# The Group

## Basis of Preparation of Financial Statements

The financial statements set out on pages 110 to 160 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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"). A summary of the significant accounting policies adopted by the Group is set out in the note 1 to the financial statements on pages 117 to 125 of this Annual Report.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. These new HKFRSs do not have significant impact on the results of the Group for the year. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in the financial statements is set out in note 2 to the financial statements on pages 125 to 129 of this Annual Report.

## Review of 2005 Financial Performance

### Consolidated Results of the Year

The Group's profit attributable to equity shareholders of the Company for the year ended 31 December 2005 was HK$584.2 million (2004: HK$731.2 million), a decrease of 20.1% compared with that for 2004. The profit for 2005 included a one-off capital gain of HK$90.5 million arising from the disposal of the Kwai Chung Depot which was previously owned and used by The Kowloon Motor Bus Company (1933) Limited ("KMB"), a wholly-owned subsidiary of the Company, at a consideration of HK$106.0 million. Earnings per share for the year were HK$1.45, a decrease of 20.1% compared with HK$1.81 for 2004.

For the year ended 31 December 2005, the Group's turnover amounted to HK$6,456.4 million, a decrease of HK$87.9 million or 1.3% compared with HK$6,544.3 million for 2004. The decrease was mainly attributable to the continuous loss of patronage to new railways, in particular the KCRC Ma On Shan Rail, Tsim Sha Tsui Extension and West Rail which commenced operations in December 2004, October 2004 and December 2003 respectively. Total operating expenses for the year increased by HK$223.1 million or 3.9% from HK$5,706.1 million for 2004 to HK$5,929.2 million for 2005. The increase was due mainly to the increase in fuel costs as a result of worldwide drastic escalation of oil prices in 2005. Finance costs for the year increased by HK$53.7 million from HK$15.4 million in 2004 to HK$69.1 million in 2005 as a result of rises in interest rates. More detailed information in respect of the Group's individual business units are set out on pages 83 to 87 of this Annual Report.

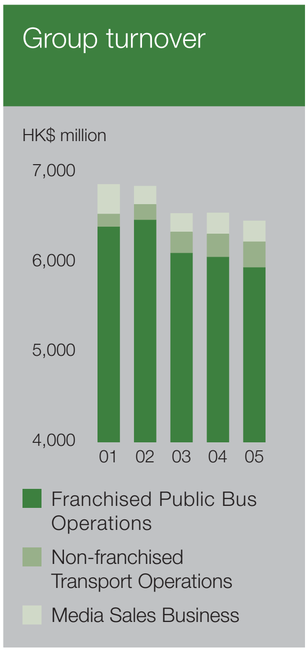
The Group's share of profits of associates increased by HK$31.0 million from HK$22.4 million in 2004 to HK$53.4 million in 2005. The increase was due mainly to the profit contribution from the Group's new associate in Shenzhen, which commenced operation of public bus and taxi hire services in Shenzhen City on 1 January 2005.

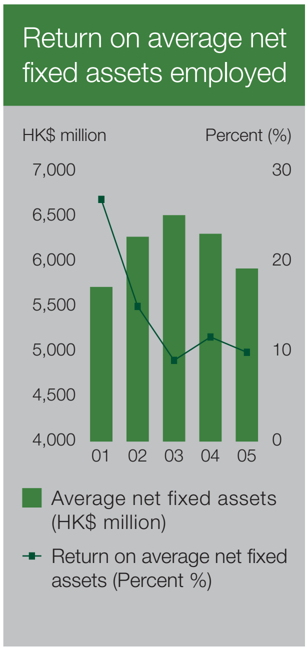
Income tax expense for the year was HK$95.9 million (2004: HK$168.9 million), representing a decrease of 43.2% compared with the previous year. The breakdown of the income tax expense is set out in note 6(a) to the financial statements on page 131 of this Annual Report.

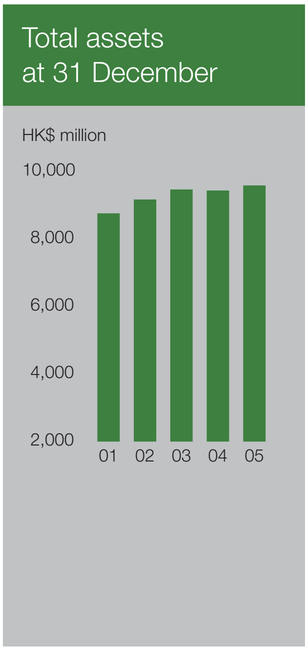
A summary of the turnover and profit generated from the Group's six Divisions is set out below:

| | Turnover | | Profit before taxation | |
|---|---|---|---|---|
| HK$ million | **2005** | 2004 | **2005** | 2004 |
| Franchised Public Bus Operations Division | **5,995.9** | 6,121.4 | **540.4** | 862.3 |
| Non-franchised Transport Operations Division | **287.0** | 256.4 | **35.4** | 30.4 |
| Property Holdings and Development Division | **–** | – | **13.4** | 12.7 |
| Media Sales Business Division | **173.5** | 166.5 | **34.8** | 28.3 |
| Internal Financial Services Division | **–** | – | **5.2** | 10.5 |
| Mainland Transport Operations Division | **–** | – | **41.5** | 13.3 |
| | **6,456.4** | 6,544.3 | **670.7** | 957.5 |
| Finance costs | | | **(69.1)** | (15.4) |
| Unallocated net operating income/(expenses) | | | **89.1** | (29.4) |
| Profit before taxation | | | **690.7** | 912.7 |

Detail segment information on the main businesses of the Group is shown in note 12 to the financial statements on page 136 of this Annual Report.

### Dividends

The proposed final dividend for the year is HK$1.58 per share (2004: HK$1.58 per share). Together with the interim dividend of HK$0.45 per share (2004: HK$0.45 per share) paid on 13 October 2005, the total dividend for the year ended 31 December 2005 amounts to HK$2.03 per share (2004: HK$2.03 per share). This represents dividend cover of 0.71 times (2004: 0.89 times).

## Financial Position

### Fixed Assets and Capital Expenditure

The Group's fixed assets mainly comprise buildings, buses, vessels and other motor vehicles, and interest in leasehold land held for own use under operating leases. None of the Group's assets was pledged or charged as at 31 December 2005.

During the year, capital expenditure incurred by the Group amounted to HK$514.8 million (2004: HK$541.6 million). The decrease was mainly attributable to the reduction in the purchase of new buses by KMB in 2005 as a result of bus network reorganisation. The breakdown of the capital expenditure incurred is shown in note 13(a) to the financial statements on page 137 of this Annual Report.

### Interest in Associates

At 31 December 2005, the Group's total interest in associates amounted to HK$776.4 million (2004: HK$330.2 million). Such interest represented the Group's investments in the Mainland transport operations and media businesses in Beijing, Shenzhen and Wuxi. The increase was due mainly to the contribution of HK$363.9 million to a new joint venture in Shenzhen, Shenzhen Bus Group Company Limited ("SBG"), which commenced operation on 1 January 2005.

### Working Capital

At 31 December 2005, the Group's working capital amounted to HK$183.7 million (2004: HK$253.3 million). Total current assets at the end of the year amounted to HK$2,341.2 million (2004: HK$1,917.9 million) mainly comprising liquid funds and property under development. The Group's liquid funds in the amount of HK$1,133.6 million (2004: HK$1,170.2 million) were mainly denominated in Hong Kong Dollars, United States Dollars, British Pound Sterling ("GBP") and Renminbi. Property under development in the amount of HK$707.1 million (2004: HK$323.2 million) represented the total cost incurred by the Group for the development of "Manhattan Hill", a prestigious residential and commercial complex situated at Lai Chi Kok, Kowloon, Hong Kong. Total current liabilities at 31 December 2005 amounted to HK$2,157.5 million (2004: HK$1,664.6 million) which mainly included the current portion of bank loans, bank overdrafts, accounts payable and other accruals.

### Bank Loans and Overdrafts

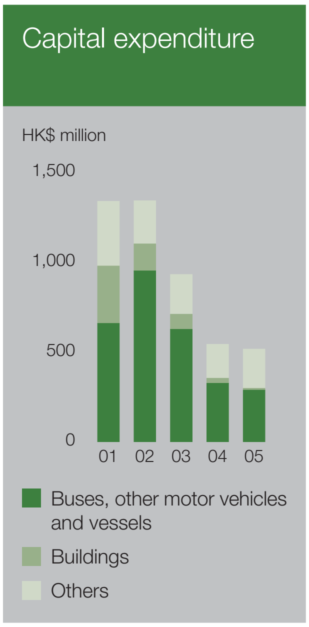
Bank loans and overdrafts, all unsecured, amounted to HK$3,179.9 million at 31 December 2005 (2004: HK$2,792.0 million).

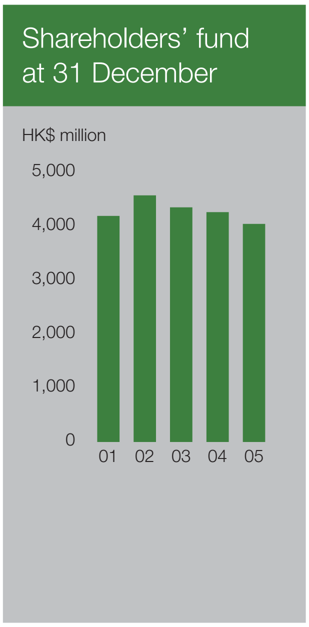
The maturity profile of bank loans and overdrafts of the Group at 31 December 2005 and 31 December 2004 is set out in note 27 to the financial statements on page 149 of this Annual Report.

### Net Borrowings

At 31 December 2005, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK$2,046.3 million (2004: HK$1,621.8 million), representing an increase of HK$424.5 million compared with 2004. An analysis of the Group's net borrowings by currency at 31 December 2005 is shown below:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| Currency | **Net borrowings/ (cash) in foreign currency million** | **Net borrowings/ (cash) in HK$ million** | Net borrowings/ (cash) in foreign currency million | Net borrowings/ (cash) in HK$ million |
| Hong Kong Dollars | | **2,297.8** | | 1,736.9 |
| United States Dollars | **(28.3)** | **(220.5)** | (10.6) | (83.0) |
| British Pound Sterling | **(1.5)** | **(20.3)** | (1.5) | (22.1) |
| Renminbi | **(11.2)** | **(10.7)** | (10.6) | (10.0) |
| **Total** | | **2,046.3** | | 1,621.8 |




## Commitments

Commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2005 amounted to HK$1,878.6 million (2004: HK$1,841.4 million). A summary of the nature of the commitments is set out below:

| HK$ million | 2005 | 2004 |
|---|---|---|
| Purchase of buses and other motor vehicles | **270.3** | 26.5 |
| Development of Manhattan Hill | **1,275.5** | 1,473.9 |
| Purchase of other fixed assets | **330.7** | 327.6 |
| Investment in new projects on the Mainland | **–** | 9.5 |
| Construction of depots and other depot facilities | **2.1** | 3.9 |
| **Total** | **1,878.6** | 1,841.4 |

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

At 31 December 2005, the Group had 125 (2004: 2) air-conditioned double-deck buses on order for delivery in 2006 and 46 (2004: 42) buses under various stages of construction.

# Funding and Financing

## Liquidity and Financial Resources

Throughout the year, the Group continued to closely monitor its liquidity and financial resources to ensure that a healthy financial position was maintained so that cash inflows from operating activities together with undrawn committed banking facilities were sufficient to meet the requirements for loan repayments, daily operational needs, capital expenditure, as well as potential business expansion and development. During the year, the Group was mainly financed by shareholders' funds, bank loans and overdrafts. Whilst the major operating companies of the Group arrange their own financing to meet specific requirements, the Group's other subsidiaries are mainly financed by the holding company from its capital base. At 31 December 2005, the Group had stand-by banking facilities totalling HK$1,299.0 million (2004: HK$1,945.7 million). The Group reviews its strategy from time to time to ensure that cost-efficient funding is available to cater for the unique operating environment of each subsidiary.

## Gearing Ratio and Liquidity Ratio

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

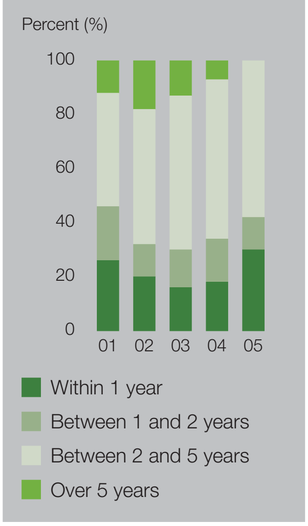
| | 2005 | 2004 |
|---|---|---|
| Gearing ratio at year-end (ratio of net borrowings to the total share capital and reserves attributable to equity shareholders of the Company) | **0.51** | 0.38 |
| Liquidity ratio at year-end (ratio of current assets to current liabilities) | **1.09** | 1.15 |

The increase in the Group's gearing ratio for 2005 was due mainly to the increase in loan drawdown for the development of Manhattan Hill. The gearing ratio of the Group is expected to reduce significantly or turn into a net cash position after the sale of residential flats of Manhattan Hill.

## Finance Costs and Interest Cover

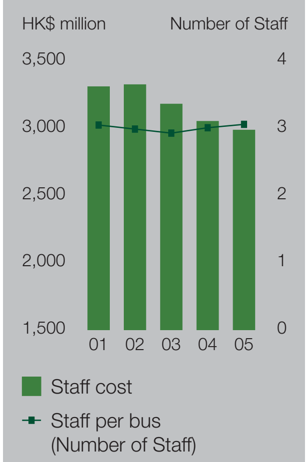
Due mainly to the increase in market interest rates in 2005, the total finance cost incurred by the Group increased to HK$69.1 million in 2005 from HK$15.4 million in 2004. The average interest rate in respect of the Group's borrowings for 2005 was 3.01%, an increase of 238 basis points compared with 0.63% for 2004.

Debt maturity profile at 31 December




Staff cost and staff per bus

(Franchised Public Bus Operations)




Interest cover, representing the ratio of profit before finance costs and taxation divided by net finance costs (i.e. total finance costs less interest income), was 15.8 times in 2005 (2004: 393.1 times).

## Net Cash Flow

The net cash inflow generated from operating and investing activities of the Group increased from HK$265.1 million in 2004 to HK$289.2 million in 2005, which included cash proceeds received in the amount of HK$106.0 million from the disposal of the Kwai Chung Depot during the year. Cash outflows utilised for payment of capital expenditure and interest expenses during the year amounted to HK$536.1 million and HK$78.7 million respectively, compared with HK$610.1 million and HK$15.8 million for 2004. Net increase in bank loans in 2005 amounted to HK$345.0 million, compared with HK$157.9 million in 2004. Net cash inflow before dividends for 2005 was HK$612.8 million, compared with HK$418.4 million for 2004. After dividend payments of HK$819.4 million, the Group's net cash outflow for the year amounted to HK$206.6 million compared with HK$411.7 million for the previous year. Details of the Group's cash flow movement for the year ended 31 December 2005 are set out in the consolidated cash flow statement on pages 115 to 116 of this Annual Report.

## Treasury Policies

### Currency Risk Management

Foreign currency exposure does not pose a significant risk to the Group as the levels of foreign currency assets and liabilities were relatively low compared to its total asset base. The Group's foreign currency exposure mainly arises from the payments for new buses and overseas motor vehicle components which are denominated in British Pound Sterling ("GBP"). To minimise the foreign exchange risk particularly at times when the currency market is volatile, it is the Group's policy to closely monitor the foreign exchange movements and strategically enter into forward exchange contracts when opportunities arise to hedge the foreign currency requirement.

During 2005, the Group entered into a number of forward foreign exchange contracts to hedge approximately 50% (2004: 60%) of the total GBP requirement for the year.

### Interest Rate Risk Management

It is the Group's policy to closely monitor the market conditions and devise suitable strategies to mitigate interest rate risk. As at 31 December 2005, the Group's borrowings were mainly denominated in Hong Kong Dollars and on a floating interest rate basis. This enabled the Group to take advantage of the lower floating interest rates compared with fixed rate financing in 2005. The Group will continue to review its strategy on interest rate risk management in the light of prevailing market conditions.

## Employees and Remuneration Policies

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 after the commencement of the KCRC Ma On Shan Rail service in December 2004, the number of staff of the Group at the year-end of 2005 decreased by 0.8% compared with the previous 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:

| | 2005 | 2004 |
|---|---|---|
| Number of employees at year-end | **13,493** | 13,601 |
| Total remuneration (HK$ million) | **2,983** | 3,048 |
| Remuneration as percentage of total costs | **49%** | 52% |

# Individual Business Units

## Franchised Public Bus Operations

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

| | Unit | 2005 | 2004 |
|---|---|---|---|
| Turnover | HK$ million | **5,733.3** | 5,885.3 |
| Gain on disposal of building and interest in leasehold land | HK$ million | **90.5** | – |
| Other net income | HK$ million | **75.1** | 69.4 |
| Total operating expenses | HK$ million | **(5,295.7)** | (5,113.1) |
| Finance costs | HK$ million | **(46.2)** | (10.1) |
| Profit before taxation | HK$ million | **557.0** | 831.5 |
| Income tax expense | HK$ million | **(81.5)** | (156.0) |
| Profit after taxation | HK$ million | **475.5** | 675.5 |
| Net profit margin (including gain on disposal of building and interest in leasehold land) | | **8.3%** | 11.5% |
| Net profit margin (excluding gain on disposal of building and interest in leasehold land) | | **6.7%** | 11.5% |
| Passenger volume | Million passenger trips | **1,009.9** | 1,063.8 |
| Kilometres travelled | Million km | **339.0** | 342.8 |
| Staff number at year-end | Number of staff | **12,339** | 12,499 |
| Fleet size at year-end | Number of buses | **4,029** | 4,150 |
| Total assets value | HK$ million | **5,939.8** | 6,165.9 |

KMB's profit after taxation for the year amounted to HK$475.5 million (2004: HK$675.5 million), representing a decrease of 29.6% compared with that for the previous year. The amount included a one-off capital gain of HK$90.5 million arising from the disposal of the Kwai Chung Depot. When excluding such capital gain, KMB's profit after taxation from the franchised public bus operation decreased by 43.0% from HK$675.5 million in 2004 to HK$385.0 million in 2005.

KMB's fare revenue for the year amounted to HK$5,668.0 million (2004: HK$5,808.8 million), a decrease of HK$140.8 million or 2.4% compared with the previous year. Its ridership in 2005 amounted to 1,009.9 million passenger trips (2004: 1,063.8 million passenger trips), a decrease of 53.9 million passenger trips or 5.1% compared with 2004. The decreases were mainly attributed to the continuous loss of patronage to new railways, in particular the KCRC Ma On Shan Rail, Tsim Sha Tsui Extension and West Rail which commenced operations in December 2004, October 2004 and December 2003 respectively. KMB's advertising revenue for the year amounted to HK$64.0 million (2004: HK$74.5 million), a decrease of 14.1% compared with the previous year.

The actual distance travelled by KMB's buses totalled 339.0 million kilometres during the year (2004: 342.8 million kilometres). The decrease in distance travelled was mainly due to the rationalisation of certain bus routes following the commissioning of the Ma On Shan Rail.

KMB's total operating expense for the year amounted to HK$5,295.7 million (2004: HK$5,113.1 million), representing an increase of HK$182.6 million or 3.6% compared with 2004. For the year ended 31 December 2005, expenditure on fuel oil amounted to HK$809.6 million, an increase of approximately HK$216.0 million or 36.4% compared with 2004. This increase was due mainly to the worldwide drastic escalation of oil prices. Tunnel tolls as part of the other operating expenses and finance costs for the year also increased by HK$21.6 million and HK$36.1 million respectively compared with those for 2004 due to the increases in toll charges and interest rates. These increases in operating costs were totally beyond the control of KMB. Faced with this situation, KMB has made strenuous efforts to reduce operating costs through productivity enhancement, bus service rationalisation and stringent cost controls on other expenses wherever possible. As a result, the bus operating cost when excluding the cost of fuel oil for the year was reduced by HK$33.4 million or 0.8% compared with 2004, notwithstanding a 2% pay rise for KMB's operations staff and office staff with effect from 1 June 2005 and 1 September 2005 respectively.

KMB has been assigned a single "A" corporate rating (outlook: stable) by Standard & Poor's since 14 January 2002.

### Long Win Bus Company Limited ("LWB")

| | Unit | 2005 | 2004 |
|---|---|---|---|
| Turnover | HK$ million | **271.4** | 245.5 |
| Other net income | HK$ million | **1.7** | 1.3 |
| Total operating expenses | HK$ million | **(245.4)** | (226.1) |
| Finance costs | HK$ million | **(5.1)** | (1.0) |
| Profit before taxation | HK$ million | **22.6** | 19.7 |
| Income tax expense | HK$ million | **(3.9)** | (3.4) |
| Profit after taxation | HK$ million | **18.7** | 16.3 |
| Net profit margin | | **6.9%** | 6.6% |
| Passenger volume | Million passenger trips | **24.3** | 22.3 |
| Kilometres travelled | Million km | **23.8** | 23.5 |
| Staff number at year-end | Number of staff | **417** | 407 |
| Fleet size at year-end | Number of buses | **148** | 145 |
| Total assets value | HK$ million | **249.6** | 230.0 |

LWB recorded a profit after taxation of HK$18.7 million for the year (2004: HK$16.3 million). This represents an increase of HK$2.4 million or 14.7% compared with the previous year.

LWB's fare revenue for the year amounted to HK$269.5 million, representing an increase of 10.9% compared with HK$243.0 million for 2004. The total ridership of LWB in 2005 was 24.3 million (a daily average of 66,553) passenger trips, an increase of 9.0% compared with 22.3 million (a daily average of 60,942) passenger trips in the previous year. The increase was due mainly to the continued growth of population in Tung Chung New Town and the increased road transport demand to and from the Hong Kong International Airport. The opening of Hong Kong Disneyland in 2005 also generated more patronage for LWB.

Total mileage operated for the year increased to 23.8 million kilometres (2004: 23.5 million kilometres) due to the expansion of routes to cater for the new transport demand associated with the opening of Hong Kong Disneyland.

The advertising revenue of LWB increased to HK$1.2 million in 2005 from HK$0.6 million in 2004.

LWB's total operating expenses for the year amounted to HK$245.4 million (2004: HK$226.1 million), an increase of 8.5% compared with 2004. The increase was mainly due to increases in fuel costs and tunnel toll charges, as well as other operating expenses as a result of service enhancement to cope with the growing transport demand. Finance costs for 2005 increased by HK$4.1 million to HK$5.1 million (2004: HK$1.0 million) due to the increase in market interest rates.

## Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK$26.8 million for 2005 (2004: HK$23.8 million), representing an increase of 12.6% compared with that for the previous year. Turnover increased by 11.9% from HK$256.4 million in 2004 to HK$287.0 million in 2005. The increase was due primarily to the continuous improvement of the local economy, the opening of Hong Kong Disneyland and the growth in patronage of the cross-boundary shuttle bus service.

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

The SBH Group is 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$114.0 million, an increase of 11.7% compared with 2004. The increase was due mainly to the growth in patronage as a result of the opening of Hong Kong Disneyland and the growing inbound tourist market, particularly tour groups from the mainland of China. However, the growth in turnover was partially offset by the drastic increase in fuel costs during the year.

At 31 December 2005, the SBH Group had a fleet of 249 buses (2004: 230 buses). During the year, 65 buses (2004: 7 buses) were purchased for enhancement of service quality and replacement of older buses.

### Park Island Transport Company Limited ("PITC")

PITC was previously a 65% owned subsidiary of the Group. It became a wholly-owned subsidiary of the Group on 13 December 2005 after the Group acquired the remaining 35% equity interest from the former minority shareholder of PITC. PITC has been providing shuttle bus and ferry services for residents of and visitors to Park Island, a prestigious development on Ma Wan Island. At the year-end, PITC operated two ferry routes and two bus routes serving Ma Wan Island, with a ferry fleet of seven high-speed catamarans and an air-conditioned bus fleet of 11 super-low floor single-deck buses, three diesel-electric hybrid super-low floor single-deck buses and one 28-seat mini-bus. The patronage for the year was 5.9 million passenger trips, an increase of 15.7% compared with 5.1 million passenger trips for 2004. This increase was due mainly to further population in-take of Park Island.

### New Hong Kong Bus Company Limited ("NHKB")

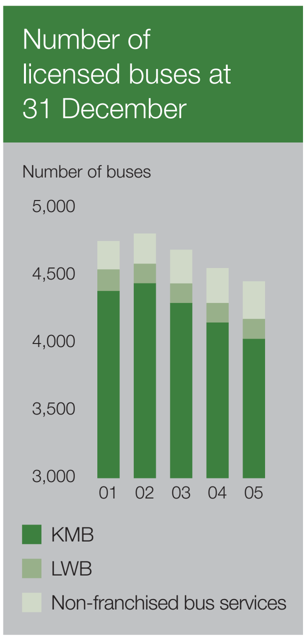
NHKB, together with its Shenzhen (深圳) counterpart, jointly operates a direct, economical, 24-hour cross-boundary shuttle bus service serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang (皇崗) in Shenzhen. Due mainly to the increase in economic activities between Hong Kong and the Mainland as a result of the Closer Economic Partnership Arrangement (CEPA) and the increase in the number of visitors from the Mainland as a result of the extension of the Individual Visit Scheme to more Mainland cities, NHKB's patronage increased by 19.7% from 7.6 million passenger trips for 2004 to 9.1 million passenger trips for 2005. NHKB operated a total of 15 buses at year-end of 2005, same as at the end of 2004.

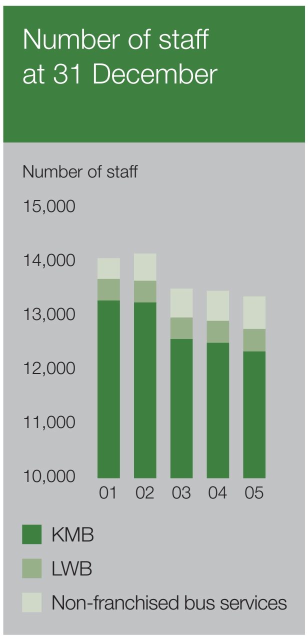
## Property Development

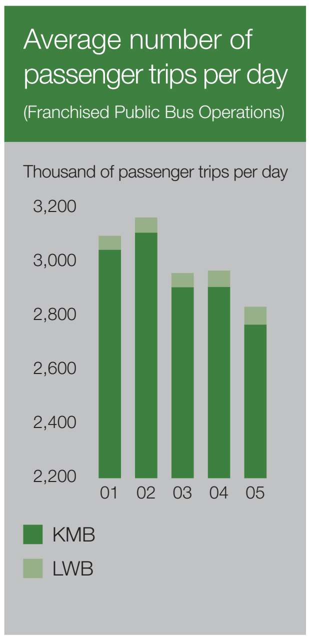
### Lai Chi Kok Properties Investment Limited ("LCKPI")

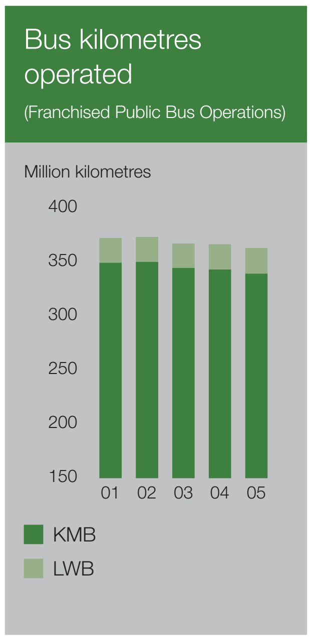
LCKPI, a wholly-owned subsidiary of the Group, is the owner and developer of the residential and commercial complex known as "Manhattan Hill" located at Po Lun Street, Lai Chi Kok, Kowloon. This development comprises about 1,115 up-scale luxurious residential units in five multi-storey prestigious residential blocks with a total residential gross floor area of about one million square feet and a two-level retail podium of about 50,000 square feet. At 31 December 2005, 98% of the building structure was completed and the external glazing, exterior finishing and interior fitting-out were in progress. The project is scheduled for completion by the end of 2006.

At the year-end, the total construction cost incurred for the project amounted to HK$707.1 million (2004: HK$323.2 million). This amount was capitalised as property under development in the consolidated balance sheet on page 111 of this Annual Report. At 31 December 2005, the commitment in the project was HK$1,275.5 million (2004: HK$1,473.9 million). The project is financed by the Group's working capital and unsecured bank loans.



## Media Sales Business

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

| HK$ million | 2005 | 2004 |
|---|---|---|
| Turnover | **191.1** | 182.0 |
| Other revenue | **21.6** | 16.1 |
| Total operating expenses | **(189.9)** | (179.3) |
| Finance costs | **(2.4)** | (1.4) |
| Share of profit of associate | **12.1** | 9.5 |
| Profit before taxation | **32.5** | 26.9 |
| Income tax expense | **(5.3)** | (3.1) |
| Profit after taxation | **27.2** | 23.8 |
| Minority interests | **(0.9)** | (3.7) |
| Profit after taxation and minority interests | **26.3** | 20.1 |

The RoadShow Group achieved significant operational and financial improvement in 2005 as compared with 2004. For the year ended 31 December 2005, the RoadShow Group reported a total operating revenue of HK$212.7 million (2004: HK$198.1 million) and a profit attributable to equity shareholders of HK$26.3 million (2004: HK$20.1 million), representing increases of 7.4% and 30.8% respectively over the previous year.

The total operating expenses of the RoadShow Group for 2005 amounted to HK$189.9 million, an increase of 5.9% compared with HK$179.3 million for 2004. The increase was due mainly to the increase in depreciation and amortisation expenses arising from the full year operation of bus shelters on the Mainland.

The profit attributable to equity shareholders of the RoadShow Group comprised segment profits derived from Hong Kong operations of HK$19.8 million (2004: HK$12.6 million) and China Mainland operations of HK$6.5 million (2004: HK$7.5 million). The increase in 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.

Further information relating to the RoadShow Group is available in its 2005 final results announcement and annual report.

## Mainland Transport Operations

At 31 December 2005, the Group's total interest in associates and jointly controlled entity on Mainland Transport Operations amounted to HK$648.4 million (2004: HK$224.3 million). Such investments are mainly related to the operation of passenger public transport services in Dalian (大連), Shenzhen (深圳) and Wuxi (無錫), and taxi and car rental services in Beijing (北京). The Group's Mainland Transport Operations Division reported a profit after taxation of HK$41.5 million for 2005 (2004: HK$13.3 million). The increase was due mainly to the profit contributed by our new associate in Shenzhen, which commenced operation on 1 January 2005. The surge in fuel prices in 2005 suppressed the performance of these businesses on the Mainland. During the year, the Group disposed of all its equity interest in the co-operative joint venture in Tianjin (天津) to an independent third party in order to concentrate our effort on relatively larger projects. The co-operative joint venture was originally formed between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited (天津市公交集團有限公司) in January 2001.

## Summary of Investments in Mainland Transport Operations

| | Dalian | Beijing | Wuxi | Shenzhen |
|---|---|---|---|---|
| Nature of business | Bus services | Taxi and car rental services | Bus services | Bus and taxi hire services |
| Form of business structure | Co-operative joint venture | Sino-foreign joint stock company | Sino-foreign joint stock company | Sino-foreign joint stock company |
| Operation commenced | August 1997 | April 2003 | March 2004 | January 2005 |
| The Group's initial investment (RMB million) | 22 | 80 | 135 | 387 |
| The Group's effective interest | 30% | 31.38% | 45% | 35% |
| Fleet size at 31 December 2005 (Number of vehicles) | 83 | 4,235 | 1,857 | 3,531 |
| Bus passenger volume (Million trips) | 27.1 | N/A | 266.3 | 588.3 |
| Bus kilometres travelled (Million km) | 4.6 | N/A | 88.9 | 240.0 |
| Staff number at 31 December 2005 | 261 | 4,219 | 4,927 | 11,610 |

### Dalian

This co-operative joint venture ("CJV") in Dalian was established in July 1997 by a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company (大連市第一公共汽車公司) in Liaoning Province (遼寧省). At 31 December 2005, this CJV had 83 single-deck buses operating on three routes serving Dalian City. This CJV made satisfactory progress and recorded a profit in 2005.

### Beijing

Beijing Beiqi Kowloon Taxi Company Limited (北京北汽九龍出租汽車股份有限公司) ("BBKT"), a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT's shareholders comprise KMB (Beijing) Taxi Investment Limited (九巴（北京）出租汽車投資有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限責任公司), Beijing Bashi Company Ltd. (北京巴士股份有限公司) and two other Mainland investors. BBKT principally engages in the taxi hire and car rental businesses with a fleet of around 4,200 vehicles and some 4,200 employees. The Group's investment in BBKT was RMB80.0 million (HK$75.5 million), representing 31.38% of BBKT's equity interest. BBKT achieved satisfactory results for the year ended 31 December 2005.

### Wuxi

Wuxi Kowloon Public Transport Company Limited (無錫九龍公共交通股份有限公司) ("WKPT"), a Sino-foreign joint stock company in which the Group has 45% interest, was established in Wuxi City, Jiangsu Province (江蘇省無錫市) in February 2004. WKPT currently operates some 1,800 buses on over 110 routes. The Group's investment in WKPT was RMB135.4 million (HK$127.2 million). WKPT continued to make steady progress and recorded a profit for the year ended 31 December 2005.

### Shenzhen

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) ("SBG"), a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴（深圳）交通投資有限公司), a wholly-owned subsidiary of the Group, and four other Mainland investors, commenced operation in January 2005. The Group has invested RMB387.1 million (HK$363.9 million), representing a 35% stake, in SBG. SBG principally operates public bus and taxi hire services in Shenzhen City, Guangdong Province (廣東省深圳市), with about 3,500 vehicles serving some 120 routes. SBG made a significant contribution to the profit of the Group for the year ended 31 December 2005.

# Connected Transactions

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

## Connected Transactions

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

#### Transaction with Fortin International Limited ("FIL")

As detailed in note 36(a)(i) to the financial statements on page 158 of this Annual Report, KMB entered into an agreement with FIL, a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"), on 31 October 2005 pursuant to which KMB agreed to sell and FIL agreed to purchase the industrial building situated at Kwai Chung, New Territories, at a consideration of HK$106,000,000. Approval had been obtained from the relevant Government authorities for the disposal of the industrial building and the transaction was completed on 14 December 2005. This transaction was only subject to the reporting and announcement requirements of the Listing Rules and was exempted from the independent shareholders' approval requirement. Particulars of this transaction were disclosed in the announcement of the Company dated 1 November 2005.

### Park Island Transport Holdings Limited ("PITH")

#### Transaction with Winnertex Limited ("Winnertex")

PITH and Winnertex entered into a Sales and Purchase Agreement on 5 December 2005 whereby PITH agreed to purchase and Winnertex agreed to sell 35% interest in the issued share capital of Park Island Transport Company Limited ("PITC") for a consideration of HK$9,555,700. Upon completion of the sale, PITC became an indirect wholly-owned subsidiary of the Company. The transaction contemplated under the Sale and Purchase Agreement was only subject to the reporting and announcement requirements under the Listing Rules and was exempted from the independent shareholders' approval requirement. Particulars of this transaction were disclosed in the announcement of the Company dated 9 December 2005.

## Continuing Connected Transactions

### The Group

#### Transaction with Sun Hung Kai Properties Insurance Limited ("SHKPI")

As detailed in note 36(a)(iii) to the financial statements on page 158 of this Annual Report, the Group entered into certain insurance arrangements with SHKPI, a wholly-owned subsidiary of SHKP, in 2004, pursuant to which SHKPI agreed to provide 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 2005, the annual insurance premium paid by the Group to SHKPI amounted to HK$80,174,000. It is estimated that the annual insurance premium paid and payable by the Group to SHKPI for the financial year ending 31 December 2006 will not exceed HK$154,000,000. 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 requirement. Particulars of these connected transactions were disclosed in the announcement of the Company dated 28 May 2004.

### Park Island Transport Company Limited ("PITC")

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

Pursuant to an agreement dated 23 May 2001 entered into between PITC and SHKMW ("Transport Agreement"), a wholly-owned subsidiary of SHKP, SHKMW engaged PITC as the operator of the bus and ferry services to, from and within Ma Wan Island. On 6 December 2005, PITC and SHKMW entered into a supplemental agreement ("Supplemental Agreement") to extend the operating term of the Transport Agreement, which expired on 13 December 2005, for a period of one year from 14 December 2005 to 13 December 2006, and to amend certain terms and conditions of the Transport Agreement. The transactions executed under the Transport Agreement, as modified by the Supplemental Agreement, during the year between PITC and SHKMW 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 announcements of the Company dated 25 May 2001 and 9 December 2005. As detailed in note 36(a)(vi) to the financial statements on page 159 of this Annual Report, the annual permitted return to which PITC was entitled for the year ended 31 December 2005 was HK$11,800,000. It is estimated that the permitted return for the period from 1 January 2006 to 13 December 2006 will not exceed HK$18,200,000.

## Lai Chi Kok Properties Investment Limited ("LCKPI")

### Letting and Sales Agency Agreement, and Management Agreement

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

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

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

## Conditional Waivers

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

1. each of the foregoing continuing connected transactions with SHKPI, SHKMW, SHKRE and Hong Yip was entered into:
   (i) in the ordinary and usual course of business of the Group;
   (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and
   (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;

2. the annual insurance premium paid and payable by the Group to SHKPI for the year ended 31 December 2005 did not exceed the cap amount of HK$126,000,000 as disclosed in the announcement dated 28 May 2004;

3. the permitted return for the period from 1 January 2005 to 13 December 2005 entitled by PITC under the Transport Agreement, as modified by the Supplemental Agreement, did not exceed 3% of the audited consolidated net tangible assets of the Company as at 31 December 2004;

4. the permitted return for the period from 14 December 2005 to 31 December 2005 entitled by PITC under the Transport Agreement, as modified by the Supplemental Agreement, did not exceed the cap amount of HK$945,000 as disclosed in the announcement dated 9 December 2005; and

5. the annual aggregate amount for the year ended 31 December 2005 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 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.