



CHINA MOTOR BUS CO., LTD.

中華汽車有限公司

(Stock Code: 026)

Chairman's Statement

GROUP RESULTS AND DIVIDENDS

The Board of Directors announces that the operating profit of the Group for the year ended 30th June, 2006 increased to HK\$117.58 million from HK\$77 million in the previous year primarily due to the increase in finance income and other net income. The audited consolidated profit of the Group for the year amounted to HK\$395.21 million, compared with HK\$438.37 million (restated) for the previous year. The decrease in profit mainly reflects a reduction in the valuation gains of investment properties for the year in line with prevailing market trends.

The Directors will recommend to shareholders at the forthcoming Ordinary Yearly Meeting to be held on Friday, 8th December, 2006 the payment of a final dividend of HK\$0.10 per share. The Directors will also recommend to the shareholders the payment of a special dividend of HK\$1.00 per share. These two dividends, together with the first interim dividend of HK\$0.10 per share, a special dividend of HK\$0.50 per share, and a second interim dividend of HK\$0.30 per share payable on 31st October, 2006, will make a total dividend for the year of HK\$2.00 per share, compared with HK\$2.00 per share for the previous year.

HIGHLIGHTS OF PROPERTY DEVELOPMENT AND INVESTMENTS ARE SUMMARISED BELOW:-

THE REMAINING PORTION OF KOWLOON INLAND LOT NO.1300 (NO. 3, JORDAN ROAD, KOWLOON)

The 26-storey building on the above site has been completed and the 48 apartments are fully furnished. Leasing of the furnished apartment units is progressing well.

INLAND LOT 7105, KAM HONG STREET, NORTH POINT

The property has a site area of approximately 17,870 sq.ft. Your Company has completed negotiations with Government on the modification to the Government Lease, including payment of a premium of HK\$568.3 million. Your Company has transferred the site to a wholly-owned subsidiary of the Company (CMB Sub) to enable the site to be redeveloped into a commercial and residential complex with a total gross floor area not exceeding 16,866.6 square metres (of which the gross floor area for non-industrial use and for private residential use shall not exceed 800 square metres and 16,066.6 square metres respectively) together with car parking spaces to be provided at a certain specified rate. CMB Sub has appointed a wholly-owned subsidiary of Swire Properties Limited (the Developer) to design and build the development on the site and to market and sell the units on behalf of CMB Sub. The site formation works are in progress and scheduled for completion in the fourth quarter of 2006, after which the superstructure contract will be awarded.

INLAND LOT 88, NO. 391 CHAI WAN ROAD, CHAI WAN

The property, which is wholly-owned by the Company, continues to be held for investment purposes and derives rental income. The property has a site area of approximately 102,420 sq.ft. In May 2001, the site was rezoned and designated as a Comprehensive Development Area. In February 2002, the Town Planning Board approved, subject to a number of planning conditions, the Company's application under Section 16 of the Town Planning Ordinance for redevelopment. Planning approval was extended in January 2005 for a further three years subject to the same conditions. Your Company is continuing discussion with Government on the modification of the Government Lease.

U.K. PROPERTIES

The Group's commercial properties in London, namely Albany House, Thanet House and Scorpio House were fully let and continue to perform well.

FUTURE OUTLOOK

The group's policy to seek investment opportunities, both locally and overseas, has been proven to be very successful. With its strong financial position, the group intends to continue with this policy in the future in its customary prudent manner.

NGAN Kit-ling
Chairman

Hong Kong, 20th October, 2006

ANNOUNCEMENT

The Board of Directors announces that the audited consolidated profit of the Group for the year ended 30th June, 2006 amounted to HK\$395.21 million, compared with HK\$438.37 million (restated) for the previous year.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 2006

(Expressed in Hong Kong dollars)

	Note	2006 \$000's	2005 \$000's (restated)
Turnover	2	68,018	67,378
Finance income	3	59,348	27,810
Other net income	4	11,682	3,076
Staff costs		(7,705)	(8,107)
Depreciation		(1,140)	(1,041)
Other operating expenses		(12,619)	(12,116)
Operating profit	2 & 5	117,584	77,000
Share of results of jointly controlled entities		173,997	202,059
Valuation gains on investment properties		148,726	186,517
Profit before taxation		440,307	465,576
Taxation	6	(45,094)	(27,211)
Profit after taxation attributable to shareholders		395,213	438,365
Dividends attributable to the year	7	91,189	91,189
Earnings per share	8		
Basic and diluted		HK\$8.67	HK\$9.61

CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2006

(Expressed in Hong Kong dollars)

	2006 \$000's	2005 \$000's (restated)
Non-current assets		
Fixed assets	1,848,115	1,689,545
Interest in jointly controlled entities	833,752	767,655
Other investments	11,876	11,786
Defined benefit asset	803	1,144
	<u>2,694,546</u>	<u>2,470,130</u>
Current assets		
Property under development for sale	587,862	-
Debtors, deposits and prepayments	4,905	3,761
Deposits with banks	1,237,471	1,686,628
Cash at bank and in hand	11,477	14,424
	<u>1,841,715</u>	<u>1,704,813</u>
Current liabilities		
Creditors and accruals	42,256	28,097
Taxation	3,944	4,903
	<u>46,200</u>	<u>33,000</u>
Net current assets	<u>1,795,515</u>	<u>1,671,813</u>
Total assets less current liabilities	<u>4,490,061</u>	<u>4,141,943</u>
Representing:		
Share capital	91,189	91,189
Reserves	<u>3,828,919</u>	<u>3,507,566</u>
	3,920,108	3,598,755
Deferred profits	441,197	451,198
Contingency reserves	-	3,600
Deferred taxation	<u>128,756</u>	<u>88,390</u>
	<u>4,490,061</u>	<u>4,141,943</u>

NOTES

1. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised 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 that are effective for accounting periods beginning on or after 1st January, 2005. The changes in accounting policies, which have significant impacts on the group's financial statements are summarised as follows:

(a) Investment properties (HKAS 40, Investment property, and HK(SIC) Interpretation 21, Income taxes - Recovery of revalued non-depreciable assets)

Changes in accounting policies relating to investment properties are as follows:

(i) Timing of recognition of movements in fair value in the profit and loss account

In prior years, movements in the fair value of the group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the profit and loss account had reversed, or when an individual investment property was disposed of. In these limited circumstances, movements in the fair value were recognised in the profit and loss account.

Upon adoption of HKAS 40 as from 1st July, 2005, all changes in the fair value of investment properties are recognised directly in the profit and loss account in accordance with the fair value model in HKAS 40.

This change in accounting policy has been adopted retrospectively. As a result of the adoption of this new policy, the opening balance of retained profits as of 1st July, 2005 has increased by \$266,522,000 (2004: \$Nil) to include all of the group's previous investment properties revaluation reserve. In addition, the group's profit attributable to shareholders for the year ended 30th June, 2006 has increased by \$260,672,000 (2005: \$266,522,000).

There is no impact on the group's net assets in the balance sheets as a result of the adoption of this new policy.

(ii) Measurement of deferred tax on movements of fair value

In prior years, the group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties. As there would have been no tax payable on the disposal of the group's investment properties, no deferred tax was provided in prior years.

As from 1st July, 2005, in accordance with HK(SIC) Interpretation 21, the group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the group has no intention to sell it and the property would have been depreciable had the group not adopted the fair value model. This is notwithstanding that any gain on disposal of Hong Kong investment properties would be considered to be capital in nature and not be subject to tax.

This change in accounting policy has been adopted retrospectively. As a result of the adoption of this new policy, the opening balance of retained profits as at 1st July, 2005 has reduced by \$92,660,000 (2004: \$68,076,000), deferred tax liabilities have increased by \$80,491,000 (2004: \$59,988,000), and interest in jointly controlled entities has decreased by \$12,169,000 (2004: \$8,088,000). In addition, the group's profit attributable to shareholders for the year ended 30th June, 2006 has decreased by \$32,326,000 (2005: \$24,584,000).

(b) Share of profits less losses of jointly controlled entities (HKAS 1, Presentation of financial statements)

In prior periods, the group's share of taxation of jointly controlled entities accounted for using the equity method was included as part of the group's taxation in the consolidated profit and loss account. With effect from 1st July, 2005, in accordance with the implementation guidance in HKAS 1, the group has changed the presentation and includes the share of taxation of jointly controlled entities accounted for using the equity method in the respective shares of profit or loss in the consolidated profit and loss account. These changes in presentation have been applied retrospectively with comparatives restated and have no effect on net assets in either period. The group's share of profits less losses of jointly controlled entities has decreased by \$12,844,000 (2005: \$4,578,000) as a result of this new presentation.

2. TURNOVER AND SEGMENT REPORTING

The principal activities of the company and the group are property development and investment.

Turnover represents rental income from investment properties.

(a) Business segments

The group comprises the following main business segments:

	Property investment and development		Treasury management		Unallocated		Consolidated	
	2006 HK\$000's	2005 HK\$000's (restated)	2006 HK\$000's	2005 HK\$000's	2006 HK\$000's	2005 HK\$000's (restated)	2006 HK\$000's	2005 HK\$000's (restated)
Turnover	68,018	67,378	-	-	-	-	68,018	67,378
Finance income	-	-	59,348	27,810	-	-	59,348	27,810
Other income	10,001	-	-	-	1,681	3,076	11,682	3,076
Total revenue	<u>78,019</u>	<u>67,378</u>	<u>59,348</u>	<u>27,810</u>	<u>1,681</u>	<u>3,076</u>	<u>139,048</u>	<u>98,264</u>
Segment results	74,821	63,051	59,348	27,810	-	-	134,169	90,861
Unallocated expenses	-	-	-	-	-	-	(16,585)	(13,861)
Operating profit	-	-	-	-	-	-	117,584	77,000
Share of results of jointly controlled entities	173,997	202,059	-	-	-	-	173,997	202,059
Valuation gains on investment properties	148,726	186,517	-	-	-	-	148,726	186,517
Taxation	-	-	-	-	-	-	(45,094)	(27,211)
Profit attributable to shareholders	-	-	-	-	-	-	<u>395,213</u>	<u>438,365</u>
Depreciation for the year	(255)	(142)	-	-	(885)	(899)	<u>(1,140)</u>	<u>(1,041)</u>

(b) Geographical segments

Geographical locations of operations	Group turnover		Operating profit	
	2006 HK\$000's	2005 HK\$000's	2006 HK\$000's	2005 HK\$000's
Hong Kong	15,214	11,448	60,340	21,350
United Kingdom	52,804	55,930	57,244	55,650
	<u>68,018</u>	<u>67,378</u>	<u>117,584</u>	<u>77,000</u>

The turnover of the jointly controlled entities attributable to the group for the year amounted to \$125,745,000 (2005: \$ 65,977,000).

3. FINANCE INCOME

	2006 HK\$000's	2005 HK\$000's
Interest income	54,780	32,667
Dividend income from other investments	517	490
Exchange gains/(losses)	3,961	(6,332)
Net unrealised gains on other investments	90	985
	<u>59,348</u>	<u>27,810</u>

4. OTHER NET INCOME

	2006 HK\$000's	2005 HK\$000's
Recognition of deferred profits	10,001	-
Management fee	496	496
Unclaimed dividends forfeited	359	-
Write back of provision for third party claims	-	1,903
Loss on disposal of fixed assets	-	(4)
Sundry income	826	681
	<u>11,682</u>	<u>3,076</u>

5. OPERATING PROFIT

Operating profit is arrived at

after charging:

	2006 HK\$000's	2005 HK\$000's
(a) Staff costs:		
Contributions to defined contribution retirement scheme	85	68
Decrease in asset for defined benefit retirement schemes	341	496
Salaries, wages and other benefits	7,279	7,543
	<u>7,705</u>	<u>8,107</u>
(b) Other items:		
Auditors' remuneration	-	-
- audit services (Note)	2,582	2,222
- tax services	528	557
Legal and professional fees	2,935	2,026
Property expenses	2,958	3,862
Note: including under/overprovision in respect of previous years	-	-

and after crediting:

	2006 HK\$000's	2005 HK\$000's
Rental income less outgoings which includes	65,060	63,516
- gross rental income from investment properties	68,018	67,378

6. TAXATION

The provision for Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year ended 30th June, 2006. Taxation for overseas subsidiaries is similarly calculated at the appropriate current rates of taxation ruling in the relevant countries.

	2006 HK\$000's	2005 HK\$000's (restated)
Current tax - Provision for Hong Kong Profits Tax		
Tax for the year	93	104
(Over)/underprovision in respect of prior years	(1)	299
	<u>92</u>	<u>403</u>
Current tax - Overseas		
Tax for the year	4,953	4,737
(Over)/underprovision in respect of prior years	(317)	28
	<u>4,636</u>	<u>4,765</u>
Deferred tax		
Origination and reversal of temporary differences		
- relating to property valuation	29,840	20,503
- others	10,526	1,540
	<u>40,366</u>	<u>22,043</u>
	<u>45,094</u>	<u>27,211</u>

Share of taxation of jointly controlled entities for the year ended 30th June, 2006 amounting to \$12,844,000 (2005: \$4,578,000 (restated)) is included in share of results of jointly controlled entities in the consolidated profit and loss account.

7. DIVIDENDS

Dividends attributable to the year:

	2006 HK\$000's	2005 HK\$000's
First interim dividend declared and paid of HK\$0.10 per share (2005: HK\$0.10)	4,559	4,559
Special dividend declared and paid of HK\$0.50 per share (2005: HK\$0.50)	22,798	22,798
Second interim dividend declared after the balance sheet date of HK\$0.30 per share (2005: HK\$0.30)	13,678	13,678
Final dividend proposed after the balance sheet date of HK\$0.10 per share (2005: HK\$0.10)	4,559	4,559
Special dividend proposed after the balance sheet date of HK\$1.00 per share (2005: HK\$1.00)		
	<u>45,595</u>	<u>45,595</u>
	<u>91,189</u>	<u>91,189</u>

The interim dividend, final dividend and special dividend declared or proposed after the balance sheet date have not been recognised as liabilities at the balance sheet date.

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on profit attributable to shareholders of HK\$395,213,000 (2005 (restated): HK\$438,365,000) and the weighted average of 45,594,656 (2005: 45,594,656) shares in issue during the year.

9. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 1.

10. REVIEW OF RESULTS

The annual results for the year ended 30th June, 2006 have been reviewed by the company's audit committee.

DIVIDENDS

The Directors will recommend to shareholders at the forthcoming Ordinary Yearly Meeting to be held on Friday, 8th December, 2006 the payment of a final dividend of HK\$0.10 per share. The Directors will also recommend to the shareholders the payment of a special dividend of HK\$1.00 per share. These two dividends, together with the first interim dividend of HK\$0.10 per share, a special dividend of HK\$0.50 per share, and a second interim dividend of HK\$0.30 per share, will make a total dividend for the year of HK\$2.00 per share, compared with HK\$2.00 per share for the previous year.

Subject to the approval by shareholders at the forthcoming Ordinary Yearly Meeting, the final dividend will be payable on 2nd February, 2007.

CLOSURE OF REGISTER

The register of members will be closed from Monday, 4th December, 2006 to Thursday, 7th December, 2006, both days inclusive, during which period no share transfers will be effected.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the company nor any of its subsidiaries has repurchased, sold or redeemed any of the company's listed securities.

GROUP RESULTS

The Board of Directors announces that the operating profit of the group for the year ended 30th June, 2006 increased to HK\$117.58 million from HK\$77 million in the previous year primarily due to the increase in finance income and other net income. The audited consolidated profit of the group for the year amounted to HK\$395.21 million, compared with HK\$438.37 million (restated) for the previous year. The decrease in profit of 10% mainly reflects a reduction in the valuation gains of investment properties for the year in line with prevailing market trends.

FUTURE OUTLOOK

A subsidiary will continue with its development of land in Inland Lot 7105, Kam Hong Street, North Point. With its strong financial position, the group intends to continue with its policy of pursuing suitable investment opportunities both locally and overseas.

DISCLOSURE PURSUANT TO LISTING RULE 13.22

At 30th June, 2006, the group had the following loans to its affiliated companies (as defined by the Listing Rules):

Company	Amount HK\$000's	Type	Tenure
Island Land Development Limited	532,350	Interest free, unsecured loan	No fixed terms of repayment
Hareton Limited	207,707	Interest free, unsecured loan	No fixed terms of repayment
	<u>740,057</u>		

Combined balance sheet of the above affiliated companies at 30th June, 2006 is as follows:

	HK\$000's
Fixed assets	1,072,000
Retirement benefit assets	161
	<u>1,072,161</u>
Current assets	116,539
Current liabilities	(16,929)
	<u>99,610</u>
Non-current liabilities	(37,074)
	<u>1,134,697</u>

Attributable interest to the group at 30th June, 2006 in the above affiliated companies amounted to HK\$567,349,000 (2005 (restated): HK\$463,182,000).

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code provisions (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout year ended 30th June, 2006, except the following:

- (i) The Company has not separated the roles of the Chairman of the Board and the Chief Executive Officer as required under code provision A2.1 of the Code. The Company believes that separation of Chairman and the Chief Executive Officer would not result in enhanced efficiency and improved governance. The balance of power and authority between Chief Executive Officer and the Board is ensured by regular discussion and meetings of the full Board and active participation of independent non-executive directors.
- (ii) Code A4.2 provides that all directors including those appointed for a specified term should retire by rotation at least every three years. Certain executive directors of the Company do not rotate as there are specific provisions governing the rotation of directors in the Company's Articles of Association.
- (iii) Code B1.1 provides that the Company should establish a remuneration committee. The Company has not established a remuneration committee in view of the Company's size and simple structure. The full Board reviews the remuneration of the executive directors and determines their remuneration.
- (iv) Code C3.3 provides that the Company's audit committee should have a set of written terms of reference which should include minimum duties as set out in the Code. On 9th December, 2005 the written terms of reference of the Company's audit committee were revised to incorporate the provisions set out in the Code.

PUBLICATION OF RESULTS ANNOUNCEMENT AND FURTHER INFORMATION ON THE EXCHANGE'S WEBSITE

The results announcement and the annual report will be published on the website of The Stock Exchange of Hong Kong Limited ("the Exchange") in due course.

As at the date hereof, the Board of Directors of the company comprises NGAN Kit-ling, Dr. NGAN Kit-keung, Dr. Henry NGAN, Dr. LIU Lit-mo*, Fritz HELMREICH, Anthony Grahame STOTT* and TSE Yiu-wah*.

*Independent non-executive director

By Order of the Board
Kwok Pun Tak
Secretary

Hong Kong, 20th October, 2006

Notice of Ordinary Yearly Meeting

NOTICE IS HEREBY GIVEN that the Sixty-eighth Ordinary Yearly Meeting of the Members of the Company will be held at its registered office at 391 Chai Wan Road, Chai Wan, Hong Kong on Friday, 8th December, 2006 at 12:00 noon for the following purposes:-

1. To receive and consider the Statement of Accounts and the Reports of the Directors and Auditors for the year ended 30th June, 2006 and to declare a final dividend.
2. To elect Directors and fix their fees.
3. To appoint Auditors and authorise the Directors to fix their remuneration.
4. As special business to consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

"THAT:
(A) the exercise by the Directors of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws and regulations, during the Relevant Period (for the purposes of this Resolution, "Relevant Period" being the period from the passing of this Resolution until the earlier of the conclusion of the next Ordinary Yearly Meeting, or the expiration of the period within which such meeting is required by law to be held, or the revocation or variation of this Resolution by an ordinary resolution of the Shareholders of the Company in general meeting) be and is hereby generally and unconditionally approved; and
(B) the total number of shares of the Company purchased by the Company pursuant to paragraph (A) during the Relevant Period shall be no more than 2% of the existing issued share capital of the Company at the date of this meeting, and the authority pursuant to paragraph (A) shall be limited accordingly."

5. To transact any other competent business.

By Order of the Board
Kwok Pun Tak
Secretary

Hong Kong, 20th October, 2006

Explanatory Note on Resolution 2

In relation to item 2 above, Dr. Henry Ngan, Dr. Liu Lit-mo, Messrs. Fritz Helmreich, Anthony Grahame Stott and Tse Yiu-wah retire from the Board pursuant to Article 122 of the Company's Articles of Association and, being eligible, offer themselves for re-election. The biographical details and interests in the shares of the Company of all the Directors to be re-elected at the Ordinary Yearly Meeting are provided in the explanatory statement for the re-election of Directors and general mandate for repurchase of own shares which accompanies this Annual Report.

Explanatory Note on Resolution 4

Resolution 4 relates to the grant of a general mandate to the Directors to repurchase shares of the Company up to a maximum of 2% of the issued share capital of the Company at the date of the resolution (the "Repurchase Mandate"). The authority conferred on the Directors by the Repurchase Mandate would continue in force until the earlier of the conclusion of the next Ordinary Yearly Meeting of the Company, the expiration of the period within which the next Ordinary Yearly Meeting is required by law to be held, or until revoked or varied by ordinary resolution of the Shareholders in general meeting prior to the next Ordinary Yearly Meeting. An explanatory statement providing details for the re-election of Directors and general mandate for repurchase of own shares accompanies this Annual Report.

Notes:

- (1) A shareholder entitled to attend and vote at the above Meeting may appoint a proxy or proxies (not exceeding 2 in number) to attend and vote in his place and such proxy need not be a shareholder of the Company.
- (2) To be valid, forms of proxy must be deposited at the Registered Office of the Company not less than forty-eight hours before the time fixed for holding the Meeting or adjourned Meeting.
- (3) Pursuant to Articles 96 and 97 of the Articles of Association of the Company, every question submitted to a general meeting shall be decided in the first instance by a show of hands of the shareholders present in person and entitled to vote, but a poll may be demanded (before a declaration by the chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority) by:
 - (i) at least four shareholders; or
 - (ii) a shareholder or shareholders holding or representing by proxy or entitled to vote in respect of at least one-tenth part of the capital represented at the meeting.
- (4) To qualify for the final dividend, all unregistered transfers should be lodged at the Registrars' Office no later than 4:00 p.m. on Friday, 1st December, 2006.
- (5) The Transfer Books and Register of Members of the Company will be closed from Monday, 4th December, 2006 to Thursday, 7th December, 2006, both days inclusive.
- (6) As at the date of this Notice, the Directors of the Company are:-
Ngan Kit-ling, Dr. Ngan Kit-keung, Dr. Henry Ngan, Dr. Liu Lit-mo*, Fritz Helmreich, Anthony Grahame Stott* and Tse Yiu-wah*.
- (7) In the case of any conflict between the Chinese translation and the English text hereof, the English text will prevail.

*Independent Non-executive Director