



THE KOWLOON MOTOR BUS HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

2002 INTERIM RESULTS ANNOUNCEMENT

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT for the six months ended 30 June 2002

	Note	Six months ended 30 June	
		2002	2001
		HK\$ million (Unaudited)	HK\$ million (Unaudited)
Turnover	2	3,450.3	3,325.9
Other revenue		38.8	83.8
Other net income		2.1	4.0
Staff costs		(1,636.9)	(1,618.5)
Depreciation		(388.9)	(323.7)
Spare parts, stores and fuel oil consumed		(323.5)	(325.2)
Other operating expenses		(447.2)	(421.0)
Profit from operations		694.7	725.3
Deemed profit on partial disposal of a subsidiary	3	2.7	319.5
Finance cost		(28.6)	(72.4)
Share of profit of associates		—	—
Share of profit/(loss) of jointly controlled entity		0.1	(0.7)
Profit from ordinary activities before taxation		668.9	971.7
Taxation	5	(76.8)	(84.6)
Profit from ordinary activities after taxation		592.1	887.1
Minority interests		(20.0)	(2.4)
Profit attributable to shareholders		572.1	884.7
Dividends attributable to the interim period	6	181.6	161.5
Earnings per share	7	\$1.42	\$2.19

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants (the "HKSA"). The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the "Exchange"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

2. Turnover

Turnover of the operations of the Group during the financial periods, after elimination of all material intercompany transactions, is as follows:

	Six months ended 30 June	
	2002	2001
	HK\$ million (Unaudited)	HK\$ million (Unaudited)
Operation of franchised bus services	3,230.7	3,137.1
Operation of non-franchised bus services	83.0	67.7
Media sales business	136.6	121.1
	3,450.3	3,325.9

3. Deemed profit on partial disposal of a subsidiary

Deemed profit on partial disposal of a subsidiary during the period represents the profit arising from the reduction of the Group's shareholding in RoadShow Holdings Limited ("RoadShow") from 73.3% at the preceding financial year end to 73.0% at 30 June 2002, as a result of the transfer of RoadShow shares by the Group to the loyal shareholders under RoadShow's Loyalty Share Bonus Scheme whereby the loyal shareholders of RoadShow, who acquired and held the shares of RoadShow continuously for one year since the date of RoadShow's listing on 28 June 2001 under a Preferential Offer, were entitled to receive one bonus share for every 10 shares acquired and held on 28 June 2002, and the exercise of RoadShow share options by the option grantees in 2002. The comparative figure represents the deemed profit arising from the spin-off of 25% of the issued shares of RoadShow from the Group pursuant to RoadShow's listing on the Hong Kong Stock Exchange and International Placing in June 2001.

4. Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2002	2001
	HK\$ million (Unaudited)	HK\$ million (Unaudited)
Interest on bank loans and overdrafts	28.6	72.4
Interest income	(21.5)	(55.1)
Gain on disposal of fixed assets	(1.5)	(0.7)

5. Taxation

The provision for Hong Kong Profits Tax is calculated at the rate of 16% (2001: 16%) on the estimated assessable profits for the period.

6. Dividends

Dividends attributable to the interim period:

	Six months ended 30 June	
	2002	2001
	HK\$ million (Unaudited)	HK\$ million (Unaudited)
Interim dividend declared after the interim period end of HK\$0.45 per share (2001: HK\$0.4 per share)	181.6	161.5

first half of 2002. These represent increases of 22.4% and 44.1% respectively as compared with those of the corresponding period of 2001. The improved results were mainly attributable to higher penetration in the local non-franchised bus market, and the patronage growth in the cross-boundary service. A review of the principal business units in this Division is given as follows:

Sun Bus Holdings Limited ("SBH")

- SBH endeavours to maintain its position in Hong Kong's non-franchised bus sector by providing quality bus services tailored for target customers' needs. Being one of the leading operators in the market, SBH increased its fleet size to 209 buses at 30 June 2002, up from 197 buses at 30 June 2001.
- SBH's various strategic business units, with Sun Bus Limited as the flagship, provide bus services to different client groups ranging from residential and commercial ones to employees and students. SBH will strive to improve its service quality and further leverage on its enhanced economies of scale.

New Hong Kong Bus Company Limited ("NHKB")

- NHKB jointly operates a cross-boundary shuttle bus service together with its Shenzhen counterpart serving regular commuters and holiday travellers between Lok Ma Chau and Huanggang. During the first half of 2002, the average monthly ridership of this service increased significantly to 637,800 passenger trips, an increase of 50.4% over the corresponding period of 2001. To meet the growing demand, five new air-conditioned single-deck buses with larger carrying capacity and better accessibility were deployed by NHKB during the period to replace the smaller ones used previously.

Park Island Transport Company Limited ("PITC")

- PITC, a 65% subsidiary of the Group, entered into an agreement with Sun Hung Kai (Ma Wan) Transport Company Limited, a subsidiary of Sun Hung Kai Properties Limited (a substantial shareholder of the Company), to provide bus and ferry services to and from Ma Wan Island starting from late 2002. Air-conditioned buses and high-speed catamarans will be deployed to provide high quality services for this prestige development.

Media Sales Business

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

- The RoadShow Group is principally engaged in out-of-home media sales for marketing advertising spaces on the exterior and interior of transit vehicles and at transit vehicle shelters, as well as advertising segments in its multi-media on-board ("MMOB") programmes. It has become a leading out-of-home media sales company in Hong Kong since its establishment in 2001. At 30 June 2002, the RoadShow Group's operation comprised 1,892 transit vehicle shelter panels with a territory wide coverage and a total of 2,600 MMOB transit vehicles with a sizeable audience reach of over two million daily.
- For the first half of 2002, the RoadShow Group reported a total operating revenue of HK\$120.5 million (2001: HK\$99.8 million) and profit attributable to shareholders of HK\$60.0 million (2001: HK\$55.7 million). These represent an increase of approximately 21% and 8% compared with the first half of 2001 respectively.
- Further information relating to the RoadShow Group is available in its 2002 interim report.

Mainland Operations

Dalian and Tianjin Operations

- At 30 June 2002, the Group's total interest in associates and jointly controlled entity with these operations totalled HK\$5.0 million (31 December 2001: HK\$6.2 million). Such investments are related to passenger bus services in Dalian and Tianjin. They continued to make steady progress during the period under review.
- The co-operative joint venture ("CJV") in Dalian was established in 1997 between a 60% owned subsidiary of the Company and Dalian City No.1 Bus Company in Liaoning Province. This CJV operates three routes deploying 46 double-deck and 30 single-deck buses.
- The CJV in Tianjin was formed at the end of 2000 between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited. This CJV has been providing public bus services since January 2001, deploying 110 single-deck buses on seven routes.

Property Development

- The old bus depot at Lai Chi Kok was vacated in May 2002 and demolition work commenced in June 2002. The site will be redeveloped into a residential and commercial complex with four multi-storey towers with a total gross floor area of approximately 1.1 million square feet. The project is expected to be completed by 2005.

FINANCIAL LIQUIDITY AND RESOURCES

The Group's policy is to maintain a healthy financial position such that cash inflow from operating activities together with undrawn committed banking facilities should meet the requirements for loan repayments and capital expenditures. Furthermore, a sufficient amount of cash is maintained to meet proposed service expansions and development of new businesses. The Group has been mainly financed by shareholders' funds and bank loans and overdrafts.

- The gearing ratio, representing the ratio of net borrowings to the total share capital and reserves of the Group, was 10.3% as at 30 June 2002 (31 December 2001: 4.7%).
- At 30 June 2002, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$518.9 million, representing an increase of HK\$293.1 million as compared with the net borrowings of HK\$225.8 million at 31 December 2001. An analysis of the Group's net borrowings by currency at 30 June 2002 is shown below:

Currency	At 30 June 2002		At 31 December 2001	
	Net borrowings / (cash) in foreign currency million	Net borrowings / (cash) HK\$ million	Net borrowings / (cash) in foreign currency million	Net borrowings / (cash) HK\$ million
Hong Kong Dollar		974.0		739.1
United States Dollar	(37.0)	(289.1)	(43.1)	(336.1)
British Pound Sterling	(13.7)	(163.3)	(15.7)	(177.2)
Others		(2.7)		—

Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$572.1 million (2001: HK\$884.7 million) and 403.6 million (2001: 403.6 million) shares in issue during the period.

8. Segmental information

Turnover and contribution to the Group's profit from principal activities during the period, after elimination of all material intercompany transactions, are as follows:

	Turnover		Contribution to profit from operations	
	Six months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operation of franchised and non-franchised bus services	3,313.7	3,204.8	571.5	594.1
Media sales business	136.6	121.1	100.9	94.2
	<u>3,450.3</u>	<u>3,325.9</u>	<u>672.4</u>	<u>688.3</u>
Unallocated net operating income and expenses			22.3	37.0
Profit from operations			<u>694.7</u>	<u>725.3</u>

Turnover and contribution to the Group's profit from activities outside Hong Kong are insignificant. Accordingly, no analysis by geographical location is required.

INTERIM RESULTS

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2002 was HK\$572.1 million (2001: HK\$884.7 million). Earnings per share for the period amounted to HK\$1.42 (2001: HK\$2.19). These represent a decrease of 35.3% compared with the same period of 2001.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK\$0.45 per share (2001: HK\$0.4 per share), totalling HK\$181.6 million (2001: HK\$161.5 million), for the six months ended 30 June 2002. This interim dividend will be paid on 10 October 2002 to the shareholders who are on the Register of Members at the close of business on 4 October 2002. The Register will be closed from 30 September 2002 to 4 October 2002, both dates inclusive. To qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 27 September 2002.

REVIEW OF OPERATIONS AND RESULTS

Franchised Public Bus Operations

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

- Profit after taxation for the six months ended 30 June 2002 amounted to HK\$504.7 million (2001: HK\$508.9 million), representing a decrease of 0.8% as compared with that of the same period of 2001.
- During the period under review, fare revenue and patronage amounted to HK\$3,118.7 million (2001: HK\$3,030.0 million) and 568.6 million passenger trips (2001: 546.9 million passenger trips) respectively. These represent an increase of 2.9% and 4.0% compared with the first half of 2001 respectively. Such increases were mainly attributable to the introduction of new bus routes and more air-conditioned buses, improvement of frequencies on certain bus routes, population growth and enhanced marketing and promotional efforts.
- Advertising revenue amounted to HK\$35.0 million for the first half of 2002 (2001: HK\$41.8 million). The decrease in advertising revenue was primarily due to the subdued local economy during the period.
- Bus operating costs for the first half of 2002 increased by 2.1% over the same period of 2001. The increase was due mainly to the increase in salaries and wages, depreciation, toll charges and other expenses incurred as a result of enhanced operating activity.
- Two new routes were introduced during the first half of 2002. One of the routes is an overnight route plying between the New Territories and Hong Kong Island while the other route serves the Hong Kong Science Park. During the period, KMB launched a further six packages of bus-bus interchange schemes to extend the network coverage. Together with the packages introduced in previous years, the bus-bus interchange schemes have all been well received by our customers. KMB continues to explore the possibility of introducing more bus-bus interchange packages in other busy areas. Certain packages under consideration may involve co-operation with railway companies and other franchised bus operators.
- An additional 137 new air-conditioned double-deck buses were licensed during the period. At 30 June 2002, KMB had a fleet of 4,440 licensed buses, comprising 4,191 double-deckers and 249 single-deckers, of which a total of 3,100 or 69.8% were air-conditioned. In addition, there were 110 buses under construction and 151 buses on order.
- The new permanent depot on the West Kowloon Reclamation for replacing the old Lai Chi Kok Depot was completed and has been operational since 11 May 2002. This modern bus depot is well equipped with a wide range of environmental protection measures and state-of-the-art bus servicing systems, providing maintenance service for some 1,000 buses serving the West Kowloon and South-West New Territories regions.

Long Win Bus Company Limited ("LWB")

- LWB recorded a profit of HK\$0.5 million for the first half of 2002 compared with the loss of HK\$6.4 million for the same period last year. The turnaround was mainly attributable to increase in patronage during the period under review.
- The total ridership of LWB for the first six months of 2002 increased to 9.8 million passenger trips (or a daily average of 54,169), representing an increase of 7.7% compared with the same period last year. The increase was mainly due to the continual population intake at Yat Tung Estate, a large-scale public housing estate in North Lantau, and the increase in recreational demand. The growth in patronage is expected to be sustained in the second half of 2002.
- LWB's advertising revenue decreased to HK\$0.9 million for the first half of 2002, compared to HK\$1.1 million for the same period of the previous year.
- LWB continued to implement rationalisation measures to further consolidate its bus network. During the period, two shuttle bus routes in North Lantau were merged in order to deploy resources more efficiently and provide a more integrated bus network for customer convenience. A total of 14 routes were operated as at 30 June 2002 (2001: 15).
- As at 30 June 2002, LWB had 150 air-conditioned double-deck buses and 10 air-conditioned single-deck buses.

Non-franchised Transport Operations

The Group's Non-Franchised Transport Operations Division recorded a turnover of HK\$83.0 million (2001: HK\$67.8 million) and a profit after taxation of HK\$8.5 million (2001: HK\$5.9 million) for the

Total

518.9

225.8

- Bank loans and overdrafts at 30 June 2002 amounted to HK\$2,066.1 million (31 December 2001: HK\$2,345.6 million). All bank loans and overdrafts were unsecured at 30 June 2002. The maturity profile of the bank loans and overdrafts of the Group was as follows:

	At 30 June 2002	At 31 December 2001
	HK\$ million	HK\$ million
Within 1 year or on demand	562.8	602.9
After 1 year but within 2 years	336.7	475.0
After 2 years but within 5 years	668.8	985.9
After 5 years	497.8	281.8
	<u>1,503.3</u>	<u>1,742.7</u>
Total	<u>2,066.1</u>	<u>2,345.6</u>

- At 30 June 2002, the Group had stand-by banking facilities totalling HK\$735.0 million (31 December 2001: HK\$381.5 million).
- The finance charge for the period under review amounted to HK\$28.6 million (2001: HK\$72.4 million). This represents an average interest rate of 2.6% per annum for the first half of 2002, down from 5.6% per annum for the same period last year.
- Interest cover for the period under review, representing the ratio of profit from ordinary activities before interest and taxation to net finance charges, was 83.7 times (2001: 41.9 times).
- At 30 June 2002, the Group's cash and deposits at banks (mainly denominated in Hong Kong Dollars, US Dollars and British Pound Sterling) amounted to HK\$1,559.2 million (31 December 2001: HK\$2,119.8 million).

FUNDING AND TREASURY POLICIES

- Certain major operating companies of the Group such as KMB, LWB, the RoadShow Group and PITC, arrange their own financing to meet specific requirements. Financing for the other subsidiaries of the Group has been mainly provided by the Company or their own capital base. Stand-by credit facilities and overdrafts have been maintained to facilitate routine treasury operations.
- The Group's major revenue sources have been fare revenue from the franchised bus services, revenue from non-franchised transport operations and the media sales business, all denominated in Hong Kong Dollar. Financing in Hong Kong Dollars has provided a natural currency hedge to the Group. At 30 June 2002, the Group's total borrowings were substantially denominated in Hong Kong Dollar and on a floating rate basis. This had enabled the Group to take full advantage of the low interest rates during the first half of 2002. However, it is the Group's policy to review its interest rate hedging strategy in light of the prevailing market conditions from time to time.
- Foreign currency exposure did not pose significant risk for the Group as the levels of foreign currency assets and liabilities were relatively low when compared to its total asset base at the end of the period under review. Certain expenditures such as purchase of new buses and motor vehicle components require payments by the Group in foreign currencies. It has been the Group's policy to closely monitor its exposure to foreign exchange movements in formulating its hedging strategy on an ongoing basis.
- Capital commitments outstanding and not provided for in the interim financial report of the Group as at 30 June 2002 amounted to HK\$953.9 million (31 December 2001: HK\$790.6 million). The commitments are mainly in respect of the re-development of the Lai Chi Kok Depot, the construction of new bus depots, the capital contribution for investments and the purchase of buses, ferries and other fixed assets. The commitments are to be financed by borrowings and the Group's working capital.

CONTINGENT LIABILITIES

At 30 June 2002, the Company had undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK\$396.7 million (31 December 2001: HK\$577.3 million). Additionally, together with an external party, the Company had undertaken to guarantee jointly and severally a bank loan granted to a subsidiary to the extent of HK\$30.0 million (31 December 2001: HK\$5.0 million).

EMPLOYEES AND REMUNERATION POLICIES

The Group employs over 13,000 employees for its franchised and non-franchised bus services, and media sales businesses. Due to the labour intensive nature of the businesses, staff costs represent a substantial portion of operating costs of the Group. The number and remuneration of the employees have been closely monitored to meet expansion plans and yet align with market trends. The number and remuneration of employees of the Group over the period under review and the corresponding period of 2001 were as follows:

Period	Number of Employees at period end	Total remuneration for the period (in HK\$ million)	Remuneration as % of total operating costs for the period
Jan - Jun 2002	13,999	1,636.9	56
Jan - Jun 2001	14,163	1,618.5	57

PROSPECTS

We strive for continuous growth in patronage of and revenue from our franchised and non-franchised bus services. KMB faces with both challenges and opportunities upon the opening of the Mass Transit Railway Tseung Kwan O Extension in August 2002. We will continue to serve Tseung Kwan O District with a user-friendly and efficient bus network with rationalised routes and feeder services. We anticipate that the RoadShow Group will continue to implement its expansion plans and bring contribution to the Group. The redevelopment of our depot site at Lai Chi Kok into residential property, commenced during the period, will generate a new income stream for the Group in the near future. Additionally, we also seek to expand our transport and media sales businesses in the Mainland. We are confident that our professional management team and committed staff force will be able to embrace challenges and materialise growth opportunities ahead for the continued success of the Group.

PUBLICATION OF DETAILED INTERIM RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on the Exchange will be published on the Exchange's website in due course.

By order of the Board
S.Y. CHUNG
Chairman

Hong Kong, 12 September 2002