The Group

Review of 2006 Financial Performance

The Group's Results for the Year

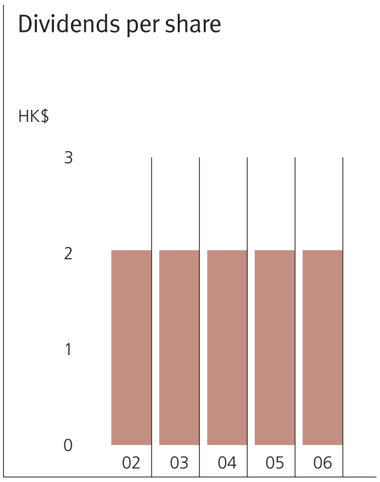
The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2006 was HK$1,838.0 million, an increase of HK$1,253.8 million compared with HK$584.2 million for 2005. The profit for 2006 included the after-tax profit of HK$1,500.2 million arising from the sales of 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.

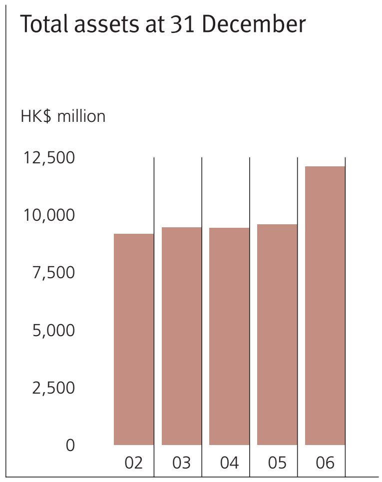
The turnover and profit generated from the Group's six Divisions for the year ended 31 December 2006 are summarised below:

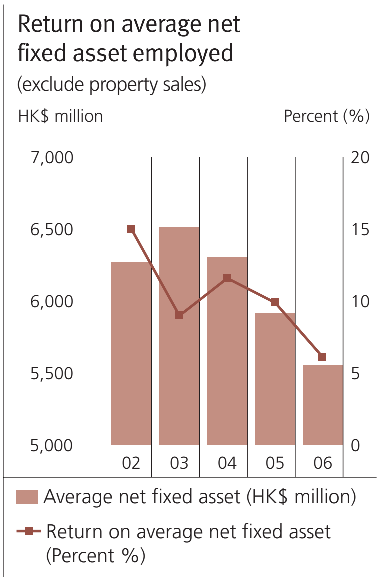
The Group's turnover for 2006 amounted to HK$8,704.5 million (2005: HK$6,456.4 million), representing an increase of HK$2,248.1 million or 34.8% compared with 2005. The increase was primarily due to the sales of Manhattan Hill residential units in late 2006 which resulted in sale revenue of HK$2,133.2 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.

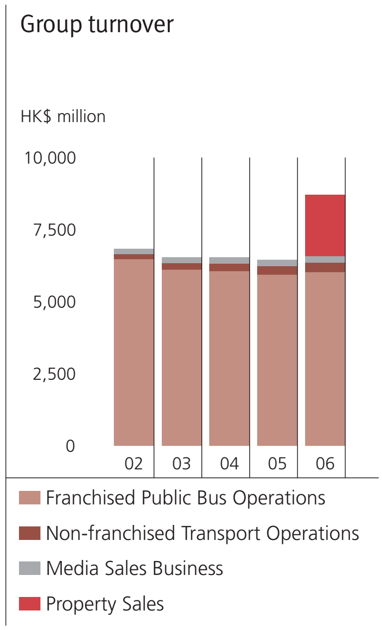
The Group's total operating expenses for 2006 amounted to HK$6,802.2 million (2005: HK$5,929.2 million), an increase of HK$873.0 million or 14.7% compared with 2005. The increase mainly comprised the cost of sales of HK$461.1 million (2005: Nil) in respect of the Manhattan Hill residential units sold 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.

	Turnover		Profit before taxation	
HK$ million	**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









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.

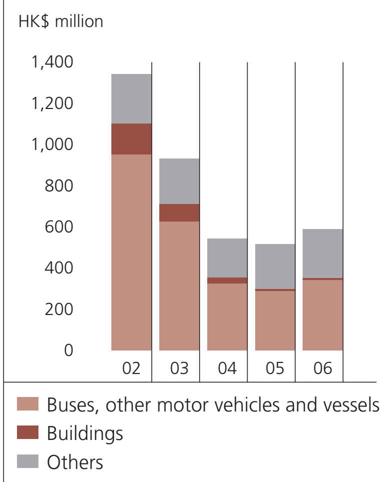
Key Changes to Financial Position

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).

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.

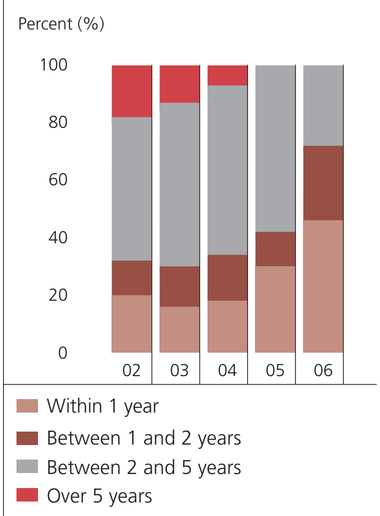
Total current liabilities at 31 December 2006 amounted to HK$3,786.8 million (2005: HK$2,157.5 million) which mainly included the current portion of bank loans, bank overdrafts, accounts payable and other accruals. The increase was mainly due to the additional loan borrowings to finance the development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

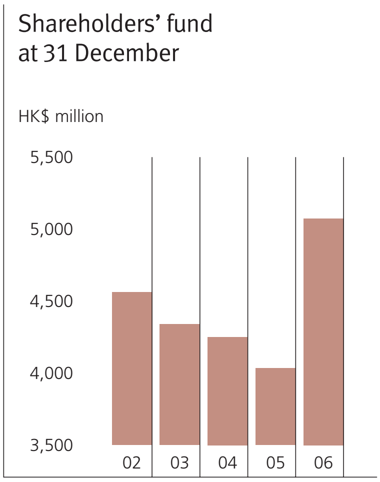
The increase in the Group's liquidity ratio at the end of 2006 as compared with 2005 was due mainly to the increase in accounts receivable arising from the sales of Manhattan Hill residential units.

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).



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

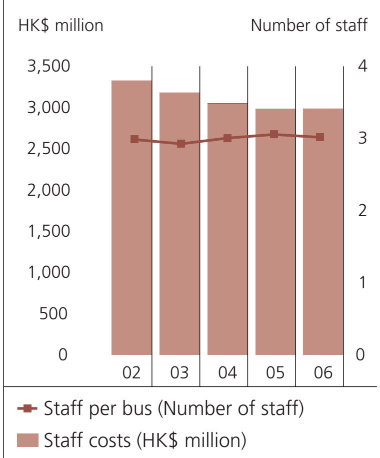
Foreign currency risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments and transactions denominated in foreign currencies. The Group's foreign currency exposure mainly arises from the payments for new buses and overseas motor vehicle components which are 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.

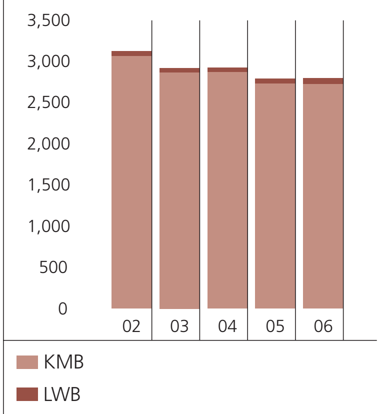
Sun Bus Holdings Limited and its subsidiaries (the "SBH Group")

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.

Average number of passenger trips per day

(Franchised Public Bus Operations)

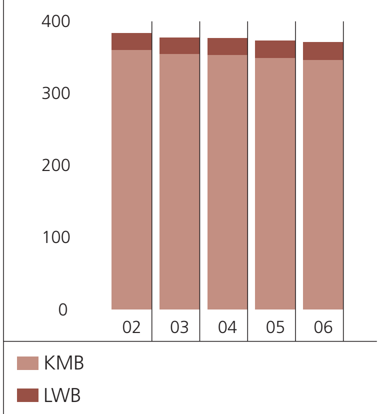
Thousand of passenger trips per day



Bus kilometres operated

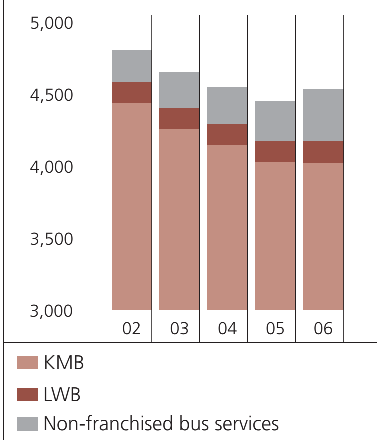
(Franchised Public Bus Operations)

Million kilometres



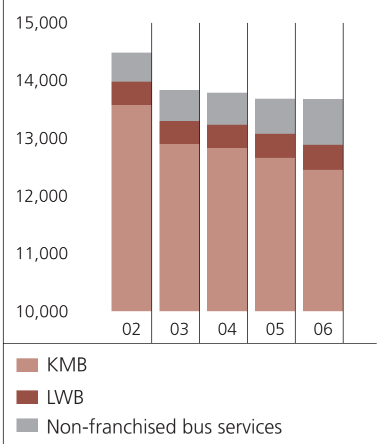
Number of licensed buses at 31 December

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 PITC 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, PITC added three new super-low floor single-deck buses to its bus fleet in 2006. At the year-end, PITC operated two ferry routes and two bus routes serving Ma Wan Island, with a ferry fleet of seven high-speed catamarans and an air-conditioned bus fleet of 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.

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.