The Group

Financial Performance

Consolidated Results for the Year

The Group's profit attributable to shareholders for the year ended 31 December 2004 was HK$731.2 million (2003: HK$597.0 million). This represents an increase of 22.5% compared with 2003. Earnings per share for the year were HK$1.81 compared with HK$1.48 for 2003.

Dividends

The proposed final dividend for the year is HK$1.58 per share (2003: HK$1.58 per share). Together with the interim dividend of HK$0.45 per share (2003: HK$0.45 per share) paid on 13 October 2004, the total dividend for the year ended 31 December 2004 amounts to HK$2.03 per share (2003: HK$2.03 per share). This represents dividend cover of 0.89 times (2003: 0.73 times).

Summary of the Group's performance by Division

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

Segment information on the main businesses of the Group is shown in note 11 to the financial statements on page 112 of this Annual Report.

Income Tax

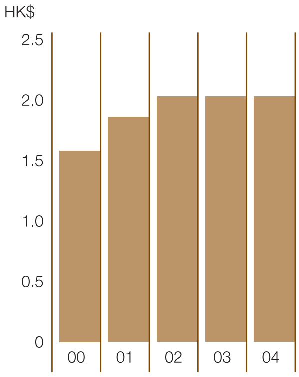
Income tax expense for the year was HK$181.5 million (2003: HK$259.6 million), representing a decrease of 30.1% compared with the previous year. The decrease was due mainly to the relatively high taxation amount for 2003 resulting from the change in the Hong Kong profits tax rate from 16% to 17.5% that became applicable to the Group's operations in Hong Kong for the year ended 31 December 2003. The change in tax rate resulted in an increase in deferred tax liability of HK$61.4 million for 2003 arising from recomputing the deferred tax liabilities brought forward from 2002 based on the new tax rate of 17.5%. The breakdown of the income tax expense is set out in note 5(a) to the financial statements on page 109 of this Annual Report.

Cash Flow

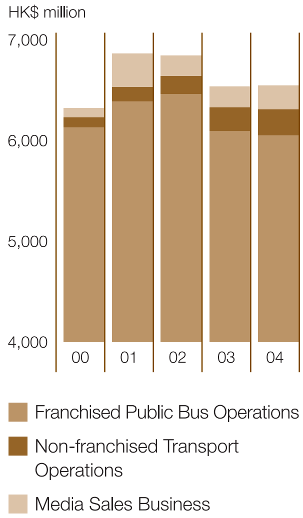
The net cash inflow from operating activities of the Group in 2004 was HK$1,289.9 million (2003: HK$1,578.4 million). Net cash used in investing activities during the year was HK$1,032.3 million (2003: HK$1,009.2 million), of which payment for capital expenditure amounted to HK$610.1 million (2003: HK$919.5 million). Net cash used in financing activities during the year amounted to HK$676.8 million (2003: HK$423.1 million), of which total dividend payment to shareholders amounted to HK$830.1 million (2003: HK$816.8 million). The consolidated cash flow statement of the Group for the year ended 31 December 2004 is set out on pages 100 and 101 of this Annual Report.

	Turnover		Profit from ordinary activities before taxation	
HK$ million	**2004**	2003	**2004**	2003
Franchised Public Bus Operations Division	**6,121.4**	6,168.5	**862.3**	882.3
Non-franchised Transport Operations Division	**256.4**	233.8	**30.4**	25.1
Media Sales Business Division	**166.5**	137.9	**32.8**	(29.4)
Mainland Transport Operations Division	–	–	**21.3**	1.9
Property Holdings and Development Division	–	–	**12.7**	14.1
Internal Financial Services Division	–	–	**10.5**	23.9
	6,544.3	6,540.2	**970.0**	917.9
Finance costs			**(15.4)**	(34.8)
Unallocated net operating expenses			**(29.4)**	(25.9)
Profit from ordinary activities before taxation			**925.2**	857.2

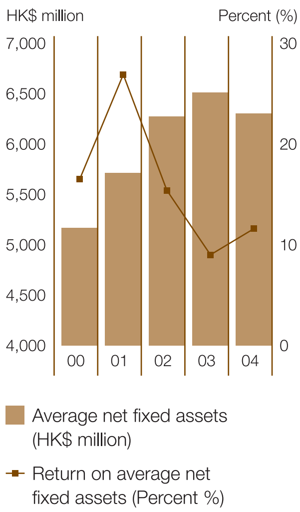
Dividends per share



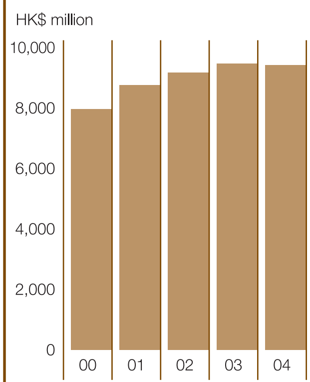
Group turnover



Return on average net fixed assets employed



Total assets at 31 December



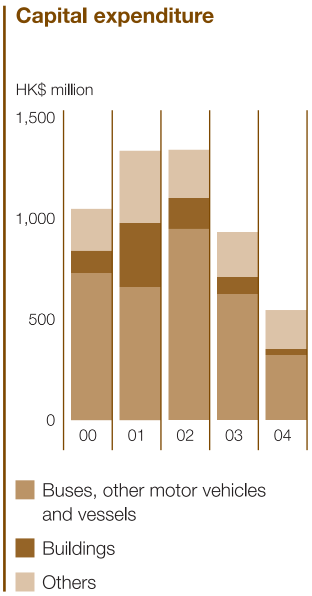
Financial Position

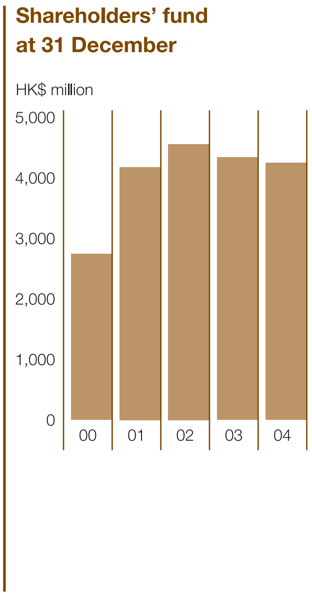
Capital Expenditure and Commitments

The Group's fixed assets mainly comprise buses, vessels, other motor vehicles, land and buildings. During the year, capital expenditure incurred by the Group amounted to HK$541.6 million (2003: HK$930.2 million). The decrease was mainly attributable to the purchase of fewer new buses by KMB in 2004 in the light of redeployment of existing buses following the commissioning of new railways. The breakdown of the capital expenditure incurred is shown in note 12(a) to the financial statements on page 113 of this Annual Report.

Commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2004 amounted to HK$1,841.4 million (2003: HK$2,299.2 million). A summary of the nature of the commitments is set out below:

HK$ million	**2004**	2003
Purchase of buses and other motor vehicles	**26.5**	304.5
Re-development of the old Lai Chi Kok Depot site	**1,473.9**	1,202.8
Purchase of other fixed assets	**327.6**	297.1
Investment in new projects on the Mainland	**9.5**	489.9
Construction of depots and other depot facilities	**3.9**	4.9
Total	**1,841.4**	2,299.2





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

At 31 December 2004, the Group had two (2003: 127) air-conditioned double-deck buses on order for delivery in 2005 and 42 (2003: 92) buses under various stages of construction.

Liquidity and Financial Resources

The Group's policy is to maintain a healthy financial position such that net cash inflow from operating activities together with undrawn committed and uncommitted banking facilities should meet the requirements for loan repayments, capital expenditure and investment. Furthermore, sufficient cash balances are maintained to meet operational requirements, potential business expansion and development from time to time.

The Group's operations were mainly financed by shareholders' funds, bank loans and overdrafts in 2004. The major operating companies of the Group arrange their own financing to meet specific requirements. The main sources of financing for these companies are proceeds from operations and unsecured long-term bank loans. Uncommitted stand-by banking facilities and overdrafts are also maintained by these companies to facilitate routine treasury operations. Financing for the other subsidiaries of the Group is mainly provided by the holding company from its capital base. The Group reviews its strategy from time to time with a view to selecting the financing methods that provide the lowest finance costs with the required maturity and flexibility to fit the unique operating environment of each subsidiary.

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

	2004	2003
Gearing ratio at year-end (the ratio of net borrowings to the total share capital and reserves)	**0.38**	0.22
Liquidity ratio at year-end (the ratio of current assets to current liabilities)	**1.15**	1.32

The increase in the gearing ratio was due mainly to the increase in the Group's net borrowings as a result of the redevelopment of the old Lai Chi Kok Depot site and the increased investments on the Mainland.

The Group's current assets mainly comprise liquid funds, accounts receivable and property under development whilst current liabilities include the current portion of bank loans, bank overdrafts, accounts payable and other accruals.

Net Borrowings

At 31 December 2004, the Group's net borrowings (i.e. total bank loans and overdrafts less cash and deposits at banks) amounted to HK$1,621.8 million (2003: HK$952.2 million), representing an increase of HK$669.6 million compared with 2003. An analysis of the Group's net borrowings by currency at 31 December 2004 is shown below:

Currency	2004 Net borrowings/(cash) in foreign currency million	2004 Net borrowings/(cash) in HK$ million	2003 Net borrowings/(cash) in foreign currency million	2003 Net borrowings/(cash) in HK$ million
Hong Kong Dollar		**1,736.9**		1,140.1
United States Dollar	**(10.6)**	**(83.0)**	(11.3)	(87.9)
British Pound Sterling	**(1.5)**	**(22.1)**	(6.5)	(90.1)
Renminbi	**(10.6)**	**(10.0)**	(10.6)	(9.9)
Total		**1,621.8**		952.2

Bank Loans and Overdrafts

Bank loans and overdrafts, all unsecured, amounted to HK$2,792.0 million at 31 December 2004 (2003: HK$2,633.0 million, of which HK$100 million was secured by a pledged bank deposit of the same amount).

The maturity profile of bank loans and overdrafts of the Group at 31 December 2004 and 31 December 2003 is set out in note 26 to the financial statements on page 121 of this Annual Report.

Cash and Deposits at Banks

At 31 December 2004, the Group's cash and deposits at banks amounted to HK$1,170.2 million (2003: HK$1,680.8 million). They were mainly denominated in Hong Kong Dollar, United States Dollar, British Pound Sterling ("GBP") and Renminbi.

Banking Facilities

At 31 December 2004, the Group had stand-by banking facilities totalling HK$1,945.7 million (2003: HK$2,236.7 million).

Finance Costs and Interest Cover

Due mainly to the further decline in market interest rates and repayment of loans in 2004, the total finance cost incurred by the Group decreased to HK$15.4 million in 2004 from HK$34.8 million in 2003. The average interest rate in respect of the Group's borrowings for 2004 was 0.63%, a decrease of 77 basis points compared with 1.4% for 2003.

Interest cover, representing the ratio of profit from ordinary activities before taxation to net finance charges (i.e. total finance costs less interest income), increased from 62.8 times in 2003 to 391.9 times in 2004.

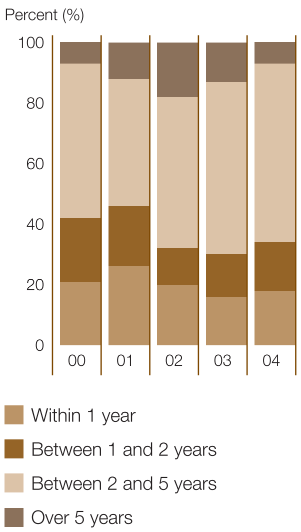
Treasury Policies

Currency Risk Management

The Group's major revenue sources are fare receipts from the franchised public bus services and revenue from non-franchised transport operations and the media sales business, all denominated in Hong Kong Dollar. Major expenses such as staff costs are also paid in Hong Kong Dollar. Therefore, financing in Hong Kong Dollar provides a natural currency hedge for the Group.

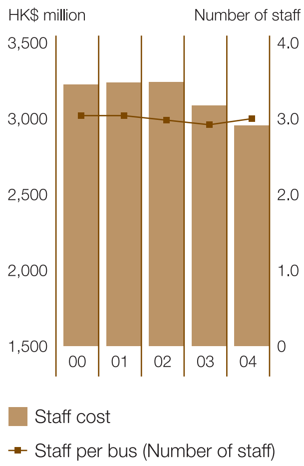
However, payments for certain expenditures such as purchase of new buses and overseas motor vehicle components are mainly denominated in GBP. In view of the trend that GBP would continue to strengthen against the Hong Kong Dollar towards the end of 2004, the Group had hedged certain amounts of GBP in the second half of the year by entering into forward foreign exchange contracts. This effectively fixed all GBP payments during that period to a preferred exchange rate. At 31 December 2004, there were no outstanding forward foreign exchange contracts. As the levels of foreign current assets and liabilities of the Group were relatively low compared to its total asset base and the amount of expenditure that required payments in GBP had been reduced during the year, foreign currency exposure did not pose a significant risk to the Group. However, the Group will continue to closely monitor the prevailing market conditions and devise suitable strategies against foreign currency risk.

Debt maturity profile at 31 December



Staff cost and staff per bus

(Franchised Public Bus Operations)



Interest Rate Risk Management

As at 31 December 2004, the Group's borrowings were mainly denominated in Hong Kong Dollar and on a floating interest rate basis. This provided flexibility to the Group to take full advantage of the low interest rates in 2004. The Group will continue to review its strategy on interest rate risk management in the light of the prevailing market conditions.

Accounting Standards and Policies

The financial statements set out on pages 95 to 126 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Employees

As the provision of franchised public bus and non-franchised transport services is labour intensive, staff costs accounted for a substantial portion of the total cost of the Group. Due largely to the route rationalisation plans implemented by KMB as a result of the opening of the Kowloon-Canton Railway Corporation ("KCRC") West Rail, the number of staff of the Group decreased by 0.2% compared with last year, mainly through natural attrition. The Group will continue to closely monitor and align the number and remuneration of its employees against productivity and market trends. The number and remuneration of employees of the Group (including employees of the Group's subsidiary companies on the Mainland) over the past two years are tabulated below:

	2004	2003
Number of employees at year-end	**13,661**	13,689
Total remuneration (in HK$ million)	**3,048**	3,176
Remuneration as percentage of total costs	**52%**	52%

Individual Business Units

Franchised Public Bus Operations

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

	Unit	2004	2003
Total revenue, including advertising revenue	HK$ million	**5,954.7**	6,041.7
Total operating and finance costs	HK$ million	**(5,123.2)**	(5,185.7)
Profit from franchised public bus operations before taxation	HK$ million	**831.5**	856.0
Income tax expense	HK$ million	**(156.0)**	(256.2)
Profit from franchised public bus operations after taxation	HK$ million	**675.5**	599.8
Net profit margin		**11.3%**	9.9%
Passenger volume	Million passenger trips	**1,063.8**	1,060.5
Kilometres travelled	Million km	**342.8**	344.3
Staff number at year-end	Number of staff	**12,499**	12,569
Fleet size at year-end	Number of buses	**4,150**	4,295
Total assets value	HK$ million	**6,165.9**	6,504.6

Profit from franchised public bus operations before taxation of KMB for 2004 amounted to HK$831.5 million (2003: HK$856.0 million), representing a decrease of 2.9% compared with that of the previous year. The profit after taxation, however, increased by 12.6% from HK$599.8 million in 2003 to HK$675.5 million in 2004.

KMB's fare revenue for the year amounted to HK$5,808.8 million (2003: HK$5,880.1 million), a decrease of 1.2% compared with 2003. The decrease was mainly attributed to the loss of patronage to the KCRC West Rail since its opening in December 2003 and the offering of fare concessions to passengers for the full year in 2004 under the three fare concession schemes introduced since 1 October 2003.

Due to the recovery of the local economy after the subsidence of Severe Acute Respiratory Syndrome ("SARS") and the increase in the number of visitors from the Mainland after the extension of the Individual Visit Scheme to more cities in Guangdong Province, the total passenger trips of KMB slightly increased by 0.3% from 1,060.5 million in 2003 to 1,063.8 million in 2004, despite the loss of patronage to the new railways.

The actual distance travelled by KMB's buses totalled 342.8 million kilometres during the year (2003: 344.3 million kilometres). The decrease in distance travelled was primarily due to the rationalisation of certain bus routes as a result of the opening of the KCRC West Rail.

KMB's advertising revenue for the year amounted to HK$74.5 million (2003: HK$75.9 million), a decrease of 1.8% compared with the previous year.

Total operating cost for 2004 decreased by 0.8% compared with that for 2003. The decrease was due mainly to the reduction in staff costs resulting from the rationalisation of certain bus routes and the implementation of more stringent cost control measures to meet the challenges arising from the commissioning of new railway lines. Finance costs also decreased by 65.2% from HK$29.0 million in 2003 to HK$10.1 million in 2004 due to lower interest rates over the year. These cost savings were, however, largely offset by the drastic increase in fuel costs by HK$151.3 million or 34.1% from HK$443.8 million in 2003 to HK$595.1 million in 2004 as a result of the surge in fuel prices.

Despite the persistence of deflation in Hong Kong over the past seven years, KMB has been facing huge cost pressure arising from increases in fuel prices, insurance premiums, tunnel tolls and wages. Clearly the consumer price indexes do not necessarily reflect changes in KMB's operating costs. Nevertheless, KMB has managed not to increase its bus fares since December 1997 through effective cost control.

KMB has been assigned a single "A" corporate rating (outlook: stable) by Standard & Poor's since 14 January 2002. The credit rating reflects KMB's strong and stable financial position.

Long Win Bus Company Limited ("LWB")

	Unit	2004	2003
Total revenue, including advertising revenue	HK$ million	**246.8**	222.6
Total operating and finance costs	HK$ million	**(227.1)**	(227.6)
Profit/(loss) from franchised public bus operations before taxation	HK$ million	**19.7**	(5.0)
Income tax (expense)/credit	HK$ million	**(3.4)**	1.7
Profit/(loss) from franchised public bus operations after taxation	HK$ million	**16.3**	(3.3)
Net profit margin		**6.6%**	N/A
Passenger volume	Million passenger trips	**22.3**	19.3
Kilometres travelled	Million km	**23.5**	22.7
Staff number at year-end	Number of staff	**407**	399
Fleet size at year-end	Number of buses	**145**	145
Total assets value	HK$ million	**230.0**	288.8

LWB recorded a profit after taxation of HK$16.3 million for the year (2003: a loss after taxation of HK$3.3 million).

LWB's fare revenue for the year amounted to HK$243.0 million, representing an increase of 12.0% compared with HK$216.9 million for 2003. The total ridership of LWB in 2004 was 22.3 million (a daily average of 60,942) passenger trips, an increase of 15.5% compared with 19.3 million (a daily average of 52,766) passenger trips in the previous year. The increase was due mainly to the continued growth of population in Tung Chung New Town and the recovery of the travel demand for transport links to the Hong Kong International Airport.

Total mileage operated for the year was 23.5 million kilometres (2003: 22.7 million kilometres).

The advertising revenue of LWB decreased to HK$0.6 million in 2004 from HK$1.2 million in 2003.

LWB's total operating and finance costs for 2004 decreased by 0.2% compared with that for 2003. The slight decrease was due mainly to the savings in the major cost items and lower interest rate but was mostly offset by the drastic increase in fuel costs by HK$6.6 million or 32.0% from HK$20.6 million for 2003 to HK$27.2 million for 2004 as a result of the surge in fuel prices.

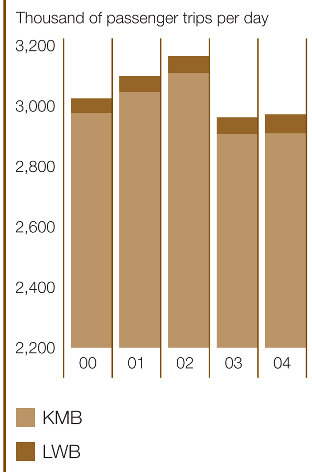
Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a profit before tax of HK$29.4 million for 2004 (2003: HK$23.0 million), representing an increase of 27.8% compared with that for the previous year. Turnover increased by 9.7% from HK$233.8 million in 2003 to HK$256.4 million in 2004. The increase was due primarily to the recovery of the local economy and the growth in patronage of the cross-boundary shuttle bus service. This increase was, however, partially offset by the opening of the KCRC West Rail and the decline in residential, commercial and contract hiring businesses due to intensified competition in the relevant market sectors.

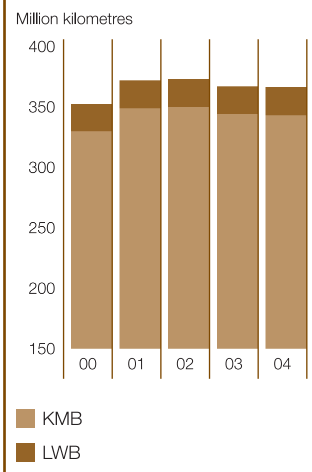
Sun Bus Holdings Limited and its subsidiaries (the "SBH Group")

The SBH Group is a major provider of various non-franchised bus services to residential estates, shopping malls, corporations, employers, schools, tourists, and contract-hire customers. Turnover of the SBH Group for the year amounted to HK$102.1 million, a decrease of 8.5% compared with 2003. The decrease was mainly due to the loss of patronage on certain residential bus services to the KCRC West Rail and the intensified competition within the non-franchised bus service market.

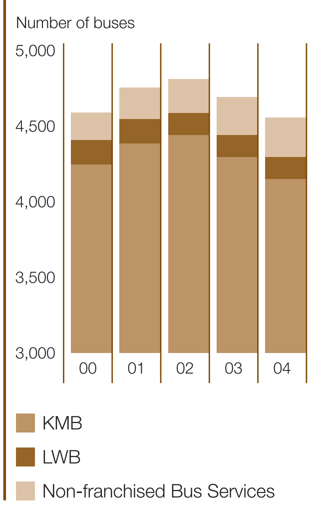
Average number of passenger trips per day
(Franchised Public Bus Operations)



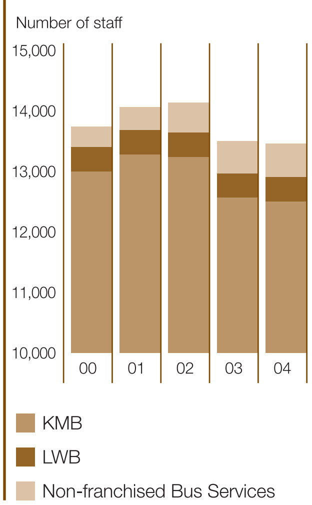
Bus kilometres operated
(Franchised Public Bus Operations)



Number of licensed buses at 31 December



Number of staff at 31 December



At 31 December 2004, the SBH Group had a fleet of 230 buses (2003: 223 buses). During the year, seven buses (2003: 23 buses) were purchased for enhancement of service quality and replacement of older buses.

Park Island Transport Company Limited ("PITC")

PITC, a 65% owned subsidiary of the Group, has been providing shuttle bus and ferry services for Ma Wan Island. At the year-end, PITC operated two ferry routes and two bus routes serving Ma Wan Island, with seven high speed catamarans, 15 air-conditioned single-deck buses and three air-conditioned single-deck diesel-electric hybrid buses. The patronage for the year was 5.1 million passenger trips, an increase of 27.5% compared with 4.0 million passenger trips for 2003. This increase was due mainly to further population in-take and the sales campaign of residential flats of Park Island Phase III.

New Hong Kong Bus Company Limited ("NHKB")

NHKB, together with its Shenzhen counterpart, jointly operates a direct, economical, 24-hour cross-boundary shuttle bus service between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen. With the growth in the number of visitors from the Mainland as a result of the extension of the Individual Visit Scheme to more cities in Guangdong Province, NHKB's average monthly ridership for 2004 increased by 32.3% compared with the previous year. To cope with the increased demand, NHKB added two air-conditioned super-low floor single-deck buses to its fleet in 2004, bringing the total number of buses to 15 at the year-end.

Mainland Transport Operations

At 31 December 2004, the Group's total interest in associates and jointly controlled entity amounted to HK$224.3 million (2003: HK$79.9 million). The investments were in respect of the operation of passenger bus services in Dalian, Tianjin and Wuxi, as well as taxi hire and car rental businesses in Beijing. The Group's Mainland Transport Operations Division reported a profit before tax of HK$21.3 million for 2004 (2003: HK$1.9 million).

Dalian

This co-operative joint venture ("CJV") in Dalian was established in 1997 by a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company in Liaoning Province. At 31 December 2004, the Dalian CJV had 16 double-deck buses and 67 single-deck buses operating on three routes serving Dalian City. This CJV made satisfactory progress and recorded a profit in 2004.

Tianjin

The CJV in Tianjin, formed between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited in Tianjin, has been in operation since January 2001. During 2004, the Tianjin CJV operated seven bus routes with 110 single-deck buses in Tianjin City, and continued to make steady progress.

Beijing

Beijing Beiqi Kowloon Taxi Company Limited ("BBKT"), a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT's shareholders comprise KMB (Beijing) Taxi Investment Limited, which is a wholly owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited and three other Mainland investors. BBKT principally engages in the taxi hire and car rental businesses with a fleet of around 4,000 vehicles and about 4,000 employees. The Group's investment in BBKT was HK$75.5 million, representing 31.38% of BBKT's equity interest. The businesses of BBKT saw significant growth in 2004 compared with the SARS-influenced 2003.

Wuxi

Wuxi Kowloon Public Transport Company Limited ("WKPT"), a Sino-foreign joint stock company in which the Group has 45% interest, was established in Wuxi City, Jiangsu Province in February 2004. WKPT currently operates some 1,700 buses on over 110 routes. The Group's investment in WKPT was RMB135.4 million (HK$127.2 million). WKPT achieved satisfactory results over the 10 months ended 31 December 2004.

Shenzhen

In December 2004, the Group obtained approval from the relevant Mainland government authorities to acquire a 35% interest in a Sino-foreign joint stock company, Shenzhen Bus Group Company Limited ("SBG"), which was formed from reorganisation of the existing Shenzhen Public Transportation Group Limited. SBG commenced operations in January 2005 and principally operates local public bus services in Shenzhen City, Guangdong Province, with around 3,500 vehicles on 120 routes. It is expected that SBG will make contribution to the profit of the Group in the coming years.

Summary of Investments in Mainland Transport Operations

Location	Nature of Business	Form of Business Structure	Fleet Size at 31 December 2004 (Number of vehicles)	Initial Investment (RMB million)	Operations Commenced
Dalian	Bus Services	Co-operative joint venture	83	22	August 1997
Tianjin	Bus Services	Co-operative joint venture	110	5	January 2001
Beijing	Taxi and Car Rental Services	Sino-foreign joint stock company	4,022	80	April 2003
Wuxi	Bus Services	Sino-foreign joint stock company	1,744	135	March 2004
Shenzhen	Bus Services	Sino-foreign joint stock company	3,503	387	January 2005

Media Sales Business

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

HK$ million	**2004**	2003
Total revenue	**198.1**	173.4
Total operating and finance costs	**(180.7)**	(212.4)
Share of profit of associate	**14.0**	6.9
Profit/(loss) from ordinary activities before taxation	**31.4**	(32.1)
Income tax (expense)/credit	**(7.6)**	1.6
Profit/(loss) from ordinary activities after taxation	**23.8**	(30.5)
Minority interests	**(3.7)**	(6.5)
Profit/(loss) from ordinary activities after taxation and minority interests	**20.1**	(37.0)

The RoadShow Group achieved significant operational and financial improvement in 2004 as compared with 2003. For the year ended 31 December 2004, the RoadShow Group reported a total operating revenue of HK$198.1 million (2003: HK$173.4 million) and a profit attributable to shareholders of HK$20.1 million (2003: a loss of HK$37.0 million).

The profit for the year was mainly attributable to the continuous improvement in the economic environment and the resultant upturn in consumer confidence in Hong Kong and on the Mainland. Its joint ventures on the Mainland achieved their revenue goals and made contributions to profit, a trend that is expected to continue.

Further information relating to the RoadShow Group is available in its 2004 final results announcement and annual report.

Property Development

Lai Chi Kok Properties Investment Limited ("LCKPI")

LCKPI, a wholly owned subsidiary of the Group, is the owner of the old Lai Chi Kok Depot site located at Po Lun Street, Lai Chi Kok, Kowloon. The old depot building was demolished in 2002 and is currently under development into a residential and commercial complex comprising about 1,100 flats in five residential blocks, with a total residential gross floor area of about one million square feet, and a retail podium area of about 50,000 square feet. LCKPI has engaged certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP") for the provision of services in relation to the development, construction, letting and sales, and management of the future residential and commercial complex.

During the year, LCKPI decided to upgrade the design, materials and quality of workmanship of the development to luxurious quality and standard. It is expected that as the property market in Hong Kong has been recovering, in particular the market segment of upscale domestic accommodation, the upgrade would be beneficial to the Group. The additional construction costs for effecting the upgrading works were estimated to be around HK$457.6 million.

At the year-end, the total construction cost incurred for the project amounted to HK$323.2 million (2003: HK$112.0 million). This amount was capitalised as property under development in the financial statements. At 31 December 2004, the commitment in the project was HK$1,473.9 million (2003: HK$1,202.8 million). The project will be partially financed by unsecured bank loans. It is expected that the whole project will be completed by the end of 2006. LCKPI will closely monitor the local property market conditions with a view to drawing up an appropriate timetable for marketing the property.

Connected Transactions

The Group

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

As detailed in note 35(a) to the financial statements on page 125 of this Annual Report, the Group has entered into certain insurance arrangements with SHKPI, a wholly-owned subsidiary of SHKP in 2004, pursuant to which SHKPI provides insurance coverage and services to the Group (the "Insurance Arrangements"). The Insurance Arrangements are and will be carried out on a recurring basis and will be expected to extend over a period of time. Hence, transactions under the Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2004, the annual insurance premium paid by the Group to SHKPI amounted to HK$93,138,000. It is estimated that the annual insurance premium paid and payable by the Group to SHKPI for the two financial years ending 31 December 2005 and 2006 will not exceed HK$126,000,000 and HK$154,000,000 respectively. The transactions under the Insurance Arrangements are only subject to the reporting and announcement requirements of the Listing Rules and are exempt from the independent shareholders' approval requirements. Particulars of these connected transactions were disclosed in the announcement of the Company dated 28 May 2004.

Park Island Transport Company Limited

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

As detailed in note 35(e) to the financial statements on page 126 of this Annual Report, the transactions during the year between PITC and SHKMW, a subsidiary of SHKP, for the provision of transport services for Ma Wan Island constitute continuing connected transactions of the Company under the Listing Rules. Particulars of these connected transactions were disclosed in the announcement of the Company dated 25 May 2002.

Lai Chi Kok Properties Investment Limited ("LCKPI")

LCKPI has entered into the following transactions with certain subsidiaries of SHKP in relation to the development, construction, letting and sales, and management of a residential and commercial complex on, above or near to New Kowloon Marine Lot Number 3 Section A (the "Development"). Particulars of the following connected transactions were disclosed in the announcement of the Company dated 21 July 2003 and 15 October 2004.

Supplementary Agreement to the Prime Cost Contract

As disclosed in note 35(c) to the financial statements on page 125 of this Annual Report, LCKPI entered into a Prime Cost Contract with a wholly owned subsidiary of SHKP, Chun Fai Construction Co. Ltd. ("Chun Fai"), on 17 July 2003. Pursuant to the Prime Cost Contract, Chun Fai acts as the management contractor to construct and complete the substructure and superstructure of the Development. The maximum consideration payable by LCKPI under the Prime Cost Contract is HK$1,160,171,000. The transactions contemplated under the Prime Cost Contract constituted connected transactions of the Company and were approved by the independent shareholders at the special general meeting of the Company held on 26 August 2003.

On 15 October 2004, LCKPI entered into a supplementary agreement to the Prime Cost Contract with Chun Fai (the "Supplementary Agreement") for the purposes of upgrading the design, materials and quality of the workmanship of the Development. The additional prime costs required for performing the upgrading works were estimated to be HK$448,066,000. Pursuant to the Supplementary Agreement, certain terms and conditions of the Prime Cost Contract were varied and amended. The maximum aggregate consideration payable by LCKPI to Chun Fai will be increased by HK$457,572,000 to HK$1,617,743,000. The transactions contemplated under the Supplementary Agreement constituted discloseable and connected transactions of the Company under the Listing Rules and were approved by the independent shareholders at the special general meeting of the Company held on 25 November 2004.

Letting and Sales Agency Agreement and Management Agreement

LCKPI entered into the Letting and Sales Agency Agreement with Sun Hung Kai Real Estate Agency Limited ("SHKRE") on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and the car parking spaces of the Development.

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 the Development 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 the Development to be entered into by LCKPI, Hong Yip and the first purchaser of a unit of the completed Development.

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 Listing Rules and the conditions of the 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 SHKMW, SHKRE, Hong Yip and SHKPI 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 SHKMW, SHKRE, Hong Yip and SHKPI 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 permitted return for the year ended 31 December 2004 entitled by PITC under the agreement between PITC and SHKMW did not exceed 3% of the audited consolidated net tangible assets of the Company as at 31 December 2003;
3. the annual aggregate amount for the year ended 31 December 2004 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 2003; and
4. the annual insurance premium paid and payable by the Group to SHKPI for the year ended 31 December 2004 did not exceed the maximum amount of HK$94,000,000 as disclosed in the announcement dated 28 May 2004.

The auditors of the Company had also confirmed to the Board that the continuing connected transactions (a) had received the approval of the boards of directors of the relevant companies; (b) had been entered into in accordance with the relevant agreement governing the transactions; and (c) had not exceeded the caps as stated above.