Kowloon	71,379	1,131	1990
Sha Tin Depot*	East New Territories	66,915	734	1988
New Lai Chi Kok Depot*	South and West Kowloon	60,311	876	2002
Tuen Mun Depot*	North and West New Territories	13,844	1,288	1979
Tuen Mun Overhaul Centre	Bus overhaul	35,401		1983
Tuen Mun Bus Body Construction Depot	Bus body construction	9,843	(note 1)	1978
LWB depot:				
Siu Ho Wan Depot	Lantau Island	7,660	148	1998
Total		265,353	4,177	

Notes: 1 The Bus Body Construction Depot provides facilities for building new buses.

2 KMB also operates 12 temporary depots in various locations in Hong Kong for bus parking purpose at the end of 2005.

* KMB's permanent depots for routine bus maintenance and repair services

Serving with passion Aiming for prosperity

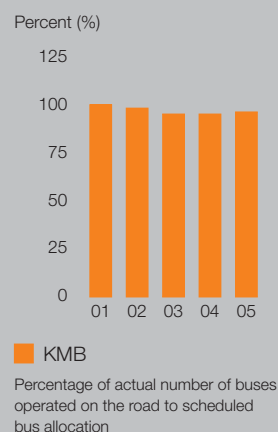


Fleet Upgrades

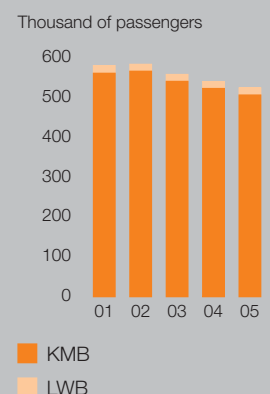
Fleet upgrades are an ongoing operational priority for service improvement. In 2005, KMB continued to purchase the latest generation super-low floor double-deck buses which have straight rather than the traditional spiral staircases. Ease of access to the upper deck is improved with this design feature. These new buses are also equipped with wheelchair access and have wider bodies which improve accessibility for passengers with disabilities.

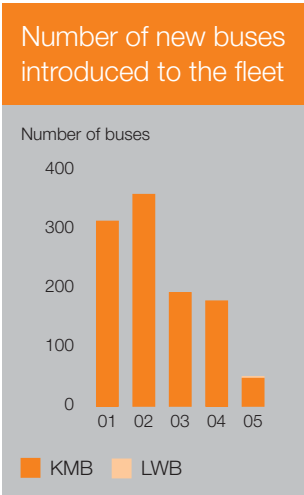
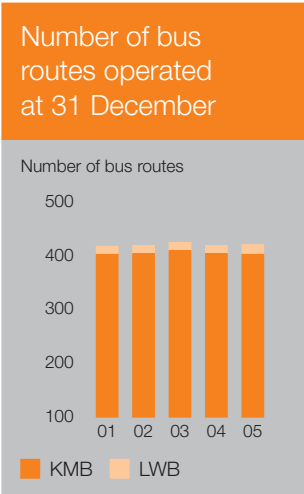
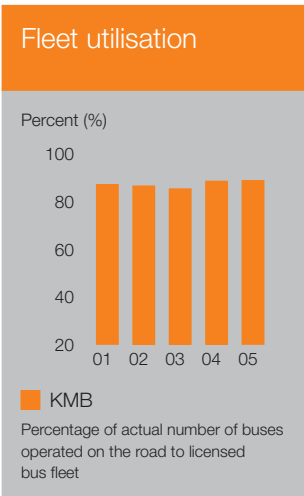
The number of air-conditioned buses deployed by KMB increased from 3,625 at the beginning of the year to 3,650 at the year-end. The latter figure comprised 3,494 double-deck and 156 single-deck buses. At the end of 2005, 90.6% of KMB's bus fleet was air-conditioned. KMB expects to take delivery of another 147 super-low floor air-conditioned double-deck buses in 2006.

Achievement of schedule



Total fleet capacity at 31 December





KMB's bus fleet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Non air-conditioned double-deck buses	Total number of buses
At 1 Jan 2005	3,450	175	525	4,150
Addition during year	47	–	–	47
Disposal during year	(3)	(19)	(146)	(168)
At 31 Dec 2005	3,494	156	379	4,029

Bus Tracking Capability

Our development of a bus tracking system for providing real-time bus location information has continued. Such system involves complex technologies, including global positioning satellite systems. Testing and evaluation continued over the past year with a view to identifying an integrated tracking and communication system that will enable us to locate buses on our network at any time accurately and cost effectively.

Electronic Tachograph

The electronic tachograph (commonly known as the “black box”), which records the speed of a bus as well as other operational information, is now standard equipment on all new KMB buses. This device monitors the driving performance of our bus captains and enhances safety for our passengers. By the end of 2005, 2,690 KMB buses were equipped with the electronic tachograph.

Bus Routes and Service Networks

Bus Routes

At the end of 2005, KMB operated 404 bus routes. Despite intensifying competition from the expanding railway networks within its service areas, KMB continues to develop new market niches. During the year, KMB launched five new routes. One of these was a special service between Diamond Hill and Hong Kong Science Park, whilst two other new routes were launched to serve the New Territories to meet overnight travel demands on the eve of Lunar New Year. Another two routes were introduced to provide cross-harbour services from Central (Ferry Piers) and Ocean Park to Mong Kok to cater for the festive demand arising from the Cheung Chau Bun Festival and Halloween respectively.





Automatic bus body washing systems keep the KMB fleet clean every day



KMB introduced the latest generation of buses to its fleet every year

Bus Network Reorganisation

Careful strategic and fiscal planning has enabled KMB to better compete with the railways. Following the opening of the Kowloon Canton Railway Corporation ("KCRC") Ma On Shan Rail ("MOSR") in December 2004, KMB reorganised its bus network serving the Sha Tin, Ma On Shan and Sai Kung areas by cancelling some bus routes and making adjustments to the others. The resources that were saved as a result of the reorganisation were deployed to areas with increasing demand or eliminated through natural attrition.

A summary of the reorganisation is tabulated below:

	Number of bus routes involved	Number of buses saved
Cancellation/rationalisation	4	17
Frequency adjustments	40	75
Total	44	92

Information Technology

Through extensive use of information technology, KMB has been able to closely monitor and effectively optimise operating performance. By the end of 2005, there were a total of 1,543 personal computers installed within all KMB facilities. These computers are inter-linked to 135 computer servers located at KMB headquarters via high-speed communication lines. There are some 40 software applications including in-house developed programs and proprietary software used for day-to-day operational and financial management. By constantly upgrading information technology systems, we improve cost controls, customer service as well as fleet and depot operations.

Advanced Finance and Administration System

Our use of SAP e-Business Software has improved both financial and human resources management. Our company-wide electronic document management system has substantially reduced paper usage and the amount of time required for document distribution, filing and retrieval.

Traffic Operations Management System

KMB's in-house developed Traffic Operations Management System ("TOMS") has improved the efficiency of our bus captain duty assignment and despatch process. With TOMS, our bus captains simply have to apply their personalised Octopus cards to a system reader to retrieve daily assignment information such as the route number, vehicle registration number, duty schedule and any ad hoc arrangement from the system when reporting for duty at our depots.

Electronic Bus-stop Announcement System

For the convenience of passengers, we have extended the on-board electronic bus stop announcement system to 97% of KMB's bus fleet. This system delivers voice announcements and shows the name of the upcoming bus stop on light emitting diode ("LED") displays. KMB will have the system installed on its entire fleet by the end of 2006.

Bus Service Information

KMB's Integrated Bus Service Information Display Systems ("IBSID Systems") are the foundation of information dissemination programmes. Three newly installed IBSID Systems were commissioned in 2005 at the Park Avenue, Leung King and University Station bus termini, bringing the total number of termini equipped with these systems to 22. Large LED or plasma display panels located at the termini provide information on bus route destinations, departure times and fares. Emergency messages such as major traffic disruptions can also be shown. The closed circuit television systems also enable monitoring of local traffic and operating conditions from both the termini and KMB headquarters.

The earlier generation of the IBSID Systems has been upgraded to incorporate an Electronic Terminus Management System ("ETMS") — another information management system developed in-house by KMB. The ETMS enables terminus supervisors to use personal data assistants ("PDAs") to record bus arrival and departure times and facilitates expedient information flow from termini to bus depots and relevant departments for faster operational decision-making. By the end of 2005, 38 termini were installed with this system.



LWB links Hong Kong International Airport, Tung Chung New Town and tourism developments on North Lantau Island

Long Win Bus Company Limited (“LWB”)

LWB was established in 1996 to operate bus routes between the New Territories and Hong Kong International Airport and North Lantau Island. Today, LWB’s service area has expanded to include the newly opened Hong Kong Disneyland and the rapidly expanding developments near Hong Kong International Airport.

LWB links Hong Kong International Airport (the “Airport”), Tung Chung New Town and tourism developments on North Lantau Island with the New Territories. During the year, the market environment for LWB showed steady growth as a result of the continuous population intake at Tung Chung New Town and the recovery of travel demand to and from the Airport. LWB’s bus network grew over the past 12 months with the recent opening of Hong Kong Disneyland and AsiaWorld-Expo, a major convention and exhibition centre located near the Airport. Both facilities are expected to attract more visitors to Hong Kong and generate more patronage for LWB. In 2005, LWB introduced three recreational bus service routes running to and from Hong Kong Disneyland and extended one shuttle service route plying between Tung Chung MTR Station and AsiaWorld-Expo. With these new routes, LWB can further strengthen its foothold in the North Lantau area by providing a better, direct and preferred mode of transport to our passengers for their different demands.

Opportunities will also come up in line with the commencement of operations of the cable car system to Ngong Ping in the middle of 2006 together with a well-developed infrastructure and transport network which will boost the development of tourism. LWB should be benefited from the increase in people’s mobility to and from urban and rural areas. With its first recreational routes launched in 2005, LWB has been further exploring opportunities arising from the continuous development of North Lantau Island.

At the end of 2005, LWB employed 417 staff and operated 139 air-conditioned double-deck buses and nine air-conditioned single-deck buses across 18 routes. All LWB’s super-low floor double-deck buses are equipped with wheelchair access, electronic bus stop announcement system and Euro II or newer engines. By the end of 2005, about 94% of LWB’s buses were installed with electronic tachographs which record the speed of a bus as well as other operational information. LWB will take delivery of more super-low floor double-deck buses over the coming years to further strengthen its service levels for the travelling public.

LWB’s bus fleet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Total number of buses
At 1 Jan 2005	136	9	145
Addition during year	3	–	3
At 31 Dec 2005	139	9	148

For the year ended 31 December 2005, LWB’s buses achieved 52,507:1 on mechanical reliability and 101.74% on operational capability. Mechanical reliability is defined as the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. Operational capability is the ratio of actual to scheduled departures in the peak direction during the peak operational hours of 7:00 a.m. to 9:00 a.m. across the entire bus network. Our goal is to ensure the highest standards of safety and reliability are applied across our fleet.

The depot at Siu Ho Wan provides support services to LWB buses such as daily maintenance, refuelling, bus washing and fleet parking. It is also equipped with a waste water treatment system, which serves to ensure waste water quality complies with the statutory requirements before the water is discharged into the public drainage system.



Non-franchised Transport Operations

- Sun Bus Holdings Limited and its subsidiaries
- Park Island Transport Company Limited
- New Hong Kong Bus Company Limited



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

In Hong Kong, the SBH Group provides prestige premium services for customers seeking high quality transportation, and general services for customers wanting high value for money.

The SBH Group is a major operator in Hong Kong’s competitive non-franchised bus industry. Currently, it comprises eight business units, with Sun Bus Limited being the flagship, and provides a range of bus services tailored to specific niche markets. Its fleet serves large residential estates, shopping malls, major employers, local travel agents and schools, as well as the general public through chartered hire services.

At the end of 2005, the SBH Group had a fleet of 249 buses, an increase of 19 buses compared with the previous year end. The SBH Group has continued to move into new business segments such as the tourism sector. By working closely with major travel agencies, the SBH Group has repositioned itself to benefit from opportunities associated with the newly opened Hong Kong Disneyland and the growing inbound tourism market, particularly tour groups travelling from the Mainland of China. During the year, the SBH Group was awarded a new contract to transport hotel guests and the entertainment conglomerate’s cast members between Hong Kong Disneyland, Hong Kong Disneyland Hotel, Disney’s Hollywood Hotel, Inspiration Lake and the Public Transport Interchange at Sunny Bay. The SBH Group has designated a fleet of 24 themed-coaches specifically for this service in Hong Kong Disneyland.



SBH Group serves various types of customers

Park Island Transport Company Limited (“PITC”)

PITC, which operates shuttle bus and ferry services for Park Island on Ma Wan Island, has become an indirect wholly-owned subsidiary (previously a 65% owned subsidiary) of TIH since 13 December 2005.

In line with our business diversification strategy and to strengthen our role in the provision of bus and ferry services to Ma Wan Island, the Group acquired the remaining 35% equity interest in PITC from the former minority shareholder of PITC on 13 December 2005.

PITC has been operating shuttle bus and ferry services for Park Island, a prestigious residential development on Ma Wan Island, since December 2002. It operates a ferry fleet of four 38-metre 412-seat catamarans, one 28-metre 403-seat catamaran and two 26-metre 223-seat catamarans, as well as an air-conditioned bus fleet of 11 super-low floor single-deck buses, three diesel-electric hybrid super-low floor single-deck buses and one 28-seat mini-bus to serve the residents and visitors of Park Island.

Currently, PITC operates two ferry routes between Ma Wan and Central and between Ma Wan and the Tsuen Wan Public Pier. The bus services are operated 24 hours



PITC provides bus and ferry links to Ma Wan Island



NHKB continues to record increasing patronage



a day between Ma Wan (Tung Wan Bus Terminus) and Tsing Yi Airport Railway Station, and between Ma Wan (Tung Wan Bus Terminus) and Kwai Fong. With the continuous population growth on Ma Wan Island, PITC will closely monitor the travel demand and adjust its operational resources as appropriate.

New Hong Kong Bus Company Limited (“NHKB”)

NHKB jointly operates the cross-boundary shuttle bus service, known as the Huang Bus service, with its Shenzhen counterpart, serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.

Currently NHKB operates a fleet of 15 air-conditioned super-low floor single-deck buses between Lok Ma Chau and Huanggang for its 24-hour cross-boundary shuttle bus service. Due mainly to the increase in economic activities between Hong Kong and the Mainland as a result of the Closer Economic Partnership Agreement (CEPA) and the increase in Mainland visitors following the extension of the Individual Visit Scheme to more Mainland cities, NHKB’s patronage continued to grow during 2005. NHKB will closely monitor its patronage level and deploy more resources to meet the increasing service demand as required.

During the year, NHKB opened a new waiting facility inside the new terminal building at San Tin Public Transport Interchange. This new facility, which contains four air-conditioned passenger waiting lounges and a passenger information display system, improves the waiting environment and services for customers.



Property Holdings and Development

- Lai Chi Kok Properties Investment Limited
- LCK Real Estate Limited



Lai Chi Kok Properties Investment Limited (“LCKPI”)

LCKPI is a wholly-owned subsidiary of TIH and the developer of Manhattan Hill, an upscale luxurious residential and commercial complex located in Lai Chi Kok, Kowloon.

The sales campaign for the residential flats at Manhattan Hill is scheduled to begin in mid-2006. The development contains 1,115 luxury residential units, ranging from 720 square feet to 4,750 square feet in size. This gives LCKPI a total gross floor area of more than one million square feet in residential space for sale. A two-level retail podium of about 50,000 square feet is also included within the development, providing residents and the surrounding neighbourhood with high quality retail facilities.

By the end of 2005, 98% of the building structure was completed and the external glazing, exterior finishing and interior fitting-out were in progress. The project is scheduled for completion by the end of 2006. An impressive sales and marketing venue, which comprises show flats as well as a sales office, is located within the retail podium of the complex. This sales and marketing venue will be transformed into a luxury shopping arcade once the sales campaign is finished.

Manhattan Hill — Unrivalled Luxury

The concept of metropolitan “Manhattan Living” is integral to all aspects of the development’s design. The complex with its gleaming stone entrance lobbies, landscaped podium and contemporary interior details offers a quality lifestyle in the hub of West Kowloon, Hong Kong.

The five high-rise residential towers, ranging from 41 storeys to 43 storeys above podium level, overlook Victoria Harbour and Stonecutters Island with panoramic views extending to the Central and Wan Chai waterfronts on Hong Kong Island. The five-storey podium contains a luxurious residential clubhouse of about 50,000 square feet, landscaped podium gardens of about 40,000 square feet and public open spaces of about 45,000 square feet. Four levels of car park provide some 390 car parking spaces for the residents, tenants and visitors of Manhattan Hill.

Residents will have the convenience of the nearby MTRC and KCRC network links, as well as a KMB passenger terminus interchange. A dedicated elevated footbridge with escalators and lifts connects the residential towers to key public transport locations. Highway access roads and ramps ensure Manhattan Hill’s residents will be just a short drive from the Airport, West Kowloon Expressway and the planned Route 9 East-West Corridor.

The Group is committed to redeveloping the site in an environmentally conscious manner. Innovative features include a double-height sky garden located at the mid point of each residential tower. Landscaped gardens cover the podium deck providing a “green lung” to the neighbourhood.

Each apartment has a high ceiling and large window openings which provide generous flows of natural light. Energy efficient glazing together with natural and cross ventilation reduce the need for constant mechanical ventilation and cooling.

Sun Hung Kai Real Estate Agency Limited, a wholly-owned subsidiary of Sun Hung Kai Properties Limited which is one of Hong Kong’s leading property developers, is overseeing the construction management, marketing and sales programme, and property management of the project on behalf of LCKPI. A team of leading architects and interior designers has also been engaged by LCKPI to ensure top quality throughout the whole development.

LCK Real Estate Limited (“LCKRE”)

LCKRE is a wholly-owned subsidiary of TIH and the owner of the headquarters building of the Group.

LCKRE owns a 17-storey commercial office building situated at No. 1 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong with a total gross floor area of about 156,700 square feet. The building is currently used by the Group for office and administrative purposes.

Media Sales Business

- RoadShow Holdings Limited and its subsidiaries



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

RoadShow Holdings Limited (“RoadShow”), established by the Group to launch multi-media services, has been separately listed on the Main Board of The Stock Exchange of Hong Kong Limited since 28 June 2001. Currently, the Group has a 73.0% interest in RoadShow.

The RoadShow Group is a leading media sales company in Hong Kong and Greater China. It is engaged in marketing advertising aimed at passengers riding public transit vehicles in Hong Kong through a proprietary Multi-media On-board (“MMOB”) system, and outdoor advertising in Hong Kong and major cities on the Mainland such as Beijing, Shanghai and Guangzhou. The RoadShow Group also provides tailor-made advertising services for its customers and placements on advertising networks across the China Mainland.

Hong Kong

The MMOB business of the RoadShow Group involves installing, operating and maintaining equipment and Liquid Crystal Display (“LCD”) units in transit vehicles for the transmission of tailor-made programmes and advertisements, sourcing programme contents and marketing and selling advertising on the MMOB system. The MMOB system has about 16,000 LCD monitors in transit vehicles and telecasts a vast variety of programmes and advertisements to passengers daily. Currently, over 4,700 transit vehicles including franchised buses and public light buses are equipped with MMOB, reaching an audience of close to four million commuters every day.

The MMOB system is an attractive medium for advertisers because of its ability to reach a sizable audience daily. The RoadShow Group’s customers cover all major advertisers in Hong Kong including advertising agencies and companies in different industries. Besides offering tailor-made sales packages to suit advertisers with diverse campaign objectives and budgets, the RoadShow Group employs various techniques to encourage customers to commit to advertising bookings, including discounts, bonus spots and special advertising packages for long-term commitments.

MMOB programme contents are specifically tailored to hold the interest of transit vehicle passengers. Contents include music videos, movie trailers, drama series, animation, travelogues, auctions and interactive games on iClub and a variety of infotainment programmes. Our MMOB programmes have attracted much attention from public transit vehicle passengers due to the creative, unique, informative and entertaining contents. With the growth in popularity of the Short Message Service (SMS) provided by telecommunication companies, the RoadShow Group launched iClub in 2003, which provides an interactive platform for both advertisers and passengers. At year-end 2005, iClub had nearly 145,000 members who participate in the daily quiz games and enjoy special offers.

China Mainland

The RoadShow Group’s operations on the Mainland achieved impressive year-on-year growth in turnover during the year. With the full year operation of the bus shelters in Beijing in 2005, the turnover generated from the related media sales increased. During the year, the RoadShow Group successfully obtained advertising contracts from a number of valuable customers, including some leading PRC telecommunication companies and multi-national beverage companies. The RoadShow Group provides full advertising services involving creative design, production, media planning and placement as well as television media sales nationwide.

Beijing, Shanghai and Guangzhou are the centres of growth in advertising expenditures on the Mainland and offer immense business opportunities for the RoadShow Group. The RoadShow Group will leverage its experience and success in Hong Kong to explore future growth opportunities in other parts of the Mainland, but the focus will be on high potential markets with high consumer spending and dense populations. The RoadShow Group will continue to prudently expand its existing core business on the Mainland and overseas.



Identifying growth factors

TIH is entering the Mainland market with a commitment to a long term presence



Overview and Strategies

TIH's business strategies for China Mainland are carefully aligned with the country's growing public transport markets. The Group's mainland transport operations have expanded rapidly over the past few years, reflecting our strategy and commitment for continuous business growth. Initiatives to date include the establishment of joint venture companies to operate public bus services as well as taxi and car rental businesses in major cities on the Mainland.

We will continue to leverage on our core competencies and explore business opportunities on the Mainland. It is envisaged that our operations in China Mainland will continue to grow in importance over the next decade.

1	2	3
		4

- 1 Shenzhen Bus Group Company Limited's public bus
- 2 Beijing Beiqi Kowloon Taxi Company Limited's taxi
- 3 Dalian co-operative joint venture's public bus
- 4 Wuxi Kowloon Public Transport Company Limited's public bus fleet

Mainland Transport Operations

- Shenzhen Bus Group Company Limited
- Wuxi Kowloon Public Transport Company Limited
- Beijing Beiqi Kowloon Taxi Company Limited
- Dalian Co-operative Joint Venture
- Tianjin Co-operative Joint Venture



The Group has been expanding its transport businesses on the Mainland. In addition to public bus transportation, we have made investments in the taxi and car rental sectors.

Shenzhen Bus Group Company Limited (“SBG”)

深圳巴士集團股份有限公司

SBG 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, with four other Mainland investors.

The Group has invested RMB387 million (HK\$364 million), representing a 35% stake, in SBG. Commencing operation on 1 January 2005, SBG principally provides public bus, minibus and taxi services in Shenzhen City (深圳市) which includes the Shenzhen Special Economic Zone and the Bao-an (寶安) and Longgang (龍崗) areas. SBG currently has about 3,500 vehicles serving some 120 routes.

Although facing direct competition from the newly commissioned underground railway at Shenzhen, SBG managed to retain its leading market share in Shenzhen throughout 2005 by rationalising the existing bus networks and extending new bus routes to those areas where there is potential for further expansion in bus patronage. To stay competitive in the public transport market, SBG will continue to upgrade its core services and explore new markets.

Wuxi Kowloon Public Transport Company Limited (“WKPT”)

無錫九龍公共交通股份有限公司

WKPT is the Group’s first Sino-foreign joint stock company to operate public bus services on the Mainland. WKPT was established in Wuxi City, Jiangsu Province (江蘇省無錫市) in February 2004. Currently, it operates about 1,800 public buses serving some 110 routes. The Group has invested RMB135 million (HK\$127 million) in WKPT together with three other Mainland shareholders. This represents a 45% equity interest in WKPT.

In 2005, WKPT successfully obtained ISO 9001:2000 and ISO 14001:2004 certificates for their provision of transportation services, transit designs and support services in Wuxi City. It also replaced about 200 buses as part of a bus enhancement programme and increased the proportion of air-conditioned buses from 30% to 37%. In order to capture a larger market share, WKPT extended its non-franchised services to cover the more remote areas of Wuxi City. The city’s strong economy and the rising income of its population are expected to provide steady growth in patronage for WKPT over the coming years.



SBG has over 3,500 vehicles serving Shenzhen City



WKPT serves Wuxi City with more than 1,800 public buses

Beijing Beiqi Kowloon Taxi Company Limited (“BBKT”)

北京北汽九龍出租汽車股份有限公司

Established in Beijing (北京) in 2003, BBKT is the first Sino-foreign joint stock company to enter the Mainland's taxi hire and car rental business sectors. TIH has invested RMB80 million (HK\$76 million), representing an equity interest of 31.38%, in BBKT. Shareholders of BBKT 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. BBKT currently operates a fleet of over 4,200 vehicles.

As one of the leading operators in the taxi hire and car rental business sectors in Beijing City, BBKT is well positioned to optimise market opportunities associated with the 2008 Beijing Olympics. Throughout the year, BBKT has undertaken a systematic vehicle replacement programme. A total of 500 new taxis in gold and white livery were introduced in 2005. A more sizable replacement programme involving more than 1,000 taxis is planned for implementation in 2006.

Dalian Co-operative Joint Venture

大連合作合營企業

Established in 1997, the Group's first co-operative PRC joint venture, formed between a 60% owned subsidiary of the Group and Dalian City No. 1 Bus Company (大連市第一公共汽車公司) in Dalian City, Liaoning Province (遼寧省大連市), has been performing steadily. The Dalian co-operative joint venture has a fleet of about 80 single-deck buses operating on three routes serving Dalian City.

Tianjin Co-operative Joint Venture

天津合作合營企業

In order to concentrate our effort on relatively larger projects, the Group disposed of all its equity interest in the Tianjin co-operative PRC joint venture in September 2005. Established in January 2001 between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company (天津市公交集團有限公司), this joint venture used to operate seven bus routes with 110 single-deck buses in Tianjin City (天津市).



Some 500 new taxis in gold and white livery were launched in Beijing during 2005

CORPORATE SOCIAL RESPONSIBILITY



Living by our principles

At TIH, we place today's business and operational decisions
in a long term social context



Overview and Strategies

With the provision of public transport services as its core business, the TIH Group fully appreciates the importance of corporate social responsibility. It underpins the way we do business and formulate our strategies and policies for all companies within the Group.

The social and environmental ethics of doing business are vital to corporate credibility in today's socially-aware world. The Group is dedicated to being a key contributor to the economic and social development of our two main markets, Hong Kong and the China Mainland. In 2005, two of the Group's major subsidiaries, KMB and LWB, published their first Corporate Social Responsibility Reports detailing corporate governance standards and practices, products and services, relationships with employees and customers, involvement in the community and environmental protection. While these reports focus on KMB and LWB, they reflect the Group's policy of striking the right balance between economic, social and environmental needs wherever our business takes us.

1	2	3
		4

- 1 TIH staff — dragon boat racing
- 2 A KMB Customer Service Centre
- 3 Tyre retreading
- 4 KMB bus stops — environmental awareness

Customer Service Initiatives



KMB's Customer Service Centres received service accolades in 2005

At TIH, taking initiatives on customer service is an ongoing exercise. Across all aspects of operations, our corporate culture is built around the provision of quality customer service and an awareness of community needs. Whether we are planning or handling operational issues which may have social or environmental impacts, we take a meticulous approach to our decisions. The background to decisions is researched carefully and the potential outcomes are evaluated.

Bus Fare Discount Schemes

No matter whether the economic climate is good or bad, the Group has been constantly identifying ways to control costs and improve productivity and efficiency in order to provide our customers with an efficient and reliable service that gives excellent value for money.

Over the years, we have reviewed and revised the fare concessions offered by KMB and LWB to Octopus card users in the wake of the changing economic conditions. To coincide with the introduction of the new fare adjustment mechanism for the franchised public bus industry in Hong Kong by the HKSAR Government, KMB and LWB offered the following fare concession schemes for a period of 36 months from their respective effective dates in early 2006.

	Discount rates	Exceptions	Effective date
1. Passengers aged 65 or above	A flat fare of HK\$2.00 or half fare (whichever is the lower) on Sundays and public holidays	Airport "A" and racecourse routes	28 January 2006
2. Fares at or above HK\$15	20% fare discount for the return trip of the same route or route group on the same day	Airport "A", racecourse and recreation routes	19 February 2006 (note)
3. Fares between HK\$10 and HK\$14.9	10% fare discount for the return trip of the same route or route group on the same day	Airport "A", racecourse and recreation routes	19 February 2006 (note)

Note: The fare concessions under schemes (2) and (3) above are expected to be extended to cover jointly-operated cross-harbour routes with effect from 1 July 2006.

The Octopus Smart Card

For public transport fare payments in Hong Kong, the electronic Octopus Smart Card System has become increasingly popular. Today, the Group is the largest corporate user of Octopus cards in Hong Kong in terms of the number of card payment transaction. About 85% of our franchised bus fare revenue was collected via Octopus cards in 2005. The Octopus cards enable passengers to board buses quickly without losing time searching for coins to pay fares. They also enable us to achieve significant cost savings in cash collection and administration.

We have continued to look at ways to optimise and expand the Octopus Bus-bus Interchange Schemes ("Octopus BBI Schemes"), both within the KMB route network and on joint inter-modal schemes with other public transport operators. The Octopus BBI Schemes continue to offer extensive fare discounts to passengers and, at the same time, they have helped improve network coverage, save operating resources and relieve traffic congestion along busy transport corridors. By the end of 2005, KMB had 49 Octopus BBI Schemes covering over 207 bus routes. An additional 22 Octopus BBI Schemes will be launched by phases in 2006.

Following the opening of Hong Kong Disneyland and AsiaWorld-Expo, two Octopus BBI Schemes were launched by LWB in 2005. In August 2005, LWB launched a new joint-operator Octopus BBI Scheme with Citybus Limited ("Citybus") to provide fare discounts for passengers interchanging at the Lantau Link Toll Plaza ("Toll Plaza") between the Hong Kong Disneyland shuttle route (a circular route jointly-operated by LWB and Citybus running between the Toll Plaza and Hong Kong Disneyland) and their Airport and Tung Chung routes. In December 2005, LWB further introduced an Octopus BBI

Scheme to cater for passengers interchanging at the Toll Plaza between its Airport routes and Tung Chung routes running to and from AsiaWorld-Expo. Together with these two newly introduced schemes, LWB had five Octopus BBI Schemes in operation at the end of 2005.

Cyber Bus Stops and Waiting Shelters

KMB has eight cyber bus stops installed at the Star Ferry, along Canton Road and Nathan Road. The light emitting diode and liquid crystal display panels at these cyber bus stops display route information, local and international news and weather information. Each cyber bus stop is equipped with a public address system which announces route information in Cantonese, English and Putonghua. Access to the KMB website for point-to-point route search and service information is also a popular function of the cyber bus stops.

We have continued with our bus shelter improvement programme to enhance the waiting environment for passengers. During the year, KMB built 100 new bus shelters, bringing the total number of bus shelters to 2,350. Also, the 2,500 advertising panels installed at the bus shelters continue to generate advertising revenue for the Group. LWB constructed five new bus shelters in 2005, bringing the total number of bus shelters to 26 at the end of the year.

Customer Service Centres

KMB's eight customer service centres, located at the public transport interchange hubs of Tsim Sha Tsui, Hung Hom, Sha Tin, Mei Foo, Tsuen Wan, Lam Tin, Tuen Mun and Tin Shui Wai, provide a convenient one-stop service



Customer Service Centres provide customers with the latest bus schedule and route information

to public transport users. At these centres, our friendly customer service ambassadors help passengers with route and timetable information. Our customers may also make use of the multimedia kiosks there for browsing the KMB website and gaining access to KMB's digital map facility for point-to-point bus route information. In addition, Octopus card services and KMB souvenir sales are also available at these centres. During the year, our KMB customer service centres won the Silver Award in the Counter Service category of the Customer Service Excellence Awards 2005 organised by the Hong Kong Association for Customer Service Excellence.

LWB's customer service and ticketing office at the Airport provides a one-stop shop for handling customer enquiries, ticketing, and lost and found services.

Enquiry Hotlines and Websites

Customer service hotlines and websites are important communications channels between us and our customers. Last year, KMB's hotline handled about 4.3 million calls — an average of about 358,000 calls per month. The 24-hour

hotline system which operates in Cantonese, English and Putonghua provides bus route information, traffic news, fax-on-demand services, service updates and voice mail recording. A hotline operator service is available from 7:00 a.m. to 11:00 p.m. daily. In 2005, KMB became the first local transport operator to send bus route information through mobile phone Short Message Service (SMS). The messaging service has been well received by our customers. LWB's customer service helpline handled over 15,000 calls in 2005, an average of about 1,300 calls per month. The helpline also collates customer opinions and handles lost and found enquiries.

KMB's customer service hotline is well regarded as an industry leader. In the Regional Call Centre Awards 2005 which was organised by the Call Centre Council of Singapore, our customer service hotline won the Technology Innovation Award and was placed in the top six list of 2005 Regional Call Centre of the Year Awards. The hotline also won the 2005 Best Practice Award: Simplicity organised by Best Practice Management, and the Silver Award at the 2005 Annual Call Centre Awards organised by the Hong Kong Call Centre Association.

During the year, one of our hotline staff won the Gold Award in the Individual category of the Customer Service Excellence Awards 2005 organised by the Hong Kong Association for Customer Service Excellence.

The Group's website at www.tih.hk provides a range of information about TIH and its subsidiaries. The website of KMB, www.kmb.hk, features a popular point-to-point route search function and assists the visually impaired and novice internet users to overcome virtual barriers to access transport information. In 2005, KMB's website won the Gold Award in the 2005 Web Care Awards. Throughout the year, 1,300 pages and 1,000 pictures on KMB's website were amended for easier on-screen reading. The continuing popularity of KMB's website was reflected in an average daily hit rate of 4.2 million in December 2005.

Customer Communications

Whether operating in Hong Kong or on China Mainland, the Group's focus is on the provision of efficient, safe and customer-oriented transport services. We are willing to listen to public opinions and identify customer needs and expectations. Our Passenger Opinion Cabin, a modified single-deck bus, visited 12 districts in Hong Kong to collect passenger opinions on KMB's services in 2005. During the year, six Passenger Liaison Group sessions ("PLGs"), moderated by specialist university lecturers, were held by KMB to assess opinion and public expectations. Representatives from the HKSAR Government's Transport Department also attended these sessions as observers. The findings reveal that, in general, our passengers are satisfied with KMB's services. We have made necessary changes in response to our customers' opinions. Similarly, LWB also held six PLGs during the year.

Information Publications

Publicity material, including bus timetable guides, was updated and published regularly. The latest edition of KMB's bus guide was sold at Hong Kong newsstands, bookstores, convenience stores and KMB's customer service centres in December 2005. All proceeds from sales of this guidebook were donated to The Community Chest of Hong Kong. To cater for the grand opening of Hong Kong Disneyland, KMB published a special Family Fun leaflet with detailed information on bus routes to Hong Kong Disneyland as well as routes to the Inspiration Lake, Hong Kong Wetland Park and Po Leung Kuk Pak Tam

Chung Holiday Camp. We also published a leaflet that helps passengers access Hong Kong's stunning hiking trails.

LWB continued to distribute its general network information along with the more specific Airbus Card, which details routes and departure information for passengers of its Airport routes. More than 24,000 copies of "Long Win Bus Service Guide for Hong Kong Disneyland" were distributed during the first three-month operation of Hong Kong Disneyland.

Marketing and Public Education

To promote the importance of proper conduct on buses, a "Civic Education Campaign" (the "Campaign") was re-launched by KMB in 2005. A series of 10-second civic education television programmes produced by KMB as well as supplementary advertisements placed on bus bodies and bus shelters were the core of the Campaign. In 2005, the Campaign won the Gold Award at the 2005 EFFIE Awards, the advertising industry's "Oscars", the Silver Award of the "Travel/Leisure/Utilities/Transport" category and the Bronze Award of the Best TV Campaign in the Kam Fan Awards 2005, organised by the Association of Accredited Advertising Agents of Hong Kong (4As), as well as the Prime Award for Brand Excellence 2005, organised by PRIME magazine.

In a separate campaign focusing on KMB's environmental care, a series of six bus body advertisements and bus shelter posters were launched to highlight the need to preserve and protect the nature.



Customers, young and senior, expect top quality of services

Safety and Training



Scheduled bus inspections guarantee safety standards

Safety has always been the Group's number one priority. Over the years, we have put in a great deal of effort to enhance the safety of our bus and ferry operations through providing intensive training to our bus captains and ferry crews, improving the design of our buses and carrying out stringent maintenance programmes for our vehicles and ferries.

Bus Captain Training

As part of our ongoing commitment to continuously improve driver training with the aim of providing a safe, comfortable and reliable transport service for our passengers, we have continued to invest heavily in the KMB Bus Captain Training School ("Training School") which is responsible for training new bus captains and providing enhancement courses for existing bus captains.

The newly recruited bus captains will start their training at the Training School with theory lessons emphasising safety and customer care. Practical training is reinforced with hands-on experience on the driving simulator. In addition to the HKSAR Government driving examinations, stringent internal assessments are made to ensure that all our bus captains are qualified and capable of taking up the responsibilities of their positions.

Enhancement training courses have been organised for experienced bus captains to reinforce their safety awareness and sensitivity to passenger comfort. In 2005, the Training School launched its Vigil Vanguard System which captures on-road bus driving performance information, including passenger comfort indicators, bus speed and trip duration through the use of on-board video cameras and the Global Positioning System. By reviewing and discussing the findings in training classes, our bus captains can understand the causes of on-road incidents and identify areas where driving techniques should be improved. The objective is to ensure that our bus captains' competence is upgraded, passenger comfort raised and safety profiles enhanced.

Bus Captains Performance Monitoring

Our specialised teams have closely monitored the performance of bus captains through a systematic performance assessment mechanism. At KMB and LWB, bus captains whose performance is not up to acceptable standards are required to attend remedial training courses. The Disciplinary and Monitoring Team monitors the performance of individual bus captains and disciplinary

action is taken in the case of poor performers. Bus captains who demonstrate above average performance are recognised with various awards and bonuses. Similar practices for safe driving are applied generally across the Group's non-franchised bus and ferry operations in Hong Kong.

Average number of bus accidents involving personal injuries and deaths

Per million vehicle-kilometres



The Vigil Vanguard System is used to assess the driving performance of bus captains in a systematic manner

The Safe Driving Award for bus captains of KMB and LWB, which was first introduced in 1990 to recognise the efforts of our bus captains, has been an effective incentive in promoting road safety. The following awards were presented to KMB and LWB staff for their outstanding safety records during the year:

2005 Safe Driving Award for bus captains

Number of bus captains	KMB	LWB	Total
25-year accident free	44	0	44
20-year accident free	104	2	106
15-year accident free	64	2	66
10-year accident free	153	3	156
5-year accident free	486	36	522
Total	851	43	894

Bus Design and Maintenance

Pioneering vehicle designs and dedicated maintenance programmes enhance the level of comfort and safety enjoyed by our passengers. The design and maintenance of buses is critical to ensuring safe operations. KMB has been collaborating with major bus manufacturers in the design process to ensure new bus types are suitable for Hong Kong's unique operating environment. For monitoring and assurance of safe operations, standard equipment such as speed limiting devices and electronic tachographs (commonly known as the “black box”) that record on-road performance data of buses are adopted for our fleet.

Under the current ISO certified maintenance programmes, KMB and LWB buses undergo daily, monthly and annual inspections and examinations at our depots. In addition,



Practical training for ferry crew of PITC

our buses are also subject to spot checks on a random basis by the Transport Department of the HKSAR Government.

Ferry Crew Training

On-board safety is a key focus of the ferry operations at our Park Island Transport Company Limited ("PITC"). In addition to their maritime qualifications and seagoing experience, our crew members participate in ongoing training and professional development programmes.

Upon joining PITC, the newly recruited ferry crew are required to attend training programmes to fully familiarise with all aspects of handling and navigation of our fleet of catamarans. The programmes also emphasise on-board safety and customer care. In addition, ongoing

professional development programmes are provided to enhance crew skills in areas such as effective radar and Very High Frequency (VHF) radio operations. Crew are also encouraged to attend general training courses organised by the Vocational Training Council on passenger safety, medical first aid, fire fighting and survival techniques.

Regular emergency exercises and training enable the crew members to respond promptly and effectively to any emergency situation. We regularly organise on-board fire fighting, collision and equipment failure drills. Safety awareness and sensitivity to passenger comfort are our first priority. We constantly review these standards and identify service improvement areas to ensure PITC remains a ferry service provider with outstanding service and safety records.

Technical and Apprentices Training

The KMB Technical Training School works with bus manufacturers to provide training for our maintenance staff on the latest bus design and technology. During 2005, a total of 252 in-house training sessions were held for 1,986 skilled workers and 12 sessions were organised for engineers, supervisors and foremen in conjunction with our bus manufacturers.

KMB has continued to run a four-year apprenticeship-training scheme to train up skilled maintenance workers. In 2005, 13 apprentices graduated from the KMB Technical Training School, bringing the number of graduates since 1973 to 2,084. There were 119 apprentices in training at the end of 2005. The Vocational Training Council of the HKSAR Government has acknowledged the high standards of our apprentice-training programmes through its annual "Best Apprentice Competition". One of our apprentices won the third prize in this competition and was invited to visit the Toyota Plant in Japan in 2005.



Human Resources



Our staff from different divisions are committed to the Group's mission

Our ethos is “Caring for People”. We have a staff force of more than 13,000 people who are committed to the Group, its operations and its culture of quality service.

Our People

Through training, motivation and reward, we have cultivated a work environment that values performance and instils a sense of responsibility towards the Group and also the community at large. The table below shows the number of staff in each of the Group's divisions.

Division	2005	2004
Franchised Public Bus Operations		
• KMB	12,339	12,499
• LWB	417	407
Non-franchised Transport Operations	604	557
Media Sales Business#	126	132
Mainland Transport Operations*	7	6
Total	13,493	13,601

including the employees of the Group's subsidiary companies on the Mainland

* excluding the employees of the Group's joint venture companies on the Mainland

Staff Communications

Good communications lie at the heart of the Group's successful staff relations. For our franchised public bus operations, the six Joint Consultative Committees provide a constructive and proactive channel for management and employee representatives to discuss matters that affect daily business operations. The Committee meets monthly at KMB and bi-monthly at LWB to discuss and examine issues such as the working environment, safety and operating procedures, and staff welfare. A homepage is maintained exclusively for KMB and LWB staff with information on management announcements, real-time weather reports, details of upcoming activities and reports of staff events. It also provides on-line orientation training courses and e-learning programmes. A forum is also introduced to strengthen communications with our staff. Periodic video compact discs and a monthly in-house magazine are published to keep all our frontline staff abreast of the developments within both the Group and the industry.

General Staff Training

The Group values training as a major investment in human resources. In 2005, training sessions which focused on computer software applications, business writing skills, leadership skills, communication and presentation skills, and stress management in the workplace were provided to our staff at KMB and LWB. A workshop on the Sex Discrimination Ordinance and Family Status Discrimination Ordinance was also held in conjunction with the Equal Opportunities Commission of the HKSAR Government. During 2005, more than 500 of our staff attended safety training courses organised by the Occupational Safety and Health Council and the Labour Department of the HKSAR Government.

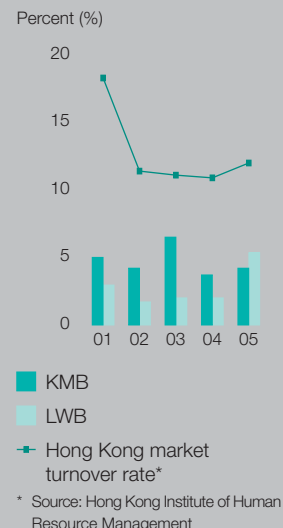


Administrative staff at a training seminar

Number of staff in the Group at 31 December



Staff turnover rate



Outstanding Service Award

During 2005, KMB organised the "Outstanding Service Award" to promote its quality service culture. A total of 64 staff members were recognised for their excellent performance. In addition, the following awards were also presented to KMB's and LWB's staff in appreciation of their dedication and contribution:

2005 Good Service and Safe Driving Annual Award for bus captains

Number of bus captains	KMB	LWB	Total
Good Service Annual Award	6,671	248	6,919
Safe Driving Annual Award	4,247	181	4,428

2005 Good Service and Attendance Award for terminus supervisors/assistant terminus supervisors/customer service assistants

Number of employees	KMB	LWB	Total
Good Service Award	439	18	457
Attendance Award	264	5	269

The operating companies of the Group's Non-franchised Transport Operations Division have good service and safe driving award schemes to recognise the outstanding performance of our drivers.

Community Involvement



FRIENDS OF KMB voluntarily contributes to and care for the community

Over the years, the Group has actively participated in a wide range of community programmes and charitable activities. Our staff have excellent community spirit and regularly take part in various corporate and community events. Such events in 2005 included the Hong Kong's Community Chest Corporate Challenge, the Standard Chartered Hong Kong Marathon 2005, Green Power Hike, International Dragon Boat Invitational Race 2005, MTR HONG KONG Race Walking 2005, Island District Long Distance Run, Orbis Pin Day and Pink Revolution.

FRIENDS OF KMB

KMB's passengers are more than customers — they are fellow citizens and friends with similar concerns and aspirations. KMB's passenger club, FRIENDS OF KMB, is a template we plan to emulate across our various commercial catchments. Its 2,550 members voluntarily gave about 9,000 hours of their time in community building, civic education, environmental protection and

social service activities during 2005. Club members visited centres for the elderly, children's homes and a sheltered workshop and took part in charity walks, raffle ticket sales, carnivals and environmental protection efforts. Over its 10-year life span, the club has recorded nearly 40,000 hours of voluntary service — a contribution recognised by the Social Welfare Department of the HKSAR Government.

The Community Chest of Hong Kong and other Not-for-Profit Organisations

Many of our Group companies involve themselves at both district and neighbourhood levels, supporting programmes that serve young people, the elderly, the less able and people in need. The Group is an active participant in community sponsorship programmes such as the Corporate and Employee Contribution Programme, Corporate Challenge Half Marathon, Dress Casual Day, New Territories Walk for Millions and Christmas Greetings organised by the HKSAR Government, professional groups and charitable organisations. In 2005, KMB was presented an Award of Distinction by The Community Chest of Hong Kong and was also named a “Caring Company” by the Hong Kong Council of Social Service. Community sponsorship commitments over the past year were made to the arts, sports and cultural events and to campaigns that focus on industry improvement and social awareness. Beneficiaries included the Hong Kong Arts Festival, the Hong Kong Sports Stars Awards, the Hong Kong Outstanding Youth Volunteers Scheme, the Hong Kong Awards for Industries, the Hong Kong Management Association Quality Award and the Hong Kong Environmental Protection Festival.

Also, for four consecutive years, the Group’s subsidiary company, RoadShow Holdings Limited (“RoadShow”), received the “Caring Company Award” organised by the Hong Kong Council of Social Service. RoadShow continuously supports many charities and not-for-profit organisations through the dissemination of community service messages and charity appeals on its Multi-media

On-board (“MMOB”) system. It also participates in various charity and fund raising events and supports civic education by producing informative and educational programmes to our passengers.

“KMB and You, Heading for a Greener and Brighter Future” Award Scheme

One of the Group’s key education schemes in Hong Kong is the “KMB and You, Heading for a Greener and Brighter Future Award” which rewards candidates who receive Grade A in all 10 subjects in the Hong Kong Certificate of Education Examination. Each of the 12 successful candidates in 2005 received a one-year free KMB/LWB bus-travel pass. We look forward to strengthening our commitment to Hong Kong’s young people in the years ahead.

Assisting Those with Special Needs

In November 2005, the Group offered free bus rides on its franchised bus services to different categories of passengers in Hong Kong. On “Elderly Day”, free rides were given on both KMB and LWB buses to the elderly aged 65 and above. Similar support went to disabled people and their escorts through a free ride offer on “International Day of Disabled Persons”. KMB and LWB have continued to work closely with disabled groups through exchange forums on improvements that can be implemented to facilitate the use of public transport by the disabled.



Presentation of “KMB and You, Heading for a Greener and Brighter Future Award” to successful candidates

Caring for the Environment



Bus stop advertisements deliver clear environmental messages

The Group has maintained a longstanding commitment to conduct its business in a manner that minimises and mitigates adverse impacts on environment. As a socially responsible corporate citizen, we have implemented many procedures in our depot and fleet operations in the interest of environmental protection.

Environment-friendly Buses

At KMB and LWB, we continue to upgrade our bus fleets to comply with, and in many aspects exceed, internationally recognised environmental standards. Through introducing innovative techniques and equipment, we lead the bus industry in Hong Kong, and even the world, in making environmental enhancements to buses.

Ultra Low Sulphur Diesel (“ULSD”)

At present, the Group has the largest bus fleet in the Asia-Pacific region using ULSD which significantly reduces exhaust emission levels of sulphur oxides, nitrous oxides and particulates.

Euro Engines

At the end of 2005, all KMB and LWB buses were equipped with environment-friendly engines which meet the stringent exhaust emission standards of the European Council of Environmental Ministers. During the year, 47 buses with emission complying with the Euro III standard were added to the fleet, bringing the total number of buses equipped with Euro II and Euro III engines to 2,434 and 923 respectively at the end of 2005. A Volvo Olympian B9TL bus, which is equipped with the first Euro IV engine, is being tested by KMB in Hong Kong. Based on the specification of the Euro engines, catalytic converters and exhaust soot filters have been retrofitted across the fleet to further improve overall emission standards.

Catalytic converters were installed on all of KMB’s 1,613 buses with pre-Euro or Euro I engines and LWB’s nine air-conditioned single-deck buses with pre-Euro engines. With the catalytic converters and the use of ULSD, the exhaust emissions of pre-Euro and Euro I buses have been improved to Euro I and Euro II engine standards respectively.

Buses equipped with Continuous Regeneration Traps (“CRTs”) can achieve a significant reduction of particulate matters and reduce smoke levels to virtually zero. At the end of 2005, KMB had a total of 512 Euro III-engined buses equipped with CRTs plus an exhaust gas recirculation device, enabling them to meet emission standards at a level close to Euro IV engine standards.

The numbers of KMB and LWB buses that met the respective emission standards as at 31 December 2005 are listed below:

Emission Standards	Number of buses meeting such standards	
	KMB	LWB
Euro I	672	9
Euro II	2,434	136
Euro III	923	3
Total	4,029	148

The bus fleets of the Group’s Non-franchised Transport Operations Division are also equipped with environment-friendly engines.

Air Foam Filter

Our Group’s double-deck buses have been using air foam filter since 2004. After extensive testing, the air foam engine filters which replaced conventional paper filters proved to be successful in extending their life span. While the operating performance of our buses has been maintained, the solid waste associated with the used filters has been greatly reduced.

Eco-Driveline

KMB has also developed the pioneering Eco-Driveline on buses by integrating an engine with a high torque, six-speed double overdrive gearbox, an optimised final drive ratio axle and a sophisticated electronic control gear-shift program. This system provides passengers with a smoother ride and also reduces fuel consumption and exhaust emissions by 6% to 10% respectively.

Synthetic Transmission Oil

All the gearboxes of KMB and LWB double-deck buses have been using synthetic oil since 2004. As a result, we have achieved a significant 80% reduction in oil wastes compared with using the traditional mineral oil. This has also extended the oil drain interval substantially from 30,000 kilometres to 150,000 kilometres.



Tyre retreading facilities at Tuen Mun depot

Revolutionary Diesel-Electric Hybrid Buses

Park Island Transport Company Limited has three environment-friendly diesel-electric hybrid air-conditioned super-low floor single-deck buses which are powered by rechargeable batteries with an energy-regenerating function during braking and moving down slopes. Their micro-turbines are only powered by diesel when the batteries have run down to a pre-set level.

Environment-friendly Non-franchised Buses

The SBH Group and New Hong Kong Bus Company Limited's bus fleets are equipped with environment-friendly engines. Around 86% of the fleet operates with Euro II or Euro III engines.

Waste Treatment WasteWise Scheme

Waste treatment has long been an environmental issue that the Group has focused on for many years. In 2005, KMB introduced the WasteWise Scheme which was promoted by the Environmental Protection Department of the HKSAR Government. The solid waste management scheme enables the efficient use of materials, effectively reducing the amount of solid waste generated.

Waste Water

Waste water continues to be treated according to regulatory standards before it is discharged into the public sewage system. In 2005, KMB maintained 11 automatic waste water treatment systems for its fleet and depots with a total daily treatment capacity of 800 cubic metres.

Waste Oil and Chemical Waste

Approximately 963,600 litres of consumed lubricating oil from bus maintenance programmes were delivered to a registered waste oil recycling agent for treatment and approximately 349,800 kilograms of solid chemical waste went to the authorised landfill in Hong Kong.

Tyre Retreading and Recycling of Scrap Tyres

To alleviate pollution problems caused by industrial waste and to fully utilise resources, 33,500 tyres were retreaded in the KMB tyre retreading plant in 2005. In an innovative recycling exercise, approximately 220 tonnes of tyre chips were collected and used to manufacture playground flooring.

Self-developed Filter-compressing Machine

Innovation comes through at many levels of the Group's environmental work. During the year, an in-house developed filter-compressing machine was used by KMB to compress the disposed engine oil filters, reducing the volume of solid waste by 60% and extending the lifespan

of landfills. Waste lubricating oil collected from this process will undergo a reclaiming and subsequent recycling process which further helps environmental conservation.

Green Premises

In the design, construction and operation of bus depots, we have paid special attention to environmental protection and energy conservation. All depots of KMB and LWB are now equipped with waste water treatment systems, water recycling facilities and environment-friendly fire service systems. Lighting, air-conditioning and ventilation systems are installed with energy saving features and regular air sampling has been conducted in depot areas to ensure a fresh air working environment.

The "Green Office" concept has been applied to the design and renovation of the Group's headquarters in Hong Kong. Pre-set timers switch off lighting when they are not in need or when outdoor light is sufficient. Temperature control devices keep office temperatures within a comfortable range. Our headquarters building was awarded the Indoor Air Quality Certificate (Good Class) in 2004 and 2005 by the Indoor Air Quality Information Centre of the Environmental Protection Department in recognition of the achievement of maintaining a hygienic work environment with good air quality.



TIH's "Green Office" with its energy saving systems

FINANCIAL REVIEW

The Group

Basis of Preparation of Financial Statements

The financial statements set out on pages 110 to 160 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. The 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 (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out in the note 1 to the financial statements on pages 117 to 125 of this Annual Report.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. These new HKFRSs do not have significant impact on the results of the Group for the year. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in the financial statements is set out in note 2 to the financial statements on pages 125 to 129 of this Annual Report.

Review of 2005 Financial Performance

Consolidated Results of the Year

The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2005 was HK\$584.2 million (2004: HK\$731.2 million), a decrease of

20.1% compared with that for 2004. The profit for 2005 included a one-off capital gain of HK\$90.5 million arising from the disposal of the Kwai Chung Depot which was previously owned and used by The Kowloon Motor Bus Company (1933) Limited ("KMB"), a wholly-owned subsidiary of the Company, at a consideration of HK\$106.0 million. Earnings per share for the year were HK\$1.45, a decrease of 20.1% compared with HK\$1.81 for 2004.

For the year ended 31 December 2005, the Group's turnover amounted to HK\$6,456.4 million, a decrease of HK\$87.9 million or 1.3% compared with HK\$6,544.3 million for 2004. The decrease was mainly attributable to the continuous loss of patronage to new railways, in particular the KCRC Ma On Shan Rail, Tsim Sha Tsui Extension and West Rail which commenced operations in December 2004, October 2004 and December 2003 respectively. Total operating expenses for the year increased by HK\$223.1 million or 3.9% from HK\$5,706.1 million for 2004 to HK\$5,929.2 million for 2005. The increase was due mainly to the increase in fuel costs as a result of worldwide drastic escalation of oil prices in 2005. Finance costs for the year increased by HK\$53.7 million from HK\$15.4 million in 2004 to HK\$69.1 million in 2005 as a result of rises in interest rates. More detailed information in respect of the Group's individual business units are set out on pages 83 to 87 of this Annual Report.

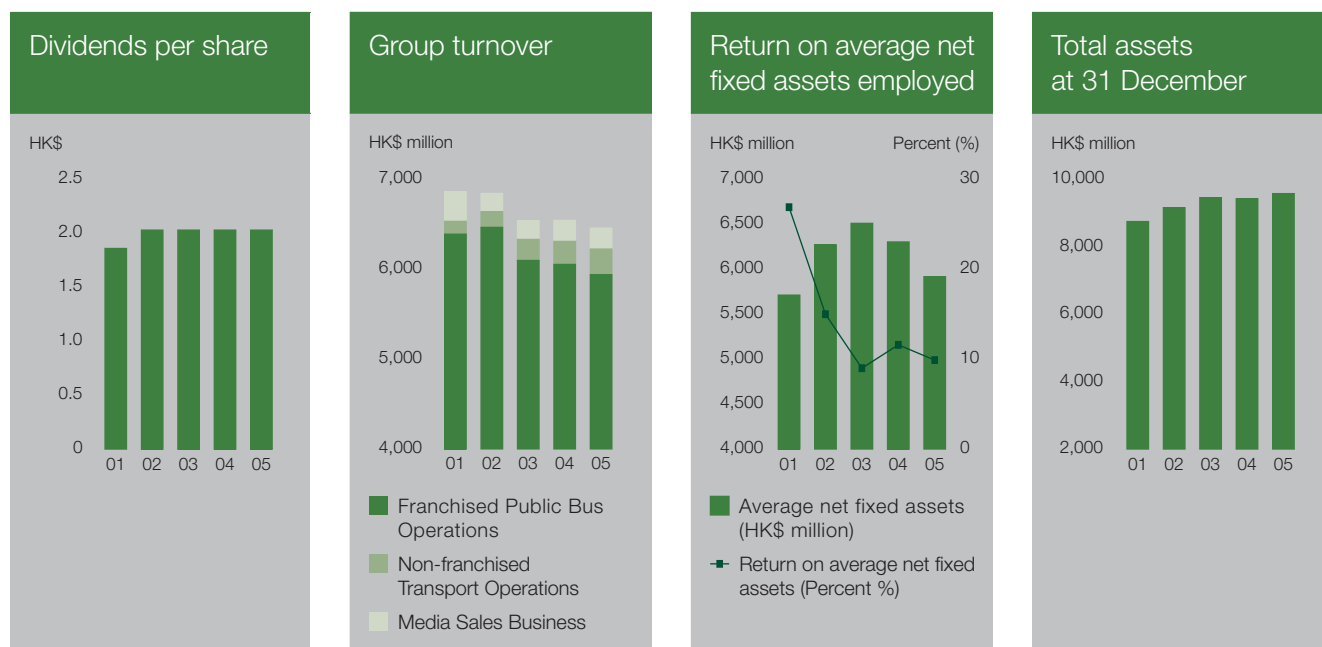
The Group's share of profits of associates increased by HK\$31.0 million from HK\$22.4 million in 2004 to HK\$53.4 million in 2005. The increase was due mainly to the profit contribution from the Group's new associate in Shenzhen, which commenced operation of public bus and taxi hire services in Shenzhen City on 1 January 2005.

Income tax expense for the year was HK\$95.9 million (2004: HK\$168.9 million), representing a decrease of 43.2% compared with the previous year. The breakdown of the income tax expense is set out in note 6(a) to the financial statements on page 131 of this Annual Report.

A summary of the turnover and profit generated from the Group's six Divisions is set out below:

HK\$ million	Turnover		Profit before taxation	
	2005	2004	2005	2004
Franchised Public Bus Operations Division	5,995.9	6,121.4	540.4	862.3
Non-franchised Transport Operations Division	287.0	256.4	35.4	30.4
Property Holdings and Development Division	–	–	13.4	12.7
Media Sales Business Division	173.5	166.5	34.8	28.3
Internal Financial Services Division	–	–	5.2	10.5
Mainland Transport Operations Division	–	–	41.5	13.3
	6,456.4	6,544.3	670.7	957.5
Finance costs			(69.1)	(15.4)
Unallocated net operating income/(expenses)			89.1	(29.4)
Profit before taxation			690.7	912.7

Detail segment information on the main businesses of the Group is shown in note 12 to the financial statements on page 136 of this Annual Report.



FINANCIAL REVIEW

Dividends

The proposed final dividend for the year is HK\$1.58 per share (2004: HK\$1.58 per share). Together with the interim dividend of HK\$0.45 per share (2004: HK\$0.45 per share) paid on 13 October 2005, the total dividend for the year ended 31 December 2005 amounts to HK\$2.03 per share (2004: HK\$2.03 per share). This represents dividend cover of 0.71 times (2004: 0.89 times).

Financial Position

Fixed Assets and Capital Expenditure

The Group's fixed assets mainly comprise buildings, buses, vessels and other motor vehicles, and interest in leasehold land held for own use under operating leases. None of the Group's assets was pledged or charged as at 31 December 2005.

During the year, capital expenditure incurred by the Group amounted to HK\$514.8 million (2004: HK\$541.6 million). The decrease was mainly attributable to the reduction in the purchase of new buses by KMB in 2005 as a result of bus network reorganisation. The breakdown of the capital expenditure incurred is shown in note 13(a) to the financial statements on page 137 of this Annual Report.

Interest in Associates

At 31 December 2005, the Group's total interest in associates amounted to HK\$776.4 million (2004: HK\$330.2 million). Such interest represented the Group's investments in the Mainland transport operations and media businesses in Beijing, Shenzhen and Wuxi. The increase was due mainly to the contribution of HK\$363.9 million to a new joint venture in Shenzhen, Shenzhen Bus Group Company Limited ("SBG"), which commenced operation on 1 January 2005.

Working Capital

At 31 December 2005, the Group's working capital amounted to HK\$183.7 million (2004: HK\$253.3 million). Total current assets at the end of the year amounted to HK\$2,341.2 million (2004: HK\$1,917.9 million) mainly comprising liquid funds and property under development. The Group's liquid funds in the amount of HK\$1,133.6 million (2004: HK\$1,170.2 million) were mainly denominated in Hong Kong Dollars, United States Dollars,

British Pound Sterling ("GBP") and Renminbi. Property under development in the amount of HK\$707.1 million (2004: HK\$323.2 million) represented the total cost incurred by the Group for the development of "Manhattan Hill", a prestigious residential and commercial complex situated at Lai Chi Kok, Kowloon, Hong Kong. Total current liabilities at 31 December 2005 amounted to HK\$2,157.5 million (2004: HK\$1,664.6 million) which mainly included the current portion of bank loans, bank overdrafts, accounts payable and other accruals.

Bank Loans and Overdrafts

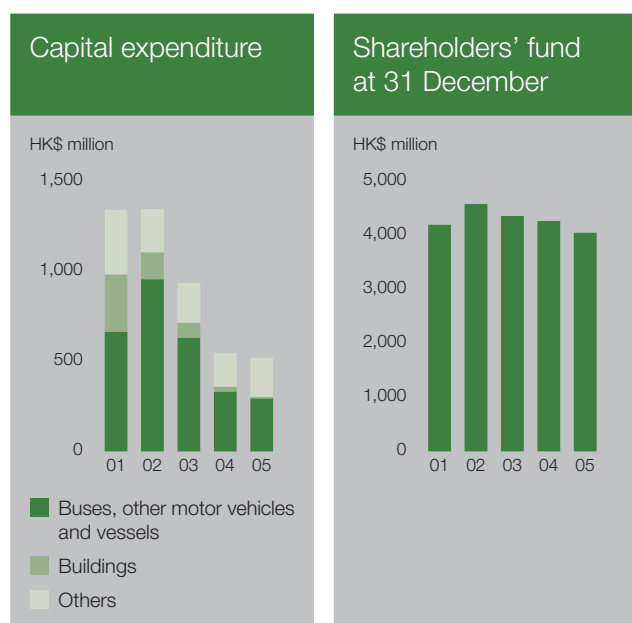
Bank loans and overdrafts, all unsecured, amounted to HK\$3,179.9 million at 31 December 2005 (2004: HK\$2,792.0 million).

The maturity profile of bank loans and overdrafts of the Group at 31 December 2005 and 31 December 2004 is set out in note 27 to the financial statements on page 149 of this Annual Report.

Net Borrowings

At 31 December 2005, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$2,046.3 million (2004: HK\$1,621.8 million), representing an increase of HK\$424.5 million compared with 2004. An analysis of the Group's net borrowings by currency at 31 December 2005 is shown below:

Currency	2005		2004	
	Net borrowings/ (cash) in foreign currency million	Net borrowings/ (cash) in HK\$ million	Net borrowings/ (cash) in foreign currency million	Net borrowings/ (cash) in HK\$ million
Hong Kong Dollars		2,297.8		1,736.9
United States Dollars	(28.3)	(220.5)	(10.6)	(83.0)
British Pound Sterling	(1.5)	(20.3)	(1.5)	(22.1)
Renminbi	(11.2)	(10.7)	(10.6)	(10.0)
Total		2,046.3		1,621.8



Commitments

Commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2005 amounted to HK\$1,878.6 million (2004: HK\$1,841.4 million). A summary of the nature of the commitments is set out below:

HK\$ million	2005	2004
Purchase of buses and other motor vehicles	270.3	26.5
Development of Manhattan Hill	1,275.5	1,473.9
Purchase of other fixed assets	330.7	327.6
Investment in new projects on the Mainland	–	9.5
Construction of depots and other depot facilities	2.1	3.9
Total	1,878.6	1,841.4

The commitments are to be financed by borrowings and working capital of the Group.

At 31 December 2005, the Group had 125 (2004: 2) air-conditioned double-deck buses on order for delivery in 2006 and 46 (2004: 42) buses under various stages of construction.

Funding and Financing

Liquidity and Financial Resources

Throughout the year, the Group continued to closely monitor its liquidity and financial resources to ensure that a healthy financial position was maintained so that cash inflows from operating activities together with undrawn committed banking facilities were sufficient to meet the requirements for loan repayments, daily operational needs, capital expenditure, as well as potential business expansion and development. During the year, the Group was mainly financed by shareholders' funds, bank loans and overdrafts. Whilst the major operating companies of the Group arrange their own financing to meet specific requirements, the Group's other subsidiaries are mainly financed by the holding company from its capital base. At 31 December 2005, the Group had stand-by banking facilities totalling HK\$1,299.0 million (2004: HK\$1,945.7 million). 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.

Gearing Ratio and Liquidity Ratio

The gearing ratio and liquidity ratio of the Group are as follows:

	2005	2004
Gearing ratio at year-end (ratio of net borrowings to the total share capital and reserves attributable to equity shareholders of the Company)	0.51	0.38
Liquidity ratio at year-end (ratio of current assets to current liabilities)	1.09	1.15

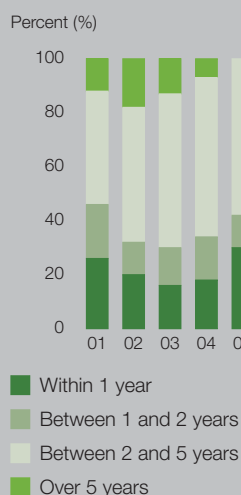
The increase in the Group's gearing ratio for 2005 was due mainly to the increase in loan drawdown for the development of Manhattan Hill. The gearing ratio of the Group is expected to reduce significantly or turn into a net cash position after the sale of residential flats of Manhattan Hill.

Finance Costs and Interest Cover

Due mainly to the increase in market interest rates in 2005, the total finance cost incurred by the Group increased to HK\$69.1 million in 2005 from HK\$15.4 million in 2004. The average interest rate in respect of the Group's borrowings for 2005 was 3.01%, an increase of 238 basis points compared with 0.63% for 2004.

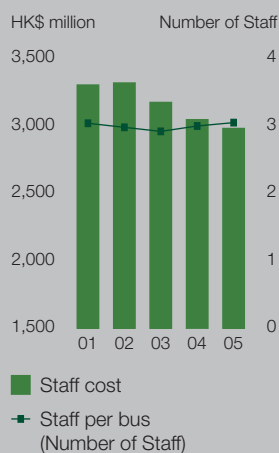
FINANCIAL REVIEW

Debt maturity profile at 31 December



Staff cost and staff per bus

(Franchised Public Bus Operations)



Interest cover, representing the ratio of profit before finance costs and taxation divided by net finance costs (i.e. total finance costs less interest income), was 15.8 times in 2005 (2004: 393.1 times).

Net Cash Flow

The net cash inflow generated from operating and investing activities of the Group increased from HK\$265.1 million in 2004 to HK\$289.2 million in 2005, which included cash proceeds received in the amount of HK\$106.0 million from the disposal of the Kwai Chung Depot during the year. Cash outflows utilised for payment of capital expenditure and interest expenses during the year amounted to HK\$536.1 million and HK\$78.7 million respectively, compared with HK\$610.1 million and HK\$15.8 million for 2004. Net increase in bank loans in 2005 amounted to HK\$345.0 million, compared with HK\$157.9 million in 2004. Net cash inflow before dividends for 2005 was HK\$612.8 million, compared with HK\$418.4 million for 2004. After dividend payments of HK\$819.4 million, the Group's net cash outflow for the year amounted to HK\$206.6 million compared with HK\$411.7 million for the previous year. Details of the Group's cash flow movement for the year ended 31 December 2005 are set out in the consolidated cash flow statement on pages 115 to 116 of this Annual Report.

Treasury Policies

Currency Risk Management

Foreign currency exposure does not pose a significant risk to the Group as the levels of foreign currency assets and

liabilities were relatively low compared to its total asset base. The Group's foreign currency exposure mainly arises from the payments for new buses and overseas motor vehicle components which are denominated in British Pound Sterling ("GBP"). To minimise the foreign exchange risk particularly at times when the currency market is volatile, it is the Group's policy to closely monitor the foreign exchange movements and strategically enter into forward exchange contracts when opportunities arise to hedge the foreign currency requirement.

During 2005, the Group entered into a number of forward foreign exchange contracts to hedge approximately 50% (2004: 60%) of the total GBP requirement for the year.

Interest Rate Risk Management

It is the Group's policy to closely monitor the market conditions and devise suitable strategies to mitigate interest rate risk. As at 31 December 2005, the Group's borrowings were mainly denominated in Hong Kong Dollars and on a floating interest rate basis. This enabled the Group to take advantage of the lower floating interest rates compared with fixed rate financing in 2005. The Group will continue to review its strategy on interest rate risk management in the light of prevailing market conditions.

Employees and Remuneration Policies

As the provision of franchised public bus and non-franchised transport services is labour intensive, staff costs accounted for a substantial portion of the total cost of the Group. Due largely to the route rationalisation plans implemented by KMB after the commencement of the KCRC Ma On Shan Rail service in December 2004, the number of staff of the Group at the year-end of 2005 decreased by 0.8% compared with the previous year, mainly through natural attrition. The Group will continue to closely monitor and align the number and remuneration of its employees against productivity and market trends. The number and remuneration of employees of the Group (including employees of the Group's subsidiary companies on the Mainland) over the past two years are tabulated below:

	2005	2004
Number of employees at year-end	13,493	13,601
Total remuneration (HK\$ million)	2,983	3,048
Remuneration as percentage of total costs	49%	52%

Individual Business Units

Franchised Public Bus Operations

The Kowloon Motor Bus Company (1933) Limited (“KMB”)

	Unit	2005	2004
Turnover	HK\$ million	5,733.3	5,885.3
Gain on disposal of building and interest in leasehold land	HK\$ million	90.5	–
Other net income	HK\$ million	75.1	69.4
Total operating expenses	HK\$ million	(5,295.7)	(5,113.1)
Finance costs	HK\$ million	(46.2)	(10.1)
Profit before taxation	HK\$ million	557.0	831.5
Income tax expense	HK\$ million	(81.5)	(156.0)
Profit after taxation	HK\$ million	475.5	675.5
Net profit margin (including gain on disposal of building and interest in leasehold land)		8.3%	11.5%
Net profit margin (excluding gain on disposal of building and interest in leasehold land)		6.7%	11.5%
Passenger volume	Million passenger trips	1,009.9	1,063.8
Kilometres travelled	Million km	339.0	342.8
Staff number at year-end	Number of staff	12,339	12,499
Fleet size at year-end	Number of buses	4,029	4,150
Total assets value	HK\$ million	5,939.8	6,165.9

KMB's profit after taxation for the year amounted to HK\$475.5 million (2004: HK\$675.5 million), representing a decrease of 29.6% compared with that for the previous year. The amount included a one-off capital gain of HK\$90.5 million arising from the disposal of the Kwai Chung Depot. When excluding such capital gain, KMB's profit after taxation from the franchised public bus operation decreased by 43.0% from HK\$675.5 million in 2004 to HK\$385.0 million in 2005.

KMB's fare revenue for the year amounted to HK\$5,668.0 million (2004: HK\$5,808.8 million), a decrease of HK\$140.8 million or 2.4% compared with the previous year. Its ridership in 2005 amounted to 1,009.9 million passenger trips (2004: 1,063.8 million passenger trips), a decrease of 53.9 million passenger trips or 5.1% compared with 2004. The decreases were mainly attributed to the continuous loss of patronage to new railways, in particular the KCRC Ma On Shan Rail, Tsim Sha Tsui Extension and West Rail which commenced operations in December 2004, October 2004 and December 2003 respectively. KMB's advertising revenue for the year amounted to HK\$64.0 million (2004: HK\$74.5 million), a decrease of 14.1% compared with the previous year.

The actual distance travelled by KMB's buses totalled 339.0 million kilometres during the year (2004: 342.8 million kilometres). The decrease in distance travelled was mainly due to the rationalisation of certain bus routes following the commissioning of the Ma On Shan Rail.

KMB's total operating expense for the year amounted to HK\$5,295.7 million (2004: HK\$5,113.1 million), representing an increase of HK\$182.6 million or 3.6% compared with 2004. For the year ended 31 December 2005, expenditure on fuel oil amounted to HK\$809.6 million, an increase of approximately HK\$216.0 million or 36.4% compared with 2004. This increase was due mainly to the worldwide drastic escalation of oil prices. Tunnel tolls as part of the other operating expenses and finance costs for the year also increased by HK\$21.6 million and HK\$36.1 million respectively compared with those for 2004 due to the increases in toll charges and interest rates. These increases in operating costs were totally beyond the control of KMB. Faced with this situation, KMB has made strenuous efforts to reduce operating costs through productivity enhancement, bus service rationalisation and stringent cost controls on other expenses wherever possible. As a result, the bus operating cost when excluding the cost of fuel oil for the year was reduced by HK\$33.4 million or 0.8% compared with 2004, notwithstanding a 2% pay rise for KMB's operations staff and office staff with effect from 1 June 2005 and 1 September 2005 respectively.

KMB has been assigned a single “A” corporate rating (outlook: stable) by Standard & Poor's since 14 January 2002.

FINANCIAL REVIEW

Long Win Bus Company Limited (“LWB”)

	Unit	2005	2004
Turnover	HK\$ million	271.4	245.5
Other net income	HK\$ million	1.7	1.3
Total operating expenses	HK\$ million	(245.4)	(226.1)
Finance costs	HK\$ million	(5.1)	(1.0)
Profit before taxation	HK\$ million	22.6	19.7
Income tax expense	HK\$ million	(3.9)	(3.4)
Profit after taxation	HK\$ million	18.7	16.3
Net profit margin		6.9%	6.6%
Passenger volume	Million passenger trips	24.3	22.3
Kilometres travelled	Million km	23.8	23.5
Staff number at year-end	Number of staff	417	407
Fleet size at year-end	Number of buses	148	145
Total assets value	HK\$ million	249.6	230.0

LWB recorded a profit after taxation of HK\$18.7 million for the year (2004: HK\$16.3 million). This represents an increase of HK\$2.4 million or 14.7% compared with the previous year.

LWB's fare revenue for the year amounted to HK\$269.5 million, representing an increase of 10.9% compared with HK\$243.0 million for 2004. The total ridership of LWB in 2005 was 24.3 million (a daily average of 66,553) passenger trips, an increase of 9.0% compared with 22.3 million (a daily average of 60,942) passenger trips in the previous year. The increase was due mainly to the continued growth of population in Tung Chung New Town and the increased road transport demand to and from the Hong Kong International Airport. The opening of Hong Kong Disneyland in 2005 also generated more patronage for LWB.

Total mileage operated for the year increased to 23.8 million kilometres (2004: 23.5 million kilometres) due to the expansion of routes to cater for the new transport demand associated with the opening of Hong Kong Disneyland.

The advertising revenue of LWB increased to HK\$1.2 million in 2005 from HK\$0.6 million in 2004.

LWB's total operating expenses for the year amounted to HK\$245.4 million (2004: HK\$226.1 million), an increase of 8.5% compared with 2004. The increase was mainly due to increases in fuel costs and tunnel toll charges, as well as other operating expenses as a result of service enhancement to cope with the growing transport demand. Finance costs for 2005 increased by HK\$4.1 million to

HK\$5.1 million (2004: HK\$1.0 million) due to the increase in market interest rates.

Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK\$26.8 million for 2005 (2004: HK\$23.8 million), representing an increase of 12.6% compared with that for the previous year. Turnover increased by 11.9% from HK\$256.4 million in 2004 to HK\$287.0 million in 2005. The increase was due primarily to the continuous improvement of the local economy, the opening of Hong Kong Disneyland and the growth in patronage of the cross-boundary shuttle bus service.

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

The SBH Group is a major provider of various non-franchised bus services to residential estates, shopping malls, corporations, employers, schools, tourists, and contract-hire customers. Turnover of the SBH Group for the year amounted to HK\$114.0 million, an increase of 11.7% compared with 2004. The increase was due mainly to the growth in patronage as a result of the opening of Hong Kong Disneyland and the growing inbound tourist market, particularly tour groups from the mainland of China. However, the growth in turnover was partially offset by the drastic increase in fuel costs during the year.

At 31 December 2005, the SBH Group had a fleet of 249 buses (2004: 230 buses). During the year, 65 buses (2004: 7 buses) were purchased for enhancement of service quality and replacement of older buses.

Park Island Transport Company Limited (“PITC”)

PITC was previously a 65% owned subsidiary of the Group. It became a wholly-owned subsidiary of the Group on 13 December 2005 after the Group acquired the remaining 35% equity interest from the former minority shareholder of PITC. PITC has been providing shuttle bus and ferry services for residents of and visitors to Park Island, a prestigious development on Ma Wan Island. At the year-end, PITC operated two ferry routes and two bus routes serving Ma Wan Island, with a ferry fleet of seven high-speed catamarans and an air-conditioned bus fleet of 11 super-low floor single-deck buses, three diesel-electric hybrid super-low floor single-deck buses and one 28-seat mini-bus. The patronage for the year was 5.9 million passenger trips, an increase of 15.7% compared with 5.1 million passenger trips for 2004. This increase was due mainly to further population in-take of Park Island.

New Hong Kong Bus Company Limited (“NHKB”)

NHKB, together with its Shenzhen(深圳)counterpart, jointly operates a direct, economical, 24-hour cross-boundary shuttle bus service serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang(皇崗)in Shenzhen. Due mainly to the increase in economic activities between Hong Kong and the Mainland as a result of the Closer Economic Partnership Arrangement (CEPA) and the increase in the number of visitors from the Mainland as a result of the extension of the Individual Visit Scheme to more Mainland

cities, NHKB’s patronage increased by 19.7% from 7.6 million passenger trips for 2004 to 9.1 million passenger trips for 2005. NHKB operated a total of 15 buses at year-end of 2005, same as at the end of 2004.

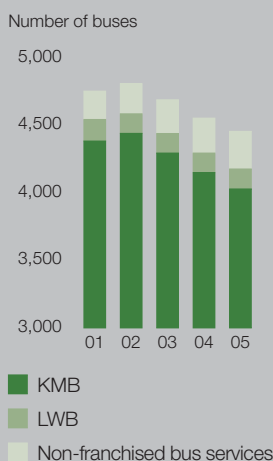
Property Development

Lai Chi Kok Properties Investment Limited (“LCKPI”)

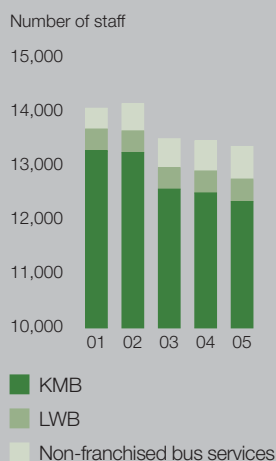
LCKPI, a wholly-owned subsidiary of the Group, is the owner and developer of the residential and commercial complex known as “Manhattan Hill” located at Po Lun Street, Lai Chi Kok, Kowloon. This development comprises about 1,115 up-scale luxurious residential units in five multi-storey prestigious residential blocks with a total residential gross floor area of about one million square feet and a two-level retail podium of about 50,000 square feet. At 31 December 2005, 98% of the building structure was completed and the external glazing, exterior finishing and interior fitting-out were in progress. The project is scheduled for completion by the end of 2006.

At the year-end, the total construction cost incurred for the project amounted to HK\$707.1 million (2004: HK\$323.2 million). This amount was capitalised as property under development in the consolidated balance sheet on page 111 of this Annual Report. At 31 December 2005, the commitment in the project was HK\$1,275.5 million (2004: HK\$1,473.9 million). The project is financed by the Group’s working capital and unsecured bank loans.

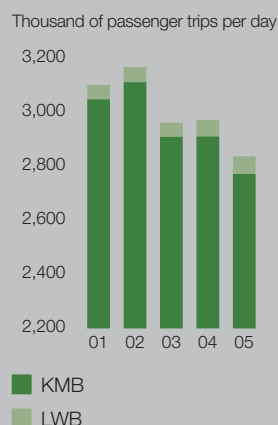
Number of licensed buses at 31 December



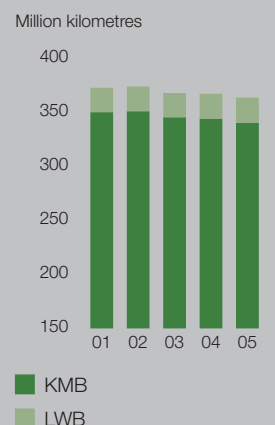
Number of staff at 31 December



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



Bus kilometres operated (Franchised Public Bus Operations)



Media Sales Business

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

HK\$ million	2005	2004
Turnover	191.1	182.0
Other revenue	21.6	16.1
Total operating expenses	(189.9)	(179.3)
Finance costs	(2.4)	(1.4)
Share of profit of associate	12.1	9.5
Profit before taxation	32.5	26.9
Income tax expense	(5.3)	(3.1)
Profit after taxation	27.2	23.8
Minority interests	(0.9)	(3.7)
Profit after taxation and minority interests	26.3	20.1

The RoadShow Group achieved significant operational and financial improvement in 2005 as compared with 2004. For the year ended 31 December 2005, the RoadShow Group reported a total operating revenue of HK\$212.7 million (2004: HK\$198.1 million) and a profit attributable to equity shareholders of HK\$26.3 million (2004: HK\$20.1 million), representing increases of 7.4% and 30.8% respectively over the previous year.

The total operating expenses of the RoadShow Group for 2005 amounted to HK\$189.9 million, an increase of 5.9% compared with HK\$179.3 million for 2004. The increase was due mainly to the increase in depreciation and amortisation expenses arising from the full year operation of bus shelters on the Mainland.

The profit attributable to equity shareholders of the RoadShow Group comprised segment profits derived from Hong Kong operations of HK\$19.8 million (2004: HK\$12.6 million) and China Mainland operations of HK\$6.5 million (2004: HK\$7.5 million). The increase in profit for the year was mainly attributable to the continuous improvement in the economic environment and the resultant upturn in consumer confidence in Hong Kong and on the Mainland.

Further information relating to the RoadShow Group is available in its 2005 final results announcement and annual report.

Mainland Transport Operations

At 31 December 2005, the Group's total interest in associates and jointly controlled entity on Mainland Transport Operations amounted to HK\$648.4 million (2004: HK\$224.3 million). Such investments are mainly related to the operation of passenger public transport services in Dalian(大連), Shenzhen(深圳)and Wuxi(無錫) and taxi and car rental services in Beijing(北京). The Group's Mainland Transport Operations Division reported a profit after taxation of HK\$41.5 million for 2005 (2004: HK\$13.3 million). The increase was due mainly to the profit contributed by our new associate in Shenzhen, which commenced operation on 1 January 2005. The surge in fuel prices in 2005 suppressed the performance of these businesses on the Mainland. During the year, the Group disposed of all its equity interest in the co-operative joint venture in Tianjin(天津)to an independent third party in order to concentrate our effort on relatively larger projects. The co-operative joint venture was originally formed between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited(天津市公共交通集團有限公司)in January 2001.

Summary of Investments in Mainland Transport Operations

	Dalian	Beijing	Wuxi	Shenzhen
Nature of business	Bus services	Taxi and car rental services	Bus services	Bus and taxi hire services
Form of business structure	Co-operative joint venture	Sino-foreign joint stock company	Sino-foreign joint stock company	Sino-foreign joint stock company
Operation commenced	August 1997	April 2003	March 2004	January 2005
The Group's initial investment (RMB million)	22	80	135	387
The Group's effective interest	30%	31.38%	45%	35%
Fleet size at 31 December 2005 (Number of vehicles)	83	4,235	1,857	3,531
Bus passenger volume (Million trips)	27.1	N/A	266.3	588.3
Bus kilometres travelled (Million km)	4.6	N/A	88.9	240.0
Staff number at 31 December 2005	261	4,219	4,927	11,610

Dalian

This co-operative joint venture ("CJV") in Dalian was established in July 1997 by a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company(大連市第一公共汽車公司) in Liaoning Province(遼寧省). At 31 December 2005, this CJV had 83 single-deck buses operating on three routes serving Dalian City. This CJV made satisfactory progress and recorded a profit in 2005.

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 comprise 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), Beijing Bashi Company Ltd.(北京巴士股份有限公司) and two other Mainland investors. BBKT principally engages in the taxi hire and car rental businesses with a fleet of around 4,200 vehicles and some 4,200 employees. The Group's investment in BBKT was RMB80.0 million (HK\$75.5 million), representing 31.38% of BBKT's equity interest. BBKT achieved satisfactory results for the year ended 31 December 2005.

Wuxi

Wuxi Kowloon Public Transport Company Limited(無錫九龍公共交通股份有限公司)("WKPT"), a Sino-foreign joint stock company in which the Group has 45% interest, was established in Wuxi City, Jiangsu Province(江蘇省無錫市) in February 2004. WKPT currently operates some 1,800 buses on over 110 routes. The Group's investment in WKPT was RMB135.4 million (HK\$127.2 million). WKPT continued to make steady progress and recorded a profit for the year ended 31 December 2005.

Shenzhen

Shenzhen Bus Group Company Limited(深圳巴士集團股份有限公司)("SBG"), 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, commenced operation in January 2005. The Group has invested RMB387.1 million (HK\$363.9 million), representing a 35% stake, in SBG. SBG principally operates public bus and taxi hire services in Shenzhen City, Guangdong Province(廣東省深圳市), with about 3,500 vehicles serving some 120 routes. SBG made a significant contribution to the profit of the Group for the year ended 31 December 2005.

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 Listing Rules:

Connected Transactions

The Kowloon Motor Bus Company (1933) Limited (“KMB”)

Transaction with Fortin International Limited (“FIL”)

As detailed in note 36(a)(i) to the financial statements on page 158 of this Annual Report, KMB entered into an agreement with FIL, a wholly-owned subsidiary of Sun Hung Kai Properties Limited (“SHKP”), on 31 October 2005 pursuant to which KMB agreed to sell and FIL agreed to purchase the industrial building situated at Kwai Chung, New Territories, at a consideration of HK\$106,000,000. Approval had been obtained from the relevant Government authorities for the disposal of the industrial building and the transaction was completed on 14 December 2005. This transaction was only subject to the reporting and announcement requirements of the Listing Rules and was exempted from the independent shareholders’ approval requirement. Particulars of this transaction were disclosed in the announcement of the Company dated 1 November 2005.

Park Island Transport Holdings Limited (“PITH”)

Transaction with Winnertex Limited (“Winnertex”)

PITH and Winnertex entered into a Sales and Purchase Agreement on 5 December 2005 whereby PITH agreed to purchase and Winnertex agreed to sell 35% interest in the issued share capital of Park Island Transport Company Limited (“PITC”) for a consideration of HK\$9,555,700. Upon completion of the sale, PITC became an indirect wholly-owned subsidiary of the Company. The transaction contemplated under the Sale and Purchase Agreement was only subject to the reporting and announcement requirements under the Listing Rules and was exempted from the independent shareholders’ approval requirement. Particulars of this transaction were disclosed in the announcement of the Company dated 9 December 2005.

Continuing Connected Transactions

The Group

Transaction with Sun Hung Kai Properties Insurance Limited (“SHKPI”)

As detailed in note 36(a)(iii) to the financial statements on page 158 of this Annual Report, the Group entered into certain insurance arrangements with SHKPI, a wholly-owned subsidiary of SHKP, in 2004, pursuant to which SHKPI agreed to provide insurance coverage and services to the Group (the “Insurance Arrangements”). The Insurance Arrangements are and will be carried out on a recurring basis and will be expected to extend over a period of time. Hence, transactions under the Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2005, the annual insurance premium paid by the Group to SHKPI amounted to HK\$80,174,000. It is estimated that the annual insurance premium paid and payable by the Group to SHKPI for the financial year ending 31 December 2006 will not exceed HK\$154,000,000. The transactions under the 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 connected transactions were disclosed in the announcement of the Company dated 28 May 2004.

Park Island Transport Company Limited (“PITC”)

Transaction with Sun Hung Kai (Ma Wan) Transport Company Limited (“SHKMW”)

Pursuant to an agreement dated 23 May 2001 entered into between PITC and SHKMW (“Transport Agreement”), a wholly-owned subsidiary of SHKP, SHKMW engaged PITC as the operator of the bus and ferry services to, from and within Ma Wan Island. On 6 December 2005, PITC and SHKMW entered into a supplemental agreement (“Supplemental Agreement”) to extend the operating term of the Transport Agreement, which expired on 13 December 2005, for a period of one year from 14 December 2005 to 13 December 2006, and to amend certain terms and conditions of the Transport Agreement. The transactions executed under the Transport Agreement, as modified by the Supplemental Agreement, during the year between PITC and SHKMW for the provision of transport services for Ma Wan Island constitute continuing connected transactions of the Company under the Listing Rules. Particulars of these connected transactions were disclosed in the

announcements of the Company dated 25 May 2001 and 9 December 2005. As detailed in note 36(a)(vi) to the financial statements on page 159 of this Annual Report, the annual permitted return to which PITC was entitled for the year ended 31 December 2005 was HK\$11,800,000. It is estimated that the permitted return for the period from 1 January 2006 to 13 December 2006 will not exceed HK\$18,200,000.

Lai Chi Kok Properties Investment Limited (“LCKPI”)

Letting and Sales Agency Agreement, and Management Agreement

LCKPI entered into the Letting and Sales Agency Agreement with Sun Hung Kai Real Estate Agency Limited (“SHKRE”) 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.

LCKPI also entered into the Management Agreement with Hong Yip Service Company Limited (“Hong Yip”) 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.

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

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 press notice as stipulated in Chapter 14A of the Listing Rules in connection with the foregoing continuing connected transactions with SHKPI, SHKMW, SHKRE and Hong Yip 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 and Hong Yip 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 favorable 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 2005 did not exceed the cap amount of HK\$126,000,000 as disclosed in the announcement dated 28 May 2004;
3. the permitted return for the period from 1 January 2005 to 13 December 2005 entitled by PITC under the Transport Agreement, as modified by the Supplemental Agreement, did not exceed 3% of the audited consolidated net tangible assets of the Company as at 31 December 2004;
4. the permitted return for the period from 14 December 2005 to 31 December 2005 entitled by PITC under the Transport Agreement, as modified by the Supplemental Agreement, did not exceed the cap amount of HK\$945,000 as disclosed in the announcement dated 9 December 2005; and
5. the annual aggregate amount for the year ended 31 December 2005 payable by LCKPI under each of the Letting and Sales Agency Agreement and 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 2004.

The auditors of the Company had also confirmed to 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 agreement governing the transactions; and (c) had not exceeded the caps as stated above.

Financial Summary

for the year ended 31 December

	2005 HK\$'M	2004 HK\$'M	2003 HK\$'M	2002 HK\$'M
Income statement				
Turnover	<u>6,456</u>	<u>6,544</u>	<u>6,540</u>	<u>6,843</u>
Profit before taxation	691	913	857	1,142
Less: Income tax	<u>96</u>	<u>169</u>	<u>259</u>	<u>175</u>
Profit after taxation	595	744	598	967
Less: Minority interests	11	13	1	28
Transfer from development fund	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit attributable to equity shareholders of the Company	<u>584</u>	<u>731</u>	<u>597</u>	<u>939</u>
Balance sheet				
Fixed assets	5,720	6,119	6,491	6,497
Goodwill	33	30	50	53
Media assets	96	115	61	—
Non-current prepayments	63	470	105	101
Interest in associates	776	330	162	61
Interest in jointly controlled entity	16	5	1	2
Other financial assets	34	15	15	15
Employee benefit assets	485	414	339	278
Net current assets/(liabilities)	<u>184</u>	<u>253</u>	<u>548</u>	<u>465</u>
Employment of funds	<u>7,407</u>	<u>7,751</u>	<u>7,772</u>	<u>7,472</u>
Financed by:				
Share capital	404	404	404	404
Reserves	<u>3,628</u>	<u>3,847</u>	<u>3,935</u>	<u>4,157</u>
Total equity attributable to equity shareholders of the Company	4,032	4,251	4,339	4,561
Minority interests	<u>269</u>	<u>289</u>	<u>260</u>	<u>244</u>
Total equity	4,301	4,540	4,599	4,805
Contingency provision — insurance	52	59	106	117
Long term bank loans	2,218	2,298	2,218	1,830
Other liabilities	<u>836</u>	<u>854</u>	<u>849</u>	<u>720</u>
Funds employed	<u>7,407</u>	<u>7,751</u>	<u>7,772</u>	<u>7,472</u>
Earnings per share (HK\$)	<u>1.45</u>	<u>1.81</u>	<u>1.48</u>	<u>2.33</u>
Dividends per share (HK\$)	<u>2.03</u>	<u>2.03</u>	<u>2.03</u>	<u>2.03</u>

Notes:

- The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 2 to the financial statements. Figures for 2004 and 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions and as disclosed in note 2. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively as disclosed in note 2.

2001 HK\$'M	2000 HK\$'M	1999 HK\$'M	1998 HK\$'M	1997 HK\$'M	1996 HK\$'M
<u>6,862</u>	<u>6,323</u>	<u>5,871</u>	<u>5,510</u>	<u>4,863</u>	<u>4,451</u>
1,810	936	893	679	555	588
<u>237</u>	<u>81</u>	<u>154</u>	<u>93</u>	<u>4</u>	<u>62</u>
1,573	855	739	586	551	526
34	–	–	–	–	–
<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2</u>
<u>1,539</u>	<u>855</u>	<u>739</u>	<u>586</u>	<u>551</u>	<u>528</u>
6,047	5,381	4,952	4,882	4,441	3,342
21	22	4	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1	–	(5)	(5)	(2)	–
6	10	13	17	20	–
15	1	–	–	–	–
–	–	–	–	–	–
<u>854</u>	<u>926</u>	<u>881</u>	<u>374</u>	<u>(156)</u>	<u>(60)</u>
<u>6,944</u>	<u>6,340</u>	<u>5,845</u>	<u>5,268</u>	<u>4,303</u>	<u>3,282</u>
404	404	404	404	404	404
<u>3,776</u>	<u>2,341</u>	<u>2,052</u>	<u>1,782</u>	<u>1,637</u>	<u>1,514</u>
4,180	2,745	2,456	2,186	2,041	1,918
<u>228</u>	<u>4</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>–</u>
4,408	2,749	2,462	2,192	2,047	1,918
202	298	305	299	273	288
1,743	2,176	1,961	1,694	1,116	346
<u>591</u>	<u>1,117</u>	<u>1,117</u>	<u>1,083</u>	<u>867</u>	<u>730</u>
<u>6,944</u>	<u>6,340</u>	<u>5,845</u>	<u>5,268</u>	<u>4,303</u>	<u>3,282</u>
<u>3.81</u>	<u>2.12</u>	<u>1.83</u>	<u>1.45</u>	<u>1.36</u>	<u>1.31</u>
<u>1.86</u>	<u>1.58</u>	<u>1.35</u>	<u>1.15</u>	<u>1.08</u>	<u>1.04</u>

2. In order to comply with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 34 "Employee benefits" and SSAP 12 (revised) "Income taxes", the Group adopted a new accounting policy for short-term employee benefits and deferred taxation respectively in 2002. Figures for the year 2001 have been adjusted and it is not practicable to restate earlier years for comparison purposes.

Directors' Profiles



The Hon Sir Sze-yuen CHUNG* GBM, GBE, PhD, FEng, JP

Chairman and Independent Non-executive Director, aged 88. Sir Sze-yuen Chung has been the Chairman and an Independent Non-executive Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 12 August 1999. He is an Independent Non-executive Director of both CLP Holdings Limited and Sun Hung Kai Properties Limited. The latter is a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. He is also the Pro-Chancellor of The Hong Kong University of Science and Technology. Until August 2003 he was a director of Wheelock & Company Limited. Sir Sze-yuen Chung has contributed significantly in Hong Kong's political, industrial, social and tertiary education fields for over four decades. He was Senior Member of Hong Kong Legislative Council (1974-78), Executive Council (1980-88), and again Convenor of HKSAR Executive Council (1997-99). He was Chairman of Federation of Hong Kong Industries (1966-70), Hong Kong Productivity Council (1974-78), President of Engineering Society of Hong Kong (1960-61) and Hong Kong Academy of Engineering Sciences (1994-97). He established Hong Kong Polytechnic in 1972, City Polytechnic in 1984, The Hong Kong University of Science and Technology in 1991 and Hospital Authority in 1990. He was deeply involved in the Sino-British Negotiation on Hong Kong's future (1982-85) and the establishment of the Hong Kong Special Administrative Region (1992-97).



Dr Norman LEUNG Nai Pang* GBS, JP, LLD, BA

Deputy Chairman and Independent Non-executive Director, aged 65. Dr Leung has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 18 March 2000 and Deputy Chairman of the Company, KMB and LWB since 14 June 2001. Dr Leung became an Independent Non-executive Director of the Company with effect from 1 February 2006. He is the Executive Deputy Chairman of Television Broadcasts Limited and a Director of Wing Lung Bank Limited. As for public service, he is the Commissioner of Civil Aid Service and the Pro-Chancellor of the City University of Hong Kong.



KWOK Ping-Iuen, Raymond JP, MA(Cantab), MBA, Hon DBA, Hon LLD

Director, aged 52. Mr Kwok has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 September 1981 and 8 May 1997 respectively. Mr Kwok holds a Master of Arts Degree in Law from Cambridge University, a Master Degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong. He is the Vice Chairman and Managing Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. He is also Chairman of SUNeVision Holdings Ltd., Chairman of SmarTone Telecommunications Holdings Limited and an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited.

In civic activities, Mr Kwok is a Non-executive Director of the Securities and Futures Commission, a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce, a Member of the Hong Kong Port Development Council and Vice Chairman of the Council of The Chinese University of Hong Kong. He is also Chairman of the Management Committees of the Police Children's Education Trust and the Police Education and Welfare Trust. Mr Kwok is the younger brother of Mr Kwok Ping-sheung, Walter, who is a Director of the Company.



KWOK Ping-sheung, Walter JP, MSc(Lond), DIC, MICE

Director, aged 55. Mr Kwok has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 15 November 1990 and 8 May 1997 respectively. He holds a Master of Science degree in Civil Engineering from Imperial College of Science and Technology, University of London, and is a Member of the Institution of Civil Engineers, U.K. and a Member of the Hong Kong Institution of Engineers. He is currently the Chairman and Chief Executive of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, an Executive Director of SUNeVision Holdings Ltd., and a Director of Wilson Parking (Holdings) Limited and Hung Cheong Import & Export Co., Ltd. Mr Kwok is also a Director of The Real Estate Developers Association of Hong Kong and Tsimshatsui East Property Developers' Association Ltd. and Honorary Treasurer of the Federation of Hong Kong Hotel Owners.

On the community front, he is the Member of the Former Directors Committee of The Hong Kong Community Chest. He is also a Member of MBA Programmes Committee of The Chinese University of Hong Kong and an Honorary Member of The Court of The Hong Kong University of Science and Technology. Mr Kwok is an Honorary Citizen of Beijing & Guangzhou and a Standing Committee Member of the National Committee of the Chinese People's Political Consultative Conference. Mr Kwok is the elder brother of Mr Kwok Ping-luen, Raymond, who is a Director of the Company.



YU Shu Chuen

Honorary Executive Director, aged 93. Mr Yu has been a Director of Transport International Holdings Limited since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 1 September 1961 and 8 May 1997 respectively. Mr Yu is Director of several private property investment companies and the Adviser to the Hong Kong Taishan Chamber of Commerce. Mr Yu is active in community services. He made significant financial and personal contribution in 1984 towards establishing the Wu Xi Secondary School in Taishan, his hometown, and elected Chairman of its Board in 1994. The school has won numerous prizes both in the province and the city. Awarded a "Gold Plate for the Contribution to the Development of Taishan" by the People's Government of Taishan City in 1992 and also awarded a "Certificate for Devotion to Children" by the People's Government of Jiangmen City in 1993. In 1997, Mr Yu was recognised as an Honorary Citizen by the People's Government of Taishan City. Mr Yu had worked in KMB for over 50 years before his retirement in 1984 as Personnel Manager.



NG Siu Chan

Director, aged 75. Mr Ng has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He is also a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 3 March 1983 and 8 May 1997 respectively. Mr Ng is also an Independent Non-executive Director of Wing Lung Bank Limited, Century City International Holdings Limited, Paliburg Holdings Limited and Regal Hotels International Holdings Limited. Mr Ng is the father of Ms Winnie Ng, who is a Director and Executive Director of the Company, KMB, LWB and KMB (China) Holdings Limited, and Group Managing Director of RoadShow Holdings Limited.

* Independent Non-executive Director

Directors' Profiles



William LOUEY Lai Kuen BSc(Econ)

Director, aged 46. Mr Louey has been a Director of Transport International Holdings Limited since 4 September 1997. He has been acting as Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 14 January 1993 and 8 May 1997 respectively. Mr Louey has previously worked for an international merchant bank in the United Kingdom for five years and an international accounting firm in the United Kingdom for three years. In 1995, he set up the William S D Louey Educational Foundation in memory of his grandfather, Mr William S D Louey, to finance outstanding students from China and Hong Kong to further their education abroad. Having aware of the success of the Foundation, Mr Louey was invited to become a committee member of the Hong Kong Oxford Scholarship Fund in 1999. Mr Louey has also served as an Executive Committee Member of The Friends of Cambridge University in Hong Kong since 2003. The Friends of Cambridge University is the sponsor of the Prince Philip Scholarship.



John CHAN Cho Chak GBS, JP, DBA(Hon), BA, DipMS, FCIM, FCILT, FHKIoD

Managing Director, aged 62. Mr Chan has been the Managing Director of Transport International Holdings Limited (the "Company") since 4 September 1997 and was appointed the Managing Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 1 November 1993 and 8 May 1997 respectively. He is also the Chairman and Non-executive Director of RoadShow Holdings Limited, an indirect subsidiary of the Company listed on The Stock Exchange of Hong Kong Limited and an Independent Non-executive Director of Hang Seng Bank Limited and Guangdong Investment Limited. He was formerly an Independent Non-executive Director of the Hong Kong Exchanges and Clearing Limited, 2000-03 and a member of the Hong Kong Civil Service, 1964-78 and 1980-93. Key posts held in Government included Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. Also former Executive Director and General Manager of Sun Hung Kai Finance Company Limited, 1978-80. Deputy Chairman of the Hong Kong Jockey Club, Vice Patron and Campaign Committee Co-Chairman of The Community Chest, Chairman of the Council of The Hong Kong University of Science and Technology, Member of the Advisory Committee on Corruption and Member of the East Asian Games Planning Committee. In December 2000, Mr Chan won the Executive Award in the DHL/SCMP HK Business Awards 2000 and received an Honorary University Fellowship from The University of Hong Kong.



Charles LUI Chung Yuen M.H., BEc, AASA, FCILT

Executive Director, aged 71. Mr Lui has been a Director of Transport International Holdings Limited since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively. Joined KMB in 1960 as Accountant and promoted to Chief Accountant, Assistant General Manager and appointed as General Manager on 1 March 1989. Retired as General Manager on 21 July 1999 on reaching the retirement age of 65 years. Mr Lui was appointed the Deputy Managing Director of KMB (China) Holdings Limited ("KMB (China)") on 1 September 1999. Relinquished the post of Deputy Managing Director to assume the post of Chairman of KMB (China) on 13 August 2003.



Winnie NG BA, MBA(Chicago)

Executive Director, aged 42. Ms Ng has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. She has also been a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB"), Long Win Bus Company Limited ("LWB") and KMB (China) Holdings Limited ("KMB (China)") since 12 October 1995, 8 May 1997 and 1 September 1997 respectively. She has been the Group Managing Director of RoadShow Holdings Limited since its inception in 2001. She joined KMB in 1990 and was appointed as Commercial Director in 1999 and then appointed as Executive Director of the Company, KMB, LWB and KMB (China) in 2001. In December 2003, she won the Yazhou Zhoukan Young Chinese Entrepreneur Award 2003. Ms Ng is active in public service, having served the community in her capacities as Council Member of Hong Kong Council for Academic Accreditation, Board Member of Agency for Volunteer Service, Public Relations Committee Member of The Community Chest, Member of Zonta Club of Hong Kong East, Council Member of the Hong Kong Digestive Foundation, Steering Committee Member on Promotion of Volunteer Service of the Social Welfare Department, and President of Little Chair Foundation. Ms Ng is also the Vice Chairman of Council of China's Foreign Trade, China Council for the Promotion of International Trade and the vice Board Chairman of Council of World Market, Shanghai Foreign Economic Relation & Trade Commission. Ms Ng is the daughter of Mr Ng Siu Chan, who is a Director of the Company. Ms Ng holds an MBA degree from the University of Chicago.



Dr KUNG Ziang Mien, James* GBS, OBE

Independent Non-executive Director, aged 75. Dr Kung has been the Independent Non-executive Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. He retired from the Chairman and CEO of Chekiang First Bank Ltd, after 53 years of service. Dr Kung graduated from the Soochow University Law School with a degree of LLB in 1950. He was conferred Doctor of Laws, LLD (honoris causa) by The Chinese University of Hong Kong in 1990; DBA, Doctor of Business Administration (honoris causa) by Hong Kong Polytechnic in 1991 and Doctor of Laws (honoris causa) by The University of Hong Kong in 2000. Dr Kung was awarded OBE by Her Majesty the Queen in 1994. Diplomatic Service: 1989-present Honorary Consul of Luxembourg. Other awards include Grand Officer of Order of Merit of the Grand Duchy of Luxembourg in 1994, Chevalier de la Légion d'Honneur of France in 1996, Commander in the Order of Leopold II of Belgium in 1997, Officier de la Légion d'Honneur in 2000 and Commandeur de la Légion d'Honneur in 2003. Dr Kung is Chairman of the Hong Kong Digestive Foundation, Former Member of the Exchange Fund Advisory Committee and the Land Fund Advisory Committee, Member of the Advisory Council, One Country Two Systems Research Institute, Chairman of the HKU-Pasteur Research Centre Ltd, President of the Légion d'Honneur Club Hong Kong Chapter.

* Independent Non-executive Director

Directors' Profiles



George CHIEN Yuan Hwei MSc(Lond), BSc(Eng), DIC, FICE, CEng, PEng, MITE

Director, aged 68. Mr Chien has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. He was the Alternate Director to Mr Kwok Ping-sheung, Walter during the period from 8 June 1995 to 13 October 1998 inclusive. He is a member of the Audit Committee of the Company. Mr Chien is the holder of "Transportation Advisor" post in Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Previously worked for the Toronto Transit Commission in Canada for more than 10 years and in the ex-Public Works Department of the Hong Kong Government for about 24 years.



Dr Eric LI Ka Cheung* GBS, OBE, JP, LLD, DSocSc, BA, FCPA(Practising), FCA, FCPA(Aust.), FCIS

Independent Non-executive Director, aged 52. Dr Li has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. Dr Li was appointed an Independent Non-executive Director of RoadShow Holdings Limited since 16 September 2004. He is the Senior Partner of Li, Tang, Chen & Co., Certified Public Accountants. Dr Li is an independent non-executive director of SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Limited, CATIC International Holdings Limited, Hang Seng Bank Limited, China Resources Enterprise, Limited, Sinochem Hong Kong Holdings Limited and Strategic Global Investments plc., and a non-executive director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. He is a Board Member of the International Federation of Accountants and a member of the 10th National Committee of the Chinese People's Political Consultative Conference. He was also a former member of the Legislative Council of Hong Kong and a past president of the Hong Kong Institute of Certified Public Accountants. Dr Li is the Chairman of the Audit Committee of the Company.



LUI Pochiu

Director, aged 63. Mr Lui has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 1 January 2001. Mr Lui has been the Operations Director of KMB since 1999. In his capacity, Mr Lui manages the Planning and Development Department, Service Department and Traffic Department, looking after the overall planning, co-ordination and implementation of operations policies as well as practices. Mr Lui first joined KMB in November 1970 as Assistant Accountant. In the subsequent 30 years, Mr Lui had served in various different departments, taking up such roles as Stores Controller, Depot Manager and Traffic Manager. Mr Lui was educated in Australia and became a member of the Chartered Institute of Logistics & Transport in Hong Kong (formerly, Chartered Institute of Transport) in 1985.



Edmond HO Tat Man MA(Cantab), MBA, CMILT, MHKIoD

Deputy Managing Director, aged 44. Mr Ho has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 1 January 2001. After joining KMB in September 1998 and having served as Finance and Administration Director from January 1999 to April 2003, he was appointed as Deputy Managing Director of the Company, KMB and LWB with effect from 10 January 2002. Posts previously held by him included Investment Director of a merchant bank and executive director of a number of transport infrastructure management and investment companies in Hong Kong and on the Mainland. He was also former director of four Sino-foreign joint venture companies of an international leading soft drink brand. Mr Ho holds a master's degree in engineering from Cambridge University and an MBA degree from The University of Hong Kong.



SIU Kwing-chue, Gordon* GBS, CBE, JP, MSS(Birmingham, UK)

Independent Non-executive Director, aged 60. Mr Siu was appointed Independent Non-executive Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 26 October 2004. Mr Siu joined the Civil Service in 1966, rose to the rank of Secretary, Government Secretariat in 1993 and retired from the Service in July 2002 with a service of over 36 years. His recent positions in Government included Deputy Secretary for the Civil Service (1981-1985), Secretary-General of OMELCO (1985-1988), Postmaster General (1988-1989), Commissioner for Transport (1989-1992), Director, New Airport Projects Co-ordination Office (1992-1993), Secretary for Economic Services (1993-1996), Secretary for Transport (1996-1997), Head, Central Policy Unit (1997-1999) and Secretary for Planning, Environment & Lands (1999-2002). Mr Siu was awarded the honours of Commander of the Most Excellent Order of the British Empire (CBE) in 1997 and Gold Bauhinia Star (GBS) in 2002, and appointed a non-official Justice of the Peace in 2003.

* Independent Non-executive Director

Senior Management

John CHAN Cho Chak GBS, JP, DBA(Hon), BA, DipMS, FCIM, FCILT, FHKIoD

Aged 62. Managing Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Chairman and Non-executive Director of RoadShow Holdings Limited. Brief biography of Mr Chan is set out on page 94 of this Annual Report.

Charles LUI Chung Yuen M.H., BEc, AASA, FCILT

Aged 71. Executive Director of Transport International Holdings Limited. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Chairman of KMB (China) Holdings Limited. Brief biography of Mr Lui is set out on page 94 of this Annual Report.

Winnie NG BA, MBA(Chicago)

Aged 42. Executive Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited and KMB (China) Holdings Limited. Also Group Managing Director of RoadShow Holdings Limited. Brief biography of Ms Ng is set out on page 95 of this Annual Report.

Edmond HO Tat Man MA(Cantab), MBA, CMILT, MHKIoD

Aged 44. Deputy Managing Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Managing Director of KMB (China) Holdings Limited. Brief biography of Mr Ho is set out on page 97 of this Annual Report.

LUI Pochiu

Aged 63. Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited. Also Operations Director of KMB. Brief biography of Mr Lui is set out on page 96 of this Annual Report.

William HO Sai Kei BBA, CA(Canada), FCPA

Aged 38. Qualified Accountant of Transport International Holdings Limited. Also Finance and Administration Director of The Kowloon Motor Bus Company (1933) Limited. Mr Ho joined the Group in 2003 and had previously held senior finance positions in two groups of companies listed on The Stock Exchange of Hong Kong Limited. He also has over nine years of experience in public accounting in Canada and Hong Kong.

James Conrad LOUEY BSc

Aged 41. Commercial Director of The Kowloon Motor Bus Company (1933) Limited ("KMB"). Also a Non-executive Director of RoadShow Holdings Limited. Mr Louey joined KMB in 1990 and was appointed as Head of Human Resources Department in 1993. On community service, he is currently a member of the Ninth Session Henan provincial committee of the Chinese People's Political Consultative Conference.

Corporate Executives

Name	Position Held in the Group
Transport International Holdings Limited	
Lana WOO BA, AAT, CGA, ACIS, MIFC, CFC	Company Secretary
The Kowloon Motor Bus Company (1933) Limited	
Lana WOO BA, AAT, CGA, ACIS, MIFC, CFC	Company Secretary
Peter S H MACK MBA, MSc(Finance), LLB(Peking), FCCA, CPA, ACIS	Head of Accounts Department
Susanne HO	Head of Corporate Communications Department
CHAN Pik Yin BA	Head of Customer Service Department
Thomas T M TONG MSc, CEng, MStructE, MHKIE, RPE, AP, RSE	Head of Facilities Management Department
Doris K K LAU FCCA, CPA	Head of Financial Planning and Costing Department
Sharon Y C CHENG BA	Head of Human Resources Department
Tommy H T LEUNG BSc, DMS	Head of Information Technology Department
Alice LUK BBA, ANZIIF(Snr Assoc), MCI Arb	Head of Insurance Department
Thomas M L LEUNG BSc(Hons), FCCA, CPA, CGA	Head of Internal Audit Department
Queenie L M YAU BBA	Head of Office Administration Department
Mark LEUNG BBA, CMILT	Head of Planning and Development Department
Lisa L M NG BA	Head of Purchasing Department
LEUNG Kin Wang BSc, MIMechE, CEng	Head of Service Department
SHUM Yuet Hung BSc(Eng), MSc, MSc(Eng), MBA, MIRTE, FIMechE, CEng, MHKIE, ACGI, MSOE	Principal Engineer, Bus Engineering
Tim IP BSocSc, MSc, DIC, CMILT	Head of Traffic Department
TSANG Lap Chung	Head of Treasury Department
WAN Kin Tim BSc	General Manager (Kowloon Bay Depot)
LUI Yuk Fan	General Manager (Lai Chi Kok Depot)
HO Chi Man MA, CMILT	General Manager (Sha Tin Depot)
WOO Kin Keung	General Manager (Tuen Mun Depot)
Long Win Bus Company Limited	
Kenrick FOK CMILT	General Manager
Lana WOO BA, AAT, CGA, ACIS, MIFC, CFC	Company Secretary
KMB (China) Holdings Limited and New Hong Kong Bus Company Limited	
Simon TU MBA, CMILT	General Manager
Sun Bus Holdings Limited	
Benjamin C H WONG CMILT	General Manager
Park Island Transport Company Limited	
Sammy C B SIN MILT	General Manager
RoadShow Holdings Limited	
Eric YEUNG Chun Yiu	Assistant to Group Managing Director and Acting General Manager
Denis TSOI Ka Ho BSc(Econ), FCCA, CPA	Assistant General Manager (Finance)
Ramond YIU Wing Hong	Marketing and Sales Director
Lisa HUI Ping Sum BSc	Commercial Director
Bonie CHAN Siu Yin FCCA, CPA	Company Secretary

Report of the Directors

The Directors have pleasure in submitting their annual report and the audited financial statements for Transport International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2005.

Principal Place of Business

The Company was incorporated in Bermuda and has its registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and principal place of business at No. 1, Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of the Group are the operation of both franchised and non-franchised public transportation, property holdings and development and the provision of media sales services. Particulars of the Company's principal subsidiaries are set out in note 17 to the financial statements.

The Group's turnover and profit are almost entirely attributable to bus operations and media sales business. The analysis of the principal activities of the Group during the financial year is set out in note 12 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2005 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 110 to 160 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 78 to 89 of this Annual Report.

Dividends

An interim dividend of 45 cents per share (2004: 45 cents per share) was paid to the shareholders on 13 October 2005. The Directors now recommend that a final dividend of HK\$1.58 per share (2004: HK\$1.58 per share) in respect of the year ended 31 December 2005 be paid to the shareholders on 19 May 2006.

Change of the Company's Name

By a special resolution passed on 24 November 2005, with effect from 28 November 2005, the name of the Company was changed from The Kowloon Motor Bus Holdings Limited to Transport International Holdings Limited and the Chinese name 載通國際控股有限公司 is adopted for identification purpose.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$1,635,000 (2004: HK\$4,635,000).

Fixed Assets

During the year, major additions to the fixed assets of the Group were buses under construction with a total cost of HK\$211,205,000 and tools and other fixed assets with a total cost of HK\$218,525,000. Buses with a total cost of HK\$157,159,000 were licensed and put into service during the year following the completion of construction.

Details of other movements in fixed assets during the year are set out in note 13 to the financial statements.

Reserves

Details of movements in the reserves of the Group and the Company during the year are set out in note 32 to the financial statements.

Report of the Directors

Directors

The Directors during the financial year and up to the date of this report were:

The Hon Sir Sze-yuen CHUNG* , <i>GBM, GBE, PhD, FREng, JP</i>	(Chairman)
Dr Norman LEUNG Nai Pang* , <i>GBS, JP</i>	(Deputy Chairman)
KWOK Ping-uen, Raymond , <i>JP</i>	
KWOK Ping-sheung, Walter , <i>JP</i>	
YU Shu Chuen	
NG Siu Chan	
William LOUEY Lai Kuen	
John CHAN Cho Chak , <i>GBS, JP</i>	(Managing Director)
Charles LUI Chung Yuen , <i>M.H.</i>	
Winnie NG	
Dr KUNG Ziang Mien, James* , <i>GBS, OBE</i>	
George CHIEN Yuan Hwei	
Dr Eric LI Ka Cheung* , <i>GBS, OBE, JP</i>	
LUI Pochiu	
Edmond HO Tat Man	(Deputy Managing Director)
SIU Kwing-chue, Gordon* , <i>GBS, CBE, JP</i>	
Susanna LAU Shung Oi	(Alternate Director to Mr KWOK Ping-sheung, Walter, <i>JP</i>)
KUNG Lin Cheng, Leo	(Alternate Director to Dr KUNG Ziang Mien, James*, <i>GBS, OBE</i>)
YUNG Wing Chung	(Alternate Director to Mr KWOK Ping-uen, Raymond, <i>JP</i> and appointed on 16 June 2005)
Rafael HUI , <i>GBS, JP</i>	(Resigned on 1 May 2005)
SHAM Yat Wah	(Alternate Director to Mr KWOK Ping-uen, Raymond, <i>JP</i> and resigned on 20 April 2005)

*Independent Non-executive Director

In accordance with Bye-law 87 of the Company and Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Mr Kwok Ping-uen, Raymond, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung and Mr Edmond Ho Tat Man retire from the Board by rotation and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 92 to 97 of this Annual Report.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

The Directors of the Company who held office at 31 December 2005 had the following interests in the shares of the Company, subsidiaries and other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of Directors' and chief executives' interests and short positions required to be kept under Section 352 of the SFO.

(i) Interests in Issued Shares

(a) The Company

	Ordinary shares of HK\$1 each					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen CHUNG*	18,821	—	—	—	18,821	0.005%
Dr Norman LEUNG Nai Pang*	—	—	—	—	—	—
KWOK Ping-luen, Raymond	393,350	—	—	—	393,350	0.097%
KWOK Ping-sheung, Walter	61,522	—	—	—	61,522	0.015%
YU Shu Chuen	2,943	—	—	6,980,284 (Note 1)	6,983,227	1.730%
NG Siu Chan	—	21,000,609	—	—	21,000,609	5.203%
William LOUEY Lai Kuen	6,246,941	4,475	—	—	6,251,416	1.549%
John CHAN Cho Chak	2,000	—	—	—	2,000	—
Charles LUI Chung Yuen	12,427	—	—	2,651,750 (Note 2)	2,664,177	0.660%
Winnie NG	41,416	—	—	21,000,609 (Note 3)	21,042,025	5.213%
Dr KUNG Ziang Mien, James*	—	—	172,000	—	172,000	0.043%
George CHIEN Yuan Hwei	2,000	—	—	—	2,000	—
Dr Eric LI Ka Cheung*	—	—	—	—	—	—
LUI Pochiu	452,113	—	—	—	452,113	0.112%
Edmond HO Tat Man	—	—	—	—	—	—
SIU Kwing-chue, Gordon*	—	—	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter)	—	—	—	—	—	—
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*)	—	—	—	—	—	—
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond)	—	—	—	—	—	—

* Independent Non-executive Director

Notes:

- 1 HSBC International Trustee Limited held 6,980,284 shares in the Company as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of shares.
- 2 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 2,651,750 shares in the Company.
- 3 Ms Winnie Ng has interest in 21,000,609 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

(continued)

(i) Interests in Issued Shares (continued)

(b) RoadShow Holdings Limited ("RoadShow"), a subsidiary of the Company

	Ordinary shares of HK\$0.1 each					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen CHUNG*	4,000	–	–	–	4,000	–
Dr Norman LEUNG Nai Pang*	–	–	–	–	–	–
KWOK Ping-luen, Raymond	37,400	–	–	–	37,400	0.004%
KWOK Ping-sheung, Walter	6,600	–	–	–	6,600	0.001%
YU Shu Chuen	33,000	–	–	542,401 (Note 1)	575,401	0.058%
NG Siu Chan	–	123,743	–	–	123,743	0.012%
William LOUEY Lai Kuen	412,371	–	–	–	412,371	0.041%
John CHAN Cho Chak	–	–	–	–	–	–
Charles LUI Chung Yuen	–	–	–	209,131 (Note 2)	209,131	0.021%
Winnie NG	1,000,000	–	–	123,743 (Note 3)	1,123,743	0.113%
Dr KUNG Ziang Mien, James*	–	–	500,000	–	500,000	0.050%
George CHIEN Yuan Hwei	–	–	–	–	–	–
Dr Eric LI Ka Cheung*	–	–	–	–	–	–
LUI Pochiu	24,863	–	–	–	24,863	0.002%
Edmond HO Tat Man	–	–	–	–	–	–
SIU Kwing-chue, Gordon*	–	–	–	–	–	–
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter)	–	–	–	–	–	–
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*)	–	–	–	–	–	–
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond)	–	–	–	–	–	–

* Independent Non-executive Director

Notes:

- HSBC International Trustee Limited held 542,401 shares in RoadShow as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of shares.
- Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 209,131 shares in RoadShow.
- Ms Winnie Ng has interest in 123,743 shares in RoadShow as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

As at 31 December 2005, none of the Directors had any non-beneficial interest in the share capital of the Company.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

(continued)

(ii) Interests in Underlying Shares

RoadShow has a share option scheme ("the Scheme") which was adopted on 7 June 2001, under which the directors of RoadShow may, at their discretion, offer any employee (including any directors) of RoadShow or any of its wholly-owned subsidiaries options to subscribe for shares in RoadShow to recognise their contributions to the growth of RoadShow and its subsidiaries, subject to the terms and conditions stipulated in the Scheme.

The exercise price of the options is determined as the highest of the nominal value of the shares of RoadShow ("the Shares"), the closing price of the Shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of the grant and the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant. The options vest immediately from the date of grant and are then exercisable within a period of three years. The Scheme is valid and effective for a period of ten years ending on 6 June 2011, after which no further options will be granted.

The total number of securities available for issue under the Scheme as at 31 December 2005 was 99,736,533 shares which represented 10% of the issued share capital of RoadShow at 31 December 2005. In respect of the maximum entitlement of each participant under the Scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of ordinary shares in issue.

During the year, a Director of the Company and certain employees of the Group had the following interests in options to subscribe for shares in RoadShow under the Scheme. The options were granted for nil consideration under the Scheme and are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 of RoadShow.

	Number of options outstanding at the beginning of the year	Number of options expired during the year	Number of options outstanding at the end of the year	Exercise price per share	Market value per share at date of grant of options
Director of the Company					
Winnie Ng	3,800,000	(3,800,000)	Nil	HK\$2.25	HK\$2.25
Employees	10,470,000	(10,470,000)	Nil	HK\$2.25	HK\$2.25

The above options were granted on 11 March 2002 and were exercisable during the period from 12 March 2002 to 11 March 2005. No option was exercised during the year and all of them expired on 11 March 2005.

Apart from the above, none of the Directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, its subsidiaries or fellow subsidiaries, as recorded in the register of directors' interests and short positions required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' Interests in Contracts

Save for the Prime Cost Contract and the Supplementary Agreement as disclosed in note 36(a)(iv) to the financial statements, in which Messrs. Kwok Ping-luen, Raymond and Kwok Ping-sheung, Walter, who have beneficial interests in Sun Hung Kai Properties Limited ("SHKP") were interested, no other contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Substantial Shareholders' and Other Person's Interests in Shares and Short Positions in Shares, Underlying Shares and Debentures

At 31 December 2005, the interests or short positions of the persons (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

	Ordinary shares of HK\$1 each			
	Registered shareholders	Corporate interests	Total number of shares held	Percentage of total issued shares
Substantial shareholders				
Sun Hung Kai Properties Limited (Notes 1 and 2)	–	133,271,012	133,271,012	33.0%
Arklake Limited (Note 1)	68,600,352	–	68,600,352	17.0%
HSBC International Trustee Limited (Note 3)	191,587,266	–	191,587,266	47.5%
Other person				
Kwong Tai Holdings Limited (Note 4)	21,000,609	–	21,000,609	5.2%

Notes:

- The interest disclosed by SHKP includes the 68,600,352 shares disclosed by Arklake Limited.
- Under The Code on Takeovers and Mergers (the "Takeovers Code"), a person will be subject to mandatory offer obligations if such person acquires, whether by a series of transactions over a period of time or not, 30% or more of the voting rights of a company. Such threshold was reduced from 35% to 30% with effect from 19 October 2001. However, transitional provisions apply where a person, or two or more persons acting in concert, holds 30% or more of the voting rights of a company but less than 35% of such voting rights immediately prior to 19 October 2001. For so long as such holding remains in this range and until 10 years after that date, the Takeovers Code shall be interpreted and applied as if the 30% trigger in Rule 26.1(a) and (b) of the Takeovers Code was 35% for such person or persons and such person or persons are not subject to the 2% creeper under Rule 26.1(c) and (d) of the Takeovers Code. In this regard, SHKP has been holding 30% or more of the voting rights of the Company but less than 35% of such voting rights immediately prior to 19 October 2001, the above transitional provisions apply to SHKP for so long as its holding remains within the range of 30% and 35% for a period of 10 years after 19 October 2001.
- HSBC International Trustee Limited is deemed to be interested in 191,587,266 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.
- The interest disclosed by Kwong Tai Holdings Limited includes 21,000,609 shares disclosed by Mr Ng Siu Chan and Ms Winnie Ng, both are Directors of the Company.

Purchase, Sale or Redemption of the Company's Shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

Senior Management

Brief particulars of the senior management of the Group are set out on pages 98 to 99 of this Annual Report.

Staff Retirement Schemes

The Group operates two separate non-contributory defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme ("The KMB Monthly Rated Employees Scheme") and The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme ("The KMB Daily Rated Employees Scheme"), and mainly participates in a defined contribution retirement scheme, SHKP MPF Employer Sponsored Scheme.

Defined Benefit Retirement Schemes

The Group makes contributions to two defined benefit retirement schemes that provide pension benefits for employees upon retirement. The schemes are administered by an independent trustee and the assets are held separately from those of the Group. Both schemes are formally established under trust and are registered under the Occupational Retirement Schemes Ordinance. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the retirement schemes at regular intervals.

Staff Retirement Schemes (continued)

Defined Benefit Retirement Schemes (continued)

The most recent actuarial valuations of the two schemes were at 1 January 2005 which showed that there were sufficient assets in the schemes to cover both the solvency and ongoing liabilities of the schemes. Other relevant information extracted from the valuation pertaining to the two schemes is set out below:

The KMB Monthly Rated Employees Scheme

- i) The scheme was established with effect from 15 February 1978.
- ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: Investment Return at 6.5% and Salary Escalation at 5.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 65.
- iii) The market value of the scheme assets at 31 December 2004 was HK\$896.6 million.
- iv) The minimum level of funding commencing from 1 January 2005 recommended by the actuary is 4.3% of pay.
- v) The ongoing funding surplus in the scheme was HK\$270.7 million and the solvency surplus was HK\$289.2 million at 31 December 2004.

The KMB Daily Rated Employees Scheme

- i) The scheme was established with effect from 1 July 1983.
- ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: Investment Return at 6.5% and Salary Escalation at 5.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 60.
- iii) The market value of the scheme assets at 31 December 2004 was HK\$2,203.4 million.
- iv) The minimum level of funding commencing from 1 January 2005 recommended by the actuary is 2.5% of pay.
- v) The ongoing funding surplus in the scheme was HK\$622.0 million and the solvency surplus was HK\$794.3 million at 31 December 2004.

Note: The obligations in respect of defined benefit retirement schemes included in the financial statements are calculated using the projected unit credit method under different actuarial assumptions (see notes 1(v)(ii) and 21 to the financial statements).

Defined Contribution Retirement Scheme

SHKP MPF Employer Sponsored Scheme ("the SHKP Scheme")

The Group is also a participating member of a defined contribution retirement scheme. Those employees who do not participate in the defined benefit retirement schemes are covered by the SHKP Scheme which is administered by an independent trustee. The assets of the SHKP Scheme are held separately from those of the Group in independently administered funds. The Group is required to make contributions to the SHKP Scheme at rates ranging from 5% to 12% of the relevant employees' salaries, depending on their length of service with the Group. The employees are required to make contributions to the SHKP Scheme at 5% of the employees' relevant income as defined by the Hong Kong Mandatory Provident Fund Schemes Ordinance, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the SHKP Scheme during the year are charged to the income statement as incurred. For forfeited amount due to resignation prior to the vesting of the benefits, the amount will be used to reduce the Group's contributions made in that corresponding financial year. The amount of forfeited contributions utilised during the year and the amount available for use as at 31 December 2005 were insignificant to the Group.

Bank Loans and Overdrafts

Particulars of bank loans and overdrafts of the Group as at 31 December 2005 are set out in note 27 to the financial statements.

Major Customers and Suppliers

Income attributable to the five largest customers of the Group accounted for less than 30% of the total income of the Group for the year.

Purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the value of the Group's total purchases for the year.

Report of the Directors

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on pages 90 and 91 of this Annual Report.

Model Code for Securities Transactions by Directors

The Company has adopted the code of conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules during the year and all Directors have complied with the required standard of dealings set out therein.

Corporate Governance

The Company has complied throughout the year with the code provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 to the Listing Rules.

Properties

Particulars of the property under development of the Group are shown on page 85 of this Annual Report.

Audit Committee

The Audit Committee reviewed with management the accounting principles and policies adopted by the Group and discussed auditing, internal control and financial reporting matters, and also reviewed the financial statements for the year ended 31 December 2005.

Confirmation of Independence

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

S.Y. CHUNG
Chairman

Hong Kong, 16 March 2006



Auditors' Report to the Shareholders of Transport International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 110 to 160 of this Annual Report which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 16 March 2006

Consolidated Income Statement

for the year ended 31 December 2005

	Note	2005 HK\$'000	2004 (restated) HK\$'000
Turnover	3 & 12	6,456,404	6,544,281
Gain on disposal of building and interest in leasehold land	36(a)(i)	90,478	–
Other net income	4	88,464	67,140
Staff costs	5(a)	(2,982,936)	(3,048,098)
Depreciation and amortisation		(913,782)	(901,700)
Fuel and oil		(916,862)	(675,118)
Spare parts and stores		(208,038)	(208,777)
Other operating expenses		(907,625)	(872,408)
Profit from operations		706,103	905,320
Finance costs	5(b)	(69,131)	(15,376)
Share of profits of associates		53,397	22,388
Share of profit of jointly controlled entity		282	368
Profit before taxation	5	690,651	912,700
Income tax	6(a)	(95,922)	(168,942)
Profit for the year		594,729	743,758
Attributable to:			
Equity shareholders of the Company	9 & 32(a)	584,164	731,165
Minority interests	32(a)	10,565	12,593
Profit for the year		594,729	743,758
Earnings per share	10	HK\$1.45	HK\$1.81
Dividends paid/payable to equity shareholders of the Company attributable to the year:	11		
Interim dividend declared and paid of HK\$0.45 per share (2004: HK\$0.45 per share)		181,638	181,638
Final dividend proposed after the balance sheet date of HK\$1.58 per share (2004: HK\$1.58 per share)		637,750	637,750
		819,388	819,388

The notes on pages 117 to 160 of this Annual Report form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2005

	Note	2005 HK\$'000	2004 (restated) HK\$'000
Non-current assets			
Fixed assets	13(a)		
— Property, plant and equipment		5,634,008	6,029,853
— Interest in leasehold land held for own use under operating leases		86,262	88,716
		<u>5,720,270</u>	<u>6,118,569</u>
Goodwill	14	32,599	29,626
Media assets	15	95,805	114,722
Non-current prepayments	16	62,610	470,445
Interest in associates	18	776,406	330,174
Interest in jointly controlled entity	19	16,373	5,382
Other financial assets	20	33,947	15,355
Employee benefit assets	21(a)	484,969	413,833
Deferred tax assets	30(b)	16,077	12,062
		<u>7,239,056</u>	<u>7,510,168</u>
Current assets			
Other investments	23	47,250	93,385
Property under development	24	707,064	323,209
Spare parts and stores		72,144	74,675
Accounts receivable	25	297,203	203,766
Deposits and prepayments		79,637	48,980
Current taxation recoverable	30(a)	4,289	3,694
Cash and cash equivalents	26	1,133,658	1,170,184
		<u>2,341,245</u>	<u>1,917,893</u>
Current liabilities			
Bank loans and overdrafts	27	961,489	494,256
Accounts payable and accruals	28	856,687	821,066
Third party claims payable		305,663	298,595
Current taxation payable	30(a)	33,611	50,707
		<u>2,157,450</u>	<u>1,664,624</u>
Net current assets		<u>183,795</u>	<u>253,269</u>
Total assets less current liabilities		<u>7,422,851</u>	<u>7,763,437</u>

Consolidated Balance Sheet

at 31 December 2005

	Note	2005 HK\$'000	2004 (restated) HK\$'000
Non-current liabilities			
Bank loans	27	2,218,423	2,297,704
Contingency provision – insurance	29	52,102	58,502
Deferred tax liabilities	30(b)	801,761	819,523
Provision for long service payments	31	49,885	48,253
		<u>3,122,171</u>	<u>3,223,982</u>
Net assets		<u>4,300,680</u>	<u>4,539,455</u>
Capital and reserves	32(a)		
Share capital		403,639	403,639
Reserves		3,628,494	3,846,797
Total equity attributable to equity shareholders of the Company		<u>4,032,133</u>	<u>4,250,436</u>
Minority interests	32(a)	<u>268,547</u>	<u>289,019</u>
Total equity		<u>4,300,680</u>	<u>4,539,455</u>

Approved and authorised for issue by the Board of Directors on 16 March 2006

S.Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 117 to 160 of this Annual Report form part of these financial statements.

Balance Sheet

at 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Property, plant and equipment	13(b)	15	30
Investments in subsidiaries	17(a)	1,036,507	1,036,507
		<u>1,036,522</u>	<u>1,036,537</u>
Current assets			
Deposits and prepayments		333	329
Amounts due from subsidiaries	17(b)	2,414,623	2,370,048
Cash and cash equivalents	26	15,575	13,362
		<u>2,430,531</u>	<u>2,383,739</u>
Current liabilities			
Accounts payable and accruals	28	22,298	15,729
Amounts due to subsidiaries	17(b)	861,100	849,653
		<u>883,398</u>	<u>865,382</u>
Net current assets		<u>1,547,133</u>	<u>1,518,357</u>
Net assets		<u>2,583,655</u>	<u>2,554,894</u>
Capital and reserves	32(b)		
Share capital		403,639	403,639
Reserves		2,180,016	2,151,255
Total equity		<u>2,583,655</u>	<u>2,554,894</u>

Approved and authorised for issue by the Board of Directors on 16 March 2006

S.Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 117 to 160 of this Annual Report form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2005

	Note	2005		2004 (restated)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity at 1 January:					
As previously reported:					
— attributable to equity shareholders of the Company	32(a)	4,250,436		4,338,604	
— minority interests	32(a)	289,019		281,096	
			4,539,455		4,619,700
Net income recognised directly in equity:					
Exchange differences on translation of financial statements of foreign entities	32(a)		16,921		55
Profit for the year:	32(a)				
— attributable to equity shareholders of the Company		584,164		731,165	
— minority interests		10,565		12,593	
			594,729		743,758
Total recognised income for the year			611,650		743,813
Attributable to:					
— equity shareholders of the Company		601,085		731,220	
— minority interests		10,565		12,593	
		611,650		743,813	
Dividend declared or approved during the year			(819,388)		(819,388)
Dividends paid to minority shareholders	32(a)		(12,156)		(5,636)
Acquisition of minority interests in a subsidiary	32(a)		(9,562)		—
(Repayment to)/contribution by minority shareholders	32(a)		(9,319)		966
Total equity at 31 December			4,300,680		4,539,455

The notes on pages 117 to 160 of this Annual Report form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2005

	Note	2005 HK\$'000	2004 (restated) HK\$'000
Operating activities			
Profit before taxation		690,651	912,700
Adjustments for:			
— gain on disposal of building and interest in leasehold land		(90,478)	—
— net realised and unrealised gain on investments in securities carried at fair value		(365)	(2,110)
— dividend income		(20,168)	(1,323)
— interest income		(21,048)	(13,015)
— finance costs		69,131	15,376
— depreciation and amortisation		913,782	901,700
— loss on disposal of associate		5,727	—
— impairment loss on media assets		3,026	—
— net gain on disposal of other fixed assets		(6,847)	(7,475)
— share of profits of associates		(53,397)	(22,388)
— share of profit of jointly controlled entity		(282)	(368)
Effect of foreign exchange rate		(1,923)	55
Operating profit before changes in working capital		1,487,809	1,783,152
Decrease in spare parts and stores		2,531	5,152
Increase in accounts receivable		(81,154)	(3,162)
(Increase)/decrease in deposits and prepayments		(30,657)	21,664
Increase in property under development		(323,755)	(211,205)
Decrease in accounts payable and accruals		(6,412)	(34,590)
Increase in amounts due from associates		(12,706)	(993)
Increase in amount due from jointly controlled entity		—	(4,000)
Increase in third party claims payable		7,068	16,355
Decrease in contingency provision - insurance		(6,400)	(47,906)
Increase/(decrease) in provision for long service payments		1,632	(4,068)
Increase in employee benefit assets		(71,136)	(74,546)
Cash generated from operations		966,820	1,445,853
Interest received		21,146	13,161
Interest paid		(78,669)	(15,833)
Hong Kong Profits Tax paid		(134,907)	(144,027)
The People's Republic of China ("PRC") Income Tax paid		(483)	(1,679)
Net cash generated from operating activities		773,907	1,297,475

Consolidated Cash Flow Statement

for the year ended 31 December 2005

	Note	2005 HK\$'000	2004 (restated) HK\$'000
Investing activities			
Withdrawal of pledged bank deposit		–	100,000
Increase in bank deposits maturing over three months		(128,420)	–
Payment for purchase of fixed assets		(536,064)	(610,071)
Decrease/(increase) in non-current prepayments		43,925	(365,802)
Payment for media assets		(2,757)	(40,057)
Proceeds from disposal of fixed assets		110,550	9,381
Proceeds from disposal of associate		2,823	–
Proceeds from sale of securities		46,500	–
Payment for acquisition of a subsidiary		(2,858)	–
Payment for purchase of associate		–	(127,180)
New loans to associates		(9,458)	–
Capital injection to jointly controlled entity		(10,500)	–
Dividends received from associates		–	70
Dividends received from investments in securities		1,575	1,323
Net cash used in investing activities		(484,684)	(1,032,336)
Financing activities			
Dividends paid to equity shareholders of the Company		(819,388)	(830,056)
Dividends paid to minority shareholders		(12,156)	(5,636)
Proceeds from new bank loans		2,695,000	1,629,000
Repayment of bank loans		(2,349,989)	(1,471,083)
Proceeds from other unsecured loan		–	24,000
Repayment of other unsecured loan		–	(24,000)
(Repayment to)/contribution by minority shareholders		(9,319)	966
Net cash used in financing activities		(495,852)	(676,809)
Net decrease in cash and cash equivalents		(206,629)	(411,670)
Cash and cash equivalents at 1 January		1,168,845	1,580,515
Effect of foreign exchange rate changes		1,371	–
Cash and cash equivalents at 31 December	26	963,587	1,168,845

The notes on pages 117 to 160 of this Annual Report form part of these financial statements.

Notes to the Financial Statements

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 a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates and a jointly controlled entity.

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(v)(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 and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 39.

(c) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled 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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

1 Significant Accounting Policies (continued)

(c) Subsidiaries (continued)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

(d) Associates and jointly controlled entity

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 jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition post-tax results of the associates and jointly controlled entity for the year, including any impairment loss on goodwill relating to the investments in associates and jointly controlled entity recognised for the year (see notes 1(e) and (k)).

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, 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 associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity 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 or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entity are eliminated to the extent of the Group's interest in the associates or jointly controlled entity, 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.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of associate or jointly controlled entity, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the consolidated income statement.

On disposal of a cash-generating unit, an associate or a jointly controlled entity 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 policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entity, are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

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 impairment losses (see note 1(k)).

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 charged immediately to the income statement.

(h) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)).

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 tools at a rate of 50% per annum on a reducing balance basis, and the cost of other 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
New buses	—	14 years
Vessels	—	20 years
Other motor vehicles	—	5 to 10 years
Others	—	2 to 7 years

No depreciation is provided for buses and vessels 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. The useful life of an asset is reviewed annually.

(i) Leased assets

Leases of assets under which the lessor has not transferred all the risks and rewards of ownership to the Group are classified as operating leases.

When 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.

The cost of acquiring land held under operating leases is amortised on a straight-line basis over the period of the lease term.

(j) Media assets

Media assets comprise the following intangible assets:

- advertising rights; and
- advertising display panels under construction.

Advertising rights represent the costs of acquiring operating rights for the placement of advertisements in advertising display panels in 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 any impairment losses (see note 1(k)).

1 Significant Accounting Policies (continued)

(j) Media assets (continued)

Advertising display panels under construction include the costs of construction and other direct costs attributable to the construction of the advertising display panels. These costs are transferred to advertising rights when the construction is complete and the advertising display panels have been exchanged for the exclusive rights to advertise on the panels.

Advertising rights are amortised to the income statement on a straight-line basis over 5 – 10 years, being the agreed periods of use of the advertising rights and no amortisation is provided in respect of construction of advertising display panels in progress.

(k) Impairment of assets

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

Investments in debt and equity securities and receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities and receivables that are 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 receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.
- For 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).

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.

(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 impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interest in leasehold land classified as being held under operating leases;
- media assets;
- investments in subsidiaries, associates and jointly controlled entity; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated.

In addition, goodwill is 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 net selling price 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 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).

1 Significant Accounting Policies (continued)

(k) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in the income statement whenever 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.

– 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.

(l) Property under development

The cost of acquiring land held under operating leases is amortised on a straight-line basis over the lease term. If the property is in the course of development or re-development the amortisation charge is included as part of the costs of the property under development. In all other cases the amortisation charge for the period is recognised in income statement immediately. Inventories in respect of property development activities are carried at the lower of cost and net realisable value.

The cost of property under development comprises specifically identified cost, including borrowing costs capitalised (see note 1(t)), aggregate cost of development, materials and supplies, wages and other direct expenses and an appropriate proportion of overheads. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

(m) 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.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), 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 impairment losses for bad and doubtful debts (see note 1(k)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest foreign currency borrowings that are designated as hedged items in fair value hedges, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

Subsequent to initial recognition, the fair value of fixed interest foreign currency borrowings that are designated as hedged items in fair value hedges is remeasured at each balance sheet date. The gain or loss on remeasurement is recognised in the income statement.

(p) Trade and other payables

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

1 Significant Accounting Policies (continued)

(q) 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.

(r) Provisions and contingent liabilities

Provisions are recognised for 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.

(s) Revenue recognition

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) Income from media sales is recognised when the related advertisements are telecasted or commercials appear before the public.
- (iii) Interest income is recognised as it accrues using the effective interest method.
- (iv) Dividends
 - dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
 - dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(t) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being 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.

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.

(u) Translation of foreign currencies

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.

1 Significant Accounting Policies (continued)

(u) Translation of foreign currencies (continued)

The results of foreign operations are translated into Hong Kong dollars at the average foreign exchange rates for the year. Balance sheet items including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005 are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(v) 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 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.

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 net 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 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 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 share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

1 Significant Accounting Policies (continued)

(v) Employee benefits (continued)

(iv) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any 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 vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share 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).

(w) 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 directly in equity, in which case they are recognised in equity.

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.

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.

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

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

1 Significant Accounting Policies (continued)

(x) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include spare parts and stores, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 Changes in Accounting Policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 40).

(a) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes Directors) were granted share options over shares in a subsidiary. If the employees chose to exercise the options, the nominal amount of share capital and share premium of the subsidiary were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 1(v)(iv).

The Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) all options granted to employees on or before 7 November 2002; and
- (ii) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

2 Changes in Accounting Policies (continued)

(a) Employee share option scheme (HKFRS 2, Share-based payment) (continued)

All the options granted by the subsidiary fall within the above two categories. This change in accounting policy has no impact on the results of the Group for the year ended 31 December 2005.

Details of the employee share option scheme of the subsidiary are set out in note 22.

(b) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years:

- positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;
- positive goodwill which arose on or after 1 January 2001 was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment; and
- negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policy relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill, but tests it at least annually for impairment.

Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the consolidated income statement as it arises. Further details of these new policies are set out in note 1(e).

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the year ended 31 December 2005.

In respect of goodwill which arose on acquisition of subsidiaries, the new policy resulted in a decrease in “depreciation and amortisation” in the consolidated income statement for the year ended 31 December 2005 by HK\$1,880,000 and an increase in the carrying amount of “goodwill” in the consolidated balance sheet as at 31 December 2005 by the same amount.

In respect of goodwill which arose on acquisition of associates, the new policy resulted in an increase in “share of profits of associates” in the consolidated income statement for the year ended 31 December 2005 by HK\$3,575,000 and an increase in the carrying amount of “interest in associates” in the consolidated balance sheet as at 31 December 2005 by the same amount.

The change in policy relating to negative goodwill had no effect on the financial statements as there was no negative goodwill deferred as at 31 December 2004.

(c) Changes in presentation

(i) Presentation of shares of associates' and jointly controlled entity's taxation and goodwill arising on acquisition of associate (HKAS 1, Presentation of financial statements and HKAS 28, Investments in associates)

In prior years, the Group's share of taxation of associates and a jointly controlled entity accounted for using the equity method was included as part of the Group's “income tax” in the consolidated income statement. Goodwill arising on acquisition of associate was presented separately in the consolidated balance sheet.

2 Changes in Accounting Policies (continued)

(c) Changes in presentation (continued)

(i) Presentation of shares of associates' and jointly controlled entity's taxation and goodwill arising on acquisition of associate (HKAS 1, Presentation of financial statements and HKAS 28, Investments in associates) (continued)

With effect from 1 January 2005, in accordance with HKAS 28 and the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates and a jointly controlled entity accounted for using the equity method in the respective shares of profits reported in the consolidated income statement before arriving at the Group's profit or loss before taxation. Goodwill relating to associate is now included in interest in associates in the consolidated balance sheet.

These changes in presentation have been applied retrospectively with comparatives restated. These resulted in a decrease in "share of profits of associates" and "share of profit of jointly controlled entity" in the consolidated income statement for the year ended 31 December 2005 by HK\$8,705,000 (2004: HK\$11,839,000) and HK\$121,000 (2004: HK\$697,000) respectively, and a corresponding decrease in "income tax" by HK\$8,826,000 (2004: HK\$12,536,000), with no impact on profit after taxation of the Group for the years presented. Further, "goodwill" in the consolidated balance sheet as at 31 December 2005 has been reduced by HK\$69,384,000 (2004: HK\$17,361,000), with a corresponding increase in "interest in associates" by the same amount.

(ii) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to the presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparatives restated.

(d) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the cost of the interest in any buildings situated on the leasehold land could be separately identified from the cost of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 1(h) and (i).

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The new accounting policy has been adopted retrospectively. The new accounting policy resulted in a reclassification of HK\$86,262,000 (2004: HK\$88,716,000) from "property, plant and equipment" to "interest in leasehold land held for own use under operating leases" in the consolidated balance sheet.

2 Changes in Accounting Policies^(continued)

(e) Financial instruments (HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 January 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in notes 1(f), (g), (k) and (n) to (p). Further details of the changes are as follows:

(i) Investments in debt and equity securities

In prior years, equity investments held on continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities were stated at fair value with changes in fair value recognised in the income statement.

With effect from 1 January 2005, and in accordance with HKAS 39, with the exception of unquoted equity investments whose fair value cannot be reliably measured which are stated at cost less impairment losses, all investments are carried at fair value. Changes in fair value of such securities are recognised in the income statement. There are no material adjustments arising from the adoption of the new policies for debt and equity securities held by the Group. Further details of the new policies are set out in note 1(f).

(ii) Derivative financial instruments

In prior years, derivative financial instruments entered into by management to hedge the foreign currency risk and interest rate risk of fixed interest foreign currency borrowings were recognised on an accrual basis with reference to the timing of recognition of the hedged transaction.

With effect from 1 January 2005, and in accordance with HKAS 39, all derivative financial instruments entered into by the Group are stated at fair value. Fixed interest foreign currency borrowings that are designated as hedged items for fair value hedges are also stated at fair value. Subsequent changes in fair values are recognised in the income statement. Further details of the new policies are set out in notes 1(g) and (o).

The changes in accounting policies have been applied prospectively. The new policies resulted in the recognition of financial instruments of HK\$2,557,000 included in "accounts receivable" in the consolidated balance sheet as at 31 December 2005, and a corresponding increase in "bank loans and overdrafts" under current liabilities by HK\$1,422,000 and "bank loans" under non-current liabilities by HK\$1,135,000.

The Group has also entered into foreign exchange forward contracts to hedge against foreign currency exposure associated with the purchase of property, plant and equipment. There are no material adjustments arising from the adoption of the new policies for such contracts as the fair value of such contracts is not material at 31 December 2005 and 2004.

(f) Retranslation of goodwill on consolidation of a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from 1 January 2005, in order to comply with HKAS 21, the Group has changed its accounting policy related to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at the exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operations. Further details of the new policy are set out in note 1(u).

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and is only applied to acquisitions occurring on or after 1 January 2005. The new policy resulted in an increase in "interest in associates" on the consolidated balance sheet as at 31 December 2005 by HK\$1,148,000, and a corresponding increase in "reserves" by the same amount.

2 Changes in Accounting Policies^(continued)

(g) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(x) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current year, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3 Turnover

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 17 to the financial statements.

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

	2005 HK\$'000	2004 HK\$'000
Fare revenue from franchised public bus services	5,937,649	6,053,523
Revenue from non-franchised transport services	287,003	256,401
Media sales revenue	231,752	234,357
	<u>6,456,404</u>	<u>6,544,281</u>

4 Other Net Income

	2005 HK\$'000	2004 HK\$'000
Claims received	22,429	28,994
Interest income from bank deposits	18,764	9,493
Net gain on disposal of other fixed assets	6,847	7,475
Loss on disposal of associate	(5,727)	–
Net exchange gain/(loss)	6,226	(3,289)
Interest income from unlisted debt securities	2,284	3,522
Net realised and unrealised gain on investments in securities carried at fair value	365	2,110
Dividend income from listed securities	1,575	1,323
Dividend income from unlisted securities	18,593	–
Net miscellaneous business receipts	4,722	5,160
Sundry revenue	12,386	12,352
	<u>88,464</u>	<u>67,140</u>

Notes to the Financial Statements

5 Profit before Taxation

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

	2005 HK\$'000	2004 (restated) HK\$'000
(a) Staff costs:		
Contributions to defined contribution retirement plan	52,106	47,413
Net income recognised in respect of defined benefit retirement plans (notes 21(b) and (c))	(30,747)	(815)
Movements in provision for long service payments (note 31)	7,174	(629)
Retirement costs	28,533	45,969
Salaries, wages and other benefits	2,954,403	3,002,129
	<u>2,982,936</u>	<u>3,048,098</u>
(b) Finance costs:		
Interest on bank loans, overdrafts and other unsecured loans wholly repayable within five years	81,053	15,400
Less: borrowing costs capitalised into property under development*	(11,922)	(24)
	<u>69,131</u>	<u>15,376</u>
(c) Other items:		
Auditors' remuneration		
— audit services	3,680	3,727
— other services	2,090	2,394
Operating lease charges on properties, temporary bus depots, buses, ferries and terminal shelters	25,369	24,115
Depreciation	899,845	889,835
Amortisation of land lease premium	2,087	2,087
Amortisation of positive goodwill	—	1,880
Amortisation of positive goodwill included in interest in associates	—	974
Amortisation of media assets	11,850	6,924
Share of associates' taxation	8,705	11,839
Share of jointly controlled entity's taxation	121	697
Impairment losses		
— trade and other receivables	3,141	1,784
— media assets	3,026	—
	<u>3,026</u>	<u>—</u>

* The borrowing costs have been capitalised at the average interest rate of 3.8% per annum (2004: 0.46%).

6 Income Tax in the Consolidated Income Statement

(a) Taxation in the consolidated income statement represents:

	2005 HK\$'000	2004 (restated) HK\$'000
Current tax - Hong Kong Profits Tax		
Profits Tax for the year	116,262	150,621
Under/(over)-provision in respect of prior years	654	(13,547)
	116,916	137,074
Current tax – PRC Income Tax		
Provision for the year	783	735
	117,699	137,809
Deferred tax		
Origination and reversal of temporary differences	(21,777)	31,133
	95,922	168,942

The provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year.

Taxation for subsidiaries in the PRC is charged at the appropriate current rates of taxation ruling in the PRC.

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

	2005 HK\$'000	2004 (restated) HK\$'000
Profit before taxation	690,651	912,700
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	120,500	159,008
Tax effect of non-deductible expenses	6,099	6,515
Tax effect of non-taxable income	(42,839)	(13,154)
Tax effect of unused tax losses not recognised	11,184	6,703
Reversal of previously recognised deferred tax assets	–	24,499
Under/(over)-provision in prior years	654	(13,547)
Others	324	(1,082)
Actual tax expense	95,922	168,942

Notes to the Financial Statements

7. Directors' Remuneration

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

For the year ended 31 December 2005	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
<i>Executive Directors</i>					
John CHAN Cho Chak	319	4,475	2,520	1,131	8,445
Charles LUI Chung Yuen	259	600	400	–	1,259
Winnie NG	309	2,599	290	112	3,310
LUI Pochiu	259	2,411	430	86	3,186
Edmond HO Tat Man	259	2,554	728	277	3,818
<i>Non-executive Directors</i>					
Dr Norman LEUNG Nai Pang#	273	–	–	–	273
KWOK Ping-luen, Raymond	259	–	–	–	259
KWOK Ping-sheung, Walter	259	–	–	–	259
YU Shu Chuen	259	12	–	–	271
NG Siu Chan	259	–	–	–	259
William LOUEY Lai Kuen	259	–	–	–	259
George CHIEN Yuan Hwei	279	–	–	–	279
Rafael HUI	85	–	–	–	85
<i>Independent Non-executive Directors</i>					
The Hon Sir Sze-yuen CHUNG	363	–	–	–	363
Dr KUNG Ziang Mien, James	289	–	–	–	289
Dr Eric LI Ka Cheung	373	–	–	–	373
SIU Kwing-chue, Gordon	259	–	–	–	259
	<u>4,621</u>	<u>12,651</u>	<u>4,368</u>	<u>1,606</u>	<u>23,246</u>

7. Directors' Remuneration (continued)

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

For the year ended 31 December 2004	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
<i>Executive Directors</i>					
John CHAN Cho Chak	349	4,441	6,558	1,122	12,470
Charles LUI Chung Yuen	289	600	575	–	1,464
Winnie NG	339	2,592	560	184	3,675
LUI Pochiu	289	2,395	696	142	3,522
Edmond HO Tat Man	289	2,537	815	251	3,892
<i>Non-executive Directors</i>					
Dr Norman LEUNG Nai Pang#	303	–	–	–	303
KWOK Ping-luen, Raymond	289	–	–	–	289
KWOK Ping-sheung, Walter	289	–	–	–	289
YU Shu Chuen	289	12	–	–	301
NG Siu Chan	289	–	–	–	289
William LOUEY Lai Kuen	289	–	–	–	289
George CHIEN Yuan Hwei	313	–	–	–	313
Rafael HUI	265	–	–	–	265
<i>Independent Non-executive Directors</i>					
The Hon Sir Sze-yuen CHUNG	405	–	–	–	405
Dr KUNG Ziang Mien, James	319	–	–	–	319
Dr Eric LI Ka Cheung	342	–	–	–	342
SIU Kwing-chue, Gordon	53	–	–	–	53
Dr The Hon WOO Pak Chuen	138	–	–	–	138
Lana WOO (Alternate Director to Dr The Hon WOO Pak Chuen)	–	439	88	35	562
	<u>5,138</u>	<u>13,016</u>	<u>9,292</u>	<u>1,734</u>	<u>29,180</u>

In addition to the above remuneration, a Director was granted share options under the share option scheme of RoadShow Holdings Limited. The details of these benefits in kind are disclosed in note 22 to the financial statements.

Dr Norman Leung Nai Pang becomes an Independent Non-executive Director with effect from 1 February 2006.

Notes to the Financial Statements

8 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, four (2004: four) 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:

	2005 HK\$'000	2004 HK\$'000
Fees	1,196	1,316
Salaries, allowances and benefits in kind	14,168	14,081
Discretionary bonuses	4,490	9,066
Retirement scheme contributions	1,672	1,808
	21,526	26,271

The emoluments of the five (2004: five) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2005	2004
HK\$2,500,001 – HK\$3,000,000	1	1
HK\$3,000,001 – HK\$3,500,000	2	–
HK\$3,500,001 – HK\$4,000,000	1	3
HK\$8,000,001 – HK\$8,500,000	1	–
HK\$12,000,001 – HK\$12,500,000	–	1

9 Profit Attributable to Equity Shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK\$763,385,000 (2004: HK\$602,998,000) 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:

	2005 HK\$'000	2004 HK\$'000
Amount of consolidated profit attributable to equity shareholders of the Company dealt with in the Company's financial statements	763,385	602,998
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	84,764	32,291
Company's profit for the year (note 32(b))	848,149	635,289

10 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 HK\$584,164,000 (2004: HK\$731,165,000) and 403,639,413 shares in issue during the two years.

(b) Diluted earnings per share

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

11 Dividends

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

	2005 HK\$'000	2004 HK\$'000
Interim dividend declared and paid of HK\$0.45 per share (2004: HK\$0.45 per share)	181,638	181,638
Final dividend proposed after the balance sheet date of HK\$1.58 per share (2004: HK\$1.58 per share)	637,750	637,750
	819,388	819,388

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

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

	2005 HK\$'000	2004 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.58 per share (2004: HK\$1.58 per share)	637,750	637,750

Notes to the Financial Statements

12 Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Transport operations: The provision of franchised and non-franchised public transport services.

Media sales business: The provision of audio-video programming through a multi-media on-board system and marketing of exterior advertising spaces on transit vehicle exteriors, shelters and outdoor signages.

	Transport operations		Media sales business		Inter-segment elimination		Consolidated	
	2005	2004 (restated)	2005	2004 (restated)	2005	2004	2005	2004 (restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	6,224,652	6,309,924	231,752	234,357	–	–	6,456,404	6,544,281
Inter-segment revenue	2	–	24,591	22,609	(24,593)	(22,609)	–	–
Gain on disposal of building and interest in leasehold land	90,478	–	–	–	–	–	90,478	–
Other revenue from external customers	49,342	41,731	2,345	2,200	–	–	51,687	43,931
Total	6,364,474	6,351,655	258,688	259,166	(24,593)	(22,609)	6,598,569	6,588,212
Segment result	618,316	824,880	60,878	75,655	–	–	679,194	900,535
Unallocated net operating income							26,909	4,785
Profit from operations							706,103	905,320
Finance costs							(69,131)	(15,376)
Share of profits of associates and jointly controlled entity	41,550	13,302	12,129	9,454	–	–	53,679	22,756
Income tax							(95,922)	(168,942)
Profit after taxation							594,729	743,758
Depreciation and amortisation for the year	874,224	865,793	39,558	35,907	–	–		
Segment assets	6,401,930	6,605,625	336,202	406,396	–	–	6,738,132	7,012,021
Interests in associates and jointly controlled entity	648,390	224,285	144,389	111,271	–	–	792,779	335,556
Unallocated assets							2,049,390	2,080,484
Total assets							9,580,301	9,428,061
Segment liabilities	1,122,656	1,139,609	50,443	63,474	–	–	1,173,099	1,203,083
Unallocated liabilities							4,106,522	3,685,523
Total liabilities							5,279,621	4,888,606
Capital expenditure incurred during the year	514,140	533,755	3,389	47,836	–	–		

Geographical segments

The Group's turnover and profit from operations derived from activities outside Hong Kong were insignificant. Accordingly, no analysis by geographical segment is provided.

13 Fixed Assets

(a) The Group:

	Buildings HK\$'000	Buses and other motor vehicles HK\$'000	Vessels HK\$'000	Buses and vessels under construction HK\$'000	Tools and others HK\$'000	Sub-total HK\$'000	Interest in leasehold land held for own use under operating leases HK\$'000	Total fixed assets HK\$'000
Cost:								
At 1 January 2004 (restated)	1,437,099	8,500,337	110,729	273,038	1,489,107	11,810,310	127,137	11,937,447
Additions	27,304	22,228	4,880	329,647	189,242	573,301	–	573,301
Disposals	(2,475)	(319,504)	–	–	(47,887)	(369,866)	–	(369,866)
Transfer of buses/vessels	–	492,044	7,282	(499,326)	–	–	–	–
Transfer to media assets	(23,953)	–	–	–	–	(23,953)	–	(23,953)
At 31 December 2004	1,437,975	8,695,105	122,891	103,359	1,630,462	11,989,792	127,137	12,116,929
Accumulated depreciation and amortisation:								
At 1 January 2004 (restated)	645,781	3,792,555	5,386	–	1,003,592	5,447,314	36,334	5,483,648
Charge for the year	59,225	591,265	6,097	–	233,248	889,835	2,087	891,922
Written back on disposals	(2,174)	(318,300)	–	–	(47,486)	(367,960)	–	(367,960)
Transfer to media assets	(3,677)	–	–	–	–	(3,677)	–	(3,677)
At 31 December 2004	699,155	4,065,520	11,483	–	1,189,354	5,965,512	38,421	6,003,933
Net book value:								
At 31 December 2004	738,820	4,629,585	111,408	103,359	441,108	6,024,280	88,716	6,112,996
Add:								
Deposits paid in respect of buses on order						5,573	–	5,573
						6,029,853	88,716	6,118,569
Cost:								
At 1 January 2005	1,437,975	8,695,105	122,891	103,359	1,630,462	11,989,792	127,137	12,116,929
Exchange adjustments	–	14	–	–	19	33	–	33
Additions	9,643	49,522	31	211,205	218,525	488,926	–	488,926
Acquisition of a subsidiary	–	5,622	–	–	50	5,672	–	5,672
Disposals	(35,194)	(176,574)	–	–	(6,141)	(217,909)	(1,017)	(218,926)
Transfer of buses	–	157,159	–	(157,159)	–	–	–	–
At 31 December 2005	1,412,424	8,730,848	122,922	157,405	1,842,915	12,266,514	126,120	12,392,634
Accumulated depreciation and amortisation:								
At 1 January 2005	699,155	4,065,520	11,483	–	1,189,354	5,965,512	38,421	6,003,933
Exchange adjustments	–	10	–	–	7	17	–	17
Charge for the year	52,480	604,151	6,148	–	237,066	899,845	2,087	901,932
Acquisition of a subsidiary	–	3,576	–	–	26	3,602	–	3,602
Written back on disposals	(20,190)	(179,035)	–	–	(5,826)	(205,051)	(650)	(205,701)
At 31 December 2005	731,445	4,494,222	17,631	–	1,420,627	6,663,925	39,858	6,703,783
Net book value:								
At 31 December 2005	680,979	4,236,626	105,291	157,405	422,288	5,602,589	86,262	5,688,851
Add:								
Deposits paid in respect of buses on order						31,419	–	31,419
						5,634,008	86,262	5,720,270

Notes to the Financial Statements

13 Fixed Assets (continued)

(b) The Company:

	2005 Others HK\$'000	2004 Others HK\$'000
Cost:		
At 1 January and 31 December	201	201
Accumulated depreciation:		
At 1 January	171	136
Charge for the year	15	35
At 31 December	186	171
Carrying amount:		
At 31 December	15	30

(c) All the Group's buildings and interest in leasehold land held for own use under operating leases are held in Hong Kong. The analysis of the net book value of properties is as follows:

	2005 HK\$'000	2004 HK\$'000
Medium-term leases	424,760	458,894
Short-term leases	342,481	368,642
	767,241	827,536
Representing:		
Buildings held for own use	680,979	738,820
Interest in leasehold land held for own use under operating leases	86,262	88,716
	767,241	827,536

14 Goodwill

	HK\$'000
Cost:	
At 1 January 2004 and 31 December 2004 (restated)	37,602
At 1 January 2005	37,602
Opening balance adjustment to eliminate accumulated amortisation	(7,976)
Addition on acquisition of a subsidiary	2,973
At 31 December 2005	32,599
Accumulated amortisation:	
At 1 January 2004 (restated)	6,096
Amortisation for the year	1,880
At 31 December 2004	7,976
At 1 January 2005	7,976
Eliminated against cost at 1 January 2005	(7,976)
At 31 December 2005	–
Carrying amount:	
At 31 December 2005	32,599
At 31 December 2004	29,626

In 2004, positive goodwill not already recognised directly in reserves was amortised on a straight-line basis over 20 years. The amortisation of positive goodwill for the year ended 31 December 2004 was included in “depreciation and amortisation” in the consolidated income statement.

As explained further in note 2(b), with effect from 1 January 2005, the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group’s cash-generating units (“CGUs”) identified according to the location of operation and business segment as follows:

	2005 HK\$'000	2004 HK\$'000
Non-franchised transport operations – Hong Kong	20,112	17,139
Media advertising agency, design and production – Shanghai	12,487	12,487
	32,599	29,626

Notes to the Financial Statements

14 Goodwill (continued)

Impairment tests for cash-generating units containing goodwill (continued)

The recoverable amounts of the CGUs are 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. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	Non-franchised transport operations – Hong Kong %	Media advertising agency, design and production – Shanghai %
Gross margin	11.0	78.1
Growth rate	3.0	6.3
Discount rate	4.5	4.8

Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The recoverable amounts of the above CGUs are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

15 Media Assets

	Advertising display panels under construction HK\$'000	Advertising rights HK\$'000	Total HK\$'000
Cost:			
At 1 January 2004	36,369	26,142	62,511
Transfer from fixed assets	–	23,953	23,953
Additions	40,057	–	40,057
Transfer	(74,048)	74,048	–
At 31 December 2004	2,378	124,143	126,521
Accumulated amortisation:			
At 1 January 2004	–	1,198	1,198
Transfer from fixed assets	–	3,677	3,677
Amortisation for the year	–	6,924	6,924
At 31 December 2004	–	11,799	11,799
Carrying amount:			
At 31 December 2004	2,378	112,344	114,722

15 Media Assets (continued)

	Advertising display panels under construction HK\$'000	Advertising rights HK\$'000	Total HK\$'000
Cost:			
At 1 January 2005	2,378	124,143	126,521
Exchange adjustments	–	2,265	2,265
Additions	–	2,757	2,757
Transfer	(2,378)	2,378	–
Transfer to other receivables (note a)	–	(8,736)	(8,736)
At 31 December 2005	–	122,807	122,807
Accumulated amortisation and impairment losses:			
At 1 January 2005	–	11,799	11,799
Exchange adjustments	–	327	327
Amortisation for the year	–	11,850	11,850
Impairment loss for the year (note b)	–	3,026	3,026
At 31 December 2005	–	27,002	27,002
Carrying amount:			
At 31 December 2005	–	95,805	95,805

Notes:

(a) Transfer to other receivables

During 2005, the Group reached an agreement with the relevant authority for a reduction in the cost of certain advertising rights acquired in 2004 of HK\$8,736,000. Accordingly, the cost has been adjusted and transferred to other receivables.

(b) Impairment loss of media assets

Media assets are assessed at each balance sheet date whether there are any indications that they may be impaired. Such indications include physical damage of a media asset and dismantle of a media asset under an order of relevant authorities. These indications also include a decrease in the revenue derived from a media asset. If any such indication exists, the recoverable amount of the media asset is estimated. The recoverable amount of a media asset is based on value-in-use calculations. These calculations use cash flow projection based on reasonable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.

A number of advertising display panels will be dismantled in 2006. Management considers that the estimated future cash flows generated from these panels are less than their reconstruction costs. Therefore, all these media assets with carrying amount of HK\$3,026,000 were written off as other operating expenses in the income statement.

16 Non-current Prepayments

Non-current prepayments consist of advance payments for concession and rights for advertising and media programme placement on transit vehicles and transit network furniture.

Included in non-current prepayments at 31 December 2004 was a deposit for long term investment of HK\$363,910,000 which was transferred to interest in associates upon completion of the acquisition in 2005.

17 Investments in Subsidiaries

(a) Investments in subsidiaries

	The Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	1,036,507	1,036,507

Notes to the Financial Statements

17 Investments in Subsidiaries (continued)

(b) Amounts due from/(to) subsidiaries

Amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of settlement/repayment.

The 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. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's consolidated financial statements.

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 HK\$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 HK\$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 HK\$1 each	100	–	100	Provision of non-franchised bus services in Hong Kong
Chomang Travel Transport Company Limited	Hong Kong	10,000 shares of HK\$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 HK\$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 HK\$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 HK\$1 each	100	–	100	Provision of cross-boundary shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen)
Park Island Transport Company Limited	Hong Kong	10,000 shares of HK\$1 each	100	–	100	Provision of non-franchised bus and ferry services in Hong Kong
RoadShow Holdings Limited	Incorporated in Bermuda and operates in Hong Kong	997,365,332 shares of HK\$0.1 each	73	–	73	Investment holding
CityVision Limited	Hong Kong	10,000 shares of HK\$1 each	65.7	–	90	Operation of multi-media on-board business on transit vehicles
KM-Vision Limited	Hong Kong	10,000 shares of HK\$1 each	75.2	–	100	Operation of multi-media on-board business on transit vehicles

17 Investments in 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	
LW-Vision Limited	Hong Kong	10,000 shares of HK\$1 each	74.4	–	100	Operation of multi-media on-board business on transit vehicles
RoadShow Creations Limited	Hong Kong	2 shares of HK\$1 each	73	–	100	Trading of bus souvenirs
RoadShow Media Limited	Hong Kong	2 shares of HK\$1 each	73	–	100	Provision of media sales and management services for advertising on transit vehicle exteriors and shelters and for the multi-media on-board business
RoadShow Productions Limited	Hong Kong	2 shares of HK\$1 each	73	–	100	Production of content for multi-media on-board systems
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 holding
KMB Financial Services Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	–	100	Investment holding
HK Macau Ltd.	Incorporated in the British Virgin Islands and operates in Hong Kong	1,200 shares of US\$1 each	60	–	60	Investment holding
Guangzhou Key Media Advertising Company Limited (Sino-foreign co-operative joint venture)	The PRC	RMB56,346,939	37.2	–	51	Provision of media advertising agency service and design and production of advertisements
Shanghai Yafei Advertising Company Limited (Limited liability company)	The PRC	RMB600,000	37.2	–	51	Provision of media advertising agency service and design and production of advertisements

18 Interest in Associates

	2005 HK\$'000	2004 (restated) HK\$'000
Share of net assets	647,810	277,671
Goodwill	69,384	17,361
Loans to associates	49,522	40,064
Amounts due from associates	14,612	–
Amounts due to associates	(4,922)	(4,922)
	<u>776,406</u>	<u>330,174</u>

The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of settlement/repayment.

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which 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	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by subsidiaries	
AdSociety Daye Advertising Company Limited (Note)	Sino-foreign equity joint venture	The PRC	RMB74,380,984	35.8	–	49	Provision of full range of advertising services
Beijing Beiqi Kowloon Taxi Company Limited	Sino-foreign joint stock company	The PRC	RMB166,600,000	31.4	–	31.4	Provision of taxi hiring and car rental services
Wuxi Kowloon Public Transport Company Limited	Sino-foreign joint stock company	The PRC	RMB300,880,000	45	–	45	Provision of bus services
Shenzhen Bus Group Company Limited	Sino-foreign joint stock company	The PRC	RMB995,630,000	35	–	35	Provision of bus services

Note: The joint venture partner of the associate agreed to maintain the results of the associate for the period from 1 January 2003 to 31 December 2005 at a specified level. The share of profit recognised in the financial statements included the results as agreed to be maintained by the joint venture partner.

(a) Goodwill on acquisition of associates

Goodwill arising from acquisition of associates is allocated to the Group's share of net assets in the respective associates as follows:

	2005 HK\$'000	2004 HK\$'000
Shenzhen Bus Group Company Limited ("SBG")	52,023	–
AdSociety Daye Advertising Company Limited ("ADA")	17,361	17,361
	<u>69,384</u>	<u>17,361</u>

The recoverable amount of the CGUs are 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. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

18 Interest in Associates (continued)

(a) Goodwill on acquisition of associates (continued)

Key assumptions used for value-in-use calculations:

	SBG %	ADA %
Gross margin	8.5	30.1
Growth rate	3.0	4.5
Discount rate	5.6	4.9

Management determined the budgeted gross margins based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the CGUs.

The recoverable amounts of the CGUs are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

(b) Summary financial information on associates

	Assets HK\$'000	Liabilities HK\$'000	Equity HK\$'000	Revenues HK\$'000	Profit HK\$'000
2005					
100 per cent	2,624,752	(839,847)	1,784,905	1,985,438	141,917
Group's effective interest	954,721	(306,911)	647,810	719,946	53,397
2004					
100 per cent	1,025,783	(359,047)	666,736	597,372	62,140
Group's effective interest	412,001	(134,330)	277,671	250,619	22,388

19 Interest in Jointly Controlled Entity

	2005 HK\$'000	2004 HK\$'000
Share of net assets	16,434	1,732
Amount due (to)/from jointly controlled entity	(61)	3,650
	16,373	5,382

The amount due (to)/from jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment/settlement.

Details of the Group's interest in the jointly controlled entity are as follows:

Name of joint venture	Form of business structure	Place of establishment and operation	Particulars of registered and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
Dalian HK Macau Motor Bus Services Limited	Co-operative joint venture	The PRC	RMB22,000,000	(Note)	—	(Note)	Provision of bus services in Dalian, the PRC

Note: The co-operative joint venture, Dalian HK Macau Motor Bus Services Limited ("Dalian HK Macau"), was formed between HK Macau Ltd. ("HK Macau"), a 60% owned subsidiary of the Group, and 大連市第一公共汽車公司, a PRC entity. The joint venture is for a period of 15 years commencing from 31 July 1997. The profits and losses of Dalian HK Macau are shared equally by HK Macau and 大連市第一公共汽車公司.

Notes to the Financial Statements

20 Other Financial Assets

	2005 HK\$'000	2004 HK\$'000
Unlisted equity securities, at cost	15,355	15,355
Loan to investee	18,592	–
	<u>33,947</u>	<u>15,355</u>

The loan to investee is unsecured, interest-bearing at 5.5% per annum and repayable in 2010.

21 Employee Benefit Assets

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

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

	2005 HK\$'000	2004 HK\$'000
Present value of funded obligations	(2,341,958)	(2,174,037)
Fair value of plan assets	3,422,344	3,098,115
Net unrecognised actuarial gains	<u>(595,417)</u>	<u>(510,245)</u>
	<u>484,969</u>	<u>413,833</u>

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable 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.

(b) Movements in the net asset recognised in the consolidated balance sheet are as follows:

	2005 HK\$'000	2004 HK\$'000
At 1 January	413,833	339,287
Contributions paid to schemes	40,389	73,731
Net income recognised in the consolidated income statement (note 5(a))	<u>30,747</u>	<u>815</u>
At 31 December	<u>484,969</u>	<u>413,833</u>

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

	2005 HK\$'000	2004 HK\$'000
Current service cost	123,006	115,913
Interest cost	96,853	97,687
Actuarial expected return on plan assets	<u>(234,792)</u>	<u>(206,442)</u>
Net actuarial gains recognised	<u>(15,814)</u>	<u>(7,973)</u>
	<u>(30,747)</u>	<u>(815)</u>

The above net income is included in staff costs 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 income of HK\$372,294,000 (2004: HK\$390,876,000).

21 Employee Benefit Assets (continued)

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

	2005	2004
Discount rate	4.25%	4.5%
Expected rate of return on plan assets	7.5%	7.5%
Future salary increases	3 – 4%	2 – 4%

22 Equity Settled Share-based Transactions

RoadShow Holdings Limited (“RoadShow”), a subsidiary of the Company, 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 to recognise their contributions to the growth of RoadShow. The options vest immediately from the date of grant and are then exercisable within a period of three years. Each option gives the holder the right to subscribe for one share of RoadShow. The Scheme is valid and effective for a period of ten years ending on 6 June 2011.

(a) The terms and conditions of the options granted under the Scheme are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors of RoadShow on 11 March 2002	6,600,000	Immediately from the date of grant	3 years
Options granted to employees on 11 March 2002	16,740,000	Immediately from the date of grant	3 years
Total share options	23,340,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2005		2004	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	HK\$2.25	14,270	HK\$2.25	16,660
Forfeited during the year	HK\$2.25	–	HK\$2.25	(2,390)
Expired during the year	HK\$2.25	(14,270)	HK\$2.25	–
Outstanding at the end of the year	HK\$2.25	–	HK\$2.25	14,270
Exercisable at the end of the year	HK\$2.25	–	HK\$2.25	14,270

No options were exercised during the year. All the outstanding options granted at 31 December 2004 expired on 11 March 2005.

23 Other Investments

	2005 HK\$'000	2004 HK\$'000
Trading securities (at market value)		
Equity securities listed in Hong Kong	47,250	44,887
Other securities (at fair value)		
Unlisted debt securities	–	48,498
	47,250	93,385

Notes to the Financial Statements

24 Property Under Development

	2005 HK\$'000	2004 HK\$'000
Development and incidental costs	695,118	323,185
Borrowing costs capitalised	11,946	24
	<u>707,064</u>	<u>323,209</u>

25 Accounts Receivable

	2005 HK\$'000	2004 HK\$'000
Trade and other receivables	293,131	202,153
Interest receivable	1,515	1,613
Derivative financial instruments	2,557	–
	<u>297,203</u>	<u>203,766</u>

All of the accounts receivable, except for derivative financial instruments of HK\$1,135,000, are expected to be recovered within one year.

Included in accounts receivable are trade receivables (net of impairment losses for doubtful debts) with the following ageing analysis as of the balance sheet date:

	2005 HK\$'000	2004 HK\$'000
Current	157,166	106,723
1 to 3 months overdue	23,070	10,097
More than 3 months overdue	23,486	31,070
	<u>203,722</u>	<u>147,890</u>

The Group's credit policy is set out in note 35(a).

26 Cash and Cash Equivalents

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash at bank and in hand	73,462	61,339	15,575	13,362
Bank deposits	1,060,196	1,108,845	–	–
Cash and cash equivalents in the balance sheet	1,133,658	1,170,184	15,575	13,362
Less: Bank deposits maturing over three months	(128,420)	–		
Bank overdrafts (note 27)	(41,651)	(1,339)		
Cash and cash equivalents in the consolidated cash flow statement	<u>963,587</u>	<u>1,168,845</u>		

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2005 '000	2004 '000
British Pound Sterling	1,517	1,475
United States Dollars	<u>37,852</u>	<u>25,721</u>

27 Bank Loans and Overdrafts

At 31 December 2005, the bank loans and overdrafts were repayable as follows:

	2005 HK\$'000	2004 HK\$'000
Within 1 year or on demand	961,489	494,256
After 1 year but within 2 years	392,923	458,416
After 2 years but within 5 years	1,825,500	1,639,288
After 5 years	—	200,000
	<u>2,218,423</u>	<u>2,297,704</u>
	<u>3,179,912</u>	<u>2,791,960</u>

At 31 December 2005, the bank loans and overdrafts were unsecured and made up of the following:

	2005 HK\$'000	2004 HK\$'000
Bank overdrafts	41,651	1,339
Bank loans	<u>3,138,261</u>	<u>2,790,621</u>
	<u>3,179,912</u>	<u>2,791,960</u>

Included in bank loans and overdrafts are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2005 '000	2004 '000
United States Dollars	<u>9,588</u>	<u>15,097</u>

28 Accounts Payable and Accruals

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade payables	96,858	133,955	–	–
Other payables and accruals	759,829	687,111	22,298	15,729
	<u>856,687</u>	<u>821,066</u>	<u>22,298</u>	<u>15,729</u>

All of the accounts payable and accruals 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:

	2005 HK\$'000	2004 HK\$'000
Due within 1 month or on demand	80,437	92,533
Due after 1 month but within 3 months	14,662	41,422
Due after more than 3 months	1,759	–
	<u>96,858</u>	<u>133,955</u>

Included in accounts payable and accruals are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2005 '000	2004 '000
British Pound Sterling	<u>3,374</u>	<u>1,862</u>

29 Contingency Provision – Insurance

	2005 HK\$'000	2004 HK\$'000
At 1 January	58,502	106,408
Provision written back during the year	(6,400)	(47,906)
At 31 December	<u>52,102</u>	<u>58,502</u>

This provision represents amounts set aside annually by the Group to meet liabilities which are expected to arise from third party claims in connection with the Group's bus operations.

30 Income Tax in the Balance Sheet

(a) Current taxation in the balance sheet represents:

	2005 HK\$'000	2004 HK\$'000
Provision for Hong Kong Profits Tax for the year	116,262	150,621
Provisional Profits Tax paid	(83,807)	(101,081)
	32,455	49,540
Balance of Profits Tax recoverable relating to prior years	(3,539)	(2,633)
	28,916	46,907
PRC Income Tax payable	406	106
	29,322	47,013
Representing:		
Current taxation recoverable	(4,289)	(3,694)
Current taxation payable	33,611	50,707
	29,322	47,013

(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:	Depreciation allowances in excess of related depreciation HK\$'000	Provisions HK\$'000	Tax losses HK\$'000	Defined benefit assets HK\$'000	Total HK\$'000
At 1 January 2004	846,740	(49,488)	(80,300)	59,376	776,328
(Credited)/charged to consolidated income statement	(26,892)	35,984	8,995	13,046	31,133
At 31 December 2004	819,848	(13,504)	(71,305)	72,422	807,461
At 1 January 2005	819,848	(13,504)	(71,305)	72,422	807,461
(Credited)/charged to consolidated income statement	(44,164)	936	9,002	12,449	(21,777)
At 31 December 2005	775,684	(12,568)	(62,303)	84,871	785,684

	2005 HK\$'000	2004 HK\$'000
Net deferred tax assets recognised on the consolidated balance sheet	(16,077)	(12,062)
Net deferred tax liabilities recognised on the consolidated balance sheet	801,761	819,523
	785,684	807,461

Notes to the Financial Statements

30 Income Tax in the Balance Sheet (continued)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of HK\$33,558,000 (2004: HK\$22,374,000) in respect of tax losses of HK\$177,113,000 (2004: HK\$127,849,000). The tax losses do not expire under the current tax legislation, except for an amount of HK\$16,537,000 (2004: HK\$Nil) which will expire in the coming five years.

31 Provision for Long Service Payments

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

	2005 HK\$'000	2004 HK\$'000
At 1 January	48,253	52,321
Provision charged/(written back) to the consolidated income statement (note 5(a))	7,174	(629)
Payments made during the year	(5,542)	(3,439)
At 31 December	49,885	48,253

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain 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.

32 Capital and Reserves

(a) The Group:

	Note	Attributable to equity shareholders of the Company							Minority interests HK\$'000	Total equity HK\$'000
		Share capital HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Staff retirement fund reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1 January 2004		403,639	2,412	17,839	1,082,600	91	2,832,023	4,338,604	281,096	4,619,700
Dividend approved in respect of the previous year	11(b)	–	–	–	–	–	(637,750)	(637,750)	–	(637,750)
Dividends paid to minority shareholders		–	–	–	–	–	–	–	(5,636)	(5,636)
Exchange differences on translation of financial statements of foreign entities		–	–	–	–	55	–	55	–	55
Contribution by minority shareholders		–	–	–	–	–	–	–	966	966
Profit for the year		–	–	–	–	–	731,165	731,165	12,593	743,758
Dividend approved in respect of the current year	11(a)	–	–	–	–	–	(181,638)	(181,638)	–	(181,638)
At 31 December 2004		<u>403,639</u>	<u>2,412</u>	<u>17,839</u>	<u>1,082,600</u>	<u>146</u>	<u>2,743,800</u>	<u>4,250,436</u>	<u>289,019</u>	<u>4,539,455</u>
At 1 January 2005		403,639	2,412	17,839	1,082,600	146	2,743,800	4,250,436	289,019	4,539,455
Dividend approved in respect of the previous year	11(b)	–	–	–	–	–	(637,750)	(637,750)	–	(637,750)
Dividends paid to minority shareholders		–	–	–	–	–	–	–	(12,156)	(12,156)
Exchange differences on translation of financial statements of foreign entities		–	–	–	–	16,921	–	16,921	–	16,921
Acquisition of minority interests in a subsidiary		–	–	–	–	–	–	–	(9,562)	(9,562)
Repayment to minority shareholders		–	–	–	–	–	–	–	(9,319)	(9,319)
Profit for the year		–	–	–	–	–	584,164	584,164	10,565	594,729
Dividend approved in respect of the current year	11(a)	–	–	–	–	–	(181,638)	(181,638)	–	(181,638)
At 31 December 2005		<u>403,639</u>	<u>2,412</u>	<u>17,839</u>	<u>1,082,600</u>	<u>17,067</u>	<u>2,508,576</u>	<u>4,032,133</u>	<u>268,547</u>	<u>4,300,680</u>

Included in retained profits are an amount of HK\$74,432,000 (2004: HK\$30,513,000) being the retained profits attributable to associates, and an amount of HK\$1,726,000 (2004: HK\$1,732,000) being the retained profits attributable to a jointly controlled entity.

Notes to the Financial Statements

32 Capital and Reserves (continued)

(b) The Company:

	Note	Share capital HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 January 2004		403,639	1,300,000	1,035,354	2,738,993
Dividend approved in respect of the previous year	11(b)	—	—	(637,750)	(637,750)
Profit for the year		—	—	635,289	635,289
Dividend approved in respect of the current year	11(a)	—	—	(181,638)	(181,638)
At 31 December 2004		403,639	1,300,000	851,255	2,554,894
At 1 January 2005		403,639	1,300,000	851,255	2,554,894
Dividend approved in respect of the previous year	11(b)	—	—	(637,750)	(637,750)
Profit for the year		—	—	848,149	848,149
Dividend approved in respect of the current year	11(a)	—	—	(181,638)	(181,638)
At 31 December 2005		403,639	1,300,000	880,016	2,583,655

(c) Share capital:

	2005 HK\$'000	2004 HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$1 each	600,000	600,000
Issued and fully paid:		
403,639,413 ordinary shares of HK\$1 each	403,639	403,639

33 Commitments

(a) At 31 December 2005, the Group had the following capital commitments in relation to the purchase of property, plant and equipment, property under development and investments not provided for in the financial statements:

	2005 HK\$'000	2004 HK\$'000
Contracted for	1,452,861	1,548,828
Authorised but not contracted for	425,716	292,620
	1,878,577	1,841,448

Included in capital commitments is an amount of HK\$1,275,480,000 (2004: HK\$1,473,942,000) in relation to property under development.

33 Commitments (continued)

- (b) At 31 December 2005, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	2005 HK\$'000	2004 HK\$'000
Within 1 year	17,574	19,754
After 1 year but within 5 years	50,719	50,862
After 5 years	49,543	60,849
	<u>117,836</u>	<u>131,465</u>

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

34 Contingent Liabilities

At 31 December 2005, the Company has undertaken to guarantee certain bank loans granted to certain subsidiaries to the extent of HK\$1,640,000,000 (2004: HK\$820,000,000).

35 Financial Instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

- (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and loans to associates and an investee. 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. A credit period of between 30 days and 90 days is normally granted to customers. All the trade and other receivables are expected to be recoverable within one year.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any guarantee which would expose the Group to credit risk.

- (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 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.

Notes to the Financial Statements

35 Financial Instruments (continued)

(c) Interest rate risk

(i) Hedging

It is the Group's policy to closely monitor the market conditions and devise suitable strategies against interest rate risk. As at 31 December 2005, the Group's borrowings were mainly denominated in Hong Kong dollars and on a floating interest rate basis. This provided flexibility to the Group to take advantage of lower interest rates compared with fixed rate borrowings. The Group reviews its strategy on interest rate risk management in the light of the prevailing market conditions and uses interest rate swaps to hedge against fluctuations in fair value of fixed interest bank loans.

At 31 December 2005, the Group had interest rate swaps with a notional contract amount of HK\$74,704,000 (2004: HK\$117,620,000) with the maturity of the swaps matches exactly the maturity of the related loans. The Group classifies interest rate swaps as fair value hedges and states them at fair value in accordance with the policy set out in note 1(g). The net fair value of swaps entered into by the Group at 31 December 2005 was HK\$2,557,000.

(ii) Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2005				
	Effective interest rate p.a. %	Total HK\$'000	1 year or less HK\$'000	1 - 2 years HK\$'000	2 - 5 years HK\$'000
Repricing dates for assets/(liabilities) which reprice before maturity:					
Cash at bank	2.8%	19,349	19,349	–	–
Bank overdrafts	7.8%	(41,651)	(41,651)	–	–
Bank loans	4.4%	(3,063,557)	(3,063,557)	–	–
Effect of interest rate swaps	4.4%	(74,704)	(74,704)	–	–
		<u>(3,160,563)</u>	<u>(3,160,563)</u>	<u>–</u>	<u>–</u>
Maturity dates for assets/(liabilities) which do not reprice before maturity:					
Bank deposits	3.9%	1,060,196	1,060,196	–	–
Loan to investee	5.5%	18,592	–	–	18,592
Bank loans	6.6%	(74,704)	(42,916)	(31,788)	–
Effect of interest rate swaps	6.6%	74,704	42,916	31,788	–
		<u>1,078,788</u>	<u>1,060,196</u>	<u>–</u>	<u>18,592</u>

35 Financial Instruments (continued)

(c) Interest rate risk (continued)

(ii) Effective interest rates and repricing analysis (continued)

	2004				
	Effective interest rate p.a. %	Total HK\$'000	1 year or less HK\$'000	1 - 2 years HK\$'000	2 - 5 years HK\$'000
Repricing dates for assets/(liabilities) which reprice before maturity:					
Cash at bank	–	3,105	3,105	–	–
Bank overdrafts	5.0%	(1,339)	(1,339)	–	–
Bank loans	0.6%	(2,673,001)	(2,673,001)	–	–
Effect of interest rate swaps	0.6%	(117,620)	(117,620)	–	–
		<u>(2,788,855)</u>	<u>(2,788,855)</u>	<u>–</u>	<u>–</u>
Maturity dates for assets/(liabilities) which do not reprice before maturity:					
Bank deposits	0.5%	1,108,845	1,108,845	–	–
Unlisted debt securities	0.8%	48,498	48,498	–	–
Bank loans	6.6%	(117,620)	(42,916)	(42,916)	(31,788)
Effect of interest rate swaps	6.6%	117,620	42,916	42,916	31,788
		<u>1,157,343</u>	<u>1,157,343</u>	<u>–</u>	<u>–</u>

(d) Foreign currency risk

Foreign currency exposure does not pose a significant risk for the Group as the levels of foreign currency assets and liabilities were relatively low compared to its total asset base. The Group's foreign currency exposure mainly arises from the payments of new buses and overseas motor vehicle components which are denominated in British Pound Sterling. It is the Group's policy to closely monitor the foreign exchange rate movements and enter into forward foreign exchange contracts in a strategic manner when opportunities arise to hedge the foreign currency requirement.

(e) Fair values

All financial instruments, except for unquoted equity investments whose fair value cannot be reliably measured, are carried at amounts not materially different from their fair values as at 31 December 2005.

(f) Estimation of fair values

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

(i) Securities

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

(ii) Derivatives

Forward foreign exchange contracts are marked to market by discounting the contractual forward price and deducting the current spot rate.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(iii) 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.

36 Material Related Party Transactions

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

(a) Transactions with related companies

	Note	2005 HK\$'000	2004 HK\$'000
Sales proceeds received on disposal of:	(i)		
— leasehold land held for own use under an operating lease		93,500	—
— building held for own use		12,500	—
		<u>106,000</u>	<u>—</u>
Service fees for provision of coach services	(ii)	24,247	27,893
Insurance premium paid	(iii)	80,174	93,138
Amount paid and accrued for management contractor services for property under development	(iv)	354,227	180,820
Payment for project management services for property under development	(v)	—	3,000
Estimated Entitled Net Return for provision of transport services	(vi)	11,777	12,320

Notes:

- (i) During the year, The Kowloon Motor Bus Company (1933) Limited, an indirectly wholly-owned subsidiary of the Company, sold leasehold land and building to Fortin International Limited, a subsidiary of Sun Hung Kai Properties Limited ("SHKP"). Selling price of the transaction was arrived at after arm's length negotiations by reference to the value of the land and building as at 19 August 2005 as valued by Knight Frank Hong Kong Limited, an independent property valuer. A net gain of HK\$90,478,000 on disposals was recognised in the consolidated income statement.
- (ii) During the year, the Group provided coach services to certain subsidiaries of SHKP under the same terms as those available to other customers in the ordinary course of business. Amounts due from these companies at 31 December 2005 amounted to HK\$9,967,000 (2004: HK\$8,654,000).
- (iii) 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. SHKPI entered into the contract with the Group under the same terms as those available to other customers in the ordinary course of business. There was no outstanding balance due to SHKPI at 31 December 2005 (2004: HK\$7,000).
- (iv) 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. ("Chun Fai"), 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 Chun Fai 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 Chun Fai should not exceed HK\$1,617,743,000. The Group's capital commitment outstanding under the Prime Cost Contract and the Supplementary Agreement at 31 December 2005 amounted to HK\$1,085,105,000 (2004: HK\$1,436,923,000).
- (v) 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 HK\$15,000,000, or the lower of 1% of the project costs and HK\$20,000,000, whichever is higher. There was no outstanding balance payable for this contract at 31 December 2005 and 2004. The Group's capital commitment outstanding at 31 December 2005 under this contract amounted to HK\$11,000,000 (2004: HK\$11,000,000).

36 Material Related Party Transactions (continued)

(a) Transactions with related companies (continued)

Notes: (continued)

- (vi) On 23 May 2001, an indirect subsidiary of the Company, Park Island Transport Company Limited ("PITC"), entered into a contract with Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW"), a wholly-owned subsidiary of SHKP, for the provision of transport services for Ma Wan Island in Hong Kong. Under the terms of the contract ("the Transport Agreement"), PITC shall be entitled to a return lying within the range of 9% and 16% per annum of the simple arithmetic average of the opening balance and the closing balance of the net book value of PITC's fixed assets with respect to the accounting year concerned ("the Entitled Net Return").

On 6 December 2005, PITC entered into a Supplemental Letter to amend certain terms and conditions of the Transport Agreement whereby the operating term of the Transport Agreement was extended for a period of one year from 14 December 2005 to 13 December 2006 and the Entitled Net Return of the Transport Agreement was changed to lie within the range of 8% and 14% per annum.

The amount receivable from SHKMW at 31 December 2005 under this contract was HK\$75,616,000 (2004: HK\$49,911,000).

(b) Key management personnel remuneration

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

37 Comparative Figures

Certain comparative figures have been reclassified as a result of changes in accounting policies as disclosed in note 2. Further, certain comparative figures have also been reclassified to conform with the current year's presentation.

38 Non-adjusting Post Balance Sheet Event

After the balance sheet date, the Directors proposed a final dividend for the year. Further details are disclosed in note 11(b) to the financial statements.

39 Accounting Estimates and Judgements

Notes 14, 21(d) and 35(f) contain information about the assumptions and their risk factors relating to goodwill impairment, 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 29, 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 size 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

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

40 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Accounting Year Ended 31 December 2005

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2005 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
Amendments to HKAS 39	Financial instruments: Recognition and measurement	
	— The fair value option	1 January 2006
	— Financial guarantee contracts	1 January 2006
Amendments to HKAS 19	Employee benefits - Actuarial gains and losses, group plans and disclosures	1 January 2006
HKFRS 7	Financial instruments: Disclosures	1 January 2007
Amendments to HKAS 1	Presentation of financial statements: Capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

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

Corporate Directory

Board of Directors

The Hon Sir Sze-yuen CHUNG*

GBM, GBE, PhD, FREng, JP
Chairman

Dr Norman LEUNG Nai Pang*

GBS, JP, LLD, BA
Deputy Chairman

KWOK Ping-luen, Raymond

JP, MA(Cantab), MBA, Hon DBA, Hon LLD

KWOK Ping-sheung, Walter

JP, MSc(Lond), DIC, MICE

YU Shu Chuen

Honorary Executive Director

NG Siu Chan

William LOUEY Lai Kuen

BSc(Econ)

John CHAN Cho Chak

GBS, JP, DBA(Hon), BA, DipMS, FCIM,
FCILT, FHKIoD
Managing Director

Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT
Executive Director

Winnie NG

BA, MBA(Chicago)
Executive Director

Dr KUNG Ziang Mien, James*

GBS, OBE

George CHIEN Yuan Hwei

MSc(Lond), BSc(Eng), DIC, FICE, CEng,
PEng, MITE

Dr Eric LI Ka Cheung*

GBS, OBE, JP, LLD, DSocSc, BA,
FCPA(Practising), FCA, FCPA(Aust.), FCIS

LUI Pochiu

Edmond HO Tat Man

MA(Cantab), MBA, CMILT, MHKIoD
Deputy Managing Director

SIU Kwing-chue, Gordon*

GBS, CBE, JP, MSS(Birmingham, UK)

Susanna LAU Shung Oi

BA, ACA
(Alternate Director to
Mr KWOK Ping-sheung, Walter, JP)

KUNG Lin Cheng, Leo

(Alternate Director to Dr KUNG Ziang Mien,
James*, GBS, OBE)

YUNG Wing Chung

(Alternate Director to Mr KWOK Ping-luen,
Raymond, JP)

Company Secretary

Lana WOO

BA, AAT, CGA, ACIS, MIFC, CFC

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Register of Members

Book closed from 9 May 2006 to
18 May 2006, both dates inclusive

Dividends

Interim

HK\$0.45 per share,
paid on 13 October 2005

Final (proposed)

HK\$1.58 per share,
payable on 19 May 2006

Stock Code

The Stock Exchange of Hong Kong: 062
Bloomberg: 62HK
Reuters: 0062.HK

(* Independent Non-executive Director)

This Annual Report is also available on our corporate website: www.tih.hk

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