

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 (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the results of operations and financial position.

(c) Basis of preparation of the financial statements

The financial statements are prepared on a basis consistent with the accounting policies and methods adopted in the 2003 financial statements. The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(d) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders’ equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated income statement.

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

(e) Associates and jointly controlled entity

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group’s share of the associate’s or the jointly controlled entity’s net assets. The consolidated income statement reflects the Group’s share of the post-acquisition results of the associates and jointly controlled entity for the year, including any amortisation of positive goodwill charged during the year in accordance with note 1(f).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entity are eliminated to the extent of the Group’s interest in the associates or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

1 Significant Accounting Policies (continued)

(f) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of acquisitions of controlled subsidiaries and associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(k)).

(g) Other investments in securities

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

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as "investment securities". Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(h) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(j)) and any impairment losses (see note 1(k)).

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(i) Media assets

Media assets comprise the following intangible assets:

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

Advertising rights represent the costs of acquiring operating rights for the placement of advertisements in advertising display panels in the PRC and include any directly attributable costs of bringing advertising display panels to their present condition and location for their intended use. Advertising rights are stated at cost less accumulated amortisation and any impairment losses (see note 1(k)).

Advertising display panels under construction include the cost of construction and other direct costs attributable to the construction of advertising display panels. They are transferred to advertising rights when the construction is completed and the assets are exchanged for the exclusive rights to the advertising space on the advertising display panels.

Amortisation is calculated on straight-line basis over 5-10 years, the agreed periods of use of the advertising rights and no amortisation is provided in respect of construction of advertising display panels in progress.

1 Significant Accounting Policies *(continued)*

(j) Depreciation

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 fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold land	– Over the remaining terms of the leases
Buildings	– Over the shorter of 40 years and the unexpired terms of the leases including extensions or renewal periods
New buses	– 14 years
Vessels	– 20 years
Other motor vehicles	– 5 to 10 years
Others	– 2 to 7 years

No depreciation is provided for buses and vessels under constructions.

(k) Impairment of 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 an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- media assets;
- investments in subsidiaries, associates and jointly controlled entity; and
- positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) 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).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(l) Property under development

Property under development is stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the Directors.

(m) Spare parts and stores

Spare parts and stores are included within current assets and stated at cost, using the first-in-first-out method. Provision is made for obsolescence where appropriate.

1 Significant Accounting Policies *(continued)*

(n) 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 cash flow statement.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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 expenditures 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.

(p) 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 and bus hiring income are recognised when the related bus services are provided.
- (ii) Income from media sales is recognised when the related advertisements are telecasted or commercials appear before the public.
- (iii) Interest income from bank deposits and debt securities is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.
- (iv) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(q) 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 or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing cost as part of a qualifying asset commences when expenditures for the asset are 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.

(r) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.

1 Significant Accounting Policies (continued)

(r) Employee benefits (continued)

- (iii) 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 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. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that 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 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.

- (iv) 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 balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.
- (v) When the Group grants employees options to acquire shares in its subsidiary, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity of this subsidiary is increased by the amount of the proceeds received.

(s) Operating leases

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

Where the Group has the use of assets 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 asset.

(t) Income tax

- (i) 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.
- (ii) 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.
- (iii) 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.

- (iv) 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.

1 Significant Accounting Policies (continued)

(t) Income tax (continued)

(iv) (continued)

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.

- (v) 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, and only 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.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(w) 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 enterprises 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, corporate and financing expenses and minority interests.

2 Turnover

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 16 to the financial statements.

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

	2004 HK\$'000	2003 HK\$'000
Fare revenue from franchised public bus services	6,053,523	6,098,559
Revenue from non-franchised transport services	256,401	233,774
Media sales revenue	234,357	207,865
	<u>6,544,281</u>	<u>6,540,198</u>

3 Other Net Income

	2004 HK\$'000	2003 HK\$'000
Claims received	28,994	36,978
Interest income from bank deposits	9,493	17,631
Gain on disposal of fixed assets	7,475	5,883
Interest income from unlisted debt securities	3,522	3,522
Realised and unrealised gain on investments in securities carried at fair value	2,110	9,321
Dividend income from listed securities	1,323	1,291
Net miscellaneous business receipts	1,871	6,451
Sundry revenue	12,352	15,318
	<u>67,140</u>	<u>96,395</u>

4 Profit from Ordinary Activities before Taxation

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

	2004 HK\$'000	2003 HK\$'000
(a) Staff costs:		
Contributions to defined contribution plan	47,413	47,734
Net defined benefit plans (income)/expense (note 20 (c))	(815)	49,314
Movements in provision for long service payments (note 30)	(629)	12,606
Retirement costs	45,969	109,654
Salaries, wages and other benefits	3,002,129	3,066,451
	<u>3,048,098</u>	<u>3,176,105</u>
(b) Finance costs:		
Interest on bank loans, overdrafts and other unsecured loans	15,400	34,803
Less: borrowing costs capitalised into property under development*	(24)	–
	<u>15,376</u>	<u>34,803</u>
* The borrowing costs have been capitalised at the average interest rate of 0.46% per annum.		
(c) Other items:		
Auditors' remuneration		
– audit services	3,727	3,415
– other services	2,394	3,313
Operating lease charges on properties, temporary bus depots, buses, ferries and terminal shelters	24,115	15,850
Depreciation (note 12)	891,922	898,903
Amortisation of positive goodwill (note 13)	2,854	2,933
Amortisation of media assets (note 14)	6,924	1,198

5 Income Tax in the Consolidated Income Statement

(a) Taxation in the consolidated income statement represents:

	2004 HK\$'000	2003 HK\$'000
Current tax – Provision for Hong Kong Profits Tax		
Hong Kong Profits Tax for the year	150,621	135,887
(Over)/under-provision in respect of prior years	(13,547)	96
	137,074	135,983
Current tax – Provision for PRC taxation		
Income tax for the year	735	1,871
	137,809	137,854
Deferred tax		
Origination and reversal of temporary differences	22,138	72,351
Benefit of tax losses utilised/(recognised)	8,995	(12,423)
Effect resulting from increment in Hong Kong Profits Tax rate	–	61,406
	31,133	121,334
Share of associates' taxation	11,839	393
Share of jointly controlled entity's taxation	697	–
Total income tax	181,478	259,581

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries in the People's Republic of China ("PRC") is charged at the appropriate current rates of taxation ruling in the PRC.

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

	2004 HK\$'000	2003 HK\$'000
Profit from ordinary activities before taxation	925,236	857,153
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	166,546	149,372
Tax effect of non-deductible expenses	7,531	6,139
Tax effect of non-taxable revenue	(9,172)	(13,990)
Tax effect of unused tax losses not recognised	6,703	5,951
Tax effect of unrecognised deferred tax in respect of prior year	–	60,064
Reversal of previously recognised deferred taxation	24,499	–
Effect on opening deferred tax balances resulting from an increase in tax rate	–	61,406
(Over)/under-provision in prior years	(13,547)	96
Others	(1,082)	(9,457)
Actual tax expense	181,478	259,581

6 Directors' Remuneration

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

	2004 HK\$'000	2003 HK\$'000
Fees	5,137	3,175
Salaries and other allowances	13,016	13,715
Discretionary and performance related bonuses	9,293	10,255
Retirement scheme contributions	1,734	1,805
	29,180	28,950

Included in the Directors' remuneration were fees and other emoluments of HK\$1,256,000 (2003: HK\$1,236,400) for the Independent Non-executive Directors.

In addition to the above remuneration, a Director was granted share options under RoadShow's share option scheme. The details of these benefits in kind are disclosed in note 21 to the financial statements.

The remuneration of the Directors is within the following bands:

Number of Directors		
	2004	2003
HK\$Nil – HK\$1,000,000	17	13
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$3,500,001 – HK\$4,000,000	3	3
HK\$11,500,001 – HK\$12,000,000	–	1
HK\$12,000,001 – HK\$12,500,000	1	–

7 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, four (2003: four) are Directors whose emoluments are disclosed in note 6 to the financial statements. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	1,316	884
Salaries and other allowances	14,081	14,365
Discretionary and performance related bonuses	9,066	8,155
Retirement scheme contributions	1,808	1,878
	26,271	25,282

The emoluments of the five (2003: five) individuals with the highest emoluments are within the following bands:

Number of individuals		
	2004	2003
HK\$2,500,001 – HK\$3,000,000	1	1
HK\$3,500,001 – HK\$4,000,000	3	3
HK\$11,500,001 – HK\$12,000,000	–	1
HK\$12,000,001 – HK\$12,500,000	1	–

8 Profit Attributable to Shareholders

The consolidated profit attributable to shareholders includes a profit of HK\$602,998,000 (2003: HK\$861,301,000) 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:

	2004 HK\$'000	2003 HK\$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	602,998	861,301
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	32,291	42,817
Company's profit for the year (note 32(c))	635,289	904,118

9 Dividends

(a) Dividends attributable to the year

	2004 HK\$'000	2003 HK\$'000
Interim dividend declared and paid of HK\$0.45 per share (2003: HK\$0.45 per share)	181,638	181,638
Final dividend proposed after the balance sheet date of HK\$1.58 per share (2003: 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 attributable to previous financial year, approved and paid during the year

	2004 HK\$'000	2003 HK\$'000
Final dividend in respect of previous financial year, approved and paid during the year, of HK\$1.58 per share (2003: HK\$1.58 per share)	637,750	637,750

10 Earnings per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$731,165,000 (2003: HK\$596,953,000) and 403,639,413 shares in issue during the two years.

(b) Diluted earnings per share

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

11 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:

Bus 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.

	Bus operations		Media sales business		Inter-segment elimination		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue from external customers	6,309,924	6,332,333	234,357	207,865	-	-	6,544,281	6,540,198
Inter-segment revenue	-	-	22,609	25,661	(22,609)	(25,661)	-	-
Other revenue from external customers	41,731	52,799	2,200	336	-	-	43,931	53,135
Total	6,351,655	6,385,132	259,166	233,862	(22,609)	(25,661)	6,588,212	6,593,333
Segment result	824,880	827,263	75,655	33,690	-	-	900,535	860,953
Unallocated net operating income							4,785	22,151
Profit from operations							905,320	883,104
Finance costs							(15,376)	(34,803)
Share of profits of associates and jointly controlled entity	21,253	1,918	14,039	6,934	-	-	35,292	8,852
Income tax							(181,478)	(259,581)
Minority interests							(12,593)	(619)
Profit attributable to shareholders							731,165	596,953
Depreciation and amortisation for the year	865,793	876,472	35,907	26,562	-	-		
Significant non-cash expenses (other than depreciation and amortisation)	-	-	-	15,801	-	-		
Segment assets	6,605,625	6,875,319	406,396	394,810	-	-	7,012,021	7,270,129
Interests in associates and jointly controlled entity	224,285	79,872	93,910	83,464	-	-	318,195	163,336
Unallocated assets							2,082,089	2,026,663
Total assets							9,412,305	9,460,128
Segment liabilities	1,139,609	1,276,793	63,474	71,939	-	-	1,203,083	1,348,732
Unallocated liabilities							3,669,767	3,491,696
Total liabilities							4,872,850	4,840,428
Capital expenditure incurred during the year	533,755	821,972	47,836	108,216	-	-		

Geographical segments

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

12 Fixed Assets

(a) The Group:

	Leasehold land HK\$'000	Buildings HK\$'000	Buses and other motor vehicles HK\$'000	Vessels HK\$'000	Buses and vessels under construction HK\$'000	Tools and others HK\$'000	Total HK\$'000
Cost:							
At 1 January 2004	127,137	1,437,099	8,500,337	110,729	273,038	1,489,107	11,937,447
Additions	–	27,304	22,228	4,880	329,647	189,242	573,301
Disposals	–	(2,475)	(319,504)	–	–	(47,887)	(369,866)
Transfer of buses/vessels	–	–	492,044	7,282	(499,326)	–	–
Transfer to media assets (note)	–	(23,953)	–	–	–	–	(23,953)
At 31 December 2004	127,137	1,437,975	8,695,105	122,891	103,359	1,630,462	12,116,929
Accumulated depreciation:							
At 1 January 2004	36,334	645,781	3,792,555	5,386	–	1,003,592	5,483,648
Charge for the year	2,087	59,225	591,265	6,097	–	233,248	891,922
Written back on disposal	–	(2,174)	(318,300)	–	–	(47,486)	(367,960)
Transfer to media assets (note)	–	(3,677)	–	–	–	–	(3,677)
At 31 December 2004	38,421	699,155	4,065,520	11,483	–	1,189,354	6,003,933
Net book value:							
At 31 December 2004	88,716	738,820	4,629,585	111,408	103,359	441,108	6,112,996
Add:							
Deposits paid in respect of buses on order							5,573
							6,118,569
Net book value:							
At 31 December 2003	90,803	791,318	4,707,782	105,343	273,038	485,515	6,453,799
Add:							
Deposits paid in respect of buses on order							37,254
							6,491,053

Note:

In previous years, the RoadShow Group owned certain advertising panels and recorded them under buildings. Owing to changes in arrangements in 2004, the RoadShow Group no longer owns these advertising display panels, but instead has the exclusive rights to the advertising space on the advertising display panels for specified periods ranging from 5 to 10 years. Accordingly, the cost and accumulated depreciation of these advertising display panels were transferred to advertising rights under media assets (note 14) during the year.

12 Fixed Assets (continued)

(b) The Company:

	Others HK\$'000
Cost:	
At 1 January 2004 and 31 December 2004	201
Accumulated depreciation:	
At 1 January 2004	136
Charge for the year	35
At 31 December 2004	171
Net book value:	
At 31 December 2004	30
At 31 December 2003	65

(c) All the Group's leasehold land and buildings are held in Hong Kong and on medium-term leases.

13 Goodwill

	HK\$'000
Cost:	
At 1 January 2004 and 31 December 2004	57,075
Accumulated amortisation:	
At 1 January 2004	7,234
Amortisation for the year	2,854
At 31 December 2004	10,088
Carrying amount:	
At 31 December 2004	46,987
At 31 December 2003	49,841

Positive goodwill is amortised as an expense on a straight-line basis over 20 years. The amortisation is included in "depreciation and amortisation" in the consolidated income statement.

14 Media Assets

	Advertising display panels under construction HK\$'000	Advertising rights HK\$'000	Total HK\$'000
Cost:			
At 1 January 2004	36,369	26,142	62,511
Transfer from fixed assets	–	23,953	23,953
Additions	40,057	–	40,057
Transfer	(74,048)	74,048	–
At 31 December 2004	2,378	124,143	126,521
Accumulated amortisation:			
At 1 January 2004	–	1,198	1,198
Transfer from fixed assets	–	3,677	3,677
Amortisation for the year	–	6,924	6,924
At 31 December 2004	–	11,799	11,799
Carrying amount:			
At 31 December 2004	2,378	112,344	114,722
At 31 December 2003	36,369	24,944	61,313

Advertising display panels under construction are transferred to advertising rights when the construction is completed and the assets are exchanged for the exclusive rights to the advertising space on the advertising display panels.

Amortisation of advertising rights is included in “depreciation and amortisation” in the consolidated income statement.

15 Non-current Prepayments

Non-current prepayments consisted of deposit for long-term investment, advance payments for concession and rights for advertising and media programme placement on transit vehicles and transit network furniture.

16 Investments in Subsidiaries

(a) Investments in subsidiaries

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	1,036,507	1,036,507

(b) Amounts due from/(to) subsidiaries

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

The list on pages 116 and 117 contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

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

16 Investments in Subsidiaries (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiaries	
KMB Resources Limited	British Virgin Islands	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 the airport at Chek Lap Kok
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 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	65	–	65	Provision of non-franchised bus and ferry services in Hong Kong
RoadShow Holdings Limited	Bermuda	997,365,332 shares of HK\$0.1 each	73	–	73	Investment holding
CityVision Limited	Hong Kong	10,000 shares of HK\$1 each	65.7	–	90	Operation of multi-media on-board business on transit vehicles
KM-Vision Limited	Hong Kong	10,000 shares of HK\$1 each	75.2	–	100	Operation of multi-media on-board business on transit vehicles
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

16 Investments in Subsidiaries (continued)

Details of the principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiaries	
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 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.	British Virgin Islands	1,200 shares of US\$1 each	60	–	60	Investment holding
Guangzhou Key Media Advertising Company Limited (Sino-foreign co-operative joint venture)	PRC	RMB 56,346,939	37.2	–	51	Provision of media advertising agency service and design and production of advertisements
Shanghai Yafei Advertising Company Limited (Limited liability company)	PRC	RMB 600,000	37.2	–	51	Provision of media advertising agency service and design and production of advertisements

17 Interests in Associates

	2004 HK\$'000	2003 HK\$'000
Share of net assets	277,671	128,173
Loans to associates	40,064	39,071
Amounts due to associates	(4,922)	(4,922)
	<u>312,813</u>	<u>162,322</u>

17 Interests in Associates (continued)

Details of the principal associates are as follows:

Proportion of ownership interest							
Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid up capital	Group's effective interest	held by the Company	held by subsidiaries	Principal activity
HK Macau Investment (Tianjin) Limited	Incorporated	British Virgin Islands	2 shares of US\$1 each	50	–	50	Investment holding
AdSociety Daye Advertising Company Limited (note)	Sino-foreign equity joint venture	PRC	RMB 74,380,984	35.8	–	49	Provision of full range of advertising services
Beijing Beiqi Kowloon Taxi Company Limited	Sino-foreign joint stock company	PRC	RMB 166,600,000	31.4	–	31.4	Provision of taxi hiring and car rental services
Wuxi Kowloon Public Transport Company Limited	Sino-foreign joint stock company	PRC	RMB 300,880,000	45	–	45	Provision of bus services

Note:

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

18 Interest in Jointly Controlled Entity

	2004 HK\$'000	2003 HK\$'000
Share of net assets	1,732	1,364
Amount due from/(to) jointly controlled entity	3,650	(350)
	<u>5,382</u>	<u>1,014</u>

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

Proportion of ownership interest							
Name of joint venture	Form of business structure	Place of establishment and operation	Particulars of registered capital	Group's effective interest	held by the Company	held by subsidiary	Principal activity
Dalian HK Macau Motor Bus Services Limited	Co-operative joint venture	PRC	RMB 22,000,000	(Note)	–	(Note)	Provision of bus services in Dalian, 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 principal activity of Dalian HK Macau is the operation of bus services in Dalian, the PRC. 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. Pursuant to the joint venture agreement, the joint venture is for a period of 15 years commencing from 31 July 1997.

19 Investment Securities

	2004 HK\$'000	2003 HK\$'000
Unlisted equity securities, at cost	<u>15,355</u>	<u>15,355</u>

20 Employee Benefit Assets

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

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

	2004 HK\$'000	2003 HK\$'000
Present value of funded obligations	(2,174,037)	(2,008,346)
Fair value of plan assets	3,098,115	2,730,387
Net unrecognised actuarial gains	(510,245)	(382,754)
	<u>413,833</u>	<u>339,287</u>

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable in the next twelve months, as future refund or reduction of contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

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

	2004 HK\$'000	2003 HK\$'000
At 1 January	339,287	277,705
Contributions paid to schemes	73,731	110,896
Net income/(expense) recognised in the income statement	815	(49,314)
At 31 December	<u>413,833</u>	<u>339,287</u>

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

	2004 HK\$'000	2003 HK\$'000
Current service cost	115,913	117,790
Interest cost	97,687	96,096
Expected return on plan assets	(206,442)	(164,572)
Net actuarial gains recognised	(7,973)	–
	<u>(815)</u>	<u>49,314</u>

The above net (income)/expense is included in the staff costs in the consolidated income statement.

The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions received and benefits paid) was net income of HK\$390,876,000 (2003: HK\$613,978,000).

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

	2004	2003
Discount rate at 31 December	4.5%	5%
Expected rate of return on plan assets	7.5%	7.5%
Future salary increases	2 – 4%	1 – 4%

21 Equity Compensation Benefits

Under the share option scheme of RoadShow Holdings Limited ("RoadShow"), a subsidiary of the Company, options were granted to a Director and employees of the Group to subscribe for shares in RoadShow.

The exercise price of the options is the highest of i) the nominal value of the shares, ii) the closing price of the shares on the Stock Exchange on the date of the grant and iii) the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant.

Each option gives the holder the right to subscribe for one share in RoadShow.

(a) Movements in share options of RoadShow

	2004 Number '000	2003 Number '000
At 1 January	16,660	40,101
Expired	–	(21,861)
Lapsed on grantee ceasing employment with the Group	(2,390)	(1,580)
At 31 December	14,270	16,660
Options vested at 31 December	14,270	16,660

(b) Terms of unexpired and unexercised RoadShow's share options at balance sheet date

Date granted	Exercise period	Exercise price	2004 Number '000	2003 Number '000
11 March 2002	12 March 2002 to 11 March 2005	HK\$2.25	14,270	16,660

22 Other Investments

	2004 HK\$'000	2003 HK\$'000
Trading securities (at market value)		
Listed equity securities in Hong Kong	44,887	40,162
Other securities (at fair value)		
Unlisted debt securities	48,498	51,113
	93,385	91,275

23 Property under Development

	2004 HK\$'000	2003 HK\$'000
Development and incidental costs	323,185	111,980
Borrowing costs capitalised	24	–
	323,209	111,980

24 Accounts Receivable

	2004 HK\$'000	2003 HK\$'000
Trade and other receivables	202,153	198,991
Interest receivable	1,613	1,759
	203,766	200,750

24 Accounts Receivable (continued)

Included in accounts receivable are trade receivables (net of provisions for doubtful debts) with the following ageing analysis:

	2004 HK\$'000	2003 HK\$'000
Current	106,723	81,731
Less than 3 months overdue	10,097	14,985
More than 3 months overdue	31,070	9,848
	<u>147,890</u>	<u>106,564</u>

Debts are normally due within 30 to 90 days from the date of billing. All the accounts receivable are expected to be recoverable within one year.

25 Cash and Cash Equivalents

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash at bank and in hand	67,179	505,890	13,362	10,691
Deposits with banks maturing within three months	1,103,005	1,074,934	–	–
Cash and cash equivalents in the balance sheet	<u>1,170,184</u>	<u>1,580,824</u>	<u>13,362</u>	<u>10,691</u>
Bank overdrafts	(1,339)	(309)		
Cash and cash equivalents in the consolidated cash flow statement	<u>1,168,845</u>	<u>1,580,515</u>		

26 Bank Loans and Overdrafts

At 31 December 2004, the interest-bearing bank loans and overdrafts were repayable as follows:

	2004 HK\$'000	2003 HK\$'000
Within 1 year or on demand	494,256	415,392
After 1 year but within 2 years	458,416	374,916
After 2 years but within 5 years	1,639,288	1,492,705
After 5 years	200,000	350,000
	<u>2,297,704</u>	<u>2,217,621</u>
	<u>2,791,960</u>	<u>2,633,013</u>

At 31 December 2004, the bank loans and overdrafts were unsecured and made up as follows:

	2004 HK\$'000	2003 HK\$'000
Unsecured bank overdrafts	1,339	309
Bank loans		
– secured	–	100,000
– unsecured	2,790,621	2,532,704
	<u>2,791,960</u>	<u>2,633,013</u>

At 31 December 2003, bank loan of HK\$100,000,000 was secured by a pledged bank deposit of the same amount.

27 Accounts Payable and Accruals

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	133,955	123,607	–	–
Other payables and accruals	687,111	811,601	15,729	12,842
	<u>821,066</u>	<u>935,208</u>	<u>15,729</u>	<u>12,842</u>

Included in accounts payable and accruals are trade payables with the following ageing analysis:

	2004 HK\$'000	2003 HK\$'000
Due within 1 month or on demand	92,533	94,707
Due after 1 month but within 3 months	41,422	28,900
	<u>133,955</u>	<u>123,607</u>

28 Contingency Provision — Insurance

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

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

29 Income Tax in the Balance Sheet

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Provision for Hong Kong Profits Tax for the year	150,621	135,887	–	–
Provisional Profits Tax paid	(101,081)	(81,729)	–	(69)
	<u>49,540</u>	<u>54,158</u>	<u>–</u>	<u>(69)</u>
Balance of Profits Tax recoverable relating to prior year	(2,633)	(298)	–	–
	<u>46,907</u>	<u>53,860</u>	<u>–</u>	<u>(69)</u>
PRC income tax payable	106	1,050	–	–
Tax payable/(recoverable)	<u>47,013</u>	<u>54,910</u>	<u>–</u>	<u>(69)</u>

29 Income Tax in the Balance Sheet (continued)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets) or 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 2003	762,107	(45,054)	(62,059)	–	654,994
Charged/(credited) to consolidated income statement	84,633	(4,434)	(18,241)	59,376	121,334
At 31 December 2003	846,740	(49,488)	(80,300)	59,376	776,328
At 1 January 2004	846,740	(49,488)	(80,300)	59,376	776,328
(Credited)/charged to consolidated income statement	(26,892)	35,984	8,995	13,046	31,133
At 31 December 2004	819,848	(13,504)	(71,305)	72,422	807,461

	2004 HK\$'000	2003 HK\$'000
Net deferred tax liabilities recognised on the consolidated balance sheet	807,461	776,328

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of HK\$22,373,505 (2003: HK\$15,670,725) in respect of tax losses of HK\$127,848,600 (2003: HK\$89,547,000). The tax losses do not expire under the current tax legislation.

30 Provision for Long Service Payments

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

	2004 HK\$'000
At 1 January	52,321
Provision written back in the income statement (note 4(a))	(629)
Payments made during the year	(3,439)
At 31 December	48,253

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

31 Share Capital

	2004 HK\$'000	2003 HK\$'000
Authorised: 600,000,000 ordinary shares of HK\$1 each	<u>600,000</u>	<u>600,000</u>
Issued and fully paid: 403,639,413 ordinary shares of HK\$1 each	<u>403,639</u>	<u>403,639</u>

32 Reserves

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
(a) Capital reserve				
At 1 January and 31 December	<u>2,412</u>	<u>2,412</u>	<u>–</u>	<u>–</u>
(b) General reserve				
At 1 January and 31 December	<u>17,839</u>	<u>17,839</u>	<u>–</u>	<u>–</u>
(c) Retained profits				
At 1 January	<u>2,832,023</u>	<u>3,054,458</u>	<u>1,035,354</u>	<u>950,624</u>
Dividends approved in respect of the previous financial year (note 9(b))	<u>(637,750)</u>	<u>(637,750)</u>	<u>(637,750)</u>	<u>(637,750)</u>
Profit for the year	<u>731,165</u>	<u>596,953</u>	<u>635,289</u>	<u>904,118</u>
Dividends declared in respect of the current year (note 9(a))	<u>(181,638)</u>	<u>(181,638)</u>	<u>(181,638)</u>	<u>(181,638)</u>
At 31 December	<u>2,743,800</u>	<u>2,832,023</u>	<u>851,255</u>	<u>1,035,354</u>
(d) Contributed surplus				
At 1 January and 31 December	<u>–</u>	<u>–</u>	<u>1,300,000</u>	<u>1,300,000</u>
(e) Staff retirement fund reserve				
At 1 January and 31 December	<u>1,082,600</u>	<u>1,082,600</u>	<u>–</u>	<u>–</u>
(f) Exchange reserve				
At 1 January	<u>91</u>	<u>–</u>	<u>–</u>	<u>–</u>
Exchange differences on translation of financial statements of foreign entities	<u>55</u>	<u>91</u>	<u>–</u>	<u>–</u>
At 31 December	<u>146</u>	<u>91</u>	<u>–</u>	<u>–</u>
Total reserves	<u>3,846,797</u>	<u>3,934,965</u>	<u>2,151,255</u>	<u>2,335,354</u>

Included in the retained profits of the Group is profits of HK\$30,513,000 (2003: HK\$8,120,000) attributable to associates; and profits of HK\$1,732,000 (2003: HK\$1,364,000) attributable to a jointly controlled entity.

The distributable reserves of the Company as at 31 December 2004 amounted to HK\$2,151,255,000 (2003: HK\$2,335,354,000).

33 Commitments

(a) Capital commitments outstanding at 31 December 2004 of the Group and not provided for in the financial statements were as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Contracted for	1,548,828	2,062,665
Authorised but not contracted for	292,620	236,580
	<u>1,841,448</u>	<u>2,299,245</u>

(b) At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2004 HK\$'000	2003 HK\$'000
Within 1 year	19,754	4,963
After 1 year but within 5 years	50,862	4,034
More than 5 years	60,849	–
	<u>131,465</u>	<u>8,997</u>

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

34 Contingent Liabilities

At 31 December 2004, the Company has undertaken to guarantee certain bank loans granted to certain subsidiaries to the extent of HK\$820,000,000 (2003: HK\$574,166,000). Additionally, together with an external party, the Company had undertaken to guarantee jointly and severally bank loans granted to Park Island Transport Company Limited, a 65% owned subsidiary, to finance its purchase of fixed assets and daily operations to the extent of HK\$135,000,000 (2003: HK\$110,000,000). Such bank loans will be repayable by instalments commencing from February 2005 to August 2008.

35 Material Related Parties Transactions

- (a) During the year, the Group entered into a contract with a subsidiary of Sun Hung Kai Properties Limited ("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. The insurance premium paid by the Group amounted to HK\$93,138,000 (2003: HK\$93,442,000) during the year ended 31 December 2004. The amount due to this company at the year end amounted to HK\$7,000 (2003: HK\$1,001,000).
- (b) During the year, the Group provided coach services to certain subsidiaries of SHKP under the same terms as those available to other customers in the ordinary course of business. The service fees received by the Group amounted to HK\$27,893,000 (2003: HK\$35,608,000) during the year ended 31 December 2004. The amounts due from these companies at the year end amounted to HK\$8,654,000 (2003: HK\$8,950,000).
- (c) 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 (the "Development") in 2003. During the year, 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 the Development. Pursuant to the Supplementary Agreement, the maximum aggregate consideration payable by LCKPI to Chun Fai will be increased from HK\$1,160,171,000 to HK\$1,617,743,000. During the year, total payment made by LCKPI to Chun Fai amounted to HK\$178,411,000 (2003: HK\$ Nil) and the amount accrued in the financial statements at 31 December 2004 amounted to HK\$2,409,000 (2003: HK\$ Nil). The Group's capital commitment outstanding under the Prime Cost Contract at 31 December 2004 amounted to HK\$1,436,923,000 (2003: HK\$1,160,171,000).

35 Material Related Parties Transactions (continued)

- (d) The Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to the Development of the Group. The contract sum of the project management services is HK\$15 million, or the lower of 1% of the project costs and HK\$20 million, whichever is higher. During the year, the payment for these project management services made by the Group to this company amounted to HK\$3,000,000 (2003: HK\$ Nil). There was no outstanding balance payable for this contract at the year end (2003: HK\$3,000,000). The Group's capital commitment outstanding at 31 December 2004 under this contract amounted to HK\$11,000,000 (2003: HK\$11,000,000).
- (e) A subsidiary of the Group, 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, 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"). The Entitled Net Return for the year was HK\$12,320,000 (2003: HK\$11,002,000). Furthermore, SHKMW advances to PITC an unsecured loan in the sum of HK\$2,000,000 per month (the "Loan") at an interest rate of 1% per annum above HIBOR, which together with interest is to be repaid upon expiration or early termination of the contract or be charged against by any shortfall between the minimum Entitled Net Return and operating profits or losses incurred by PITC. The amount receivable from SHKMW at the year end under this contract, after set-off by the Loan, was HK\$49,911,000 (2003: HK\$16,432,000).

36 Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

37 Post Balance Sheet Event

After the balance sheet date, the Directors proposed a final dividend for the year. Further details are disclosed in note 9 to the financial statements.