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 ("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. These 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 ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates and jointly controlled entities.

The purchase method of accounting is used to account for business combinations by the Group. The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see note 1(e)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain investments in securities (see note 1(f)), derivative financial instruments (see note 1(g)) and employee benefit assets (see note 1(w)(ii)) are stated at their fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 41.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. 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.

1 Significant Accounting Policies (continued)

(c) Subsidiaries and minority interests (continued)

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

(d) Associates and jointly controlled entities

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 includes the Group's share of the post-acquisition post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(e) and (l)).

When the Group's share of losses exceeds its interest in an associate or a jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associates or jointly controlled entities, 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.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(l)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

1 Significant Accounting Policies (continued)

(e) Goodwill (continued)

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the consolidated income statement.

On disposal of a cash-generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(l)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the income statement.

(h) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(l)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Property that is being constructed or developed for future use as investment property is classified as investment property under development and stated at cost, including borrowing costs capitalised (see note 1(u)), aggregate cost of development, materials and supplies, direct labour and other direct expenses, less any impairment losses (see note 1(l)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

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 property, plant and equipment using the straight-line method over their estimated useful lives as follows:

Buildings situated on leasehold land	– the shorter of 40 years and the unexpired terms of the leases
Buses	– 14 years
Other motor vehicles	– 5 to 10 years
Vessels	– 20 years
Others	– 2 to 7 years

1 Significant Accounting Policies (continued)

(h) Property, plant and equipment (continued)

No depreciation is provided for buses and vessels under construction and investment property under development.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held 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 assets.

The cost of acquiring land held under operating leases is amortised on a straight-line basis over the period of the lease term.

(j) Intangible assets (other than goodwill)

Passenger service licences acquired by the Group are regarded to have indefinite useful lives and are stated in the balance sheet at cost less impairment losses (see note 1(l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and amortisation is charged to the income statement on a straight-line basis over the asset's estimated useful life.

(k) Media assets

Media assets represent advertising rights which are 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 impairment losses (see note 1(l)).

Advertising rights are amortised to the income statement on a straight-line basis over 5 to 10 years, being the agreed periods of use of the advertising rights.

(l) Impairment of assets

(i) Impairment of investments in equity securities and receivables

Investments in equity securities and current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other 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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under operating leases;

– media assets;

– intangible assets;

– investments in subsidiaries, associates and jointly controlled entities; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, goodwill and intangible assets that have indefinite useful lives are tested for impairment annually even when there is no indication of impairment.

– 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).

1 Significant Accounting Policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss 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.

(m) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development

The cost of property under development comprises specifically identified cost, including the aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 1(u)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property held for sale

Cost of completed property developed by the Group is determined by apportionment of the total development costs for that development project attributable to the unsold property. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(n) 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.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(l)).

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest foreign currency borrowings that are designated as hedged items in fair value hedges, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable using the effective interest method.

1 Significant Accounting Policies (continued)

(p) Interest-bearing borrowings (continued)

Subsequent to initial recognition, the fair value of fixed interest foreign currency borrowings that are designated as hedged items in fair value hedges is remeasured at each balance sheet date. The gain or loss on remeasurement is recognised in the income statement.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and 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 consolidated cash flow statement.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When the Company issues a financial guarantee for borrowings of a subsidiary, the fair value of the guarantee is initially recognised as deferred income within accounts payable and accruals, and a corresponding increase in the Company's investment in the subsidiary is recognised on initial recognition of the deferred income.

The amount of the guarantee initially recognised as deferred income is amortised to the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(iii) if and when it becomes probable that the holder of the guarantee will call upon the Company under the guarantee, and the amount of that claim on the Company is expected to exceed the amount currently carried in accounts payable and accruals in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(s)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 1(s)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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 expenditure 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.

1 Significant Accounting Policies (continued)

(t) 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 from franchised public bus services and revenue from non-franchised transport services are recognised when the related services are provided.

(ii) Revenue arising from the sale of completed property held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on property sold prior to the date of revenue recognition are included in accounts payable and accruals.

Where property is sold under deferred terms with part of the sale proceeds being receivable after an interest-free period, that portion of the differences between the sale prices with and without such terms representing finance income is allocated to the income statement on a basis that takes into account the effective yield on the amounts of the sale proceeds receivable over the interest-free period.

(iii) Income from media sales is recognised when the related advertisements are telecast or commercials appear before the public.

(iv) Interest income is recognised as it accrues using the effective interest method.

(v) Dividends

- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

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

The capitalisation of borrowing costs as part of a qualifying asset commences when expenditure for the asset is 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.

(v) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the average foreign exchange rates for the year. Balance sheet items including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005 are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

1 Significant Accounting Policies (continued)

(w) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

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 the 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. If the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, if 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 net 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.

(iii) Lump sum long service amounts payable on cessation of employment

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 the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

(iv) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(v) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1 Significant Accounting Policies (continued)

(x) Income tax

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.

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.

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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

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.

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.

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 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.

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

1 Significant Accounting Policies (continued)

(y) Related parties (continued)

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) 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 entities 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, tax balances, corporate and financing expenses.

2 Changes in Accounting Policies

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42).

Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement: Financial guarantee contracts)

In prior years, financial guarantees issued by the Company were disclosed as contingent liabilities in accordance with HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1 January 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Company has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(s)(i).

2 Changes in Accounting Policies (continued)

The new accounting policy has been applied retrospectively by restating opening balances of the Company at 1 January 2005 and 2006 to the extent that guarantees were unexpired at those dates, with consequential adjustments to comparatives for the year ended 31 December 2005. It is not practicable to estimate the fair values and consequential effect on reported net assets of the change in accounting policies in respect of any other guarantees issued prior to 1 January 2005. The new policy resulted in the recognition of financial guarantees issued of HK$65,537,000 (2005: HK$70,492,000) included in accounts payable and accruals in the balance sheet of the Company as at 31 December 2006, and increases in investments in subsidiaries by HK$139,459,000 (2005: HK$103,142,000) and reserves by HK$73,922,000 (2005: HK$32,650,000). The new policy also resulted in an increase in profit for the year of the Company by HK$41,272,000 (2005: HK$16,983,000). Details of the financial guarantees currently issued by the Company are set out in note 36.

3 Turnover

The principal activity of the Company is investment holding.The principal activities of the principal subsidiaries are set out in note 18 to the financial statements.

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

	2006 HK$'000	2005 HK$'000
Fare revenue from franchised public bus services	**6,014,258**	5,937,649
Revenue from non-franchised transport services	**337,117**	287,003
Revenue from sales of properties	**2,133,202**	–
Media sales revenue	**219,947**	231,752
	8,704,524	6,456,404

4 Other Net Income

	2006 HK$'000	2005 HK$'000
Gain on disposal of media assets (note (a))	**44,043**	–
Gain on disposal of subsidiaries (note (b))	**12,677**	–
Interest income from bank deposits, unlisted debt securities and other loans	**40,674**	21,048
Claims received	**21,250**	22,429
Net gain on disposal of other fixed assets	**8,007**	6,847
Loss on disposal of associate	**–**	(5,727)
Net exchange gain	**6,837**	6,226
Net realised and unrealised gain on investments in securities carried at fair value	**7,786**	365
Dividend income from listed securities	**630**	1,575
Dividend income from unlisted securities	**–**	18,593
Net miscellaneous business receipts	**4,204**	4,722
Sundry revenue	**9,026**	12,386
	155,134	88,464

Notes:

(a) Gain on disposal of media assets

During the year, the Group disposed of certain media assets in Beijing with a net book value of HK$28,043,000, resulting in a gain on disposal of HK$44,043,000. Further details in relation to the disposal are set out in the Circular of RoadShow Holdings Limited ("RoadShow") dated 31 July 2006.

(b) Gain on disposal of subsidiaries

During the year, the Group disposed of its interests in RoadVision (Dalian) Limited and Guangzhou Key Media Advertising Company Limited, resulting in a gain on disposal of HK$12,677,000. Further details in relation to the disposal are set out in RoadShow's Circular dated 31 July 2006.

5 Profit before Taxation

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

	2006 HK$'000	2005 HK$'000
(a) Staff costs:		
Contributions to defined contribution retirement plans	**52,452**	52,106
Net income recognised in respect of defined benefit retirement plans (note 22(e))	**(51,981)**	(30,747)
Movements in provision for long service payments (note 32)	**13,301**	7,174
Retirement costs	**13,772**	28,533
Salaries, wages and other benefits	**2,965,513**	2,954,403
	2,979,285	2,982,936

Movement in provision for long service payments includes HK$6,663,000 (2005: Nil) paid to employees who opted for early retirement under a voluntary retirement scheme in 2006.

	2006 HK$'000	2005 HK$'000
(b) Finance costs:		
Interest on bank loans, overdrafts and other unsecured loans wholly repayable within five years	**141,670**	81,053
Less: borrowing costs capitalised into property under development*	**(35,365)**	(11,922)
	106,305	69,131

* The borrowing costs have been capitalised at the average interest rate of 4.2% per annum (2005: 3.8%).

	2006 HK$'000	2005 HK$'000
(c) Other items:		
Auditors' remuneration		
– audit services	**4,315**	3,680
– other services	**2,418**	2,090
Operating lease charges on properties, temporary bus depots, buses, ferries and terminal shelters	**27,643**	25,369
Operating lease charges on media assets	**12,634**	24,076
Depreciation	**925,141**	899,845
Amortisation of land lease premium	**2,079**	2,087
Amortisation of media assets	**8,405**	11,850
Impairment losses		
– fixed assets	**7,969**	–
– goodwill	**12,487**	–
– media assets	**2,100**	3,026
– trade and other receivables	**4,870**	3,141
Write down of spare parts and stores	**7,552**	4,864

6 Income Tax in the Consolidated Income Statement

(a) Taxation in the consolidated income statement represents:

	2006 HK$'000	2005 HK$'000
Current tax – Hong Kong Profits Tax		
Profits Tax for the year	**193,578**	116,262
Tax recoverable on resolution of tax dispute	**(22,314)**	–
(Over)/under-provision in respect of prior years	**(66)**	654
	171,198	116,916
Current tax – PRC Income Tax		
Provision for the year	**5,025**	783
	176,223	117,699
Deferred tax		
Origination and reversal of temporary differences	**(42,958)**	(21,777)
	133,265	95,922

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries in the PRC is charged at the appropriate current rates of taxation ruling in the PRC.

In prior years, the Hong Kong Inland Revenue Department ("the IRD") disallowed the deductions of certain expenses of a subsidiary of the Company for Hong Kong Profits Tax purpose, resulting in additional tax of HK$22,314,000 paid by the Group. The subsidiary considered that such expenses should be deductible and lodged objections against the IRD's assessments in prior years. In 2006, the IRD notified the subsidiary that it was satisfied that such expenses were deductible for tax purpose. A tax credit of HK$22,314,000 has therefore been recognised in 2006.

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

	2006 HK$'000	2005 HK$'000
Profit before taxation	**2,002,670**	690,651
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**356,985**	120,500
Tax effect of non-deductible expenses	**9,471**	6,099
Tax effect of non-taxable income	**(208,862)**	(42,839)
Tax recoverable on resolution of tax dispute	**(22,314)**	–
Tax effect of unused tax losses not recognised	**6,158**	11,184
Tax effect of prior years' unrecognised tax losses utilised during the year	**(8,185)**	–
(Over)/under-provision in prior years	**(66)**	654
Others	**78**	324
Actual tax expense	**133,265**	95,922

7 Directors' Remuneration

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

For the year ended 31 December 2006	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
John CHAN Cho Chak	**348**	**4,554**	**1,500**	**1,151**	**7,553**
Charles LUI Chung Yuen	**288**	**600**	**65**	**–**	**953**
Winnie NG	**338**	**2,618**	**203**	**–**	**3,159**
LUI Pochiu	**288**	**2,455**	**329**	**–**	**3,072**
Edmond HO Tat Man	**288**	**2,599**	**438**	**267**	**3,592**
Non-executive Directors					
KWOK Ping-luen, Raymond	**288**	**–**	**–**	**–**	**288**
KWOK Ping-sheung, Walter	**288**	**–**	**–**	**–**	**288**
YU Shu Chuen	**95**	**4**	**–**	**–**	**99**
NG Siu Chan	**288**	**–**	**–**	**–**	**288**
William LOUEY Lai Kuen	**288**	**–**	**–**	**–**	**288**
George CHIEN Yuan Hwei	**336**	**–**	**–**	**–**	**336**
Independent Non-executive Directors					
The Hon Sir Sze-yuen CHUNG	**403**	**–**	**–**	**–**	**403**
Dr Norman LEUNG Nai Pang#	**322**	**–**	**–**	**–**	**322**
Dr KUNG Ziang Mien, James	**360**	**–**	**–**	**–**	**360**
Dr Eric LI Ka Cheung	**457**	**–**	**–**	**–**	**457**
SIU Kwing-chue, Gordon	**288**	**–**	**–**	**–**	**288**
	4,963	**12,830**	**2,535**	**1,418**	**21,746**

7 Directors' Remuneration (continued)

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

For the year ended 31 December 2005	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
John CHAN Cho Chak	319	4,475	2,520	1,131	8,445
Charles LUI Chung Yuen	259	600	400	–	1,259
Winnie NG	309	2,599	290	112	3,310
LUI Pochiu	259	2,411	430	86	3,186
Edmond HO Tat Man	259	2,554	728	277	3,818
Non-executive Directors					
KWOK Ping-luen, Raymond	259	–	–	–	259
KWOK Ping-sheung, Walter	259	–	–	–	259
YU Shu Chuen	259	12	–	–	271
NG Siu Chan	259	–	–	–	259
William LOUEY Lai Kuen	259	–	–	–	259
George CHIEN Yuan Hwei	279	–	–	–	279
Rafael HUI	85	–	–	–	85
Independent Non-executive Directors					
The Hon Sir Sze-yuen CHUNG	363	–	–	–	363
Dr Norman LEUNG Nai Pang#	273	–	–	–	273
Dr KUNG Ziang Mien, James	289	–	–	–	289
Dr Eric LI Ka Cheung	373	–	–	–	373
SIU Kwing-chue, Gordon	259	–	–	–	259
	4,621	12,651	4,368	1,606	23,246

Dr Norman Leung Nai Pang became an Independent Non-executive Director with effect from 1 February 2006.

8 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, four (2005: four) are Directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) are as follows:

	2006 HK$'000	2005 HK$'000
Fees	**1,262**	1,196
Salaries, allowances and benefits in kind	**14,071**	14,168
Discretionary bonuses	**2,681**	4,490
Retirement scheme contributions	**1,482**	1,672
	19,496	21,526

The emoluments of the five (2005: five) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2006	2005
HK$2,000,001 - HK$2,500,000	**1**	–
HK$2,500,001 - HK$3,000,000	**–**	1
HK$3,000,001 - HK$3,500,000	**2**	2
HK$3,500,001 - HK$4,000,000	**1**	1
HK$7,500,001 - HK$8,000,000	**1**	–
HK$8,000,001 - HK$8,500,000	**–**	1

9 Profit Attributable to Equity Shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$232,051,000 (2005 (restated): HK$780,368,000) 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:

	2006 HK$'000	2005 HK$'000 (restated)
Amount of consolidated profit attributable to equity shareholders of the Company dealt with in the Company's financial statements	**232,051**	780,368
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**137,237**	84,764
Company's profit for the year (note 33(b))	**369,288**	865,132

10 Earnings per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$1,838,014,000 (2005: HK$584,164,000) and 403,639,413 shares in issue during the years ended 31 December 2006 and 2005.

(b) Diluted earnings per share

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

11 Dividends

(a) Dividends paid/payable to equity shareholders of the Company attributable to the year

	2006 HK$'000	2005 HK$'000
Interim dividend declared and paid of HK$0.45 per share (2005: HK$0.45 per share)	**181,638**	181,638
Final dividend proposed after the balance sheet date of HK$1.58 per share (2005: 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 payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006 HK$'000	2005 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$1.58 per share (2005: HK$1.58 per share)	**637,750**	637,750

12 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:

Transport 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.
Property holdings and development:	The development of residential and commercial properties for sale and long term investment.

	Transport operations		Media sales business		Property holdings and development		Inter-segment elimination		Consolidated	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Revenue from external customers	6,351,375	6,224,652	219,947	231,752	2,133,202	–	–	–	8,704,524	6,456,404
Inter-segment revenue	–	2	22,968	24,591	–	–	(22,968)	(24,593)	–	–
Gain on disposal of building and interest in leasehold land	–	90,478	–	–	–	–	–	–	–	90,478
Other revenue from external customers	31,464	49,342	2,345	2,345	384	–	–	–	34,193	51,687
Total	6,382,839	6,364,474	245,260	258,688	2,133,586	–	(22,968)	(24,593)	8,738,717	6,598,569
Segment result	332,784	618,316	108,577	60,878	1,592,620	(659)			2,033,981	678,535
Unallocated net operating income									23,481	27,568
Profit from operations									2,057,462	706,103
Finance costs									(106,305)	(69,131)
Share of profits less losses of associates and jointly controlled entities	45,126	41,550	6,387	12,129	–	–			51,513	53,679
Income tax									(133,265)	(95,922)
Profit after taxation									1,869,405	594,729
Depreciation and amortisation for the year	899,452	874,223	36,173	39,559	–	–				
Impairment losses										
– trade and other receivables	–	–	4,870	3,141	–	–				
– media assets	–	–	2,100	3,026	–	–				
– goodwill	–	–	12,487	–	–	–				
– fixed assets	–	–	7,969	–	–	–				
Segment assets	6,249,775	6,401,930	152,541	336,202	3,441,160	709,330			9,843,476	7,447,462
Interests in associates and jointly controlled entities	679,969	648,391	176,839	144,388	–	–			856,808	792,779
Unallocated assets									1,400,002	1,340,060
Total assets									12,100,286	9,580,301
Segment liabilities	1,211,608	1,122,656	52,539	50,443	778,562	59,738			2,042,709	1,232,837
Unallocated liabilities									4,738,698	4,046,784
Total liabilities									6,781,407	5,279,621
Capital expenditure incurred during the year	587,769	514,140	2,918	3,389	–	–				

Geographical segments

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

13 Fixed Assets

(a) The Group:

	Buildings HK$'000	Buses and other motor vehicles HK$'000	Vessels HK$'000	Buses under construction HK$'000	Tools and others HK$'000	Sub-total HK$'000	Investment property under development HK$'000	Interest in leasehold land held for own use under operating leases HK$'000	Total fixed assets HK$'000
Cost:									
At 1 January 2005	1,437,975	8,695,105	122,891	103,359	1,630,462	11,989,792	–	127,137	12,116,929
Exchange adjustments	–	14	–	–	19	33	–	–	33
Additions	9,643	49,522	31	211,205	218,525	488,926	–	–	488,926
Acquisition of a subsidiary	–	5,622	–	–	50	5,672	–	–	5,672
Disposals	(35,194)	(176,574)	–	–	(6,141)	(217,909)	–	(1,017)	(218,926)
Transfer of buses	–	157,159	–	(157,159)	–	–	–	–	–
At 31 December 2005	1,412,424	8,730,848	122,922	157,405	1,842,915	12,266,514	–	126,120	12,392,634
Accumulated depreciation and amortisation:									
At 1 January 2005	699,155	4,065,520	11,483	–	1,189,354	5,965,512	–	38,421	6,003,933
Exchange adjustments	–	10	–	–	7	17	–	–	17
Charge for the year	52,480	604,151	6,148	–	237,066	899,845	–	2,087	901,932
Acquisition of a subsidiary	–	3,576	–	–	26	3,602	–	–	3,602
Written back on disposals	(20,190)	(179,035)	–	–	(5,826)	(205,051)	–	(650)	(205,701)
At 31 December 2005	731,445	4,494,222	17,631	–	1,420,627	6,663,925	–	39,858	6,703,783
Net book value:									
At 31 December 2005	680,979	4,236,626	105,291	157,405	422,288	5,602,589	–	86,262	5,688,851
Add:									
Deposits paid in respect of buses on order						31,419	–	–	31,419
						5,634,008	–	86,262	5,720,270
Cost:									
At 1 January 2006	**1,412,424**	**8,730,848**	**122,922**	**157,405**	**1,842,915**	**12,266,514**	**–**	**126,120**	**12,392,634**
Exchange adjustments	**–**	**53**	**–**	**–**	**24**	**77**	**–**	**–**	**77**
Additions	**9,047**	**49,248**	**–**	**309,822**	**237,823**	**605,940**	**–**	**–**	**605,940**
Transfer from property under development (note 25)	**–**	**–**	**–**	**–**	**–**	**–**	**74,567**	**–**	**74,567**
Acquisition of subsidiaries (note 34(a))	**–**	**36,668**	**–**	**–**	**–**	**36,668**	**–**	**–**	**36,668**
Disposal of subsidiaries (note 34(b))	**–**	**–**	**–**	**–**	**(928)**	**(928)**	**–**	**–**	**(928)**
Disposals	**(366)**	**(125,787)**	**–**	**–**	**(7,386)**	**(133,539)**	**–**	**–**	**(133,539)**
Transfer of buses	**–**	**352,151**	**–**	**(352,151)**	**–**	**–**	**–**	**–**	**–**
At 31 December 2006	**1,421,105**	**9,043,181**	**122,922**	**115,076**	**2,072,448**	**12,774,732**	**74,567**	**126,120**	**12,975,419**
Accumulated depreciation, amortisation and impairment losses:									
At 1 January 2006	**731,445**	**4,494,222**	**17,631**	**–**	**1,420,627**	**6,663,925**	**–**	**39,858**	**6,703,783**
Exchange adjustments	**–**	**28**	**–**	**–**	**10**	**38**	**–**	**–**	**38**
Charge for the year	**51,313**	**612,769**	**6,150**	**–**	**254,909**	**925,141**	**–**	**2,079**	**927,220**
Impairment loss for the year (note)	**–**	**–**	**–**	**–**	**7,969**	**7,969**	**–**	**–**	**7,969**
Acquisition of subsidiaries (note 34(a))	**–**	**20,882**	**–**	**–**	**–**	**20,882**	**–**	**–**	**20,882**
Disposal of subsidiaries (note 34(b))	**–**	**–**	**–**	**–**	**(542)**	**(542)**	**–**	**–**	**(542)**
Written back on disposals	**(366)**	**(125,718)**	**–**	**–**	**(7,196)**	**(133,280)**	**–**	**–**	**(133,280)**
At 31 December 2006	**782,392**	**5,002,183**	**23,781**	**–**	**1,675,777**	**7,484,133**	**–**	**41,937**	**7,526,070**
Net book value:									
At 31 December 2006	**638,713**	**4,040,998**	**99,141**	**115,076**	**396,671**	**5,290,599**	**74,567**	**84,183**	**5,449,349**
Add:									
Deposits paid in respect of buses on order						**13,685**	**–**	**–**	**13,685**
						5,304,284	**74,567**	**84,183**	**5,463,034**

13 Fixed Assets (continued)

(a) The Group: (continued)

Note on impairment loss on fixed assets:

During the year ended 31 December 2006, the management has carried out an assessment of the recoverable amount of certain fixed assets of the Group. Based on their assessment, the carrying amount of these fixed assets was written down by HK$7,969,000. The estimated recoverable amount was determined based on the future cash flows generated from these fixed assets. The impairment loss is included in other operating expenses in the consolidated income statement.

(b) The Company:

	Other fixed assets	
	2006 HK$'000	2005 HK$'000
Cost:		
At 1 January and 31 December	**201**	201
Accumulated depreciation:		
At 1 January	**186**	171
Charge for the year	**15**	15
At 31 December	**201**	186
Net book value:		
At 31 December	**–**	15

(c) All the Group's buildings, investment property under development and interest in leasehold land held for own use under operating leases are held in Hong Kong. The analysis of the net book value of properties is as follows:

	2006 HK$'000	2005 HK$'000
Medium-term leases	**482,048**	424,760
Short-term leases	**315,415**	342,481
	797,463	767,241
Representing:		
Buildings held for own use	**638,713**	680,979
Interest in leasehold land held for own use under operating leases	**84,183**	86,262
Investment property under development	**74,567**	–
	797,463	767,241

14 Intangible Assets

	Passenger service licences HK$'000
Cost and net book value:	
At 1 January 2005 and 2006	**–**
Acquisition of subsidiaries (note 34(a))	**5,820**
Additions	**1,756**
At 31 December 2006	**7,576**

14 Intangible Assets (continued)

Passenger service licences of the Group are regarded to have indefinite useful lives as there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

Passenger service licences have been allocated to the cash-generating unit of non-franchised transport operations for the purpose of impairment testing. Details of impairment testing are set out in note 15 to the financial statements.

15 Goodwill

	2006 HK$'000	2005 HK$'000
Cost:		
At 1 January	**32,599**	29,626
Acquisition of subsidiaries (note 34(a))	**29,092**	2,973
At 31 December	**61,691**	32,599
Accumulated impairment losses:		
Impairment loss for the year and at 31 December	**12,487**	–
Carrying amount:		
At 31 December	**49,204**	32,599

Impairment tests for cash-generating units containing goodwill and intangible assets with indefinite useful lives:

Goodwill and intangible assets with indefinite useful lives are allocated to the Group's cash-generating units ("CGUs") identified according to the location of operation and business segment as follows:–

	2006 HK$'000	2005 HK$'000
Non-franchised transport operations		
– goodwill	**49,204**	20,112
– intangible assets (note 14)	**7,576**	–
Media advertising agency, design and production in Shanghai		
– goodwill	**–**	12,487
	56,780	32,599

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	Non-franchised transport operations		Media advertising agency, design and production in Shanghai	
	2006 %	2005 %	2006 %	2005 %
Gross margin	**8.5**	11.0	**64.6**	78.1
Growth rate	**3.0**	3.0	**3.1**	6.3
Discount rate	**7.0**	4.5	**4.2**	4.8

15 Goodwill (continued)

Impairment tests for cash-generating units containing goodwill and intangible assets with indefinite useful lives: (continued)

Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

For non-franchised transport operations, the recoverable amount of the CGU is higher than its carrying amount based on the value-in-use calculations. Accordingly, no impairment loss on goodwill or intangible assets with indefinite useful lives has been recognised in the consolidated income statement.

For media advertising agency, design and production in Shanghai, the recoverable amount of the CGU is less than the carrying amount of the goodwill and fixed assets of the CGU. Accordingly, goodwill with carrying amount of HK$12,487,000 was fully impaired and charged to the consolidated income statement as other operating expenses.

16 Media Assets

	Advertising display panels under construction HK$'000	**Advertising rights** HK$'000	**Total** HK$'000
Cost:			
At 1 January 2005	2,378	124,143	126,521
Exchange adjustments	–	2,265	2,265
Additions	–	2,757	2,757
Transfer	(2,378)	2,378	–
Transfer to other receivables	–	(8,736)	(8,736)
At 31 December 2005	–	122,807	122,807
Accumulated amortisation and impairment losses:			
At 1 January 2005	–	11,799	11,799
Exchange adjustments	–	327	327
Amortisation for the year	–	11,850	11,850
Impairment loss for the year (note)	–	3,026	3,026
At 31 December 2005	–	27,002	27,002
Carrying amount:			
At 31 December 2005	–	95,805	95,805

16 Media Assets (continued)

	Advertising display panels under construction HK$'000	Advertising rights HK$'000	Total HK$'000
Cost:			
At 1 January 2006	–	122,807	122,807
Exchange adjustments	–	2,444	2,444
Additions	–	725	725
Disposals	–	(33,089)	(33,089)
Disposal of subsidiaries (note 34(b))	–	(91,090)	(91,090)
At 31 December 2006	–	1,797	1,797
Accumulated amortisation and impairment losses:			
At 1 January 2006	–	27,002	27,002
Exchange adjustments	–	538	538
Amortisation for the year	–	8,405	8,405
Impairment loss for the year (note)	–	2,100	2,100
Written back on disposals	–	(5,046)	(5,046)
Disposal of subsidiaries (note 34(b))	–	(32,610)	(32,610)
At 31 December 2006	–	389	389
Carrying amount:			
At 31 December 2006	–	1,408	1,408

Note on impairment loss of media assets:

Media assets are assessed at each balance sheet date to identify whether there are any indications that they may be impaired. Such indications include physical damage of a media asset and dismantling of a media asset under an order of relevant authorities. These indications also include a decrease in the revenue derived from a media asset. If any such indication exists, the recoverable amount of the media asset is estimated. The recoverable amount of a media asset is based on value-in-use calculations. These calculations use cash flow projections based on reasonable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.

A number of advertising display panels were dismantled during the years ended 31 December 2006 and 2005. Management considers that the estimated future cash flows generated from these panels are less than their reconstruction costs. Therefore, all these media assets with carrying amount of HK$2,100,000 (2005: HK$3,026,000) were impaired and charged to the consolidated income statement as other operating expenses.

17 Non-current Prepayments

Non-current prepayments consist of advanced payments for concession and rights for advertising and media programme placement on transit vehicles and transit network furniture.

18 Interest in Subsidiaries

(a) Investments in subsidiaries

	The Company	
	2006 HK$'000	2005 HK$'000 (restated)
Unlisted shares, at cost	**1,175,966**	1,139,649

18 Interest in Subsidiaries (continued)

(b) Amounts due from/(to) subsidiaries

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

(c) Particulars of principal subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Percentage of ownership interest: Group's effective interest	Percentage of ownership interest: Held by the Company	Percentage of ownership interest: Held by subsidiaries	Principal activity
KMB Resources Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	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 Hong Kong International Airport
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 the 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	100	–	100	Provision of non-franchised bus and ferry services in Hong Kong
RoadShow Holdings Limited	Incorporated in Bermuda and operates in Hong Kong	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

18 Interest in Subsidiaries (continued)

(c) Particulars of principal subsidiaries (continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Percentage of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
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
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 the 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.	Incorporated in the British Virgin Islands and operates in Hong Kong	1,200 shares of US$1 each	60	–	60	Investment holding
Shanghai Yafei Advertising Company Limited (Limited liability company)	The PRC	RMB600,000	37.2	–	51	Provision of media advertising agency service and design and production of advertisements
Hoi Tai Tours Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	20,000 shares of HK$100 each	100	–	100	Provision of non-franchised bus services in Hong Kong and the PRC

19 Interest in Associates

	2006 HK$'000	2005 HK$'000
Share of net assets	**692,614**	647,810
Goodwill	**71,298**	69,384
Loan to associate	**69,241**	49,522
Amounts due from associates	**5,930**	14,612
Amounts due to associates	**(4,922)**	(4,922)
	834,161	776,406

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

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid-up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activity
AdSociety Daye Advertising Company Limited (Note)	Sino-foreign equity joint venture	The PRC	RMB74,380,984	35.8	–	49	Provision of full range of advertising services
Beijing Beiqi Kowloon Taxi Company Limited	Sino-foreign joint stock company	The PRC	RMB166,600,000	31.4	–	31.4	Provision of taxi hiring and car rental services
Wuxi Kowloon Public Transport Company Limited	Sino-foreign joint stock company	The PRC	RMB300,880,000	45	–	45	Provision of bus services
Shenzhen Bus Group Company Limited	Sino-foreign joint stock company	The PRC	RMB995,630,000	35	–	35	Provision of bus services

Note: The joint venture partner of the associate agreed to maintain the results 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 2005 financial statements included the results as agreed to be maintained by the joint venture partner. This arrangement expired in 2005 and the share of profit recognised in the 2006 financial statements represents the Group's share of profit of the associate in proportion to its equity interests held by the Group.

(a) Goodwill on acquisition of associates

Goodwill arising from acquisition of associates is allocated to the Group's share of net assets in the respective associates as follows:

	2006 HK$'000	2005 HK$'000
Shenzhen Bus Group Company Limited ("SBG")	**53,937**	52,023
AdSociety Daye Advertising Company Limited ("ADA")	**17,361**	17,361
	71,298	69,384

The recoverable amount of the CGUs is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the businesses in which the CGUs operate.

19 Interest in Associates (continued)

(a) Goodwill on acquisition of associates (continued)

Key assumptions used for value-in-use calculations:

	SBG		ADA	
	2006 %	2005 %	**2006 %**	2005 %
Gross margin	**4.3**	8.5	**24.0**	30.1
Growth rate	**3.0**	3.0	**3.4**	4.5
Discount rate	**7.5**	5.6	**4.2**	4.9

Management determined the budgeted gross margins based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the CGUs.

The recoverable amounts of the CGUs are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

(b) Summary financial information on associates

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenues HK$'000	Profit HK$'000
2006					
100 per cent	**3,205,417**	**(1,391,238)**	**1,814,179**	**2,429,659**	**155,156**
Group's effective interest	**1,223,064**	**(530,450)**	**692,614**	**884,996**	**51,718**
2005					
100 per cent	2,624,752	(839,847)	1,784,905	1,985,438	141,917
Group's effective interest	954,721	(306,911)	647,810	719,946	53,397

20 Interest in Jointly Controlled Entities

	2006 HK$'000	2005 HK$'000
Share of net assets	**22,997**	16,434
Amount due to jointly controlled entity	**(350)**	(61)
	22,647	16,373

The amount due to jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

The following list contains only the particulars of the jointly controlled entity which principally affected the results or assets of the Group:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of establishment and operation	Particulars of registered and paid-up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Dalian HK Macau Motor Bus Services Limited	Co-operative joint venture	The PRC	RMB37,000,000	(Note)	–	(Note)	Provision of bus services in Dalian, the 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 joint venture is for a period of 15 years commencing from 31 July 1997. 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.

21 Other Financial Assets

	2006 HK$'000	2005 HK$'000
Instalments receivable from sale of properties	**12,629**	–
Unlisted equity securities, at cost	**15,355**	15,355
Loan to investee	**18,592**	18,592
	46,576	33,947

The instalments receivable from sale of properties are expected to be recovered after one year.

The loan to investee is unsecured, interest bearing at 5.5% per annum and repayable in 2010.

22 Employee Retirement Benefits

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

The latest independent actuarial valuations of the plans were at 31 December 2006 and were prepared by Watson Wyatt Hong Kong Limited, which has among its staff fellow members of the Canadian Institute of Actuaries and the Society of Actuaries, using the projected unit credit method. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 145% (2005: 146%) covered by the plan assets held by the trustee.

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

	2006 HK$'000	2005 HK$'000
Present value of funded obligations	**(2,661,069)**	(2,341,958)
Fair value of plan assets	**3,864,006**	3,422,344
Unrecognised past service cost	**124,540**	–
Net unrecognised actuarial gains	**(790,527)**	(595,417)
	536,950	484,969

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. The expected annual contribution to defined benefit retirement plans for 2007 is nil.

(b) Plan assets consist of the following:

	2006 HK$'000	2005 HK$'000
Equity securities	**2,979,569**	2,591,083
Bonds	**741,328**	641,188
Cash and others	**143,109**	190,073
	3,864,006	3,422,344

22 Employee Retirement Benefits (continued)

(c) Movements in the present value of the defined benefit obligations:

	2006 HK$'000	2005 HK$'000
At 1 January	**2,341,958**	2,174,037
Benefits paid by the plans	**(117,086)**	(88,454)
Current service cost	**125,127**	123,006
Past service cost	**126,806**	–
Interest cost	**98,530**	96,853
Actuarial losses	**85,734**	36,516
At 31 December	**2,661,069**	2,341,958

(d) Movements in plan assets:

	2006 HK$'000	2005 HK$'000
At 1 January	**3,422,344**	3,098,115
The Group's contributions paid to the plans	**–**	40,389
Benefits paid by the plans	**(117,086)**	(88,454)
Actuarial expected return on plan assets	**256,464**	234,792
Actuarial gains	**302,284**	137,502
At 31 December	**3,864,006**	3,422,344

(e) Net income recognised in the consolidated income statement is as follows:

	2006 HK$'000	2005 HK$'000
Current service cost	**125,127**	123,006
Past service cost recognised	**2,266**	–
Interest cost	**98,530**	96,853
Actuarial expected return on plan assets	**(256,464)**	(234,792)
Net actuarial gains recognised	**(21,440)**	(15,814)
	(51,981)	(30,747)

The above net income is included in staff costs in the consolidated income statement.

During the year, the Group enhanced early retirement benefit for eligible employees of a subsidiary of the Group. The resulting past service cost of HK$126,806,000 is recognised as an expense on a straight-line basis over the average period until the benefits become vested.

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$558,748,000 (2005: HK$372,294,000).

22 Employee Retirement Benefits (continued)

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

	2006	2005
Discount rate	**3.75%**	4.25%
Expected rate of return on plan assets	**7.5%**	7.5%
Future salary increases	**4%**	3 - 4%

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

(g) Historical information

	2006 HK$'000
Fair value of plan assets	**3,864,006**
Present value of the defined benefit obligations	**(2,661,069)**
Surplus in the plans	**1,202,937**
Experience gains arising on plan liabilities	**41,439**
Experience gains arising on plan assets	**302,284**

Disclosure of historical information has been made prospectively from the year ended 31 December 2006 in accordance with the transitional provisions of Amendment to HKAS 19, Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures.

23 Equity Settled Share-based Transactions

RoadShow operates a share option scheme ("the Scheme") which was adopted on 7 June 2001 whereby the directors of RoadShow are authorised, at their discretion, to offer any employee (including any director) 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. The options vest immediately from the date of grant and are then exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share of RoadShow. The Scheme is valid and effective for a period of ten years ending on 6 June 2011.

No option was granted during the year and there were no outstanding options at 31 December 2006 and 2005.

24 Other Investments

	2006 HK$'000	2005 HK$'000
Trading securities (at market value)		
Equity securities listed in Hong Kong	**–**	47,250

25 Property under Development

	2006 HK$'000	2005 HK$'000
Development and incidental costs	**–**	695,118
Borrowing costs capitalised	**–**	11,946
	–	707,064

25 Property under Development (continued)

During the year ended 31 December 2006, the development of the property has been substantially completed. Movement of property under development is as follows:

	2006 HK$'000	2005 HK$'000
Balance at 1 January	**707,064**	323,209
Development costs incurred	**1,262,068**	383,855
Transfer to completed property held for sale	**(1,894,565)**	–
Transfer to investment property under development	**(74,567)**	–
Balance at 31 December	**–**	707,064

26 Accounts Receivable

	2006 HK$'000	2005 HK$'000
Trade and other receivables	**321,179**	293,131
Instalments receivable from sale of properties	**1,855,708**	–
Interest receivable	**1,591**	1,515
Derivative financial instruments	**795**	2,557
	2,179,273	297,203

All of the accounts receivable are expected to be recovered within one year.

Included in accounts receivable are trade receivables and instalments receivable from sale of properties (net of impairment losses for doubtful debts) with the following ageing analysis as of the balance sheet date:

	2006 HK$'000	2005 HK$'000
Current	**2,003,382**	157,166
1 to 3 months overdue	**15,853**	23,070
More than 3 months overdue	**9,803**	23,486
	2,029,038	203,722

The Group's credit policy is set out in note 37(a) to the financial statements.

27 Cash and Cash Equivalents

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Cash at bank and in hand	**108,351**	73,462	**18,127**	15,575
Bank deposits	**1,120,161**	1,060,196	**–**	–
Cash and cash equivalents in the balance sheet	**1,228,512**	1,133,658	**18,127**	15,575
Less: Bank deposits maturing in over three months	**(10,429)**	(128,420)		
Bank overdrafts (note 28)	**(21,567)**	(41,651)		
Cash and cash equivalents in the consolidated cash flow statement	**1,196,516**	963,587		

27 Cash and Cash Equivalents (continued)

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	The Group			
		2006 '000		2005 '000
British Pound Sterling	**GBP**	**1,556**	GBP	1,517
United States Dollars	**USD**	**50,951**	USD	37,852

28 Bank Loans and Overdrafts

At 31 December 2006, the bank loans and overdrafts were repayable as follows:

	2006 HK$'000	2005 HK$'000
Within 1 year or on demand	**1,780,150**	961,489
After 1 year but within 2 years	**977,500**	392,923
After 2 years but within 5 years	**1,075,000**	1,825,500
	2,052,500	2,218,423
	3,832,650	3,179,912

At 31 December 2006, the bank loans and overdrafts were secured as follows:

	2006 HK$'000	2005 HK$'000
Unsecured bank overdrafts	**21,567**	41,651
Bank loans		
– secured	**38,000**	–
– unsecured	**3,773,083**	3,138,261
	3,832,650	3,179,912

Included in bank loans and overdrafts are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

		2006 '000		2005 '000
United States Dollars	**USD**	**4,080**	USD	9,588

At 31 December 2006, bank loans of HK$38,000,000 were secured by pledged bank deposits of HK$39,520,000.

29 Accounts Payable and Accruals

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000 (restated)
Trade payables	**253,260**	96,858	**–**	–
Financial guarantees issued	**–**	–	**65,537**	70,492
Other payables and accruals	**1,374,716**	759,829	**26,498**	22,298
	1,627,976	856,687	**92,035**	92,790

All of the accounts payable and accruals, except for other payables and accruals of the Group of HK$33,666,000 (2005: Nil), are expected to be settled within one year. Included in other payables and accruals of the Group is retention money payable of HK$25,354,000 (2005: HK$14,649,000).

Included in accounts payable and accruals are trade payables with the following ageing analysis as of the balance sheet date:

	The Group	
	2006 HK$'000	2005 HK$'000
Due within 1 month or on demand	**196,850**	80,437
Due after 1 month but within 3 months	**54,571**	14,662
Due after more than 3 months	**1,839**	1,759
	253,260	96,858

Included in accounts payable and accruals are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2006 '000	2005 '000
British Pound Sterling	**GBP 3,233**	GBP 3,374

30 Contingency Provision – Insurance

	2006 HK$'000	2005 HK$'000
At 1 January	**52,102**	58,502
Provision charged/(written back) during the year	**82,451**	(6,400)
At 31 December	**134,553**	52,102

The Group is involved from time to time in litigations and claims in connection with its bus operations. Contingency provision – insurance represents amounts set aside annually by the Group to meet liabilities which are expected to arise from third party claims for incidents which have occurred prior to the balance sheet date in connection with the Group's bus operations.

31 Income Tax in the Balance Sheet

(a) Current taxation in the balance sheet represents:

	2006 HK$'000	2005 HK$'000
Provision for Hong Kong Profits Tax for the year	**193,578**	116,262
Provisional Profits Tax paid	**(79,360)**	(83,807)
	114,218	32,455
Balance of Profits Tax recoverable relating to prior years	**(24,444)**	(3,539)
	89,774	28,916
PRC Income Tax payable	**792**	406
	90,566	29,322
Representing:		
Current taxation recoverable	**(25,278)**	(4,289)
Current taxation payable	**115,844**	33,611
	90,566	29,322

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/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 2005	819,848	(13,504)	(71,305)	72,422	807,461
(Credited)/charged to consolidated income statement	(44,164)	936	9,002	12,449	(21,777)
At 31 December 2005	775,684	(12,568)	(62,303)	84,871	785,684
At 1 January 2006	**775,684**	**(12,568)**	**(62,303)**	**84,871**	**785,684**
Acquisition of subsidiaries (note 34(a))	**1,917**	**–**	**(213)**	**–**	**1,704**
(Credited)/charged to consolidated income statement	**(41,447)**	**(14,675)**	**4,068**	**9,096**	**(42,958)**
At 31 December 2006	**736,154**	**(27,243)**	**(58,448)**	**93,967**	**744,430**

	2006 HK$'000	2005 HK$'000
Net deferred tax assets recognised on the consolidated balance sheet	**(13,785)**	(16,077)
Net deferred tax liabilities recognised on the consolidated balance sheet	**758,215**	801,761
	744,430	785,684

(c) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets of HK$35,693,000 (2005: HK$33,558,000) in respect of tax losses of HK$203,960,000 (2005: HK$177,113,000). The tax losses do not expire under the current tax legislation.

32 Provision for Long Service Payments

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

	2006 HK$'000	2005 HK$'000
At 1 January	**49,885**	48,253
Provision charged to the consolidated income statement (note 5(a))	**13,301**	7,174
Payments made during the year	**(13,896)**	(5,542)
At 31 December	**49,290**	49,885

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to 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.

33 Capital and Reserves

(a) The Group

		Attributable to equity shareholders of the Company								
	Note	Share capital HK$'000	Capital reserve HK$'000	General reserve HK$'000	Staff retirement fund reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005		403,639	2,412	17,839	1,082,600	146	2,743,800	4,250,436	289,019	4,539,455
Dividend approved in respect of the previous year	11(b)	–	–	–	–	–	(637,750)	(637,750)	–	(637,750)
Dividends paid to minority shareholders		–	–	–	–	–	–	–	(12,156)	(12,156)
Exchange differences on translation of financial statements of foreign entities		–	–	–	–	16,921	–	16,921	–	16,921
Acquisition of minority interests in a subsidiary		–	–	–	–	–	–	–	(9,562)	(9,562)
Repayment to minority shareholders		–	–	–	–	–	–	–	(9,319)	(9,319)
Profit for the year		–	–	–	–	–	584,164	584,164	10,565	594,729
Dividend approved in respect of the current year	11(a)	–	–	–	–	–	(181,638)	(181,638)	–	(181,638)
At 31 December 2005		403,639	2,412	17,839	1,082,600	17,067	2,508,576	4,032,133	268,547	4,300,680
At 1 January 2006		**403,639**	**2,412**	**17,839**	**1,082,600**	**17,067**	**2,508,576**	**4,032,133**	**268,547**	**4,300,680**
Dividend approved in respect of the previous year	11(b)	**–**	**–**	**–**	**–**	**–**	**(637,750)**	**(637,750)**	**–**	**(637,750)**
Dividends paid to minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,988)**	**(12,988)**
Exchange differences on translation of financial statements of foreign entities		**–**	**–**	**–**	**–**	**24,258**	**–**	**24,258**	**–**	**24,258**
Contribution by minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,673**	**6,673**
Disposal of subsidiaries	34(b)	**–**	**–**	**–**	**–**	**(827)**	**–**	**(827)**	**(48,934)**	**(49,761)**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,838,014**	**1,838,014**	**31,391**	**1,869,405**
Dividend approved in respect of the current year	11(a)	**–**	**–**	**–**	**–**	**–**	**(181,638)**	**(181,638)**	**–**	**(181,638)**
At 31 December 2006		**403,639**	**2,412**	**17,839**	**1,082,600**	**40,498**	**3,527,202**	**5,074,190**	**244,689**	**5,318,879**

Included in retained profits are an amount of HK$96,282,000 (2005: HK$74,432,000) being the retained profits attributable to associates, and an amount of HK$1,521,000 (2005: HK$1,726,000) being the retained profits attributable to jointly controlled entities.

33 Capital and Reserves (continued)

(b) The Company

	Note	Share capital HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 January 2005					
– as previously reported		403,639	1,300,000	851,255	2,554,894
– prior period adjustment in respect of amendments to HKAS 39: Financial guarantee contracts	2	–	–	15,667	15,667
– as restated		403,639	1,300,000	866,922	2,570,561
Dividend approved in respect of the previous year	11(b)	–	–	(637,750)	(637,750)
Profit for the year (restated)		–	–	865,132	865,132
Dividend approved in respect of the current year	11(a)	–	–	(181,638)	(181,638)
At 31 December 2005 (as restated)		403,639	1,300,000	912,666	2,616,305
At 1 January 2006					
– as previously reported		**403,639**	**1,300,000**	**880,016**	**2,583,655**
– prior period adjustment in respect of amendments to HKAS 39: Financial guarantee contracts	2	**–**	**–**	**32,650**	**32,650**
– as restated		**403,639**	**1,300,000**	**912,666**	**2,616,305**
Dividend approved in respect of the previous year	11(b)	**–**	**–**	**(637,750)**	**(637,750)**
Profit for the year		**–**	**–**	**369,288**	**369,288**
Dividend approved in respect of the current year	11(a)	**–**	**–**	**(181,638)**	**(181,638)**
At 31 December 2006		**403,639**	**1,300,000**	**462,566**	**2,166,205**

The Company's reserves available for distribution to shareholders at 31 December 2006 amounted to HK$1,762,566,000 (2005 (restated): HK$2,212,666,000).

(c) Share capital

	2006 HK$'000	2005 HK$'000
Authorised:		
600,000,000 ordinary shares of HK$1 each	**600,000**	600,000
Issued and fully paid:		
403,639,413 ordinary shares of HK$1 each	**403,639**	403,639

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

34 Acquisition/Disposal of Subsidiaries

(a) Acquisition of subsidiaries

On 15 August 2006, the Company, via a wholly-owned subsidiary, acquired the entire equity interests in Hoi Tai Tours Limited and its subsidiaries ("Hoi Tai Group") for HK$49,296,000, satisfied in cash.

The principal activity of Hoi Tai Group is the provision of non-franchised transport services in Hong Kong and cross-boundary transport services between Hong Kong and the PRC. The contribution to the Group's revenue and profit for the year from Hoi Tai Group acquired since its date of acquisition is immaterial.

34 Acquisition/Disposal of Subsidiaries (continued)

(a) Acquisition of subsidiaries (continued)

Details of net assets acquired and goodwill are as follows:

Net assets acquired:	Carrying amount	Fair value
	HK$'000	HK$'000
Fixed assets	15,786	15,786
Intangible assets	–	5,820
Accounts receivable	42	42
Deposits and prepayments	772	772
Accounts payable and accruals	(512)	(512)
Deferred tax liabilities	(1,704)	(1,704)
Net assets acquired		20,204
Goodwill arising from acquisition (note 15)		29,092
Total purchase price paid, satisfied in cash		49,296

The goodwill is mainly attributable to profitability of the acquired business and the operating rights in the cross-boundary bus routes held by the acquirees. The operating rights are identifiable intangible assets but their fair value could not be measured reliably since they arise from legal rights and are not separable from the entity. These intangible assets were therefore not recognised separately from goodwill.

(b) Disposal of subsidiaries

During 2006, the Group disposed of its interest in RoadVision (Dalian) Limited and Guangzhou Key Media Advertising Company Limited for HK$49,435,000, satisfied in cash. Details of the net assets disposed of are as follows:

	HK$'000
Fixed assets	386
Media assets	58,480
Accounts receivable	35,318
Deposits and prepayments	9,045
Cash and cash equivalents	40,086
Accounts payable and accruals	(53,125)
Current taxation payable	(3,671)
Minority interests	(48,934)
Release of exchange reserve upon disposal of subsidiaries	(827)
	36,758
Gain on disposal	12,677
Cash consideration received	49,435
Less: cash of the subsidiaries disposed of	(40,086)
Net cash inflow in respect of the disposal of subsidiaries	9,349

35 Commitments

(a) At 31 December 2006, the Group had the following capital commitments in relation to the purchase of property, plant and equipment and investments not provided for in the financial statements:

	2006 HK$'000	2005 HK$'000
Contracted for	295,308	1,452,861
Authorised but not contracted for	195,858	425,716
	491,166	1,878,577

35 Commitments (continued)

(b) At 31 December 2006, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	2006 HK$'000	2005 HK$'000
Within 1 year	**3,024**	17,574
After 1 year but within 5 years	**1,598**	50,719
After 5 years	**–**	49,543
	4,622	117,836

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.

36 Contingent Liabilities

Financial guarantees issued

At 31 December 2006, the Company has undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of HK$3,160,000,000 (2005: HK$2,460,000,000).

As at the balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the outstanding amount of the loans advanced by the banks to the subsidiaries totalling HK$2,343,000,000 (2005: HK$1,640,000,000).

Deferred income in respect of the guarantees issued is disclosed in note 29 to the financial statements.

37 Financial Instruments

Exposure to credit, liquidity, interest rate, foreign currency and fuel price risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, instalments receivable from sale of properties and loans to associate and an investee. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all major customers requiring credit over a certain amount. A credit period of between 30 days and 90 days is normally granted to customers of the Group's transport operations and media sales business. All the trade and other receivables included in current assets are expected to be recoverable within one year.

For instalments receivable from sale of properties, the properties sold serve as the collateral. Regular review and follow up actions are carried out on overdue amounts to minimise the Group's exposure to credit risk. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables.

The Group has no concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any guarantee which would expose the Group to credit risk.

(b) Liquidity risk

The Group closely monitors its liquidity and financial resources to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the requirements for loan repayments, daily operational needs, capital expenditure, as well as potential business expansion and development.

37 Financial Instruments (continued)

(b) Liquidity risk (continued)

Major operating companies of the Group arrange for their own financing to meet specific requirements, the Group's other subsidiaries are mainly financed by the Company's capital base.

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.

(c) Interest rate risk

(i) Hedging

It is the Group's policy to closely monitor the market conditions and devise suitable strategies against interest rate risk. As at 31 December 2006, the Group's borrowings were mainly denominated in Hong Kong dollars and on a floating interest rate basis. The Group reviews its strategy on interest rate risk management in the light of the prevailing market conditions and uses interest rate swaps to hedge against fluctuations in fair value of fixed interest bank loans.

At 31 December 2006, the Group had interest rate swaps with a notional contract amount of HK$31,788,000 (2005: HK$74,704,000) with the maturity of the swaps matched exactly the maturity of the related loans. The Group classifies interest rate swaps as fair value hedges and states them at fair value in accordance with the policy set out in note 1(g). The net fair value of swaps entered into by the Group at 31 December 2006 was HK$795,000 (2005: HK$2,557,000).

(ii) Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier:

	The Group									
	2006					2005				
	Effective interest rate p.a. %	**Total HK$'000**	**1 year or less HK$'000**	**1 - 2 years HK$'000**	**2 - 5 years HK$'000**	Effective interest rate p.a. %	Total HK$'000	1 year or less HK$'000	1 - 2 years HK$'000	2 - 5 years HK$'000
Repricing dates for assets/(liabilities) which reprice before maturity:										
Cash at bank	**1.1%**	**41,960**	**41,960**	**–**	**–**	2.8%	19,349	19,349	–	–
Bank overdrafts	**7.8%**	**(21,567)**	**(21,567)**	**–**	**–**	7.8%	(41,651)	(41,651)	–	–
Bank loans	**4.2%**	**(3,779,295)**	**(3,779,295)**	**–**	**–**	4.4%	(3,063,557)	(3,063,557)	–	–
Effect of interest rate swaps	**4.2%**	**(31,788)**	**(31,788)**	**–**	**–**	4.4%	(74,704)	(74,704)	–	–
		(3,790,690)	**(3,790,690)**	**–**	**–**		(3,160,563)	(3,160,563)	–	–
Maturity dates for assets/(liabilities) which do not reprice before maturity:										
Bank deposits	**4.1%**	**1,120,161**	**1,120,161**	**–**	**–**	3.9%	1,060,196	1,060,196	–	–
Instalments receivable	**4.9%**	**1,868,337**	**1,855,708**	**12,629**	**–**	–	–	–	–	–
Loan to investee	**5.5%**	**18,592**	**–**	**–**	**18,592**	5.5%	18,592	–	–	18,592
Loan to associate	**4.3%**	**69,241**	**69,241**	**–**	**–**	3.9%	49,522	49,522	–	–
Bank loans	**6.6%**	**(31,788)**	**(31,788)**	**–**	**–**	6.6%	(74,704)	(42,916)	(31,788)	–
Effect of interest rate swaps	**6.6%**	**31,788**	**31,788**	**–**	**–**	6.6%	74,704	42,916	31,788	–
		3,076,331	**3,045,110**	**12,629**	**18,592**		1,128,310	1,109,718	–	18,592

37 Financial Instruments (continued)

(d) Foreign currency risk

Foreign currency exposure does not pose a significant risk for 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 of new buses and motor vehicle components which are denominated in British Pound Sterling. It is the Group's policy to closely monitor the foreign exchange rate movements and enter into forward foreign exchange contracts in a strategic manner when opportunities arise to hedge the foreign currency fluctuations. There was no outstanding forward foreign exchange contract as at 31 December 2006 and 2005.

(e) Fuel price risk

It is the Group's policy to closely monitor the fuel oil price movements and enter into fuel oil swap contracts in a strategic manner when opportunities arise to hedge against fuel oil price fluctuations. There was no outstanding fuel oil swap contract as at 31 December 2006 and 2005.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005 except as follows:

(i) Amounts due from/to subsidiaries, associates and jointly controlled entities of the Group and the Company are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose their fair values.

(ii) Unlisted equity securities of HK$15,355,000 (2005: HK$15,355,000) do not have a quoted market price in an active market and therefore their fair values cannot be reliably measured. They are recognised at cost less impairment losses at the balance sheet date.

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Derivatives

Forward foreign exchange contracts are marked to market by discounting the contractual forward price and deducting the current spot rate.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(iii) Interest-bearing loans and borrowings

Fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iv) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates can be made.

38 Material Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Transactions with related companies

	Note	**2006 HK$'000**	2005 HK$'000
Service fees for provision of coach services	(i)	**27,536**	24,247
Insurance premium paid	(ii)	**81,376**	80,174
Amount paid and accrued for management contractor services for property under development	(iii)	**1,045,458**	354,227
Amount accrued for letting and sales agency agreement, and management agreement	(iv) & (v)	**13,561**	–
Amount paid and accrued for property project management services	(vi)	**9,800**	–
Estimated Entitled Net Return for provision of transport services	(vii)	**9,681**	11,777
Sales proceeds received on disposal of:	(viii)		
– leasehold land held for own use under an operating lease		**–**	93,500
– building held for own use		**–**	12,500
		–	106,000

Notes:

(i) During the year, the Group provided coach services to certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP") under the same terms as those available to other customers in the ordinary course of business. Amounts due from these companies at 31 December 2006 amounted to HK$7,025,000 (2005: HK$9,967,000).

(ii) During the year, the Group entered into a contract with a subsidiary of 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. There was no outstanding balance due to SHKPI at 31 December 2006 and 2005.

(iii) In 2003, 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 ("Manhattan Hill"). In 2004, 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 Manhattan Hill. Pursuant to the Prime Cost Contract, as supplemented by the Supplementary Agreement, the aggregate consideration payable to Chun Fai should not exceed HK$1,617,743,000. Outstanding balance payable for this contract at 31 December 2006 amounted to HK$545,905,000 (2005: HK$55,008,000).

(iv) In 2003, LCKPI entered into a Letting and Sales Agency Agreement with Sun Hung Kai Real Estate Agency Limited ("SHKRE"), a subsidiary of SHKP, 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. The amount payable to SHKRE at 31 December 2006 was HK$13,561,000 (2005: Nil).

(v) In 2003, LCKPI entered into the Management Agreement with Hong Yip Service Company Limited ("Hong Yip"), a subsidiary of SHKP, 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 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 completed unit of the property. There was no outstanding balance payable for this contract at 31 December 2006 and 2005.

(vi) The Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to Manhattan Hill. The contract sum of the project management services is HK$15,000,000, or the lower of 1% of the project costs and HK$20,000,000, whichever is higher. Management service fees payable for this contract at 31 December 2006 amounted to HK$6,800,000 (2005: Nil).

38 Material Related Party Transactions (continued)

(a) Transactions with related companies (continued)

Notes: (continued)

(vii) On 23 May 2001, an indirectly wholly-owned subsidiary of the Company, 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 ("the Transport Agreement"), 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").

On 6 December 2005, PITC entered into a Supplemental Letter to amend certain terms and conditions of the Transport Agreement whereby the operating term of the Transport Agreement was extended for a period of one year from 14 December 2005 to 13 December 2006 and the Entitled Net Return of the Transport Agreement was changed to lie within the range of 8% and 14% per annum.

Further, on 28 November 2006, PITC entered into another Supplemental Letter to amend certain terms and conditions of the Transport Agreement whereby the operating term of the Transport Agreement was extended for a period of one year from 14 December 2006 to 13 December 2007 and the Entitled Net Return of the Transport Agreement was changed to lie within the range of 7% and 14% per annum.

The amount receivable from SHKMW at 31 December 2006 under this contract was HK$68,589,000 (2005: HK$75,616,000).

(viii) In 2005, The Kowloon Motor Bus Company (1933) Limited, an indirectly wholly-owned subsidiary of the Company, sold leasehold land and building to Fortin International Limited, a subsidiary of SHKP. Selling price of the transaction was arrived at after arm's length negotiations by reference to the value of the land and building as at 19 August 2005 as valued by Knight Frank Hong Kong Limited, an independent property valuer. A net gain of HK$90,478,000 on disposal was recognised in the consolidated income statement for the year ended 31 December 2005. There was no outstanding balance due from Fortin International Limited at 31 December 2006 and 2005.

(b) Key management personnel remuneration

Remuneration for key management personnel represents amounts paid to the Company's Directors as disclosed in note 7.

(c) Financing arrangements

Loan to associate is unsecured and has no fixed terms of repayment. Interest income from loan to associate during the year was HK$3,208,000 (2005: HK$1,601,000) and the interest receivable at the year end amounted to HK$5,446,000 (2005: HK$2,238,000).

39 Comparative Figures

Certain comparative figures have been adjusted as a result of changes in accounting policies as disclosed in note 2. Further, certain comparative figures have also been reclassified to conform to the current year's presentation.

40 Non-adjusting Post Balance Sheet Event

After the balance sheet date, the Directors proposed a final dividend for the year. Further details are disclosed in note 11(b) to the financial statements.

41 Accounting Estimates and Judgements

Notes 15, 19, 22(f) and 37(g) contain information about the assumptions and their risk factors relating to impairment of goodwill and intangible assets with indefinite useful lives, employee benefit assets and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Contingency provision – insurance

Estimation of the contingency provision – insurance, as disclosed in note 30, is based on past claims experience and recent claims development. As the ultimate claim amount will be affected by future external events, for example the amount of court awards, changes in standards of liability and the attitude of claimants towards settlement of their claims, actual claims may deviate from these estimations. Any increase or decrease in the provision would affect the Group's results in future years.

41 Accounting Estimates and Judgements (continued)

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are material changes from previous estimates.

(c) Impairment of assets

Internal and external sources of information are reviewed by the Group at each balance sheet date to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually even if there is no indication of impairment.

(d) Net realisable value of completed property held for sale

Management determines the net realisable value of completed property held for sale with reference to recent sale transactions of the property and those in nearby areas. Estimated costs to be incurred in selling the property are taken into account in estimating net realisable value. These estimates require management judgement as to the anticipated future selling prices, rate of new property sales, marketing costs and general market conditions. Changes in market conditions affect the actual selling price when the property is sold and may affect profit or loss in future years.

(e) Recognition of deferred tax assets

At 31 December 2006, the Group has recognised deferred tax assets which arose from unused tax losses and deductible temporary differences as set out in note 31(b). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax asset may arise, which will be recognised in the consolidated income statement for the period in which such a reversal takes place.

42 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a material impact on the Group's results of operations and financial position.

In addition, the following may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007