



The Kowloon Motor Bus Holdings Limited

(incorporated in Bermuda with limited liability)

(Stock code: 62)

2004 Interim Results Announcement

Consolidated income statement for the six months ended 30 June 2004

	Note	Six months ended 30 June	
		2004	2003
		HK\$ million (Unaudited)	HK\$ million (Unaudited)
Turnover	1	3,236.7	3,155.3
Other net income		31.1	42.2
Staff costs		(1,530.2)	(1,587.4)
Depreciation and amortisation		(430.2)	(429.2)
Spare parts, stores and fuel oil consumed		(398.9)	(350.8)
Other operating expenses		<u>(471.0)</u>	<u>(452.2)</u>
Profit from operations	1	437.5	377.9
Finance costs		(5.6)	(21.4)
Share of profits/(losses) of associates		16.5	(1.2)
Share of profit of jointly controlled entity		<u>0.6</u>	<u>0.6</u>
Profit from ordinary activities before taxation	2	449.0	355.9
Income tax	3	<u>(80.7)</u>	<u>(127.4)</u>
Profit from ordinary activities after taxation		368.3	228.5
Minority interests		<u>(7.9)</u>	<u>3.0</u>
Profit attributable to shareholders		<u>360.4</u>	<u>231.5</u>
Interim dividend of HK\$0.45 per share proposed after the interim period end (2003: HK\$0.45 per share)		<u>181.6</u>	<u>181.6</u>
Earnings per share	4	<u>HK\$ 0.89</u>	<u>HK\$ 0.57</u>

Notes:

1 Segmental information

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

	Turnover		Contribution to profit from operations	
	Six months ended 30 June 2004	Six months ended 30 June 2003	Six months ended 30 June 2004	Six months ended 30 June 2003
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Operation of franchised public bus services and non-franchised transport services	3,120.5	3,066.8	394.2	369.8
Media sales business	<u>116.2</u>	<u>88.5</u>	<u>37.9</u>	<u>2.5</u>
	<u>3,236.7</u>	<u>3,155.3</u>	432.1	372.3
Unallocated net operating income and expenses			<u>5.4</u>	<u>5.6</u>
Profit from operations			<u>437.5</u>	<u>377.9</u>

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

2 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2004	2003
	<i>HK\$ million</i>	<i>HK\$ million</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest on bank loans, overdrafts and other unsecured loans	5.6	21.4
Interest income from bank deposits and unlisted debt securities	(5.6)	(12.6)
Gain on disposal of fixed assets	<u>(4.6)</u>	<u>(1.9)</u>

3 Income tax

	Six months ended 30 June	
	2004	2003
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
Current tax:		
Provision for Hong Kong Profits Tax for the period	79.4	54.9
Provision for PRC taxation for the period	<u>1.2</u>	<u>0.9</u>
	<u>80.6</u>	<u>55.8</u>
Deferred tax:		
Origination and reversal of temporary differences	(3.5)	10.2
Deferred tax expense resulting from increment in Hong Kong Profits Tax rate	<u>—</u>	<u>61.4</u>
	<u>(3.5)</u>	<u>71.6</u>
Share of associates' taxation	<u>3.6</u>	<u>—</u>
	<u>80.7</u>	<u>127.4</u>

The provision for Hong Kong Profits Tax is calculated at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Taxation for the People's Republic of China ("PRC") subsidiaries is charged at the appropriate current rates of taxation ruling in the PRC.

4 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$360.4 million (2003: HK\$231.5 million) and 403.6 million (2003: 403.6 million) shares in issue during the period.

5 Independent review

The interim results for the half-year ended 30 June 2004 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants (formerly the Hong Kong Society of Accountants), by KPMG, 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 Company's Audit Committee.

INTERIM RESULTS

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2004 was HK\$360.4 million. This represents an increase of 55.7% compared with HK\$231.5 million for the same period in 2003. Earnings per share for the period under review amounted to HK\$0.89 compared with HK\$0.57 for the same period in 2003.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK\$0.45 per share (2003: HK\$0.45 per share), totalling HK\$181.6 million (2003: HK\$181.6 million), for the six months ended 30 June 2004. This interim dividend will be paid on 13 October 2004 to the shareholders who are on the Register of Members at the close of business on 7 October 2004. The Register will be closed from 5 October 2004 to 7 October 2004, 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 4 October 2004.

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 2004 amounted to HK\$338.6 million (2003: HK\$249.7 million), representing an increase of 35.6% compared with that of the same period in 2003.

In the first half of 2004, fare revenue and ridership amounted to HK\$2,878.4 million (2003: HK\$2,856.3 million) and 528.3 million passenger trips (2003: 513.4 million passenger trips) respectively. These represent increases of 0.8% and 2.9% respectively compared with the corresponding period in 2003. Such increases were mainly attributable to the recovery of the local economy after the subsidence of Severe Acute Respiratory Syndrome ("SARS") and the increase in tourists from the Mainland after the introduction and extension of the Individual Visit Scheme since July 2003. These positive factors on fare revenue were, however, partially offset by the three fare concession schemes introduced since 1 October 2003 and the loss of patronage to the Kowloon-Canton Railway ("KCR") West Rail which commenced operations in December 2003.

Advertising revenue for the first half of 2004 amounted to HK\$38.2 million. This represents a slight increase of 0.8% when compared to HK\$37.9 million recorded in the same period in 2003.

During the period under review, total bus operating costs slightly increased by about 0.11% compared with the same period last year. Whilst fuel costs increased significantly by 17.9% as a result of the surge in fuel prices, such increase was mostly offset by our effort to lower staff costs and other operating expenses through enhancement of staff productivity, improvement in operational efficiency and continuation of stringent cost control measures.

KMB operated a total of 403 routes at the end of June 2004, compared with 411 at the end of 2003. During the period under review, one new route was introduced whilst eight routes were cancelled in the Tuen Mun and Yuen Long areas due to the opening of KCR West Rail and one route serving the Tseung Kwan O area was also cancelled as part of a rationalisation exercise.

At the end of June 2004, there were 47 Octopus Bus-bus Interchange (“BBI”) schemes covering over 202 bus routes. In addition, KMB has also introduced an Octopus Bus-rail Interchange (“BRI”) scheme with KCR 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.

An additional 68 new air-conditioned double-deck buses were licensed during the first half of 2004. At 30 June 2004, KMB had a fleet of 4,149 licensed buses, comprising 3,941 double-deckers and 208 single-deckers, of which a total of 3,549 or 85.5% was air-conditioned. In addition, there were 86 buses under construction and 66 buses on order.

Long Win Bus Company Limited (“LWB”)

LWB recorded a profit after taxation of HK\$3.3 million for the first half of 2004 compared with a loss after taxation of HK\$4.4 million for the corresponding period of 2003.

For the first six months of 2004, LWB recorded a total ridership of 10.6 million (or a daily average of 58,407) passenger trips, an increase of 19.1% compared with 8.9 million (or a daily average of 49,299) passenger trips for the same period last year. The increase was due mainly to the new population intake at Tung Chung New Town and the recovery of travel demand to and from the Hong Kong International Airport.

As at 30 June 2004, 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 2003.

Non-franchised Transport Operations

The Group’s Non-franchised Transport Operations Division recorded a turnover of HK\$124.4 million (2003: HK\$109.5 million) and a profit after taxation of HK\$13.6 million (2003: HK\$6.4 million) for the first half of 2004. The increase in turnover and profit was mainly attributable to the recovery 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 slightly decreased by 0.2% as compared to the same period last year. The decrease in turnover was mainly due to the loss of patronage on certain residential bus services to KCR West Rail, which commenced operations in December 2003. The loss was, however, largely offset by the improvement in patronage with the recovery of the local economy after the subsidence of SARS.

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, six new coaches were added to its fleet bringing the total number to 229 buses at 30 June 2004.

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 materialise expansion through penetrating further into different market sectors and by providing quality and value-for-money bus services.

New Hong Kong Bus Company Limited ("NHKB")

NHKB jointly operates a popular cross-boundary shuttle bus service with its Shenzhen counterpart serving regular commuters and holiday travellers between Lok Ma Chau and Huanggang. Due mainly to the improved economic environment and the increase in the number of visitors from the Mainland since the introduction of the Individual Visit Scheme in July 2003, the average monthly ridership increased to 1,171,600 passenger trips for the first six months of 2004 from 892,800 passenger trips for the same period in 2003. A total of 24 buses were deployed to the service at 30 June 2004, same as at the end of 2003.

Park Island Transport Company Limited ("PITC")

PITC, a 65% owned subsidiary of the Company, provides high quality shuttle bus and ferry services for the residents of and visitors to Park Island, a prestige development on Ma Wan Island. Due mainly to further population intake and the sales campaign of residential flats of Park Island Phase III, PITC's patronage increased to 486,000 passenger trips in June 2004 from 346,000 in June 2003. At the end of June 2004, PITC operated a fleet of 14 air-conditioned buses and seven high-speed catamarans, same as at the end of 2003.

Media Sales Business

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

The RoadShow Group is a leading media sales group in the Greater China region and it markets advertising aimed at passengers of transit vehicles through a proprietary Multi-media On-board ("MMOB") system. It also manages and markets display advertising spaces on bus shelters, billboards, panel light boxes, bus bodies and telephone booths.

For the first half of 2004, the RoadShow Group reported a total operating revenue of HK\$98.1 million (2003: HK\$71.6 million) and a profit attributable to shareholders of HK\$10.3 million (2003: a loss of HK\$26.2 million).

Further information relating to the RoadShow Group is available in its 2004 interim report.

Mainland China Transport Operations

As at 30 June 2004, the Group's total interest in associates and jointly controlled entity in respect of Mainland transport operations amounted to HK\$215.0 million (31 December 2003: HK\$79.9 million). Such investments are related to the provision of passenger bus services in Dalian, Tianjin and Wuxi, and taxi and car rental services in Beijing. During the period under

review, these businesses contributed a profit before taxation of HK\$12.2 million to the Group's results for the first half of 2004 (2003: a loss before taxation of HK\$1.9 million). The turnaround was due mainly to the increase in the Group's investments and the subsidence of SARS on the Mainland compared with the same period last year.

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 46 double-deck and 30 single-deck buses.

Tianjin

The CJV in Tianjin was formed in December 2000 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, was established in Beijing in March 2003. BBKT's shareholders include KMB (Beijing) Taxi Investment Limited, a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Co. Limited, Beijing Bashi Co., Ltd. and three other Mainland investors. BBKT principally engages in taxi hire and car rental businesses in Beijing City with a fleet of over 4,000 vehicles. The Group's investment in BBKT was RMB 80.0 million (HK\$75.5 million), representing approximately 31.38% of BBKT's equity interest.

Wuxi

Wuxi Kowloon Public Transport Company Limited ("WKPT"), a Sino-foreign joint stock company in which the Group has 45% equity interest, was established in Wuxi City, Jiangsu Province in February 2004. WKPT currently operates some 1,700 buses on 106 routes. The Group's investment in WKPT was RMB 135.0 million (HK\$127.2 million).

Shenzhen

In December 2003, the Group entered into agreements to acquire a 35% stake of a Sino-foreign joint stock company, which would be formed from reorganisation of the existing Shenzhen Public Transportation Group Limited. This transaction is awaiting the statutory approval of the relevant authorities on the Mainland. Upon approval, the reorganised company will principally operate public bus services in Shenzhen, Guangdong Province, with around 3,400 vehicles on 120 routes.

Property Development

The redevelopment of the former Lai Chi Kok Depot site progressed smoothly in the first half of 2004. The site is being redeveloped into a residential and commercial complex with a total gross floor area of about one million square feet and a retail podium area of about 50,000 square feet. It is intended that several multi-storey prestigious residential towers will be constructed with about 1,300 units for sale and/or letting.

The piling and foundation work of the development was completed in January 2004. It is expected that the development will be completed in the second half of 2006. We shall closely monitor the property market conditions with a view to drawing up an appropriate timetable for marketing the property.

At 30 June 2004, the total construction cost incurred for the project amounted to HK\$217.9 million (31 December 2003: HK\$112.0 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 of the Group, was 36% as at 30 June 2004 (31 December 2003: 22%).

Net borrowings

At 30 June 2004, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$1,477.1 million, representing an increase of HK\$503.8 million as compared with the net borrowings of HK\$973.3 million at 31 December 2003. An analysis of the Group's net borrowings by currency at 30 June 2004 is shown below:

Currency	At 30 June 2004		At 31 December 2003	
	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		1,575.1		1,140.1
United States Dollar	(7.6)	(59.5)	(11.3)	(87.9)
British Pound Sterling	(1.4)	(19.7)	(6.5)	(90.1)
Renminbi	(19.9)	(18.8)	11.8	11.2
Total		<u>1,477.1</u>		<u>973.3</u>

Bank loans, overdrafts and other unsecured loans

Bank loans and overdrafts at 30 June 2004 amounted to HK\$2,625.0 million (31 December 2003: HK\$2,633.0 million). The maturity profile of the bank loans and overdrafts of the Group is as follows:

	At 30 June 2004	At 31 December 2003
	<i>HK\$ million</i>	<i>HK\$ million</i>
Within 1 year or on demand	481.8	415.4
After 1 year but within 2 years	380.9	374.9
After 2 years but within 5 years	1,412.3	1,492.7
After 5 years	<u>350.0</u>	<u>350.0</u>
	<u>2,143.2</u>	<u>2,217.6</u>
Total	<u>2,625.0</u>	<u>2,633.0</u>

At 30 June 2004, other unsecured loans amounted to HK\$21.1 million (31 December 2003: HK\$21.1 million) are interest-free and not expected to be settled within one year.

Banking facilities

At 30 June 2004, the Group had stand-by banking facilities totalling HK\$2,235.0 million (31 December 2003: HK\$2,236.7 million).

Finance costs

The finance costs for the period under review amounted to HK\$5.6 million (2003: HK\$21.4 million). This represents an average interest rate of 0.46% per annum for the first half of 2004, down from 1.7% per annum for the same period last year.

Cash and deposits at bank

At 30 June 2004, the Group's cash and deposits at banks (mainly denominated in Hong Kong Dollars, US Dollars, British Pound Sterling and Renminbi) amounted to HK\$1,169.0 million (31 December 2003: HK\$1,680.8 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 is derived from fare revenue 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 2004, the Group's total borrowings were substantially denominated in Hong Kong Dollars and on a floating interest rate basis. This had enabled the Group to take full advantage of the low interest rates during the first half of 2004. 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.

COMMITMENTS

Commitments outstanding and not provided for in the interim financial report of the Group as at 30 June 2004 amounted to HK\$1,901.5 million (31 December 2003: HK\$2,299.2 million). The commitments are mainly in respect of the redevelopment of the former Lai Chi Kok Depot site, the construction of new bus depots, the capital contribution for investments and 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 2004, the Company had undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK\$628.0 million (31 December 2003: HK\$574.2 million). Additionally, together with an external 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\$135.0 million (31 December 2003: HK\$110.0 million). Such bank loan will be repayable by instalments commencing from February 2005 to August 2008.

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 2004, the Group had 13,620 employees (2003: 14,021 employees), with total remuneration for the period amounting to approximately HK\$1,530.2 million (2003: HK\$1,587.4 million), representing 52% (2003: 53%) of the total operating costs for the corresponding period.

OUTLOOK

We expect that the ridership of the Group's franchised public bus business will continue to be adversely affected by KCR West Rail in the second half of the year. Further, the scheduled opening of the Ma On Shan Extension and the Tsim Sha Tsui Extension of KCR East Rail by the end of 2004 will be bound to aggravate the adverse impact on our patronage. However, we anticipate that the improving economy and the expanding Individual Visit Scheme, which facilitate more visitors from different provinces on the Mainland to travel to Hong Kong, will generate some passenger growth for the Group to partially offset the loss of patronage to the new railways.

Meanwhile, we will continue to monitor our patronage trends and rationalise our bus network as necessary in light of the opening of the new railways. Resources from the affected areas will be re-deployed to other locations in need of our bus services. In the longer term, we anticipate that our patronage will grow steadily when more new towns are developed to cope with the expected population growth and the shifting of population to the rural areas due to the extension of railway lines.

Oil prices are expected to stay at a relatively high level in the second half of 2004. We will continue to step up our cost control measures to mitigate the adverse financial impact on the Group as far as practicable.

With the continuous improvement in the local economic environment, we anticipate that our non-franchised transport business, particularly the cross-boundary shuttle bus service, and our media sales business will further strengthen in the second half of 2004. The redevelopment of our former Lai Chi Kok Depot site into a residential and commercial complex is progressing smoothly and is expected to generate income for the Group in the near future.

Our investments on the Mainland are expected to gradually provide more contribution to the Group's earnings in the coming years. We will continue to explore new growth opportunities in both transportation and media sales businesses on the Mainland in accordance with the Group's strategy of sustaining long-term business growth through business diversification.

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

A detailed interim results announcement containing all the information required by the paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange in force prior to 31 March 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the Stock Exchange's website in due course.

By order of the Board
S.Y. CHUNG
Chairman

Hong Kong, 16 September 2004

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

** Independent Non-executive Director of the Company*

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