

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:

- 1 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.
- 2 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.
- 3 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	–
	33,947	15,355

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	(595,417)	(510,245)
	484,969	413,833

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))	30,747	815
At 31 December	484,969	413,833

(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	(234,792)	(206,442)
Net actuarial gains recognised	(15,814)	(7,973)
	(30,747)	(815)

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.