

Report of the Directors

The Directors have pleasure in submitting their annual report and the audited financial statements for Transport International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2005.

Principal Place of Business

The Company was incorporated in Bermuda and has its registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and principal place of business at No. 1, Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of the Group are the operation of both franchised and non-franchised public transportation, property holdings and development and the provision of media sales services. Particulars of the Company's principal subsidiaries are set out in note 17 to the financial statements.

The Group's turnover and profit are almost entirely attributable to bus operations and media sales business. The analysis of the principal activities of the Group during the financial year is set out in note 12 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2005 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 110 to 160 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 78 to 89 of this Annual Report.

Dividends

An interim dividend of 45 cents per share (2004: 45 cents per share) was paid to the shareholders on 13 October 2005. The Directors now recommend that a final dividend of HK\$1.58 per share (2004: HK\$1.58 per share) in respect of the year ended 31 December 2005 be paid to the shareholders on 19 May 2006.

Change of the Company's Name

By a special resolution passed on 24 November 2005, with effect from 28 November 2005, the name of the Company was changed from The Kowloon Motor Bus Holdings Limited to Transport International Holdings Limited and the Chinese name 載通國際控股有限公司 is adopted for identification purpose.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$1,635,000 (2004: HK\$4,635,000).

Fixed Assets

During the year, major additions to the fixed assets of the Group were buses under construction with a total cost of HK\$211,205,000 and tools and other fixed assets with a total cost of HK\$218,525,000. Buses with a total cost of HK\$157,159,000 were licensed and put into service during the year following the completion of construction.

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

Reserves

Details of movements in the reserves of the Group and the Company during the year are set out in note 32 to the financial statements.

Report of the Directors

Directors

The Directors during the financial year and up to the date of this report were:

The Hon Sir Sze-yuen CHUNG* , <i>GBM, GBE, PhD, FREng, JP</i>	(Chairman)
Dr Norman LEUNG Nai Pang* , <i>GBS, JP</i>	(Deputy Chairman)
KWOK Ping-uen, Raymond , <i>JP</i>	
KWOK Ping-sheung, Walter , <i>JP</i>	
YU Shu Chuen	
NG Siu Chan	
William LOUEY Lai Kuen	
John CHAN Cho Chak , <i>GBS, JP</i>	(Managing Director)
Charles LUI Chung Yuen , <i>M.H.</i>	
Winnie NG	
Dr KUNG Ziang Mien, James* , <i>GBS, OBE</i>	
George CHIEN Yuan Hwei	
Dr Eric LI Ka Cheung* , <i>GBS, OBE, JP</i>	
LUI Pochiu	
Edmond HO Tat Man	(Deputy Managing Director)
SIU Kwing-chue, Gordon* , <i>GBS, CBE, JP</i>	
Susanna LAU Shung Oi	(Alternate Director to Mr KWOK Ping-sheung, Walter, <i>JP</i>)
KUNG Lin Cheng, Leo	(Alternate Director to Dr KUNG Ziang Mien, James*, <i>GBS, OBE</i>)
YUNG Wing Chung	(Alternate Director to Mr KWOK Ping-uen, Raymond, <i>JP</i> and appointed on 16 June 2005)
Rafael HUI , <i>GBS, JP</i>	(Resigned on 1 May 2005)
SHAM Yat Wah	(Alternate Director to Mr KWOK Ping-uen, Raymond, <i>JP</i> and resigned on 20 April 2005)

*Independent Non-executive Director

In accordance with Bye-law 87 of the Company and Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Mr Kwok Ping-uen, Raymond, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung and Mr Edmond Ho Tat Man retire from the Board by rotation and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 92 to 97 of this Annual Report.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

The Directors of the Company who held office at 31 December 2005 had the following interests in the shares of the Company, subsidiaries and other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of Directors' and chief executives' interests and short positions required to be kept under Section 352 of the SFO.

(i) Interests in Issued Shares

(a) The Company

	Ordinary shares of HK\$1 each					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen CHUNG*	18,821	—	—	—	18,821	0.005%
Dr Norman LEUNG Nai Pang*	—	—	—	—	—	—
KWOK Ping-luen, Raymond	393,350	—	—	—	393,350	0.097%
KWOK Ping-sheung, Walter	61,522	—	—	—	61,522	0.015%
YU Shu Chuen	2,943	—	—	6,980,284 (Note 1)	6,983,227	1.730%
NG Siu Chan	—	21,000,609	—	—	21,000,609	5.203%
William LOUEY Lai Kuen	6,246,941	4,475	—	—	6,251,416	1.549%
John CHAN Cho Chak	2,000	—	—	—	2,000	—
Charles LUI Chung Yuen	12,427	—	—	2,651,750 (Note 2)	2,664,177	0.660%
Winnie NG	41,416	—	—	21,000,609 (Note 3)	21,042,025	5.213%
Dr KUNG Ziang Mien, James*	—	—	172,000	—	172,000	0.043%
George CHIEN Yuan Hwei	2,000	—	—	—	2,000	—
Dr Eric LI Ka Cheung*	—	—	—	—	—	—
LUI Pochiu	452,113	—	—	—	452,113	0.112%
Edmond HO Tat Man	—	—	—	—	—	—
SIU Kwing-chue, Gordon*	—	—	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter)	—	—	—	—	—	—
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*)	—	—	—	—	—	—
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond)	—	—	—	—	—	—

* Independent Non-executive Director

Notes:

- 1 HSBC International Trustee Limited held 6,980,284 shares in the Company as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of shares.
- 2 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 2,651,750 shares in the Company.
- 3 Ms Winnie Ng has interest in 21,000,609 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

(continued)

(i) Interests in Issued Shares (continued)

(b) RoadShow Holdings Limited ("RoadShow"), a subsidiary of the Company

	Ordinary shares of HK\$0.1 each					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen CHUNG*	4,000	–	–	–	4,000	–
Dr Norman LEUNG Nai Pang*	–	–	–	–	–	–
KWOK Ping-luen, Raymond	37,400	–	–	–	37,400	0.004%
KWOK Ping-sheung, Walter	6,600	–	–	–	6,600	0.001%
YU Shu Chuen	33,000	–	–	542,401 (Note 1)	575,401	0.058%
NG Siu Chan	–	123,743	–	–	123,743	0.012%
William LOUEY Lai Kuen	412,371	–	–	–	412,371	0.041%
John CHAN Cho Chak	–	–	–	–	–	–
Charles LUI Chung Yuen	–	–	–	209,131 (Note 2)	209,131	0.021%
Winnie NG	1,000,000	–	–	123,743 (Note 3)	1,123,743	0.113%
Dr KUNG Ziang Mien, James*	–	–	500,000	–	500,000	0.050%
George CHIEN Yuan Hwei	–	–	–	–	–	–
Dr Eric LI Ka Cheung*	–	–	–	–	–	–
LUI Pochiu	24,863	–	–	–	24,863	0.002%
Edmond HO Tat Man	–	–	–	–	–	–
SIU Kwing-chue, Gordon*	–	–	–	–	–	–
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter)	–	–	–	–	–	–
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*)	–	–	–	–	–	–
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond)	–	–	–	–	–	–

* Independent Non-executive Director

Notes:

- 1 HSBC International Trustee Limited held 542,401 shares in RoadShow as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of shares.
- 2 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 209,131 shares in RoadShow.
- 3 Ms Winnie Ng has interest in 123,743 shares in RoadShow as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

As at 31 December 2005, none of the Directors had any non-beneficial interest in the share capital of the Company.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

(continued)

(ii) Interests in Underlying Shares

RoadShow has a share option scheme ("the Scheme") which was adopted on 7 June 2001, under which the directors of RoadShow may, at their discretion, offer any employee (including any directors) of RoadShow or any of its wholly-owned subsidiaries options to subscribe for shares in RoadShow to recognise their contributions to the growth of RoadShow and its subsidiaries, subject to the terms and conditions stipulated in the Scheme.

The exercise price of the options is determined as the highest of the nominal value of the shares of RoadShow ("the Shares"), the closing price of the Shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of the grant and the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant. The options vest immediately from the date of grant and are then exercisable within a period of three years. The Scheme is valid and effective for a period of ten years ending on 6 June 2011, after which no further options will be granted.

The total number of securities available for issue under the Scheme as at 31 December 2005 was 99,736,533 shares which represented 10% of the issued share capital of RoadShow at 31 December 2005. In respect of the maximum entitlement of each participant under the Scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of ordinary shares in issue.

During the year, a Director of the Company and certain employees of the Group had the following interests in options to subscribe for shares in RoadShow under the Scheme. The options were granted for nil consideration under the Scheme and are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 of RoadShow.

	Number of options outstanding at the beginning of the year	Number of options expired during the year	Number of options outstanding at the end of the year	Exercise price per share	Market value per share at date of grant of options
Director of the Company					
Winnie Ng	3,800,000	(3,800,000)	Nil	HK\$2.25	HK\$2.25
Employees	10,470,000	(10,470,000)	Nil	HK\$2.25	HK\$2.25

The above options were granted on 11 March 2002 and were exercisable during the period from 12 March 2002 to 11 March 2005. No option was exercised during the year and all of them expired on 11 March 2005.

Apart from the above, none of the Directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, its subsidiaries or fellow subsidiaries, as recorded in the register of directors' interests and short positions required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' Interests in Contracts

Save for the Prime Cost Contract and the Supplementary Agreement as disclosed in note 36(a)(iv) to the financial statements, in which Messrs. Kwok Ping-luen, Raymond and Kwok Ping-sheung, Walter, who have beneficial interests in Sun Hung Kai Properties Limited ("SHKP") were interested, no other contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

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

At 31 December 2005, the interests or short positions of the persons (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

	Ordinary shares of HK\$1 each			
	Registered shareholders	Corporate interests	Total number of shares held	Percentage of total issued shares
Substantial shareholders				
Sun Hung Kai Properties Limited (Notes 1 and 2)	–	133,271,012	133,271,012	33.0%
Arklake Limited (Note 1)	68,600,352	–	68,600,352	17.0%
HSBC International Trustee Limited (Note 3)	191,587,266	–	191,587,266	47.5%
Other person				
Kwong Tai Holdings Limited (Note 4)	21,000,609	–	21,000,609	5.2%

Notes:

- The interest disclosed by SHKP includes the 68,600,352 shares disclosed by Arklake Limited.
- Under The Code on Takeovers and Mergers (the "Takeovers Code"), a person will be subject to mandatory offer obligations if such person acquires, whether by a series of transactions over a period of time or not, 30% or more of the voting rights of a company. Such threshold was reduced from 35% to 30% with effect from 19 October 2001. However, transitional provisions apply where a person, or two or more persons acting in concert, holds 30% or more of the voting rights of a company but less than 35% of such voting rights immediately prior to 19 October 2001. For so long as such holding remains in this range and until 10 years after that date, the Takeovers Code shall be interpreted and applied as if the 30% trigger in Rule 26.1(a) and (b) of the Takeovers Code was 35% for such person or persons and such person or persons are not subject to the 2% creeper under Rule 26.1(c) and (d) of the Takeovers Code. In this regard, SHKP has been holding 30% or more of the voting rights of the Company but less than 35% of such voting rights immediately prior to 19 October 2001, the above transitional provisions apply to SHKP for so long as its holding remains within the range of 30% and 35% for a period of 10 years after 19 October 2001.
- HSBC International Trustee Limited is deemed to be interested in 191,587,266 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.
- The interest disclosed by Kwong Tai Holdings Limited includes 21,000,609 shares disclosed by Mr Ng Siu Chan and Ms Winnie Ng, both are Directors of the Company.

Purchase, Sale or Redemption of the Company's Shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

Senior Management

Brief particulars of the senior management of the Group are set out on pages 98 to 99 of this Annual Report.

Staff Retirement Schemes

The Group operates two separate non-contributory defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme ("The KMB Monthly Rated Employees Scheme") and The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme ("The KMB Daily Rated Employees Scheme"), and mainly participates in a defined contribution retirement scheme, SHKP MPF Employer Sponsored Scheme.

Defined Benefit Retirement Schemes

The Group makes contributions to two defined benefit retirement schemes that provide pension benefits for employees upon retirement. The schemes are administered by an independent trustee and the assets are held separately from those of the Group. Both schemes are formally established under trust and are registered under the Occupational Retirement Schemes Ordinance. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the retirement schemes at regular intervals.

Staff Retirement Schemes (continued)

Defined Benefit Retirement Schemes (continued)

The most recent actuarial valuations of the two schemes were at 1 January 2005 which showed that there were sufficient assets in the schemes to cover both the solvency and ongoing liabilities of the schemes. Other relevant information extracted from the valuation pertaining to the two schemes is set out below:

The KMB Monthly Rated Employees Scheme

- i) The scheme was established with effect from 15 February 1978.
- ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: Investment Return at 6.5% and Salary Escalation at 5.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 65.
- iii) The market value of the scheme assets at 31 December 2004 was HK\$896.6 million.
- iv) The minimum level of funding commencing from 1 January 2005 recommended by the actuary is 4.3% of pay.
- v) The ongoing funding surplus in the scheme was HK\$270.7 million and the solvency surplus was HK\$289.2 million at 31 December 2004.

The KMB Daily Rated Employees Scheme

- i) The scheme was established with effect from 1 July 1983.
- ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: Investment Return at 6.5% and Salary Escalation at 5.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 60.
- iii) The market value of the scheme assets at 31 December 2004 was HK\$2,203.4 million.
- iv) The minimum level of funding commencing from 1 January 2005 recommended by the actuary is 2.5% of pay.
- v) The ongoing funding surplus in the scheme was HK\$622.0 million and the solvency surplus was HK\$794.3 million at 31 December 2004.

Note: The obligations in respect of defined benefit retirement schemes included in the financial statements are calculated using the projected unit credit method under different actuarial assumptions (see notes 1(v)(ii) and 21 to the financial statements).

Defined Contribution Retirement Scheme

SHKP MPF Employer Sponsored Scheme ("the SHKP Scheme")

The Group is also a participating member of a defined contribution retirement scheme. Those employees who do not participate in the defined benefit retirement schemes are covered by the SHKP Scheme which is administered by an independent trustee. The assets of the SHKP Scheme are held separately from those of the Group in independently administered funds. The Group is required to make contributions to the SHKP Scheme at rates ranging from 5% to 12% of the relevant employees' salaries, depending on their length of service with the Group. The employees are required to make contributions to the SHKP Scheme at 5% of the employees' relevant income as defined by the Hong Kong Mandatory Provident Fund Schemes Ordinance, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the SHKP Scheme during the year are charged to the income statement as incurred. For forfeited amount due to resignation prior to the vesting of the benefits, the amount will be used to reduce the Group's contributions made in that corresponding financial year. The amount of forfeited contributions utilised during the year and the amount available for use as at 31 December 2005 were insignificant to the Group.

Bank Loans and Overdrafts

Particulars of bank loans and overdrafts of the Group as at 31 December 2005 are set out in note 27 to the financial statements.

Major Customers and Suppliers

Income attributable to the five largest customers of the Group accounted for less than 30% of the total income of the Group for the year.

Purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the value of the Group's total purchases for the year.

Report of the Directors

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on pages 90 and 91 of this Annual Report.

Model Code for Securities Transactions by Directors

The Company has adopted the code of conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules during the year and all Directors have complied with the required standard of dealings set out therein.

Corporate Governance

The Company has complied throughout the year with the code provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 to the Listing Rules.

Properties

Particulars of the property under development of the Group are shown on page 85 of this Annual Report.

Audit Committee

The Audit Committee reviewed with management the accounting principles and policies adopted by the Group and discussed auditing, internal control and financial reporting matters, and also reviewed the financial statements for the year ended 31 December 2005.

Confirmation of Independence

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

S.Y. CHUNG
Chairman

Hong Kong, 16 March 2006