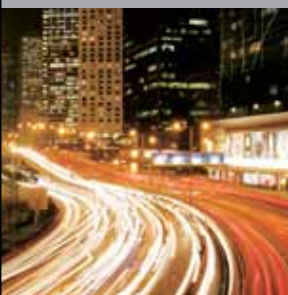




載通國際
Transport International

We manage challenges and
innovate
for improvement





◀ Group Profile

2



◀ The Group's
Innovations

10



We manage challenges and **innovate** for improvement

Against a background of increasing competition, Transport International Holdings Limited (“TIH”) is pursuing its vision to be an innovative and international Group seeking opportunities across the Greater China region. We believe that innovation leads to service excellence, better safety, greater efficiency, and preservation of the environment, allowing TIH to maintain its industry-leading position and competitiveness.

◀ Operational
Review

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Group Profile

Transport International

Transport International Holdings Limited (“TIH” or “the Company”) is a leading public transport operator in Hong Kong and in selected cities across the China Mainland. TIH’s wholly-owned Hong Kong-based subsidiary, The Kowloon Motor Bus Company (1933) Limited (“KMB”), has a proud heritage of over 73 years in operation and is one of the world’s leading providers of bus transportation services. KMB’s industry-leading reputation is built on safety, reliability, efficiency and innovation. Nowadays, besides KMB, there are several dynamic operating companies in the TIH Group. Regardless of their sector of business, geographical location and scale, those subsidiaries are committed to the same standards and benchmarks that have supported KMB’s reputation as a world-class public bus operator.

TIH and its subsidiaries form a highly evolved group focused on delivering value to its customers, shareholders and the communities in which the various subsidiaries operate. We are committed to continuously enhancing the service standards across our entire range of businesses.



sharpening our edge



Behind the Brand

Mission

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

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

At TIH, we identify our customers' needs, sharpen our competitive edge in response to their expectations and enhance our performance levels to the benefit of society.

Vision

Our vision is to be a world-class leader in public transportation.

This means understanding our customers' requirements, sourcing the most innovative but proven technologies and environment-friendly designs from around the world and setting new standards for safety, excellence of service and efficiency.

Corporate Values

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



anticipating
change

Business at a Glance

TRANSPORT INTERNATIONAL HOLDINGS LIMITED

HONG KONG

Franchised Public Bus Operations



The Kowloon Motor Bus Company (1933) Limited

operates franchised public bus services covering Kowloon, the New Territories and Hong Kong Island.

Non-franchised Transport Operations



Sun Bus Holdings Limited and its subsidiaries

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

Property Holdings and Development



Lai Chi Kok Properties Investment Limited

owns and develops "Manhattan Hill", a prestigious multi-storey residential and commercial complex situated at 1 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.



Long Win Bus Company Limited

provides franchised public bus services linking the New Territories to Hong Kong International Airport and North Lantau.



New Hong Kong Bus Company Limited

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



LCK Real Estate Limited

owns a 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.



Park Island Transport Company Limited

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

CHINA MAINLAND

Media Sales Business



RoadShow Holdings Limited and its subsidiaries

market advertising in Hong Kong through a proprietary multi-media on-board system and provide outdoor advertising services in Hong Kong and on the Mainland.

Internal Financial Services



KMB Financial Services Limited

manages and administers the Group's financial resources and treasury functions.

Mainland Transport Operations



Shenzhen Bus Group Company Limited

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



Wuxi Kowloon Public Transport Company Limited

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



Beijing Beiqi Kowloon Taxi Company Limited

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













Dalian HK Macau Motor Bus Services Limited

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

The Group's Strategic Locations



The Group's bus termini, depots, ferry piers and customer service centres in Hong Kong

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



Our Presence in Hong Kong and on China Mainland



Beijing

Joint venture operating taxi hire and car rental businesses

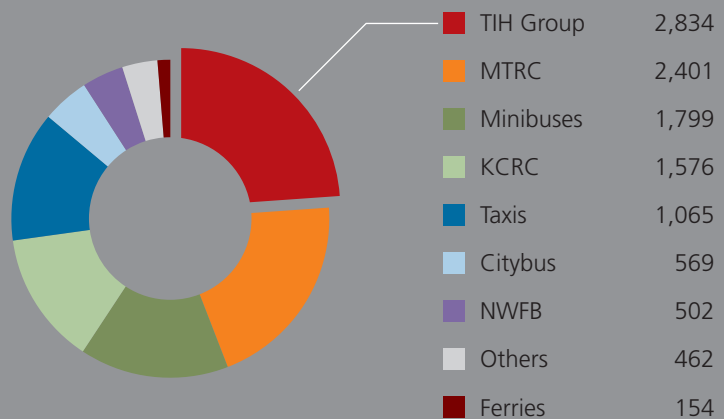
Dalian and Wuxi

Joint ventures operating public bus business

Shenzhen

Joint venture operating public bus and taxi hire businesses

Average number of passenger trips per day
by mode of public transport in Hong Kong in 2006
(In thousand)



The Group's Innovations

The TIH Group has a long and distinguished track record of industry-leading innovations. Ever since the founding of The Kowloon Motor Bus Company (1933) Limited ("KMB"), we have innovated to enhance safety, efficiency and customer satisfaction. Our innovations have also aimed at the evolving needs of the society where we operate and the preservation and improvement of the environment in which we live and work. The following list of innovations highlights the major items that we implemented for different aspects of our operations over the last decade.

Business and Operations

► Bus Stop Pole Advertising

In 2006, KMB began to make use of its bus stop poles as a new form of advertising media for earning additional advertising income. This initiative has been well received by advertisers and by the end of 2006, there were 610 bus stop poles posted with advertisements.



► Revolutionary Diesel-electric Hybrid Bus

In 2003, Park Island Transport Company Limited introduced three diesel-electric hybrid air-conditioned single-deck buses, the first of their kind in Hong Kong, for its shuttle bus service on Ma Wan Island. Powered by the rechargeable batteries and the small diesel engines, these environment-friendly buses can achieve ultra low emission level.



► ISO 9001 and 14001 Certifications

KMB became the first public bus company and the fourth corporate entity in Hong Kong to obtain ISO 9001 certification on a company-wide basis in 1999. KMB was also the first public bus company to obtain the ISO 14001:1996 Environmental Management System certification for its depots. These certifications reconfirm KMB's commitment to excellence in quality management systems and high standards of environmental protection.



► Super-low Floor Double-deck Bus

KMB set a new standard for the bus industry by working with the manufacturers to develop the first “super-low floor” double-deck bus for operation in Hong Kong. The introduction of such bus type in 1996 was a major breakthrough in terms of bus design for providing easy access to passengers, particularly handicapped and elderly people. It also enables faster boarding and alighting for greater convenience and operational efficiency. In 2003, KMB again made history by introducing two new models of buses, namely Wright Bus and Super Bus, which offer a new air-conditioning system with enhanced circulation inside the bus compartment, a wider bus saloon and entryway, and a revolutionary straight staircase. These new features provide passengers with a more comfortable interior environment and easier access to and from the upper deck.



► Electronic Terminus Management System

An Electronic Terminus Management System was developed in-house by KMB in 2004 to facilitate the use of Personal Data Assistants (PDAs) by our terminus supervisors to record large volume of operational data such as bus arrival and departure times. This system, unique to KMB, helps us enhance operational efficiency and achieve cost saving through reduction in the use of paper and streamlining the data processing procedures.

► Traffic Operations Management System

The self-developed and award-winning Traffic Operations Management System was launched by KMB in 2003 to replace the manual system for bus captain duty assignment and despatch process. This system has made the daily assignment and despatch process for some 8,000 bus captains more efficient and allowed management to obtain the latest information on duty allocation and despatch as well as operational arrangements at different depots in a timely manner.

Customer and Community Service

► Multi-media On-board System

The innovative Multi-media On-board System ("MMOB") offering infotainment to passengers on board the bus was launched in 2000. MMOB programme contents are specifically tailored to hold the interest of commuter audience. This system is proprietary to the Group's 73% owned subsidiary, RoadShow Holdings Limited, which has been listed on The Stock Exchange of Hong Kong Limited since June 2001. With the ability to reach a sizable audience daily, the MMOB system is an attractive medium for advertisers.

► Electronic Bus Stop Announcement System



In 1998, KMB and LWB first launched the Electronic Bus Stop Announcement System which delivers voice announcements and shows the name of the upcoming bus stop on LED display on board the bus. All buses are now equipped with such systems.

► Award-winning Website

New features have been added to KMB's website for customers' convenience from time to time. For example, the bus route information search functions were first introduced to the website in 2000, text boxes to all images and pop-up windows for the convenience of those internet users with visual impairments were added in 2002, and the simplified Chinese version was added in 2003. The KMB's website was highly popular and in December 2006, it had an average daily hit rate of 4.7 million.

► Air-conditioned Waiting Lounge

Hong Kong's first air-conditioned waiting lounge for bus passenger was opened by KMB at the Lam Tin Bus Terminus in 2002. The lounge offers customers a refreshing, quiet and comfortable environment while waiting for buses.

► FRIENDS of KMB

KMB's passenger club, FRIENDS of KMB, was founded in 1995. Currently the club has around 2,750 members who actively participate in voluntary work in community building, civic education, environmental protection and social service. Since its inception, the club has recorded over 50,000 hours of voluntary service.



► Digital Map Passenger Enquiry System

In 2002, KMB became the first public transport operator in Hong Kong to launch the Digital Map Passenger Enquiry System which assists operators in handling telephone enquiries more efficiently in the KMB Customer Service Hotline Centre. In 2006, KMB installed this system at its



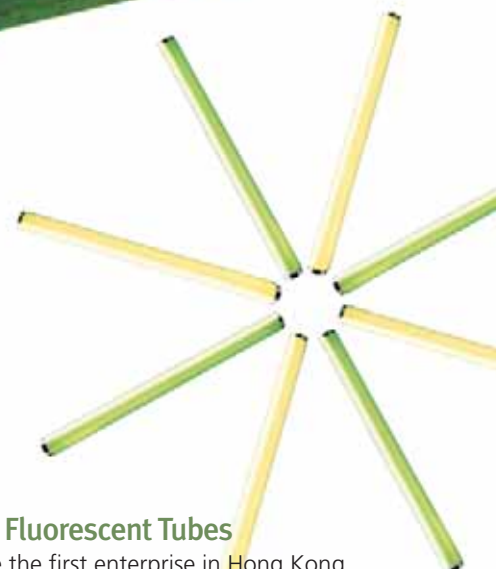
Customer Service Centre's multimedia kiosks to enable customers to obtain bus route information and viewing the surrounding environment and major landmarks on a three-dimensional map.

► Environment-friendly Bus Types

KMB has always been the first to introduce the most environment-friendly types of double-deckers with the best possible emission standards for operations in Hong Kong, namely Euro I, II, III and IV standards in years 1992, 1996, 2001 and 2006 respectively.



Environmental Protection and Resources Saving



► Energy-saving Measures

KMB and LWB have been implementing an electricity saving scheme since 2003. Our electricity consumption in 2006 was 23% lower than that in 2003. This innovative scheme has not only enhanced environmental protection but also given significant cost saving.

► Document Management System

In 2002, the Group introduced an electronic document management system for the entire organisation resulting in substantial reduction in the volume of paper used and better efficiency in document registration, filing and retrieval.

► Eco-Driveline

KMB launched the pioneering Eco-Driveline on buses to improve engine efficiency and reduce exhaust emissions by an average of 6% to 10% in 2002. Our buses equipped with such systems can accelerate and run with greater smoothness and more comfortable ride to passengers.

► Tyre Retreading

For the benefits of environmental management and cost saving, over 550,000 tyres have been retreaded by KMB since 1972.

► Recycling of Used Fluorescent Tubes

In 2006, KMB became the first enterprise in Hong Kong to participate in a fluorescent tube recycling campaign. The used fluorescent tubes were collected by a licensed contractor regularly for recycling and preservation of environment. Approximately 24,000 pieces of used fluorescent tubes were sent by KMB to the Government chemical waste treatment centre for recycling during 2006.

► Filter-compressing Machine

KMB developed an in-house "Filter-compressing Machine" in 2005 to compress disposed engine oil filters to reduce the volume of solid waste by around 60%. The use of this machine can extend the lifespan of landfills and help environmental conservation.

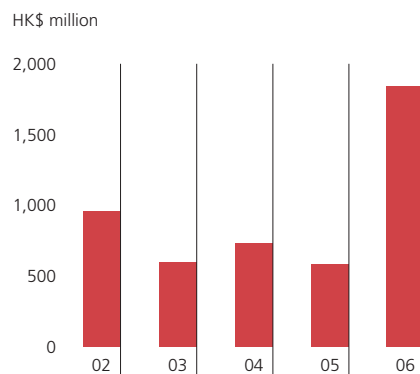


Financial and Operational Highlights

for the year ended 31 December 2006

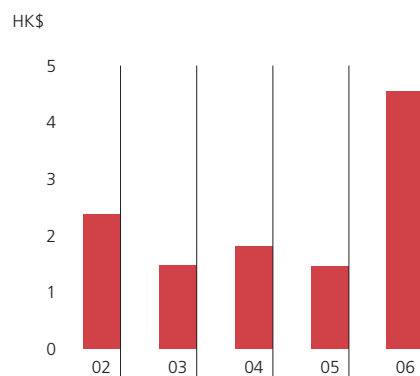
	Unit	2006	2005	Increase / (Decrease) %
Financial Highlights				
Turnover:	HK\$ million	8,704.5	6,456.4	35%
– Fare revenue	HK\$ million	6,351.4	6,224.7	2%
– Property sales	HK\$ million	2,133.2	–	N/A
– Media sales revenue	HK\$ million	219.9	231.7	(5%)
Profit before taxation	HK\$ million	2,002.7	690.7	190%
Profit attributable to equity shareholders of the Company	HK\$ million	1,838.0	584.2	214%
Earnings per share	HK\$	4.55	1.45	214%
Dividends per share	HK\$	2.03	2.03	–
Total equity attributable to equity shareholders of the Company	HK\$ million	5,074.2	4,032.1	26%
Total assets	HK\$ million	12,100.3	9,580.3	26%
Net borrowings	HK\$ million	2,564.7	2,046.3	25%
Net finance charges	HK\$ million	65.6	48.1	36%
Cash generated from operations	HK\$ million	1,000.1	966.8	3%
Financial Ratios				
Profit margin		21.1%	9.0%	134%
Profit margin (excluding property sales)		5.1%	9.0%	(43%)
Return on equity attributable to equity shareholders of the Company		36.2%	14.5%	150%
Gearing ratio (ratio of net borrowings to total equity attributable to equity shareholders of the Company)	Times	0.51	0.51	–
Interest cover (ratio of profit before finance costs and taxation to net finance charges)	Times	32.1	15.8	103%
Dividend cover (ratio of profit attributable to equity shareholders of the Company to total dividends paid and proposed for the year)	Times	2.24	0.71	215%
Share price per share at year-end	HK\$	42.4	45.7	(7%)
Market capitalisation at year-end	HK\$ million	17,114.3	18,446.3	(7%)
Operational Highlights				
Hong Kong				
Franchised Public Bus Operations:				
Average number of passenger trips per day	Million trips	2.83	2.83	–
Number of licensed buses at year-end		4,174	4,177	–
Number of staff at year-end		12,565	12,756	(1%)
Average number of staff per licensed bus at year-end		3.01	3.05	(1%)
Non-franchised Transport Operations:				
Number of licensed buses at year-end		361	279	29%
Number of catamarans at year-end		7	7	–
Number of staff at year-end		784	604	30%
China Mainland				
Mainland Transport Operations:				
Number of licensed buses at year-end		5,570	5,021	11%
Number of taxi and vehicles for rental at year-end		4,735	4,685	1%

Profit attributable to equity shareholders of the Company



Profit attributable to equity shareholders of the Company for 2006 was HK\$1,838 million

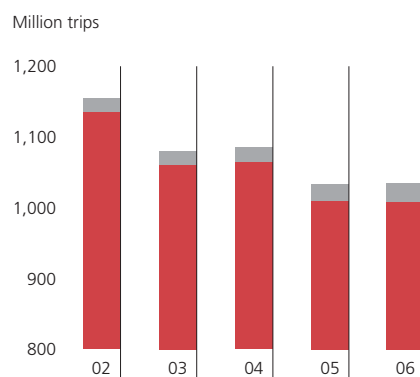
Earnings per share



Earnings per share for 2006 was HK\$4.55

Number of passenger trips

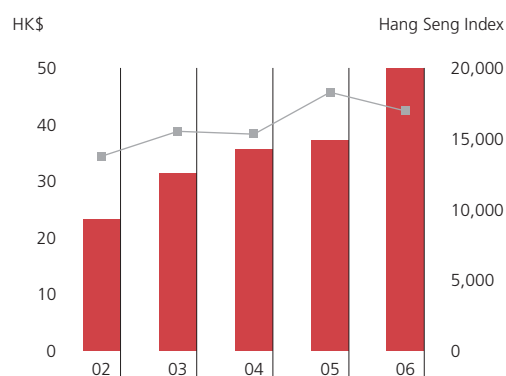
(Franchised Public Bus Operations)



■ KMB
■ LWB

Number of passenger trips in 2006 was 1.03 billion, same as 2005

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



■ Share price of the Company
■ Hang Seng Index

The closing share price of the Company at 2006 year-end was HK\$42.4 per share, down by 7% from 2005 year-end

Corporate Milestones 2006

January

TIH Launched New Website

A new website (www.tih.hk) was launched to provide a wide range of corporate and financial information about Transport International Holdings Limited ("TIH") and its subsidiaries (the "Group"). The website provides an excellent channel for all stakeholders to familiarise themselves with our new name and commitments. The name of Transport International Holdings reflects the diversity of the Group's business activities and the geographical spread of its operations.

Renewal of KMB's Franchise

On 10 January 2006, KMB was granted a new franchise by the HKSAR Government to continue the provision of franchised public bus service for a period of nine years and eleven months commencing 1 August 2007. We have been providing franchised bus service since 1933 and are fully committed to serving the travelling public.

KMB Won Customer Service Excellence Awards

KMB won the Silver Award in the Counter Service category and Gold Award in the Individual category of the Customer Service Excellence Award 2005 organised by the Hong Kong Association for Customer Service Excellence. The award recognised KMB's advanced technology, which enables us to provide up-to-date and instant bus service information to customers at our various customer service counters.



February

"Digital Map Passenger Enquiry System" Introduced

To enhance customer service, KMB pioneered the launch of the "Digital Map Passenger Enquiry System" in multi-media kiosks at our customer service centres, providing a convenient way for passengers to find their way to their destinations and to view the surrounding environment and major landmarks on a three-dimensional map. KMB is the first public transport company in Hong Kong to introduce this electronic route search system for passengers.



March

KMB Internationally Recognised for Community and Environmental Initiatives

KMB's promotion campaigns in community relations: "Equipping KMB Passenger Cabin for Providing More Congenial Services" and "Environmental Protection: Ride Green with KMB" won Silver Awards in the categories of Environmental Protection and Community Relations at the 7th China Golden Awards for Excellence in Public Relations held by the China International Public Relations Association.

May

Asia's First Euro IV e-friendly Buses Introduced

KMB took an industry lead by introducing the first two units of Asia's Euro IV environment-friendly double-deck buses to Hong Kong. With the most advanced technology in environmental protection, the Euro IV engine meets the latest and most rigorous emission standards in the world, contributing to a cleaner environment.



June

KMB Nominated for Protecting the Environment

KMB was honourably appointed the ECO-Action Champion of ECO-PAGES 2006 by the Hong Kong Sustainable Communications Association. This appointment reflected KMB's pledge to take a leading role in protecting the environment while also conveying the significance of protecting the environment and building a sustainable future.



July

Efforts in Waste Reduction Recognised

KMB was awarded the "Gold Wastewise Logo" by the Environmental Protection Department of the HKSAR Government, making it the first bus company in Hong Kong to receive the recognition for its efforts in environmental protection. Excellent results were recorded in resource-saving and waste-reduction in daily operations, especially in waste paper, disposable batteries and fluorescent tubes collection, reducing sludge generation and procurement of long-life fluorescent tubes.



August

Annual Report Won Local and International Awards

TIH's 2005 Annual Report was awarded an Honourable Mention in the 2006 HKMA Best Annual Reports Awards Competition and won five awards in the 2006 ARC International Awards Competition, namely Gold Award for Financial Data, Bronze Award for Overall Annual Report, Silver for Cover/Photo, Bronze for Interior Design and Honor for Photography under the transportation category. These awards recognised our commitment to transparency and good corporate governance, as well as our efforts towards ensuring an excellent level of disclosure across all aspects of our business.



September

Recognition from The Community Chest

KMB received the "Award of Distinction" from The Community Chest. Over the years KMB has actively supported various charitable activities organised by The Community Chest and contributed to society through various channels for the benefit of the people in Hong Kong.

October

Installation of Wireless Mesh Nodes

A wireless network technology using Wireless Mesh Nodes was successfully installed to transmit data and bus information within our headquarters, Hung Hom Station bus terminus and Kwun Tong Ferry bus terminus. This technology represents a breakthrough at locations that have geographical constraints on using cable networks and also helps to avoid roadworks for installing underground cables, eliminating any negative impact on the environment and inconvenience to passengers at the bus termini.

November

Sustainable Performance Obtained International Recognition

TIH has been a component company of the Dow Jones Sustainability Index ("DJSI") since 2000. This year, TIH was again selected as a component company of the DJSI based on a sustainability assessment undertaken on a global basis. This assessment gauges the company's performance in terms of its economic, environmental and social impact.

"Manhattan Hill" Sales Campaign Launched

A sales campaign for our luxury "Manhattan Elite" and "Manhattan Deluxe" units at Manhattan Hill was launched and received an overwhelming response. Manhattan Hill, a prestigious property development owned by Lai Chi Kok Properties Investment Limited, a wholly-owned subsidiary of TIH, sets a new standard of elegant living for its residents.



Customer Service Won Best Practice Award

KMB's customer service was awarded the "Best Practice Award: Customer Relationship Management" organised by Best Practice Management. This award was in recognition of KMB's dedication to quality service and our commitment to economic advancement.

Chairman's Letter



“Over the past year,
we met significant
challenges with
innovations, gains in
efficiency and further
expansion”

S. Y. CHUNG
Chairman

Dear Shareholders and Partners,

On behalf of the Board, I am pleased to report that 2006 – the second year of our re-branding under the new name of Transport International Holdings Limited (“TIH”) – witnessed the further successful implementation of our vision: to be an innovative and international Group seeking opportunities across the Greater China region. That is what our new identity and name represent. This past year, we have been focusing even more intensely on two aspects of our vision: innovation in order to manage change; and expansion of our operations. Naturally, franchised public bus operations in Hong Kong remain the core of our business but we continue to build on our experience to diversify our portfolio into related areas or outside Hong Kong.

Results for the Year

The Group’s profit attributable to equity shareholders for 2006 amounted to HK\$1,838.0 million, an increase of 214.6% compared to HK\$584.2 million for 2005. Earnings per share increased correspondingly from HK\$1.45 for 2005 to HK\$4.55 for 2006. The increase in profit for 2006 was mainly attributable to the sales of 245 residential units of Manhattan Hill, an upscale luxurious residential and commercial complex owned and developed by our Group’s wholly-owned subsidiary, Lai Chi Kok Properties Investment Limited. In sharp contrast to the encouraging results of these property sales, the operating environment for our franchised public bus operations was the most difficult that we have experienced in the past decade. In 2006, the surge in international fuel oil prices to a historically high level resulted in a drastic increase in our total fuel and oil costs by 20.3% and 63.4% as compared with 2005 and 2004 respectively. This, coupled with increased tunnel tolls, staff salaries and interest costs, and the continued loss of patronage due to intense competition from the railways, gave rise to a significant decrease in the profit of our major wholly-owned subsidiary, The Kowloon Motor Bus Company (1933) Limited (“KMB”), for the year 2006. KMB’s profit for 2006 decreased by 54.5% to HK\$216.3 million as compared to HK\$475.5 million for 2005 which included a one-off capital gain of HK\$90.5 million arising from the disposal of the obsolete Kwai Chung Depot.

On a more positive note, the Sun Bus Holdings Group, our non-franchised transport operations in Hong Kong, continued to show steady growth both in revenue and earnings during the year. In 2006, the Sun Bus Group expanded its market share in Hong Kong through the acquisition of a major local non-franchised bus operator with a fleet of some 60 buses. Both our Mainland transport operations, comprising passenger public transport services in Dalian, Shenzhen and Wuxi as well as taxi and car rental services in Beijing, and our media sales business, operated by our listed subsidiary, RoadShow Holdings Limited (“RoadShow”), reported an increase in profit of 8.7% and 17.1% respectively as compared to the previous year.

Dividends

Under the principle of prudent financial management, the Board has decided that proceeds arising from the sales of residential units of Manhattan Hill should first be applied towards the repayment of bank loans obtained for financing the construction costs of the development. The Directors therefore have proposed to maintain the final dividend for 2006 at the same amount as that for 2005 of HK\$1.58 per share. Together with the interim dividend of HK\$0.45 per share paid on 13 October 2006, total dividends for the year 2006 will amount to HK\$2.03 per share (2005: HK\$2.03 per share) or HK\$819.4 million in total. Barring unforeseen circumstances and taking into

Franchised public bus operations in Hong Kong remain the core of our business but we continue to build on our experience to diversify our portfolio into related areas or outside Hong Kong

Chairman's Letter

Management made every effort to control costs and raise efficiency in order to avoid fare increases, but without compromising the quality of our services

account the likely proceeds from further sales of the residential flats of our Manhattan Hill development, the Board will consider proposing a special dividend or dividends for the year ending 31 December 2007.

Managing Challenges

The challenges for the Group's core franchised public bus operations over the past year were significant. KMB, the Group's flagship company providing franchised public bus services in Hong Kong, continued to face intense competition for patronage from those new railways launched by the Kowloon Canton Railway Corporation (West Rail, Ma On Shan Rail and Tsim Sha Tsui Extension) and the MTR Corporation Limited (Tseung Kwan O Line). Our response to this challenge was to continue the timely rationalisation of our franchised public bus services network, and to press on with our innovative approach to enhancing the quality of our services and efficiency that has become our hallmark over the past years. Since no new major railway is scheduled to open in our operating area in the near future, we are confident that our patronage will continue to prove resilient, growing in tandem with the marked improvement in the local economy.

The significant decrease in the earnings of our franchised public bus operations was mainly attributable to the escalation of operating costs. These ongoing cost challenges, in particular the rise in oil prices, interest rates and tunnel toll charges, were largely beyond the control of management. And yet, as a responsible corporate citizen, we have continued to offer three fare concession schemes that focus on long and medium distance travellers and the elderly throughout the year. In response to these challenges, management made every effort to control costs and raise efficiency in order to avoid fare increases, but without compromising the quality of our services. For example, fleet utilisation was improved through the implementation of various bus network rationalisation programmes. Benchmarking was conducted to search for industry best practice while work procedures, sourcing and vendor management were enhanced.

On the positive side, there were several encouraging factors during the year. KMB successfully renewed its franchise for operating franchised public bus services in Hong Kong until 1 July 2017. Long Win Bus Company Limited ("LWB") continued to benefit from ongoing population growth at Tung Chung New Town, as well as the increasing number of passengers travelling to and from Hong Kong International Airport, the new AsiaWorld-Expo and Hong Kong Disneyland. Our non-franchised operations also continued to grow in 2006. The extension of the Individual Visit Scheme to additional Mainland cities boosted the performance of our cross-boundary shuttle bus service. Results of the media advertising business of the RoadShow Group also showed improved net profits and revenues as a result of business growth in Hong Kong and key Mainland cities, while our Mainland transport operations, particularly those in Shenzhen, reported increased profits in 2006.

Positioning for the Future

As the Group moves forward, its achievements in the enhancement of service standards through innovation and the management of change have become increasingly recognised. During the year, we continued to receive international quality management recognition through our ISO certification. According to statistical measurements, both our mechanical and operational performance remained high. We continued with the introduction of the latest generation of environment-friendly and technologically

advanced buses to provide greater passenger comfort while launching other new environmental initiatives. All these efforts helped TIH to maintain its industry-leading position and competitiveness.

In comparison with the relatively mature Hong Kong market, the China Mainland continues to offer opportunities that represent greater business potential, albeit building from a lower base. Our experience in public transportation and widely recognised reputation of service excellence allowed us to enter successfully into joint venture operations in taxi and hire car businesses in Beijing, as well as public bus operations in Shenzhen, Wuxi and Dalian. In addition, the Group is well positioned to deploy its resources and expertise to cope with and explore the business opportunities arising from the 2008 Olympic Games in Beijing.

The first phase of the sales campaign for the residential flats of the Manhattan Hill development began in November 2006. The market response to the initial sales launch was encouraging. With the continuing growth of the local economy and barring unforeseeable circumstances, we expect this luxury development will continue to generate considerable profit and cash flow for the Group.

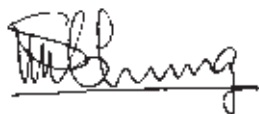
Through continuing investment comes continuous improvement. The Group's levels of service, efficiency and environment-friendly technologies continue to benefit society wherever we operate. As the Group moves forward with strategies at various levels of implementation, I am confident that we will continue to deliver value for our shareholders and other stakeholders, and become a stronger and more diversified organisation with each passing year.

The Group's levels of service, efficiency and environment-friendly technologies continue to benefit society wherever we operate

Acknowledgement

To pave the way for his retirement in 2008, Mr John Chan Cho Chak handed over the position of Managing Director of KMB and LWB to Mr Edmond Ho Tat Man with effect from 1 January 2007. Mr Chan remains as Managing Director of TIH and Chairman and Non-executive Director of RoadShow. Since 1 January 2007, Mr Chan has also served concurrently as Senior Executive Director of KMB and LWB. On behalf of the Board, I would like to pay a special tribute to Mr Chan for his dedication and invaluable contribution to KMB and LWB in his capacity as Managing Director of those companies since 1993 and 1997 respectively.

It was only through the most concerted and vigorous team efforts that these successes were achieved: team efforts not only of the Board members and management team, but also of our highly committed staff at all levels and within all companies in the Group. Everyone, whatever position he holds, has contributed to TIH's performance over the years and has enabled TIH to remain a world-class provider of public transport and related services. On behalf of the Board, I would like to thank each and every one of the team for his or her outstanding contribution.



S. Y. CHUNG

Chairman

22 March 2007

A Conversation with the Managing Director



“ We ask ourselves whether our operations represent the best and most creative way to serve passengers ”

John CHAN Cho Chak
Managing Director

Q 2006 was clearly a challenging year for the Group, particularly for its core operations. What have been the positives of the year, and what were the less positive?

A

One of the positives of which we are extremely proud is that the corporate values and reputation of the Group as a dependable, innovative, community- and environment-oriented Group continue to grow and be widely recognised. The downward trend in the profits of our franchised public bus business was due largely to factors beyond our control: rising oil prices, staff costs, toll charges and interest rates, and the intense competition from the new railway lines in Hong Kong. But the positives

were also there during the year and across all aspects of our businesses: the expansion of our operations in China Mainland, the successful renewal of KMB's franchise, a new fare adjustment arrangement, new passenger streams to North Lantau, growth in cross-boundary passenger volume, environmental benefits, property development, and ongoing innovations to manage change.

Q You mention innovations to manage change. As TIH's portfolio becomes increasingly diversified and broad, what do you mean by managing change?

A

Public transport is an age-old business and operating such a business can lead to staleness and complacency. The world is changing, people are changing, and technology is changing all the time. To meet the challenge

of change, we must ask ourselves whether our operations represent the best and most creative way to serve passengers, to go forward and to innovate. We are proud of our long track record in this regard, from the provision of the most advanced and environment-friendly buses such as the two new Euro IV buses we have put into service (with much of our fleet already on the Euro II and Euro III standards) to environmental protection measures such as the recycling of used fluorescent tubes, from industry-leading bus pole advertising to intensive management training courses, and from the rationalisation of bus routes following the commissioning of new railways to the widespread adoption of paperless work processes. These are just a few examples of our desire to innovate. We believe that innovation leads to service excellence, better safety, greater efficiency, and preservation of the environment. It also keeps us at the forefront of the industry worldwide.

A Conversation with the Managing Director

Q How does TIH keep abreast of innovations in the public transport industry?

A

Since we are one of the leading and most advanced public transport operators in the world, we are constantly on the lookout for technological improvements, particularly in the environmental sense. TIH is ready to source and customise technologies worldwide for such advancement, and also to work closely with bus manufacturers to design new buses best suited to our customers' needs. This is particularly true and necessary for the Hong Kong operating environment, which is one of the most testing

climatically in the world. We must supply double-deck buses, since single-deck buses would double the fleet and the use of road capacity in a confined geographical area. And we must provide air-conditioning in this climate, so that our buses not only meet basic comfort standards but also go beyond the normal comfort parameters found in other countries. Our passengers are aware of our efforts, as customer satisfaction surveys reveal. But being responsive and customer-oriented also means that we have to satisfy a considerable number of different environmental concerns and parties.

Q Do you foresee a need to raise fares to pay for the costs of these innovations and environment protection measures?

A

We fully understand public transport is a daily livelihood issue. The Group has worked hard to tackle pollution and we are proud of our long track record of innovation in fostering clean technologies. Nonetheless,

there are costs to doing business at the highest international level and eventually the "user pays" principle must apply. The Group needs to invest for service improvement and to meet public expectations. That is our bond with society at large. There are good examples that we have come up with innovative ideas to achieve the goals of both environmental protection and cost saving, such as retreading of used tyres and using energy-saving electrical devices, etc.

Q How will TIH utilise the profits from the sale of Manhattan Hill on its franchised bus operations?

A

Sales of Manhattan Hill units are continuing and we have yet to see what total amount of profit will be yielded by this project. It is likely that part of the profit will be distributed to shareholders and part will be retained to finance the future growth of TIH, but no decisions have yet been taken in this regard. There is, however, one important principle. The Manhattan Hill development is a one-off project and separate from our core operations. Profit from property development cannot be used to subsidise franchised bus operations, just as profit from franchised bus operations cannot be used to finance property development.

Q Among the positives of the year you mention expansion into the Mainland market. What is the reason for this and how do you see the future of this expansion?

A

The public transport market in Hong Kong is mature with stable, moderate growth in the years ahead. The business potential on the Mainland is huge and growing. The rapid economic development of the Mainland

means increased demand for both the quantity and quality of public transport services. Our Group has long experience in Hong Kong and a hard-earned international reputation as a public transport provider, so it is a good time to be entering the markets of Mainland cities such as Beijing, Shenzhen, Wuxi and Dalian. Closer tourism and trade integration with the Mainland means that our cross-boundary services are growing and the 2008 Olympic Games in China hold out promise of further transport development. We continue to identify projects with strong potential and suitable partners on the Mainland.

Q What is the vision and strategy of the Group for the future?

A

To extend operations further into the region, and in particular the China Mainland. To continue developing innovative and environmentally sound technologies and services, advanced bus designs and a diverse business portfolio not only in the mature market of Hong Kong but also in the new markets wherever we operate.

Q You said Hong Kong is a mature market. Is there any scope left for growth in Hong Kong itself?

A

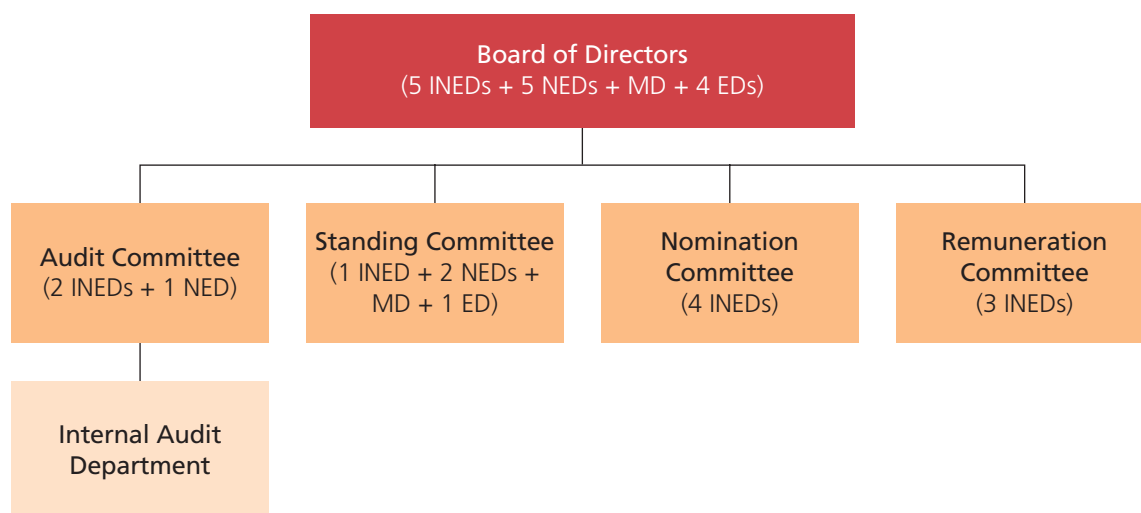
The scope lies in encouraging our colleagues at all levels to think outside the box. So far we have mainly been running buses. There are opportunities ahead for operating other forms of transport and also transport-

related businesses. We must remember that growth does not necessarily mean simply growing in size. A leaner and more streamlined operation using less resources to generate more value added and greater value for our stakeholders is also growth.

Corporate Governance Report

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

To achieve our corporate governance objectives, we ensure that the processes of corporate decision-making, internal audit and controls, disclosure of information and communication with stakeholders are conducted in accordance with sound management practices and in full compliance with regulatory standards. The current governance structure of the Company is outlined below:



INED : Independent Non-executive Director
NED : Non-executive Director
MD : Managing Director
ED : Executive Director

committed to
transparency

Throughout the year ended 31 December 2006, the Group complied with the Code Provisions

The Code on Corporate Governance Practices (the “CG Code”), which was issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in 2005, provides a comprehensive guide for listed issuers in Hong Kong to evaluate and improve their corporate governance practices. The CG Code, which contains two levels of recommendations — the Code Provisions and the Recommended Best Practices — sets out the principles of good corporate governance in the following areas:

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

Throughout the year ended 31 December 2006, the Group complied with the Code Provisions as set forth in the CG Code.

Board of Directors

(1) Composition of the Board of Directors

The Board of Directors of the Company, whose profiles are presented on pages 100 to 105 of this Annual Report, currently comprises 15 Directors, five of whom are Independent Non-executive Directors. During the year, the Group fully complied with Rules 3.10(1) and (2) of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) regarding the number of Independent Non-executive Directors and the requirement that at least one of these directors must hold appropriate professional qualifications. The Company has received confirmation from each Independent Non-executive Director about his independence under the Listing Rules, and continues to consider each of them to be independent. The Independent Non-executive Directors are explicitly identified in all corporate communications.

Directors of the Company at 22 March 2007 are set out below:

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

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

Corporate Governance Report

(2) Board Committees

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

(3) Appointment, Re-election and Removal of Directors

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

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

In 2006, one meeting was held by the Nomination Committee and the attendance of each member is as follows:

Independent Non-executive Directors	Attendance of individual members at Nomination Committee Meeting in 2006	
Dr Norman LEUNG Nai Pang	1/1	100%
Dr KUNG Ziang Mien, James	1/1	100%
Dr Eric LI Ka Cheung	1/1	100%
Mr SIU Kwing-chue, Gordon	1/1	100%

All Directors appointed to fill casual vacancies are subject to election by shareholders at the first general meeting after their appointment. Each Director, including each Non-executive and Independent Non-executive Director of the Company, is appointed for a specific term and is subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years in accordance with the Listing Rules and the Company's Bye-laws. Accordingly, five of TIH's Directors, namely Mr Kwok Ping-luen, Raymond, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung and Mr Edmond Ho Tat Man, retired and were re-elected at the annual general meeting of the Company held on 18 May 2006.

The senior management and corporate executives provide appropriate and sufficient information to the Board of Directors in a timely manner

(4) Responsibilities of Directors

The senior management and corporate executives provide appropriate and sufficient information to the Board of Directors in a timely manner to keep them abreast of the latest developments of the Group and to enable them to discharge their responsibilities. The Company provides induction programmes, briefings and other training courses to develop and refresh Directors' knowledge and skills to enhance their awareness of good corporate governance practices. The Company also encourages Directors to participate in continuous professional development organised by qualified institutions to ensure that they continually update their skills and knowledge on the latest development of, or changes in, the rules and regulations that are relevant to their responsibilities.

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

The Group has adopted the Model Code for Securities Transactions (the "Model Code") as set out in Appendix 10 to the Listing Rules during the year. In this regard, the Company has specifically enquired of the Directors and they have all confirmed that they have complied with the required standard of dealings set out in the Model Code regarding their securities transactions.

The details of the share interests held by the Directors and senior management in the Company and its indirect non-wholly owned subsidiary, RoadShow Holdings Limited, are set out on pages 111 and 112 of this Annual Report.

(5) Distinctive roles of the Chairman and the Managing Director

The Chairman of the Board, The Hon Sir Sze-yuen Chung, is an Independent Non-executive Director of the Company, who is responsible for chairing the meetings and managing the operations of the Board, and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. The Managing Director of the Company, Mr John Chan Cho Chak, is delegated with the authority and responsibility for running the Group's businesses and implementing the Group's strategy to achieve its business goals. The roles and duties of the Chairman and the Managing Director of the Company, which are distinct and carried out by different individuals, have been clearly defined in writing. The Chairman also meets with the Non-executive Directors once a year without the presence of the Managing Director and Executive Directors to discuss the business affairs of the Group.

Corporate Governance Report

(6) Board Meetings

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

There were 12 Board meetings held during the year ended 31 December 2006. The following table shows the attendance records of the Directors of the Company during the year 2006:

Directors	Attendance of individual Directors at Board Meetings in 2006	
The Hon Sir Sze-yuen CHUNG (Chairman)	12/12	100%
Dr Norman LEUNG Nai Pang (Deputy Chairman)	10/12	83%
Mr KWOK Ping-luen, Raymond (with Mr YUNG Wing Chung as alternate)	10/12	83%
Mr KWOK Ping-sheung, Walter (with Mr YUNG Wing Chung as alternate)	11/12	92%
Mr YU Shu Chuen	1/4 (note)	25%
Mr NG Siu Chan	9/12	75%
Mr William LOUEY Lai Kuen	11/12	92%
Mr John CHAN Cho Chak (Managing Director)	12/12	100%
Mr Charles LUI Chung Yuen	11/12	92%
Ms Winnie NG	12/12	100%
Dr KUNG Ziang Mien, James (with Mr KUNG Lin Cheng, Leo as alternate)	12/12	100%
Mr George CHIEN Yuan Hwei	11/12	92%
Dr Eric LI Ka Cheung	10/12	83%
Mr LUI Pochiu	12/12	100%
Mr Edmond HO Tat Man (Deputy Managing Director)	12/12	100%
Mr SIU Kwing-chue, Gordon	12/12	100%

Note: Mr Yu Shu Chuen resigned as a Director of the Company on 1 May 2006.

In general, the Board makes decisions on overall strategy, major operational and financial affairs as well as investments

Delegation by the Board of Directors

(1) Delegation of responsibilities to Senior Management

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

(2) Standing Committee

The Standing Committee comprises five Directors, namely Dr Norman Leung Nai Pang (chairman of the committee), Mr Kwok Ping-luen, Raymond, Mr Ng Siu Chan, Mr John Chan Cho Chak and Mr Charles Lui Chung Yuen. During 2006, it met with senior management on a monthly basis to review and discuss the financial, operational and strategic issues in relation to current businesses and potential investment opportunities. The Standing Committee reported its findings and recommendations to the Board of Directors directly. The attendance records of the members of the Standing Committee for 2006 are summarised below:

Directors	Attendance of individual members at Standing Committee Meetings in 2006	
Dr Norman LEUNG Nai Pang	12/12	100%
Mr KWOK Ping-luen, Raymond	12/12	100%
Mr NG Siu Chan	10/12	83%
Mr John CHAN Cho Chak	12/12	100%
Mr Charles LUI Chung Yuen	12/12	100%

The Standing Committee has been established with clearly written terms of reference to advise and assist the Board in formulating policies and to monitor the performance of management in carrying out and implementing the policies laid down by the Board.

Remuneration of Directors and Senior Management

Remuneration Committee

The Group's Remuneration Committee comprises three Independent Non-executive Directors, namely Dr Norman Leung Nai Pang, Dr Kung Ziang Mien, James and Dr Eric Li Ka Cheung. This committee is chaired by Dr Norman Leung Nai Pang. The role of the Remuneration Committee is to formulate policies on remuneration, including establishing guidelines to determine terms and conditions of employment, remuneration and retirement benefits of Directors and employees

Corporate Governance Report

of the Group. It also sets appropriate criteria for performance-related bonuses, and reviews and makes recommendations on human resources-related policies to the Board of Directors by reference to the goals and objectives of the Group. No Director or member of the senior management can determine his or her own remuneration. The Remuneration Committee has terms of reference clearly laid down, which comply with the Code Provisions.

The following is a summary of the work performed by the Remuneration Committee during 2006:

- review of the remuneration policy for 2006 and 2007;
- review of the remuneration of Executive and Non-executive Directors;
- review of the annual performance-related bonuses for the employees of the Group, having regard to their achievements against the assessment criteria and by reference to the market norms; and
- examination of employees' wage and salary increments in 2006.

Details of the remuneration of each of the Directors for the year ended 31 December 2006 are set out in note 7 to the consolidated financial statements.

Two Remuneration Committee meetings were held during the year 2006. The attendance records of the members of the Remuneration Committee for 2006 are shown below:

Independent Non-executive Directors	Attendance of individual members at Remuneration Committee Meetings in 2006	
Dr Norman LEUNG Nai Pang	2/2	100%
Dr KUNG Ziang Mien, James	2/2	100%
Dr Eric LI Ka Cheung	2/2	100%

The Directors acknowledge their responsibilities for preparing the Group's financial statements

Accountability and Audit

(1) Financial Reporting

The Directors acknowledge their responsibilities for preparing the Group's financial statements. This responsibility extends to annual and interim reports, other "price-sensitive" announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to the statutory requirements. The responsibility of the external auditor for the audit of the financial statements of the Company for the year ended 31 December 2006 is set out in the auditor's report on page 117 of this Annual Report.

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

(2) Audit Committee

The Group's Audit Committee comprises three Non-executive Directors, namely Dr Eric Li Ka Cheung, Dr Kung Ziang Mien, James and Mr George Chien Yuan Hwei, of whom the first two are Independent Non-executive Directors. The Audit Committee is chaired by Dr Eric Li Ka Cheung, who is a certified public accountant with professional qualifications as required under the Listing Rules. The chairman and all the other members of the Audit Committee have a wide range of experience in various business and professional fields as described in the Directors biographical details on pages 100 to 105 of this Annual Report. None of the Audit Committee members is a former or existing partner of the external auditor of the Company. The responsibilities of the Audit Committee are largely based on the recommendations provided in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The tasks performed by the Audit Committee during the year included, but were not limited to, the following:

- review with senior management of the accounting principles and practices adopted by the Group, the accuracy and fairness of the financial statements, and the scope of both internal and external audit works;
- review and discuss with management regarding the effectiveness of internal controls and practices of the Group;
- ensure the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- review and approve the remuneration and terms of engagement of the external auditor;
- meet with the external auditor and review their work and findings relating to interim and annual published financial statements; and
- recommend to the Board the re-appointment of the existing external auditor for 2007.

Two Audit Committee meetings were held together with the senior management and the external auditor during 2006. After the Audit Committee meetings, the external auditor were also invited to discuss with the Audit Committee members issues arising from the audit and other matters that they wished to discuss without the presence of the Company's senior management. After each meeting, the Chairman of the Audit Committee submitted a report to the Board of Directors and gave a briefing on all significant issues that arose.

Non-executive Directors	Attendance of individual members at Audit Committee Meetings in 2006	
Dr Eric Li Ka Cheung	2/2	100%
Dr KUNG Ziang Mien, James	2/2	100%
Mr George CHIEN Yuan Hwei	2/2	100%

Corporate Governance Report

The internal control system is designed to safeguard the assets of the Group

(3) Internal Controls

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

- the implementation of an effective and efficient Quality Management System in the Group's flagship subsidiary company, KMB, in accordance with the requirements of the International Organisation for Standardisation (ISO) 9001:2000 system for quality management on a company-wide basis and ISO 14001:1996 for environmental management at two bus depots. Under the ISO requirements, all major financial and operational procedures and instructions with illustrative flow charts are clearly documented. Responsible persons and their respective functions and responsibilities are also well defined. Compliance with the procedures and instructions is closely monitored on an ongoing basis by internal quality auditors under the supervision of the Head of Internal Audit Department. Each year, an external ISO certification organisation, the Hong Kong Quality Assurance Agency (HKQAA), carries out an independent audit on the Quality Management System to ensure the effectiveness and efficiency of the ISO systems. Recommendations are made for follow-up actions when areas for improvement are identified during the course of the ISO audit. KMB's workforce of about 12,000 staff is highly aware of the need for quality and integrity and they are required to work towards achieving or even exceeding the ISO standards;
- the design of a clear and distinct organisational structure with defined lines of authority and control responsibilities. The senior management and corporate executives are responsible for the preparation of the operational plans and financial budgets on an annual basis. Both the annual operational plan and financial budgets lay down the resources to be allocated in accordance with the identified and prioritised business opportunities;
- the deployment of a comprehensive management accounting system that provides financial and operational performance measurement indicators for day-to-day monitoring, and relevant financial information for reporting and disclosure purposes. Variances against budgets are analysed and explained, and appropriate and timely actions are taken, if necessary, to rectify deficiencies noted;
- the implementation of systems and procedures at all levels to identify, measure, manage and control risks that may have an impact on the business;
- the independent reviews of risks and controls by the Internal Audit Department to provide reasonable assurance to management and reporting to the Audit Committee that any such risks and internal control weaknesses have been adequately addressed. The Head of Internal Audit Department supervises the implementation of comprehensive audits and reviews the financial and operational procedures and practices of the Group on both a regular and ad hoc basis. To ensure the independence of the internal audit function of the Group, the Head of Internal Audit Department reports directly to the Managing Director and the Audit Committee; and

- proper procedures and internal controls for handling and dissemination of price-sensitive information. The Board and other nominated managers who have access to price-sensitive and/or specific information are bound by the Model Code for Securities Transactions under the Listing Rules. Every employee is required to follow the Code of Conduct and the Staff Handbook for keeping unpublished price-sensitive information strictly confidential.

In 2006, the Board, through the Audit Committee and with the assistance of KPMG and the Internal Audit Department, conducted a comprehensive review of the overall effectiveness of the internal control system of KMB, the Company's major subsidiary, whose scale of operations is sufficiently representative of the Group. The review comprised a high-level risk assessment of its major financial and operational processes and systems security, as well as a detailed analysis of its internal control system with reference to the internal control framework recommended by the Committee of Sponsoring Organisations of the Treadway Commission (the "COSO Analysis"). The work included interviews with senior management as well as front line staff, and a thorough evaluation of the control procedures of KMB's core businesses, its strategic management and resources management. The COSO Analysis identified KMB's control environment, risk assessment, control activities, information and communication as well as its monitoring functions. No material suspected frauds or irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations were noted during the review and the subsequent testing of internal controls carried out by the Internal Audit Department. As part of the on-going internal control monitoring process, the Internal Audit Department has also formulated a three-year risk-based internal audit rolling plan to monitor the effectiveness of the Group's internal control system.

The Board is satisfied that the Group has fully complied with the Code Provision on internal controls in 2006

In light of the above, the Audit Committee concluded that, in general, the Group has established a sound control environment and effective control system to monitor and correct non-compliance. The Board, through the review of the Audit Committee, is satisfied that the Group has fully complied with the Code Provision on internal controls in 2006.

(4) External Audit

KPMG was the Company's external auditor in respect of its financial statements for the year ended 31 December 2006. The Audit Committee monitors the audit and non-audit services rendered to the Group by its external auditor, and has developed a formal policy to ensure that the engagement of the external auditor in other non-audit services will not impair their audit independence or objectivity. The external auditor is also required to review their relationship with the Group and furnish independence confirmation to the Audit Committee confirming their independence status.

The fees for services provided by KPMG to the Group for the year ended 31 December 2006 are set out below:

	HK\$ million
Audit related services	6.5
Non-audit related services	0.3
Total	6.8

Corporate Governance Report

An independence confirmation has been obtained from KPMG to confirm that for the year ended 31 December 2006 and thereafter to the date of this Annual Report, KPMG is independent of the Group in accordance with the independence requirements of the HKICPA.

In accordance with the recommendation of the Audit Committee, the Board has proposed to re-appoint KPMG as the external auditor of the Company in respect of the financial statements for the year ending 31 December 2007. Such proposal will be presented for approval by the shareholders of the Company at the upcoming annual general meeting.

Communication with Stakeholders

(1) Communication with Shareholders

The Board recognises the importance of transparency and provides information relating to the Group to the shareholders on a regular basis through press releases, publication of interim and final results announcements in the newspapers, and circulation of the Group's interim and annual reports to the shareholders. These press releases, announcements and financial reports, together with a wide range of other information which is of interest to shareholders, are conveniently placed and updated regularly on the Group's corporate website "www.tih.hk".

The financial reports released to the shareholders as set out in the Company's 2006 interim and final results announcements and 2006 Interim and Annual Reports have been reviewed by the Audit Committee and KPMG, the external auditor of the Company, and are in full compliance with the relevant statutory requirements.

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

At the general meetings, separate resolutions are proposed on each substantially separate issue, including the election of individual Directors. Circulars containing the relevant details such as proposed resolutions, particulars of the biography of each of the Directors standing for election at the annual general meeting, and poll voting procedures and rights of shareholders to demand a poll, are despatched to the shareholders together with the annual reports at least 21 days prior to such annual general meetings.

The 2006 Annual General Meeting was held with the Company's shareholders on 18 May 2006. The details and results of the above meeting were published in newspapers and on the Stock Exchange's website.

The 2007 Financial Calendar of the Company is as follows:

Announcement of 2006 final results	22 March 2007
2006 Annual Report dispatch to shareholders	25 April 2007
Last day to register for 2006 final dividend	7 May 2007
Book closure period	8 May to 17 May 2007
2007 Annual General Meeting	17 May 2007
Payment of 2006 final dividend	18 May 2007
Announcement of 2007 interim results	mid-September 2007
Payment of 2007 interim dividend	mid-October 2007
Financial year end date	31 December 2007

KMB and LWB publish and distribute reports and brochures to enhance their customers' and the community's understanding of their services and operations

(2) Communication with the General Public

From time to time, the Group publishes reports and brochures that focus on specific aspects of operations for the information of the general public. In particular, KMB and LWB, two of the Company's major subsidiaries, publish and distribute the following reports and brochures to enhance their customers' and the community's understanding of their services and operations:

- More about KMB
- More about Long Win
- KMB Service Charter
- KMB Performance Pledge
- KMB Corporate Social Responsibility Report
- Long Win Corporate Social Responsibility Report
- KMB/Long Win Passenger Liaison Group Report
- KMB – The Green Transporter
- KMB's Efforts in Environmental Protection
- KMB Today (a monthly magazine)
- Introduction to KMB's four bus depots
- 70th Anniversary Booklet
- KMB Corporate Profile

The brochures and publications are available on the corporate website of KMB, www.kmb.hk, for public information. Other corporate, financial and press information of the Group is also made available on the above website, which is regularly updated.

(3) Communication with Employees

The Group encourages two-way communications between the management and the staff. Various communication channels, including joint consultative committees through which the management and staff representatives can freely discuss and exchange views on matters that affect their daily operations, have been set up to enhance mutual understanding and to promote cooperation between the management and staff at different levels. The Group also maintains a staff website to disseminate relevant management announcements and information on staff affairs on a timely basis. On-line orientation training courses and e-learning programmes for staff are available on the website. There is also a forum which serves as an additional communication channel with our staff. Besides, periodic video compact discs and a monthly in-house magazine are published to keep our employees, particularly the field staff, informed of the news and events relating to both the Group and the industry.

Management Discussion and Analysis

Our responsiveness to change and our forward thinking give us our competitive edge



Mr John CHAN Cho Chak
Managing Director



Ms Winnie NG
Executive Director



Mr Edmond HO Tat Man
Deputy Managing Director

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innovation



Mr LUI Pochiu
Operations Director



Mr William HO Sai Kei
Finance and Administration Director



Mr James C LOUEY
Commercial Director

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innovation and expansion

Our philosophy of sourcing the latest and cleanest technologies leads to service excellence and supports our expansion

Overview and Strategies

TIH continues to build on its reputation as one of the world's leading public transport providers. Safety and efficiency remain our paramount concern, and statistics for our operational and mechanical capability show that we remain at the very forefront of the industry in terms of operating standards. Efficiency based on our long-standing commitment to innovation leads to service excellence. In order to meet the challenges of an ever changing operating environment and the progressive needs of our customers and society, TIH continues to source and introduce the most advanced, environment-friendly technologies and products from across the globe. As a result, our customers are experiencing more comfortable, healthier and safer bus rides. We are constantly upgrading our bus fleet in terms of engine performance, design, accessibility and on-board technology. These enhancements allow us to achieve higher standards of environmental protection while improving the passenger experience.

TIH's operational and business philosophy is based on offering quality of service and value for money to our customers. That is why we constantly review our service levels to ensure that our operating resources can adequately meet the change in travel demand. If necessary, we strengthen or rationalise our transport networks, while we also ensure that we develop the right levels of service in our expanding markets, such as those in China Mainland. Innovation allied to expansion is the route to the future of TIH. This route continues to be built on constant internal vigilance over cost effectiveness and operational performance.



world-class

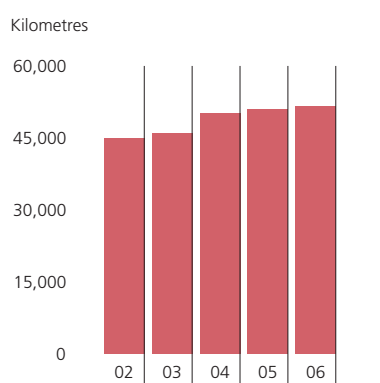
Franchised Public Bus Operations

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

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

KMB operates extensive bus services covering Kowloon, the New Territories and Hong Kong Island. It currently employs some 12,000 staff and owns a fleet of more than 4,000 buses serving about 2.8 million passengers a day on around 400 routes.

Mechanical reliability



■ KMB

Average number of kilometres operated before a bus has one mechanical breakdown while passengers are on board

Innovating for Improvement

With over 73 years of operating experience in Hong Kong, KMB has in-depth understanding of the local public transport market. As the leading subsidiary of TIH, it has a reputation as one of the world's best public transport operators. KMB's service philosophy is based on safety, comfort and passenger convenience, backed by a strong commitment to innovation and ongoing improvement of all aspects of the company's operations.

The company adapts and designs its operations to accord with Hong Kong's market conditions and service requirements. Most of its buses are air-conditioned double-deckers, with the latest generation buses featuring straight staircases for easier access to the upper deck and enhanced air-conditioning system for better control of the temperature and humidity inside buses. As surveys undertaken over the years show, our customers appreciate these innovations, which have enhanced the quality, reliability and excellent value for money of KMB's services.

In 1999, KMB became the first public bus company in Hong Kong that achieved ISO 9001:1994 certification on an organisation-wide basis. The upgrade audits for ISO 9001:2000 certificates over the last few years continued to confirm the quality of

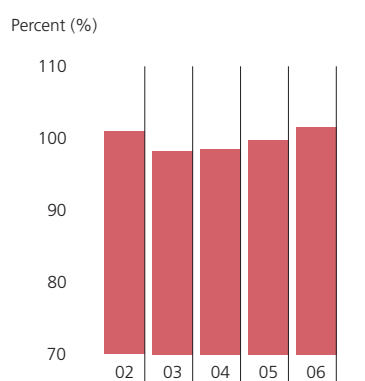
KMB's management systems not only at headquarters level, but also within our Traffic Department and four permanent depots, and at the overhaul centre and bus body construction depot. Our focus on quality management is similarly reflected in the ISO 14001:1996 Environmental Management System certification awarded to the depots at Lai Chi Kok and Sha Tin, which once again demonstrate KMB's commitment to high standards of environmental protection. As far as we are aware, KMB is the only public bus company in Hong Kong accredited with both ISO 9001 and ISO 14001 certifications.

One of the innovative programmes KMB carried out in 2006 made use of the company's bus stop poles as another form of advertising media for earning additional advertising income. This programme was well received by advertisers in Hong Kong. As at 31 December 2006, there were 610 such bus stop poles posted with advertisements.

Performance Assurance

The key benchmarks of operational standards across all TIH companies are performance statistics. KMB's statistics show that for the 12 months ended 31 December 2006, the fleet achieved 51,645 km : 1 on mechanical reliability against a target of 45,000 km : 1. For the same period, the operational capability

Operational capability

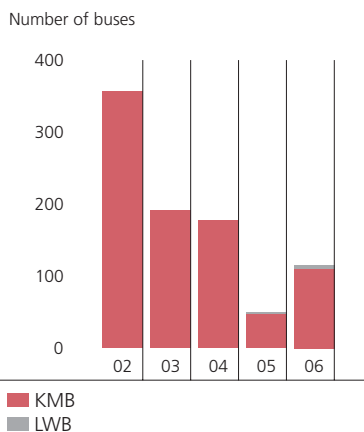


■ KWB

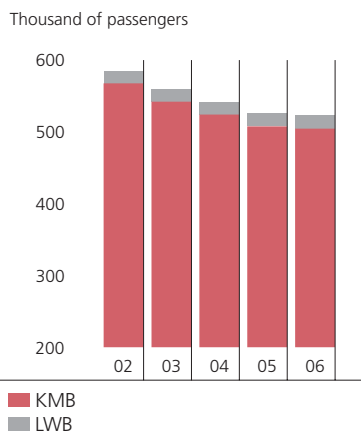
Percentage of actual number of bus departures to scheduled number of bus departures during morning peak hours (7am-9am) in the peak direction

OPERATIONAL REVIEW HONG KONG

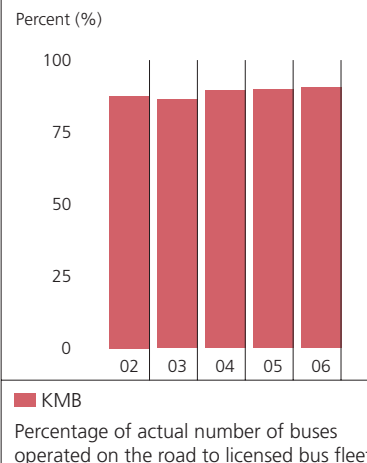
Number of new buses introduced to the fleet
(Franchised Public Bus Operations)



Total fleet capacity at 31 December
(Franchised Public Bus Operations)



Fleet utilisation



achieved by KMB was 101.6% against a target of 100%. Mechanical reliability is defined as the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. Operational capability is the ratio of actual to scheduled departures in the peak direction during the peak operational hours of 7:00 a.m. to 9:00 a.m. across the entire bus network.

Fleet Upgrades

Safety, service excellence and innovation are our watchwords. Fleet upgrades are an ongoing operational priority for service improvement. KMB has introduced super-low floor easy access buses to its fleet since 1998. These buses improve accessibility to all passengers, particularly the disabled and the elderly. During 2006, we added 110 new super-low floor air-conditioned double-deck buses comprising 108 Euro III buses, one Volvo B9TL Volgren Euro IV prototype and one Trident Enviro 500 Euro IV prototype to the fleet. These new generation

super-low floor buses have straight staircases and wider bodies. KMB is the first to have put Euro IV double-deckers into service in Hong Kong. In addition, KMB has ordered 75 air-conditioned double-deck buses for delivery in 2007 including two Scania Caetano Euro IV prototypes.

As at 31 December 2006, there were a total of 4,021 buses (comprising 3,866 double-deck and 155 single-deck buses) deploying for KMB services, of which 93.5% was air-conditioned.

Electronic Tachograph

The electronic tachograph, which records the speed of a bus as well as other operational information, is now standard equipment on all new KMB buses. Particularly useful for long-haul and highway routes, this device logs the driving performance of our bus captains for safety monitoring and improvement purposes. By the end of 2006, KMB had 3,146 buses equipped with the electronic tachograph.



KMB's bus fleet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Non air-conditioned double-deck buses	Total number of buses
At 1 Jan 2006	3,494	156	379	4,029
Addition during year	110	—	—	110
Disposal during year	(1)	(1)	(116)	(118)
At 31 Dec 2006	3,603	155	263	4,021

Depots

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



KMB's all-embracing network provides convenient, point-to-point services for the travelling public



Our Depot Network Serving KMB and LWB Buses:

Depot	Areas served/main purpose of depot	Gross floor area (square metres)	Number of buses served at 31 December 2006	Year in which operations commenced
KMB depots:				
Kowloon Bay Depot*	East Kowloon	71,379	1,129	1990
Sha Tin Depot*	East New Territories	66,915	729	1988
New Lai Chi Kok Depot*	South and West Kowloon	60,311	879	2002
Tuen Mun Depot*	North and West New Territories	13,844	1,284	1979
Tuen Mun Overhaul Centre	Bus overhaul	35,401		1983
Tuen Mun Bus Body Construction Depot	Bus Body Construction	9,843	(note 1)	1978
LWB depot:				
Siu Ho Wan Depot	Lantau Island	7,660	153	1998
Total		265,353	4,174	

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

2. KMB also operates 12 temporary depots in various locations in Hong Kong for bus parking purposes at the end of 2006.

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



KMB's world-class transportation services support Hong Kong's dynamic economy and vibrant lifestyle

Bus Routes and Service Networks

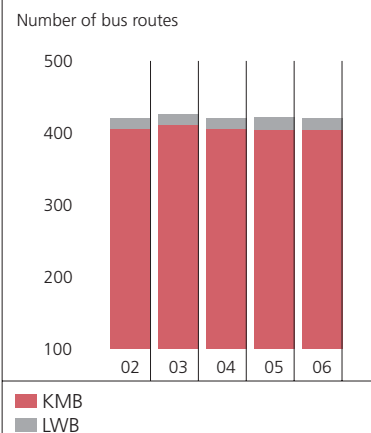
Bus Routes

At the end of 2006, KMB operated 403 bus routes. Despite of the intensifying competition from the expanding railway networks within its service areas, KMB continues to develop new market niches. During the year, KMB launched three new routes. One of these routes was a feeder service between Sheung Shui Kowloon-Canton Railway Station and Ching Ho Estate in North District. The other two routes were special services from Wan Chai to Mei Foo and Kwun Tong respectively to cater

for the "Hong Kong Book Fair" in July 2006.

During the year under review, KMB continued to implement innovative ideas for generating additional passengers. To capture the growing tourist market, particularly those visitors under the "Individual Visit Scheme" from the China Mainland, KMB took the lead among all the franchised public bus companies in Hong Kong in developing a one-day bus pass covering a total of about 600 bus routes, of which KMB operates about 400. This new programme is expected to be launched in mid 2007.

Number of bus routes operated at 31 December



OPERATIONAL REVIEW **HONG KONG**

Bus Network Rationalisation

KMB's network rationalisation is an on-going exercise such that resources saved were either deployed to areas with increasing demand or were eliminated through natural attrition.

A summary of the bus routes reorganisation is tabulated below:

	Number of bus routes involved	Number of buses saved
Cancellation/rationalisation	2	5
Frequency adjustments	50	51
Total	52	56

Information Technology

KMB has been able to closely monitor and optimise operating performance through the widespread adoption of advance information technology. By the end of 2006, there were a total of 1,687 personal computers installed within all KMB facilities. These computers are inter-linked to 132 computer servers located at KMB

headquarters via high-speed communication lines. Some 40 software applications including in-house developed program and proprietary software are used for day-to-day operational and financial management. The constant upgrading of our information technology systems in the finest spirit of innovation means that we can improve cost controls and customer service as well as fleet and depot operations.

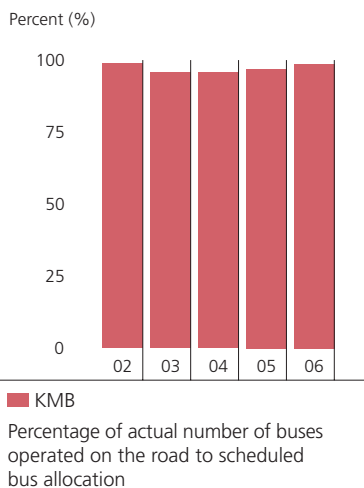
Advanced Finance and Administration System

Financial and human resources management has been greatly improved by the use of SAP



The advanced spray painting facilities at KMB's permanent depots give our buses a smart appearance

Achievement of schedule



e-Business Software. Our electronic document management system implemented on a company-wide basis has substantially reduced paper usage and the amount of time required for document distribution, filing and retrieval.

Electronic Bus-stop Announcement System

In 2006, KMB completed the installation of the on-board electronic bus stop announcement systems to our entire bus fleet. For the convenience of on-board passengers, this system delivers voice announcements in Cantonese, Putunghua and English and shows the name of the upcoming bus stop on light emitting diode ("LED") displays.

Traffic Operations Management System

KMB's in-house developed Traffic Operations Management System ("TOM") has enhanced the efficiency of our bus captain duty assignment and despatch process. With TOM, our bus captains simply have to apply

their personalised Octopus cards to a system reader to retrieve daily assignment information such as the route number, vehicle registration number, duty schedule, bus parking location and any ad hoc arrangements from the system when reporting for duty at our depots.

TOM also utilises a fleet database to help prioritise the deployment of our buses with better emission standards to serve on routes running along busy corridors.

Bus Service Information

The Integrated Bus Service Information Display Systems ("IBSID Systems") installed at KMB's termini are major facilities for disseminating bus service information to our customers. Three newly installed IBSID Systems were commissioned in 2006 at the Sui Wo Court, Ping Tin and Hin Keng bus termini, bringing the total number of termini equipped with these systems to 25. Information on destinations, departure times and fares of individual bus routes is shown on large LED display panels at the termini. Emergency messages such as major traffic disruptions can also be shown. As part of the IBSID Systems, the closed circuit television systems enable monitoring of local traffic and operating conditions from both the termini and KMB headquarters.

Striving for innovations, KMB has upgraded the earlier generation of the IBSID Systems by incorporating an Electronic Terminus Management System ("ETMS") which has been developed in-house by our Information Technology Department. The ETMS enables terminus supervisors to use personal data

assistants ("PDAs") to record bus arrival and departure times and send information from termini to bus depots and relevant departments for faster operational decision-making. By the end of 2006, 84 termini were installed with this system.

Bus Maintenance Information System

The computerised Bus Maintenance Information System in use logs and provides information on bus status, history, repair and maintenance records, etc. The system also shows the attendance and the status of the maintenance workers, thus enabling the management to make more efficient job assignments and to monitor maintenance costs. A subsystem that monitors the bus tyres has been upgraded to keep track of the performance of the retread materials. This enhances the monitoring of the durability and re-treadability of tyres for safety and environmental protection.

Bus Tracking Capability

The company's development of a bus tracking system for providing real-time bus location information continued throughout the period under review. Such a system involves complex technologies, including global positioning satellite systems. In 2006, testing and evaluation progressed with a view to identifying an integrated tracking and communication system that will enable us to accurately and cost effectively locate buses on our network at any time.

Long Win Bus Company Limited (“LWB”)

LWB was established in 1996 to operate bus services connecting the New Territories to Hong Kong International Airport and North Lantau. Today, LWB’s service area has expanded to include the new developments at Hong Kong Disneyland, AsiaWorld-Expo and the newly opened recreational development – Ngong Ping 360 at Tung Chung.

LWB links Hong Kong International Airport (the “Airport”), Tung Chung New Town and tourism developments on North Lantau Island with the New Territories. During 2006, LWB served a steadily growing market with the continuous population intake at Tung Chung New Town, the growth in travel demand to and from the Airport and the opening of developments such as AsiaWorld-Expo and Ngong Ping 360.

To handle the increased demand, five new air-conditioned double-deck buses, all with Euro III emission standard engines, super-low floor design and wheelchair spaces, were licensed to strengthen services on four external routes and one Airbus route. In addition to the introduction of new buses, conversion work on the enlargement of luggage rack spaces was completed on four buses during the year to serve the increased number of passengers carrying luggage. With a comprehensive network consolidated at the end of 2005, LWB did not introduce any new bus route in 2006. However, LWB continued to strengthen its service levels to provide a more efficient and direct mode of transport to and from the North Lantau area.

Future network development opportunities are likely to arise due to the gradual commencement of operations of Phase 1 of the SkyCity development (which includes a new passenger terminal building, two office towers and various retailing and entertainment facilities) starting from early 2007. It is expected that a growing number of people will visit these developments and LWB stands ready to benefit from the increase in passenger flow.

As at 31 December 2006, LWB employed 433 staff and operated 144 air-conditioned double-deck buses and nine air-conditioned single-deck buses across 18 routes. All LWB’s super-low floor double-deck buses are equipped with wheelchair access, electronic bus-stop announcement systems and Euro II or newer engines. By the end of 2006, 94% of LWB’s buses were installed with electronic tachographs that record the speed of a bus as well as other operational information. To meet the growth in travel demand, LWB will take delivery of 10 super-low floor air-conditioned double-deck buses in 2007.





LWB's services have become part of many air travellers' itineraries



LWB's bus fleet uses the world-renowned Tsing Ma Bridge to link the New Territories with North Lantau



• LWB's bus termini on Lantau Island

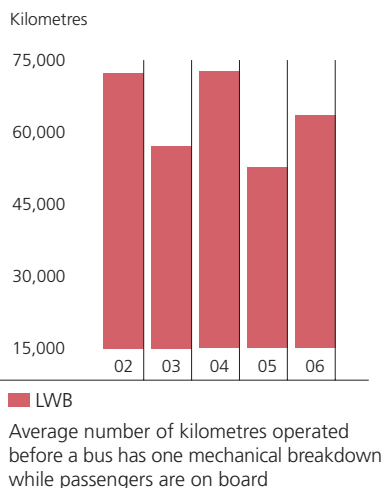
LWB has strived for innovative ideas in generating additional passengers. To capture the growing tourist market particularly those visitors under the "Individual Visit Scheme" from the Mainland and to provide additional services to the local

commuters, LWB participated in the development of a one-day bus pass to be offered by the franchised bus companies in Hong Kong that covers a total of about 600 bus routes. It is expected that this new programme will be launched in mid 2007.

LWB's bus fleet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Total number of buses
At 1 January 2006	139	9	148
Addition during year	5	—	5
At 31 December 2006	144	9	153

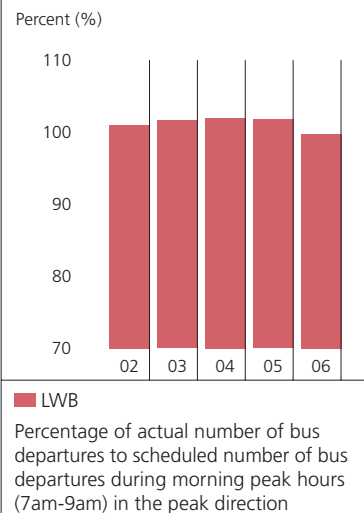


Mechanical reliability



For the year ended 31 December 2006, LWB's buses achieved 63,542 km : 1 on mechanical reliability and 99.77% on operational capability. Mechanical reliability is defined as the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. Operational capability is the ratio of actual to

Operational capability



scheduled departures in the peak direction during the peak operational hours of 7:00 a.m. to 9:00 a.m. across the entire bus network. Our goal is to ensure the highest standards of safety and reliability are applied across our fleet.

LWB operates a depot at Siu Ho Wan for daily bus maintenance, refuelling, washing and parking. A waste water treatment system is installed at the depot to ensure waste water quality fully complies with the statutory requirements before the water is discharged into the public drainage system.



Tourists appreciate the convenience of LWB's super-low floor buses for easy boarding and alighting



reliable

Non-franchised Transport Operations

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

OPERATIONAL REVIEW **HONG KONG**

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

In Hong Kong, the SBH Group strives to provide tailor-made high quality transportation to various types of customers, ranging from those who require prestige premium services to those who want value for money services.

The SBH Group is one of the leading operators in Hong Kong’s non-franchised bus industry. Currently, it comprises 12 business units, with Sun Bus Limited being the flagship, and provides a range of bus services tailored to specific niche markets. Its fleet serves large residential estates, shopping malls, major employers, theme parks, deluxe hotels, local travel agents and schools, as well as the general public through chartered hire services.

At the end of 2006, the SBH Group had a fleet of 330 buses, an increase of 81 buses compared to the previous year end. During the year, the SBH Group acquired a major local non-franchised bus operator with a fleet size of 60 buses. The increase in our fleet size reflects our strategy to expand into business segments such

as the tourism and the cross-boundary bus services sectors. To cater for the potential growth in the number of tourists and cross-boundary passengers as well as the

forthcoming opening of the Shenzhen Western Corridor, the SBH Group will take delivery of about 60 new buses in 2007 for fleet upgrade and serving new demand.



The SBH Group constantly upgrades its bus fleet for service enhancement

Park Island Transport Company Limited (“PITC”)

PITC operates both the shuttle bus and ferry services for the prestigious residential development, Park Island, on Ma Wan Island.

PITC has been providing shuttle bus and ferry services for Park Island since December 2002. An additional 1,400 units of the development were occupied in 2006. During the year, PITC strengthened its bus fleet with three additional super-low floor single-deck buses and provided more frequent bus services to match increasing passenger demand.

PITC currently operates two shuttle bus routes from Ma Wan to Tsing Yi Airport Railway Station and Kwai Fong Metroplaza respectively on a round-the-clock basis. PITC’s bus fleet comprises 14 super-low floor single-deck buses, three diesel-electric single-deck buses and one 28-seat mini-bus. PITC also operates two ferry service routes from Ma Wan to



Environment conscious: one of PITC’s unique diesel-electric hybrid air-conditioned buses

OPERATIONAL REVIEW **HONG KONG**

Central and Tsuen Wan respectively with a fleet of seven high-speed catamaran ferries. The Central ferry service operates round-the-clock. The total patronage of both buses and ferries for the year was 6.9 million passenger trips, an increase of 17% compared to 5.9 million passenger trips for 2005. This increase was due mainly to the additional population intake of Park Island.

To serve the residents and visitors of Park Island better, PITC has ordered four new single-deck air-conditioned buses and will introduce a new bus route between Ma Wan and the Airport by mid 2007. It is anticipated that there will be further population intake in 2007. PITC will continue to monitor any change in bus and ferry patronage and make appropriate adjustments to deployment of resources.



PITC deploys modern catamarans on the route plying between Ma Wan and Central

New Hong Kong Bus Company Limited (“NHKB”)

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



Huang Bus service is one of the preferred modes of cross-boundary transportation

Currently NHKB operates a fleet of 15 air-conditioned super-low floor single-deck buses between Lok Ma Chau and Huanggang for its 24-hour cross-boundary shuttle bus service. During 2006, NHKB's patronage continued to grow. This was due mainly to the increase in economic activities between Hong Kong and the Mainland, which in turn was a result of the Closer Economic Partnership Agreement (“CEPA”) and the increase in the number of visitors from the Mainland following the extension of the Individual Visit Scheme to more Mainland cities. However, NHKB is likely to face fierce competition from the railway and other cross-boundary shuttle bus services when the Lok Ma Chau Spur

Line and the Shenzhen Western Corridor are opened. Nevertheless, the recent rapid growth of demand for cross-boundary transportation will be likely to compensate, partly if not fully, any loss of passengers from this competition. NHKB will closely monitor its patronage level and adjust the service levels to meet the changing demand as required.

NHKB also provides four comfortable air-conditioned waiting lounges and an information display system to passengers inside the terminal building at San Tin Public Transport Interchange. This improves the waiting environment and services for all customers.



• NHKB's bus termini

A black and white photograph of a modern building facade, featuring a grid of windows and a prominent steel structure. The image is partially obscured by a red overlay at the bottom.

elegant

Property Holdings and Development

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

Lai Chi Kok Properties Investment Limited (“LCKPI”)

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



Facade of the on-site sales office

To accommodate market trends, the first phase sales launch was held at One International Finance Centre in November 2006. As at the end of 2006, 245 residential units with total gross floor area of approximately 299,000 square feet or 25% of the total residential floor area has been sold. For subsequent phases of the sales campaign, they will be held in a prestigious sales and marketing venue comprising show flats as well as a sales office located within the retail podium of the Manhattan Hill complex. This sales and marketing venue will be transformed into an up-market shopping arcade once the sales campaign is finished.

Manhattan Hill consists of five high-rise residential towers with height between 41 storeys and 43 storeys above podium level. It has 1,115 luxury residential units with a total gross floor area of more than one million square feet in residential space for sale, and a two-level retail podium of about 50,000 square feet which provides residents and the surrounding neighbourhood with high quality retail facilities. A wide range of flat sizes ranging from 720 square feet to 4,750 square feet are offered to suit different customers' needs. In addition, the five-storey podium contains a luxurious residential clubhouse of about 50,000 square feet, landscaped podium gardens of about 40,000

square feet, and public open spaces of about 45,000 square feet. Four levels of car park provide some 390 car parking spaces for the residents, tenants and visitors of Manhattan Hill.

The occupation permit for the development was issued in December 2006. By the end of 2006, the building structure, the external glazing and exterior finishing were completed; and the interior fitting-out was in progress. The hand-over date to individual owners is scheduled for mid 2007.



Manhattan Hill's residential towers reach new heights of metropolitan elegance

Manhattan Hill – “Manhattan Living”

The concept of metropolitan “Manhattan Living” is integral to all aspects of the development’s design. The gleaming stone entrance lobbies, landscaped podium and contemporary interior details with the use of the finest and most luxurious materials offer Manhattan Hill residents an exclusive quality lifestyle.

Rising in the hub of West Kowloon, Hong Kong and overlooking Victoria Harbour and Stonecutters Island with panoramic views extending to the

Central and Wan Chai waterfronts on Hong Kong Island, Manhattan Hill is highly accessible to the nearby MTRC and KCRC network links, Airport Express, West Rail, Route 3 and Route 8 as well as KMB terminus at Mei Foo. Residents also enjoy the convenience of a specially commissioned footbridge which connects the residential towers to the MTR station, KMB terminus and main traffic routes.

The Group is environment-conscious in the design and development of Manhattan Hill. Each apartment has a high ceiling and large window openings that provide generous flows

of natural light. Energy efficient glazing and natural, cross ventilation reduces the need for constant mechanical ventilation and cooling. Also, each residential tower has a double-height sky garden located at the mid-point of the tower, which provides the residents with a place to relax amidst the flowers and enjoy the stunning views of Victoria Harbour. Landscaped podium gardens also provide a “green lung” for the rest of the neighbourhood.

The construction management, marketing and sales programme, as well as the property management of Manhattan Hill are supervised by



Magnificent exterior underlines Manhattan Hill’s supreme quality



A prestigious sales venue showcases the luxurious Manhattan Hill development

Sun Hung Kai Real Estate Agency Limited, a wholly-owned subsidiary of the world-renowned property developer, Sun Hung Kai Properties Limited (“SHKP”). A team of leading architects and interior designers is also engaged to ensure the quality levels attain the highest standards throughout the whole development.

Royal Elite Service Company Limited (“RESC”), a subsidiary of SHKP, will provide prestigious management services and security services for Manhattan Hill. Some of the staff of RESC have undergone management services training at the Four Seasons Hotel in Hong Kong.

LCK Real Estate Limited (“LCKRE”)

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

LCKRE owns a 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong with a total gross floor area of about 156,700 square feet. The building is currently used by the Group for office and administrative purposes.



creative

Media Sales Business

- RoadShow Holdings Limited and its subsidiaries

OPERATIONAL REVIEW **HONG KONG**

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

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

The RoadShow Group is a leading media sales company in Hong Kong and the Mainland. It is principally engaged in marketing advertising aimed at passengers riding public transit vehicles in Hong Kong through a Multi-media On-board (“MMOB”) system. The RoadShow Group also runs a television programme syndication and media sales network on the Mainland.

Hong Kong

The MMOB business of the RoadShow Group involves installing, operating and maintaining equipment and Liquid Crystal Display (“LCD”) units in transit vehicles for the broadcast of tailor-made programmes and advertisements to commuter audience. The MMOB system has close to 20,000 LCD monitors in transit vehicles and telecasts a vast variety of entertaining and informative programmes. Currently, about 4,700 transit vehicles including franchised buses and public light buses are equipped with MMOB, reaching a commuter audience of close to four million every day.

With the ability to reach a sizable audience daily, the MMOB system is an attractive medium for advertisers. The RoadShow Group’s customers cover all major advertisers in Hong Kong including advertising agencies and companies in different industries. Apart from offering tailor-made sales packages to suit advertisers with diverse campaign objectives and budgets, the RoadShow Group employs various techniques to

encourage customers to commit to advertising bookings, including discounts, bonus spots and special advertising packages for long-term commitments.

MMOB programme contents are specifically tailored to hold the interest of the commuter audience. Contents include music videos, movie trailers, drama series, animation, travelogues, interactive games as well as a variety of infotainment programmes. Our MMOB programmes have attracted much attention due to the creative, unique, informative and entertaining contents. With the growth in popularity of the Short Message Service (SMS) provided by telecommunications companies, the RoadShow Group launched iClub in 2003, which provides an interactive platform for both advertisers and passengers. At the end of 2006, iClub had over 300,000 members who could participate in

daily interactive games and enjoy special offers.

China Mainland

During 2006, the RoadShow Group disposed of its joint venture in Guangzhou (廣州) and established a wholly-owned advertising company in China Mainland.

The RoadShow Group considers that the continuing growth in advertising expenditures on the Mainland offers immense business opportunities. The RoadShow Group will leverage its experience and success in Hong Kong to explore future growth opportunities in the Mainland, focusing on high potential markets with high consumer spending and dense populations. In addition, the RoadShow Group’s expansion into the Mainland will continue to be based on the company’s philosophy that all new investment provides a reasonable return to the RoadShow Group.



RoadShow’s dedication to excellent programming brings informative and enjoyable infotainment for passengers



carefully targeted initiatives

TIH is committed to continuous business growth in the Mainland market

Overview and Strategies

The strategy for TIH's business on the China Mainland is carefully based on the nature of the country's growing public transport markets. Over the past years, in line with our commitment to continuous and diversified business growth, the Group's mainland transport operations have seen rapid expansion. Major initiatives include joint venture companies to operate public bus services as well as taxi and car rental businesses in major cities of the Mainland.

We will continue to build on our experience as a world-leading public transport operator to develop business opportunities on the Mainland. We are confident that our operations in China Mainland will continue to grow in significance and diversity over the next decade.



Mainland Transport Operations

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

Mainland Transport Operations

Through its four joint ventures on China Mainland, the Group currently operates a range of transport businesses in Beijing(北京), Shenzhen(深圳), Wuxi(無錫) and Dalian(大連). In light of the fast economic growth of the Mainland, we will continue to explore investment opportunities in the years ahead.

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) (“SBG”)

SBG is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, with four other Mainland investors. The Group has invested RMB387 million (HK\$364 million), representing a 35% stake, in SBG.

Commencing operation on 1 January 2005, SBG principally provides public bus, minibus and taxi services in Shenzhen City (深圳市), which includes the Shenzhen Special Economic Zone and the Bao-an (寶安) and Longgang (龍崗) areas. SBG currently has about 4,100 vehicles serving some 158 routes. It recorded a ridership of 691.5 million passenger trips for the year ended 31 December 2006, an increase of 17.5% compared with 588.3 million passenger trips for 2005.

In 2006, SBG faced direct competition from the underground railway at Shenzhen as well as an upsurge in fuel prices. In order to meet these challenges, SBG introduced new bus routes connecting to the Shenzhen railway stations, continuously upgraded bus services and rationalised its bus route network. From the middle of 2006, mini-buses were prohibited to enter the Shenzhen Special Economic Zone. SBG therefore purchased a



SBG's fleet comprises public buses and taxis

number of high quality air-conditioned buses to fill this market niche. SBG implemented stringent budgetary controls and recorded satisfactory results in 2006. SBG will continue to upgrade its services, enhance its competitiveness and enlarge its market share in the public transport sector of Shenzhen and other markets.

Wuxi Kowloon Public Transport Company Limited (無錫九龍公共交通股份有限公司) (“WKPT”)

WKPT is the Group's first Sino-foreign joint stock company to operate public bus services on the Mainland. WKPT was established in Wuxi City, Jiangsu Province (江蘇省無錫市) in

February 2004. The Group has invested RMB135 million (HK\$127 million), representing a 45% equity interest, in WKPT together with three other Mainland shareholders.

Currently, WKPT operates about 1,800 public buses serving some 120 routes. In 2006, it continued to make steady progress and recorded a ridership of 273.6 million passenger trips, representing an increase of 2.7% compared with 266.3 million passenger trips for 2005. With the robust growth of the city's economy, steady growth in bus patronage is expected over the coming years, especially in the countryside and newly developing areas. WKPT will extend not only its bus routes coverage but also non-franchised coach services, aiming to optimise



WKPT has introduced the latest generation 13.7-metre long single-deck bus with large carrying capacity

the opportunities from the growing demand for passenger transportation in such areas. Simultaneously, WKPT will continue to pursue improvements in the quality of its services. WKPT has been certified for ISO 9001:2000 and ISO 14001:2004 for the provision of transportation services, transit designs and support services in Wuxi City since 2005. During 2006, it also replaced about 100 buses as part of a bus enhancement programme and increased the proportion of air-conditioned buses from 37% to 43%.

Beijing Beiqi Kowloon Taxi Company Limited (北京北汽九龍出租汽車股份有限公司) ("BBKT")

Established in Beijing in 2003, BBKT is the first Sino-foreign joint stock company to enter the Mainland's taxi hire and car rental business sectors. TIH has invested RMB80 million (HK\$76 million), representing an equity interest of 31.38%, in BBKT. Shareholders of BBKT include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資

有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限公司) and three other Mainland investors.

BBKT currently operates a fleet of about 4,300 vehicles. As one of the leading operators in the taxi hire and car rental business sectors in Beijing City, BBKT demonstrated its commitment to high standards of service quality through having successfully obtained ISO 9001:2000 certification for its quality management system in taxi service in

2006. Operating in the markets with robust growth and continuous pursuit of quality living standards, BBKT has continued to position itself to optimise business opportunities, particularly those associated with the 2008 Beijing Olympic Games. BBKT has implemented a systematic vehicle replacement programme under which about 2,200 new taxis in gold and white livery have already been purchased and more than 1,000 new taxis and rental cars are planned to be introduced in 2007.

Dalian Co-operative Joint Venture (大連合作合營企業)

Established in 1997, the Group's first co-operative PRC joint venture, formed between a 60% owned subsidiary of the Group and Dalian City No. 1 Bus Company (大連市第一公共汽車公司) in Dalian City, Liaoning Province (遼寧省大連市) has performed steadily. The Dalian co-operative joint venture has a fleet of about 80 single-deck buses operating on three routes serving Dalian City. It recorded a ridership of 25.3 million passenger trips for 2006, a decrease of 6.6% compared with 27.1 million passenger trips for 2005. Such decrease was due mainly to the intense competition from other public transport modes in the city.



BBKT's new taxi fleet stands ready for the 2008 Beijing Olympic Games



SBG moves on with Shenzhen's metropolitan pace

CORPORATE SOCIAL RESPONSIBILITY



fostering values, fostering progress

TIH takes a long-term social and environmental view throughout its business

Overview and Strategies

The social and environmental aspects of doing business have never before held such importance as they assume in today's constantly evolving and socially aware global village. This is perhaps especially true for public transport operators. We, at TIH, are highly conscious of the importance of corporate social responsibility in all its ramifications: dedication to customers' and society's evolving needs, commitment to safety and training, a high level of environmental awareness, a responsible and caring attitude to both the community and our employees, and a willingness to communicate to all our stakeholders in a transparent and informative manner.

The Group is dedicated to the economic and social progress of our two major markets, Hong Kong and the China Mainland. Our policy is to strike an effective and caring balance between economic, social and environmental needs wherever our broadening business portfolio takes us.



responsive

Customer Service Initiatives

At TIH, we believe in innovation in every aspect of our business. This means constantly launching initiatives to enhance our customer service. The provision of quality customer service and an awareness of community needs are the core elements of our corporate culture. It is inevitable that the planning and handling of operational issues have social and environmental implications. We therefore pay extra attention to ensure that our decisions on operational issues are based on careful research results and potential impact assessment.

The Octopus Smart Card

The electronic Octopus Smart Card System has become increasingly popular for making public transport fare payments in Hong Kong. Today, the Group is the largest corporate user of Octopus cards in Hong Kong in terms of the number of card payment transactions. About 87% of our franchised bus fare revenue was collected via Octopus cards in 2006. The Octopus cards facilitate passengers to board our buses

quickly without having to fumble with coins for fare payments. In addition, they also enable the Group to reduce cash collection and administration costs.

From time to time, we look into ways to optimise and expand the Octopus Bus-bus Interchange Schemes ("Octopus BBI Schemes"), within the route networks of KMB and LWB and also on joint inter-modal schemes with other public transport operators. The implementation of the Octopus

BBI Schemes has provided extensive fare discounts to passengers and, at the same time, helped improve network coverage, saved operating resources and relieved traffic congestion along busy transport corridors. By the end of 2006, KMB had 61 Octopus BBI Schemes covering 246 bus routes, whilst LWB operated five such schemes on 12 routes including those serving Hong Kong Disneyland and AsiaWorld-Expo.

CORPORATE SOCIAL RESPONSIBILITY

To tie in with the HKSAR Government's "Action Blue Sky Campaign"「藍天行動」for conserving the environment, KMB advocates the rationalisation and cancellation of bus routes with low occupancy to reduce the overall fuel consumption and emission of particulates from bus operation. New Octopus BBI Schemes were introduced so as to keep the impact on passengers to a minimum. This arrangement of reducing buses achieves win-win solutions both in environmental and transportation terms.

Bus Fare Discount Schemes

The Group has a long track record of identifying ways to control costs and improve productivity and efficiency in order to provide our customers with a focused and reliable service that gives excellent value for money.

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

Cyber Bus Stops and Waiting Shelters

Currently, KMB has eight cyber bus stops installed at the Star Ferry, along Canton Road and Nathan Road. Route information, local and international news and weather information are disseminated via the light emitting diode and liquid crystal display panels at these cyber bus stops. Each cyber bus stop is equipped with a public address system that announces route information in Cantonese, English and Putonghua. Another popular feature of these cyber bus stops is access to the KMB website for point-to-point route search and service information.

As an ongoing effort to improve the waiting environment for our passengers, we have continued with our bus shelter improvement programme. During the year, KMB built 35 new bus shelters, bringing the total number of bus shelters to 2,360. Also, the 2,600 advertising panels installed at the bus shelters continued to generate advertising revenue. LWB constructed three new bus shelters in 2006, bringing the total number of bus shelters to 29 at the end of the year.

Customer Service Centres

KMB's eight customer service centres, located at the public transport interchange hubs of Tsim Sha Tsui, Hung Hom, Sha Tin, Mei Foo, Tsuen Wan, Lam Tin, Tuen Mun and Tin Shui Wai, provide a convenient one-stop service to public transport users. Our friendly customer service ambassadors at these centres help passengers with route and timetable information and collect customer feedback. In 2006, in order to further enhance the quality of customer service, KMB pioneered the launch of the "Digital Map Passenger Enquiry System" in multi-media kiosks at its customer service centres, providing a convenient way for passengers to find their way to their destinations and view the surrounding environment and major landmarks on a three-dimensional map. KMB is the first public transport company in Hong Kong to introduce this electronic route search system for passengers. Our customers may also make use of the multi-media kiosks for browsing the KMB website. In addition, Octopus card services and KMB souvenir sales are available at these centres.

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

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



Our Customer Service Centres provide user-friendly, interactive, multimedia guides for passengers

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

Enquiry Hotlines and Websites

Customer service hotlines and websites are effective communications channels between our customers and us. In 2006, KMB's hotline handled about 4.1 million calls — an average of about 342,000 calls per month. The 24-hour hotline system, which operates in Cantonese, English and Putonghua, provides bus route information, traffic news, fax-on-demand services, service updates, voice mail recording and short message service (SMS) on bus route information. In addition, our hotline operator service is available from 7:00 a.m. to 11:00 p.m. daily. LWB's customer service helpline handled

over 16,170 calls in 2006, an average of about 1,348 calls per month. The helpline also collates customer feedback and handles lost and found enquiries.

KMB's customer service hotline is widely considered an industry leader. In the Regional Contact Centre Awards 2006, which was organised by the Contact Centre Association of Singapore, our customer service hotline won the Gold Award in the Best Contact Centre of the Year (under 50 seats) category. In addition, the hotline won the Silver Award of the Contact Centre of the Year, and one of our hotline supervisors also won the Bronze Award in the Supervisor of the Year category at the 2006 Annual Call Centre Awards organised by the Hong Kong Call Centre Association.

The Group's website at www.tih.hk provides a range of information

about TIH and its subsidiaries. The KMB website, www.kmb.hk, features a popular point-to-point route search function and helps visually impaired and novice internet users overcome virtual barriers to access transport information. In 2006, the KMB website was awarded the Gold Prize in the e-Inclusion Campaign. The continuing popularity of the website was reflected in an average daily hit rate of 4.7 million in December 2006.

Customer Communications

The Group's focus remains on the provision of efficient, safe and customer-oriented transport services in Hong Kong and on China Mainland. We are always eager to receive comments that can help us identify customer needs and expectations. In 2006, our Passenger Opinion Cabin, a modified single-deck bus, visited 12 districts in Hong Kong to collect

passengers' opinions on KMB's services. During the year, KMB held six Passenger Liaison Group meetings ("PLGs"), chaired by specialist university lecturers, to gather opinions and assess public expectations. Representatives from the Transport Department of the HKSAR Government also attended these sessions as observers. Comments showed that our passengers are in general satisfied with KMB's services and that we have implemented changes as appropriate in response to various suggestions. LWB also held six PLGs during the year.

KMB's dedication to better communication and environmental protection was also recognised in 2006. KMB's promotion campaigns in community relations: "Equipping KMB Passenger Cabin for Providing More Congenial Services" and "Environmental Protection: Ride Green with KMB" won Silver Awards in the Community Relations and Environmental Protection categories at the 7th China Golden Awards for Excellence in Public Relations held by the China International Public Relations Association.

Information Publications

During the year, publicity material, including bus timetable guides, was regularly updated and published. To cater for the influx of frequent individual travellers from China Mainland, a leaflet on tailor-made trips was published in simplified Chinese characters with detailed information on bus routes and tips for bus travel in Hong Kong. We also published a "Dine and Fun" leaflet featuring exciting attractions and gourmet delights across Hong Kong. In line with the growing interest in natural habitats and a healthy balanced life, leaflets on ecotours and heritage tours were published to offer suggestions for refreshing

breaks. KMB's Service Charter was published as a statement of KMB's commitment to providing passengers with high quality bus services.

LWB distributed more than 8,600 copies of various information leaflets including Airbus Cards during the year. The Airbus Cards provide route and departure information on our Airport routes.

Marketing and Public Education

KMB sponsored a 15-episode travelogue programme (KMB presents "Hong Kong Tasty"), which was broadcast on TVB Jade every Monday from May to August 2006. The programme was designed to promote KMB's extensive network coverage, as well as serving as a platform to show how KMB helps citizens in each district to enjoy a better life. There was a 10-second roller feature with civic education messages at the end of each episode. To tie in with the television programme, 15 advertorial insertions were placed in TVB Weekly magazine.

To publicise our efforts in environmental protection, a total of 12 press sessions and briefings were

organised to promote various new environment-friendly initiatives, including the introduction of Euro IV bus engines, new outlets for tyre chips, collection of fluorescent tubes for recycling, use of synthetic gearbox oil, biological waste-water treatment and the "switch-off bus engines" campaign.

A series of press sessions was also held to raise public awareness of advances in bus technologies, including state-of-the-art bus air-conditioning systems, modern bus maintenance systems, safety bus windows and air quality inside buses. A feature on "zero-accident" bus captains helped publicise KMB's efforts in regard to bus safety.

To promote the importance of proper conduct on buses, a newly launched "Civic Education Campaign", which mainly comprised a series of 10-second civic education television programmes broadcasted from August 2005 to May 2006, won the Certificate of Recognition in the Social Responsibility category of the "2006 Golden World Awards" organised by the International Public Relations Association. Overall, our dedication to excellence was well recognised in 2006.



KMB regularly publishes informative brochures, leaflets and tour guides



professional

People and Safety

Our company ethos is “Caring for People”. We have a staff force of more than 13,000 people who are committed to the Group, the safety and efficiency of its operations and its culture of quality service and innovatory excellence. In line with this, we have cultivated a work environment that values performance and instils a sense of responsibility not only towards the Group and our customers but also towards the community at large.

Over the years, we have devoted a great deal of effort to enhancing the safety of our bus and ferry operations by providing intensive training to our bus captains and ferry crews, improving the design of our buses and carrying out stringent maintenance programmes for our vehicles and ferries. Training, motivation and rewards are the means by which we have sought to maintain and build this environment.

The table below shows the number of staff in each of the Group's divisions:

Division	2006	2005
Franchised Public Bus Operations		
• KMB	12,133	12,339
• LWB	432	417
Non-franchised Transport Operations	784	604
Media Sales Business [#]	69	126
Mainland Transport Operations [*]	7	7
Total	13,425	13,493

[#] including the employees of the Group's subsidiary companies on the Mainland

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

CORPORATE SOCIAL RESPONSIBILITY

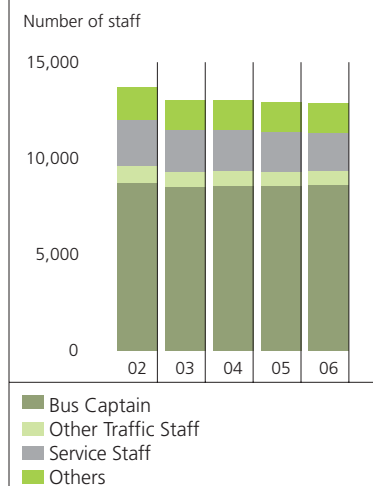
Staff Communications

The Group's successful staff relations are based on the excellent communications that are the bedrock of all our stakeholder initiatives. For our franchised public bus operations, the six Joint Consultative Committees comprising management and employee representatives provide a constructive and proactive channel for discussing matters that affect daily business operations. The Committee meets monthly at KMB and bi-monthly at LWB to discuss and examine issues such as the working environment, safety and operating procedures, and staff welfare. We also have a dedicated homepage for access by KMB and LWB staff. It contains a range of information such as management announcements, real-time weather reports, details of upcoming activities and reports on staff events. Periodic video compact discs "900 Tearoom" and a monthly in-house magazine are the other innovative and interactive means to keep all our frontline staff abreast of the company's policy and developments within both the Group and the industry. We also provide on-line orientation training courses and e-learning programmes.

General Staff Training

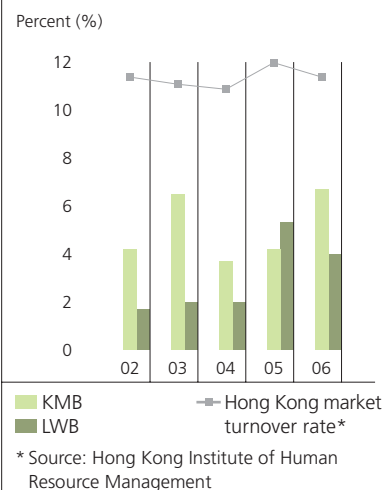
The Group believes that training is not only a practical end in itself but also a major investment in the Group's human capital both now and in the future. The year 2006 was a year of outstanding innovations and creativity, built on a focused platform of top down training. In 2006, a senior management workshop and a team-building workshop were organised to enhance the culture of innovation within the Group. The ultimate goal was the generation of

Number of staff in the Group at 31 December



greater value for all our stakeholders. Throughout the year, training sessions focusing on time management, interpersonal skills, holding effective meetings, problem solving and decision making, computer software applications and business writing skills were provided to our staff at KMB and LWB. A workshop on the Disability Ordinance was also held in conjunction with the Equal Opportunities Commission of the HKSAR Government. During the year, 292 of our staff attended safety training courses organised by the Occupational Safety and Health

Staff turnover rate



Council and the Labour Department of the HKSAR Government.

Outstanding Service Award

During 2006, KMB continued to organise the "Outstanding Service Award" to promote its quality service culture. A total of 62 staff members were recognised for their outstanding performance. In addition, the following awards were presented to KMB's and LWB's staff in appreciation of their commitment and contributions:

2006 Good Service and Safe Driving Annual Award for bus captains

Number of Bus Captains	KMB	LWB	Total
Good Service Annual Award	6,601	270	6,871
Safe Driving Annual Award	4,198	180	4,378

2006 Good Service and Attendance Award for terminus supervisors/ assistant terminus supervisor/customer service assistants

Number of Employees	KMB	LWB	Total
Good Service Award	432	17	449
Attendance Award	264	6	270

CORPORATE SOCIAL RESPONSIBILITY

The operating companies of the Group's Non-franchised Transport Operations Division continued to run good service and safe driving award schemes to recognise the outstanding performance of our drivers in 2006.

Bus Captain Training

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

The newly recruited bus captains commence their training at the Training School with theory lessons in classroom emphasising safety and customer service, as well as practical on-road training. In addition to the HKSAR Government driving examinations, stringent internal assessments are made to ensure that all our bus captains are qualified and capable of taking up their responsibilities.

For experienced bus captains, enhancement training courses reinforce their awareness of safety and sensitivity to passenger comfort. In 2006, the Training School continued to use the Vigil Vanguard System for enhancement training. The system captures on-road bus driving performance information, including passenger comfort indicators, bus speed and trip duration through the use of on-board video cameras and the Global Positioning System. Through analysing and discussing the findings in training classes, our driving instructors can focus on the causes of



Our highly trained team is ready to undertake bus maintenance at all times

on-road incidents and identify areas where driving techniques should be improved. Our training programmes are designed to ensure that our bus captains' competence is continuously upgraded, safety profiles enhanced and passenger satisfaction raised.

Bus Captains' Performance Monitoring

The performance of bus captains is monitored by our specialised team with a systematic performance assessment mechanism. Bus captains whose performance need enhancement are required to attend remedial training courses. The Disciplinary and Monitoring Team monitors the

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

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

2006 Safe Driving Award for bus captains

Number of Bus Captains	KMB	LWB	Total
35-year accident free	2	0	2
25-year accident free	12	0	12
20-year accident free	32	0	32
15-year accident free	71	1	72
10-year accident free	147	3	150
5-year accident free	487	15	502
Total	751	19	770

Bus Design and Maintenance

The design and maintenance of buses is critical to safe operations and passenger satisfaction. Over the years, KMB's engineering team has liaised and collaborated with major bus manufacturers for the design of new bus types that are suitable for Hong Kong's unique operating environment. For monitoring and enhancement of safety, standard equipment such as speed limiting devices and electronic tachographs that record the on-road performance data of buses are used in our fleet.

In accordance with our ISO certified maintenance programmes, we ensure that daily, monthly and annual inspections and examinations of KMB and LWB buses are professionally performed at our depots. In addition, our buses are also subject to spot checks on a random basis by the Transport Department of the HKSAR Government.

Ferry Crew Training

Park Island Transport Company Limited ("PITC") believes that on-board safety is a key focus of its ferry operations. All members of our crews have appropriate maritime qualifications and seagoing experience and they participate in PITC's ongoing training and professional development programmes.

Newly recruited ferry crew members are required to attend training programmes to fully familiarise themselves with all aspects of the handling and navigation of our fleet of catamarans. The programmes also emphasise on-board safety and customer service. In addition, ongoing professional development programmes are provided to enhance crew skills in areas such as effective

radar and Very High Frequency (VHF) radio operations. We also encourage our crew to attend general training courses organised by the Vocational Training Council on passenger safety, medical first aid, fire fighting and survival techniques.

For handling emergency situations, crew members' ability to make prompt and effective response is trained and enhanced by regular emergency exercises. On-board fire-fighting, collision and equipment failure drills are regularly organised. We pay special attention to increasing our crew's awareness of safety and sensitivity to passenger comfort. We constantly review these standards and identify service improvement areas to upkeep PITC's outstanding service and safety records.

Technical and Apprentice Training

The KMB Technical Training School is responsible for providing training in the

latest bus transportation technology to our maintenance staff. During 2006, a total of 224 in-house training sessions were held for 1,795 skilled workers and 26 sessions were organised for a total of 353 engineers, supervisors and foremen in collaboration with our bus manufacturers.

KMB has continued to run a four-year apprenticeship-training scheme to train skilled maintenance workers. A total of eight apprentices graduated from the School in 2006. The total number of graduates since 1973 has reached 2,092. At the end of 2006, there were 131 apprentices in training. The high standards of KMB's apprentice training were again recognised during the year. Three of our apprentices won the first, third and fourth prize respectively in the automobile section of the 2006 "Best Apprentice Competition" organised by the Vocational Training Council. The winners were invited to visit the Nissan and Toyota plants in Japan.



Drills are regularly organised as part of PITC's training programme



caring

Community Involvement

The Group has actively participated in a broad range of community programmes and charitable activities for many years. Our staff has outstanding community spirit and regularly takes part in various corporate and community events. Such events in 2006 included the Hong Kong Community Chest Corporate Challenge Half Marathon, the Standard Chartered Hong Kong Marathon 2006, Green Power Hike, International Dragon Boat Invitational Race 2006, Island District Long Distance Run, Orbis Pin Day and Pink Revolution.

FRIENDS OF KMB

We believe that KMB's passengers are fellow citizens and friends with shared concerns and aspirations. KMB's passenger club, FRIENDS OF KMB, is a model we plan to extend across our various commercial businesses. During 2006, its 2,750

members voluntarily gave a total of about 14,000 hours of their time to activities relating to community building, civic education, environmental protection and social service. Club members visited centres for the elderly, children's homes and a sheltered workshop and took part

in charity walks, raffle ticket sales, carnivals and environmental protection efforts. Since its inception eleven years ago, the club has recorded over 50,000 hours of voluntary service, which was recognised in 2006 by the Social Welfare Department of the HKSAR

CORPORATE SOCIAL RESPONSIBILITY

Government in naming the club second-runner-up of the Highest Service Hour Award 2005 (Private Organisation – Best Customer Participation). Also, FRIENDS OF KMB won the 2006 Best Practice Award – Customer Relationship Management, organised by Best Practice Management, and the Heart of Gold Award 2006 – Corporation and Business Entities, organised by Ming Pao Weekly, The Peace and Development Foundation, The United Nations Development Programme and The Better Hong Kong Foundation.

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

Over the years, many companies of our Group have been supporters of programmes that serve young people, the elderly, the less able and people in need. The Group is an active participant in community sponsorship programmes such as the Corporate and Employee Contribution Programme, Corporate Challenge Half Marathon, Dress Special Day and New Territories Walk for Millions organised by the HKSAR Government, professional groups and charitable organisations.

In 2006, KMB was presented an Award of Distinction by The Community Chest of Hong Kong and was also named a “Caring Company” by the Hong Kong Council of Social Service. Community

sponsorship commitments made by us over the year included those to the arts, cultural events and sports and to campaigns that focus on industry improvement and social awareness. Beneficiaries included the Hong Kong Arts Festival, the Hong Kong Sports Stars Awards, the Hong Kong Outstanding Youth Volunteers Scheme, the Hong Kong Girl Guides Association Grand Parade, the Hong Kong Awards for Industries and the Hong Kong Management Association Quality Award.

In addition, for five consecutive years, the Group’s subsidiary company, RoadShow Holdings Limited (“RoadShow”), has received the “Caring Company Award” organised by the Hong Kong Council of Social Service. RoadShow continues to support many charities and not-for-profit organisations through the publication of community service

messages and charity appeals on its Multi-media On-board (MMOB) system.

Assistance to Those with Special Needs

In November 2006, the Group offered free bus rides on its franchised bus routes to different categories of passengers in Hong Kong. On “Elderly Day”, free rides were given on both KMB and LWB buses to passengers aged 65 and above. Similar support was provided to disabled people and their escorts through a free ride offer on “International Day of Disabled Persons”. KMB and LWB have continued to work closely with disabled groups through exchange forums on improvements to facilitate the use of public transport by the disabled.



Our people are passionate about their participation in community events

A black and white photograph of a double-decker bus driving towards the viewer on a road lined with trees. The bus has the number 271 on its destination sign. The word "contributing" is overlaid in large green letters.

contributing

Caring for the Environment

As a socially responsible corporate citizen, the Group has shown a longstanding commitment to conducting its business in ways that reduce adverse impacts on the environment. Over the years, we have implemented many procedures to minimise and mitigate environmental impacts across the spectrum of our depot and fleet operations. KMB was honourably nominated as the ECO-Action Champion of ECO-PAGES 2006 by the Hong Kong Sustainable Communications Association. This reflected KMB's pledge to take a leading role in proactively protecting the environment and conveying the significance of building a sustainable future.

Environment-friendly Buses

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

Euro Engines

At the end of 2006, all KMB and LWB buses were equipped with environment-friendly engines that meet the stringent exhaust emission standards of the European Council of Environmental Ministers. During the year, 109 buses with emissions complying with the Euro III standard were added to the fleet, bringing the total number of buses equipped with Euro II (or close to Euro II standard in

terms of particulate matters) and Euro III engines to 2,433 and 1,031 respectively at the end of 2006.

KMB took an industry lead by introducing the first two units of Euro IV air-conditioned double-deck buses to Hong Kong. These two buses include one Dennis Trident Enviro 500 equipped with Euro IV engine and one Volvo Olympian B9TL Euro IV prototype which have been licensed and under testing in the local operating environment.

CORPORATE SOCIAL RESPONSIBILITY

Catalytic converters were installed on all of KMB's 1,495 buses with pre-Euro or Euro I engines and LWB's nine single-deck air-conditioned buses with pre-Euro engines. With the catalytic converters and the use of Ultra Low Sulphur Diesel, the exhaust emissions of pre-Euro and Euro I buses have been improved to Euro I and Euro II engine standards respectively.

Apart from the installation of catalytic converters, a total of 30 Euro II and 584 Euro III buses are equipped with Diesel Particulate Filters. The exhaust emission of these Euro II and Euro III buses has met the Euro IV standard in terms of particulate matters.

Buses equipped with Continuous Regeneration Traps ("CRTs") can achieve a significant reduction of particulate matters and reduce smoke levels to virtually zero. At the end of 2006, KMB had a total of 504 Euro III-engined buses equipped with CRTs plus an exhaust gas recirculation device, enabling them to meet emission standards at a level close to Euro IV engine standards.

The numbers of KMB and LWB buses that met the respective emission standards as at 31 December 2006 are listed below:

Emission Standards	Number of licensed buses meeting such standards	
	KMB	LWB
Euro I	555	9
Euro II	2,433	136
Euro III	1,031	8
Euro IV	2	–
Total	4,021	153

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

Ultra Low Sulphur Diesel ("ULSD")

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

Revolutionary Diesel-Electric Hybrid Buses

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

Environment-friendly Non-franchised Buses

The SBH Group and New Hong Kong Bus Company Limited's bus fleets are equipped with environment-friendly engines. Around 88% of the fleet operates with Euro II or Euro III engines.

Synthetic Transmission Oil

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

Eco-Driveline

The pioneering Eco-Driveline on buses was developed by KMB by integrating an engine with a high torque, six-speed double overdrive gearbox, an optimised final drive ratio axle and a sophisticated electronic control gear-shift programme. This system not only provides passengers with a smoother ride but also reduces both fuel consumption and exhaust emissions by 6% to 10%.

Air Foam Filter

Our Group's double-deck buses have been using air foam filters since 2004. After extensive testing, the air foam engine filters were proved to have an average life span of about 12 months, which is 6 times longer than that of the conventional paper filters. While the operating performance of our buses has been maintained, the solid waste associated with the used filters has been greatly reduced.



KMB's brand new tyre retreading machine has commenced operation

Waste Treatment WasteWise Scheme

One of the environmental issues that the Group has focused on for many years is waste minimisation and treatment. In 2005, KMB implemented the WasteWise Scheme, which was promoted by the Environmental Protection Department of the HKSAR Government. In 2006, KMB was awarded the Gold WasteWise Scheme Logo in recognition of its efforts in waste reduction and management. Excellent results were recorded in resource saving and waste-reduction in daily operations, especially in waste paper, disposable batteries and fluorescent tubes collection, reduced sludge generation and procurement of long-life fluorescent tubes. The

solid waste management scheme enables the efficient use of materials and significantly reduces the amount of solid waste generated.

Waste Oil and Chemical Waste

During 2006, approximately 890,000 litres (2005: 963,600 litres) of consumed lubricating oil from our bus maintenance programmes were delivered to a registered waste oil recycling agent for treatment and approximately 335,880 kilograms (2005: 349,800 kilograms) of solid chemical waste went to the authorised landfill in Hong Kong.

Waste Water

Waste water continues to be treated according to regulatory standards

before it is discharged into the public sewage system. In 2006, KMB maintained 11 automatic waste water treatment systems for its fleet and depots with a total daily treatment capacity of 120 cubic metres.

Tyre Retreading and Recycling of Scrap Tyres

To demonstrate its commitment to environmental protection, KMB explores every possibility in the recycling of scrapped tyres. As one of our innovative recycling exercises, beginning in July 2006 scrapped tyres previously dumped to government landfill were collected by a tyre recycling agent who extracts various materials out of them and recycles them into a variety of products such

as playground flooring or other rubber products. Approximately 240 tones of tyre chips were collected by the end of 2006. To alleviate environmental impacts caused by industrial waste and to fully utilise resources, 32,400 tyres were retreaded in the KMB tyre retreading plant in 2006.

Recycling of Fluorescent Tubes

In 2006, KMB became the first enterprise in Hong Kong to participate in a fluorescent tube recycling campaign, thereby contributing to the reduction of the impact of solid waste on the environment. The used fluorescent tubes will be collected by a licensed contractor regularly for recycling. The contractor will remove mercury from the used tubes at a Government chemical waste treatment centre before they are crushed into glass granules, allowing the retrieved mercury, glass granules and other metal parts to be reused. In 2006, approximately 24,000 pieces of used fluorescent tubes were sent to the Government chemical waste treatment centre for recycling.

Self-developed Filter-compressing Machine

During the year, an in-house developed filter-compressing machine, which was first introduced in 2005, was used by KMB to compress disposed engine oil filters, thus reducing the volume of solid waste by 60%. Waste lubricating oil collected from this process will undergo a reclaiming and subsequent recycling process, which further helps environmental conservation.

Green Premises

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

The design and renovation of the Group's headquarters in Hong Kong incorporates the "Green Office" concept. Pre-set timers switch off

lightings when they are not needed or when outdoor light is sufficient. Temperature control devices keep office temperatures within a comfortable range. From 2004 to 2006, the Indoor Air Quality Information Centre of the Environmental Protection Department has awarded our headquarters building the Indoor Air Quality Certificate (Good Class) in recognition of its hygienic work environment and excellent air quality.

In 2006, KMB joined the HKSAR Government's "Action Blue Sky Campaign" and set the temperature controllers in our air-conditioned premises to 25.5 °C to help enhance Hong Kong's air quality and conserve energy.



We are proud to be awarded the "Gold Wastewise Logo" for our waste treatment measures

FINANCIAL REVIEW

The Group

Review of 2006 Financial Performance

The Group's Results for the Year

The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2006 was HK\$1,838.0 million, an increase of HK\$1,253.8 million compared with HK\$584.2 million for 2005. The profit for 2006 included the after-tax profit of HK\$1,500.2 million arising from the sales of a number of residential units and car parking spaces of Manhattan Hill by Lai Chi Kok Properties Investment Limited, a wholly-owned subsidiary of the Company, which is of a non-recurrent nature. However, the after-tax profit of the Group's flagship company, The Kowloon Motor Bus Company (1933) Limited ("KMB") which provides franchised public bus services in Hong Kong, decreased drastically by 54.5% to HK\$216.3 million for 2006 from HK\$475.5 million for 2005.

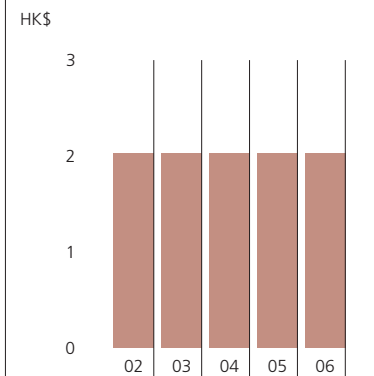
The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2006 are summarised below:

The Group's turnover for 2006 amounted to HK\$8,704.5 million (2005: HK\$6,456.4 million), representing an increase of HK\$2,248.1 million or 34.8% compared with 2005. The increase was primarily due to the sales of Manhattan Hill residential units in late 2006 which resulted in sale revenue of HK\$2,133.2 million (2005: Nil) being recognised during the year, while fare revenue and other income generated from the Group's transport operations and other businesses increased by HK\$114.9 million as compared with 2005.

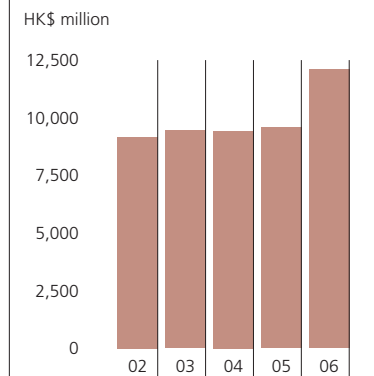
The Group's total operating expenses for 2006 amounted to HK\$6,802.2 million (2005: HK\$5,929.2 million), an increase of HK\$873.0 million or 14.7% compared with 2005. The increase mainly comprised the cost of sales of HK\$461.1 million (2005: Nil) in respect of the Manhattan Hill residential units sold during the year and the increase in fuel and oil costs of HK\$186.1 million as a result of the surge of international oil prices in 2006. Toll charges and finance costs also increased by HK\$20.1 million and HK\$37.2 million respectively when compared with those of 2005 due to higher toll charges and interest rates. More detailed information in respect of the Group's individual business units are set out on pages 92 to 97 of this Annual Report.

HK\$ million	Turnover		Profit before taxation	
	2006	2005	2006	2005
Franchised Public Bus Operations Division	6,072.8	5,995.9	327.5	540.4
Non-franchised Transport Operations Division	337.1	287.0	40.1	35.4
Property Holdings and Development Division	2,133.2	–	1,616.4	13.4
Media Sales Business Division	161.4	173.5	63.4	34.8
Internal Financial Services Division	–	–	14.1	5.2
Mainland Transport Operations Division	–	–	45.1	41.5
	8,704.5	6,456.4	2,106.6	670.7
Finance costs			(106.3)	(69.1)
Unallocated net operating income			2.4	89.1
Profit before taxation and minority interests			2,002.7	690.7
Income tax			(133.3)	(95.9)
Minority interests			(31.4)	(10.6)
Profit attributable to equity shareholders of the Company			1,838.0	584.2

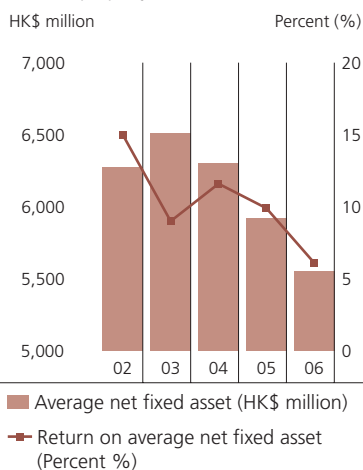
Dividends per share



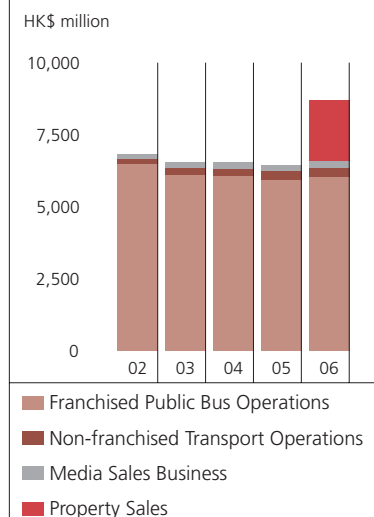
Total assets at 31 December



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



Group turnover



The Group's share of profits of associates in 2006 amounted to HK\$51.7 million (2005: HK\$53.4 million), a decrease of HK\$1.7 million compared with 2005.

Income tax expense for the year amounted to HK\$133.3 million (2005: HK\$95.9 million), representing an increase of 39.0% compared with the previous year. The breakdown of the income tax expense is set out in note 6(a) to the financial statements on page 138 of this Annual Report.

Segment information on the main businesses of the Group is set out in note 12 to the financial statements on page 142 of this Annual Report.

Key Changes to Financial Position

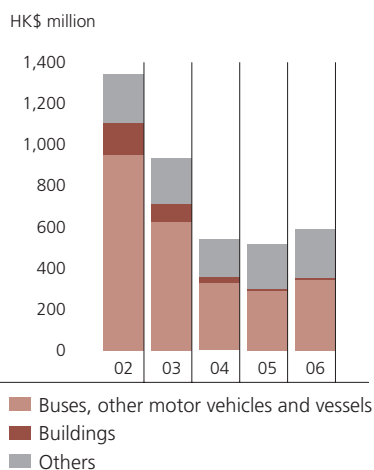
Fixed Assets and Capital Expenditure

The Group's fixed assets in the consolidated balance sheet mainly comprise buildings, interest in leasehold land held for own use under operating leases, investment property under development, buses and other motor vehicles, vessels, buses under construction, tools and others. None of the Group's fixed assets was pledged or charged as at 31 December 2006.

During the year, capital expenditure incurred by the Group amounted to HK\$588.2 million (2005: HK\$514.8 million).

FINANCIAL REVIEW

Capital expenditure



The increase was mainly attributable to the purchase of new buses for fleet replenishment and network reorganisation. A detailed breakdown of the capital expenditure incurred is shown in note 13(a) to the financial statements on page 143 of this Annual Report.

Current Assets and Liabilities

The total current assets at the end of 2006 amounted to HK\$5,077.0 million (2005: HK\$2,341.2 million) which mainly comprised completed property held for sale of HK\$1,433.4 million (2005: Property under development of HK\$707.1 million), accounts receivable of HK\$2,179.3 million (2005: HK\$297.2 million) and liquid funds of HK\$1,228.5 million (2005: HK\$1,133.7 million). Completed property held for sale represented the total development cost of Manhattan Hill which was attributable to the unsold property units held at 31 December 2006. Accounts receivable included instalments receivable from the sale of certain residential units and car parking spaces of Manhattan Hill during the year in the amount of HK\$1,855.7 million (2005: Nil). The Group's liquid funds were mainly denominated in Hong Kong Dollars ("HKD"), United States Dollars ("USD"), British Pound Sterling ("GBP") and Renminbi.

The significant increase in total current assets was due mainly to the completion of the Manhattan Hill development and sales of certain Manhattan Hill properties in 2006 which resulted in the recognition of the costs of

completed property held for sale and instalments receivable from the sale of properties as current assets in the consolidated balance sheet.

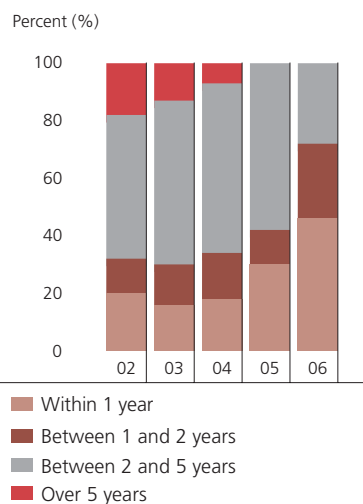
Total current liabilities at 31 December 2006 amounted to HK\$3,786.8 million (2005: HK\$2,157.5 million) which mainly included the current portion of bank loans, bank overdrafts, accounts payable and other accruals. The increase was mainly due to the additional loan borrowings to finance the development of Manhattan Hill.

Bank Loans and Overdrafts

At 31 December 2006, bank loans and overdrafts amounted to HK\$3,832.7 million (2005: HK\$3,179.9 million) of which bank loans of HK\$38.0 million were secured by pledged bank deposits of HK\$39.5 million.

The maturity profile of bank loans and overdrafts of the Group at 31 December 2006 and 31 December 2005 is shown in the chart below:

Debt maturity profile at 31 December



Net Borrowings

At 31 December 2006, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$2,564.7 million (2005: HK\$2,046.3 million), representing an increase of HK\$518.4 million compared with 2005.

The details of the Group's net borrowings by currency at 31 December 2006 is shown below:

Currency	2006		2005	
	Net borrowings/ (cash) in foreign currency million	Net borrowings/ (cash) in HK\$ million	Net borrowings/ (cash) in foreign currency million	Net borrowings/ (cash) in HK\$ million
HKD		3,082.4		2,297.8
USD	(46.9)	(365.6)	(28.3)	(220.5)
GBP	(1.6)	(23.7)	(1.5)	(20.3)
Renminbi	(128.4)	(128.4)	(11.2)	(10.7)
Total		2,564.7		2,046.3

Commitments

At 31 December 2006, commitments outstanding and not provided for in the financial statements of the Group amounted to HK\$491.2 million (2005: HK\$1,878.6 million). The nature of the commitments is shown in the table below:

HK\$ million	2006	2005
Development of Manhattan Hill	37.2	1,275.5
Purchase of buses and other motor vehicles	188.3	270.3
Purchase of other fixed assets	263.3	330.7
Construction of depots and other depot facilities	2.4	2.1
Total	491.2	1,878.6

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

At 31 December 2006, the Group had 97 (2005: 125) buses on order for delivery in 2007 and 38 (2005: 46) buses under various stages of construction.

Funding and Financing

Liquidity and Financial Resources

Under the principle of prudent financial management, the Group has constantly monitored its liquidity and financial resources with an aim to maintain a healthy financial position throughout the year so that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the demands for daily operational needs, loan repayments, capital

expenditure, and potential business expansion and development.

During the year, the Group's operations were mainly financed by shareholders' funds, bank loans and overdrafts. In general, the Group's major operating companies arrange their own financing to meet their operational and investment needs. For the other subsidiaries, they are mainly financed by the holding company from its capital base. From time to time, the Group reviews its funding strategy to ensure that cost-efficient funding is available to cater for the unique operating environment of each subsidiary. At 31 December 2006, the Group had stand-by banking facilities totalling HK\$1,254.0 million (2005: HK\$1,299.0 million).

Gearing Ratio and Liquidity Ratio

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

	2006	2005
Gearing ratio at year-end (the ratio of net borrowings to the total share capital and reserves attributable to equity shareholders of the Company)	0.51	0.51
Liquidity ratio at year-end (the ratio of current assets to current liabilities)	1.34	1.09

The increase in the Group's liquidity ratio at the end of 2006 as compared with 2005 was due mainly to the increase in accounts receivable arising from the sales of Manhattan Hill residential units.

Finance Costs and Interest Cover

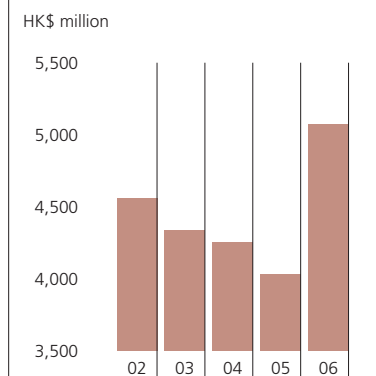
The finance costs incurred by the Group for 2006 increased to HK\$106.3 million from HK\$69.1 million for 2005 as a result of a rise in interest rates and an increase in the Group's borrowings during the year.

The average interest rate in respect of the Group's borrowings for 2006 was 4.34%, an increase of 133 basis points compared with 3.01% for 2005.

Interest cover, representing the ratio of profit before finance costs and taxation divided by net finance costs (i.e. total finance costs less interest income), was 32.1 times in 2006 (2005: 15.8 times).

FINANCIAL REVIEW

Shareholders' fund at 31 December



Net Cash Flow

Our cash flow generated from operations, especially the franchised public bus operations, has been our principal source of liquidity. For the year ended 31 December 2006, there was a net increase in cash and cash equivalents of HK\$229.0 million and the sources are shown as below:

HK\$ million	2006	2005
Net cash provided by/ (used in):		
• Operating activities	788.6	773.9
• Investing activities	(408.5)	(484.7)
• Financing activities	(151.1)	(495.8)
	229.0	(206.6)

The net cash inflow generated from operating and investing activities of the Group increased from HK\$289.2 million in 2005 to HK\$380.1 million in 2006, which mainly included: (i) net cash generated from the franchised public bus operations of HK\$1,000.5 million; (ii) cash proceeds

received in the amount of HK\$273.2 million from the sales of Manhattan Hill residential units in 2006; (iii) payment of capital expenditure of HK\$599.5 million; and (iv) interest expenses of HK\$140.7 million.

The net increase in bank loans in 2006 amounted to HK\$674.6 million compared with HK\$345.0 million in 2005. Before the payment of dividends for 2006, the net cash inflow for 2006 was HK\$1,048.4 million, compared with HK\$612.8 million for 2005.

Details of the Group's cash flow movement for the year ended 31 December 2006 are set out in the consolidated cash flow statement on pages 123 to 124 of this Annual Report.

Treasury Policies

The Group's activities are exposed to a variety of financial risks, including cash flow and liquidity risk, interest rate risk and foreign currency risk. The overall risk management programme of the Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

Cash Flow and Liquidity Management

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

The Group has not been exposed to significant cash flow and liquidity risks as a substantial portion of the Group's revenue is generated from the franchised public bus operations which are on cash basis. Through proper planning and close monitoring of the level of debts, the Group is able to effectively meet its funding and investment requirements.

Interest Rate Risk Management

The Group manages its exposure to interest rate risk in a prudent manner with a variety of techniques and instruments, including natural hedges achieved by spreading loans over different rollover and maturity dates. Derivative financial instruments such as interest rate swaps are used, as and when appropriate. As at 31 December 2006, the Group's borrowings were mainly denominated in Hong Kong Dollars and on a floating interest rate basis. This enabled the Group to take advantage of the lower floating interest rates compared with the fixed rate financing in 2006. The good and stable "A" credit rating granted to KMB by Standard & Poor's has facilitated it to obtain favourable borrowing rates from the financial institutions. The Group will constantly review its strategy on interest rate risk management and implement suitable strategies to cope with the risk exposure in light of prevailing market conditions.

Foreign Currency Risk Management

Foreign currency risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments and transactions denominated in foreign currencies. The Group's foreign currency exposure mainly arises from the payments for new buses and overseas motor vehicle components which are denominated in GBP. To minimise the foreign exchange risk, the Group entered into a number of forward foreign exchange contracts during 2006 to hedge approximately 38% (2005: 50%) of the total GBP requirement for the year. Although foreign currency exposure does not pose a significant risk to the Group as the levels of foreign currency assets and liabilities were relatively low compared to its total asset base, the Group will continue to closely monitor the foreign exchange movements and strategically enter into forward exchange contracts to hedge its foreign currency requirement when opportunities arise.

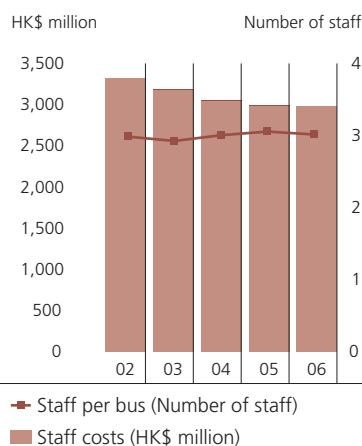
Employees and Remuneration Policies

Transport operations are labour intensive and therefore staff costs accounted for a substantial portion of the total cost of the Group. During the year, through cautious control of the number of staff to align with the saving in manpower resulting from the implementation of various bus network reorganisation programmes, the headcount of the Group at the year-end of 2006 decreased marginally to 13,425 (2005: 13,493). The decrease was due mainly to natural attrition and the introduction of a voluntary retirement scheme in 2006.

For the year ended 31 December 2006, the total remuneration of employees of the Group (including employees of the Group's subsidiary companies on the Mainland) amounted to HK\$2,979 million (2005: HK\$2,983 million), representing 42% (2005: 49%) of the total operating costs. The Group will continue to closely monitor and align the number and remuneration of its employees against productivity and market trends.

Staff costs and staff per bus

(Franchised Public Bus Operations)



Individual Business Units

Franchised Public Bus Operations

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

	Unit	2006	2005
Turnover	HK\$ million	5,790.6	5,733.3
Gain on disposal of building and interest in leasehold land	HK\$ million	–	90.5
Other net income	HK\$ million	68.3	75.1
Total operating expenses	HK\$ million	(5,560.3)	(5,295.7)
Finance costs	HK\$ million	(63.1)	(46.2)
Profit before taxation	HK\$ million	235.5	557.0
Income tax expense	HK\$ million	(19.2)	(81.5)
Profit after taxation	HK\$ million	216.3	475.5
Net profit margin		3.7%	8.3%
Passenger volume	Million passenger trips	1,007.9	1,009.9
Kilometres travelled	Million km	336.2	339.0
Staff number at year-end	Number of staff	12,133	12,339
Fleet size at year-end	Number of buses	4,021	4,029
Total assets value	HK\$ million	5,789.0	5,939.8

The profit after taxation of KMB for the year amounted to HK\$216.3 million (2005: HK\$475.5 million), representing a decrease of HK\$259.2 million or 54.5% compared with that for the previous year. The decrease was due mainly to the surge of fuel prices to a historically high level in 2006 and the one-off nature of the capital gain of HK\$90.5 million arising from the disposal of the Kwai Chung Depot and included in the profit for 2005.

KMB's fare revenue for the year increased by 1.0% from HK\$5,668.0 million for 2005 to HK\$5,722.4 million for 2006 due largely to the growth in ridership of the certain routes. However, its total ridership slightly decreased by 0.2% from 1,009.9 million passenger trips in 2005 to 1,007.9 million passenger trips in 2006, mainly as a result of the keen competition from the railways. KMB's advertising revenue for the year amounted to HK\$64.7 million (2005: HK\$64.0 million), an increase of 1.1% compared with the previous year.

KMB's total operating expenses for 2006 amounted to HK\$5,560.3 million (2005: HK\$5,295.7 million), representing an increase of HK\$264.6 million or 5.0% compared with that of 2005. Fuel oil expense increased by HK\$160.8 million or 19.9% to HK\$970.4 million compared with 2005 as a result of a drastic upsurge in the

international fuel oil price to a historically high level during 2006. Insurance costs, tunnel tolls and finance costs for the year also increased by HK\$47.4 million, HK\$17.3 million and HK\$16.9 million respectively compared with those for 2005 due to increases in insurance claims as well as in toll charges and interest rates. These increases in operating costs were largely beyond the control of KMB. Nevertheless, we will continue to step up our efforts in productivity enhancement, bus network reorganisation and stringent cost control, as well as exploring new sources of income wherever possible, to mitigate the impact of the escalating operating costs.

The total actual distance travelled by KMB's buses during the year was 336.2 million kilometres (2005: 339.0 million kilometres). The slight decrease was mainly due to the bus network reorganisation implemented during the year.

By consistently adopting a prudent financial management policy, KMB has continually been assigned a single "A" corporate rating (outlook: stable) by Standard & Poor's since 14 January 2002.

Long Win Bus Company Limited (“LWB”)

	Unit	2006	2005
Turnover	HK\$ million	293.1	271.4
Other net income	HK\$ million	3.0	1.7
Total operating expenses	HK\$ million	(267.3)	(245.4)
Finance costs	HK\$ million	(6.8)	(5.1)
Profit before taxation	HK\$ million	22.0	22.6
Income tax expense	HK\$ million	(3.5)	(3.9)
Profit after taxation	HK\$ million	18.5	18.7
Net profit margin		6.3%	6.9%
Passenger volume	Million passenger trips	26.5	24.3
Kilometres travelled	Million km	24.5	23.8
Staff number at year-end	Number of staff	432	417
Fleet size at year-end	Number of buses	153	148
Total assets value	HK\$ million	225.2	249.6

The profit after taxation of LWB for the year amounted to HK\$18.5 million (2005: HK\$18.7 million), representing a decrease of 1.1% compared with that for the previous year.

LWB's fare revenue for the year increased by 8.1% from HK\$269.5 million for 2005 to HK\$291.2 million for 2006. The total ridership of LWB in 2006 was 26.5 million (a daily average of 72,617) passenger trips, an increase of 9.1% compared with 24.3 million (a daily average of 66,553) passenger trips in the previous year. The increase was due mainly to the continued growth of population in Tung Chung New Town and the increased travel demand to and from the Hong Kong International Airport, Hong Kong Disneyland and AsiaWorld-Expo. The opening of Ngong Ping 360 in 2006 also contributed to the increase in LWB's ridership. The advertising revenue of LWB increased to HK\$1.6 million in 2006 from HK\$1.2 million in 2005.

LWB's total operating expenses for the year amounted to HK\$267.3 million (2005: HK\$245.4 million), an increase of 8.9% compared with 2005. The increase was due mainly to increases in fuel costs and tunnel toll charges, as well as other operating expenses as a result of service enhancement to cope with the growing transport demand. Finance costs for 2006 increased by HK\$1.7 million to HK\$6.8 million (2005: HK\$5.1 million) due to the increase in market interest rates.

The total actual distance operated by LWB for the year increased to 24.5 million kilometres (2005: 23.8 million kilometres) due mainly to the expansion of its route network to cater for the new transport demand associated with the opening of Hong Kong Disneyland in September 2005.

Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK\$29.6 million for 2006 (2005: HK\$26.8 million), representing an increase of 10.4% compared with that for the previous year. Turnover increased by 17.5% from HK\$287.0 million for 2005 to HK\$337.1 million for 2006. The increase was due primarily to the continuous improvement of the local economy, new business opportunities associated with the opening of Hong Kong Disneyland and the growth in patronage of the cross-boundary shuttle bus service.

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

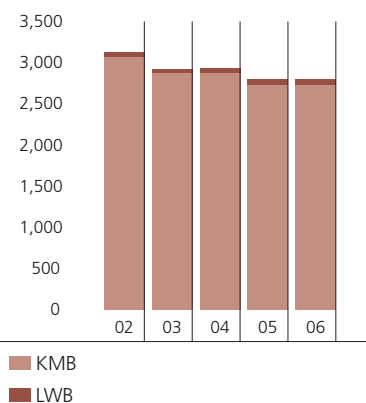
The SBH Group is one of the leading operators in Hong Kong's non-franchised bus industry and provides a range of bus services tailored to specific niche markets. Its fleet serves large residential estates, shopping malls, major employers, theme parks, deluxe hotels, local travel agents and schools, as well as the general public through chartered hire services.

FINANCIAL REVIEW

Average number of passenger trips per day

(Franchised Public Bus Operations)

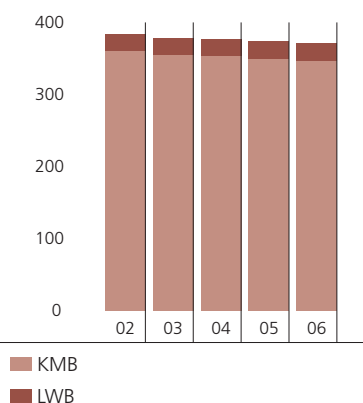
Thousand of passenger trips per day



Bus kilometres operated

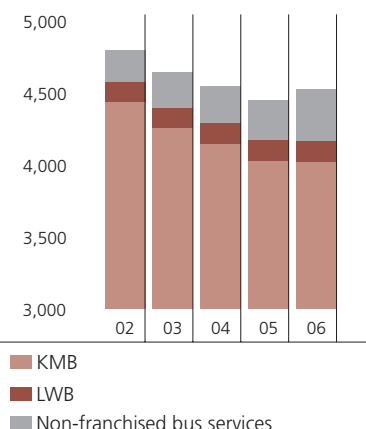
(Franchised Public Bus Operations)

Million kilometres



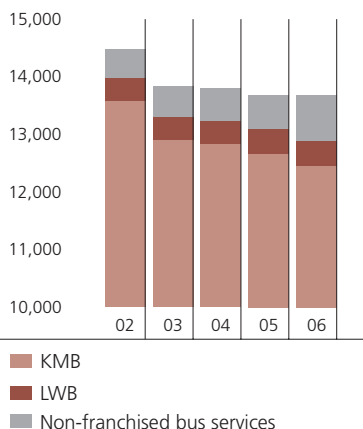
Number of licensed buses at 31 December

Number of buses



Number of staff at 31 December

Number of staff



Turnover of the SBH Group for the year amounted to HK\$157.8 million, an increase of 38.4% compared with 2005. The increase was due mainly to the growth in patronage as a result of the introduction of new shuttle bus routes serving Hong Kong Disneyland since its opening in September 2005, the continuing growth of the number of tourists from the Mainland and the contribution from the acquisition of a local non-franchised bus operator during 2006. However, the growth in turnover was partially offset by the drastic increase in fuel costs during the year.

At 31 December 2006, the SBH Group had a fleet of 330 buses (2005: 249 buses). During the year, 126 buses (2005: 65 buses) were purchased for service enhancement and fleet replacement.

Park Island Transport Company Limited ("PITC")

PITC has been providing shuttle bus and ferry services for residents of and visitors to Park Island, a prestigious

development on Ma Wan Island. For the year 2006, the total patronage of both the bus and ferry services of PITS increased by 16.9% to 6.9 million passenger trips (2005: 5.9 million passenger trips). This increase was due mainly to the additional population intake of Park Island. To cater for the increased transport demand, PITS added three new super-low floor single-deck buses to its bus fleet in 2006. At the year-end, PITS operated two ferry routes and two bus routes serving Ma Wan Island, with a ferry fleet of seven high-speed catamarans and an air-conditioned bus fleet of 14 super-low floor single-deck buses, three diesel-electric hybrid super-low floor single-deck buses and one 28-seat mini-bus.

New Hong Kong Bus Company Limited ("NHKB")

NHKB, together with its Shenzhen (深圳) counterpart, jointly operates a direct, economical, 24-hour cross-boundary shuttle bus service serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang (皇崗) in Shenzhen. Due mainly to the increase in economic activities between Hong Kong and the Mainland as a result of the Closer Economic Partnership Arrangement (CEPA) and the increase in the number of visitors from the Mainland as a result of the extension of the Individual Visit Scheme to more Mainland cities, NHKB's patronage increased by 9.9% from 9.1 million passenger trips for 2005 to 10.0 million passenger trips for 2006. NHKB operated a total of 15 buses at year-end 2006, the same as at the end of 2005.

Property Holdings and Development

Lai Chi Kok Properties Investment Limited ("LCKPI")

LCKPI is a wholly-owned subsidiary of the Group and the owner and developer of the residential and commercial complex known as "Manhattan Hill" located at 1 Po Lun Street, Lai Chi Kok, Kowloon. Manhattan Hill comprises about 1,115 up-scale luxurious residential units in five multi-storey prestigious residential blocks with a total gross floor area of more than one million square feet for sale, and a two-level retail podium of about 50,000 square feet.

The development obtained its occupation permit in December 2006.

The first phase sales campaign of Manhattan Hill's residential units was launched in November 2006. Up to the end of 2006, 245 residential units with a total gross floor area ("GFA") of about 299,000 square feet, representing approximately 25% of the total saleable GFA, were sold. These sales generated a profit of HK\$1,500.2 million for the year ended 31 December 2006.

At 31 December 2006, completed property held for sale (classified under current assets in the consolidated balance sheet) and investment property under development in respect of the commercial portion of Manhattan Hill (classified under fixed assets in the consolidated balance sheet) amounted to HK\$1,433.4 million (2005: Property under development of HK\$707.1 million) and HK\$74.6 million (2005: Nil) respectively, and the Group had capital commitment of HK\$37.2 million (2005: HK\$1,275.5 million) in respect of the development. The development is financed by the Group's working capital and unsecured bank loans.

LCK Real Estate Limited ("LCKRE")

LCKRE, a wholly-owned subsidiary of the Group, is the owner of a 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong which has a total gross floor area of about 156,700 square feet. The building is currently held by the Group for its own use and was stated at cost less accumulated depreciation in the amount of HK\$40.2 million (2005: HK\$42.0 million) on the consolidated balance sheet as at 31 December 2006.

FINANCIAL REVIEW

Media Sales Business

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

HK\$ million	2006	2005
Turnover	176.5	191.1
Other revenue	89.9	21.6
Total operating expenses	(209.4)	(189.9)
Finance costs	(1.6)	(2.4)
Share of profit of associate	6.4	12.1
Profit before taxation	61.8	32.5
Income tax expense	(7.4)	(5.3)
Profit after taxation	54.4	27.2
Minority interests	(23.6)	(0.9)
Profit after taxation and minority interests	30.8	26.3

The RoadShow Group achieved significant operational and financial improvement in 2006 as compared with 2005. For the year ended 31 December 2006, the RoadShow Group reported a total revenue of HK\$266.4 million (2005: HK\$212.7 million) and a profit attributable to equity shareholders of HK\$30.8 million (2005: HK\$26.3 million), representing increases of 25.2% and 17.1% respectively over those of 2005.

The total operating expenses of the RoadShow Group for 2006 amounted to HK\$209.4 million, an increase of 10.3% compared with HK\$189.9 million for 2005.

The profit attributable to equity shareholders of the RoadShow Group comprised segment profits derived from Hong Kong operations of HK\$7.3 million (2005: HK\$19.8 million) and China Mainland operations of HK\$23.5 million (2005: HK\$6.5 million). The increase in profit for the year was mainly attributable to the continuous economic growth and the resultant upturn in consumer confidence in both Hong Kong and China Mainland.

Further information relating to the RoadShow Group is available in its 2006 final results announcement and annual report.

Mainland Transport Operations

At 31 December 2006, the Group's total interest in associates and jointly controlled entities engaged in Mainland Transport Operations amounted to HK\$680.0 million (2005: HK\$648.4 million). Such investments are mainly related to the operation of passenger public transport services in Dalian (大連), Shenzhen (深圳) and Wuxi (無錫), and taxi and car rental services in Beijing (北京). The Group's Mainland Transport Operations Division reported a profit of HK\$45.1 million for 2006 (2005: HK\$41.5 million), an increase of 8.7%. The increase was due mainly to the increase in ridership for our associates on the Mainland. The surge in fuel prices in 2006 suppressed the performance of these businesses on the Mainland.

Dalian

This co-operative joint venture ("CJV") in Dalian was established in July 1997 by a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company (大連市第一公共汽車公司) in Liaoning Province (遼寧省). At 31 December 2006, the Group's net investment in the CJV was HK\$20.5 million (2005: HK\$14.5 million). The Dalian co-operative joint venture has a fleet of about 80 single-deck buses operating on three routes serving Dalian City. This CJV made steady progress in 2006.

Beijing

Beijing Beiqi Kowloon Taxi Company Limited (北京北汽九龍出租汽車股份有限公司) ("BBKT"), a Sino-foreign joint stock company, was established in Beijing in March 2003. The Group's investment in BBKT was RMB80.0 million (HK\$75.5 million), representing 31.38% of BBKT's equity interest. BBKT's shareholders comprise KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限責任公司) and three other Mainland investors. BBKT principally engages in the taxi hire and car rental businesses with a fleet of around 4,300 vehicles and some 4,300 employees. BBKT made satisfactory progress and recorded a profit in 2006.

Wuxi

Wuxi Kowloon Public Transport Company Limited (無錫九龍公共交通股份有限公司) ("WKPT") is a Sino-foreign joint stock company established in Wuxi City, Jiangsu Province (江蘇省無錫市) in February 2004. The Group has invested RMB135.4 million (HK\$127.2 million),

representing 45% equity interest, in WKPT. WKPT currently operates around 1,800 public buses serving some 120 routes. WKPT recorded a ridership of 273.6 million passenger trips (2005: 266.3 million passenger trips) and achieved satisfactory results for the year ended 31 December 2006.

Shenzhen

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) ("SBG"), a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four other Mainland investors, commenced operation in January 2005. The Group has invested RMB387.1 million (HK\$363.9 million), representing a 35% stake, in SBG. SBG principally provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province (廣東省深圳市), which includes the Shenzhen Special Economic Zone and the Bao-an (寶安) and Longgang (龍崗) areas, with about 4,100 vehicles serving some 158 routes. SBG recorded a ridership of 691.5 million passenger trips (2005: 588.3 million passenger trips) and made a satisfactory return in 2006.

Summary of Investments in Mainland Transport Operations

	Dalian	Beijing	Wuxi	Shenzhen
Nature of business	Bus services	Taxi and car rental services	Bus services	Bus and taxi hire services
Form of business structure	Co-operative joint venture	Sino-foreign joint stock company	Sino-foreign joint stock company	Sino-foreign joint stock company
Operation commenced	August 1997	April 2003	March 2004	January 2005
The Group's initial investment (RMB million)	22	80	135	387
The Group's effective interest	30%	31.38%	45%	35%
Fleet size at year-end 2006 (Number of vehicles)	85	4,285	1,830	4,105
Bus passenger volume (Million trips)	25.3	N/A	273.6	691.5
Bus kilometres travelled (Million km)	4.9	N/A	86.4	266.9
Staff number at year-end 2006	267	4,333	4,932	13,773

Continuing Connected Transactions

The particulars of the following continuing connected transactions of the Group are set out below in compliance with the reporting requirements of Chapter 14A of the Listing Rules:

The Group

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

As detailed in note 38(a)(ii) to the financial statements on page 165 of this Annual Report, the Group entered into certain insurance arrangements with SHKPI, a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"), during the year pursuant to which SHKPI agreed to provide insurance coverage and services to the Group (the "2006 Insurance Arrangements"), and such insurance policies have taken effect from 1 January 2006 for a period of one year. The transactions under the 2006 Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2006, the annual insurance premium paid by the Group to SHKPI amounted to HK\$81,376,000. On 27 December 2006, the Group further entered into certain new insurance arrangements (the "2007 Insurance Arrangements") with SHKPI pursuant to which SHKPI will continue to provide insurance coverage and services to the Group. The insurance policies entered into pursuant to the 2007 Insurance Arrangements commenced on 1 January 2007 and will last for one year from the effective date of the policies. It is estimated that the annual insurance premium paid and payable by the Group to SHKPI under the 2007 Insurance Arrangements for the financial year ending 31 December 2007 will not exceed HK\$82,000,000. The transactions under the 2006 Insurance Arrangements and the 2007 Insurance Arrangements are only subject to the reporting and announcement requirements of the Listing Rules and are exempt from the independent shareholders' approval requirement. Particulars of these connected transactions were disclosed in the announcements of the Company dated 28 May 2004 and 28 December 2006.

Park Island Transport Company Limited ("PITC")

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

Pursuant to an agreement dated 23 May 2001 entered into between PITC and SHKMW, a wholly-owned subsidiary of SHKP (the "Transport Agreement"), SHKMW engaged PITC as the operator of the bus and ferry services to, from and within Ma Wan Island. On 6 December 2005, PITC and SHKMW entered into a supplemental agreement (the "2005 Supplemental Agreement") to extend the operating term of the Transport Agreement, which expired on 13 December 2005, for a period of one year from 14 December 2005 to 13 December 2006, and to amend certain terms and conditions of the Transport Agreement. On 28 November 2006, PITC and SHKMW entered into another supplemental agreement (the "2006 Supplemental Agreement") to further extend the operating term for a period of one year from 14 December 2006 to 13 December 2007, and to amend certain terms and conditions of the Transport Agreement. The transactions executed under the Transport Agreement, as modified by the 2005 Supplemental Agreement and the 2006 Supplemental Agreement, constitute continuing connected transactions of the Company under the Listing Rules. Particulars of these connected transactions were disclosed in the announcements of the Company dated 25 May 2001, 9 December 2005 and 5 December 2006. As detailed in note 38(a)(vii) to the financial statements on page 166 of this Annual Report, the annual permitted return to which PITC was entitled for the year ended 31 December 2006 was HK\$9,681,000. It is estimated that the permitted return for the period from 1 January 2007 to 13 December 2007 will not exceed HK\$17,512,000.

Lai Chi Kok Properties Investment Limited (“LCKPI”)

Letting and Sales Agency Agreement, and Management Agreement

LCKPI entered into the Letting and Sales Agency Agreement with Sun Hung Kai Real Estate Agency Limited (“SHKRE”) on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and car parking spaces of Manhattan Hill. As detailed in note 38(a)(iv) to the financial statements on page 165 of this Annual Report, the letting and sales agency fees payable by LCKPI to SHKRE amounted to HK\$13,561,000 for the year ended 31 December 2006. Pursuant to the Letting and Sales Agency Agreement, the total amount of letting and sales agency fees paid and payable by the LCKPI to SHKRE during the term of appointment shall not exceed HK\$46,000,000.

LCKPI also entered into the Management Agreement with Hong Yip Service Company Limited (“Hong Yip”) on 17 July 2003 to agree to appoint Hong Yip as the manager of Manhattan Hill and to engage its services in relation to the terms and conditions set out in the deed(s) of mutual covenant and management agreement(s) of Manhattan Hill to be entered into by LCKPI, Hong Yip and the first purchaser of a unit of the completed Manhattan Hill.

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

Conditional Waivers

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

1. each of the foregoing continuing connected transactions with SHKPI, SHKMW, SHKRE and Hong Yip was entered into:-
 - (i) in the ordinary and usual course of business of the Group;

- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
2. the annual insurance premium paid and payable by the Group to SHKPI for the year ended 31 December 2006 did not exceed the cap amount of HK\$82,000,000 as disclosed in the announcement dated 28 December 2006;
3. the permitted return for the period from 1 January 2006 to 13 December 2006 entitled by PITC under the Transport Agreement, as modified by the 2005 Supplemental Agreement, did not exceed the cap amount of HK\$18,219,000 as disclosed in the announcement dated 9 December 2005;
4. the permitted return for the period from 14 December 2006 to 31 December 2006 entitled by PITC under the Transport Agreement, as modified by the 2006 Supplemental Agreement, did not exceed the cap amount of HK\$908,000 as disclosed in the announcement dated 5 December 2006; and
5. the annual aggregate amount for the year ended 31 December 2006 payable by LCKPI under each of the Letting and Sales Agency Agreement and the Management Agreement did not exceed the higher of HK\$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2005.

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

Directors' Profiles



The Hon Sir Sze-yuen CHUNG*

GBM, GBE, PhD, FREng, JP

Chairman and Independent Non-executive Director, aged 89. Sir Sze-yuen Chung has been the Chairman and an Independent Non-executive Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 12 August 1999. He is an Independent Non-executive Director of both CLP Holdings Limited and Sun Hung Kai Properties Limited. The latter is a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. He is also the Pro-Chancellor of The Hong Kong University of Science and Technology. Sir Sze-yuen Chung has contributed significantly in Hong Kong's political, industrial, social and tertiary education fields for over four decades. He was Senior Member of Hong Kong Legislative Council (1974-78), Executive Council (1980-88), and again Convenor of HKSAR Executive Council (1997-99). He was Chairman of Federation of Hong Kong Industries (1966-70), Hong Kong Productivity Council (1974-78), President of Engineering Society of Hong Kong (1960-61) and Hong Kong Academy of Engineering Sciences (1994-97). He established Hong Kong Polytechnic in 1972, City Polytechnic in 1984, The Hong Kong University of Science and Technology in 1991 and Hospital Authority in 1990. He was deeply involved in the Sino-British Negotiation on Hong Kong's future (1982-85) and the establishment of the Hong Kong Special Administrative Region (1992-97).



Dr Norman LEUNG Nai Pang*

GBS, JP, LLD, BA

Deputy Chairman and Independent Non-executive Director, aged 66. Dr Leung has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 18 March 2000 and Deputy Chairman of the Company, KMB and LWB since 14 June 2001. Dr Leung became an Independent Non-executive Director of the Company with effect from 1 February 2006. He is the Executive Deputy Chairman of Television Broadcasts Limited and a Director of Wing Lung Bank Limited. As for public service, he is the Commissioner of Civil Aid Service and the Pro-Chancellor of the City University of Hong Kong.



KWOK Ping-luen, Raymond

JP, MA(Cantab), MBA, Hon DBA, Hon LLD

Director, aged 53. Mr Kwok has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 September 1981 and 8 May 1997 respectively. Mr Kwok holds a Master of Arts Degree in Law from Cambridge University, a Master Degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong. He is the Vice Chairman and Managing Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. He is also Chairman of SUNeVision Holdings Ltd., Chairman of SmarTone Telecommunications Holdings Limited and an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited.

In civic activities, Mr Kwok is a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce, a Member of the Hong Kong Port Development Council and Vice Chairman of the Council of The Chinese University of Hong Kong. Mr Kwok is the younger brother of Mr Kwok Ping-sheung, Walter, who is a Director of the Company.

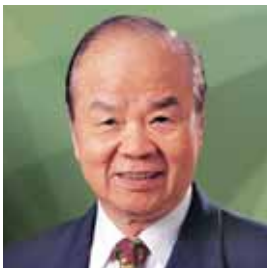


KWOK Ping-sheung, Walter

JP, MSc(Lond), DIC, MICE

Director, aged 56. Mr Kwok has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 15 November 1990 and 8 May 1997 respectively. He holds a Master of Science degree in Civil Engineering from Imperial College of Science and Technology, University of London, and is a Member of the Institution of Civil Engineers, U.K. and a Member of the Hong Kong Institution of Engineers. He is currently the Chairman and Chief Executive of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, an Executive Director of SUNeVision Holdings Ltd., and a Director of Wilson Parking (Holdings) Limited and Hung Cheong Import & Export Co., Ltd. Mr Kwok is also a Director of The Real Estate Developers Association of Hong Kong and Tsimshatsui East Property Developers' Association Ltd. and Honorary Treasurer of the Federation of Hong Kong Hotel Owners.

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



NG Siu Chan

Director, aged 76. Mr Ng has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He is also a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 3 March 1983 and 8 May 1997 respectively. Mr Ng is also an Independent Non-executive Director of Wing Lung Bank Limited, Century City International Holdings Limited, Paliburg Holdings Limited and Regal Hotels International Holdings Limited. Mr Ng is the father of Ms Winnie Ng, who is a Director and Executive Director of the Company, KMB, LWB and KMB (China) Holdings Limited, and founding Group Managing Director of RoadShow Holdings Limited.



William LOUEY Lai Kuen

BSc(Econ)

Director, aged 47. Mr Louey has been a Director of Transport International Holdings Limited since 4 September 1997. He has been acting as Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 14 January 1993 and 8 May 1997 respectively. Mr Louey has previously worked for an international merchant bank in the United Kingdom for five years and an international accounting firm in the United Kingdom for three years. In 1995, he set up the William S D Louey Educational Foundation in memory of his grandfather, Mr William S D Louey, to finance outstanding students from China and Hong Kong to further their education abroad. Having aware of the success of the Foundation, Mr Louey was invited to become a committee member of the Hong Kong Oxford Scholarship Fund in 1999. Mr Louey has also served as an Executive Committee Member of The Friends of Cambridge University in Hong Kong since 2003. The Friends of Cambridge University is the sponsor of the Prince Philip Scholarship.

(*Independent Non-executive Director)

Directors' Profiles



John CHAN Cho Chak

GBS, JP, DBA(Hon), BA, DipMS, CCMI, FCILT, FHKIoD

Managing Director, aged 63. Mr Chan has been the Managing Director of Transport International Holdings Limited (the "Company") since 4 September 1997 and was the Managing Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") from 1 November 1993 to 31 December 2006 and from 8 May 1997 to 31 December 2006 respectively. With effect from 1 January 2007, Mr Chan was appointed as the Senior Executive Director of KMB and LWB. He is also the Chairman and Non-executive Director of RoadShow Holdings Limited, an indirect subsidiary of the Company listed on The Stock Exchange of Hong Kong Limited and an Independent Non-executive Director of Hang Seng Bank Limited and Guangdong Investment Limited. He was formerly an Independent Non-executive Director of the Hong Kong Exchanges and Clearing Limited, 2000-03 and a member of the Hong Kong Civil Service, 1964-78 and 1980-93. Key posts held in Government included Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. Also former Executive Director and General Manager of Sun Hung Kai Finance Company Limited, 1978-80. Chairman of the Hong Kong Jockey Club, Vice Patron of The Community Chest, Chairman of the Council of The Hong Kong University of Science and Technology, Member of the Advisory Committee on Corruption and Member of the East Asian Games Planning Committee. In December 2000, Mr Chan won the Executive Award in the DHL/SCMP HK Business Awards 2000 and received an Honorary University Fellowship from The University of Hong Kong.



Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT

Executive Director, aged 72. Mr Lui has been a Director of Transport International Holdings Limited since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively. Joined KMB in 1960 as Accountant and promoted to Chief Accountant, Assistant General Manager and appointed as General Manager on 1 March 1989. Retired as General Manager on 21 July 1999 on reaching the retirement age of 65 years. Mr Lui was appointed the Deputy Managing Director of KMB (China) Holdings Limited ("KMB (China)") on 1 September 1999. Relinquished the post of Deputy Managing Director to assume the post of Chairman of KMB (China) on 13 August 2003.



Winnie NG

BA, MBA(Chicago), MPA(Harvard), FCIM, CMILT, MHKIoD

Executive Director, aged 43. Ms Ng has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB"), Long Win Bus Company Limited ("LWB") and KMB (China) Holdings Limited ("KMB (China)") since 4 September 1997, 12 October 1995, 8 May 1997 and 1 September 1997 respectively. She has also been the founding Group Managing Director of RoadShow Holdings Limited since its inception in 2001. Ms Ng joined the Group in 1990 and since then has looked after various portfolios including, among others, corporate development, marketing and sales, and business development. During the past years, Ms Ng has successfully revamped and rejuvenated KMB's image and positioned KMB as a powerful out-of-home media sales tool in Hong Kong by raising the profiles and sales of bus body and bus shelter advertising. She was appointed as Commercial Director in 1999 and then appointed as Executive Director of the Company, KMB, LWB and KMB (China) in 2001. In 2003, Ms Ng won the Yazhou Zhoukan Young Chinese Entrepreneur Award and in 2006 was named one of China's One Hundred Outstanding Women Entrepreneurs; she was also conferred upon a Mason Fellow by Harvard University in 2006. Ms Ng is active in public service, having served the community in her capacities as Council Member of Hong Kong Council for Academic Accreditation; Director of Hong Kong Cyberport; Board Member of Agency for Volunteer Service; Council Member of Better Hong Kong Foundation; Public Relations Committee Member of The Community Chest; Member of the Zonta Club of Hong Kong East; Council Member of the Hong Kong Digestive Foundation; Steering Committee Member on Promotion of Volunteer Service of the Social Welfare Department, and Member of 2006 Hospital Authority Fundraising Committee. Ms Ng is also the Vice Chairman of Council of China's Foreign Trade, China Council for the Promotion of International Trade and the Vice Board Chairman of Council of World Market, Shanghai Foreign Economic Relation & Trade Commission. Ms Ng is the daughter of Mr Ng Siu Chan, who is a Director of the Company. Ms Ng holds an MBA degree from the University of Chicago and an MPA degree from Harvard University.



Dr KUNG Ziang Mien, James*

GBS, OBE

Independent Non-executive Director, aged 76. Dr Kung has been the Independent Non-executive Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. He retired from the Chairman and CEO of Chekiang First Bank Ltd, after 53 years of service. Dr Kung graduated from the Soochow University Law School with a degree of LLB in 1950. He was conferred Doctor of Laws, LLD (honoris causa) by The Chinese University of Hong Kong in 1990; DBA, Doctor of Business Administration (honoris causa) by Hong Kong Polytechnic in 1991 and Doctor of Laws (honoris causa) by The University of Hong Kong in 2000. Dr Kung was awarded OBE by Her Majesty the Queen in 1994. Diplomatic Service: 1989 - present Honorary Consul of Luxembourg. Other awards include Grand Officer of Order of Merit of the Grand Duchy of Luxembourg in 1994, Chevalier de la Légion d'Honneur of France in 1996, Commander in the Order of Leopold II of Belgium in 1997, Officier de la Légion d'Honneur in 2000 and Commandeur de la Légion d'Honneur in 2003. Dr Kung is Chairman of the Hong Kong Digestive Foundation, Former Member of the Exchange Fund Advisory Committee and the Land Fund Advisory Committee, Member of the Advisory Council, One Country Two Systems Research Institute, Chairman of the HKU-Pasteur Research Centre Ltd, President of the Légion d'Honneur Club Hong Kong Chapter.

(*Independent Non-executive Director)

Directors' Profiles



George CHIEN Yuan Hwei

MSc(Lond), BSc(Eng), DIC, FICE, CEng, PEng, FITE

Director, aged 69. Mr Chien has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. He was the Alternate Director to Mr Kwok Ping-sheung, Walter during the period from 8 June 1995 to 13 October 1998 inclusive. He is a member of the Audit Committee of the Company. Mr Chien is the holder of "Transportation Advisor" post in Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Previously worked for the Toronto Transit Commission in Canada for more than 10 years and in the ex-Public Works Department of the Hong Kong Government for about 24 years.



Dr Eric LI Ka Cheung*

GBS, OBE, JP, LLD, DSocSc, BA, FCPA(Practising), FCA, FCPA(Aust.), FCIS

Independent Non-executive Director, aged 53. Dr Li has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. Dr Li was appointed an Independent Non-executive Director of RoadShow Holdings Limited since 16 September 2004. He is the Senior Partner of Li, Tang, Chen & Co., Certified Public Accountants. Dr Li is an independent non-executive director of SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Limited, CATIC International Holdings Limited, Hang Seng Bank Limited, China Resources Enterprise, Limited, Sinofer Holdings Limited, Meadville Holdings Limited and Bank of Communications Co. Ltd., all of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was formerly an independent non-executive director of China Vanke Co., Ltd. and SIIC Medical Science & Technology (Group) Limited. He is also a non-executive director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on the Stock Exchange. He is a member of the 10th National Committee of the Chinese People's Political Consultative Conference. He was also a former member of the Legislative Council of Hong Kong and a past president of the Hong Kong Institute of Certified Public Accountants. Dr Li is the Chairman of the Audit Committee of the Company.



LUI Pochiu

Director, aged 64. Mr Lui has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 1 January 2001. Mr Lui has been the Operations Director of KMB since 1999. In his capacity, Mr Lui manages the Planning and Development Department, Service Department and Traffic Department, looking after the overall planning, co-ordination and implementation of operations policies as well as practices. Mr Lui first joined KMB in November 1970 as Assistant Accountant. In the subsequent 30 years, Mr Lui had served in various different departments, taking up such roles as Stores Controller, Depot Manager and Traffic Manager. Mr Lui was educated in Australia and became a member of the Chartered Institute of Logistics & Transport in Hong Kong (formerly, Chartered Institute of Transport) in 1985.



Edmond HO Tat Man

MA(Cantab), MBA, CMILT, MHKIoD

Deputy Managing Director, aged 45. Mr Ho has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 1 January 2001. He joined KMB in September 1998 and served as Finance and Administration Director from January 1999 to April 2003. Mr Ho was appointed as Deputy Managing Director of the Company, KMB and LWB with effect from 10 January 2002, and promoted to Managing Director of KMB and LWB with effect from 1 January 2007. Posts previously held by him included Investment Director of a merchant bank and executive director of a number of transport infrastructure management and investment companies in Hong Kong and on the Mainland. He was also former director of four Sino-foreign joint venture companies of an international leading soft drink brand. Mr Ho holds a master's degree in engineering from Cambridge University and an MBA degree from The University of Hong Kong.



SIU Kwing-chue, Gordon*

GBS, CBE, JP, MSS(Birmingham, UK)

Independent Non-executive Director, aged 61. Mr Siu was appointed Independent Non-executive Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 26 October 2004. Mr Siu joined the Civil Service in 1966, rose to the rank of Secretary, Government Secretariat in 1993 and retired from the Service in July 2002 with a service of over 36 years. His recent positions in Government included Deputy Secretary for the Civil Service (1981-1985), Secretary-General of OMELCO (1985-1988), Postmaster General (1988-1989), Commissioner for Transport (1989-1992), Director, New Airport Projects Co-ordination Office (1992-1993), Secretary for Economic Services (1993-1996), Secretary for Transport (1996-1997), Head, Central Policy Unit (1997-1999) and Secretary for Planning, Environment & Lands (1999-2002). Mr Siu was awarded the honours of Commander of the Most Excellent Order of the British Empire (CBE) in 1997 and Gold Bauhinia Star (GBS) in 2002, and appointed a non-official Justice of the Peace in 2003.

(*Independent Non-executive Director)

Senior Management

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

Aged 63. Managing Director of Transport International Holdings Limited. Senior Executive Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Chairman and Non-executive Director of RoadShow Holdings Limited. Brief biography of Mr Chan is set out on page 102 of this Annual Report.

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

Aged 72. Executive Director of Transport International Holdings Limited. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Chairman of KMB (China) Holdings Limited. Brief biography of Mr Lui is set out on page 102 of this Annual Report.

Winnie NG BA, MBA(Chicago), MPA(Harvard), FCIM, CMILT, MHKIoD

Aged 43. Executive Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited and KMB (China) Holdings Limited. Also founding Group Managing Director of RoadShow Holdings Limited. Brief biography of Ms Ng is set out on page 103 of this Annual Report.

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

Aged 45. Deputy Managing Director of Transport International Holdings Limited. Managing Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Managing Director of KMB (China) Holdings Limited. Brief biography of Mr Ho is set out on page 105 of this Annual Report.

LUI Pochiu

Aged 64. Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited. Also Operations Director of KMB. Brief biography of Mr Lui is set out on page 104 of this Annual Report.

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

Aged 39. Qualified Accountant of Transport International Holdings Limited. Also Finance and Administration Director of The Kowloon Motor Bus Company (1933) Limited. Mr Ho joined the Group in 2003 and had previously held senior finance positions in two groups of companies listed on The Stock Exchange of Hong Kong Limited. He also has over nine years of experience in public accounting in Canada and Hong Kong.

James Conrad LOUEY BSc

Aged 42. Commercial Director of The Kowloon Motor Bus Company (1933) Limited ("KMB"). Mr Louey joined KMB in 1990 and was appointed as Head of Human Resources Department in 1993. On community service, he is currently a member of the Ninth Session Henan provincial committee of the Chinese People's Political Consultative Conference.

Corporate Executives

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

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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 2006.

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 9 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 18 to the financial statements.

The Group's turnover and profit are mainly attributable to transport operations, property development 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 2006 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 118 to 167 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 86 to 99 of this Annual Report.

Transfer to Reserves

Profits attributable to equity shareholders of the Company, before dividends, of HK\$1,838,014,000 (2005: HK\$584,164,000) have been transferred to reserves. Other movements in reserves of the Group and the Company during the year are set out in note 33 to the financial statements.

An interim dividend of 45 cents per share (2005: 45 cents per share) was paid to the shareholders on 13 October 2006. The Directors now recommend that a final dividend of HK\$1.58 per share (2005: HK\$1.58 per share) in respect of the year ended 31 December 2006 be paid to the shareholders on 18 May 2007.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$1,499,000 (2005: HK\$1,635,000).

Fixed Assets

During the year, major additions to the fixed assets of the Group were buses under construction with a total cost of HK\$309,822,000 and tools and other fixed assets with a total cost of HK\$237,823,000. Buses with a total cost of HK\$352,151,000 were licensed and put into service during the year following the completion of construction.

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

Share Capital

Details of the share capital of the Company are set out in note 33 to the financial statements. There were no movements during the year.

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-luen, Raymond, <i>JP</i>	
KWOK Ping-sheung, Walter, <i>JP</i>	
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>	
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-luen, Raymond, <i>JP</i> with effect from 16 June 2005 and Mr KWOK Ping-sheung, Walter, <i>JP</i> with effect from 18 May 2006)
YU Shu Chuen	(Resigned on 1 May 2006)
Susanna LAU Shung Oi	(Alternate Director to Mr KWOK Ping-sheung, Walter, <i>JP</i> and resigned on 18 May 2006)

* 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 ("the Listing Rules"), Dr Norman Leung Nai Pang, Mr Kwok Ping-sheung, Walter, Mr William Louey Lai Kuen, Mr George Chien Yuan Hwei and Mr Lui Pochiu retire from the Board by rotation and these retiring Directors, except Mr Lui Pochiu, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 100 to 105 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 2006 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-uen, Raymond	393,350	—	—	—	393,350	0.097%
KWOK Ping-sheung, Walter	61,522	—	—	—	61,522	0.015%
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 1)	2,664,177	0.660%
Winnie NG	41,416	—	—	21,000,609 (Note 2)	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*	—	—	—	—	—	—
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*)	—	—	—	—	—	—
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-uen, Raymond and Mr KWOK Ping-sheung, Walter)	—	—	—	—	—	—

* Independent Non-executive Director

Notes:

1. 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.
2. 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.

Report of the Directors

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%
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 1)	209,131	0.021%
Winnie NG	1,000,000	—	—	123,743 (Note 2)	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*	—	—	—	—	—	—
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*)	—	—	—	—	—	—
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond and Mr KWOK Ping-sheung, Walter)	—	—	—	—	—	—

* Independent Non-executive Director

Notes:

1. 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.
2. 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 2006, 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, 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 RoadShow Shares"), the closing price of the RoadShow 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 RoadShow 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 2006 was 99,736,533 shares which represented 10% of the issued share capital of RoadShow at 31 December 2006. 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 RoadShow's ordinary shares in issue. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 of RoadShow.

As at 31 December 2006, no options were outstanding.

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 or any of its subsidiaries or other associated corporations, 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 contracts as disclosed in note 38(a) 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.

Report of the Directors

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

At 31 December 2006, 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:

1. The interest disclosed by SHKP includes the 68,600,352 shares disclosed by Arklake Limited.
2. 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.
3. 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.
4. 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 page 106 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 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 2006 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%; 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 2005 was HK\$989,825,000.
- iv) On the basis of the assumptions made as to the future economic and demographic experience of the Scheme, and if the past service surplus is to be utilised faster to offset the Group's contribution requirement, the Group had taken a contribution holiday for the year ended 31 December 2006.
- v) The ongoing funding surplus in the scheme was HK\$326,422,000 and the solvency surplus was HK\$340,969,000 at 31 December 2005.

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%; 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 2005 was HK\$2,432,519,000.
- iv) On the basis of the assumptions made as to the future economic and demographic experience of the Scheme, and if the past service surplus is to be utilised faster to offset the Group's contribution requirement, the Group had taken a contribution holiday for the year ended 31 December 2006.
- v) The ongoing funding surplus in the scheme was HK\$822,561,000 and the solvency surplus was HK\$953,101,000 at 31 December 2005.

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(w)(ii) and 22 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. A majority of 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 2006 were insignificant to the Group.

Report of the Directors

Bank Loans and Overdrafts

Particulars of bank loans and overdrafts of the Group as at 31 December 2006 are set out in note 28 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.

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 page 168 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 completed property held for sale of the Group are shown on page 95 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 2006.

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 auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

S. Y. CHUNG

Chairman

Hong Kong, 22 March 2007

Independent Auditor's Report



To the shareholders of Transport International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Transport International Holdings Limited (the "Company") set out on pages 118 to 167, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

22 March 2007

Consolidated Income Statement

for the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	3 & 12	8,704,524	6,456,404
Gain on disposal of building and interest in leasehold land	38(a)(viii)	–	90,478
Other net income	4	155,134	88,464
Cost of properties sold		(461,140)	–
Staff costs	5(a)	(2,979,285)	(2,982,936)
Depreciation and amortisation		(935,625)	(913,782)
Fuel and oil		(1,102,961)	(916,862)
Spare parts and stores		(230,447)	(208,038)
Toll charges		(325,987)	(305,915)
Other operating expenses		(766,751)	(601,710)
Profit from operations		2,057,462	706,103
Finance costs	5(b)	(106,305)	(69,131)
Share of profits of associates		51,718	53,397
Share of (loss)/profit of jointly controlled entities		(205)	282
Profit before taxation	5	2,002,670	690,651
Income tax	6(a)	(133,265)	(95,922)
Profit for the year		1,869,405	594,729
Attributable to:			
Equity shareholders of the Company	9 & 33(a)	1,838,014	584,164
Minority interests	33(a)	31,391	10,565
Profit for the year		1,869,405	594,729
Earnings per share	10	HK\$4.55	HK\$1.45
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 (2005: HK\$0.45 per share)		181,638	181,638
Final dividend proposed after the balance sheet date of HK\$1.58 per share (2005: HK\$1.58 per share)		637,750	637,750
		819,388	819,388

The notes on pages 125 to 167 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Fixed assets	13(a)		
– Investment property under development		74,567	–
– Other property, plant and equipment		5,304,284	5,634,008
– Interest in leasehold land held for own use under operating leases		84,183	86,262
		5,463,034	5,720,270
Intangible assets	14	7,576	–
Goodwill	15	49,204	32,599
Media assets	16	1,408	95,805
Non-current prepayments	17	47,902	62,610
Interest in associates	19	834,161	776,406
Interest in jointly controlled entities	20	22,647	16,373
Other financial assets	21	46,576	33,947
Employee benefit assets	22(a)	536,950	484,969
Deferred tax assets	31(b)	13,785	16,077
		7,023,243	7,239,056
Current assets			
Other investments	24	–	47,250
Property under development	25	–	707,064
Completed property held for sale		1,433,425	–
Spare parts and stores		72,718	72,144
Accounts receivable	26	2,179,273	297,203
Deposits and prepayments		98,317	79,637
Current taxation recoverable	31(a)	25,278	4,289
Pledged bank deposits	28	39,520	–
Cash and cash equivalents	27	1,228,512	1,133,658
		5,077,043	2,341,245
Current liabilities			
Bank loans and overdrafts	28	1,780,150	961,489
Accounts payable and accruals	29	1,627,976	856,687
Third party claims payable		262,879	305,663
Current taxation payable	31(a)	115,844	33,611
		3,786,849	2,157,450
Net current assets		1,290,194	183,795
Total assets less current liabilities		8,313,437	7,422,851

Consolidated Balance Sheet

at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Non-current liabilities			
Bank loans	28	2,052,500	2,218,423
Contingency provision – insurance	30	134,553	52,102
Deferred tax liabilities	31(b)	758,215	801,761
Provision for long service payments	32	49,290	49,885
		2,994,558	3,122,171
Net assets		5,318,879	4,300,680
Capital and reserves	33(a)		
Share capital		403,639	403,639
Reserves		4,670,551	3,628,494
Total equity attributable to equity shareholders of the Company		5,074,190	4,032,133
Minority interests	33(a)	244,689	268,547
Total equity		5,318,879	4,300,680

Approved and authorised for issue by the Board of Directors on 22 March 2007

S. Y. CHUNG
Chairman

John CHAN Cho Chak
Managing Director

The notes on pages 125 to 167 form part of these financial statements.

Balance Sheet

at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000 (restated)
Non-current assets			
Plant and equipment	13(b)	–	15
Investments in subsidiaries	18(a)	1,175,966	1,139,649
		<u>1,175,966</u>	<u>1,139,664</u>
Current assets			
Deposits and prepayments		343	333
Amounts due from subsidiaries	18(b)	2,532,975	2,414,623
Cash and cash equivalents	27	18,127	15,575
		<u>2,551,445</u>	<u>2,430,531</u>
Current liabilities			
Accounts payable and accruals	29	92,035	92,790
Amounts due to subsidiaries	18(b)	1,469,171	861,100
		<u>1,561,206</u>	<u>953,890</u>
Net current assets		<u>990,239</u>	<u>1,476,641</u>
Net assets		<u>2,166,205</u>	<u>2,616,305</u>
Capital and reserves	33(b)		
Share capital		403,639	403,639
Reserves		1,762,566	2,212,666
Total equity		<u>2,166,205</u>	<u>2,616,305</u>

Approved and authorised for issue by the Board of Directors on 22 March 2007

S. Y. CHUNG
Chairman

John CHAN Cho Chak
Managing Director

The notes on pages 125 to 167 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2006

	Note	2006		2005	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity at 1 January:					
Attributable to equity shareholders of the Company		4,032,133		4,250,436	
Minority interests		268,547		289,019	
			4,300,680		4,539,455
Net income recognised directly in equity:					
Exchange differences on translation of financial statements of foreign entities			24,258		16,921
Profit for the year:					
Attributable to equity shareholders of the Company		1,838,014		584,164	
Minority interests		31,391		10,565	
			1,869,405		594,729
Total recognised income for the year			1,893,663		611,650
Attributable to:					
– equity shareholders of the Company		1,862,272		601,085	
– minority interests		31,391		10,565	
		1,893,663		611,650	
Dividend declared or approved during the year	11		(819,388)		(819,388)
Dividends paid to minority shareholders			(12,988)		(12,156)
Reduction in minority interests upon disposal of subsidiaries	34(b)		(49,761)		–
Acquisition of minority interests in a subsidiary			–		(9,562)
Contribution by/(repayment to) minority shareholders			6,673		(9,319)
Total equity at 31 December			5,318,879		4,300,680

The notes on pages 125 to 167 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Operating activities			
Profit before taxation		2,002,670	690,651
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		(7,786)	(365)
– dividend income		(630)	(20,168)
– interest income		(40,674)	(21,048)
– finance costs		106,305	69,131
– depreciation and amortisation		935,625	913,782
– loss on disposal of associate		–	5,727
– impairment loss on fixed assets		7,969	–
– impairment loss on goodwill		12,487	–
– impairment loss on media assets		2,100	3,026
– net gain on disposal of other fixed assets		(8,007)	(6,847)
– share of profits of associates		(51,718)	(53,397)
– share of loss/(profit) of jointly controlled entities		205	(282)
– gain on disposal of media assets		(44,043)	–
– gain on disposal of subsidiaries		(12,677)	–
Effect of foreign exchange rate		(6,960)	(1,923)
Operating profit before changes in working capital		2,894,866	1,487,809
(Increase)/decrease in spare parts and stores		(574)	2,531
Increase in trade and other receivables		(63,324)	(81,154)
Increase in deposits and prepayments		(26,953)	(30,657)
Increase in property under development		(530,332)	(323,755)
Decrease in completed property held for sale		461,140	–
Increase/(decrease) in accounts payable and accruals		137,835	(6,412)
Decrease/(increase) in amounts due from associates		8,682	(12,706)
Increase in instalments receivable from sale of properties		(1,868,337)	–
(Decrease)/increase in third party claims payable		(42,784)	7,068
Increase/(decrease) in contingency provision – insurance		82,451	(6,400)
(Decrease)/increase in provision for long service payments		(595)	1,632
Increase in employee benefit assets		(51,981)	(71,136)
Cash generated from operations		1,000,094	966,820
Interest received		40,598	21,146
Interest paid		(140,722)	(78,669)
Hong Kong Profits Tax paid		(110,340)	(134,907)
The People's Republic of China ("PRC") Income Tax paid		(968)	(483)
Net cash generated from operating activities		788,662	773,907

Consolidated Cash Flow Statement

for the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Investing activities			
Increase in pledged bank deposits		(39,520)	–
Decrease/(increase) in bank deposits maturing in over three months		117,991	(128,420)
Payment for purchase of fixed assets		(599,458)	(536,064)
Payment for purchase of intangible assets		(1,756)	–
Decrease in non-current prepayments		14,708	43,925
Payment for media assets		(725)	(2,757)
Net cash inflow from disposal of subsidiaries	34(b)	9,349	–
Proceeds from disposal of fixed assets		8,266	110,550
Proceeds from disposal of media assets		72,086	–
Proceeds from disposal of associate		–	2,823
Proceeds from sale of investment securities		55,036	46,500
Payment for acquisition of subsidiaries	34(a)	(49,296)	(2,858)
New loan to associate		(28,302)	(9,458)
Repayment of loan from associate		8,583	–
Capital injection to jointly controlled entity		(6,000)	(10,500)
Dividends received from associates		29,868	–
Dividends received from investments in securities		630	1,575
Net cash used in investing activities		(408,540)	(484,684)
Financing activities			
Dividends paid to equity shareholders of the Company		(819,388)	(819,388)
Dividends paid to minority shareholders		(12,988)	(12,156)
Proceeds from new bank loans		3,605,000	2,695,000
Repayment of bank loans		(2,930,416)	(2,349,989)
Contribution by/(repayment to) minority shareholders		6,673	(9,319)
Net cash used in financing activities		(151,119)	(495,852)
Net increase/(decrease) in cash and cash equivalents		229,003	(206,629)
Cash and cash equivalents at 1 January		963,587	1,168,845
Effect of foreign exchange rate changes		3,926	1,371
Cash and cash equivalents at 31 December	27	1,196,516	963,587

The notes on pages 125 to 167 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 certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates and jointly controlled entities.

The purchase method of accounting is used to account for business combinations by the Group. The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see note 1(e)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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(w)(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 41.

(c) Subsidiaries and minority interests

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

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

Notes to the Financial Statements

1 Significant Accounting Policies (continued)

(c) Subsidiaries and minority interests (continued)

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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.

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(l)).

(d) Associates and jointly controlled entities

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 entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(e) and (l)).

When the Group's share of losses exceeds its interest in an associate or a 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 entities are eliminated to the extent of the Group's interest in the associates or jointly controlled entities, 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, 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(l)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

1 Significant Accounting Policies (continued)

(e) Goodwill (continued)

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.

(f) Other investments in debt and equity securities

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

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the income statement as incurred. 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(l)).

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(l)).

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

Property that is being constructed or developed for future use as investment property is classified as investment property under development and stated at cost, including borrowing costs capitalised (see note 1(u)), aggregate cost of development, materials and supplies, direct labour and other direct expenses, less any impairment losses (see note 1(l)).

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
Buses	– 14 years
Other motor vehicles	– 5 to 10 years
Vessels	– 20 years
Others	– 2 to 7 years

Notes to the Financial Statements

1 Significant Accounting Policies (continued)

(h) Property, plant and equipment (continued)

No depreciation is provided for buses and vessels under construction and investment property under development.

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

(i) Leased assets

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

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

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

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

(j) Intangible assets (other than goodwill)

Passenger service licences acquired by the Group are regarded to have indefinite useful lives and are stated in the balance sheet at cost less impairment losses (see note 1(l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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

(k) Media assets

Media assets represent advertising rights which are 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 impairment losses (see note 1(l)).

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

1 Significant Accounting Policies (continued)

(I) Impairment of assets

(i) Impairment of investments in equity securities and receivables

Investments in equity securities and current and non-current 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 carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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

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

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

- Calculation of the recoverable amount

The recoverable amount of an asset is the greater of its 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).

Notes to the Financial Statements

1 Significant Accounting Policies (continued)

(l) 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.

(m) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development

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

– Completed property held for sale

Cost of completed property developed by the Group is determined by apportionment of the total development costs for that development project attributable to the unsold property. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(n) 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.

(o) 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(l)), 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(l)).

(p) 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 the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable using the effective interest method.

1 Significant Accounting Policies (continued)

(p) Interest-bearing borrowings (continued)

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.

(q) Trade and other payables

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

(r) 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.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(s)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 1(s)(iii).

(iii) Other provisions and contingent liabilities

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

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

Notes to the Financial Statements

1 Significant Accounting Policies (continued)

(t) 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) Revenue arising from the sale of completed property held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on property sold prior to the date of revenue recognition are included in accounts payable and accruals.

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

- (iii) Income from media sales is recognised when the related advertisements are telecast or commercials appear before the public.
- (iv) Interest income is recognised as it accrues using the effective interest method.
- (v) 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.

(u) 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.

(v) 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.

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.

1 Significant Accounting Policies (continued)

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

During the vesting period, the number of share options that is expected to vest is reviewed. Any 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 options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(v) Termination benefits

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

Notes to the Financial Statements

1 Significant Accounting Policies (continued)

(x) 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.

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

1 Significant Accounting Policies (continued)

(y) Related parties (continued)

- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(z) 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 certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. 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 42).

Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement: Financial guarantee contracts)

In prior years, financial guarantees issued by the Company were disclosed as contingent liabilities in accordance with HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1 January 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Company has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(s)(i).

Notes to the Financial Statements

2 Changes in Accounting Policies (continued)

The new accounting policy has been applied retrospectively by restating opening balances of the Company at 1 January 2005 and 2006 to the extent that guarantees were unexpired at those dates, with consequential adjustments to comparatives for the year ended 31 December 2005. It is not practicable to estimate the fair values and consequential effect on reported net assets of the change in accounting policies in respect of any other guarantees issued prior to 1 January 2005. The new policy resulted in the recognition of financial guarantees issued of HK\$65,537,000 (2005: HK\$70,492,000) included in accounts payable and accruals in the balance sheet of the Company as at 31 December 2006, and increases in investments in subsidiaries by HK\$139,459,000 (2005: HK\$103,142,000) and reserves by HK\$73,922,000 (2005: HK\$32,650,000). The new policy also resulted in an increase in profit for the year of the Company by HK\$41,272,000 (2005: HK\$16,983,000). Details of the financial guarantees currently issued by the Company are set out in note 36.

3 Turnover

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 18 to the financial statements.

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

	2006 HK\$'000	2005 HK\$'000
Fare revenue from franchised public bus services	6,014,258	5,937,649
Revenue from non-franchised transport services	337,117	287,003
Revenue from sales of properties	2,133,202	–
Media sales revenue	219,947	231,752
	8,704,524	6,456,404

4 Other Net Income

	2006 HK\$'000	2005 HK\$'000
Gain on disposal of media assets (note (a))	44,043	–
Gain on disposal of subsidiaries (note (b))	12,677	–
Interest income from bank deposits, unlisted debt securities and other loans	40,674	21,048
Claims received	21,250	22,429
Net gain on disposal of other fixed assets	8,007	6,847
Loss on disposal of associate	–	(5,727)
Net exchange gain	6,837	6,226
Net realised and unrealised gain on investments in securities carried at fair value	7,786	365
Dividend income from listed securities	630	1,575
Dividend income from unlisted securities	–	18,593
Net miscellaneous business receipts	4,204	4,722
Sundry revenue	9,026	12,386
	155,134	88,464

Notes:

(a) Gain on disposal of media assets

During the year, the Group disposed of certain media assets in Beijing with a net book value of HK\$28,043,000, resulting in a gain on disposal of HK\$44,043,000. Further details in relation to the disposal are set out in the Circular of RoadShow Holdings Limited ("RoadShow") dated 31 July 2006.

(b) Gain on disposal of subsidiaries

During the year, the Group disposed of its interests in RoadVision (Dalian) Limited and Guangzhou Key Media Advertising Company Limited, resulting in a gain on disposal of HK\$12,677,000. Further details in relation to the disposal are set out in RoadShow's Circular dated 31 July 2006.

5 Profit before Taxation

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

	2006 HK\$'000	2005 HK\$'000
(a) Staff costs:		
Contributions to defined contribution retirement plans	52,452	52,106
Net income recognised in respect of defined benefit retirement plans (note 22(e))	(51,981)	(30,747)
Movements in provision for long service payments (note 32)	13,301	7,174
Retirement costs	13,772	28,533
Salaries, wages and other benefits	2,965,513	2,954,403
	2,979,285	2,982,936

Movement in provision for long service payments includes HK\$6,663,000 (2005: Nil) paid to employees who opted for early retirement under a voluntary retirement scheme in 2006.

	2006 HK\$'000	2005 HK\$'000
(b) Finance costs:		
Interest on bank loans, overdrafts and other unsecured loans wholly repayable within five years	141,670	81,053
Less: borrowing costs capitalised into property under development*	(35,365)	(11,922)
	106,305	69,131

* The borrowing costs have been capitalised at the average interest rate of 4.2% per annum (2005: 3.8%).

	2006 HK\$'000	2005 HK\$'000
(c) Other items:		
Auditors' remuneration		
– audit services	4,315	3,680
– other services	2,418	2,090
Operating lease charges on properties, temporary bus depots, buses, ferries and terminal shelters	27,643	25,369
Operating lease charges on media assets	12,634	24,076
Depreciation	925,141	899,845
Amortisation of land lease premium	2,079	2,087
Amortisation of media assets	8,405	11,850
Impairment losses		
– fixed assets	7,969	–
– goodwill	12,487	–
– media assets	2,100	3,026
– trade and other receivables	4,870	3,141
Write down of spare parts and stores	7,552	4,864

Notes to the Financial Statements

6 Income Tax in the Consolidated Income Statement

(a) Taxation in the consolidated income statement represents:

	2006 HK\$'000	2005 HK\$'000
Current tax – Hong Kong Profits Tax		
Profits Tax for the year	193,578	116,262
Tax recoverable on resolution of tax dispute	(22,314)	–
(Over)/under-provision in respect of prior years	(66)	654
	171,198	116,916
Current tax – PRC Income Tax		
Provision for the year	5,025	783
	176,223	117,699
Deferred tax		
Origination and reversal of temporary differences	(42,958)	(21,777)
	133,265	95,922

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 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.

In prior years, the Hong Kong Inland Revenue Department ("the IRD") disallowed the deductions of certain expenses of a subsidiary of the Company for Hong Kong Profits Tax purpose, resulting in additional tax of HK\$22,314,000 paid by the Group. The subsidiary considered that such expenses should be deductible and lodged objections against the IRD's assessments in prior years. In 2006, the IRD notified the subsidiary that it was satisfied that such expenses were deductible for tax purpose. A tax credit of HK\$22,314,000 has therefore been recognised in 2006.

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

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	2,002,670	690,651
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	356,985	120,500
Tax effect of non-deductible expenses	9,471	6,099
Tax effect of non-taxable income	(208,862)	(42,839)
Tax recoverable on resolution of tax dispute	(22,314)	–
Tax effect of unused tax losses not recognised	6,158	11,184
Tax effect of prior years' unrecognised tax losses utilised during the year	(8,185)	–
(Over)/under-provision in prior years	(66)	654
Others	78	324
Actual tax expense	133,265	95,922

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 2006	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	348	4,554	1,500	1,151	7,553
Charles LUI Chung Yuen	288	600	65	–	953
Winnie NG	338	2,618	203	–	3,159
LUI Pochiu	288	2,455	329	–	3,072
Edmond HO Tat Man	288	2,599	438	267	3,592
<i>Non-executive Directors</i>					
KWOK Ping-luen, Raymond	288	–	–	–	288
KWOK Ping-sheung, Walter	288	–	–	–	288
YU Shu Chuen	95	4	–	–	99
NG Siu Chan	288	–	–	–	288
William LOUEY Lai Kuen	288	–	–	–	288
George CHIEN Yuan Hwei	336	–	–	–	336
<i>Independent Non-executive Directors</i>					
The Hon Sir Sze-yuen CHUNG	403	–	–	–	403
Dr Norman LEUNG Nai Pang#	322	–	–	–	322
Dr KUNG Ziang Mien, James	360	–	–	–	360
Dr Eric LI Ka Cheung	457	–	–	–	457
SIU Kwing-chue, Gordon	288	–	–	–	288
	4,963	12,830	2,535	1,418	21,746

Notes to the Financial Statements

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 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>					
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 Norman LEUNG Nai Pang [#]	273	–	–	–	273
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>

[#] Dr Norman Leung Nai Pang became an Independent Non-executive Director with effect from 1 February 2006.

8 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, four (2005: 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:

	2006 HK\$'000	2005 HK\$'000
Fees	1,262	1,196
Salaries, allowances and benefits in kind	14,071	14,168
Discretionary bonuses	2,681	4,490
Retirement scheme contributions	1,482	1,672
	<u>19,496</u>	<u>21,526</u>

The emoluments of the five (2005: five) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2006	2005
HK\$2,000,001 - HK\$2,500,000	1	–
HK\$2,500,001 - HK\$3,000,000	–	1
HK\$3,000,001 - HK\$3,500,000	2	2
HK\$3,500,001 - HK\$4,000,000	1	1
HK\$7,500,001 - HK\$8,000,000	1	–
HK\$8,000,001 - HK\$8,500,000	–	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\$232,051,000 (2005 (restated): HK\$780,368,000) 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:

	2006 HK\$'000	2005 HK\$'000 (restated)
Amount of consolidated profit attributable to equity shareholders of the Company dealt with in the Company's financial statements	232,051	780,368
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	137,237	84,764
Company's profit for the year (note 33(b))	369,288	865,132

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\$1,838,014,000 (2005: HK\$584,164,000) and 403,639,413 shares in issue during the years ended 31 December 2006 and 2005.

(b) Diluted earnings per share

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

11 Dividends

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

	2006 HK\$'000	2005 HK\$'000
Interim dividend declared and paid of HK\$0.45 per share (2005: HK\$0.45 per share)	181,638	181,638
Final dividend proposed after the balance sheet date of HK\$1.58 per share (2005: 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

	2006 HK\$'000	2005 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.58 per share (2005: 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 vehicles exteriors, shelters and outdoor signages.

Property holdings and development: The development of residential and commercial properties for sale and long term investment.

	Transport operations		Media sales business		Property holdings and development		Inter-segment elimination		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue from external customers	6,351,375	6,224,652	219,947	231,752	2,133,202	–	–	–	8,704,524	6,456,404
Inter-segment revenue	–	2	22,968	24,591	–	–	(22,968)	(24,593)	–	–
Gain on disposal of building and interest in leasehold land	–	90,478	–	–	–	–	–	–	–	90,478
Other revenue from external customers	31,464	49,342	2,345	2,345	384	–	–	–	34,193	51,687
Total	6,382,839	6,364,474	245,260	258,688	2,133,586	–	(22,968)	(24,593)	8,738,717	6,598,569
Segment result	332,784	618,316	108,577	60,878	1,592,620	(659)	–	–	2,033,981	678,535
Unallocated net operating income	–	–	–	–	–	–	–	–	23,481	27,568
Profit from operations	–	–	–	–	–	–	–	–	2,057,462	706,103
Finance costs	–	–	–	–	–	–	–	–	(106,305)	(69,131)
Share of profits less losses of associates and jointly controlled entities	45,126	41,550	6,387	12,129	–	–	–	–	51,513	53,679
Income tax	–	–	–	–	–	–	–	–	(133,265)	(95,922)
Profit after taxation	–	–	–	–	–	–	–	–	1,869,405	594,729
Depreciation and amortisation for the year	899,452	874,223	36,173	39,559	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–	–	–	–	–
– trade and other receivables	–	–	4,870	3,141	–	–	–	–	–	–
– media assets	–	–	2,100	3,026	–	–	–	–	–	–
– goodwill	–	–	12,487	–	–	–	–	–	–	–
– fixed assets	–	–	7,969	–	–	–	–	–	–	–
Segment assets	6,249,775	6,401,930	152,541	336,202	3,441,160	709,330	–	–	9,843,476	7,447,462
Interests in associates and jointly controlled entities	679,969	648,391	176,839	144,388	–	–	–	–	856,808	792,779
Unallocated assets	–	–	–	–	–	–	–	–	1,400,002	1,340,060
Total assets	–	–	–	–	–	–	–	–	12,100,286	9,580,301
Segment liabilities	1,211,608	1,122,656	52,539	50,443	778,562	59,738	–	–	2,042,709	1,232,837
Unallocated liabilities	–	–	–	–	–	–	–	–	4,738,698	4,046,784
Total liabilities	–	–	–	–	–	–	–	–	6,781,407	5,279,621
Capital expenditure incurred during the year	587,769	514,140	2,918	3,389	–	–	–	–	–	–

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 under construction HK\$'000	Tools and others HK\$'000	Sub-total HK\$'000	Investment property under development HK\$'000	Interest in leasehold land held for own use under operating leases HK\$'000	Total fixed assets HK\$'000
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
Cost:									
At 1 January 2006	1,412,424	8,730,848	122,922	157,405	1,842,915	12,266,514	–	126,120	12,392,634
Exchange adjustments	–	53	–	–	24	77	–	–	77
Additions	9,047	49,248	–	309,822	237,823	605,940	–	–	605,940
Transfer from property under development (note 25)	–	–	–	–	–	–	74,567	–	74,567
Acquisition of subsidiaries (note 34(a))	–	36,668	–	–	–	36,668	–	–	36,668
Disposal of subsidiaries (note 34(b))	–	–	–	–	(928)	(928)	–	–	(928)
Disposals	(366)	(125,787)	–	–	(7,386)	(133,539)	–	–	(133,539)
Transfer of buses	–	352,151	–	(352,151)	–	–	–	–	–
At 31 December 2006	1,421,105	9,043,181	122,922	115,076	2,072,448	12,774,732	74,567	126,120	12,975,419
Accumulated depreciation, amortisation and impairment losses:									
At 1 January 2006	731,445	4,494,222	17,631	–	1,420,627	6,663,925	–	39,858	6,703,783
Exchange adjustments	–	28	–	–	10	38	–	–	38
Charge for the year	51,313	612,769	6,150	–	254,909	925,141	–	2,079	927,220
Impairment loss for the year (note)	–	–	–	–	7,969	7,969	–	–	7,969
Acquisition of subsidiaries (note 34(a))	–	20,882	–	–	–	20,882	–	–	20,882
Disposal of subsidiaries (note 34(b))	–	–	–	–	(542)	(542)	–	–	(542)
Written back on disposals	(366)	(125,718)	–	–	(7,196)	(133,280)	–	–	(133,280)
At 31 December 2006	782,392	5,002,183	23,781	–	1,675,777	7,484,133	–	41,937	7,526,070
Net book value:									
At 31 December 2006	638,713	4,040,998	99,141	115,076	396,671	5,290,599	74,567	84,183	5,449,349
Add:									
Deposits paid in respect of buses on order						13,685	–	–	13,685
						5,304,284	74,567	84,183	5,463,034

Notes to the Financial Statements

13 Fixed Assets (continued)

(a) The Group: (continued)

Note on impairment loss on fixed assets:

During the year ended 31 December 2006, the management has carried out an assessment of the recoverable amount of certain fixed assets of the Group. Based on their assessment, the carrying amount of these fixed assets was written down by HK\$7,969,000. The estimated recoverable amount was determined based on the future cash flows generated from these fixed assets. The impairment loss is included in other operating expenses in the consolidated income statement.

(b) The Company:

	Other fixed assets	
	2006 HK\$'000	2005 HK\$'000
Cost:		
At 1 January and 31 December	201	201
Accumulated depreciation:		
At 1 January	186	171
Charge for the year	15	15
At 31 December	201	186
Net book value:		
At 31 December	–	15

(c) All the Group's buildings, investment property under development 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:

	2006 HK\$'000	2005 HK\$'000
Medium-term leases	482,048	424,760
Short-term leases	315,415	342,481
	797,463	767,241
Representing:		
Buildings held for own use	638,713	680,979
Interest in leasehold land held for own use under operating leases	84,183	86,262
Investment property under development	74,567	–
	797,463	767,241

14 Intangible Assets

	Passenger service licences HK\$'000
Cost and net book value:	
At 1 January 2005 and 2006	–
Acquisition of subsidiaries (note 34(a))	5,820
Additions	1,756
At 31 December 2006	7,576

14 Intangible Assets (continued)

Passenger service licences of the Group are regarded to have indefinite useful lives as there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

Passenger service licences have been allocated to the cash-generating unit of non-franchised transport operations for the purpose of impairment testing. Details of impairment testing are set out in note 15 to the financial statements.

15 Goodwill

	2006 HK\$'000	2005 HK\$'000
Cost:		
At 1 January	32,599	29,626
Acquisition of subsidiaries (note 34(a))	29,092	2,973
At 31 December	61,691	32,599
Accumulated impairment losses:		
Impairment loss for the year and at 31 December	12,487	–
Carrying amount:		
At 31 December	49,204	32,599

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

Goodwill and intangible assets with indefinite useful lives are allocated to the Group's cash-generating units ("CGUs") identified according to the location of operation and business segment as follows:–

	2006 HK\$'000	2005 HK\$'000
Non-franchised transport operations		
– goodwill	49,204	20,112
– intangible assets (note 14)	7,576	–
Media advertising agency, design and production in Shanghai		
– goodwill	–	12,487
	56,780	32,599

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		Media advertising agency, design and production in Shanghai	
	2006 %	2005 %	2006 %	2005 %
Gross margin	8.5	11.0	64.6	78.1
Growth rate	3.0	3.0	3.1	6.3
Discount rate	7.0	4.5	4.2	4.8

Notes to the Financial Statements

15 Goodwill (continued)

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

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.

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

For media advertising agency, design and production in Shanghai, the recoverable amount of the CGU is less than the carrying amount of the goodwill and fixed assets of the CGU. Accordingly, goodwill with carrying amount of HK\$12,487,000 was fully impaired and charged to the consolidated income statement as other operating expenses.

16 Media Assets

	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	–	(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)	–	3,026	3,026
At 31 December 2005	–	27,002	27,002
Carrying amount:			
At 31 December 2005	–	95,805	95,805

16 Media Assets (continued)

	Advertising display panels under construction HK\$'000	Advertising rights HK\$'000	Total HK\$'000
Cost:			
At 1 January 2006	–	122,807	122,807
Exchange adjustments	–	2,444	2,444
Additions	–	725	725
Disposals	–	(33,089)	(33,089)
Disposal of subsidiaries (note 34(b))	–	(91,090)	(91,090)
At 31 December 2006	–	1,797	1,797
Accumulated amortisation and impairment losses:			
At 1 January 2006	–	27,002	27,002
Exchange adjustments	–	538	538
Amortisation for the year	–	8,405	8,405
Impairment loss for the year (note)	–	2,100	2,100
Written back on disposals	–	(5,046)	(5,046)
Disposal of subsidiaries (note 34(b))	–	(32,610)	(32,610)
At 31 December 2006	–	389	389
Carrying amount:			
At 31 December 2006	–	1,408	1,408

Note on impairment loss of media assets:

Media assets are assessed at each balance sheet date to identify whether there are any indications that they may be impaired. Such indications include physical damage of a media asset and dismantling 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 projections 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 were dismantled during the years ended 31 December 2006 and 2005. 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\$2,100,000 (2005: HK\$3,026,000) were impaired and charged to the consolidated income statement as other operating expenses.

17 Non-current Prepayments

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

18 Interest in Subsidiaries

(a) Investments in subsidiaries

	The Company	
	2006 HK\$'000	2005 HK\$'000 (restated)
Unlisted shares, at cost	1,175,966	1,139,649

Notes to the Financial Statements

18 Interest 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.

(c) Particulars of principal subsidiaries

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

Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Percentage of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by subsidiaries	
KMB Resources Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	100	–	Investment holding
The Kowloon Motor Bus Company (1933) Limited	Hong Kong	403,639,413 shares of 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

18 Interest in Subsidiaries (continued)

(c) Particulars of principal subsidiaries (continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Percentage of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by subsidiaries	
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
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
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
Hoi Tai Tours Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	20,000 shares of HK\$100 each	100	–	100	Provision of non-franchised bus services in Hong Kong and the PRC

Notes to the Financial Statements

19 Interest in Associates

	2006 HK\$'000	2005 HK\$'000
Share of net assets	692,614	647,810
Goodwill	71,298	69,384
Loan to associate	69,241	49,522
Amounts due from associates	5,930	14,612
Amounts due to associates	(4,922)	(4,922)
	834,161	776,406

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 2005 financial statements included the results as agreed to be maintained by the joint venture partner. This arrangement expired in 2005 and the share of profit recognised in the 2006 financial statements represents the Group's share of profit of the associate in proportion to its equity interests held by the Group.

(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:

	2006 HK\$'000	2005 HK\$'000
Shenzhen Bus Group Company Limited ("SBG")	53,937	52,023
AdSociety Daye Advertising Company Limited ("ADA")	17,361	17,361
	71,298	69,384

The recoverable amount of the CGUs is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

19 Interest in Associates (continued)

(a) Goodwill on acquisition of associates (continued)

Key assumptions used for value-in-use calculations:

	SBG		ADA	
	2006 %	2005 %	2006 %	2005 %
Gross margin	4.3	8.5	24.0	30.1
Growth rate	3.0	3.0	3.4	4.5
Discount rate	7.5	5.6	4.2	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
2006					
100 per cent	3,205,417	(1,391,238)	1,814,179	2,429,659	155,156
Group's effective interest	1,223,064	(530,450)	692,614	884,996	51,718
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

20 Interest in Jointly Controlled Entities

	2006 HK\$'000	2005 HK\$'000
Share of net assets	22,997	16,434
Amount due to jointly controlled entity	(350)	(61)
	22,647	16,373

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

The following list contains only the particulars of the jointly controlled entity which principally affected the results or assets of the Group:

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	RMB37,000,000	(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

21 Other Financial Assets

	2006 HK\$'000	2005 HK\$'000
Instalments receivable from sale of properties	12,629	–
Unlisted equity securities, at cost	15,355	15,355
Loan to investee	18,592	18,592
	46,576	33,947

The instalments receivable from sale of properties are expected to be recovered after one year.

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

22 Employee Retirement Benefits

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

The latest independent actuarial valuations of the plans were at 31 December 2006 and were prepared by Watson Wyatt Hong Kong Limited, which has among its staff fellow members of the Canadian Institute of Actuaries and the Society of Actuaries, using the projected unit credit method. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 145% (2005: 146%) covered by the plan assets held by the trustee.

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

	2006 HK\$'000	2005 HK\$'000
Present value of funded obligations	(2,661,069)	(2,341,958)
Fair value of plan assets	3,864,006	3,422,344
Unrecognised past service cost	124,540	–
Net unrecognised actuarial gains	(790,527)	(595,417)
	536,950	484,969

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. The expected annual contribution to defined benefit retirement plans for 2007 is nil.

(b) Plan assets consist of the following:

	2006 HK\$'000	2005 HK\$'000
Equity securities	2,979,569	2,591,083
Bonds	741,328	641,188
Cash and others	143,109	190,073
	3,864,006	3,422,344

22 Employee Retirement Benefits (continued)

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

	2006 HK\$'000	2005 HK\$'000
At 1 January	2,341,958	2,174,037
Benefits paid by the plans	(117,086)	(88,454)
Current service cost	125,127	123,006
Past service cost	126,806	–
Interest cost	98,530	96,853
Actuarial losses	85,734	36,516
At 31 December	2,661,069	2,341,958

(d) Movements in plan assets:

	2006 HK\$'000	2005 HK\$'000
At 1 January	3,422,344	3,098,115
The Group's contributions paid to the plans	–	40,389
Benefits paid by the plans	(117,086)	(88,454)
Actuarial expected return on plan assets	256,464	234,792
Actuarial gains	302,284	137,502
At 31 December	3,864,006	3,422,344

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

	2006 HK\$'000	2005 HK\$'000
Current service cost	125,127	123,006
Past service cost recognised	2,266	–
Interest cost	98,530	96,853
Actuarial expected return on plan assets	(256,464)	(234,792)
Net actuarial gains recognised	(21,440)	(15,814)
	(51,981)	(30,747)

The above net income is included in staff costs in the consolidated income statement.

During the year, the Group enhanced early retirement benefit for eligible employees of a subsidiary of the Group. The resulting past service cost of HK\$126,806,000 is recognised as an expense on a straight-line basis over the average period until the benefits become vested.

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\$558,748,000 (2005: HK\$372,294,000).

Notes to the Financial Statements

22 Employee Retirement Benefits (continued)

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

	2006	2005
Discount rate	3.75%	4.25%
Expected rate of return on plan assets	7.5%	7.5%
Future salary increases	4%	3 - 4%

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

(g) Historical information

	2006 HK\$'000
Fair value of plan assets	3,864,006
Present value of the defined benefit obligations	(2,661,069)
Surplus in the plans	1,202,937
Experience gains arising on plan liabilities	41,439
Experience gains arising on plan assets	302,284

Disclosure of historical information has been made prospectively from the year ended 31 December 2006 in accordance with the transitional provisions of Amendment to HKAS 19, Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures.

23 Equity Settled Share-based Transactions

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

No option was granted during the year and there were no outstanding options at 31 December 2006 and 2005.

24 Other Investments

	2006 HK\$'000	2005 HK\$'000
Trading securities (at market value)		
Equity securities listed in Hong Kong	–	47,250

25 Property under Development

	2006 HK\$'000	2005 HK\$'000
Development and incidental costs	–	695,118
Borrowing costs capitalised	–	11,946
	–	707,064

25 Property under Development (continued)

During the year ended 31 December 2006, the development of the property has been substantially completed. Movement of property under development is as follows:

	2006 HK\$'000	2005 HK\$'000
Balance at 1 January	707,064	323,209
Development costs incurred	1,262,068	383,855
Transfer to completed property held for sale	(1,894,565)	–
Transfer to investment property under development	(74,567)	–
Balance at 31 December	–	707,064

26 Accounts Receivable

	2006 HK\$'000	2005 HK\$'000
Trade and other receivables	321,179	293,131
Instalments receivable from sale of properties	1,855,708	–
Interest receivable	1,591	1,515
Derivative financial instruments	795	2,557
	2,179,273	297,203

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

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

	2006 HK\$'000	2005 HK\$'000
Current	2,003,382	157,166
1 to 3 months overdue	15,853	23,070
More than 3 months overdue	9,803	23,486
	2,029,038	203,722

The Group's credit policy is set out in note 37(a) to the financial statements.

27 Cash and Cash Equivalents

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash at bank and in hand	108,351	73,462	18,127	15,575
Bank deposits	1,120,161	1,060,196	–	–
Cash and cash equivalents in the balance sheet	1,228,512	1,133,658	18,127	15,575
Less: Bank deposits maturing in over three months	(10,429)	(128,420)		
Bank overdrafts (note 28)	(21,567)	(41,651)		
Cash and cash equivalents in the consolidated cash flow statement	1,196,516	963,587		

Notes to the Financial Statements

27 Cash and Cash Equivalents (continued)

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

	The Group	
	2006 '000	2005 '000
British Pound Sterling	GBP 1,556	GBP 1,517
United States Dollars	USD 50,951	USD 37,852

28 Bank Loans and Overdrafts

At 31 December 2006, the bank loans and overdrafts were repayable as follows:

	2006 HK\$'000	2005 HK\$'000
Within 1 year or on demand	1,780,150	961,489
After 1 year but within 2 years	977,500	392,923
After 2 years but within 5 years	1,075,000	1,825,500
	2,052,500	2,218,423
	3,832,650	3,179,912

At 31 December 2006, the bank loans and overdrafts were secured as follows:

	2006 HK\$'000	2005 HK\$'000
Unsecured bank overdrafts	21,567	41,651
Bank loans		
– secured	38,000	–
– unsecured	3,773,083	3,138,261
	3,832,650	3,179,912

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:

	2006 '000	2005 '000
United States Dollars	USD 4,080	USD 9,588

At 31 December 2006, bank loans of HK\$38,000,000 were secured by pledged bank deposits of HK\$39,520,000.

29 Accounts Payable and Accruals

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000 (restated)
Trade payables	253,260	96,858	–	–
Financial guarantees issued	–	–	65,537	70,492
Other payables and accruals	1,374,716	759,829	26,498	22,298
	1,627,976	856,687	92,035	92,790

All of the accounts payable and accruals, except for other payables and accruals of the Group of HK\$33,666,000 (2005: Nil), are expected to be settled within one year. Included in other payables and accruals of the Group is retention money payable of HK\$25,354,000 (2005: HK\$14,649,000).

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

	The Group	
	2006 HK\$'000	2005 HK\$'000
Due within 1 month or on demand	196,850	80,437
Due after 1 month but within 3 months	54,571	14,662
Due after more than 3 months	1,839	1,759
	253,260	96,858

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	
	2006 '000	2005 '000
British Pound Sterling	GBP 3,233	GBP 3,374

30 Contingency Provision – Insurance

	2006 HK\$'000	2005 HK\$'000
At 1 January	52,102	58,502
Provision charged/(written back) during the year	82,451	(6,400)
At 31 December	134,553	52,102

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

Notes to the Financial Statements

31 Income Tax in the Balance Sheet

(a) Current taxation in the balance sheet represents:

	2006 HK\$'000	2005 HK\$'000
Provision for Hong Kong Profits Tax for the year	193,578	116,262
Provisional Profits Tax paid	(79,360)	(83,807)
	114,218	32,455
Balance of Profits Tax recoverable relating to prior years	(24,444)	(3,539)
	89,774	28,916
PRC Income Tax payable	792	406
	90,566	29,322
Representing:		
Current taxation recoverable	(25,278)	(4,289)
Current taxation payable	115,844	33,611
	90,566	29,322

(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 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
At 1 January 2006	775,684	(12,568)	(62,303)	84,871	785,684
Acquisition of subsidiaries (note 34(a))	1,917	–	(213)	–	1,704
(Credited)/charged to consolidated income statement	(41,447)	(14,675)	4,068	9,096	(42,958)
At 31 December 2006	736,154	(27,243)	(58,448)	93,967	744,430

	2006 HK\$'000	2005 HK\$'000
Net deferred tax assets recognised on the consolidated balance sheet	(13,785)	(16,077)
Net deferred tax liabilities recognised on the consolidated balance sheet	758,215	801,761
	744,430	785,684

(c) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets of HK\$35,693,000 (2005: HK\$33,558,000) in respect of tax losses of HK\$203,960,000 (2005: HK\$177,113,000). The tax losses do not expire under the current tax legislation.

32 Provision for Long Service Payments

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

	2006 HK\$'000	2005 HK\$'000
At 1 January	49,885	48,253
Provision charged to the consolidated income statement (note 5(a))	13,301	7,174
Payments made during the year	(13,896)	(5,542)
At 31 December	49,290	49,885

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

33 Capital and Reserves

(a) The Group

Attributable to equity shareholders of the Company									
Note	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	Minority interests HK\$'000	Total equity HK\$'000
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	403,639	2,412	17,839	1,082,600	17,067	2,508,576	4,032,133	268,547	4,300,680
At 1 January 2006	403,639	2,412	17,839	1,082,600	17,067	2,508,576	4,032,133	268,547	4,300,680
Dividend approved in respect of the previous year	11(b)	–	–	–	–	(637,750)	(637,750)	–	(637,750)
Dividends paid to minority shareholders		–	–	–	–	–	–	(12,988)	(12,988)
Exchange differences on translation of financial statements of foreign entities		–	–	–	24,258	–	24,258	–	24,258
Contribution by minority shareholders		–	–	–	–	–	–	6,673	6,673
Disposal of subsidiaries	34(b)	–	–	–	(827)	–	(827)	(48,934)	(49,761)
Profit for the year		–	–	–	–	1,838,014	1,838,014	31,391	1,869,405
Dividend approved in respect of the current year	11(a)	–	–	–	–	(181,638)	(181,638)	–	(181,638)
At 31 December 2006	403,639	2,412	17,839	1,082,600	40,498	3,527,202	5,074,190	244,689	5,318,879

Included in retained profits are an amount of HK\$96,282,000 (2005: HK\$74,432,000) being the retained profits attributable to associates, and an amount of HK\$1,521,000 (2005: HK\$1,726,000) being the retained profits attributable to jointly controlled entities.

Notes to the Financial Statements

33 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 2005					
– as previously reported		403,639	1,300,000	851,255	2,554,894
– prior period adjustment in respect of amendments to HKAS 39: Financial guarantee contracts	2	–	–	15,667	15,667
– as restated		403,639	1,300,000	866,922	2,570,561
Dividend approved in respect of the previous year	11(b)	–	–	(637,750)	(637,750)
Profit for the year (restated)		–	–	865,132	865,132
Dividend approved in respect of the current year	11(a)	–	–	(181,638)	(181,638)
At 31 December 2005 (as restated)		403,639	1,300,000	912,666	2,616,305
At 1 January 2006					
– as previously reported		403,639	1,300,000	880,016	2,583,655
– prior period adjustment in respect of amendments to HKAS 39: Financial guarantee contracts	2	–	–	32,650	32,650
– as restated		403,639	1,300,000	912,666	2,616,305
Dividend approved in respect of the previous year	11(b)	–	–	(637,750)	(637,750)
Profit for the year		–	–	369,288	369,288
Dividend approved in respect of the current year	11(a)	–	–	(181,638)	(181,638)
At 31 December 2006		403,639	1,300,000	462,566	2,166,205

The Company's reserves available for distribution to shareholders at 31 December 2006 amounted to HK\$1,762,566,000 (2005 (restated): HK\$2,212,666,000).

(c) Share capital

	2006 HK\$'000	2005 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

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

34 Acquisition/Disposal of Subsidiaries

(a) Acquisition of subsidiaries

On 15 August 2006, the Company, via a wholly-owned subsidiary, acquired the entire equity interests in Hoi Tai Tours Limited and its subsidiaries ("Hoi Tai Group") for HK\$49,296,000, satisfied in cash.

The principal activity of Hoi Tai Group is the provision of non-franchised transport services in Hong Kong and cross-boundary transport services between Hong Kong and the PRC. The contribution to the Group's revenue and profit for the year from Hoi Tai Group acquired since its date of acquisition is immaterial.

34 Acquisition/Disposal of Subsidiaries (continued)

(a) Acquisition of subsidiaries (continued)

Details of net assets acquired and goodwill are as follows:

Net assets acquired:	Carrying amount	Fair value
	HK\$'000	HK\$'000
Fixed assets	15,786	15,786
Intangible assets	–	5,820
Accounts receivable	42	42
Deposits and prepayments	772	772
Accounts payable and accruals	(512)	(512)
Deferred tax liabilities	(1,704)	(1,704)
Net assets acquired		20,204
Goodwill arising from acquisition (note 15)		29,092
Total purchase price paid, satisfied in cash		49,296

The goodwill is mainly attributable to profitability of the acquired business and the operating rights in the cross-boundary bus routes held by the acquirees. The operating rights are identifiable intangible assets but their fair value could not be measured reliably since they arise from legal rights and are not separable from the entity. These intangible assets were therefore not recognised separately from goodwill.

(b) Disposal of subsidiaries

During 2006, the Group disposed of its interest in RoadVision (Dalian) Limited and Guangzhou Key Media Advertising Company Limited for HK\$49,435,000, satisfied in cash. Details of the net assets disposed of are as follows:

	HK\$'000
Fixed assets	386
Media assets	58,480
Accounts receivable	35,318
Deposits and prepayments	9,045
Cash and cash equivalents	40,086
Accounts payable and accruals	(53,125)
Current taxation payable	(3,671)
Minority interests	(48,934)
Release of exchange reserve upon disposal of subsidiaries	(827)
	36,758
Gain on disposal	12,677
Cash consideration received	49,435
Less: cash of the subsidiaries disposed of	(40,086)
Net cash inflow in respect of the disposal of subsidiaries	9,349

35 Commitments

(a) At 31 December 2006, the Group had the following capital commitments in relation to the purchase of property, plant and equipment and investments not provided for in the financial statements:

	2006 HK\$'000	2005 HK\$'000
Contracted for	295,308	1,452,861
Authorised but not contracted for	195,858	425,716
	491,166	1,878,577

Notes to the Financial Statements

35 Commitments (continued)

- (b) At 31 December 2006, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	2006 HK\$'000	2005 HK\$'000
Within 1 year	3,024	17,574
After 1 year but within 5 years	1,598	50,719
After 5 years	–	49,543
	4,622	117,836

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.

36 Contingent Liabilities

Financial guarantees issued

At 31 December 2006, the Company has undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of HK\$3,160,000,000 (2005: HK\$2,460,000,000).

As at the balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the outstanding amount of the loans advanced by the banks to the subsidiaries totalling HK\$2,343,000,000 (2005: HK\$1,640,000,000).

Deferred income in respect of the guarantees issued is disclosed in note 29 to the financial statements.

37 Financial Instruments

Exposure to credit, liquidity, interest rate, foreign currency and fuel price 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, instalments receivable from sale of properties and loans to associate 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 of the Group's transport operations and media sales business. All the trade and other receivables included in current assets are expected to be recoverable within one year.

For instalments receivable from sale of properties, the properties sold serve as the collateral. Regular review and follow up actions are carried out on overdue amounts to minimise the Group's exposure to credit risk. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables.

The Group has no concentrations of credit risk in view of its large number of customers. 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.

37 Financial Instruments (continued)

(b) Liquidity risk (continued)

Major operating companies of the Group arrange for their own financing to meet specific requirements, the Group's other subsidiaries are mainly financed by the Company's capital base.

The Group reviews its strategy from time to time to ensure that cost-efficient funding is available to cater for the unique operating environment of each subsidiary.

(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 2006, the Group's borrowings were mainly denominated in Hong Kong dollars and on a floating interest rate basis. 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 2006, the Group had interest rate swaps with a notional contract amount of HK\$31,788,000 (2005: HK\$74,704,000) with the maturity of the swaps matched 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 2006 was HK\$795,000 (2005: 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									
	2006					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	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	1.1%	41,960	41,960	—	—	2.8%	19,349	19,349	—	—
Bank overdrafts	7.8%	(21,567)	(21,567)	—	—	7.8%	(41,651)	(41,651)	—	—
Bank loans	4.2%	(3,779,295)	(3,779,295)	—	—	4.4%	(3,063,557)	(3,063,557)	—	—
Effect of interest rate swaps	4.2%	(31,788)	(31,788)	—	—	4.4%	(74,704)	(74,704)	—	—
		<u>(3,790,690)</u>	<u>(3,790,690)</u>	<u>—</u>	<u>—</u>		<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	4.1%	1,120,161	1,120,161	—	—	3.9%	1,060,196	1,060,196	—	—
Instalments receivable	4.9%	1,868,337	1,855,708	12,629	—	—	—	—	—	—
Loan to investee	5.5%	18,592	—	—	18,592	5.5%	18,592	—	—	18,592
Loan to associate	4.3%	69,241	69,241	—	—	3.9%	49,522	49,522	—	—
Bank loans	6.6%	(31,788)	(31,788)	—	—	6.6%	(74,704)	(42,916)	(31,788)	—
Effect of interest rate swaps	6.6%	31,788	31,788	—	—	6.6%	74,704	42,916	31,788	—
		<u>3,076,331</u>	<u>3,045,110</u>	<u>12,629</u>	<u>18,592</u>		<u>1,128,310</u>	<u>1,109,718</u>	<u>—</u>	<u>18,592</u>

Notes to the Financial Statements

37 Financial Instruments (continued)

(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 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 fluctuations. There was no outstanding forward foreign exchange contract as at 31 December 2006 and 2005.

(e) Fuel price risk

It is the Group's policy to closely monitor the fuel oil price movements and enter into fuel oil swap contracts in a strategic manner when opportunities arise to hedge against fuel oil price fluctuations. There was no outstanding fuel oil swap contract as at 31 December 2006 and 2005.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005 except as follows:

- (i) Amounts due from/to subsidiaries, associates and jointly controlled entities of the Group and the Company are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose their fair values.
- (ii) Unlisted equity securities of HK\$15,355,000 (2005: HK\$15,355,000) do not have a quoted market price in an active market and therefore their fair values cannot be reliably measured. They are recognised at cost less impairment losses at the balance sheet date.

(g) Estimation of fair values

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

(i) 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.

(iv) Financial guarantees

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

38 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	2006 HK\$'000	2005 HK\$'000
Service fees for provision of coach services	(i)	27,536	24,247
Insurance premium paid	(ii)	81,376	80,174
Amount paid and accrued for management contractor services for property under development	(iii)	1,045,458	354,227
Amount accrued for letting and sales agency agreement, and management agreement	(iv) & (v)	13,561	–
Amount paid and accrued for property project management services	(vi)	9,800	–
Estimated Entitled Net Return for provision of transport services	(vii)	9,681	11,777
Sales proceeds received on disposal of:	(viii)		
– leasehold land held for own use under an operating lease		–	93,500
– building held for own use		–	12,500
		–	106,000

Notes:

- (i) During the year, the Group provided coach services to certain subsidiaries of Sun Hung Kai Properties Limited ("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 2006 amounted to HK\$7,025,000 (2005: HK\$9,967,000).
- (ii) During the year, the Group entered into a contract with a subsidiary of SHKP, Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of insurance services to the Group. 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 2006 and 2005.
- (iii) In 2003, Lai Chi Kok Properties Investment Limited ("LCKPI"), an indirectly wholly-owned subsidiary of the Company, entered into a prime cost contract ("the Prime Cost Contract") with Chun Fai Construction Co. Ltd. ("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. Outstanding balance payable for this contract at 31 December 2006 amounted to HK\$545,905,000 (2005: HK\$55,008,000).
- (iv) In 2003, LCKPI entered into a Letting and Sales Agency Agreement with Sun Hung Kai Real Estate Agency Limited ("SHKRE"), a subsidiary of SHKP, on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and the car parking spaces of Manhattan Hill. The amount payable to SHKRE at 31 December 2006 was HK\$13,561,000 (2005: Nil).
- (v) In 2003, LCKPI entered into the Management Agreement with Hong Yip Service Company Limited ("Hong Yip"), a subsidiary of SHKP, to agree to appoint Hong Yip as the manager of Manhattan Hill and to engage its services in relation to the terms and conditions set out in deed(s) of mutual covenant and management agreement(s) of Manhattan Hill to be entered into by LCKPI, Hong Yip and the first purchaser of a completed unit of the property. There was no outstanding balance payable for this contract at 31 December 2006 and 2005.
- (vi) 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. Management service fees payable for this contract at 31 December 2006 amounted to HK\$6,800,000 (2005: Nil).

Notes to the Financial Statements

38 Material Related Party Transactions (continued)

(a) Transactions with related companies (continued)

Notes: (continued)

- (vii) On 23 May 2001, an indirectly wholly-owned 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.

Further, on 28 November 2006, PITC entered into another 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 2006 to 13 December 2007 and the Entitled Net Return of the Transport Agreement was changed to lie within the range of 7% and 14% per annum.

The amount receivable from SHKMW at 31 December 2006 under this contract was HK\$68,589,000 (2005: HK\$75,616,000).

- (viii) In 2005, 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 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 disposal was recognised in the consolidated income statement for the year ended 31 December 2005. There was no outstanding balance due from Fortin International Limited at 31 December 2006 and 2005.

(b) Key management personnel remuneration

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

(c) Financing arrangements

Loan to associate is unsecured and has no fixed terms of repayment. Interest income from loan to associate during the year was HK\$3,208,000 (2005: HK\$1,601,000) and the interest receivable at the year end amounted to HK\$5,446,000 (2005: HK\$2,238,000).

39 Comparative Figures

Certain comparative figures have been adjusted as a result of changes in accounting policies as disclosed in note 2. Further, certain comparative figures have also been reclassified to conform to the current year's presentation.

40 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.

41 Accounting Estimates and Judgements

Notes 15, 19, 22(f) and 37(g) contain information about the assumptions and their risk factors relating to impairment of goodwill and intangible assets with indefinite useful lives, employee benefit assets and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Contingency provision – insurance

Estimation of the contingency provision – insurance, as disclosed in note 30, is based on past claims experience and recent claims development. As the ultimate claim amount will be affected by future external events, for example the amount of court awards, changes in standards of liability and the attitude of claimants towards settlement of their claims, actual claims may deviate from these estimations. Any increase or decrease in the provision would affect the Group's results in future years.

41 Accounting Estimates and Judgements (continued)

(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 and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are material changes from previous estimates.

(c) Impairment of assets

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

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

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

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

(e) Recognition of deferred tax assets

At 31 December 2006, the Group has recognised deferred tax assets which arose from unused tax losses and deductible temporary differences as set out in note 31(b). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax asset may arise, which will be recognised in the consolidated income statement for the period in which such a reversal takes place.

42 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2006

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 year ended 31 December 2006 and which have not been adopted in these financial statements.

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 while the adoption of them may result in new or amended disclosures, it is unlikely to have a material impact on the Group's results of operations and financial position.

In addition, the following may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

Financial Summary

for the year ended 31 December

	2006 HK\$'M	2005 HK\$'M	2004 HK\$'M	2003 HK\$'M	2002 HK\$'M	2001 HK\$'M	2000 HK\$'M	1999 HK\$'M	1998 HK\$'M	1997 HK\$'M
Income statement										
Turnover	8,705	6,456	6,544	6,540	6,843	6,862	6,323	5,871	5,510	4,863
Profit before taxation	2,002	691	913	857	1,142	1,810	936	893	679	555
Less: Income tax	133	96	169	259	175	237	81	154	93	4
Profit after taxation	1,869	595	744	598	967	1,573	855	739	586	551
Less: Minority interests	31	11	13	1	28	34	–	–	–	–
Profit attributable to equity shareholders of the Company	1,838	584	731	597	939	1,539	855	739	586	551
Balance sheet										
Fixed assets	5,463	5,720	6,119	6,491	6,497	6,047	5,381	4,952	4,882	4,441
Intangible assets	8	–	–	–	–	–	–	–	–	–
Goodwill	49	33	30	50	53	21	22	4	–	–
Media assets	1	96	115	61	–	–	–	–	–	–
Non-current prepayments	48	63	470	105	101	–	–	–	–	–
Interest in associates	834	776	330	162	61	1	–	(5)	(5)	(2)
Interest in jointly controlled entities	23	16	5	1	2	6	10	13	17	20
Other financial assets	46	34	15	15	15	15	1	–	–	–
Employee benefit assets	537	485	414	339	278	–	–	–	–	–
Net current assets/(liabilities)	1,290	184	253	548	465	854	926	881	374	(156)
Employment of funds	8,299	7,407	7,751	7,772	7,472	6,944	6,340	5,845	5,268	4,303
Financed by:										
Share capital	404	404	404	404	404	404	404	404	404	404
Reserves	4,670	3,628	3,847	3,935	4,157	3,776	2,341	2,052	1,782	1,637
Total equity attributable to equity shareholders of the Company	5,074	4,032	4,251	4,339	4,561	4,180	2,745	2,456	2,186	2,041
Minority interests	245	269	289	260	244	228	4	6	6	6
Total equity	5,319	4,301	4,540	4,599	4,805	4,408	2,749	2,462	2,192	2,047
Contingency provision – insurance	135	52	59	106	117	202	298	305	299	273
Long term bank loans	2,052	2,218	2,298	2,218	1,830	1,743	2,176	1,961	1,694	1,116
Other liabilities	793	836	854	849	720	591	1,117	1,117	1,083	867
Funds employed	8,299	7,407	7,751	7,772	7,472	6,944	6,340	5,845	5,268	4,303
Earnings per share (HK\$)	4.55	1.45	1.81	1.48	2.33	3.81	2.12	1.83	1.45	1.36
Dividends per share (HK\$)	2.03	2.03	2.03	2.03	2.03	1.86	1.58	1.35	1.15	1.08

Notes:

1. In 2005, the Group has changed several of its accounting policies to comply with Hong Kong Financial Reporting Standards (“HKFRSs”) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Figures for 2004 to 2006 have been prepared based on the new and revised policies in accordance with the transitional provisions of HKFRSs. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively.
2. In order to comply with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 34 “Employee benefits” (now superseded and replaced by Hong Kong Accounting Standard 19, “Employee benefits”) and SSAP 12 (revised) “Income taxes” (now superseded and replaced by Hong Kong Accounting Standard 12, “Income taxes”), the Group adopted new accounting policies for short-term employee benefits and deferred taxation in 2002. Figures for the year 2001 have been adjusted and it is not practicable to restate earlier years for comparison purposes.

Corporate Directory

Board of Directors

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

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

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

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

NG Siu Chan

William LOUEY Lai Kuen
BSc(Econ)

John CHAN Cho Chak
GBS, JP, DBA(Hon), BA, DipMS,
CCMI, FCILT, FHKIoD
Managing Director

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

Winnie NG
BA, MBA(Chicago), MPA(Harvard),
FCIM, CMILT, MHKIoD
Executive Director

Dr KUNG Ziang Mien, James*
GBS, OBE

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

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

LUI Pochiu

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

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

KUNG Lin Cheng, Leo
(Alternate Director to
Dr KUNG Ziang Mien, James*, GBS, OBE)

YUNG Wing Chung
(Alternate Director to
Mr KWOK Ping-luen, Raymond, JP and
Mr KWOK Ping-sheung, Walter, JP)

(* Independent Non-executive Director)

(# Committee Chairman)

Board Committees

Audit Committee

Dr Eric LI Ka Cheung#

Dr KUNG Ziang Mien, James

George CHIEN Yuan Hwei

Nomination Committee

Dr Norman LEUNG Nai Pang#

Dr KUNG Ziang Mien, James

Dr Eric LI Ka Cheung

SIU Kwing-chue, Gordon

Remuneration Committee

Dr Norman LEUNG Nai Pang#

Dr KUNG Ziang Mien, James

Dr Eric LI Ka Cheung

Standing Committee

Dr Norman LEUNG Nai Pang#

KWOK Ping-luen, Raymond

NG Siu Chan

John CHAN Cho Chak

Charles LUI Chung Yuen

Company Secretary

Lana WOO
MBA, BA, AAT, CGA, ACIS, MIFC, CFC

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Registrars

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Bermuda
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Register of Members

Book closed from 8 May 2007 to
17 May 2007, both dates inclusive

Dividends

Interim
HK\$0.45 per share,
paid on 13 October 2006

Final (proposed)
HK\$1.58 per share,
payable on 18 May 2007

Stock Code

The Stock Exchange of Hong Kong: 062
Bloomberg: 62HK
Reuters: 0062.HK

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Long Win Bus Company Limited
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(852) 2261 2792

Sun Bus Limited
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Stock Code: 062

