THE KOWLOON MOTOR BUS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 062)

2005 Interim Results Announcement

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Note	Six months ended 30 June 2005 HK$ million (Unaudited)	2004 HK$ million (Unaudited)
Turnover	4, 8	3,143.5	3,236.7
Other net income		55.5	31.1
Staff costs		(1,495.1)	(1,530.2)
Depreciation and amortisation		(438.0)	(430.2)
Spare parts, stores and fuel oil consumed		(516.3)	(398.9)
Other operating expenses		(419.8)	(471.0)
Profit from operations		329.8	437.5
Finance costs	5	(24.4)	(5.6)
Share of profits less losses of associates		30.3	16.5
Share of profit of jointly controlled entity		0.6	0.6
Profit before taxation	5	336.3	449.0
Income tax	6	(57.2)	(80.7)
Profit after taxation		279.1	368.3
Attributable to:			
Equity holders of the parent		273.7	360.4
Minority interests		5.4	7.9
Profit after taxation		279.1	368.3
Dividend attributable to the interim period		181.6	181.6
Earnings per share	7	HK$0.68	HK$0.89

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2005

		At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 (restated) HK$ million (Audited)
Non-current assets			
Fixed assets		5,762.5	6,029.9
Interest in leasehold land held for own use under operating leases		87.7	88.7
Goodwill		50.3	47.0
Media assets		100.8	114.7
Non-current prepayments		98.4	470.4
Interest in associates		720.1	312.8
Interest in jointly controlled entity		11.8	5.4
Other financial assets		15.4	15.4
Deferred tax assets		10.0	12.0
Employee benefit assets		429.2	413.8
		7,286.2	7,510.1
Current assets			
Other investments		75.9	93.4
Property under development		460.4	323.2
Spare parts and stores		70.4	74.7
Accounts receivable	9	260.8	203.7
Current taxation recoverable		2.4	3.7
Deposits and prepayments		93.6	49.0
Cash and cash equivalents		1,166.6	1,170.2
		2,130.1	1,917.9
Current liabilities			
Bank loans and overdrafts		589.0	494.3
Accounts payable and accruals	10	656.9	821.1
Third party claims payable		307.1	298.6
Current taxation payable		77.5	50.6
		1,630.5	1,664.6
Net current assets		499.6	253.3
Total assets less current liabilities		7,785.8	7,763.4
Non-current liabilities			
Bank loans		2,726.0	2,297.7
Contingency provision - insurance		38.8	58.5
Deferred tax liabilities		801.8	819.5
Provision for long service payments		48.2	48.3
		3,614.8	3,224.0
Net assets		4,171.0	4,539.4
Capital and reserves			
Share capital		403.6	403.6
Reserves		3,482.6	3,846.8
Total equity attributable to equity holders of the parent		3.886.2	4,250.4
Minority interests		284.8	289.0
Total equity		4,171.0	4,539.4

Notes:

1. **Independent review**

   The interim results for the six months ended 30 June 2005 are unaudited, but have been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), whose unmodified independent review report is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Audit Committee of the Company.

2. **Basis of preparation**

   This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting", issued by the HKICPA.

   The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 3.

3. **Adoption of new Hong Kong Financial Reporting Standards**

   a. The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA) which are effective for the accounting periods beginning on or after 1 January 2005. The Group has adopted all such HKFRSs that are pertinent to its operations. The applicable HKFRSs are set out below:-

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets

HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-15	Operating Leases — Incentives
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

b. The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 31, 33, 34, 37, 38, HKFRS 2, HK(SIC)-15 and HK-Int 4 do not result in substantial changes to the Group's accounting policies. In summary, these HKASs and Interpretations affect certain presentation in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity, and disclosure to the financial statements.

c. The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In prior years, leasehold land held for own use was stated at cost less accumulated depreciation and accumulated impairment losses under the fixed assets. From 1 January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease if the title is not expected to pass to the lessee by the end of the lease term. Any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight-line basis over the lease term. The new accounting policy has been adopted retrospectively, with comparative information adjusted for the amounts relating to prior periods.

d. The adoption of HKASs 32 and 39 have resulted in a change in accounting policy for recognition, measurement and disclosure of financial instruments. Prior to 1 January 2005, derivatives of the Group were not recorded on the balance sheet based on the then prevailing accounting standards. In accordance with the provisions of HKAS 39, all derivatives have been recognised at their fair value on the balance sheet on 1 January 2005. Fixed interest foreign currency borrowings that are designated as hedged items for fair value hedges have been revalued at their fair values. Subsequent changes in fair value of the derivatives and hedged items are charged to the income statement. This new policy has no significant impact on opening balances of equity at 1 January 2005 and 2004 and profit after taxation for the six months ended 30 June 2005 and 2004.

e. The adoption of HKAS 36 and HKFRS 3 has resulted in a change in the accounting policy relating to goodwill. Positive goodwill was previously amortised on a straight-line basis over its estimated useful life. With effect from 1 January 2005 and in accordance with the provisions of HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, and impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the consolidated income statement for the six months ended 30 June 2005. This has increased the Group's profit after taxation for the six months ended 30 June 2005 by HK$2.7 million.

f. Summary of the effect of changes in the accounting policies

(i) Effect on profit after taxation for the six months ended 30 June 2005 and 30 June 2004

In respect of the six months ended 30 June 2005, the following table provides estimates of the extent to which the profit after taxation for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

		Six months ended 30 June 2005		
Effect of new policy (increase/(decrease))	*Note*	**Equity holders of the parent** *HK$ million (Unaudited)*	**Minority interests** *HK$ million (Unaudited)*	**Total** *HK$ million (Unaudited)*
HKFRS 3				
Amortisation of goodwill	3(e)	2.7	—	2.7
Total effect for the period		2.7	—	2.7
Effect on earnings per share:				
- basic		HK$0.01		

The other new accounting policies have no significant impact on profit after taxation for the six months ended 30 June 2004.

(ii) Other than the impact on profit after taxation for the period ended 30 June 2005 and the impact on the presentation of the consolidated balance sheet as noted above, the changes in accounting policies do not have impact on this interim financial statements.

4. **Turnover**

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

	Six months ended 30 June	
	2005 *HK$ million (Unaudited)*	**2004** *HK$ million (Unaudited)*
Fare revenue from franchised public bus services	2,893.5	2,996.1
Revenue from non-franchised transport services	137.5	124.4
Media sales revenue	112.5	116.2
	3,143.5	3,236.7

5. **Profit before taxation**

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

	Six months ended 30 June 2005 HK$ million (Unaudited)	2004 HK$ million (Unaudited)
Interest on bank loans, overdrafts and other unsecured loans	26.2	5.6
Less: borrowing costs capitalised into property under development	(1.8)	—
	24.4	5.6
Dividend income from listed securities	(0.6)	(0.5)
Dividend income from unlisted investments	(18.6)	—
Interest income from bank deposits and unlisted debt securities	(8.5)	(5.6)
Net loss on disposal of other investments or remeasurement to fair value	1.0	2.5

6. **Income tax**

	Six months ended 30 June 2005 HK$ million (Unaudited)	2004 HK$ million (Unaudited)
Current tax		
Provision for Hong Kong Profits Tax for the period	65.0	79.4
Provision for the People's Republic of China income tax for the period	0.5	1.2
	65.5	80.6
Deferred tax		
Origination and reversal of temporary differences	(15.7)	(3.5)
	49.8	77.1
Share of associates' taxation	7.2	3.6
Share of jointly controlled entity's taxation	0.2	—
	57.2	80.7

The provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months ended 30 June 2005. Taxation for subsidiaries, associates and jointly controlled entity in the People's Republic of China ("PRC") is charged at the appropriate current rates of taxation ruling in the PRC.

7. **Earnings per share**

(a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent of HK$273.7 million (six months ended 30 June 2004: HK$360.4 million) and 403.6 million (2004: 403.6 million) shares in issue during the period.

(b) **Diluted earnings per share**

Diluted earnings per share for the six months ended 30 June 2005 and 2004 are not presented as there are no dilutive potential ordinary shares as at the period ends.

8. **Segment reporting**

The Group's primary format for reporting segment information is business segments. Revenue from external customers (turnover) represents fare revenue from the operation of franchised public bus and non-franchised transport services and media sales revenue.

	Operation of franchised public bus services and non-franchised transport services Six months ended 30 June		Media sales business Six months ended 30 June		Inter-segment elimination Six months ended 30 June		Consolidated Six months ended 30 June	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$ million (Unaudited)	*HK$ million (Unaudited)*	*HK$ million (Unaudited)*	*HK$ million (Unaudited)*	*HK$ million (Unaudited)*	*HK$ million (Unaudited)*	*HK$ million (Unaudited)*	*HK$ million (Unaudited)*
Revenue from external customers (turnover)	3,031.0	3,120.5	112.5	116.2	—	—	3,143.5	3,236.7
Inter-segment revenue	—	—	3.9	12.8	(3.9)	(12.8)	—	—
Other revenue from external customers	16.9	18.6	1.2	1.0	—	—	18.1	19.6
Total	3,047.9	3,139.1	117.6	130.0	(3.9)	(12.8)	3,161.6	3,256.3
Segment result	273.3	394.2	29.8	37.9	—	—	303.1	432.1
Unallocated net operating income							26.7	5.4
Profit from operations							329.8	437.5

9. **Accounts receivable**

	At 30 June 2005	**At 31 December 2004**
	HK$ million (Unaudited)	*HK$ million (Audited)*
Trade and other receivables	258.0	202.1
Interest receivable	2.8	1.6
	260.8	203.7

Included in accounts receivable are trade receivables (net of provisions for doubtful debts) with the following ageing analysis:

	At 30 June 2005	**At 31 December 2004**
	HK$ million (Unaudited)	*HK$ million (Audited)*
Current	135.8	106.7
Less than 3 months overdue	19.9	10.1
More than 3 months overdue	24.5	31.1
	180.2	147.9

Debts are normally due within 30 to 90 days from the date of billing. All the accounts receivable are expected to be recoverable within one year.

10. **Accounts payable and accruals**

	At 30 June 2005 HK$ million (Unaudited)	At 31December 2004 HK$ million (Audited)
Trade payables	79.1	134.0
Other payables and accruals	577.8	687.1
	656.9	821.1

Included in accounts payable and accruals are trade payables with the following ageing analysis:

	At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 HK$ million (Audited)
Due within 1 month or on demand	58.7	92.5
Due after 1 month but within 3 months	13.2	41.5
Due after more than 3 months	7.2	—
	79.1	134.0

INTERIM RESULTS

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2005 was HK$273.7 million. This represents a decrease of 24.1% compared with HK$360.4 million for the corresponding period of 2004. Earnings per share for the period under review amounted to HK$0.68 compared with HK$0.89 for the corresponding period of 2004.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK$0.45 per share (2004: HK$0.45 per share), totalling HK$181.6 million (2004: HK$181.6 million), for the six months ended 30 June 2005. This interim dividend will be paid on 13 October 2005 to the shareholders who are on the Register of Members at the close of business on 6 October 2005. The Register will be closed from 4 October 2005 to 6 October 2005, 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 3 October 2005.

MANAGEMENT REVIEW AND OUTLOOK

REVIEW OF OPERATIONS AND RESULTS OF INDIVIDUAL BUSINESS UNIT

Franchised Public Bus Operations

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

Profit after taxation for the six months ended 30 June 2005 amounted to HK$210.3 million (2004: HK$338.6 million), representing a decrease of 37.9% compared with the corresponding period of 2004.

In the first half of 2005, fare revenue and ridership amounted to HK$2,766.5 million (2004: HK$2,878.4 million) and 498.0 million passenger trips (2004: 528.3 million passenger trips) respectively. These represent decreases of HK$111.9 million (3.9%) and 30.3 million passenger trips (5.7%) respectively compared with the corresponding period of 2004. Such decreases were primarily due to the loss of patronage to the Kowloon-Canton Railway Corporation ("KCRC")'s Ma On Shan Rail, Tsim Sha Tsui Extension and West Rail, which commenced operations in December 2004, October 2004 and December 2003 respectively.

Advertising revenue for the first half of 2005 amounted to HK$32.0 million. This represents a decrease of 16.2% compared to HK$38.2 million recorded in the corresponding period of 2004.

For the six months ended 30 June 2005, expenditure on fuel oil amounted to HK$365.7 million, an increase of approximately HK$112.3 million or 44.3% compared with the corresponding period of 2004. This increase was due mainly to the worldwide drastic escalation of fuel prices which was totally beyond KMB's control and which has had a major adverse impact on the cost of KMB's operations. Faced with this situation, KMB has made further strenuous effort to reduce costs in other areas through bus service rationalisation and stringent cost controls on other expenses wherever possible. As a result, the bus operating cost (excluding the cost of fuel oil) was reduced by HK$88.6 million or 3.9% compared with the corresponding period of 2004.

KMB operated a total of 404 routes at the end of June 2005, compared with 405 at the end of 2004. During the period under review, three new routes were introduced whilst four routes were cancelled in the Ma On Shan and Shatin areas as part of a rationalisation exercise following the opening of KCRC's Ma On Shan Rail.

At the end of June 2005, there were 49 Octopus Bus-bus Interchange ("BBI") schemes covering over 207 bus routes. In addition, KMB has also introduced an Octopus Bus-rail Interchange ("BRI") scheme with KCRC West Rail covering 18 feeder routes and three West Rail Stations. All the BBI and BRI schemes introduced to date have been well received by our customers.

23 new air-conditioned double-deck buses were licensed during the first half of 2005. At 30 June 2005, KMB had a fleet of 4,081 (end of 2004: 4,150) licensed buses, comprising 3,925 double-deckers and 156 single-deckers, of which a total of 3,629 or 89% was air-conditioned. In addition, KMB will take delivery of 50 buses during the second half of 2005 and early 2006.

Long Win Bus Company Limited ("LWB")

LWB recorded a profit after taxation of HK$9.7 million (2004: HK$3.3 million) for the first half of 2005. This represents an increase of HK$6.4 million or 193.9% compared with that for the same period in 2004.

LWB's fare revenue for the first six months of 2005 amounted to HK$126.9 million, representing an increase of 9.1% compared with HK$116.3 million for the corresponding period in 2004. During the period, LWB recorded a total ridership of 11.4 million (or a daily average of 63,206) passenger trips, an increase of 7.5% compared with 10.6 million (or a daily average of 58,407) passenger trips for the corresponding period of the previous year. These increases were due mainly to the new population intake at Tung Chung New Town and the continuous growth of road transport demand to and from the Hong Kong International Airport.

At 30 June 2005, LWB had 136 air-conditioned double-deck buses and nine air-conditioned single-deck buses serving a total of 15 routes. Its fleet size and number of routes remained the same as at the end of 2004.

Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a turnover of HK$137.5 million (2004: HK$124.4 million) and a profit after taxation of HK$13.9 million (2004: HK$13.6 million) for the first half of 2005. The increase in turnover and profit was mainly attributable to the continuous improvement of the local economy and the growth in patronage of the cross-boundary shuttle bus services. A review of the operations of the principal business units in this Division is set out as follows:

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

The turnover of the SBH Group for the first half of 2005 increased by 0.5% compared with the corresponding period of the previous year. The increase was due mainly to the growth in patronage as a result of the improved economy. However, the surge in fuel prices resulted in an increase in fuel costs by 24% in the period under review compared with the first half of 2004.

By providing quality bus services tailored for target customers' needs, the SBH Group has been maintaining its leading position in Hong Kong's non-franchised bus sector. During the period under review, 28 new coaches were added to its fleet bringing the total number to 238 buses at 30 June 2005.

The SBH Group'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. The SBH Group will continue to leverage on its economies of scale to explore opportunities to penetrate further into different market sectors and by providing quality and value-for-money bus services.

New Hong Kong Bus Company Limited ("NHKB")

NHKB, together with its Shenzhen counterpart, jointly operates a direct, economical, 24-hour cross-boundary shuttle bus service serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen. Due mainly to the increase in economic activities between Hong Kong and the Mainland as a result of the Closer Economic Partnership Arrangement ("CEPA") and the increase in the number of visitors from the Mainland following the extension of the Individual Visit Scheme to more Mainland cities, the average monthly ridership for the first six months grew to 1,444,300 passenger trips (2004: 1,171,600 passenger trips), an increase of 23.3% compared with the corresponding period of the previous year. NHKB operated a total of 15 buses as at 30 June 2005, same as at the end of 2004.

Park Island Transport Company Limited ("PITC")

PITC, a 65% owned subsidiary of the Group, provides quality shuttle bus and ferry services for the residents of and visitors to Park Island, a prestigious development on Ma Wan Island. With further population intake and the sales campaign of residential flats of Park Island Phase III, PITC's total patronage for the first half of 2005 increased to 2,654,800 passenger trips, 5.1% higher than that for the corresponding period of 2004. At the end of June 2005, PITC operated a fleet of 14 air-conditioned buses and seven high-speed catamarans, same as at the end of 2004.

Media Sales Business

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

The RoadShow Group is a leading media sales group in Hong Kong and other parts of Greater China. It is engaged in marketing advertising aimed at passengers riding public transit vehicles in Hong Kong through a proprietary Multi-media On-board ("MMOB") system, and outdoor advertising in Hong Kong and major cities on the Mainland such as Beijing, Shanghai, Guangzhou and Shenzhen. The RoadShow Group also provides tailor made advertising services for all phases and placements on an advertising network that extends across the mainland of China.

For the first half of 2005, the RoadShow Group reported a total operating revenue of HK$93.6 million (2004: HK$98.1 million) and a profit attributable to shareholders of HK$6.0 million (2004: HK$10.3 million).

Further information relating to the RoadShow Group is available in its 2005 interim report.

Mainland China Transport Operations

As at 30 June 2005, the Group's total interest in associates and jointly controlled entity in respect of Mainland transport operations amounted to HK$613.0 million (31 December 2004: HK$224.3 million). Such investments are related to the provision of passenger bus services and taxi and car rental services in Beijing, Dalian, Shenzhen, Tianjin and Wuxi. During the period under review, these businesses contributed a profit before taxation of HK$23.8 million to the Group's results for the first half of 2005 (2004: HK$12.2 million). The increase was due mainly to the profit contributed by our new associate in Shenzhen, which commenced operation on 1 January 2005. The surge in fuel prices in the first half of 2005 suppressed the performance of these businesses on the Mainland.

Dalian

The co-operative joint venture ("CJV") in Dalian, Liaoning Province was established in July 1997 between a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company. This CJV operates three routes in Dalian City deploying 56 double-deck and 25 single-deck buses at the period end.

Tianjin

The CJV in Tianjin was formed in January 2001 between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited. This CJV provides bus services in Tianjin City with 110 single-deck buses on seven routes.

Beijing

Beijing Beiqi Kowloon Taxi Company Limited ("BBKT"), a Sino-foreign joint stock company in which the Group has 31.38% equity interest, principally engages in taxi hire and car rental businesses in Beijing City with a fleet of over 4,100 vehicles. BBKT's shareholders include KMB (Beijing) Taxi Investment Limited, a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited, Beijing Bashi Company Ltd. and two other Mainland investors. The Group's investment in BBKT was RMB80.0 million (HK$75.5 million).

Wuxi

Wuxi Kowloon Public Transport Company Limited ("WKPT") is a Sino-foreign joint stock company established in Wuxi City, Jiangsu Province in February 2004. It is the only franchised bus operator in Wuxi City and has about 1,800 buses operating on over 110 routes. The Group has invested RMB135.4 million (HK$127.2 million), representing 45% equity interest, in WKPT.

Shenzhen

In December 2004, the relevant authorities of the Mainland approved the establishment of Shenzhen Bus Group Company Limited ("SBG"), a Sino-foreign joint stock company. SBG was formed by KMB (Shenzhen) Transport Investment Limited, a wholly-owned subsidiary of the Group, with four other Mainland investors. The Group has invested RMB387.1 million (HK$364.1 million), representing a 35% stake, in SBG. SBG operates public bus services in Shenzhen City, Guangdong Province, with about 3,400 vehicles serving some 120 routes.

Property Development

The redevelopment of the former Lai Chi Kok Depot site continued smoothly in the first half of 2005. The site is being redeveloped into a residential and commercial complex known as "Manhattan Hill", comprising about 1,100 residential units in five multi-storey prestigious residential blocks with a total gross floor area of about one million square feet and a retail podium area of about 50,000 square feet.

At 30 June 2005, 80% of the podium structure was completed and the residential towers were standing at over half of their final height. The project is planned for completion in late 2006. Our sales and marketing strategies will be formulated by reference to the prevailing property market conditions.

At 30 June 2005, the total construction cost incurred for the project amounted to HK$460.4 million (31 December 2004: HK$323.2 million). The project will be financed by the Group's working capital and unsecured bank loans.

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, capital expenditures and investment. Furthermore, sufficient cash balances are maintained to meet operational requirements, potential business expansion and development from time to time. The Group has been financed mainly by shareholders' funds and bank loans and overdrafts.

The gearing ratio, representing the ratio of net borrowings to the total share capital and reserves attributable to equity holders of the Company, was 55% as at 30 June 2005 (31 December 2004: 38%).

Net borrowings

At 30 June 2005, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK$2,148.4 million, representing an increase of HK$526.6 million as compared with the net borrowings of HK$1,621.8 million at 31 December 2004. An analysis of the Group's net borrowings by currency at 30 June 2005 is shown below:

	At 30 June 2005		**At 31 December 2004**	
Currency	**Net borrowings/ (cash) in foreign currency** *million*	**Net borrowings/ (cash)** *HK$ million (Unaudited)*	**Net borrowings/ (cash) in foreign currency** *million*	**Net borrowings/ (cash)** *HK$ million (Audited)*
Hong Kong Dollar		2,441.6		1,736.9
United States Dollar	(33.7)	(262.8)	(10.6)	(83.0)
British Pound Sterling	(1.5)	(20.4)	(1.5)	(22.1)
Renminbi	(10.6)	(10.0)	(10.6)	(10.0)
Total		2,148.4		1,621.8

Bank loans and overdrafts

Bank loans and overdrafts at 30 June 2005 amounted to HK$3,315.0 million (31 December 2004: HK$2,792.0 million). The maturity profile of the bank loans and overdrafts of the Group is as follows:

	At 30 June 2005	**At 31 December 2004**
	HK$ million	*HK$ million*
	(Unaudited)	*(Audited)*
Within 1 year or on demand	589.0	494.3
After 1 year but within 2 years	673.2	458.4
After 2 years but within 5 years	1,852.8	1,639.3
After 5 years	200.0	200.0
	2,726.0	2,297.7
Total	3,315.0	2,792.0

Banking facilities

At 30 June 2005, the Group had stand-by banking facilities totalling HK$1,307.1 million (31 December 2004: HK$1,945.7 million).

Finance costs

The finance costs for the period under review amounted to HK$24.4 million (2004: HK$5.6 million). This represents an average interest rate of 1.96% per annum for the first half of 2005, increased from 0.46% per annum for the corresponding period of the previous year.

Cash and deposits at bank

At 30 June 2005, the Group's cash and deposits at banks (mainly denominated in Hong Kong Dollars, US Dollars, British Pound Sterling and Renminbi) amounted to HK$1,166.6 million (31 December 2004: HK$1,170.2 million).

FUNDING AND TREASURY POLICIES

Major operating companies of the Group arrange their own financing to meet specific requirements whilst other subsidiaries of the Group obtain financing from the Company or their own capital base. Stand-by credit facilities and overdrafts have been maintained to facilitate routine treasury operations.

Currency risk management

The Group's major revenue sources are fare receipts from the franchised bus services, and revenue from non-franchised transport operations and the media sales business, mainly denominated in Hong Kong Dollars. Financing in Hong Kong Dollars has provided a natural currency hedge to the Group.

Foreign currency exposure did 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 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.

Interest rate risk management

At 30 June 2005, the Group's total borrowings were mainly denominated in Hong Kong Dollars and on a floating interest rate basis. This provided flexibility for the Group to take full advantage of the relatively low interest rates during the first half of 2005. 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.

CAPITAL EXPENDITURE AND COMMITMENTS

The Group's fixed assets mainly comprise buses, vessels, other motor vehicles, and buildings. None of the Group's assets was pledged or charged at 30 June 2005. During the period under review, capital expenditure incurred by the Group amounted to HK$165.3 million (2004: HK$334.3 million). The decrease was mainly attributable to a reduction in the number of new buses purchased by KMB in the light of redeployment of existing buses following the commissioning of new railways.

Commitments outstanding and not provided for in the interim financial report of the Group as at 30 June 2005 amounted to HK$1,798.3 million (31 December 2004: HK$1,841.4 million). The commitments are mainly in respect of the redevelopment of the former Lai Chi Kok Depot site, the construction of depots facilities as well as the purchase of buses and other fixed assets. The commitments are to be financed by bank borrowings and the Group's working capital.

CONTINGENT LIABILITIES

At 30 June 2005, the Company had undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK$1,355.0 million (31 December 2004: HK$820.0 million). Additionally, together with a third party, the Company had undertaken to guarantee jointly and severally a bank loan granted to a 65% owned subsidiary, to finance its purchase of fixed assets and daily operations, to the extent of HK$165.0 million (31 December 2004: HK$135.0 million), of which HK$100.0 million will be repayable in 2010 and the remaining balance of HK$65.0 million was revolving bank loans.

EMPLOYEES AND REMUNERATION POLICIES

Over 13,000 employees are employed by the Group for its franchised bus and non-franchised transportation services, and media sales business. Due to the labour intensive nature of the businesses, staff costs represent a substantial portion of the operating costs of the Group. The number and remuneration of the employees have been closely monitored to meet expansion or rationalisation plans and yet align with market trends. At 30 June 2005, the Group had 13,498 employees (2004: 13,620 employees). Total remuneration for the six months ended 30 June 2005 amounted to approximately HK$1,495.1 million (2004: HK$1,530.2 million), representing 51% (2004: 52%) of the total operating cost for the period.

OUTLOOK

2005 will be an extremely challenging year for the Group's franchised public bus business. We are facing tremendous pressure from cost escalation as a result of historically high oil prices, substantial increases in tunnel toll rates and rising interest rates, all of which are beyond our control. At the same time, we are suffering from a substantial decline in ridership and fare revenue due to the successive opening of new railways that has created an over-supply situation in public transport services. However, as there will not be any large scale new railways scheduled to commence operations in our operating areas in the ensuing few years, we expect that our patronage will stabilise and may increase slightly with the population growth and the shifting of population to the rural areas due to the extension of railway lines. Our ridership will also be moderately benefited from the expansion of the Individual Visitor Scheme to different provinces on the Mainland and the opening of Hong Kong Disneyland which will attract more visitors to travel to Hong Kong.

Meanwhile, we will continue to monitor our existing services and our patronage trends, and re-deploy and rationalise our franchised bus network and resources as necessary to cope with the changes in our patronage patterns. We will also step up our cost control measures on all controllable areas as far as practicable. Nevertheless, it is expected that the profit margin of our franchised public bus business will be further eroded by the adverse financial impact of high oil prices and substantial tunnel toll increases in the second half of 2005.

With the continuous improvement in the local economy and the opening of Hong Kong Disneyland, we anticipate that our non-franchised transport business, particularly the cross-boundary shuttle service, and our media sales business will further strengthen in the second half of 2005.

The former Lai Chi Kok Depot site, which is owned by the Group's property arm, is being redeveloped into an upscale residential and commercial complex. The project is scheduled for completion by the end of 2006. We hope to begin pre-sale by the end of 2005 or early 2006. In the light of the current buoyant local property market, it is expected that this project will generate considerable income for the Group in the near future.

In addition to joint venture transportation projects in Dalian, Tianjin, Beijing and Wuxi, our new joint venture in Shenzhen commenced operations in January 2005 and it has been making a satisfactory contribution to the Group's profit. In accordance with the Group's business diversification strategy, we shall continue to explore opportunities to expand further into other major population centres for sustainable business growth on the Mainland.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the six months ended 30 June 2005 with the code provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except that, with respect to code provision A.4.1, the Non-executive and Independent Non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Listing Rules and its Bye-laws.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the accounting principles and policies adopted by the Group and discussed auditing, internal control and financial reporting matters, and also reviewed the unaudited interim financial report for the six months ended 30 June 2005. The review of the unaudited interim financial report was conducted with the Group's external auditors, KPMG. The independent review report of the external auditors is set out on page 36 of the interim report.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.kmb.hk and the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk. The interim report will be available at the Company's website and dispatched to shareholders of the Company in late September 2005.

By order of the Board
S.Y. CHUNG
Chairman

Hong Kong, 12 September 2005

As at the date of this interim results announcement, the Directors of the Company are The Hon. Sir Sze-yuen CHUNG, GBM, GBE, JP as Chairman and Independent Non-executive Director; Dr. Norman LEUNG Nai Pang, GBS, JP as Deputy Chairman; Dr. KUNG Ziang Mien, James, GBS, OBE (with Mr. KUNG Lin Cheng, Leo as alternate), Dr. Eric LI Ka Cheung, GBS, OBE, JP and Mr. SIU Kwing-chue, Gordon, GBS, CBE, JP as Independent Non-executive Directors; Mr. YU Shu Chuen as Honorary Executive Director; Mr. John CHAN Cho Chak, GBS, JP as Managing Director; Mr. Charles LUI Chung Yuen, M.H., Ms. Winnie NG, Mr. LUI Pochiu and Mr. Edmond HO Tat Man as Executive Directors; Mr. KWOK Ping-luen, Raymond, JP (with Mr. YUNG Wing Chung as alternate), Mr. KWOK Ping-sheung, Walter, JP (with Ms. Susanna LAU Shung Oi as alternate), Mr. NG Siu Chan, Mr. William LOUEY Lai Kuen and Mr. George CHIEN Yuan Hwei as Directors.

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www.kmb.hk
www.irasia/listco/hk/kmb