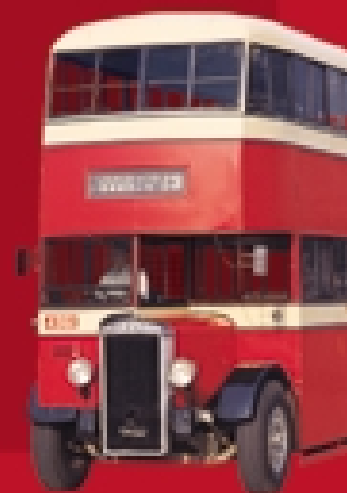




70 Years of Total Customer Satisfaction



THE KOWLOON MOTOR BUS HOLDINGS LIMITED
2002 Annual Report



**Serving Generations
of Passengers**



ROUTE NO 路線	NEXT DEPARTURE 開行時間	FARE 車費	DESTINATION 目的地
1A	15:57	\$ 5.9	中秀茂坪
2	15:57	\$ 3.0	蘇厝
5	15:59	\$ 3.0	彩虹亭
6	15:56	\$ 4.3	美芝
7	15:56	\$ 3.0	樂富





1930's ...

The Kowloon Motor Bus Company (1933) Limited ("KMB") was established on 13 April 1933. In the same year, it was granted the right by the Hong Kong Government to operate franchised bus services in Kowloon and the New Territories.

Beginning with 106 single-deck buses, KMB increased its fleet to 140 single-deck buses by 1941, just before the outbreak of the Second World War. In those days, roving conductors were engaged to sell and punch tickets on the buses.

KMB operations came to a halt during the Second World War. After the war, the population of Kowloon increased rapidly, and many manufacturing plants were built and residential and commercial buildings sprang up in the developing parts of Kowloon. In order to meet the escalating transport demand, KMB introduced Hong Kong's first double-deck bus, the "Daimler A", in 1949.

4. Double-deck buses were first introduced in 1949 to meet the increasing travel demand.

5. Conductors were engaged on board to sell tickets to passengers until the 70's.

6. Bus terminus facilities were rudimentary during the 50's compared to today's standards.





2.



3.

1. A small single-deck bus named "Cygnet", or "Little Swan", taken in 1938. This bus could carry up to 37 passengers.
2. In the 30's, wood signboards were installed on the tops of some buses to show route numbers and destinations.
3. KMB's terminus at the Tsim Sha Tsui Star Ferry Pier was already a major transport hub in 1933.

1950's ...

Training has always been a top priority of KMB to maintain and improve its service standards. In the late 1950's, KMB appointed driving instructors from its experienced crew of bus drivers. Today, the training of bus captains is a highly specialised process. KMB has deployed considerable resources to enhance its training facilities and methods. External consultants have frequently been brought in to help train bus captains as well as other frontline staff on customer service techniques.

On 1 May 1961, KMB listed its shares on the Hong Kong Stock Exchange. In the same year, KMB had about 700 buses and a ridership of over one million passengers a day.

During the 1960's, larger double-deck buses with a carrying capacity of up to 120 passengers each were deployed by KMB to meet the travelling demand of the soaring population. Among these large buses, one model which was named "Daimler E" or "Long Bull" became the core member of the fleet during the 70's and 80's.



6.



Meeting Customer Expectations
Over the Years







1970's ...

Prior to 1971, two to three conductors were required to operate a double-deck bus. From 1972 onwards, with the use of fare collection boxes, KMB gradually adopted the system of “one-man-operation” with no conductors. The savings in manpower greatly enhanced the overall efficiency of KMB’s bus operations.

Another breakthrough for KMB during the 1970’s was the opening of the Cross Harbour Tunnel in 1972 when KMB extended its services to Hong Kong Island. This was an important milestone marking the start of direct point-to-point bus services across the harbour.

In 1983, KMB opened its overhaul centre in Tuen Mun. With a total floor area of over 0.5 million square feet, this centre is listed in the Guinness Book of Records as the largest multi-storey bus maintenance depot in the world.

KMB’s fleet grew rapidly during the 1980’s to serve the increasing demand of the new towns in the New Territories. Various types of giant three-axle double-deck buses, carrying up to 170 passengers, were acquired to enhance service efficiency. This provided a public transport solution enabling the development of the new towns for people seeking improved living conditions outside the congested traditional urban areas.

10. A stylish champagne livery was chosen for the new generation of super-low-floor air-conditioned double-deck buses which were first introduced to Hong Kong by KMB in 1997.

11. Octopus card readers were introduced alongside the traditional coin boxes for bus fare collection in the late 90’s.

12. Large light emitting diode (LED) display boards in KMB termini display up-to-the-minute bus departures times and fare information.





8.



9.

7. Three smart yellow strips were painted on a bus during the 70's to signify that the bus was operated by one conductor.

8. Coin boxes for fare collection were introduced in 1972 to achieve savings in conductor manpower.

9. In the 70's, passenger waiting shelters were provided in KMB's terminus at Jordan Road Ferry Pier.

1990's ...

KMB reached another milestone in the early 1990's when it began to introduce air-conditioned double-deck buses on a large scale to its fleet. This led to the subsequent purchase of over 3,000 air-conditioned buses, advancing Hong Kong's public bus service to world-class standard.

In 1996, KMB introduced the first easy access buses in Hong Kong which were equipped with innovative features such as super-low floors, kneeling mechanisms and extendable ramps to facilitate access for senior citizens, the physically handicapped and other riders needing assistance.

The corporate structure of KMB was reorganised in 1997 and KMB became a wholly-owned subsidiary company of The Kowloon Motor Bus Holdings Limited which has replaced KMB's listing status on The Stock Exchange of Hong Kong Limited since November 1997.

Throughout the 1990's, KMB continued to strengthen its customers and community relations. It frequently hosted meetings with District Board members and community representatives to discuss public transport issues, and also organised passenger liaison groups to solicit customer opinions. It developed a sizeable customer service hotline



12.





**Offering Mobility to a
Metropolitan Life**



Locations of KMB's and LWB's Termini and Depots



The Group's headquarters



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



Depot of Long Win Bus Company Limited ("LWB")



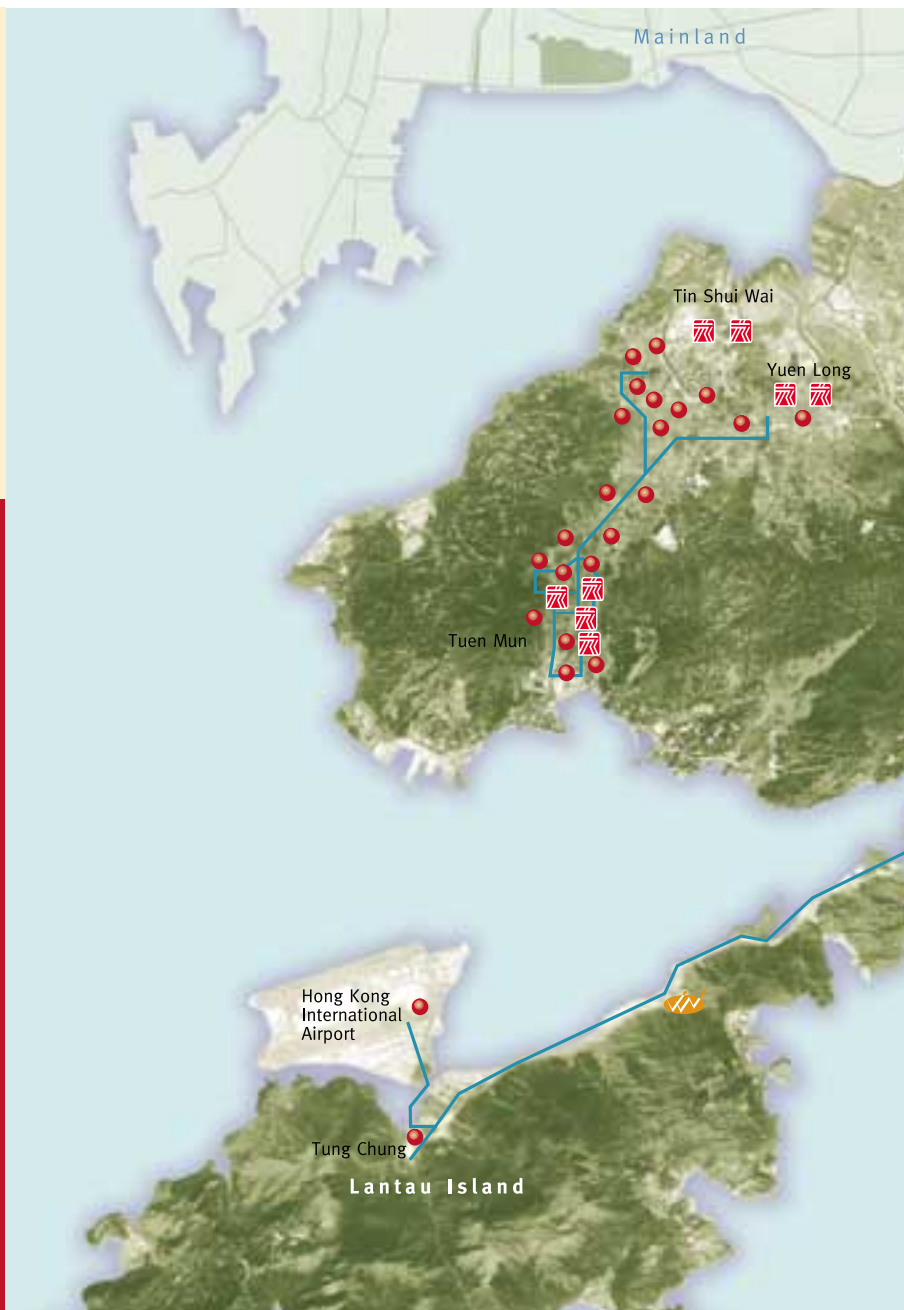
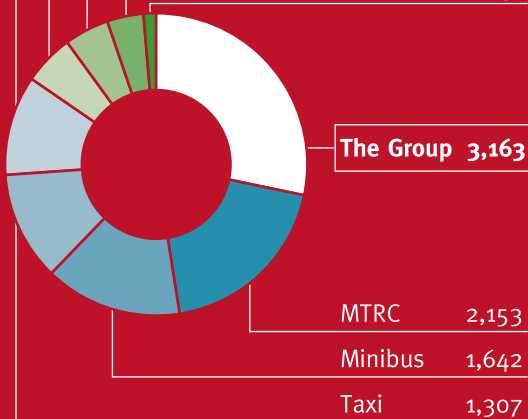
Bus termini of KMB and LWB



Railways

Average number of passenger trips per day by mode of transport in 2002

Thousand of passenger trips per day	KCRC	1,196
	Citybus	604
	NWFB	535
	Others	435
	Ferries	151

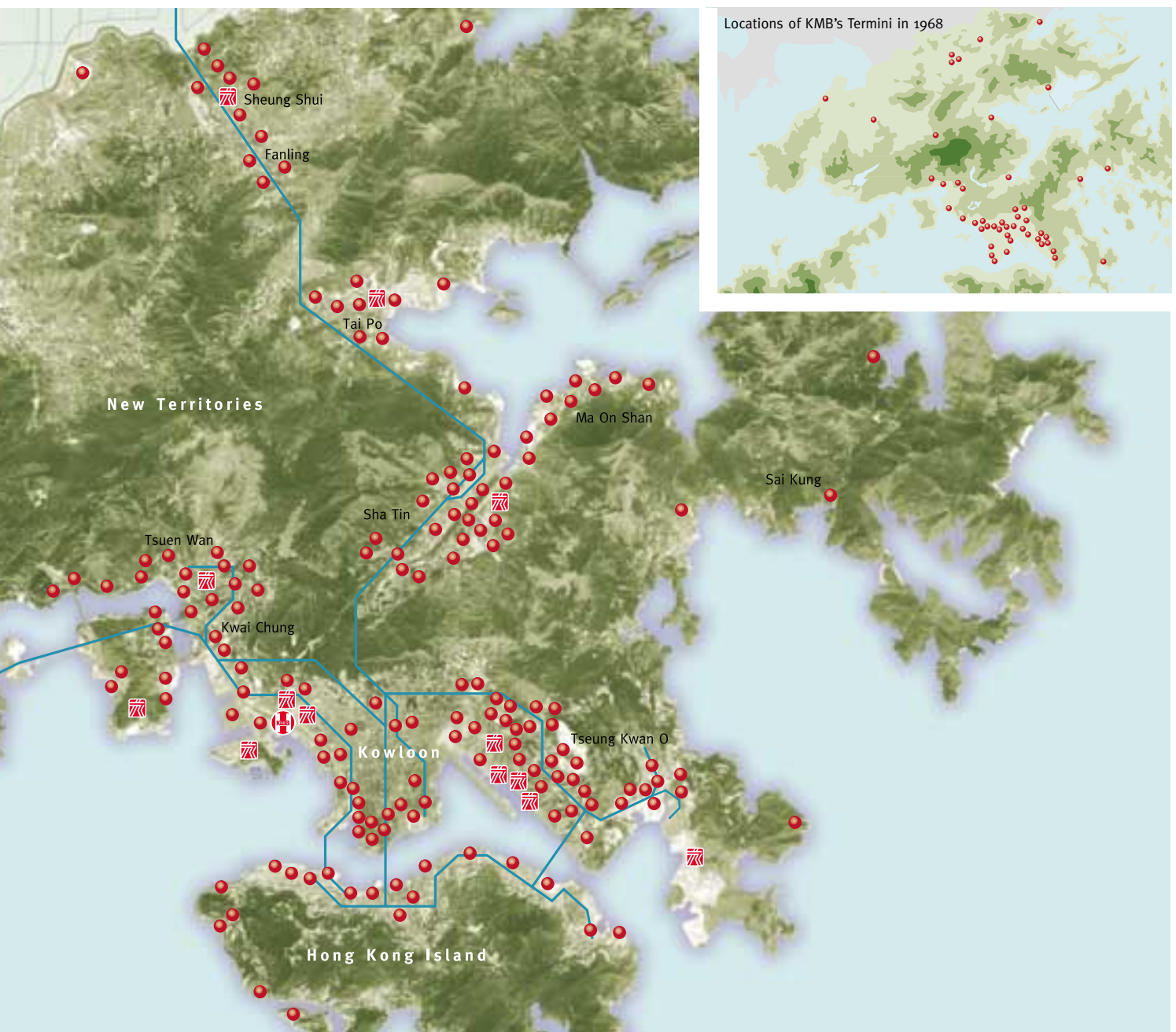


centre and provided advanced internet bus route search services to public transport users. It established modern and comfortable customer service centres at major bus termini and introduced various types of large-scale light emitting diode (LED) display boards in major bus termini to provide customers with up-to-the-minute bus departure information.

KMB achieved ISO 9001 certification on a corporate-wide basis in 1999 thus becoming the first bus company and the fourth corporation in Hong Kong to earn this international standard accreditation.

21st Century

Entering into the 21st century, KMB continued to launch various innovative measures to improve the quality of its service. By the end of 2000, KMB had all its buses equipped with Octopus card readers. The Octopus system, an automatic fare collection system that makes use of smart card technology, provides an alternative and more convenient means for fare payment. In 2000, KMB introduced Hong Kong's first "Multi-media On-board" ("MMOB") buses offering infotainment to passengers. By the end of 2002, the average MMOB viewership reached over two million people a day.



The aerial photo reproduced with permission of The Director of Lands. © Government of Hong Kong SAR. Licence No.52/2002

As a responsible corporate citizen, KMB has been taking the lead in the public bus industry to implement a variety of measures to ensure that its operations are environmentally sound. For example, KMB has deployed buses equipped with engines that comply with the European Union's strict exhaust emission standards, and since 2001, converted to use ultra low sulphur diesel (green diesel) for its entire bus fleet. To further improve the environment in the passenger compartment, buses purchased by KMB from 2002 onwards are equipped with electrostatic air filters and improved temperature control mechanisms. In addition, a new generation of buses equipped with Euro III engines and easy access straight staircases have been ordered for delivery in 2003.

Seventy years ago, KMB commenced operation with 106 single-deck buses and 18 routes. Today, it has a fleet of some 4,440 buses, serving 3 million passenger trips on 405 routes a day. The KMB team comprising some 13,000 employees is fully committed to providing an efficient, reliable and user-friendly bus service to its customers. Having played an active part in the development of Hong Kong over the years, KMB has become one of the world's largest privately run public bus companies and gained recognition as an international leader in public bus transportation.



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Photograph opposite (from right to left):

Mr John C C CHAN, Managing Director; **Mr Edmond T M HO**, Deputy Managing Director and Finance and Administration Director;
Miss Winnie J NG, Executive Director; **Mr LUI Pochiu**, Operations Director; **Mr C K MAK**, Commercial Director

Group Profile

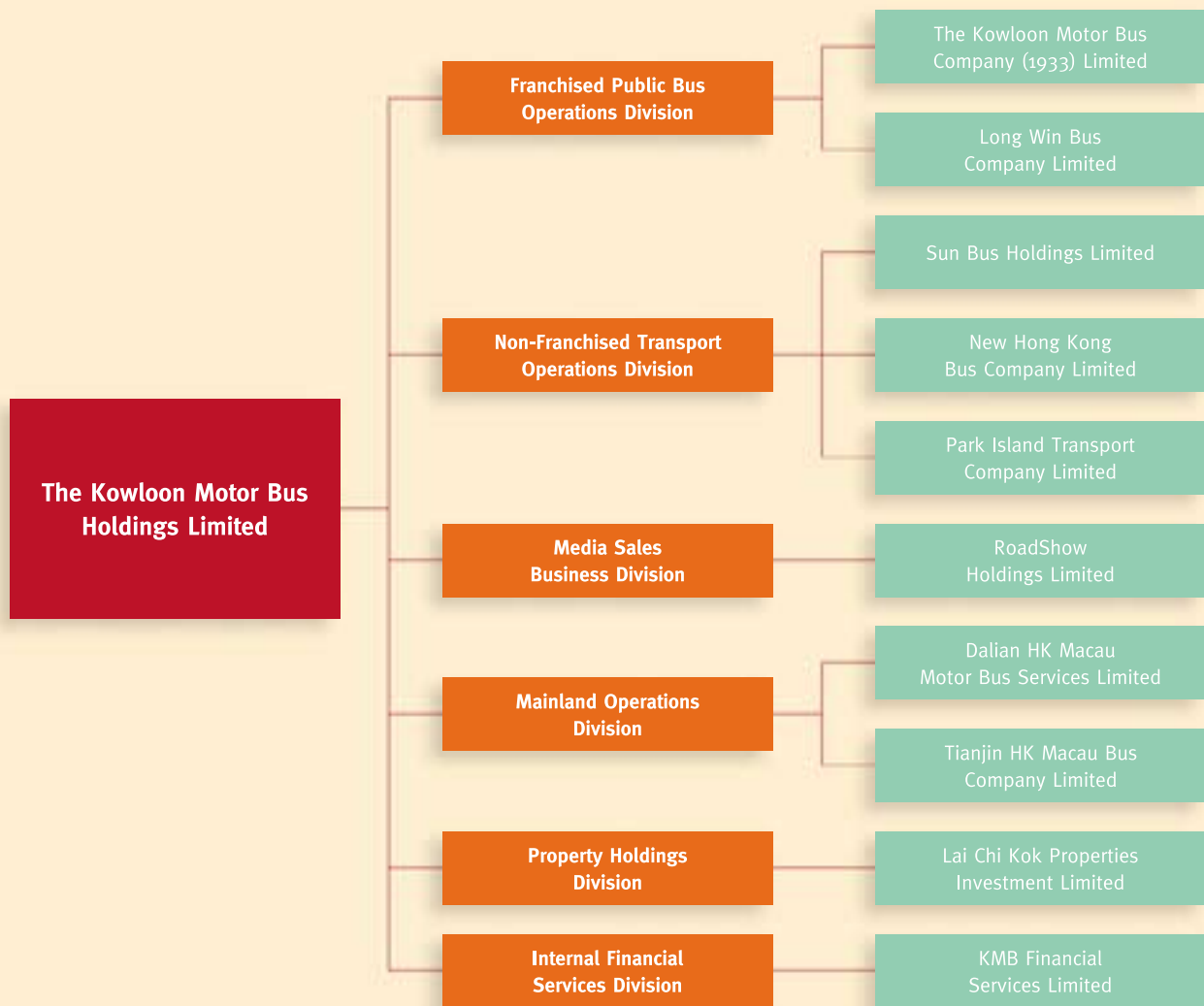
The Kowloon Motor Bus Holdings Limited (“the Company” and, together with its subsidiaries, “the Group”) is Hong Kong’s largest public transport company in terms of ridership, serving more than three million passenger trips daily. The Group comprises six divisions: Franchised Public Bus Operations, Non-Franchised Transport Operations, Mainland Operations, Media Sales Business, Property Holdings and Internal Financial Services.

The Group’s wholly owned flagship, The Kowloon Motor Bus Company (1933) Limited (“KMB”), was founded 70 years ago to provide franchised public bus services in Hong Kong. KMB’s fleet of over 4,440 buses serve some 400 routes covering Kowloon, the New Territories and, through the cross-harbour tunnels, Hong Kong Island. Another wholly owned subsidiary, Long Win Bus Company Limited (“LWB”) was established in 1996 and operates 145 buses on 15 routes plying between the New Territories and the Hong Kong International Airport and North Lantau. The Group also operates non-franchised bus and ferry services in Hong Kong as well as public bus services in the Mainland of China.

RoadShow Holdings Limited (“RoadShow”), a 73.0% owned subsidiary of the Group, is a leading provider of innovative multi-media services in the out-of-home media market. RoadShow markets advertising space on the exterior and interior of transit vehicles and bus shelters, and merchandises commemorative items in Hong Kong. It has been separately listed on the Main Board of The Stock Exchange of Hong Kong Limited since 28 June 2001.

Lai Chi Kok Properties Investment Limited, a wholly owned subsidiary in the Group’s Property Holdings Division, is the owner of the site adjacent to the KMB Headquarters Building at Lai Chi Kok, Kowloon. It has commenced the redevelopment work on this site, which was formerly used for a bus depot, with a view to building a residential complex with about one million square feet for sale.

The Group employs some 14,000 staff, of whom about 9,100 and 2,500 are bus captains and maintenance staff respectively. KMB is the first public bus company and the fourth corporation in Hong Kong that is ISO certified throughout its entire organisation. The Group’s corporate culture is one of service excellence and total customer satisfaction.



Our Mission

We aim to be the best public bus operator in the world.

Our mission is to contribute to the economic and social development of Hong Kong by providing to residents and visitors an efficient, reliable and user-friendly bus service that gives excellent value for money.

Our objective is to make our buses the preferred mode of public transport in Hong Kong, to remain the leader of the public bus industry in Hong Kong and to set trends and standards for the industry.

Through effective development and implementation by all staff of a Total Quality Management System that fulfils ISO 9001 : 2000 requirements, we will continuously assess and improve the efficiency, reliability and user-friendliness of our public bus service to meet and, where possible, exceed the needs and expectations of our customers.

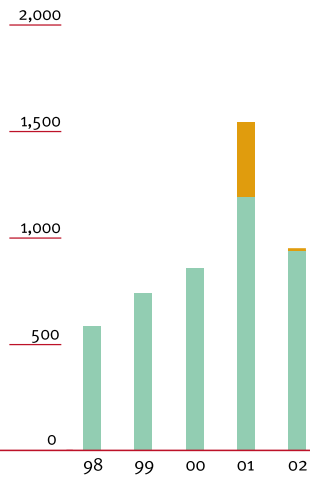
Financial and Operational Highlights

for the year ended 31 December

	Unit	2002	2001 restated
Financial Highlights			
Turnover	HK\$ million	6,843.4	6,861.8
Profit from ordinary activities before tax	HK\$ million	1,142.2	1,809.7
Profit attributable to shareholders	HK\$ million	939.6	1,539.4
Earnings per share	HK\$	2.33	3.81
Dividends per share	HK\$	2.03	1.86
Shareholders' funds	HK\$ million	4,560.9	4,179.7
Total assets	HK\$ million	9,163.1	8,752.0
Net borrowings	HK\$ million	689.5	225.8
Net finance charges	HK\$ million	13.1	23.8
Cash generated from operations	HK\$ million	1,873.2	2,194.7
Financial Ratios			
Profit margin (excluding deemed profit on partial disposal of a subsidiary)		13.7%	17.3%
Return on shareholders' funds		20.6%	36.8%
Net gearing (ratio of net borrowings to shareholders' funds)		0.15	0.05
Interest cover (ratio of profit from ordinary activities before tax to net finance charges)		87.2	75.9
Dividend cover (ratio of profit attributable to shareholders to total dividends paid and proposed for the year)		1.15	2.05
Franchised Public Bus Operational Highlights			
Average number of passenger trips per day	million trips	3.16	3.10
Number of licensed buses at year-end		4,586	4,544
Number of staff at year-end		13,649	13,689
Average number of staff per licensed bus		2.98	3.01
Non-Franchised Transport Operational Highlights			
Number of licensed buses at year-end		223	210
Number of catamarans at year-end		6	—
Number of staff at year-end		503	385

Profit attributable to shareholders

HK\$ Million

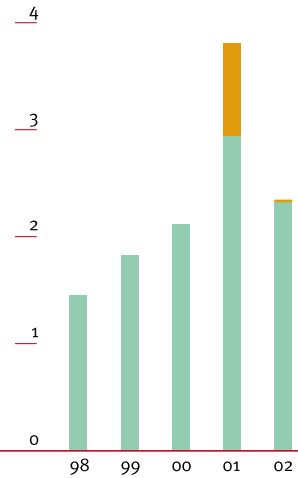


■ Excluding deemed profit on partial disposal of a subsidiary
■ Deemed profit on partial disposal of a subsidiary

Profit attributable to shareholders for 2002 was HK\$939.6 million

Earnings per share

HK\$

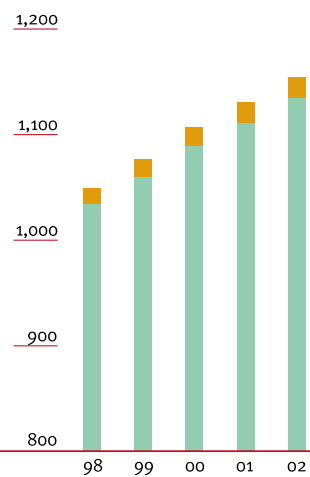


■ Excluding deemed profit on partial disposal of a subsidiary
■ Deemed profit on partial disposal of a subsidiary

Earnings per share for 2002 was HK\$2.33

Number of passenger trips (Franchised public bus operations)

Million trips



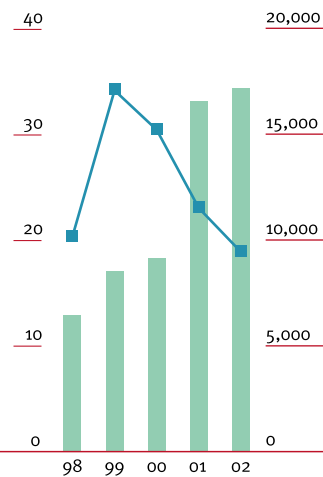
■ KMB
■ LWB

Number of passenger trips was up by 2.2% to 1.15 billion in 2002 from 1.13 billion in 2001

Share price of the Company and Hang Seng Index at year-end

HK\$

Hang Seng Index



■ Share price of the Company (HK\$)
■ Hang Seng Index

The closing share price of the Company at 31 December 2002 was HK\$34.4 per share, up 3.6% from 2001 year-end

Corporate Milestones

pic.1



pic.2

pic.3



pic.4

pic.5



pic.6

January

“A” credit rating from Standard & Poor’s › KMB was assigned with a single “A” corporate credit rating (outlook: stable) by Standard & Poor’s on 14 January 2002, reflecting its strong financial position. KMB is pleased to attain such a credit rating which has helped maintain our finance costs at a reasonably low level.

First Cyber Bus Stop launched (pic.1) › KMB installed Hong Kong’s first Cyber Bus Stop at Star Ferry Bus Terminus in Tsim Sha Tsui. The bus stop enables customers to access KMB’s website through a touch-screen liquid crystal display panel and provides information on bus routes, news, weather forecasts and latest traffic conditions. Further, it is equipped with a web-camera to facilitate remote monitoring of traffic conditions around the terminus by KMB’s traffic control staff.

March

KMB website revamped › KMB’s website (www.kmb.com.hk) was redesigned with a new look and to provide more comprehensive information. Photographs of all KMB’s bus stops, approximately 4,200 in total, were uploaded onto the website to help customers identify and locate bus stops more easily. The website also offers a point-to-point bus route search function and entertainment features such as travel guides and bus model showcases.

May

New Lai Chi Kok Bus Depot › KMB’s environment-friendly New Lai Chi Kok Bus Depot in the West Kowloon Reclamation Area commenced operations in May 2002 to replace the former Lai Chi Kok Depot in Lai Chi Kok. With a total floor area of 650,000 square feet, it provides maintenance services for some 1,000 buses, and supports over 110 bus routes in the West Kowloon and South-west New Territories regions. The new depot was built with environment-friendly concepts in mind and incorporates many modern facilities that enhance operational efficiency and effectiveness.

August

Bus services in Tseung Kwan O area › Upon the opening of the MTR Tseung Kwan O Extension in August 2002, KMB reorganised its Tseung Kwan O and Yau Tong bus service network to adapt to the new market conditions. Certain bus routes were rationalised and the resources were relocated to serve other areas with high demand.

September

“Outstanding Service Award” fosters quality customer services (pic.2) › To recognise staff with outstanding performance, KMB organised its first “Outstanding Service Award” in September 2002. Fifty-two staff received recognition with these special awards. The Award aims to reinforce staff enthusiasm and on-the-job initiative, strengthen positive attitudes towards both internal and external customers, and encourage participation in charitable activities.

KMB Digital Map Passenger Enquiry System (pic.3) › A brand new Digital Map Passenger Enquiry System, assisting operators in handling telephone enquiries more efficiently, became operational in the KMB Customer Service Hotline Centre. By locating the starting point and destination on the digital map, the system generates sets of optimal direct or connecting routes ranked by criteria such as fare, walking distance, journey time and distance for our customers to choose from. Information on bus-bus interchange schemes is also made available. Assisted by the digital map and the 100,000 local landmarks stored in the system, the Hotline operators can speedily provide precise information to help customers identify the appropriate bus stops.

October

Forbes “200 Best Under A Billion” Awards › Forbes assembled a list of 20,000 companies outside the U.S. with US\$1 billion or less in revenue and bestowed awards to 1% of those who made the grade. The Company was honoured to receive the Award for 2002 from Forbes on 30 October 2002.

Hong Kong’s first air-conditioned passenger waiting lounge › To enhance the waiting environment for its customers, KMB built Hong Kong’s first air-conditioned passenger waiting lounge at the Lam Tin Bus Terminus. The lounge is a transparent enclosure made of strengthened glass with fresh air supplied by an independent cooling system. It offers customers a refreshing, quiet and comfortable environment while waiting for buses. The lounge is equipped with advanced information services and seating facilities.

November

Eco-Driveline launched to reduce emissions (pic.4) › KMB successfully developed the pioneering Eco-Driveline on buses. The new Eco-Driveline system includes mechanical changes to bus design, which improves engine efficiency and reduces exhaust emissions by an average of 6% to 10%. A bus equipped with the system can accelerate and run with greater smoothness, providing passengers with an even more comfortable ride.

Hong Kong’s first intelligent Customer Information Station › KMB ushered in a breakthrough in customer service by introducing Hong Kong’s first Intelligent Customer Information Station at Tsim Sha Tsui Star Ferry Bus Terminus. The station comprises three parts: an outdoor all-weather customer self-service kiosk, a customer service centre and a graphic wall showing valuable historical and modern KMB photographs. Friendly customer service ambassadors are available to provide bus route information to passengers and tourists and also collect customers’ opinions. Octopus card add-value service is also provided.

December

Information technology award (pic.3) › With its Digital Map Passenger Enquiry System newly developed for the KMB Customer Service Hotline, KMB participated in the IT Excellence Awards 2002 contest organised by the Hong Kong Computer Society. KMB has won the Bronze Award of the Application Category of the IT Excellence Awards 2002 which aimed at encouraging development of new information technology products and services in Hong Kong as well as recognising those who have made outstanding achievements.

Advanced Electronic Survey System (pic.5) › Up to 90% of surveys conducted by KMB are now digitalised with the introduction of the advanced “Electronic Survey System”. KMB is the first bus company in Hong Kong to introduce the survey system, which enables KMB to maintain a more comprehensive database on customers’ needs and requirements for route planning and the provision of tailor-made services for customers.

Bus and ferry services launched for Ma Wan Island (pic.6) › Park Island Transport Company Limited, a 65% owned subsidiary of the Group, successfully launched its bus and ferry services for Park Island, a prestigious residential complex on Ma Wan Island. The ferry service marked the Group’s first entry into the sea transport industry.

Chairman's Statement

Throughout its history over the last seven decades, KMB and the Group have made positive contributions to Hong Kong's development.



Despite a difficult economic environment and increasing competition, the Group performed well in 2002. Overall, it was a year of consolidation in which we capitalised on our breakthroughs and achievements of the past several years.

The Kowloon Motor Bus Company (1933) Limited (“KMB”) marks its 70th anniversary in 2003. Although KMB is one of the oldest public transportation companies in Hong Kong, we have stood the test of time by thinking and acting young. This management philosophy has enabled us to stay ahead of the times and maintain our leadership position.

The Group remains flexible, sensitive to market conditions and expectations, and takes full advantage of our economies of scale. Our advanced management systems and practices stand us in good stead in both weak and strong economic climates.

Throughout its history, the Group has been a leading contributor to Hong Kong’s development. We have provided dependable public transportation at competitive prices. We are a major, caring employer and we have helped put Hong Kong on the world map in terms of bus industry performance and our inclusion in international financial indices. KMB has been recognised many times by various international bodies, who have lauded our efforts in many areas of our business. The Group is also a responsible corporate citizen in environmental protection and community betterment. The Hong Kong General Chamber of Commerce endorsed KMB as one of Hong Kong’s best name brands during the year.

We ensure that our customers are satisfied with our services. This strategy, coupled with stringent cost control and improvements in productivity, has enabled us to avoid fare increases for the past five years. This is, of course, in accord with the popular sentiment to economise during difficult economic conditions.

However, during this 5-year period, major operating cost items, such as fuel prices, tunnel tolls and insurance costs, have significantly increased and these are beyond our control. Salaries have also increased in line with our philosophy of attracting and retaining a first rate staff force. In addition, we have reinvested significant amounts of our income each year to purchase new and better buses, upgrade our termini and depot facilities, and incorporate the latest environmental protection measures. We will continue our very best efforts to improve our productivity and service quality so that our customers can enjoy comfortable and reliable bus journeys at reasonable fares.

Results for the Year

The Group’s profit attributable to shareholders for the year ended 31 December 2002 was HK\$939.6 million. This represents a decrease of 39.0% compared with HK\$1,539.4 million (restated) for the previous year, which included a non-recurrent deemed profit of HK\$349.6 million arising from the partial disposal of RoadShow Holdings Limited (“RoadShow”). Earnings per share for the year were HK\$2.33 compared with HK\$3.81 (restated) for 2001.

Excluding the non-recurrent deemed profits of HK\$2.7 million for 2002 and HK\$349.6 million for 2001 arising from the partial disposal of RoadShow shares for comparison purpose, the Group’s profit attributable to shareholders for the year ended 31 December 2002 represents a decrease of 21.3% compared with that for 2001.

The profit from KMB for 2002 was HK\$872.3 million, representing a decrease of 14.0% compared with HK\$1,014.8 million (restated) for 2001. The results of Long Win Bus Company Limited (“LWB”) improved to a profit of HK\$4.6 million for 2002 from a loss of HK\$0.4 million (restated) for the previous year. The profit from non-franchised businesses amounted to HK\$12.7 million, representing an increase of 54.9% compared with 2001.

Dividends

At the forthcoming Annual General Meeting, the Directors will recommend the payment of a final dividend of HK\$1.58 per share for the year ended 31 December 2002. This compares with HK\$1.46 per share for 2001. Together with the interim dividend of 45 cents per share paid on 10 October 2002 (2001 : 40 cents per share), total dividends for the year will amount to HK\$2.03 per share compared with HK\$1.86 for the previous year. The total dividend payout for the year will amount to HK\$819.4 million as compared with HK\$750.8 million for 2001.

Outlook

Looking ahead, in the short term, we anticipate bus service contraction rather than expansion because of the HKSAR Government's rail development strategy and the weak economic environment. The opening of the Mass Transit Railway ("MTR") Tseung Kwan O Extension in August 2002 has caused the Group to lose about 100,000 passenger trips daily. It is expected that the Kowloon-Canton Railway ("KCR") West Rail linking the west and northwest New Territories with Sham Shui Po, Kowloon will come into service in the third quarter of 2003. The following year will see the opening of the KCR Ma On Shan Rail and the extension of the KCR East Rail to Tsim Sha Tsui. All these railway developments will intensify competition for the bus transport industry as a whole and for KMB in particular. Over the long term, we nonetheless anticipate new demand and continued growth for bus transportation due to the increasing population in the New Territories, the flexibility of bus routes, and the development of new towns made possible by the new rail lines.

Our involvement in Government studies commissioned by the Transport Department to coordinate public transport services with new rail services enables us to redeploy our resources for the future in a smooth and efficient manner. When the new MTR Tseung Kwan O Extension service began, we made pre-arranged personnel adjustments and initiated changes in services to accommodate the new market conditions. Thus, we were able to mitigate some of the adverse impact on our customers and staff.

We will be enhancing our bus-bus interchange schemes to further develop a more integrated public transportation network by continuing to develop co-operative arrangements with other public bus transport operators and the rail operators. The development of these co-operative arrangements will help to ease traffic congestion and reduce pollution through deploying fewer buses along urban routes.

Business Strategy

Our strategy is to diversify our business by continuing to explore new growth opportunities that can be leveraged on our core competencies. Our new 65% owned subsidiary, Park Island Transport Company Limited ("PITC"), providing shuttle bus and ferry services to and from Park Island, a major residential development on Ma Wan Island, is a good example of this approach.

Another endeavour is the redevelopment of the obsolete Lai Chi Kok Depot into an upscale residential and commercial complex which is scheduled for completion by 2005. This project will bring us a new income generating asset as well as a population centre near one of our major bus termini that will be a potential source of new customers for KMB.

With a focus on quality service, the Group will continue to develop our non-franchised bus business in Hong Kong. We anticipate that our 'Multi-media On-board' ("MMOB") service will continue to generate advertising revenue and be further developed in Hong Kong and on the Mainland of China. In the light of the strong economic growth of the Mainland, we will explore more new opportunities in its public transport sector.

Throughout our long history, the Group has weathered periods of economic recession and flourished during periods of prosperity because of our dedication to quality service and our flexibility in adapting to changing market conditions. Our commitment to operational efficiency and productivity will enable us to maintain this record of achievement.

Corporate Governance

The Group recognises the importance of sound corporate governance and transparency. To this end, we provide access to information about the Group to a variety of audiences including financial analysts, investors, shareholders, financial institutions, customers, the media and our staff. We have improved our channels of communication by, for example, updating our website and maintaining and improving dialogues with our customers and the local community.

Our Audit Committee and internal audit team have continued their efforts in assuring the Group's good corporate governance practices and disclosure standards. With the assistance of our external auditors and Internal Audit Department, the Audit Committee reviews the Group's financial reporting process and management control systems regularly. In addition, our internal audit team conducts comprehensive audits and reviews on the Group's financial and operational procedures and practices on both a regular and an ad hoc basis.

Social Responsibility

We know that to earn the right to retain our franchise to serve the community, we must continue to offer quality service at reasonable fares and take measures to protect the environment. As a responsible corporate citizen, we are totally committed to doing our very best in improving our passenger transport services in every aspect for the benefit of the community.

Our People

Our people have been a winning team that delivers a high level of performance for the Group. Their achievements have been recognised both within the Company and by external observers. On behalf of the Board, I thank all employees of the Group for their invaluable contributions to our businesses during the year and we look forward to their dedicated and continued support in the years ahead.

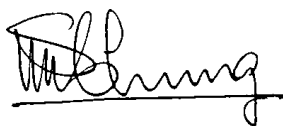
Directors

Under the Public Bus Services Ordinance (Cap. 230), the Commissioner for Transport and the Deputy Secretary for the Environment, Transport and Works are appointed by the Chief Executive of the HKSAR Government to sit on the Boards of KMB and LWB. During 2002, the incumbents in these posts were Mr. Robert Footman, JP and Mr. Arthur Ho, JP respectively. I sincerely appreciate the valuable contributions made by both Mr. Footman and Mr. Ho.

Miss Susanna Lau Shung Oi was appointed as Alternate Director to Mr. Walter Kwok Ping Sheung, JP in place of Mr. Patrick Chan Kai Lung on 13 May 2002. I would like to welcome Miss Lau to the Board and thank Mr. Chan for his past service as a Board member.

My sincere thanks also go to the Group's Audit Committee, chaired by Mr. George Chien Yuan Hwei, with Dr. James Kung Ziang Mien, OBE, and the Honourable Eric Li Ka Cheung, JP as members, for their professional and meticulous work during the year.

Lastly, I want to thank my fellow Directors, in particular our Managing Director, Mr. John Chan, GBS, JP, for their contributions towards the successful performance of the Group in 2002.



S.Y. CHUNG

Chairman

20 March 2003

Managing Director's Report

We have earned recognition both internationally and from various sectors of the Hong Kong community for our high quality standards and commitment to public service.





The Kowloon Motor Bus Company (1933) Limited (“KMB”)

KMB’s fare revenue for the year increased by 1.1% to HK\$6,234.0 million from HK\$6,169.5 million for 2001. A total of 1,134.4 million passenger trips (a daily average of 3.11 million) were made on KMB buses in 2002, an increase of 2.1% compared with 1,111.2 million passenger trips (a daily average of 3.04 million) in 2001. We attribute these modest growth trends to the demand generated by population growth and our strategy of providing quality service to retain our customers and attract new passengers which were, however, offset by more intense competition from the expanded railways and generally reduced spending in a weak economy.

The actual distance travelled by KMB’s buses increased to 349.9 million kilometres in 2002 from 349.1 million kilometres in 2001. The slight increase in distance travelled was primarily due to the introduction of additional routes and improved frequencies on certain routes but offset by the rationalisation of some routes.

Long Win Bus Company Limited (“LWB”)

In October 2002, LWB was granted a new franchise by the HKSAR Government for nine years and eleven months commencing 1 June 2003, the day following the expiry of its current franchise on 31 May 2003. This demonstrates that LWB has been providing a service that meets the expectations of its customers and the Government. The market environment for North Lantau and the Airport has been positive due to the ongoing development of Tung Chung new town, particularly the growing population intake into Yat Tung Estate.

LWB’s fare revenue for the year amounted to HK\$232.1 million, representing an increase of 5.4% compared with HK\$220.3 million for 2001. The total ridership of LWB in 2002 was 20.3 million passenger trips (a daily average of 55,616), an increase of 6.9% compared with 19.0 million passenger trips (a daily average of 52,052) in the previous year. Total mileage travelled for the year was 23.1 million kilometres, an increase of 1.3% over that for 2001.

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

SBH Group comprises six business units, with Sun Bus Limited as its flagship. Since operation commenced in 1998, SBH Group has provided bus services to large residential estates, shopping malls, major employers and schools. Despite being faced with greater competition, SBH Group is well positioned for growth. Our quality service culture and fast responsiveness to market needs are our competitive advantages to ensure total customer satisfaction.

SBH Group's turnover increased by 10.2% to HK\$136.2 million in 2002 from HK\$123.6 million in 2001. Its total mileage travelled in the year was 14.4 million kilometres, an increase of 9.1% over 13.2 million kilometres in 2001. This was mainly due to improvements in our non-franchised bus services for the residential, commercial and contract hiring businesses, while the employee, student and tourist sectors remained stable.

Park Island Transport Company Limited ("PITC")

For the first time, the Group is engaged in the ferry transport business. In December 2002, PITC, a 65% owned subsidiary of the Group, began providing shuttle bus and ferry services for Park Island, a prestigious residential development on Ma Wan Island. PITC's patronage will grow with more population intake at Park Island.

New Hong Kong Bus Company Limited ("NHKB")

NHKB, which jointly operates the cross-boundary shuttle service (popularly known as the "Huang Bus") with its Shenzhen counterpart, introduced five additional single-deck buses during the year, bringing the total number to 20 as at the end of 2002. In addition, the two termini at Lok Ma Chau and Huanggang were renovated and more terminus staff were employed for customer service enhancement during the year.

Mainland Operations

The Group's two co-operative joint ventures on the Mainland had another satisfactory year. The Dalian joint venture began its sixth year of operation and had an average daily ridership of about 88,000 in 2002. The joint venture in Tianjin, which began operations in January 2001, continues to build its customer base.

RoadShow Holdings Limited and its subsidiaries ("RoadShow")

To further improve infotainment programmes for our audience, we plan to introduce real-time news in MMOB service when bus tracking technology via Global Positioning System ("GPS") is ready to be used on MMOB transit vehicles and cyber bus stops.

RoadShow formed a number of joint venture companies to expand its media businesses in major cities on the Mainland during 2002. These new businesses will enable RoadShow to tap the fastest growing advertising markets in the Greater China region.

Lai Chi Kok Properties Investment Limited ("LCKPI")

The obsolete Lai Chi Kok Depot adjacent to the KMB Headquarters Building was demolished in December 2002. Piling work on the site has been commenced and is scheduled for completion by September 2003. Our current plan is to redevelop the old depot site into a residential and commercial complex with about one million square feet by the end of 2005. We shall monitor the property market conditions with a view to picking a suitable time for marketing the residential property.



ISO Certification

A major achievement during the year was the successful recertification and upgrading of all of KMB's ISO 9001 : 1994 certificates to the ISO 9001 : 2000 version, one full year ahead of the 2003 deadline. This involved new requirements and criteria in our five certified areas. We will work diligently to ensure that we continue to earn this quality rating.

Bus-bus Interchange Schemes ("BBI schemes")

We continued to expand our BBI schemes, which by the end of the year covered more than half of the KMB bus network on more than 200 routes, a significant step forward in deploying our resources more efficiently and serving new customers without having to bring in new routes. The BBI concept is a win-win solution for both the customers and KMB. The customers benefit through discounts, sometimes more than 50%, and in some cases the second leg of the journey is free of charge. We will continue to seek opportunities to expand the BBI schemes, including bus-rail interchanges.

Care for the Environment

The Group is dedicated to conducting its business in an environment-friendly manner. We were especially pleased that KMB received an award for "Innovation Towards a Better Environment" from the International Association of Public Transport (UITP). This recognised KMB's use of innovative technologies and management standards in environmental protection.



Recognition

KMB's high quality standards and commitment to public service continued to earn recognition during the year both internationally and from various sectors of the Hong Kong community in the areas of management, customer service, training, marketing, advertising, and many others.

Customer Facilities

Several new facilities were completed during the year for the comfort and convenience of passengers. Hong Kong's first air-conditioned bus waiting lounge came into service at Lam Tin Bus Terminus and Hong Kong's first cyber bus stop offering local bus route and other information was installed at the Star Ferry Bus Terminus. In addition, new customer service centres were set up and KMB's first outdoor all-weather customer self-service centre was built in Tsim Sha Tsui. Throughout the year, we implemented our programme of refurbishing bus shelters and termini.

Listening to Customers

To provide the best service possible, we need to know the needs and expectations of our customers. A number of tools have been developed and upgraded to accomplish this end. These include our redesigned website, the award winning hotline service, our multi-media bus termini, and the cyber bus stop. We also host community meetings to discuss public transport issues and organise passenger liaison group meetings.

Providing information to customers, as well as the general community, is part of our total commitment to openness and transparency. Our press information programme is an important element in this effort.

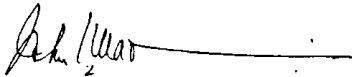
Fostering Quality Customer Service

KMB organised its first “Outstanding Service Award” to honour our staff who have demonstrated outstanding performances and initiatives. This is another step we have taken to reinforce positive attitudes towards both internal and external customers and encourage participation in community support activities.

Into the Future

Our dedicated professional workforce and loyal management team make us a strong, progressive company committed to constant improvement in our operations. As we mark the 70th anniversary of KMB, we can be proud of our accomplishments during both good times and bad. We have stood the test of time by acting and thinking young. This attitude and the dedication of our staff and management to top quality service position the Group for a bright future.

I want to thank all our staff for their dedication and contribution to the Group's achievements in 2002.

A handwritten signature in black ink, appearing to read 'John Chan', followed by a long horizontal line.

John CHAN Cho Chak
Managing Director

20 March 2003

Operational Review

Franchised Public Bus Operations Division

The Kowloon Motor Bus Company (1933) Limited (“KMB”)
Long Win Bus Company Limited (“LWB”)

Operational Excellence

International Organisation for Standardisation (“ISO”) Certification

In December 2002, one full year ahead of the 2003 deadline for all ISO 9001 : 1994 certificates, the Hong Kong Quality Assurance Agency completed the ISO 9001 : 2000 Quality Management System upgrading audit on KMB's five certification areas, namely, KMB Headquarters, Traffic Department and Depots, Overhaul Centre, Bus Body Construction Depot, and Kwai Chung Depot (Service Department). The new ISO 9001 : 2000 certificates were issued to KMB in January 2003.

Through effective development and implementation of KMB's Total Quality Management System that fulfils ISO 9001 : 2000 requirements, we will continuously assess and improve the efficiency, reliability and user-friendliness of our public bus service to meet and, where possible, exceed the needs and expectations of our customers.

Performance Pledge

The Performance Pledge on mechanical reliability and operational capability, the two core competencies in bus operations, reflects our commitment to providing passengers with high quality and reliable services.

Mechanical reliability is defined as the average number of trips operated by a bus before it experiences one mechanical breakdown on the road with passengers on board. Operational capability is the ratio of actual to scheduled departures in the peak direction, during the peak hours of 7:00 am to 9:00 am, across the overall bus network.

According to the Performance Pledge Report 2001/2002 (for the 12 month period ended 30 June 2002), KMB achieved 2,658 : 1 on mechanical reliability and 100.31% on operational capability, outperforming our targets of 1,800 : 1 and 100% respectively. Moreover, LWB achieved 1,968 : 1 on mechanical reliability and 100.81% on operational capability, improving from 1,823 : 1 and 100% in 2001 respectively.

Mechanical reliability

Number of trips

3,000

2,500

2,000

1,500

1,000

98 99 00 01 02

KMB

Average number of trips operated before a bus has one mechanical breakdown while passengers are on board

Operational capability

Percent (%)

105

100

95

90

85

80

75

98 99 00 01 02

KMB

Percentage of actual number of bus departures to scheduled number of bus departures during morning peak hours (7am-9am) in the peak direction

Achievement of schedule

Percent (%)

110

100

90

80

70

60

98 99 00 01 02

KMB

Percentage of actual number of buses operated on the road to scheduled bus allocation

Fleet utilisation

Percent (%)

90

85

80

75

70

65

98 99 00 01 02

KMB

Percentage of actual number of buses operated on the road to licensed bus fleet

Depots

To ensure the highest standard of bus services, we continuously review and improve our maintenance facilities to ensure that they are conducive to a high level of productivity and quality service. The following major projects were carried out in 2002:

New Lai Chi Kok Depot ▶ The construction of KMB's new permanent depot in West Kowloon was completed in April 2002. The new depot was commissioned on 11 May 2002 and renamed as New Lai Chi Kok Depot. The depot provides 400 parking spaces and maintenance services for about 1,000 buses serving the West Kowloon and South-west New Territories regions. The former Lai Chi Kok Depot is being redeveloped into a residential and commercial complex.

KMB Temporary Depots ▶ During 2002, KMB completed the construction of the New Tung Tau Depot for serving the Tin Shui Wai area, and the Tai Po Area 33 Depot for the Sheung Shui and Tai Po areas. These temporary depots provide service facilities and parking spaces for 224 buses. In addition, enhancement work on the bus maintenance facilities at the Shek Wu Hui Depot was completed in January 2003.

LWB Depot ▶ The bus servicing site at Tung Chung Town Centre and the depot at Siu Ho Wan provide support services such as refuelling, coin collection, bus washing, routine maintenance and fleet parking. Siu Ho Wan Depot



is also equipped with a waste water treatment system, which serves to improve the waste water quality as required by local regulations, before it is discharged into the public drainage system.

Fleet Upgrade

Continual fleet upgrade, from stylish exteriors to tiny mechanical parts, is one of KMB's major operational priorities. We look into the details carefully to cater for customer demand and expectations.

Air-conditioned Buses ▶ KMB added 356 new air-conditioned double-deck buses to its fleet in 2002. During the year, the total number of air-conditioned buses increased from 2,963 to 3,327, comprising 3,084 double-deck and 243 single-deck buses.

At 31 December 2002, KMB had a total of 4,441 buses, of which 75% was air-conditioned. Also, KMB had on order 134 new buses for delivery by 2003 and 60 buses under construction which will also be put into service in 2003.

The new generation of buses purchased by KMB in 2002 are equipped with electrostatic air filters and improved temperature control mechanisms. Such filters can remove 80% more dust particles, whilst the mechanisms provide a more comfortable interior environment in terms of temperature, humidity and ventilation.

Strategically located at West Kowloon and equipped with many environment-friendly facilities, KMB's New Lai Chi Kok Depot is one of our important assets that helps enhance our operational efficiency.





Super-low floor easy access buses ▶ KMB introduced 356 super-low floor easy access buses in 2002, bringing the total number of such buses to 1,275 by the year-end. With super-low floor design and wheelchair access, these buses provide improved accessibility to all passengers, especially the disabled and elderly. To further enhance accessibility, KMB continued to upgrade the fleet during the year by taking delivery of the first 120 Super Buses, the first of their kind in Hong Kong that have a wider bus saloon, a wider entryway, and a straight staircase providing easier access to and from the upper deck. These environment-friendly Super Buses equipped with Euro III engines and electrostatic air filters will be gradually put into service in 2003.

Bus tracking capability ▶ KMB continued its trial of bus tracking systems on 30 buses operating on route no. 1A. The satellite global positioning technology being tested helps locate bus positions within the KMB network. The technology will enable KMB to provide passengers with an estimated arrival time of the next bus at the en route bus stops and to respond quickly to incidents such as breakdowns, traffic accidents and congestion.

Electronic tachograph ▶ The electronic tachograph (electronic black box), a new technology for recording vehicle speed and associated information during bus operation, helps KMB monitor the driving skills and manners of its bus captains. In 2002, 287 KMB buses and 40 LWB buses were installed with these devices.

LWB buses ▶ LWB upgraded three air-conditioned double-deck buses to Airbus configuration with moquette seating and enlarged luggage spaces for operation on the new Airbus route no. A33. At the end of the year, LWB had 136 air-conditioned double-deck buses and nine air-conditioned single-deck buses serving Tung Chung and Hong Kong International Airport. All double-deck buses are of the super-low floor type and equipped with wheelchair access and features recommended by the United Kingdom Disabled Persons Public Transport Advisory Committee for the convenience of the elderly and passengers with luggage as well as the disabled.



LWB provides quality service linking the Hong Kong International Airport with the other parts of the New Territories.

We continue to upgrade our depot facilities to improve productivity and quality of bus maintenance services.



New Bus Routes and Service Network

New KMB routes ▶ Seven new KMB bus routes were launched in 2002: three serving the overnight demand, one serving the Hong Kong Science Park and three serving the New Territories. At the end of 2002, KMB operated a total number of 405 bus routes.

Tseung Kwan O / Yau Tong bus network reorganisation ▶ Upon the opening of the MTR Tseung Kwan O Extension in August 2002, KMB reorganised its Tseung Kwan O and Yau Tong bus service network to adapt to changing market conditions. Certain bus routes were cancelled and bus frequency in areas with low demand was reduced. The rationalised resources were redeployed to high demand areas such as Tin Shui Wai. The reorganisation is an ongoing process to enhance operational efficiency. A summary of the results of the reorganisation up to the end of 2002 is tabulated below:

	Number of bus routes involved	Number of buses saved
Cancellation/Rationalisation	9	37
Frequency adjustment	20	79
Total	29	116

Rationalisation of LWB bus routes ▶ The ongoing development of Tung Chung new town generated an increase in bus service demand in North Lantau and at Hong Kong International Airport (the "Airport"). To accommodate the demand and to deploy resources more effectively and efficiently, two shuttle bus routes, viz., S63 (Tung Chung MTR – Catering Area) and S64 (Yat Tung – Chek Lap Kok Ferry) were merged during the year. A new Airbus route no. A33 plying between Tuen Mun (Fu Tai) and the Airport was introduced in August 2002. At the end of 2002, LWB operated 15 bus routes.

Information Technology

Given the scale of our operations, we have been using information technology extensively for performance monitoring, efficiency optimisation and forward planning purposes. We have a total of 1,259 personal computers installed at KMB headquarters, six major depots and eight satellite depots. These computers are inter-linked to the 80 server computers located at the headquarters via high-speed communication lines. There are some 53 software applications including in-house developed programmes and proprietary software used for our day-to-day operational and financial management.

Following the implementation of the SAP e-Business Software (mySAP.com) for our financial management in 2001, we successfully implemented the SAP human resources management module in late 2002. During the year, we also completed our electronic document management system for our entire organisation, resulting in substantial savings in the volume of paper used as well as document distribution, filing and retrieval time.

Through continual upgrading of our information technology systems, we have been able to improve our cost control processes, human resources management, fleet and depot operations as well as customer service for the delivery of reliable, safe and value for money bus services.

Customer Service

Bus Fare Discount for Local Domestic Helpers

KMB and the Employees Retraining Board ("ERB") operate a Joint Scheme offering fare concessions to trained local domestic helpers who can enjoy a 50% discount on bus fares when they travel on over 300 KMB bus routes, including nine cross-harbour bus routes solely operated by KMB. This six-month trial scheme commenced on 1 November 2002 to encourage the ERB local domestic helpers to fill the job vacancies available in Urban Kowloon, the New Towns and Hong Kong Island. The scheme helps to relieve the current problem of a geographical mismatch between available trained local domestic helpers and the unfilled job vacancies for them, resulting in a winning situation for all parties involved.

The “Octopus” Smart Card

The entire KMB fleet has been equipped with Octopus card readers since late 2000. On average, about 78% of KMB’s customers used Octopus cards for fare payment in December 2002, up from 69% in December 2001. This indicates a strong vote of acceptance for this payment method. The reduction in the coin volume has enabled KMB to save costs on coin collection and administration. KMB’s bus-bus interchange (“BBI”) schemes also use the Octopus system to offer fare discounts to customers on the second leg of their bus journeys.

KMB was one of the founders of the consortium that introduced the Octopus Smart Card system, the world’s largest and most sophisticated fare payment system of its kind. Today, we have the largest number of Octopus card readers among Hong Kong’s public transport operators.

Octopus Bus-bus Interchange Schemes (“Octopus BBI schemes”) ▶ The introduction of more Octopus BBI schemes offers both value for money and extended network coverage for KMB passengers. In addition to the Octopus BBI schemes operating within the KMB route network, KMB also participated in inter-modal schemes with other bus operators such as Citybus Limited and New World First Bus Services Limited. This helps to improve network coverage, maximise utilisation of resources and minimise road congestion on busy corridors. As at 31 December 2002, there were 42 Octopus BBI schemes covering over 200 bus routes.

Since December 2000, LWB has participated in a joint-operator Octopus BBI scheme at Tin Shui Wai Town Centre. This scheme offers discounted fares to passengers switching between LWB bus route no. E34 and KCR Light Rail feeder bus route no. 659. This scheme has recorded an increased number of interchanging passengers as a result of the population growth of Tin Shui Wai (North). In January 2003, LWB and The New Lantau Bus Company (1973) Limited (“NLB”) introduced another joint-operator Octopus BBI scheme at Tung Chung Town Centre, involving LWB’s bus routes no. E32, E33, E34, E41 and E42 and NLB’s bus routes no. 37, 37A and 38.

Bus-stop Announcement System

The on-board electronic bus-stop announcement system, equipped with light emitting diode (“LED”) display panels, was first introduced on KMB’s buses in 1998. The voice announcements and LED displays have been well received by passengers, especially those with hearing or visual difficulties. In 2002, KMB equipped 692 buses with the announcement system, bringing the total number so equipped to 2,044 at the year-end. KMB intends to make this system standard equipment on all buses in the near future.

LWB had 109 double-deck buses equipped with the announcement system at the end of 2002, up from 60 in 2001. These buses serve all Airbus routes and four North Lantau External routes, namely E32, E33, E34 and E42. LWB is planning to extend this feature to its entire double-deck bus fleet in 2003.

Integrated Bus Service Information Display System

KMB installed the integrated bus service information display system at five more bus termini during 2002 and early 2003, namely, Diamond Hill MTR Station, Whampoa Garden, Lam Tin MTR Station, Yu Chui Court and Ma On Shan Town Centre. Such systems have already been installed at the bus termini located at Star Ferry, Tsuen Wan MTR Station, Tuen Mun Town Centre, Sha Tin Town Centre, Po Lam, Mei Foo, Fu Heng and Tin Shui Wai.

At the major termini, large LED or plasma display panels are centrally positioned to provide information on bus route destinations, departure times and fares. Emergency messages such as those about traffic disruptions can also be shown. The public address system and closed circuit television system installed allow monitoring of the traffic and operating conditions at the regulator’s office at each terminus and at the control room at KMB headquarters. KMB plans to install these systems at all its major termini in the near future.

Hong Kong's First Air-conditioned Passenger Waiting Lounge

To enhance the waiting environment for its passengers, KMB built Hong Kong's first air-conditioned passenger waiting lounge at Lam Tin Bus Terminus. The lounge, which can comfortably accommodate up to 40 people, is a transparent enclosure made of strengthened glass. In addition to an electronic display panel providing passengers with detailed information on bus route information, departure times and fares, a streamlined multi-media kiosk equipped with a touch-screen liquid crystal display (LCD) monitor is installed in the lounge for passengers to access bus route information via the KMB website point-to-point route search function. A broadcasting system is also installed in the lounge to inform passengers of the departure time of the next bus in Cantonese, English and Putonghua.

Cyber Bus Stop

In early 2002, KMB installed Hong Kong's first cyber bus stop at the Star Ferry Bus Terminus. Three Light Emitting Diode ("LED") panels on this bus stop display bus route information, as well as local and international news and weather information. Its speaker system can announce bus route information in Cantonese, English and Putonghua. The cyber bus stop also provides access to the KMB website for point-to-point route search and comprehensive bus service information.

Waiting Shelters

KMB continued with the refurbishment of bus shelters and the construction of new shelters. A total of 150 new shelters were built and about 2,000 advertising panels were erected for improvement of waiting environment and generation of advertising revenue. New illuminated bus route information panels were also incorporated into KMB's shelters to facilitate passengers reading bus route information at night.

In 2002, LWB constructed two bus shelters to provide a better waiting environment for its customers.

Customer Service Centres

KMB built five new customer service centres during the year. They are located at Tuen Mun Town Centre Bus Terminus, Mei Foo Bus Terminus, Lam Tin Bus Terminus and Tsim Sha Tsui Star Ferry Bus Terminus. These centres provide bus route information, KMB homepage browsing facilities, KMB souvenir sales and Octopus card services. Passengers can obtain bus route information and traffic news either from the multi-media kiosks or KMB customer service staff in the centres.

KMB launched its first outdoor all-weather customer self-service centre at Tsim Sha Tsui in 2002. Centrally located in a popular tourist area, this centre is equipped with an LED display panel and a plasma screen that show bus route information.

LWB set up a new customer service centre in the Airport's arrival hall. Together with the ticketing booth at the Ground Transportation Centre, LWB handled over 158,000 passenger inquiries and ticket sales in 2002.

Bus Terminus Upgrading

In 2002, KMB refurbished 12 bus termini at Tsim Sha Tsui Ferry, Kowloon City Ferry, Cheung Ching, Lee On, Wo Che, Ravana Garden, Fu Shin, Tuen Mun Town Centre, Tin Shui, Tsui Lam, Tsui Ping Road and Choi Wan. The terminus refurbishment programme will continue in 2003.

Marketing and Advertising

Marketing programmes > KMB's marketing programmes, which implement the company's marketing strategy to reinforce its leadership position in the public transport industry, received a number of recognitions in 2002.

KMB was awarded the "Superbrands Hong Kong 2002" certification by the Hong Kong Superbrands Council and qualified as a leading brand in Hong Kong.



KMB unveiled Hong Kong's first air-conditioned bus waiting lounge at Lam Tin Bus Terminus in 2002.

The first innovative Intelligent Customer Information Station commenced service in KMB's terminus at Tsim Sha Tsui Star Ferry Pier.



KMB also won the “Certificate of Recognition in the Golden World Award for Excellence in Public Relations” for its community campaign “Straight Back and Rides”, featuring the television commercial “Vacation” and the print campaign “Back to School”. This prestigious award was organised by the International Public Relations Association.

Advertising awards ▶ The advertising initiatives of KMB were acknowledged in various award programmes during the year. KMB’s television advertisement “Pool” was selected the “Best TVC of the Year” in the 9th Times International Chinese Advertising Awards, organised by China Times of Taiwan. It also received the “Certificate of Excellence: Corporate/Institutional/Utilities” in the Media Advertising Awards 2002. KMB was named “Finalist: Corporate Image” in the Asia Pacific Advertising Festival 2002, organised by Media and Marketing Limited.

KMB’s television advertisement “Vacation” received Merit Awards in the 2002 4As Creative Awards, which was organised by The Association of Accredited Advertising Agents of Hong Kong.

KMB’s print advertisement campaign “Back to School” received a total of three awards in the 2002 4As Creative Awards and also an award in the 9th Times International Chinese Advertising Awards.

Media Events

During 2002, KMB organised 25 press sessions to publicise a variety of events and activities to demonstrate the company’s commitment to serving the public and to promote public awareness of a variety of social and environmental issues.

Customer Service Hotline

KMB Customer Service Hotline “2745 4466” ▶ The KMB customer service hotline received 4.2 million calls in 2002, representing an average of 350,000 calls per month. The 24-hour hotline system operates in Cantonese, English and Putonghua and provides bus route information, fax-on-demand services, traffic news, KMB service updates and voice mail recording. The operator service of the hotline is available from 7:00 am to 11:00 pm daily throughout the year.

An innovative Digital Map Passenger Enquiry System was launched in 2002. Equipped with 3-D images of prominent buildings, the Digital Map enables operators to provide bus route information to customers with unsurpassed efficiency and accuracy. In addition, it automatically identifies optimal bus routes for passengers to travel to over 100,000 landmarks, as well as providing real time information on territory-wide traffic conditions.

The hotline won the “2002 Hong Kong Awards for Services: Customer Service”, organised by the Hong Kong Productivity Council and the Hong Kong Retail Management Association.

LWB Customer Service Hotline “2261 2791/2261 2792” ▶ LWB’s operator-assisted helpline received about 30,000 calls in 2002 (or an average of 2,500 calls per month). The Hotline operators answer inquiries, receive customer opinions and handle lost and found property.

KMB Website “<http://www.kmb.com.hk>”

In 2002, a bilingual route search function was introduced on the award-winning KMB website to enable passengers to obtain bus route information in both Chinese and English on the same webpage. To further help passengers locate their preferred boarding and alighting points, photographs of more than 4,200 KMB bus stops have been uploaded to the website, each of which has been named for easy and immediate identification.

KMB received the “WebCare Award” organised by the Internet Professionals Association for providing user-friendly facilities to those with visual impairments as well as to novice Internet users. Novice internet users receive written elaboration in user-friendly text boxes when they browse images, hyperlinks and pop-up windows. Visually handicapped users can receive audio messages converted from these text descriptions to assist them in their navigation. For the second consecutive year, the KMB website was selected as one of the “Ten Healthy Websites” in a competition organised by the Television and Entertainment Licensing Authority. The popularity of our website was reflected by an average daily hit rate of 2.3 million in December 2002.

LWB Route Information Publications

A total of 12,061 copies of the handout “LWB Bus Services for the New Territories, North Lantau and the Airport” and 42,453 copies of the “Airbus Card”, with detailed bus routing and departure information, were distributed to the public during 2002.

People

“Caring for People” sums up our policy of creating a sense of belonging among our staff and instilling a culture of quality service and promoting teamwork across the whole organisation. We train, motivate and reward our staff with this policy in mind to reinforce their dedication to providing quality customer service.

KMB and LWB employed a total of 13,247 and 402 staff respectively at the end of 2002, down from 13,281 and 408 in 2001.

First Employee Opinion Survey

KMB commissioned a consulting firm to design and conduct an employee opinion survey in 2002 to measure staff commitment to their work and enable management to better understand employees’ priorities, expectations and current perceptions of the company. Out of 13,000 employees, over 4,300, or 33%, responded on a voluntary basis. The results showed that employees are generally satisfied with their work, pay levels and working environment. Analysis also showed that employee satisfaction and commitment to the company depend on career opportunities, interaction with supervisors and senior leaders, performance recognition and availability of the necessary resources to accomplish their jobs. Based on the survey results, KMB will continue to monitor and enhance the key attributes to further strengthen the current level of employee engagement in the company to improve productivity and business results.

Staff Communications

Joint Consultative Committees › There are six Joint Consultative Committees (“JCC”) of KMB and LWB which provide a communication channel for the management and employee representatives. Each Committee meets periodically to discuss improvement opportunities in the working environment, safety, working procedures and staff welfare. To keep abreast of the latest developments in the bus industry in other cities, 42 members of JCC went on an exchange visit to Shanghai in September 2002.

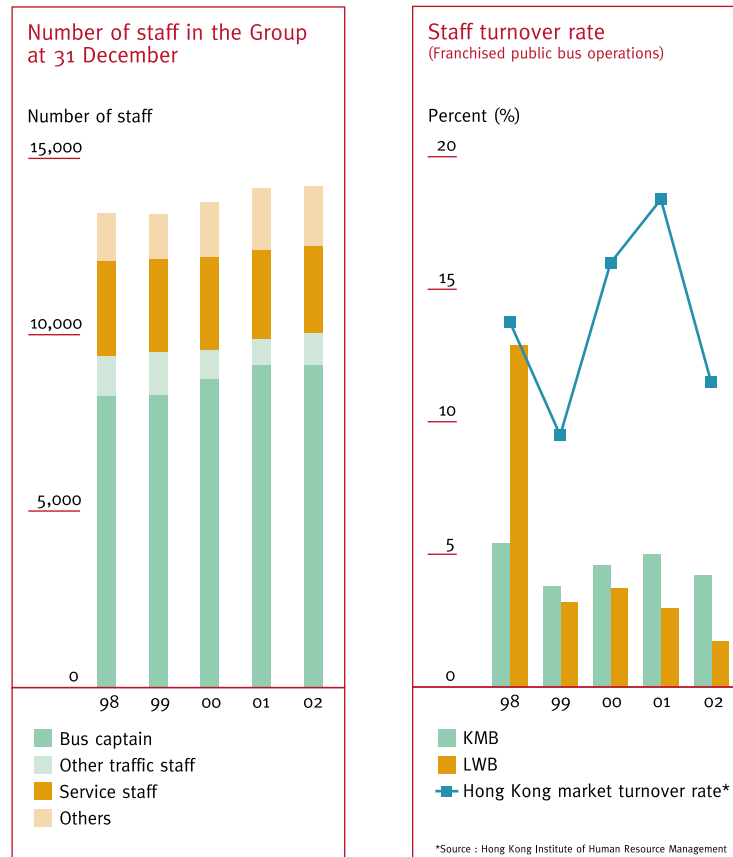
Staff intranet “<http://www.kmb.org.hk>” › A homepage that provides various information and resources is maintained exclusively for KMB and LWB staff to keep them informed of the most up-to-date information, including announcements from the management, real-time weather reports, details of upcoming and past events involving staff participation and a list of shops offering our staff special discounts. In order to further benefit from intranet technology, and help staff to access corporate resources in a more flexible manner, new training features, such as an on-the-web orientation training course and e-learning programmes on computer software, were added during 2002.

Staff communication VCDs, and Magazines › As in previous years, periodic video compact discs (VCDs) entitled “Staff Canteen 900” and a monthly in-house magazine entitled “KMB Today” were produced and distributed to all KMB and LWB staff during the year. These communication tools have been designed as a flexible and effective means for keeping our field staff informed of the latest developments of our organisation.

Safety Promotion

In 2002, KMB participated in the Inter-company Safety Quiz, an annual event jointly organised by various organisations to promote and reinforce safety awareness among staff.

KMB participated in the activities organised by Kwai Ching Healthy City and Safety Community and joined the safety quiz and road safety activities organised respectively by Tuen Mun District Office and Kwai Ching District Office. Through these activities, KMB succeeded in promoting safety awareness among its staff and the community.



Model Drivers Award 2002

KMB and LWB bus captains were presented with the “Model Drivers Award 2002” by the Road Safety Council and the Transport Department. One of the LWB bus captains won the second runner-up title in the overall competition.

Outstanding Service Award

To promote our quality service culture, KMB organised the “Outstanding Service Award” in 2002. Fifty-two staff, including 37 KMB bus captains, three LWB bus captains, eight maintenance staff, two operations staff and two supporting staff, were recognised for their excellent performance.

Staff Performance

During 2002, KMB and LWB presented the following awards to staff in appreciation of their dedication and contribution to the Group:

Good Service and Safe Driving Annual Bonus for Bus Captains

Number of employees	KMB	LWB	Total
Good Service Annual Bonus	6,658	221	6,879
Safe Driving Annual Bonus	4,304	187	4,491

Safe Driving Award for Bus Captains

Number of employees	KMB	LWB	Total
15-year accident free	79	5	84
10-year accident free	162	1	163
5-year accident free	412	4	416



KMB has invested in modern facilities including an indoor bus simulator for training new bus captains.

Modern technology facilitates our operational staff to monitor and respond to traffic conditions in an efficient manner.



Good Service and Attendance Award for Terminus Supervisors/Assistant Terminus Supervisors/ Customer Service Assistants

Number of employees	KMB	LWB	Total
Good Service Award	507	19	526
Attendance Award	273	7	280

Long Service Award

Number of employees	KMB	LWB	Total
40 years of service	33	—	33
30 years of service	276	3	279
20 years of service	834	16	850

Training

Technical training ▶ The KMB Technical Training School, established in 1973, provides comprehensive training to our maintenance staff on the latest bus transportation technology. The current curriculum includes Carrier Air-conditioning System, Denso Air-conditioning System, Sikaflex Training on Panel and Window Bonding, and Insite Computer Software for Cummins Engine. During 2002, 235 training sessions were held for 1,687 skilled workers and 25 for engineers, supervisors and foremen in conjunction with our vehicle manufacturers.

Apprentice training ▶ The KMB Technical Training School runs a four-year apprentice-training scheme for young school leavers. The scheme aims to provide job opportunities and training to youngsters whilst ensuring an adequate supply of skilled maintenance workers for KMB. Thirty apprentices graduated from the School in 2002, bringing the total number of graduates since 1973 to 2,028. At the end of 2002, there were 64 apprentices in the School.

The quality of our apprentice training standards was again recognised in 2002. One of our apprentices won the third prize in the automobile combined mechanical trade and electrical trade category of the “2002 Best Apprentice Competition” organised by the Vocational Training Council. The winner was invited to visit the Toyota Plant in Japan.

Staff Welfare and Recreational Activities

A variety of internal and external recreational activities were organised to promote teamwork during the year. These included long distance running, soccer, bowling, dragon boat racing, outdoor war-games, web games and karaoke competitions. Also, KMB sponsored staff tours to various attractions in Hong Kong in 2002.

Our employees also participated in the Community Chest Charity Run, the Rehab Power Charity Walk, the Standard Chartered Hong Kong Marathon 2002, Green Power Hike, Business Challenge, Clean Up the World in Hong Kong, Hang Seng Table Tennis Competition, Po Leung Kuk Charity Walk and the Corporate Games 2002 organised by the Leisure and Cultural Services Department of the Government and various dragon boat races.

Concern for the Environment

KMB maintains a longstanding commitment to conducting its business in an environment-friendly manner. In this regard, the company has implemented environmental protection procedures in its depot and fleet operations. In addition, our staff are encouraged to take part in various environmental preservation activities such as tree planting.

In November 2002, the International Association of Public Transport (UITP) Asia Pacific Congress bestowed the award for “Innovation Towards a Better Environment” to KMB in recognition of its use of innovative technologies and management standards to improve emission quality and reduce fuel consumption in significantly shorter time frames compared with international standards.

After the attainment of the 2001 Business Environment Council Environmental Performance Award in 2001, KMB was again granted the “2002 Hong Kong Eco-Business Awards – Green Innovative Practice Award” and the “2002 Hong Kong Eco-Business Awards – Green Office Award (Large Organisations)” in 2002, organised by the

Environmental Campaign Committee, the Chinese General Chamber of Commerce, the Hong Kong General Chamber of Commerce and the Hong Kong Productivity Council. The “2002 Hong Kong Eco-Business Awards” are designed to recognise businesses in Hong Kong that demonstrate a commitment to environmental management.

Environment-friendly Bus Fleet

Ultra Low Sulphur Diesel (“ULSD”) › The entire fleet of KMB and LWB has been using ULSD since January 2001, making KMB the largest bus fleet using ULSD in the Asia-Pacific region. The use of ULSD has resulted in a significant reduction in exhaust emission levels of sulphur oxides and nitrous oxides as well as particulates.

Euro engines › At the end of 2002, 1,491 KMB buses and all LWB air-conditioned double-deck buses were equipped with environment-friendly Euro II engines, which meet the exhaust emission standards issued by the European Council of Environmental Ministers.

Euro III engines reduce emissions of nitrogen oxides by 28% and particulates by 33%, compared to Euro II engines. 508 KMB buses were equipped with Euro III engines at the end of 2002.

Catalytic converters › By the year-end of 2002, KMB completed the installation of catalytic converters on all of our buses with pre-Euro I or Euro I engines. With the catalytic converters, the exhaust emissions of pre-Euro I and Euro I engined buses are improved to the standards of Euro I and Euro II engines respectively in terms of particulate matters.

Exhaust soot filter › Taking advantage of using ULSD, five KMB buses were equipped with either Continuous Regeneration Traps (“CRT”) or Engelhard DPX Soot filters for an assessment programme. A reduction of particulate matter by 80% to 90%, reducing smoke levels to virtually zero, was achieved. The exhaust emission quality in terms of particulate matters meets Euro IV engine standards, which are comparable with those of natural gas fuelled vehicles. Consequently, CRT will play an important role in the future Euro IV engined buses. KMB has a total of 354 Euro II engined buses equipped with CRT plus an Exhaust Gas Recirculation device, enabling them to meet Euro III engine emission standards at a level very close to Euro IV engine standards.

Eco-Driveline › After three years of research, KMB successfully developed the pioneering Eco-Driveline on buses by integrating an engine with high torque, six-speed double overdrive gearbox, an optimised final drive ratio axle and a sophisticated electronic control gear-shift programme. In August 2002, we equipped two buses with Eco-Driveline. The new system proved successful in reducing fuel consumption and exhaust emissions by 6% to 10%. It also enables passengers to enjoy a smoother ride.

The Eco-Driveline system features the replacement of the conventional paper air filter with a foam air filter and the change of the synthetic gearbox and engine lubricating oil replacement at intervals based on mileage. This helps lengthen the lifespan of these components and reduce solid and chemical wastes.

The Eco-Driveline concept will be a new bus feature and is expected to set a new trend for the bus industry.

Synthetic transmission oil › KMB has used synthetic oil in a total of 507 ZF gearboxes and 109 Voith gearboxes since their introduction in 2001. The oil drain interval has been extended from 30,000 kilometres to 100,000 kilometres, resulting in a 70% reduction in waste oil.

Synthetic oil has also been used in 14 MAN engines since their introduction in 2001. The oil drain interval has been extended from 25,000 kilometres to 45,000 kilometres, resulting in a 45% reduction in waste oil.

Mileage-based engine oil change scheme › KMB’s mileage-based engine oil change scheme, evaluated by computer aided programming, achieved a 40% reduction in engine oil consumption and oil waste.

Environment-friendly Bus Depot

Environmental protection and energy conservation are two key aspects in the design, construction and operation of new depots. In May 2002, KMB commenced operations at the New Lai Chi Kok Depot, a new environment-friendly bus depot in the West Kowloon Reclamation Area. The depot is equipped with a waste water treatment system, water recycling facilities and an environment-friendly fire service system, as well as lighting, air-conditioning and ventilation systems with energy saving features.

Waste Treatment

Waste water ▶ The waste water from our operations is treated according to regulatory standards before it is discharged into the public sewage system. In 2002, KMB maintained 11 automatic waste water treatment systems for its fleet and depots with a total daily treatment capacity of 860 cubic metres. Compared with 2001, the amount of waste water produced per bus in 2002 was reduced by 15%.

Waste oil ▶ Consumed lubricating oil from our bus maintenance process is delivered to a registered waste oil recycling agent for treatment. The amount of waste oil produced per bus in 2002 was reduced by 3.2% compared with 2001.

Solid chemical waste ▶ Solid chemical waste generated by our operations is treated and stored by type in designated areas of our bus depots and then disposed of by a registered chemical waste collector to a designated landfill.

Tyre retreading and recycling of scrap tyres ▶ To minimise industrial waste and fully utilise resources, approximately 32,905 tyres were retreaded in the KMB tyre retreading plant in 2002. Furthermore, some 205 tonnes of tyre chips were collected and used for manufacture of playground flooring. Compared with 2001, tyre retreading and tyre chip collection in the year increased by 11.0% and 9.4% respectively.



Community Outreach

Passenger Liaison Groups

In 2002, KMB organised six Passenger Liaison Group sessions (“PLGs”) during which the KMB management and participating passengers had face-to-face discussions on our bus services. University lecturers and representatives of the Transport Department were also invited to act as moderators and observers respectively during these sessions.

LWB also organised six PLGs during the year. Discussion topics included the theme “The bus services of LWB and the development of its network”, the service standard and bus network for the Airport and North Lantau area, bus captains’ performance, bus design and other operational issues.

Passenger Opinion Cabin

During the year, the Passenger Opinion Cabin, a modified single-deck bus, made 13 visits to different districts in Hong Kong to collect passengers’ opinions on KMB’s bus services. More than 100 opinions and suggestions were received. Chairmen of the Traffic and Transport Committees of the relevant District Councils were also invited to share their views with KMB senior management.

To keep a fleet of some 4,000 buses sparkling clean every day, KMB utilises the environment-friendly bus-wash machines that are equipped with water recycling systems.



FRIENDS OF KMB

FRIENDS OF KMB, the company's passenger club, actively participates in various community building, civic, educational, environmental protection and social activities in order to promote the "Helping Others" spirit. In 2002, the club organised a recruitment campaign aimed to attract new members on a large scale by mid 2003. At the end of 2002, the club had about 2,000 members.

FRIENDS OF KMB received the "Gold Award for Volunteer Service" from the Social Welfare Department of the Government for the fourth time in 2002. During the year, more than 1,100 members participated in over 5,000 hours of voluntary work.

The Community Chest and Other Non-profit-making Organisations

In 2002, KMB received the "Award of Distinction" from the Community Chest in recognition of its active participation in various fundraising programmes during the year. These included the Corporate and Employee Contribution Programme, Dress Casual Day, Hong Kong and Kowloon Walk for Millions, Community Chest Corporate Challenge Half Marathon, Christmas Greetings for the Chest and the Ten Dollar Donation Drive.

In addition, KMB sponsored many community activities organised by the HKSAR Government, professional bodies and charitable organisations in 2002. These included the Hong Kong Awards for Industry, the Hong Kong Awards for Services, the Hong Kong Management Association Quality Award, the Hong Kong Arts Festival and the World Environment Day 2002.

"KMB and You, Heading for a Brighter Future" Award Scheme

The "KMB and You, Heading for a Brighter Future" Award Scheme rewarded candidates who achieved Grade "A" in 10 subjects and those who demonstrated major improvement in the Hong Kong Certificate of Education Examination. In August 2002, KMB awarded one-year KMB free-travel passes to 27 successful candidates.

"A Dream Come True" – KMB's Christmas Charity Event

KMB and the Parents' Association of Pre-school Handicapped Children organised a special event called "A Dream Come True" in 2002 to celebrate Christmas with mentally handicapped children. Participants had the opportunity to act as a "Little Bus Captain" during the event.

International Day of Disabled Persons

KMB and LWB offered free rides to disabled persons and their escorts on 1 December 2002 in support of the International Day of Disabled Persons.

KMB Hong Kong International Dragon Boat Races 2002

For the third successive year, KMB was honoured to act as title sponsor of the KMB Hong Kong International Dragon Boat Races in Victoria Harbour, one of the showcase events on the international sporting calendar in Hong Kong.

Non-Franchised Transport Operations Division

Sun Bus Holdings Limited and its Subsidiaries ("SBH Group")

We began to provide non-franchised bus services in 1998. At present, our SBH Group comprises six business units, with Sun Bus Limited being the flagship, providing bus services to large residential estates, shopping malls, major employers and schools. Its services are classified into two main categories: prestige premium services for customers seeking high quality; and general services for customers wanting value for money.



Sun Bus Limited's services can be flexibly designed to meet the different needs of a wide variety of customers.

Our "Huang Bus" fleet has been providing overnight cross-boundary shuttle bus service since 27 January 2003.



At the end of 2002, SBH Group had a fleet size of 207 buses compared with 205 at the previous year-end. Although the operations of its different business units may differ, some major costs such as fuel, spare parts and administration overheads are pooled to benefit from the economies of scale.

As a result of a continual vehicle replacement programme, 99% (95% in 2001) of the fleet was equipped with environment-friendly engines at the end of 2002, of which over 4% are equipped with the latest commercially available Euro III engines.

In spite of the severe competition in the industry, SBH Group's turnover increased by 10.2% from HK\$123.6 million in 2001 to HK\$136.2 million in 2002. This was mainly due to improvements in residential, commercial and contract hiring businesses, while the bus services for the employee, student and tourist sectors remaining relatively stable.

Strict cost control measures were implemented by management to enhance productivity. SBH Group's staff to bus ratio reduced to 1.79 : 1 at the end of 2002 from 1.87 : 1 at the previous year-end. The Group will continue to leverage on the enhanced economies of scale to remain competitive in the market.

SBH Group is well positioned as one of the largest operators in the non-franchised bus industry in Hong Kong. Although faced with more intense competition, we have confidence that our quality service will enable us to retain existing customers and win new patronage.

Park Island Transport Company Limited ("PITC")

PITC, a 65% owned subsidiary of the Group, commenced its shuttle bus and ferry services for Ma Wan Island on 14 December 2002. PITC's ferry fleet comprises four 38-metre 412-seat catamarans, one 28-metre 380-seat catamaran and one 20-metre 170-seat catamaran. Its initial bus fleet comprises six 10-metre Dennis Dart super-low floor air-conditioned single-deck buses. Three diesel-electric hybrid air-conditioned single-deck buses have been ordered and are scheduled to commence service by mid-2003.

PITC currently operates two ferry routes and one bus route. One of the ferry routes plies between Ma Wan and Central on a 24-hour basis, whilst the other one operates between Ma Wan and the Tsuen Wan Public Pier from 6:40 am to 11:55 pm daily. The bus service runs 24-hour a day between Ma Wan (Tung Wan Bus Terminus) and Tsing Yi Airport Railway Station. PITC employed 120 staff as at 31 December 2002. We closely monitor our staff requirements to maintain an efficient and high quality service.

New Hong Kong Bus Company Limited ("NHKB")

NHKB jointly operates the popular cross-boundary shuttle bus service, popularly known as the "Huang Bus" service, with its Shenzhen counterpart. Plying between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen, Huang Bus provides a direct and economical cross-boundary transportation service for the general public.

NHKB introduced five additional super-low floor single-deck buses with larger carrying capacity in 2002, bringing the total number of buses in service to 20 as at 31 December 2002.

Following the implementation of the round-the-clock border crossing arrangements at the Lok Ma Chau and Huanggang checkpoints, NHKB has been providing 24-hour shuttle bus services since 27 January 2003.

Four brand new 38-metre 412-seat catamarans are deployed to provide premium ferry service for Ma Wan residents.



Mainland Operations Division

Dalian Project

This co-operative PRC joint venture (“Dalian CJV”) was established in 1997 between a 60% owned subsidiary of the Group and Dalian City No. 1 Bus Company in Liaoning Province. The Dalian CJV had 46 double-deck buses and 30 single-deck buses at the end of 2002, serving Dalian City with an average daily ridership of about 88,000.

Tianjin Project

This co-operative PRC joint venture (“Tianjin CJV”) was established in January 2000 between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company. During 2002, the Tianjin CJV operated seven bus routes with 110 single-deck buses in Tianjin City.

Media Sales Business Division

RoadShow Holdings Limited (“RoadShow”)

RoadShow was established by the Group to launch multi-media services in December 2000 and was separately listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2001. Currently, the Group has a 73.0% interest in RoadShow.

RoadShow is a leading media sales company in the Greater China Region. It is principally engaged in out-of-home media sales for marketing advertising spaces inside transit vehicles through its proprietary Multi-media On-board (“MMOB”) system and in merchandising commemorative items. It also manages and markets advertising spaces on bus bodies, bus shelters, billboards, and public telephone.

During 2002, RoadShow established a number of joint venture companies for developing media sales businesses in Beijing, Shanghai, Guangzhou and other major cities on the Mainland of China.

Property Holdings Division

Lai Chi Kok Properties Investment Limited (“LCKPI”)

The obsolete Lai Chi Kok Depot at Lai Chi Kok was demolished in December 2002 after its depot function was taken over by the New Lai Chi Kok Depot situated at West Kowloon Reclamation in May 2002.

LCKPI, a wholly owned subsidiary of the Group, will develop the old depot site 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. The current plan is to build four 44-storey prestigious residential blocks with some 1,300 residential units for sale in due course. As the owner and developer of the site, LCKPI has engaged Sun Hung Kai Real Estate Agency Limited for the provision of project management services relating to this property redevelopment. Piling work of the redevelopment project has been scheduled for completion by September 2003. It is expected that the whole project will be completed by the end of 2005. We shall closely monitor the property market conditions with a view to drawing up an appropriate timetable for marketing the residential property.

The site of the former Lai Chi Kok depot is being redeveloped into a prestigious residential and commercial complex as depicted by this artist's impression.



Financial Review

Performance of the Group

Consolidated Results for the Year

The Group's profit attributable to shareholders for the year ended 31 December 2002 was HK\$939.6 million (2001: restated HK\$1,539.4 million), representing a decrease of 39.0% compared with the previous year. Earnings per share for the year amounted to HK\$2.33 per share (2001: restated HK\$3.81 per share).

Excluding the non-recurrent deemed profit of HK\$2.7 million for 2002 and HK\$349.6 million for 2001 arising from the partial disposal of RoadShow Holdings Limited ("RoadShow") shares for comparison purpose, the Group's profit attributable to shareholders for the year ended 31 December 2002 represents a decrease of 21.3% compared with that for 2001.

Dividends

The proposed final dividend for the year is HK\$1.58 (2001: HK\$1.46) per share. Together with the interim dividend of HK\$0.45 per share (2001: HK\$0.40 per share), total dividends for the year increased by 9.1% over 2001. This represents dividend cover of 1.15 times (2001: restated 2.05 times).

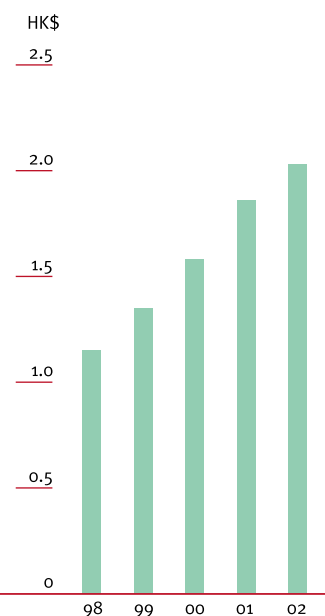
Summary of the Group's Performance by Division

A summary of the turnover and profit generated from the Group's six Divisions is set out below.

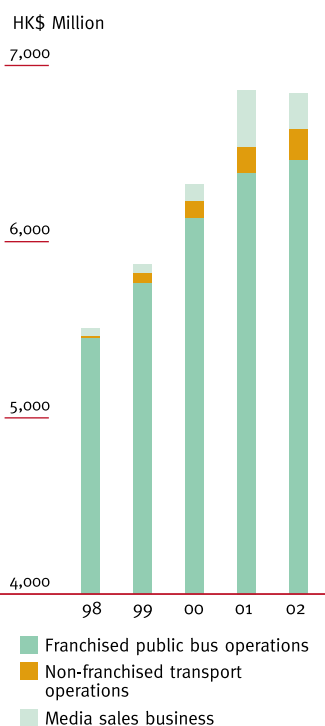
HK\$ Million	Turnover		Profit from ordinary activities before tax	
	2002	2001	2002	2001 restated
Franchised Public Bus Operations Division	6,532.1	6,457.8	1,091.0	1,329.3
Non-franchised Transport Operations Division	173.6	143.0	12.7	8.2
Media Sales Business Division	137.7	261.0	53.1	171.9
Mainland Operations Division	—	—	0.3	(0.7)
Property Holdings Division	—	—	3.5	0.4
Internal Financial Services Division	—	—	34.7	32.1
	6,843.4	6,861.8	1,195.3	1,541.2
Deemed profit on partial disposal of a subsidiary			2.7	349.6
Finance costs			(49.9)	(114.0)
Unallocated net operating income and expenses			(5.9)	32.9
Profit from ordinary activities before tax			1,142.2	1,809.7

Segment information on the main businesses of the Group is shown in note 13 on the financial statements on pages 100 and 101 of this Annual Report.

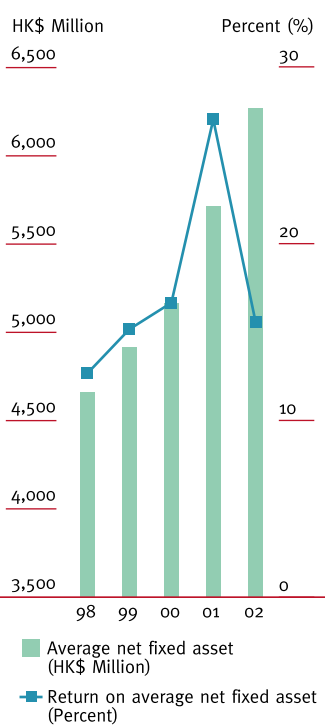
Dividends per share



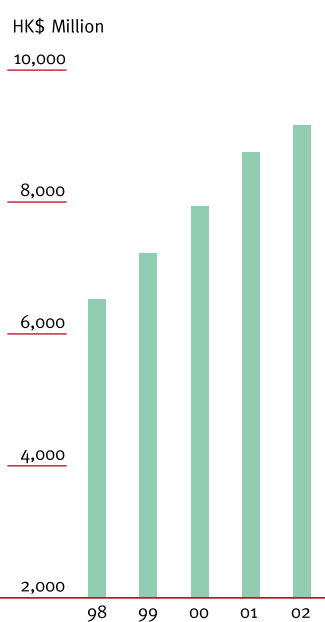
Group turnover



Return on average net fixed asset employed



Total assets at 31 December



Taxation

Taxation for the year was HK\$174.9 million (2001: restated HK\$236.7 million). Deferred taxation of HK\$70.2 million (2001: restated HK\$86.0 million) was provided for using the balance sheet method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes according to the new accounting policy recommended by the re-issued Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA") in 2002.

Cash Flow

The net cash inflow from operating activities of the Group in 2002 was HK\$1,648.3 million (2001: restated HK\$2,100.8 million). Net cash used in investing activities during the year amounted to HK\$1,461.1 million (2001: restated HK\$1,197.5 million), of which payment for capital expenditure amounted to HK\$1,265.8 million (2001: HK\$1,268.5 million). Net cash used in financing activities during the year amounted to HK\$866.4 million (2001: restated HK\$886.5 million), of which total dividend payments to the shareholders amounted to HK\$771.0 million (2001: HK\$666.0 million). The consolidated cash flow statement of the Group for the year ended 31 December 2002 is set out on pages 88 and 89 of this Annual Report.

Liquidity and Financial Resources

The Group's policy is to maintain a healthy financial position such that net cash inflow from operating activities together with undrawn committed and uncommitted banking facilities should meet the requirements for loan repayments and capital expenditure. Furthermore, sufficient cash balances are maintained to meet potential business expansion and development from time to time. The Group's operations were mainly financed by shareholders' funds, bank loans and overdrafts in 2002.

The gearing ratio and the liquidity ratio of the Group are shown below:

	2002	2001 restated
Gearing ratio at year-end (the ratio of net borrowings to the total share capital and reserves)	0.15	0.05
Liquidity ratio at year-end (the ratio of current assets to current liabilities)	1.27	1.47

Net borrowings ▶ At 31 December 2002, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$689.5 million (2001: HK\$225.8 million), representing an increase of HK\$463.7 million as compared with 2001. An analysis of the Group's net borrowings by currency at 31 December 2002 is shown below:

Currency	2002		2001	
	Net borrowings/ (cash) in foreign currency Million	Net borrowings/ (cash) in HK\$ Million	Net borrowings/ (cash) in foreign currency Million	Net borrowings/ (cash) in HK\$ Million
Hong Kong Dollar		993.9		739.1
United States Dollar	(28.3)	(221.2)	(43.1)	(336.1)
British Pound Sterling	(6.7)	(83.2)	(15.7)	(177.2)
Total		689.5		225.8

Bank loans and overdrafts ▶ Bank loans and overdrafts at 31 December 2002 amounted to HK\$2,268.0 million (2001: HK\$2,345.7 million).

Except for a bank loan of HK\$100 million (2001: HK\$ Nil) which was secured by a pledged bank deposit of the same amount (2001: HK\$ Nil), all bank loans and overdrafts were unsecured as at 31 December 2002 and 31 December 2001.

The maturity profile of the bank loans and overdrafts of the Group is set out in note 25 on the financial statements on page 109 of this Annual Report.



Banking facilities › At 31 December 2002, the Group had stand-by banking facilities totalling HK\$549.5 million (2001: HK\$381.5 million).

Finance costs and interest cover › Due mainly to the reduction in interest rates and in the average amount of borrowings during 2002, the total finance cost incurred by the Group reduced from HK\$114.0 million in 2001 to HK\$49.9 million in 2002. The average interest rate in respect of the Group's borrowings for 2002 was 2.6%, representing a decrease of 190 basis points compared with 4.5% for 2001.

Interest cover, representing the ratio of profit from ordinary activities before tax to net finance charges (i.e. total finance costs less interest income), increased from 75.9 times in 2001 to 87.2 times in 2002.

Funding and treasury policies › The major operating companies of the Group (i.e. The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, RoadShow Holdings Limited and Park Island Transport Company Limited) arrange their own financing to meet specific requirements. The main sources of financing for these companies are proceeds from operations and unsecured long-term bank loans. Uncommitted stand-by banking facilities and overdrafts are also maintained to facilitate routine treasury operations. Financing for the other subsidiaries of the Group is mainly provided by the holding company from its capital base. The Group reviews its strategy from time to time with a view to selecting the financing methods that provide the lowest finance costs with the required maturity and flexibility.

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, all denominated in Hong Kong dollars. Financing in Hong Kong dollars provides a natural currency hedge for the Group. As at 31 December 2002,

the Group's total borrowings were substantially denominated in Hong Kong dollars and on a floating rate basis. This has enabled the Group to take full advantage of the interest rate cuts in 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 at the end of the year were relatively low when compared to its total asset base. Certain expenditures such as purchase of new buses and motor vehicle components require payments 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.

Cash and deposits at bank ▶ At 31 December 2002, the Group's cash and deposits at banks amounted to HK\$1,595.2 million (2001: HK\$2,119.8 million), and they were mainly denominated in Hong Kong Dollars, US Dollars and British Pound Sterling.

Capital Expenditure and Commitment

Capital expenditure incurred by the Group during 2002 amounted to HK\$1,340.1 million (2001: HK\$1,337.5 million). The breakdown of the capital expenditure incurred is shown in note 14(a) on the financial statements on page 102 of this Annual Report.

Commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2002 amounted to HK\$890.6 million (2001: HK\$790.6 million). A summary of the nature of the commitments is set out below:

HK\$ Million	2002	2001
Purchase of buses and other motor vehicles	255.4	296.8
Construction of depots and other depot facilities	5.1	221.6
Re-development of the old Lai Chi Kok Depot site	127.7	—
Purchase of other fixed assets	502.4	272.2
Total	890.6	790.6

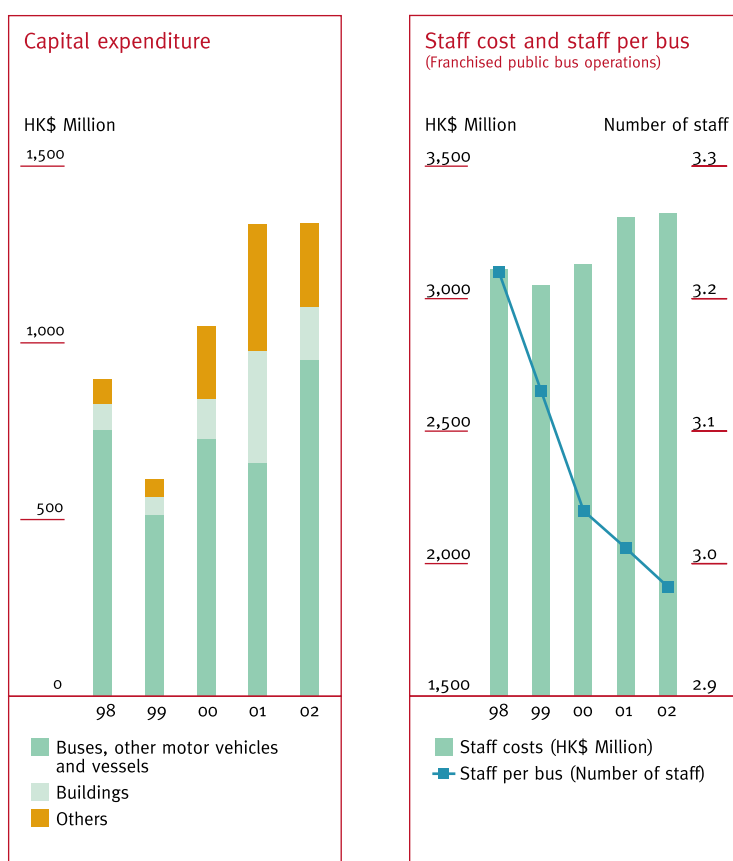
The commitments are to be financed by borrowings and the working capital of the Group.

At 31 December 2002, the Group had 134 (2001: 138) air-conditioned double-deck buses on order for delivery in 2003 and 60 (2001: 70) buses under various stages of construction.

Accounting Standards and Policies

The financial statements set out on page 83 to 116 have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). Certain new or revised SSAPs, which affect the Group, are highlighted below.

SSAP 12 "Income taxes" – In prior years, deferred taxation was provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure that were expected with reasonable probability to crystallise in the foreseeable future. The Group has elected to adopt the re-issued SSAP 12 "Income taxes" in place of SSAP 12 "Accounting for deferred tax" issued in 1987, for the preparation of its financial statements for the year ended 31 December 2002. The Directors



considered that the new accounting policy would be able to fully and fairly recognise the tax consequences of transactions and other events effected by the Group. The effect of adopting this new accounting policy is set out in note 2(d) on the financial statements on page 96 of this Annual Report.

SSAP 34 “Employee benefits” – With the adoption of SSAP 34 “Employee benefits”, the Group’s defined benefit retirement assets, short term employee benefits and lump sum long service payments payable on cessation of the employees’ services were recognised by the Group. The effect of adopting the new accounting policy is set out in note 2(a), (b) and (c) on the financial statements on pages 95 and 96 of this Annual Report.

Employees

The provision of both franchised and non-franchised bus services is a labour intensive business. Staff costs represent a substantial portion of the Group’s bus operating costs. The Group closely monitors the number and remuneration of its employees against productivity and market trends. The number and remuneration of employees of the Group over the past two years are tabulated below:

	2002	2001 restated
Number of employees at year-end	14,208	14,144
Total remuneration (in HK\$ Million)	3,320	3,305
Remuneration as percentage of total operating costs	56%	57%

Analysis of Performance of Individual Business Units

Franchised Public Bus Operations Division

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

	Unit	2002	2001 restated
Total revenue, including advertising revenue	HK\$ Million	6,352.6	6,367.4
Total operating and finance costs	HK\$ Million	(5,316.8)	(5,151.9)
Profit from franchised bus operations before tax	HK\$ Million	1,035.8	1,215.5
Income tax expense	HK\$ Million	(163.5)	(200.7)
Profit from franchised bus operations after tax	HK\$ Million	872.3	1,014.8
Net profit margin		13.7%	15.9%
Passenger volume	Million passenger trips	1,134.4	1,111.2
Kilometres travelled	Million km	349.9	349.1
Staff number at year-end	No. of staff	13,247	13,281
Fleet size at year-end	No. of buses	4,441	4,384
Total assets value	HK\$ Million	6,518.0	5,961.0

Profit from franchised bus operations after tax of KMB for 2002 amounted to HK\$872.3 million (2001: restated HK\$1,014.8 million), representing a decrease of 14.0% compared with that of the previous year.

KMB recorded 1,134.4 million passenger trips during the year (2001: 1,111.2 million). The average daily number of passenger trips in 2002 was 3.11 million (2001: 3.04 million). This represents an increase of 2.1% compared with the previous year.

KMB's fare revenue for 2002 increased slightly by 1.1% to HK\$6,234.0 million from HK\$6,169.5 million for 2001. Such increase was mainly due to the extra travel demand generated by population growth and the shift of population from the traditional urban areas to the new towns in the New Territories, as well as the introduction of more buses and new bus routes by KMB during the year. However, such growth in demand was suppressed by a loss of about 100,000 passenger trips a day after the opening of the new MTR Tseung Kwan O Line since August 2002.

The actual distance travelled by KMB's buses totalled 349.9 million kilometres during the year (2001 : 349.1 million kilometres). The slight increase in distance travelled was primarily due to the launch of new bus routes and improved frequencies on certain bus routes but offset by the rationalisation of some routes.

KMB's advertising revenue amounted to HK\$71.4 million (2001: HK\$71.2 million) in 2002, a slight increase of 0.3% compared with that in 2001.

The increase in operating costs was due mainly to increase in depreciation charge as a result of the capital investment made in 2002. Tunnel tolls, insurance, fuel and other operating costs also increased both in themselves and in line with the enhanced activity level.

KMB has been assigned a single "A" corporate rating (outlook: stable) by Standard & Poor's since 14 January 2002. The credit rating reflects KMB's strong and stable financial position.

Long Win Bus Company Limited (“LWB”) ›

	Unit	2002	2001 restated
Total revenue, including advertising revenue	HK\$ Million	246.4	239.3
Total operating and finance costs	HK\$ Million	(240.9)	(239.9)
Profit/(loss) from franchised bus operations before tax	HK\$ Million	5.5	(0.6)
Income tax (expense)/income	HK\$ Million	(0.9)	0.2
Profit/(loss) from franchised bus operations after tax	HK\$ Million	4.6	(0.4)
Net profit margin		1.9%	—
Passenger volume	Million passenger trips	20.3	19.0
Kilometres travelled	Million km	23.1	22.8
Staff number at year-end	No. of staff	402	408
Fleet size at year-end	No. of buses	145	160
Total assets value	HK\$ Million	303.4	354.8

The profit from franchised bus operations after tax of LWB for 2002 was HK\$4.6 million (2001: restated loss of HK\$0.4 million).

The total ridership of LWB for 2002 was 20.3 million (2001: 19.0 million) passenger trips or an average daily of 55,616 (2001: 52,052) passenger trips. This represents an increase of 6.9% over 2001. The increase was primarily due to the growth in the population in Tung Chung New Town and the number of tourists visiting Hong Kong during the year.

LWB's fare revenue increased by 5.4% to HK\$232.1 million for 2002 from HK\$220.3 million for the previous year. Such increase was due primarily to the new travel demand generated by the increase in population in the North Lantau areas.

Total mileage operated for the year was 23.1 million (2001: 22.8 million) kilometres.

The advertising revenue of LWB decreased from HK\$2.3 million in 2001 to HK\$1.3 million in 2002, which was attributable to the weak local economy during the year.

Non-Franchised Transport Operations Division

The Group's Non-Franchised Transport Operations Division reported a profit after tax of HK\$12.7 million for 2002 (2001: restated HK\$8.2 million), representing an increase of 54.9% compared with that for the previous year. Turnover increased by 21.4% from HK\$143.0 million in 2001 to HK\$173.6 million in 2002. This was primarily due to the growth in residential, commercial and contract hiring businesses.

With Sun Bus Limited as the flagship, Sun Bus Holdings Limited and its subsidiaries had a fleet of 207 buses at the end of 2002 (2001: 205 buses) with net book value totalling HK\$62.1 million (2001: HK\$69.2 million). They provide various types of non-franchised bus services mainly for residential estates, commercial clients, employees, tourists, students and contract-hire customers. During the year, an additional 15 buses (2001: 31 buses) were purchased for enhancement of service quality.

New Hong Kong Bus Company Limited (“NHKB”) jointly operates a cross-boundary shuttle bus service between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen, together with its Shenzhen counterpart. During the year, five new air-conditioned single-deck buses were purchased by NHKB to meet the rising demand. At year-end 2002, this shuttle operation deployed a total of 20 buses.

Park Island Transport Company Limited (“PITC”), a 65% owned subsidiary of the Group, has been engaged by Sun Hung Kai (Ma Wan) Transport Company Limited (“SHKMW”) for the provision of bus and ferry services to and from Ma Wan Island. The services commenced on 14 December 2002. Four new catamarans and six single-deck super-

low floor buses were purchased at a total cost of HK\$101.2 million for the services. Another two catamarans and three new diesel-electric hybrid-powered buses will come into service in 2003. At 31 December 2002, the total commitment for these additional buses and ferries amounted to HK\$31.0 million.

Media Sales Business Division

RoadShow Holdings Limited and its subsidiaries (the “RoadShow Group”) ›

HK\$ Million	2002	2001 restated
Total revenue	173.4	301.3
Total operating and finance costs	(102.2)	(99.5)
Profit from ordinary activities before tax	71.2	201.8
Income tax expense	(7.7)	(34.6)
Profit from ordinary activities after tax	63.5	167.2
Minority interest	(8.5)	(8.9)
Profit from ordinary activities after tax and minority interests	55.0	158.3

The RoadShow Group reported a total operating revenue of HK\$173.4 million (2001: HK\$301.3 million) and a profit attributable to shareholders of HK\$55.0 million (2001: restated HK\$158.3 million) for the year ended 31 December 2002, representing a decrease of 42.4% and 65.3% respectively compared with the previous year. The RoadShow Group's revenue was derived principally from its media sales services, and media sales management and administrative services.

Further information relating to the RoadShow Group is available in its 2002 annual report.

Mainland Operations Division

At 31 December 2002, the Group's total interest in associate and jointly controlled entities amounted to HK\$5.7 million (2001: HK\$6.3 million). The investments were in respect of the operation of passenger bus services in Dalian and Tianjin. The co-operative joint venture (“CJV”) in Dalian, established in 1997 by a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company in Liaoning Province, continued to make steady progress during 2002. The other CJV in Tianjin formed between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited in Tianjin began operation in January 2001. This CJV made satisfactory progress and recorded a small profit in 2002.

Property Holdings Division

Lai Chi Kok Properties Investment Limited (“LCKPI”), a wholly-owned subsidiary of the Group, is the owner of the old Lai Chi Kok Depot site located at Po Lun Street, Lai Chi Kok, Kowloon. LCKPI has completed the demolition of the old depot building and proceeded to construct four residential blocks comprising about 1,300 flat units with a total residential gross floor area of about one million square feet and a retail podium area of about 50,000 square feet according to its current plan. During the year, HK\$39.1 million was paid for the demolition and consultancy services. This amount was capitalised as property under development. As at 31 December 2002, the commitment of the project was HK\$127.7 million.

Connected Transaction

As detailed in note 37(e) on the financial statements on page 115 of this Annual Report, the continuing transaction during the year between PITC, a 65% owned subsidiary of the Group, and Sun Hung Kai (Ma Wan) Transport Company Limited (“SHKMW”), a subsidiary of Sun Hung Kai Properties Limited, for the provision of transportation services for Ma Wan Island constitutes a connected transaction under the Listing Rules. Particulars of the connected transaction were disclosed in the announcement of the Company dated 25 May 2001.

In compliance with the conditional waiver granted to the Company by The Stock Exchange of Hong Kong Limited from the requirement of disclosure of the aforesaid continuing connected transaction by press notice, the Directors including the Independent Non-executive Directors of the Company have reviewed and confirmed that the connected transaction was entered into (a) in the ordinary and usual course of business of the Group, (b) on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned, and (c) in accordance with the terms of the agreement entered into between PITC and SHKMW; and further that the annual permitted return for 2002 entitled by PITC under the said agreement does not exceed 3% of the audited consolidated net tangible asset of the Company at 31 December 2001.

Corporate Governance

Over the years, the Group has placed strong emphasis on maintaining high standards of corporate governance. This policy and culture ensure that the Group's corporate decision-making process, internal audit and control, disclosure of information and communication with shareholders are conducted in accordance with sound management practices and in full compliance with the regulatory standards. Further, adoption of internationally recognised quality standards through ISO certification since 1999 has cultivated a strong sense of quality management across every aspect of our day-to-day operations and eventually enhanced the performance and value of the Group.

Board of Directors

The Company's Board of Directors comprises 16 Directors, four of whom are Independent Non-executive Directors, including the Chairman. Board meetings are normally held monthly to discuss and decide major corporate and strategic issues.

Audit Committee

The Group's Audit Committee (the "Committee") comprises three Non-executive Directors, two of whom are Independent Non-executive Directors. Meetings are held every six months to review with senior management the accounting principles and practices adopted by the Group; the accuracy and fairness of the financial statements; and the scope of both internal and external audit work. The Committee also ensures that effective internal control procedures and practices are in place. Two Committee meetings were held during 2002. After each meeting, the Chairman of the Committee submitted a report to the Board of Directors and briefed them on significant issues.

Internal Audit

The Head of Internal Audit Department, who reports directly to the Managing Director and the Audit Committee, supervises the Internal Audit Department to carry out comprehensive audits and review on the financial and operational procedures and practices of the Group on both a regular and an ad-hoc basis. The Head of Internal Audit Department is also responsible for reviewing and monitoring the procedures and practices to ensure that they comply with the requirements of ISO 9001 : 2000.

Enhanced Shareholder Value

The Group conducts its businesses based on high standards of corporate governance. Corporate decision-making process is carried out in a decent, open and systematic manner. Through maintaining and inspiring investors' votes of confidence in the Group's management and internal controls, we work to further enhance the value of the Group for our shareholders.

Financial Summary

for the year ended 31 December

	2002 HK\$'M	2001 HK\$'M (restated)	2000 HK\$'M
Income statement			
Turnover	6,843	6,862	6,323
Profit before exceptional item	1,142	1,810	936
Exceptional item	–	–	–
Profit from ordinary activities before tax	1,142	1,810	936
Income tax expenses	175	237	81
Profit from ordinary activities after tax	967	1,573	855
Minority interests	28	34	–
Transfer from/(to) development fund	–	–	–
Profit attributable to shareholders	939	1,539	855
Balance sheet			
Fixed assets	6,497	6,047	5,381
Goodwill	53	21	22
Non-current prepayments	101	–	–
Investment securities	15	15	1
Interest in subsidiaries	–	–	–
Interest in associates	61	1	–
Interest in jointly controlled entity	2	6	10
Employee benefit assets	278	–	–
Net current assets/(liabilities)	465	854	926
Employment of funds	7,472	6,944	6,340
<i>Financed by:</i>			
Share capital	404	404	404
Reserves	4,157	3,776	2,341
Shareholders' funds	4,561	4,180	2,745
Contingency provision – insurance	117	202	298
Development fund	–	–	–
Minority interests	244	228	4
Long-term bank loans	1,830	1,743	2,176
Other liabilities	720	591	1,117
Funds employed	7,472	6,944	6,340
Earnings per share	\$2.33	\$3.81	\$2.12
Dividends per share	\$2.03	\$1.86	\$1.58
Special cash bonuses per share	–	–	–

Notes:

- 1 In order to comply with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 34 "Employee benefits", the Group adopted a new accounting policy for short-term employee benefits in 2002. Figures for the year 2001 have been adjusted and it is not practicable to restate earlier years for comparison purposes.
- 2 In order to early adopt SSAP 12 "Income taxes", the Group adopted a new accounting policy for deferred taxation in 2002. Figures for the year 2001 have been adjusted and it is not practicable to restate earlier years for comparison purposes.

1999 HK\$'M	1998 HK\$'M	1997 HK\$'M	1996 HK\$'M	1995 HK\$'M	1994 HK\$'M	1993 HK\$'M
<u>5,871</u>	<u>5,510</u>	<u>4,863</u>	<u>4,451</u>	<u>3,973</u>	<u>3,500</u>	<u>2,998</u>
893	679	555	588	540	490	384
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,711</u>	<u>—</u>
893	679	555	588	540	2,201	384
<u>154</u>	<u>93</u>	<u>4</u>	<u>62</u>	<u>77</u>	<u>84</u>	<u>62</u>
739	586	551	526	463	2,117	322
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>(2)</u>	<u>—</u>	<u>30</u>
<u>739</u>	<u>586</u>	<u>551</u>	<u>528</u>	<u>461</u>	<u>2,117</u>	<u>352</u>
4,952	4,882	4,441	3,342	2,777	2,479	2,241
4	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	24	—	—
(5)	(5)	(2)	—	—	—	—
13	17	20	—	—	—	—
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>881</u>	<u>374</u>	<u>(156)</u>	<u>(60)</u>	<u>40</u>	<u>36</u>	<u>(115)</u>
<u>5,845</u>	<u>5,268</u>	<u>4,303</u>	<u>3,282</u>	<u>2,841</u>	<u>2,515</u>	<u>2,126</u>
404	404	404	404	404	404	404
<u>2,052</u>	<u>1,782</u>	<u>1,637</u>	<u>1,514</u>	<u>1,362</u>	<u>1,231</u>	<u>935</u>
2,456	2,186	2,041	1,918	1,766	1,635	1,339
<u>305</u>	<u>299</u>	<u>273</u>	<u>288</u>	<u>175</u>	<u>175</u>	<u>146</u>
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>—</u>	<u>—</u>
6	6	6	—	—	—	—
1,961	1,694	1,116	346	303	229	358
<u>1,117</u>	<u>1,083</u>	<u>867</u>	<u>730</u>	<u>595</u>	<u>476</u>	<u>283</u>
<u>5,845</u>	<u>5,268</u>	<u>4,303</u>	<u>3,282</u>	<u>2,841</u>	<u>2,515</u>	<u>2,126</u>
<u>\$1.83</u>	<u>\$1.45</u>	<u>\$1.36</u>	<u>\$1.31</u>	<u>\$1.14</u>	<u>\$5.24</u>	<u>\$0.87</u>
<u>\$1.35</u>	<u>\$1.15</u>	<u>\$1.08</u>	<u>\$1.04</u>	<u>\$0.91</u>	<u>\$0.80</u>	<u>\$0.68</u>
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$3.81</u>	<u>—</u>

Directors' Profiles and Senior Executives



The Hon Sir Sze-yuen CHUNG*

GBM, GBE, PhD, FEng, JP

Chairman, aged 85. Appointed Chairman and Non-Executive Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 12 August 1999. He is also Director of CLP Holdings Limited, Sun Hung Kai Properties Limited and Wheelock & Company Limited; and Pro-Chancellor of the Hong Kong University of Science & Technology. He has contributed significantly in Hong Kong's political, industrial and tertiary education fields for over four decades. He was Senior Member of Hong Kong Legislative Council (1974-78), Executive Council (1980-88), and again Convenor of HKSAR Executive Council (1997-99). He was Chairman of Federation of Hong Kong Industries (1966-70), and Hong Kong Productivity Council (1974-78); and President of Engineering Society of Hong Kong (1960-61) and Hong Kong Academy of Engineering Sciences (1994-97). He established Hong Kong Polytechnic in 1972, City Polytechnic in 1984, Hong Kong University of Science & Technology in 1991 and Hospital Authority in 1990. He was deeply involved in the Sino-British Negotiation on Hong Kong's future (1982-85) and the establishment of the Hong Kong Special Administrative Region (1994-97).



Norman LEUNG Nai Pang

GBS, JP, BA

Deputy Chairman, aged 62. Director of The Kowloon Motor Bus Holdings Limited ("the Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 18 March 2000. Appointed Deputy Chairman of the Company and KMB, and Vice-Chairman of LWB since 14 June 2001. Deputy Chairman and Non-Executive Director of RoadShow Holdings Limited, Chairman of Silver Systems Limited, Chairman of Sun Hung Kai Super Logistics Limited, Chairman of E-Supply Chain Management Limited, Chairman of Hong Kong Business Aviation Centre Limited, Deputy Chairman of Airport Freight Forwarding Centre Company Limited and Director of Wing Lung Bank Limited. As for public service, he is the Council Chairman of City University of Hong Kong, Commissioner of Civil Aid Service, Member of the Electoral Affairs Commission and Member of the Hong Kong Logistics Development Council. As regards charities, he is a Council Member of the Save the Children Hong Kong.



Dr the Hon WOO Pak Chuen*

JP, LLD(Hon), LLB, PhD

Director, aged 93. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 26 May 1969 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Solicitor and Notary Public, Messrs P C Woo & Co, Solicitors. Also Chairman of Hong Kong Yakult Co Limited and Director of Liu Chong Hing Investment Limited. Former Member of the Hong Kong Legislative Council (1964-73) and Executive Council (1972-76) (Permitted by Her Majesty the Queen to retain the title "Honourable" after leaving the Executive Council). Life Member of the Court of the University of Hong Kong and of the Council of The Chinese University of Hong Kong. Father of Miss Lana Woo, who holds the position of Company Secretary in the Company.



KWOK Ping-luen, Raymond

MA(Cantab), MBA, Hon DBA

Director, aged 49. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 September 1981 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Mr Kwok holds a Master of Arts degree in Law from Cambridge University, a Master's degree in Business Administration from Harvard University and an Honorary Doctorate Degree in Business Administration from The Open University of Hong Kong. He is the Vice Chairman and Managing Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Securities (Disclosure of Interests) Ordinance. He is also Chairman and Chief Executive Officer of SUNeVision Holdings Ltd., Chairman of SmarTone Telecommunications Holdings Limited, a Director of Route 3 (CPS) Company Limited and Airport Freight Forwarding Centre Company Limited. In civic activities, Mr Kwok is a Non-Executive Director of the Securities and Futures Commission, a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce, a Member of the Hong Kong Port and Maritime Board and Vice-Chairman of the Council of The Chinese University of Hong Kong. He is also a Member of the Advisory Council of One Country Two Systems Research Institute Limited and Chairman of the Management Committees of the Police Children's Education Trust and the Police Education and Welfare Trust. Mr Kwok is also a Member of the Ninth Chinese People's Political Consultative Conference Beijing Committee, a Member of the President's Council on International Activities in Yale University and a Member of the Asia Advisory Board of Harvard Business School. Mr Kwok is the younger brother of Mr Kwok Ping-sheung, Walter, who is a Director of the Company.



KWOK Ping-sheung, Walter

JP, MSc(Lond), DIC, MICE

Director, aged 52. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 15 November 1990 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Chairman and Chief Executive of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Securities (Disclosure of Interests) Ordinance, an Executive Director of SUNeVision Holdings Ltd., Wilson Parking (HK) Ltd. and Hung Cheong Import & Export Co., Ltd. Mr Kwok is also a Director of The Real Estate Developers Association of Hong Kong and Tsimshatsui East Property Developers' Association Ltd. and Honorary Treasurer of the Federation of Hong Kong Hotel Owners. On the community front, he is the Chairman of the Former Directors Committee of the Hong Kong Community Chest, Board Member of the Lord Wilson Heritage Trust, a Member of the Young Presidents' Organization (China Chapter) and a Member of the Hong Kong & China Committee of the Pacific Basin Economic Council. Mr Kwok is an Honorary Citizen of Beijing & Guangzhou, a Member of the National Committee of the Chinese People's Political Consultative Conference and Vice Chairman of the All-China Federation of Industry and Commerce. Mr Kwok is the brother of Mr Kwok Ping-luen, Raymond, who is a Director of the Company.

(*Independent Non-Executive Director)



YU Shu Chuen

Honorary Executive Director, aged 90. Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 1 September 1961 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited since 4 September 1997. Mr Yu is director of several private property investment companies. Adviser to the Hong Kong Taishan Chamber of Commerce. Active in community services. Made significant financial and personal contribution in 1984 towards establishing the Wu Xi Secondary School in Taishan, his hometown, and elected Chairman of its Board in 1994. The school has won numerous prizes both in the province and the city. Awarded a "Gold Plate for the Contribution to the Development of Taishan" by the People's Government of Taishan City in 1992 and also awarded a "Certificate for Devotion to Children" by the People's Government of Jiangmen City in 1993. In 1997, Mr Yu was recognised as an Honorary Citizen by the People's Government of Taishan City. Mr Yu had worked in KMB for over 50 years before his retirement in 1984 as Personnel Manager.



NG Siu Chan

Director, aged 72. Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 3 March 1983 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Also Director of Century City International Holdings Limited, Paliburg Holdings Limited and Wing Lung Bank Limited. Father of Miss Winnie J Ng, who is a Director and Executive Director of the Company, KMB and LWB, and Group Managing Director of RoadShow Holdings Limited.



William LOUEY Lai Kuen

BSc(Econ)

Director, aged 43. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 14 January 1993 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited since 4 September 1997. Previously worked for an international merchant bank in the United Kingdom for five years and an international accounting firm in the United Kingdom for three years. In 1995, he set up the William S D Louey Educational Foundation in memory of his grandfather, Mr William S D Louey, to finance outstanding students from China and Hong Kong to further their education abroad. Having aware of the success of the Foundation, Mr Louey was invited to become a committee member of the Hong Kong Oxford Scholarship Fund in 1999.



John CHAN Cho Chak

GBS, JP, DBA(Hon), BA, DipMS, MIMgt, FCILT, FHKIoD

Managing Director, aged 59. Appointed Managing Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 1 November 1993 and 8 May 1997 respectively. Managing Director of The Kowloon Motor Bus Holdings Limited since 4 September 1997. Also Chairman and Non-Executive Director of RoadShow Holdings Limited. Independent Non-Executive Director of Hang Seng Bank Limited, AXA General Insurance Hong Kong Limited, Hong Kong Exchanges and Clearing Limited and Guangdong Investment Limited. Former member of the Hong Kong Civil Service, 1964-78 and 1980-93. Key posts held in Government included Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. Also former Executive Director and General Manager of Sun Hung Kai Finance Company Limited, 1978-80. Deputy Chairman of the Hong Kong Jockey Club, Director and Executive Committee Vice-Chairman of The Community Chest and Council Chairman of the Hong Kong University of Science and Technology. In December 2000, Mr Chan won the Executive Award in the DHL/SCMP HK Business Awards 2000 and received an Honorary University Fellowship from the University of Hong Kong.



Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT

Executive Director, aged 68. Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively. Director of The Kowloon Motor Bus Holdings Limited since 4 September 1997. Joined KMB in 1960 as Accountant and promoted to Chief Accountant, Assistant General Manager and appointed as General Manager on 1 March 1989. Retired as General Manager on 21 July 1999 on reaching the retirement age of 65 years.



Winnie J NG

BA, MBA(Chicago)

Executive Director, aged 39. Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 12 October 1995 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Also Group Managing Director of RoadShow Holdings Limited. Joined KMB in 1990 and appointed Commercial Director in 1999. Appointed as Executive Director of the Company, KMB and LWB in 2001. Active in community services, she is Board Member of Agency for Volunteer Service, Public Relations Committee Member of The Community Chest, Member of Zonta Club of Hong Kong East, Council Member of the Hong Kong Digestive Foundation, Steering Committee Member on Promotion of Volunteer Service of the Social Welfare Department, and also President of Little Chair Foundation. Daughter of Mr Ng Siu Chan, who is a Director of the Company.



Dr KUNG Ziang Mien, James*

OBE

Director, aged 72. Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. Financing and banking industry executive. Chairman and Chief Manager of Chekiang First Bank Ltd. Graduated from the Soochow University Law School LLB in 1950. Conferred by The Chinese University of Hong Kong, Doctor of Law, LLD (honoris causa) in 1990. DBA, Doctor of Business Administration (honoris causa) by Hong Kong Polytechnic in 1991. Doctor of Laws Honoris causa conferred by the University of Hong Kong in 2000. Awarded OBE by Her Majesty the Queen in 1994. Diplomatic Service: 1989-present Honorary Consul of Luxembourg. Other awards include Grand Officer of Order of Merit of the Grand Duchy of Luxembourg in 1994, Chevalier dans l'Ordre National de la Légion d'Honneur of France in 1996 and Commander in the Order of Leopold II of Belgium in 1997, Officer dans l'Ordre National de la Légion d'Honneur of France in 2000. Dr Kung is Chairman of Chekiang First Bank (Luxembourg) SA. He is also Chairman of the Hong Kong Digestive Foundation, Member of the Exchange Fund Advisory Committee and the Land Fund Advisory Committee, Member of Advisor Council, One Country Two Systems Research Institute, Chairman of the HKU-Pasteur Research Centre Ltd, and Trustee of the University of Hong Kong's Staff Terminal Benefits Scheme (1988), Staff Provident Fund and Terms of Services III Staff Retirement Scheme, Vice-Chairman of the Belgium-Luxembourg Chamber of Commerce, President of the Légion d'Honneur Club Hong Kong Chapter.



George CHIEN Yuan Hwei

MSc(Lond), BSc(Eng), DIC, FICE, CEng, PEng, MITE

Director, aged 65. Director of The Kowloon Motor Bus Holdings Limited ("the Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. Alternate Director to Mr Kwok Ping-sheung, Walter during the period 8 June 1995 to 13 October 1998 inclusive. Appointed Chairman of the Audit Committee of the Company on 11 February 1999. Holder of "Transportation Advisor" post in the Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Securities (Disclosure of Interests) Ordinance. Previously worked for the Toronto Transit Commission in Canada for more than 10 years and in the ex-Public Works Department of the Hong Kong Government for about 24 years.



The Hon Eric LI Ka Cheung*

OBE, JP, LLD, DSocSc, BA(Econ) Hon,
FHKSA, Hon HKAT, FCA, FCIS

Director, aged 49. Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. Senior Partner of Li, Tang, Chen & Co., Certified Public Accountants and an independent non-executive director of SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Limited, CATIC International Holdings Limited, SIIC Medical Science & Technology (Group) Limited, Hang Seng Bank Limited and China Vanke Co., Ltd. Mr Li is a member of the Legislative Council of the Hong Kong Special Administrative Region and serves as Chairman of its Public Accounts Committee. He was also a past president of the Hong Kong Society of Accountants.



LUI Pochiu

MCILT

Director, aged 60. Appointed as Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited effective 1 January 2001. Mr Lui has been Operations Director of KMB since 1999. In his capacity, Mr Lui manages the Planning and Development Department, Service Department and Traffic Department, looking after the overall planning, co-ordination and implementation of operations policies as well as practices. Mr Lui first joined KMB in November 1970 as Assistant Accountant. In the subsequent 30 years, Mr Lui had served in various different departments, taking up such roles as Stores Controller, Depot Manager and Traffic Manager. Mr Lui was educated in Australia and became a member of the Chartered Institute of Logistics & Transport in Hong Kong (formerly, Chartered Institute of Transport) in 1985.



Edmond HO Tat Man

MA(Cantab), MBA, MCILT, MHKIoD

Deputy Managing Director, aged 41. Appointed as Director of The Kowloon Motor Bus Holdings Limited (“the Company”), The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited (“LWB”) effective 1 January 2001. Joined KMB in September 1998 and was appointed to the position as Finance and Administration Director since 1 January 1999. Appointed as Deputy Managing Director of the Company, KMB and LWB with effect from 10 January 2002. Posts previously held included Investment Director of a merchant bank and executive director of a number of transport infrastructure management and investment companies in Hong Kong and the Mainland. Also former director of four Sino-foreign joint venture companies of an international leading soft drink brand.

Name	Position held in the Group	Year joined the Group
The Kowloon Motor Bus Holdings Limited		
John C C CHAN , GBS, JP, DBA(Hon), BA, DipMS, MIMgt, FCILT, FHKIoD	Managing Director	1993
Charles LUI Chung Yuen , M.H., BEC, AASA, FCILT	Executive Director	1960
# Winnie J NG , BA, MBA(Chicago)	Executive Director	1990
Edmond T M HO , MA(Cantab), MBA, MCILT, MHKIoD	Deputy Managing Director	1998
* Lana WOO , BA, AAT, CGA, ACIS, MIFC, CFC	Alternate Director and Company Secretary	1984
The Kowloon Motor Bus Company (1933) Limited		
John C C CHAN , GBS, JP, DBA(Hon), BA, DipMS, MIMgt, FCILT, FHKIoD	Managing Director	1993
# Winnie J NG , BA, MBA(Chicago)	Executive Director	1990
LUI Pochiu , MCILT	Operations Director	1970
Edmond T M HO , MA(Cantab), MBA, MCILT, MHKIoD	Deputy Managing Director and Finance and Administration Director	1998
Peter C K MAK	Commercial Director	1994
* Lana WOO , BA, AAT, CGA, ACIS, MIFC, CFC	Alternate Director and Company Secretary	1984
Peter S H MACK , MBA, MSc(Finance), LLB(Peking), FCCA, AHKSA, ACIS	Head of Accounts Department	1986
Susanne HO	Head of Corporate Communications Department	2000
CHAN Pik Yin , BA	Head of Customer Service Department	1993
Thomas T M TONG , MSc, CEng, MStructE, MHKIE, RPE, AP, RSE	Head of Facilities Management Department	1997
Doris K K LAU , FCCA, AHKSA	Head of Financial Planning and Costing Department	1985
James C LOUEY , BSc	Head of Human Resources Department	1990
Tommy H T LEUNG , BSc, DMS	Head of Information Technology Department	1979
Alice LUK , BBA, ANZIIF(Snr Assoc), MCI Arb	Head of Insurance Department	1981
Thomas M L LEUNG , BSc(Hons), FCCA, AHKSA, CGA	Head of Internal Audit Department	1987
Queenie L M YAU , BBA	Head of Office Administration Department	1972
Mark LEUNG , BBA, MIM, MCILT	Head of Planning and Development Department	1992
Lisa L M NG , BA	Head of Purchasing Department	1979
LEUNG Kin Wang , BSc, MIMechE, CEng	Head of Service Department	1980
SHUM Yuet Hung , BSc(Eng), MSc(Eng), MBA, MIRTE, MIMechE, CEng, MHKIE, ACGI, MSOE	Principal Engineer, Bus Engineering	1981
Tim IP , BSocSc, MSc, DIC, MCILT	Head of Traffic Department	1994
TSANG Lap Chung	Head of Treasury Department	1968
WAN Kin Tim , BSc	General Manager (Kowloon Bay Depot)	1981
LUI Yuk Fan	General Manager (Lai Chi Kok Depot)	1979
HO Chi Man , MCILT	General Manager (Shatin Depot)	1981
WOO Kin Keung	General Manager (Tuen Mun Depot)	1974
Long Win Bus Company Limited		
John C C CHAN , GBS, JP, DBA(Hon), BA, DipMS, MIMgt, FCILT, FHKIoD	Managing Director	1993
# Winnie J NG , BA, MBA(Chicago)	Executive Director	1990
Edmond T M HO , MA(Cantab), MBA, MCILT, MHKIoD	Deputy Managing Director	1998
Kenrick FOK , MCILT	General Manager	1988
* Lana WOO , BA, AAT, CGA, ACIS, MIFC, CFC	Alternate Director and Company Secretary	1984
Sun Bus Holdings Limited, New Hong Kong Bus Company Limited		
Simon TU , MCILT	General Manager	1997
KMB (China) Holdings Limited		
Charles LUI Chung Yuen , M.H., BEC, AASA, FCILT	Deputy Managing Director	1960
Simon TU , MCILT	General Manager	1997
RoadShow Holdings Limited		
# Winnie J NG , BA, MBA(Chicago)	Group Managing Director	1990
† Amanda LUI Yee Fai	Director and Chief Operations Officer	1992
Eric YEUNG Chun Yiu	Chief Programme Officer	2000
YIP CHUNG Tam Ling Rossetti	Chief Marketing and Sales Officer	2001
Thomas MAK Hing Keung	Chief Financial Officer and Company Secretary	2001

Miss Winnie J NG is the daughter of Mr NG Siu Chan, who is a Director of the Company.

* Miss Lana WOO is the daughter of Dr the Hon WOO Pak Chuen, who is a Director of the Company.

† Miss Amanda LUI Yee Fai is the daughter of Mr LUI Pochiu, who is a Director of the Company.

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Report of the Directors

The Directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activity of the Company is investment holding and the principal activities of the principal subsidiaries are the operation of both franchised and non-franchised public buses as well as the provision of media sales services. Particulars of the Company's subsidiaries are set out in note 17 on the financial statements.

The Group's turnover and profit are almost entirely attributable to bus operations and media sales business. The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 on the financial statements. Turnover and contribution to the Group's profit from non-Hong Kong activities are insignificant.

Financial statements

The profit of the Group for the year ended 31 December 2002 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 83 to 116 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 54 to 65 of this Annual Report.

Dividends

An interim dividend of 45 cents per share (2001: 40 cents per share) was paid to the shareholders on 10 October 2002. The Directors now recommend that a final dividend of HK\$1.58 per share (2001: HK\$1.46 per share) in respect of the year ended 31 December 2002 be paid to the shareholders on 16 May 2003.

Charitable donations

Charitable donations made by the Group during the year amounted to HK\$2,287,280 (2001: HK\$14,921,850).

Fixed assets

During the year, major additions of the Group were buses and vessels under construction with a total cost of HK\$915,738,000 (2001: HK\$647,520,000). During the year, buses and vessels under construction with a total cost of HK\$887,279,000 (2001: HK\$665,211,000) were licensed and transferred to buses or vessels.

Details of other movements in fixed assets during the year are set out in note 14 on the financial statements.

Directors

The Directors during the financial year and up to the date of this report were:

The Hon Sir Sze-yuen Chung , GBM, GBE, PhD, FREng, JP*	(Chairman)
Norman Leung Nai Pang , GBS, JP	(Deputy Chairman)
Dr the Hon Woo Pak Chuen , JP*	
Raymond Kwok Ping Luen	
Walter Kwok Ping Sheung , JP	
Yu Shu Chuen	
Ng Siu Chan	
William Louey Lai Kuen	
John Chan Cho Chak , GBS, JP	(Managing Director)
Charles Lui Chung Yuen , M.H.	
Winnie J Ng	
Dr James Kung Ziang Mien , OBE*	
George Chien Yuan Hwei	
The Hon Eric Li Ka Cheung , OBE, JP*	
Lui Pochiu	
Edmond Ho Tat Man	
Lana Woo	(Alternate Director to Dr the Hon Woo Pak Chuen, JP)
Sham Yat Wah	(Alternate Director to Mr Raymond Kwok Ping Luen)
Susanna Lau Shung Oi	(Alternate Director to Mr Walter Kwok Ping Sheung, JP and appointed on 13 May 2002)
Patrick Chan Kai Lung	(Alternate Director to Mr Walter Kwok Ping Sheung, JP and resigned on 13 May 2002)
(* Independent Non-executive Director)	

Directors (continued)

In accordance with Bye-Law 87, Dr the Hon Woo Pak Chuen, Mr Raymond Kwok Ping Luen, Mr Charles Lui Chung Yuen and Miss Winnie J Ng retire from the Board by rotation and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 66 to 71 of this Annual Report.

Directors' interests in shares

At 31 December 2002, the Directors had the following interests in the issued share capital of the Company and its subsidiary company, RoadShow Holdings Limited ("RoadShow"), as recorded in the register of Directors' interests in shares:

(a) The Company

	Shares of HK\$1 each			
	Personal interests	Family interests	Corporate interests	Other interests
The Hon Sir Sze-yuen Chung , GBM, GBE, PhD, FREng, JP	18,821	—	—	—
Norman Leung Nai Pang , GBS, JP	—	—	—	—
Dr the Hon Woo Pak Chuen , JP	210,047	—	—	—
Raymond Kwok Ping Luen	393,350	—	—	—
Walter Kwok Ping Sheung , JP	61,522	—	—	—
Yu Shu Chuen	2,943	70,803	—	6,909,481 (Note 1)
Ng Siu Chan	—	19,226,233	—	—
William Louey Lai Kuen	6,222,926	4,475	—	—
John Chan Cho Chak , GBS, JP	2,000	—	—	—
Charles Lui Chung Yuen , M.H.	12,427	—	—	2,651,750 (Note 2)
Winnie J Ng	41,416	—	—	19,226,233 (Note 3)
Dr James Kung Ziang Mien , OBE	—	—	—	—
George Chien Yuan Hwei	2,000	—	—	—
The Hon Eric Li Ka Cheung , OBE, JP	—	—	—	—
Lui Pochiu	452,113	—	—	—
Edmond Ho Tat Man	—	—	—	—
Lana Woo	9,475	—	—	—
(Alternate Director to Dr the Hon Woo Pak Chuen, JP)				
Sham Yat Wah	—	—	—	—
(Alternate Director to Mr Raymond Kwok Ping Luen)				
Susanna Lau Shung Oi	—	—	—	—
(Alternate Director to Mr Walter Kwok Ping Sheung, JP)				

Directors' interests in shares (continued)

(b) RoadShow

	Shares of HK\$0.10 each			
	Personal interests	Family interests	Corporate interests	Other interests
The Hon Sir Sze-yuen Chung , GBM, GBE, PhD, FREng, JP	4,000	—	—	—
Norman Leung Nai Pang , GBS, JP	—	—	—	—
Dr the Hon Woo Pak Chuen , JP	19,253	—	—	—
Raymond Kwok Ping Luen	37,400	—	—	—
Walter Kwok Ping Sheung , JP	6,600	—	—	—
Yu Shu Chuen	33,000	6,576	—	535,825 (Note 1)
Ng Siu Chan	—	—	—	—
William Louey Lai Kuen	412,371	—	—	—
John Chan Cho Chak , GBS, JP	—	—	—	—
Charles Lui Chung Yuen , M.H.	—	—	—	209,131 (Note 2)
Winnie J Ng	—	—	—	—
Dr James Kung Ziang Mien , OBE	—	—	—	—
George Chien Yuan Hwei	—	—	—	—
The Hon Eric Li Ka Cheung , OBE, JP	—	—	—	—
Lui Pochiu	24,863	—	—	—
Edmond Ho Tat Man	—	—	—	—
Lana Woo (Alternate Director to Dr the Hon Woo Pak Chuen, JP)	2,000	—	—	—
Sham Yat Wah (Alternate Director to Mr Raymond Kwok Ping Luen)	—	—	—	—
Susanna Lau Shung Oi (Alternate Director to Mr Walter Kwok Ping Sheung, JP)	—	—	—	—

Notes:

- 1 HSBC International Trustee Ltd held 6,909,481 and 535,825 shares in the Company and RoadShow respectively as trustee of a discretionary trust. By virtue of Section 31 of the Securities (Disclosure of Interests) Ordinance, Mr Yu Shu Chuen was deemed to have interests in the aforesaid shares.
- 2 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 2,651,750 and 209,131 shares in the Company and RoadShow respectively.
- 3 Miss Winnie J Ng has interest in certain private trusts which beneficially held 19,226,233 shares in the Company.

As at 31 December 2002, none of the Directors had any non-beneficial interest in the share capital of the Company.

Share option schemes

Under two share option schemes of RoadShow, Pre-Listing Share Option Scheme and Share Option Scheme, options were granted to certain directors and employees of the Group to subscribe for shares in RoadShow.

The total number of securities available for issue under the Pre-Listing Share Option Scheme and the Share Option Scheme as at 31 December 2002 was 21,861,000 shares and 18,240,000 shares respectively which represented 4% of the issued share capital of RoadShow at 31 December 2002. In respect of the maximum entitlement of each participant under the schemes, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12 month period is limited to 1% of RoadShow's ordinary shares in issue.

At 31 December 2002, the directors and employees of the Group had the following interests in options to subscribe for shares of RoadShow (market value per share at 31 December 2002 was HK\$1.23) granted for nil consideration under RoadShow's share option schemes. Each option gives the holder the right to subscribe for one share. The options granted are not recognised in the financial statements until they are exercised.

(a) Pre-Listing Share Option Scheme

	Number of options outstanding at the beginning of the year	Number of options outstanding at the end of the year	Number of shares acquired on exercise of option during the year	Exercise price per share	Market value per share at date of grant of options	Market value per share on exercise of options
Directors of the Company						
Norman Leung Nai Pang, GBS, JP	2,380,000	2,380,000	Nil	HK\$1.80	Note 2	—
Raymond Kwok Ping Luen	338,000	338,000	Nil	HK\$1.80	Note 2	—
Ng Siu Chan	338,000	338,000	Nil	HK\$1.80	Note 2	—
John Chan Cho Chak, GBS, JP	2,380,000	2,380,000	Nil	HK\$1.80	Note 2	—
Charles Lui Chung Yuen, M.H.	338,000	338,000	Nil	HK\$1.80	Note 2	—
Winnie J Ng	3,380,000	3,380,000	Nil	HK\$1.80	Note 2	—
George Chien Yuan Hwei	168,000	168,000	Nil	HK\$1.80	Note 2	—
Lui Pochiu	188,000	188,000	Nil	HK\$1.80	Note 2	—
Edmond Ho Tat Man	188,000	188,000	Nil	HK\$1.80	Note 2	—
Lana Woo	168,000	168,000	Nil	HK\$1.80	Note 2	—
(Alternate Director to Dr the Hon Woo Pak Chuen, JP)						
Employees	18,192,000	11,995,000	4,349,000	HK\$1.80	Note 2	HK\$2.39

The above options were granted on 26 June 2001 and are exercisable during the period from 28 December 2001 to 27 December 2003 (Note 1). 1,848,000 options have lapsed during the year because the grantees ceased their employment with RoadShow. 4,349,000 options have been exercised during the year.

Notes:

- The exercise period of these options is two years commencing six months from 28 June 2001, except that for grantees who were granted 1,000,000 or more options, they could (a) during the period from the beginning of the seventh month up to the end of the twelfth month from 28 June 2001 exercise up to 50% of the number of options that they have been granted under the Pre-Listing Share Option Scheme, and (b) exercises the remaining unexercised options after the end of the twelfth month from 28 June 2001 up to the end of the exercise period.
- The exercise price is HK\$1.80 per share representing 80% of the issue price of HK\$2.25 per share pursuant to the Hong Kong Offering and the International Placing of RoadShow's shares.

Share option schemes (continued)

(b) Share Option Scheme

	Number of options outstanding at the beginning of the year	Number of options outstanding at the end of the year	Number of shares acquired on exercise of option during the year	Exercise price per share	Market value per share at date of grant of options	Market value per share on exercise of options
Director of the Company						
Winnie J Ng	–	3,800,000	Nil	HK\$2.25	HK\$2.25	–
Employees	–	14,440,000	Nil	HK\$2.25	HK\$2.25	–

A total of 23,340,000 options was granted on 11 March 2002 and they are exercisable during the period from 12 March 2002 to 11 March 2005. 5,100,000 options have lapsed during the period from the date of grant to 31 December 2002 because the grantees ceased their employment with RoadShow Group.

According to the Black-Scholes model (Note), the total value of the options granted under the Share Option Scheme during the year was estimated at HK\$23,510,620 as at 11 March 2002 with the following variables and assumptions:

- (1) Risk free rate : 5.903%
- (2) Expected volatility : 66.49%
- (3) Expected dividend yield : 1.7%
- (4) Expected life of the share option : 3 years

Note:

The Black-Scholes model (The "Model") is developed to estimate the fair value of publicly trade options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The Model does not necessarily provide a reliable measure of the fair value of the options.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' service contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' interests in contracts

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Substantial interests in the share capital of the Company

The Company has been notified of and recorded in the register of substantial shareholders the following interests in the Company's issued shares at 31 December 2002 amounting to 10% or more of the shares in issue:

	Shares held	Percentage of total issued shares
Sun Hung Kai Properties Limited (Notes 1 and 2)	133,271,012	33.02%
Arklake Limited (Note 1)	68,600,352	17.00%
HSBC Holdings plc Group (Note 3)	175,064,372	43.37%

Notes:

- 1 The register of substantial shareholders indicates that the interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 68,600,352 shares disclosed by Arklake Limited.
- 2 In accordance with the Codes on Takeovers and Mergers and Share Repurchases (the "Codes"), a person becomes obliged to make a mandatory offer if the person's voting rights in a listed company exceeds a threshold. With effect from 19 October 2001, the threshold for triggering a mandatory offer obligation under the Codes has been reduced from 35% to 30%. However, transitional provisions will be applied where a person holds 30% or more of the voting rights of a listed company but less than 35% of such voting rights immediately prior to 19 October 2001. For so long as such holding remains in this range and until 10 years after that date, the Codes shall be interpreted and applied as if the 30% trigger was 35% for such person. For avoidance of doubt, where such person continues to hold 30% or more but less than 35% of the voting rights of the company at the end of the 10-year period, it will not be necessary for such person to sell his/her voting rights to take his/her holding below 30% in order not to trigger a mandatory offer obligation. In this regard, the transitional provisions are applicable to SHKP.
- 3 For the purposes of the Securities (Disclosure of Interests) Ordinance, HSBC Holdings plc and certain of its subsidiaries ("HSBC Holdings plc Group") are deemed to be interested in the 133,271,012 shares held by SHKP in the Company. In addition, certain subsidiaries of HSBC Holdings plc Group are the trustees of various trusts which have interest amounting to 41,793,360 shares in the Company. Accordingly, HSBC Holdings plc Group has a deemed interest in a total of 175,064,372 shares in the Company.

Purchase, sale or redemption of the Company's shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

Senior executives

Brief particulars of the senior executives of the Group are set out on page 72 of this Annual Report.

Staff retirement schemes

The Group operates two separate non-contributory defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme and The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme, and participates in a defined contribution retirement scheme, SHKP MPF Employer Sponsored Scheme.

Defined benefit retirement schemes

The Group makes contributions to two defined benefit plans that provide pension benefits for employees upon retirement. The schemes are administered by trustees, the majority of which are independent, with their assets held separately from those of the Group. Both schemes are formally established under trust and are registered under the Occupational Retirement Schemes Ordinance. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the retirement schemes at regular intervals, usually triennially.

The most recent actuarial valuations of the two schemes were at 1 January 2002 which showed that there were sufficient assets in the schemes to cover both the solvency and ongoing liabilities of the schemes. Other relevant information extracted from the valuation pertaining to the two schemes is set out below:

The KMB Monthly Rated Employees Provident Fund Scheme

- (i) The scheme was established with effect from 15 February 1978.
- (ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used (see note below). Other major assumptions used in the valuation were: Investment Return and Salary Escalation at 5.5% per annum; Mortality Rates 1991 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 65.

Staff retirement schemes (continued)

- (iii) The market value of the scheme assets at 1 January 2002 was HK\$675.7 million.
- (iv) The minimum level of funding commencing from 1 January 2002 recommended by the actuary is 9.1% of pay.
- (v) The ongoing funding surplus in the scheme was HK\$74.5 million and the solvency surplus was HK\$111.2 million at 1 January 2002.

The KMB Daily Rated Employees Retirement Fund Scheme

- (i) The scheme was established with effect from 1 July 1983.
- (ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used (see note below). Other major assumptions used in the valuation were: Investment Return and Salary Escalation at 5.5% per annum; Mortality Rates 1991 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 60.
- (iii) The market value of the scheme assets at 1 January 2002 was HK\$1,725.1 million.
- (iv) The minimum level of funding commencing from 1 January 2002 recommended by the actuary is 6.9% of pay.
- (v) The ongoing funding surplus in the scheme was HK\$93.0 million and the solvency surplus was HK\$335.5 million at 1 January 2002.

Note:

The obligations in respect of defined benefit plans included in the financial statements are calculated using the projected unit credit method (see note 1(p)(iii) to the financial statements).

Defined contribution retirement scheme**SHKP MPF Employer Sponsored Scheme (the "SHKP Scheme")**

The Group is also a participating member of the defined contribution retirement scheme. Those employees who do not participate in the defined benefit retirement schemes are covered by the SHKP Scheme which is administered by an independent trustee. The assets of the SHKP Scheme are held separately from those of the Group in independently administered funds. The Group is required to make contributions to the SHKP Scheme at rates ranging from 5% to 12% of the relevant employees' salaries, depending on their length of service with the Group. The employees are required to make contribution to the SHKP Scheme at 5% of the employees' relevant income as defined by the Hong Kong Mandatory Provident Fund Schemes Ordinance, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the SHKP Scheme during the year are charged to the income statement as incurred. For forfeited amount due to resignation prior to the vesting of the benefits, the amount will be used to reduce the Group's contribution made in that corresponding financial year. The amount of forfeited contribution utilised during the year and the amount available for use as at 31 December 2002 were insignificant to the Group.

Bank loans and overdrafts

Particulars of bank loans and overdrafts of the Group as at 31 December 2002 are set out in note 25 on the financial statements.

Major customers and suppliers

Income attributable to the five largest customers of the Group accounted for less than 30% of the total income of the Group for the year.

Purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the value of the Group's total purchases for the year.

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on pages 64 and 65 of this Annual Report.

Compliance with the Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules, except that the independent Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Bye-Laws of the Company.

Audit committee

The audit committee comprises one Non-executive Director and two Independent Non-executive Directors and reports to the Board of Directors. The audit committee meets with Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group.

Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

S.Y. CHUNG

Chairman

Hong Kong, 20 March 2003



Auditors' Report to the Shareholders of The Kowloon Motor Bus Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 83 to 116 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 20 March 2003

Consolidated Income Statement for the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000 restated
Turnover	3	6,843,394	6,861,809
Other revenue	4	76,337	141,817
Other net income	4	1,891	10,059
Staff costs	6(a)	(3,319,752)	(3,305,344)
Depreciation and amortisation		(850,994)	(666,746)
Spare parts, stores and fuel oil consumed		(705,999)	(669,554)
Other operating expenses		(856,978)	(797,234)
Profit from operations		1,187,899	1,574,807
Deemed profit on partial disposal of a subsidiary	5	2,724	349,569
Finance costs	6(b)	(49,858)	(113,984)
Share of profit of associates		1,081	–
Share of profit/(loss) of jointly controlled entity		342	(682)
Profit from ordinary activities before tax	6	1,142,188	1,809,710
Income tax expense	7(a)	(174,859)	(236,685)
Profit from ordinary activities after tax		967,329	1,573,025
Minority interests		(27,726)	(33,584)
Profit attributable to shareholders	10 & 32(c)	939,603	1,539,441
Dividends attributable to the year:	11 & 32(c)		
Interim dividend paid of HK\$0.45 per share (2001: HK\$0.40 per share)		181,638	161,456
Proposed final dividend of HK\$1.58 per share (2001: HK\$1.46 per share)		637,750	589,314
		819,388	750,770
Earnings per share	12	\$2.33	\$3.81

The notes on pages 90 to 116 form part of these financial statements.

Consolidated Balance Sheet at 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000 restated
Non-current assets			
Fixed assets	14(a)	6,496,741	6,047,260
Goodwill	15	52,774	20,615
Non-current prepayments	16	101,040	–
Interest in associates	18	61,403	637
Interest in jointly controlled entity	19	2,034	5,646
Investment securities	20	15,355	15,355
Employee benefit assets	21	277,705	–
		<u>7,007,052</u>	<u>6,089,513</u>
Current assets			
Other investments	22	81,954	86,237
Property under development		39,066	–
Spare parts and stores		82,907	83,080
Accounts receivable	23	265,433	349,409
Deposits and prepayments		62,985	23,915
Tax recoverable	7(b)	28,517	–
Pledged bank deposit	25	100,000	–
Deposits with banks		12,876	–
Cash and cash equivalents	24	1,482,359	2,119,845
		<u>2,156,097</u>	<u>2,662,486</u>
Current liabilities			
Bank loans and overdrafts	25	438,311	602,919
Accounts payable and accruals	26	981,502	902,338
Third party claims payable		271,374	223,295
Tax payable	7(b)	–	79,650
		<u>1,691,187</u>	<u>1,808,202</u>
Net current assets		<u>464,910</u>	<u>854,284</u>
Total assets less current liabilities		<u>7,471,962</u>	<u>6,943,797</u>

Consolidated Balance Sheet at 31 December 2002 (continued)

	Note	2002 HK\$'000	2001 HK\$'000 restated
Non-current liabilities			
Bank loans	25	1,829,704	1,742,741
Other unsecured loans	27	16,684	–
Contingency provision – insurance	28	117,245	201,980
Deferred tax	29	654,994	591,479
Provision for long service payments	30	48,184	–
		<u>2,666,811</u>	<u>2,536,200</u>
Minority interests		<u>244,203</u>	<u>227,855</u>
		<u>2,911,014</u>	<u>2,764,055</u>
NET ASSETS		<u>4,560,948</u>	<u>4,179,742</u>
CAPITAL AND RESERVES			
Share capital	31	403,639	403,639
Reserves	32	<u>4,157,309</u>	<u>3,776,103</u>
		<u>4,560,948</u>	<u>4,179,742</u>

Approved and authorised for issue by the Board of Directors on 20 March 2003

S.Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 90 to 116 form part of these financial statements.

Balance Sheet at 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Fixed assets	14(b)	99	133
Interest in subsidiaries	17	2,655,907	2,584,377
		<u>2,656,006</u>	<u>2,584,510</u>
Current assets			
Deposits and prepayments		774	286
Tax recoverable	7(b)	–	199
Cash and cash equivalents	24	8,103	6,076
		<u>8,877</u>	<u>6,561</u>
Current liability			
Accounts payable and accruals	26	10,620	12,582
Net current liability		<u>(1,743)</u>	<u>(6,021)</u>
NET ASSETS		<u>2,654,263</u>	<u>2,578,489</u>
CAPITAL AND RESERVES			
Share capital	31	403,639	403,639
Reserves	32	2,250,624	2,174,850
		<u>2,654,263</u>	<u>2,578,489</u>

Approved and authorised for issue by the Board of Directors on 20 March 2003

S.Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 90 to 116 form part of these financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000 restated
Shareholders' equity at 1 January			
As previously reported		4,799,146	2,744,539
Prior period adjustments arising from changes in accounting policies for:			
– short-term employee benefits	2(b)	(97,404)	(92,851)
– deferred tax assets and liabilities	2(d)	(522,000)	(470,452)
As restated		4,179,742	2,181,236
Adjustments in respect of changes in accounting policies for:			
– defined benefit plans	2(a)	252,500	–
– long service payments	2(c)	(39,945)	–
– provisions		–	1,125,070
		4,392,297	3,306,306
Net profit for the year:			
As previously reported			1,595,542
Prior period adjustments arising from changes in accounting policies for:			
– short-term employee benefits	2(b)		(4,553)
– deferred tax assets and liabilities	2(d)		(51,548)
Profit for the year (2001: as restated)		939,603	1,539,441
Interim dividend paid during the year		(181,638)	(161,456)
Dividend approved in respect of the previous financial year		(589,314)	(504,549)
Shareholders' equity at 31 December		4,560,948	4,179,742

The notes on pages 90 to 116 form part of these financial statements.

Consolidated Cash Flow Statement for the year ended 31 December 2002

	2002 HK\$'000	2001 HK\$'000 restated
Operating activities		
Profit from ordinary activities before tax	1,142,188	1,809,710
Adjustments for:		
– Realised and unrealised loss on investments in securities	4,283	6,082
– Dividend income from listed securities	(1,008)	(1,047)
– Interest income	(36,761)	(90,144)
– Finance costs	49,858	113,984
– Depreciation and amortisation	850,994	666,746
– Gain on disposal of fixed assets	(2,519)	(10,735)
– Share of profit of associates	(1,081)	–
– Share of (profit)/loss of jointly controlled entity	(342)	682
Effect of foreign exchange rates	(18,653)	28
Operating profit before changes in working capital	1,986,959	2,495,306
Decrease in spare parts and stores	265	29,435
Decrease/(increase) in accounts receivable	83,353	(202,971)
Increase in deposits and prepayments	(38,883)	(9,209)
Increase in non-current prepayments	(101,040)	–
Increase/(decrease) in accounts payable and accruals	1,886	(54,365)
Decrease/(increase) in amount due from jointly controlled entity	1,039	(588)
Increase/(decrease) in third party claims payable	48,079	(9,325)
Decrease in contingency provision – insurance	(84,735)	(53,603)
Increase in provision for long service payments	1,509	–
Increase in employee benefit assets	(25,205)	–
Cash generated from operations	1,873,227	2,194,680
Interest received	37,384	110,556
Interest paid	(50,225)	(116,954)
Hong Kong Profits Tax paid	(211,727)	(87,503)
PRC tax paid	(381)	–
Net cash from operating activities	1,648,278	2,100,779

Consolidated Cash Flow Statement for the year ended 31 December 2002 (continued)

	Note	2002 HK\$'000	2001 HK\$'000 restated
Investing activities			
Placement of deposits with banks		(12,876)	150,500
Placement of pledged bank deposit		(100,000)	–
Payment for purchase of fixed assets		(1,265,775)	(1,268,470)
Proceeds from sale of fixed assets		4,565	16,217
Payment for purchase of subsidiaries, net of cash acquired	33	(33,383)	–
New loans to associates		(15,307)	(500)
Payment for purchase of associate		(42,235)	–
Capital repayment from jointly controlled entity		2,915	4,062
Payment for purchase of investment in securities		–	(116,980)
Proceeds from sale of investment securities		–	16,646
Dividends received from listed securities		1,008	1,047
Net cash used in investing activities		(1,461,088)	(1,197,478)
Financing activities			
Dividends paid		(770,952)	(666,005)
Proceeds from new bank loans		2,896,000	313,500
Repayment of bank loans		(2,996,721)	(723,873)
Proceeds from other unsecured loans		24,000	–
Repayment of other unsecured loans		(7,316)	–
(Repayment to)/contributions by minority shareholders		(11,416)	189,850
Net cash used in financing activities		(866,405)	(886,528)
Net (decrease)/increase in cash and cash equivalents		(679,215)	16,773
Cash and cash equivalents at 1 January		2,086,350	2,069,605
Effect of foreign exchange rates		18,653	(28)
Cash and cash equivalents at 31 December	24	1,425,788	2,086,350

The notes on pages 90 to 116 form part of these financial statements.

Notes on the Financial Statements

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have opted to adopt SSAP 12 "Incomes taxes", which is mandatory for accounting periods beginning on or after 1 January 2003, in place of SSAP 12 "Accounting for deferred tax" issued in 1987. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Investments in subsidiaries

A subsidiary is an enterprise controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Interests in associates and jointly controlled entity

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entity for the year, including any amortisation of positive goodwill charged during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entity are eliminated to the extent of the Group's interest in the associates or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

1 Significant accounting policies (continued)

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

(f) Investments in securities

The Group's policies for investments in securities other than interest in subsidiaries, associates and jointly controlled entity are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as "investment securities". Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(g) Fixed assets

Fixed assets are stated in the balance sheet at cost or valuation less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)).

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(h) Depreciation

Depreciation is calculated to write off the cost of tools at a rate of 50% per annum on a reducing balance basis, and the cost or valuation of other fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold land	– Over the remaining terms of the leases
Buildings	– Over the shorter of 40 years and the unexpired terms of the leases including extensions or renewal periods
New buses	– 14 years
Vessels	– 20 years
Light duty coaches and other motor vehicles	– 5 to 6 years
Others	– 2 to 7 years

No depreciation is provided for buses and vessels under construction.

1 Significant accounting policies (continued)

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than properties carried at revalued amount);
- investments in subsidiaries, associates and jointly controlled entity (except for those accounted for at fair value under notes 1(c) and (d)); and
- positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Property development

Property under development is stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the directors.

(k) Spare parts and stores

Spare parts and stores are included within current assets and stated at cost, using the first-in-first-out method. Provision is made for obsolescence where appropriate.

(l) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

1 Significant accounting policies (continued)

(m) Provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

- (i) Fare revenue and bus hiring income are recognised when the related bus services are provided.
- (ii) Income from media sales revenue is recognised when the related advertisements or commercials appear before the public.
- (iii) Interest income from bank deposits and debt securities is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.
- (iv) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- (v) When goods or services are exchanged or swapped for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. Such revenue, together with the relevant expenses are measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, such revenue and expenses are measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

When goods or services are exchanged or swapped for similar goods or services, the exchange is not regarded as a transaction which generates revenue. No revenue or expenses are recognised in the income statement.

(o) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing cost as part of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(p) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.

1 Significant accounting policies (continued)

(p) Employee benefits (continued)

- (iii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

- (iv) The Group's net obligation in respect of lump sum long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.
- (v) When the Group grants employees options to acquire shares of the Company or its subsidiary companies at nil consideration, no employee benefit cost or obligation is recognised at the date of grant.

(q) Operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rate ruling at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. When the initial recognition of assets or liabilities which affect neither accounting profit nor taxable profit or loss, no deferred tax is provided for.

1 Significant accounting policies (continued)

(r) Income tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) Translation of foreign currencies

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

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include spare parts and stores, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2 Changes in accounting policies

(a) Defined benefit plans

In prior years, annual contributions to the two defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme and The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme, were charged to the income statement as incurred. With effect from 1 January 2002, in order to comply with SSAP 34 "Employee benefits" issued by the HKSA, the Group adopted a new policy for defined benefit plans as set out in note 1(p)(iii).

As a result of the new accounting policy, the profit for the year has been increased by HK\$25,205,000 and the net assets as at the year-end have been increased by HK\$277,705,000. The effect of adopting the new accounting policy has been adjusted to the opening balance of retained profits. No restatement of other comparative information has been made.

2 Changes in accounting policies (continued)

(b) Short-term employee benefits

In prior years, the Group did not make provision for paid annual leave of their employees in return of services rendered to the Group. With effect from 1 January 2002, in order to comply with SSAP 34 "Employee benefits" issued by the HKSA, the Group adopted a new policy for short-term employee benefits as set out in note 1(p)(i) above.

As a result of the new accounting policy, the profit for the year has been decreased by HK\$1,000,000 (2001: HK\$4,553,000) and the net assets as at the year-end have been decreased by HK\$98,404,000 (2001: HK\$97,404,000). The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

(c) Long service payments

In prior years, long service payments to employees under the Hong Kong Employment Ordinance in return for services rendered to the Group were charged to the income statement as incurred. With effect from 1 January 2002, in order to comply with SSAP 34 "Employee benefits" issued by the HKSA, the Group adopted a new policy for long service payments as set out in note 1(p)(iv) above.

As a result of the adoption of this accounting policy, the profit for the year has been decreased by HK\$1,380,000 and the net assets as at the year-end have been decreased by HK\$41,325,000. The effect of adopting the new accounting policy has been adjusted to the opening balance of retained profits. No restatement of other comparative information has been made.

(d) Deferred tax assets and liabilities

In prior years, deferred taxation was provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. With effect from 1 January 2002, the Group has adopted SSAP 12 "Income taxes" issued by the HKSA. The new accounting policy for deferred tax has been set out in note 1(r).

As a result of the adoption of this accounting policy, the profit for the year has been decreased by HK\$70,374,000 (2001: HK\$51,548,000) and the net assets of the Group as at the year-end have been decreased by HK\$592,374,000 (2001: HK\$522,000,000). The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

3 Turnover

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 17 on the financial statements.

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

	2002 HK\$'000	2001 HK\$'000
Fare revenue from franchised bus services	6,466,333	6,389,853
Revenue from non-franchised bus services	173,600	143,290
Media sales revenue	203,461	328,666
	<u>6,843,394</u>	<u>6,861,809</u>

4 Other revenue and net income

	2002 HK\$'000	2001 HK\$'000
Other revenue		
Interest income from bank deposits	33,240	89,990
Claims received	29,106	34,995
Interest income from unlisted debt securities	3,521	154
Dividend income from listed securities	1,008	1,047
Sundry revenue	9,462	15,631
	<u>76,337</u>	<u>141,817</u>
Other net income		
Gain on disposal of fixed assets	2,519	10,735
Realised and unrealised loss on investments in securities carried at fair value	(4,283)	(6,082)
Net miscellaneous business receipts	3,655	5,406
	<u>1,891</u>	<u>10,059</u>

5 Deemed profit on partial disposal of a subsidiary

Deemed profit on partial disposal of a subsidiary during the year 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 31 December 2002, as a result of the transfer of RoadShow shares by the Group to the loyal shareholders under RoadShow's Loyalty Share Bonus Scheme (as described in note 37(f) below) 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 and over-allotment of 26.7% of the issued shares of RoadShow from the Group pursuant to RoadShow's listing on the Stock Exchange and International Placing in 2001.

6 Profit from ordinary activities before tax

Profit from ordinary activities before tax is arrived at after charging:

	2002 HK\$'000	2001 HK\$'000 restated
(a) Staff costs:		
Contributions to defined contribution plan	46,675	41,320
Defined benefit plans expense (note 21(b) and (c))	91,264	—
Contributions to defined benefit plans	—	137,369
Retirement costs	137,939	178,689
Salaries, wages and other benefits	3,181,813	3,126,655
	<u>3,319,752</u>	<u>3,305,344</u>
(b) Finance costs:		
Interest on bank loans and overdrafts, and other unsecured loans	49,858	113,984
(c) Other items:		
Auditors' remuneration	3,337	3,594
Operating lease charges on properties, temporary bus depots and terminal shelters	2,384	2,240
Amortisation of positive goodwill	1,744	1,159

7 Income tax expenses

(a) Recognised in the consolidated income statement:

	2002 HK\$'000	2001 HK\$'000 restated
<i>Current tax expense</i>		
Provision for Hong Kong Profits Tax for the year	107,582	146,445
(Over)/under provision in respect of prior years	(5,286)	4,213
	102,296	150,658
People's Republic of China ("PRC") income tax	2,318	–
	104,614	150,658
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	71,415	84,081
Benefit of tax losses recognised	(1,170)	1,946
	70,245	86,027
Total income tax expense in income statement	174,859	236,685
The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year. Taxation for PRC subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the PRC.		
<i>Reconciliation of effective tax rate</i>		
Profit from ordinary activities before tax	1,142,188	1,809,710
Income tax using the Hong Kong Profits Tax rate of 16%	182,750	289,554
Effect of PRC tax rates	1,377	–
Non-deductible expenses	3,458	4,836
Tax exempt revenues	(12,220)	(74,549)
Unrecognised tax losses	5,329	4,521
(Over)/under provision of tax in prior years	(5,286)	4,213
Others	(549)	8,110
	174,859	236,685

(b) Recognised in the balance sheets:

	2002 HK\$'000	The Group 2001 HK\$'000	2002 HK\$'000	The Company 2001 HK\$'000
Provision for Hong Kong Profits Tax for the year	107,582	146,445	–	198
Provisional Profits Tax (paid)/refunded	(136,958)	(65,084)	199	2,295
	(29,376)	81,361	199	2,493
Balance of Profits Tax recoverable relating to prior year	(405)	(1,711)	(199)	(2,692)
	(29,781)	79,650	–	(199)
PRC income tax payable	1,264	–	–	–
Tax (recoverable)/payable	(28,517)	79,650	–	(199)

8 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	1,080	1,080
Salaries and other allowances	13,715	13,327
Discretionary and performance related bonuses	15,706	24,106
Retirement scheme contributions	1,818	1,839
	<u>32,319</u>	<u>40,352</u>

Included in the directors' remuneration were fees and other emoluments of HK\$1,309,200 (2001: HK\$1,309,200) paid to the Independent Non-executive Directors during the year.

In addition to the above remuneration, certain Directors were granted share options under RoadShow's Share Option Schemes. The details of these benefits in kind are disclosed under the paragraph "Share option schemes" in the Report of the Directors and note 34.

The remuneration of the Directors is within the following bands:

	2002	Number of Directors 2001
HK\$Nil – HK\$1,000,000	13	13
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$3,500,001 – HK\$4,000,000	3	3
HK\$15,000,001 – HK\$15,500,000	1	–
HK\$23,000,001 – HK\$23,500,000	–	1

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2001: four) are Directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) is as follows:

	2002 HK\$'000	2001 HK\$'000
Fee	377	356
Salaries and other allowances	14,365	13,759
Discretionary and performance related bonuses	12,622	21,009
Retirement scheme contributions	1,891	1,926
	<u>29,255</u>	<u>37,050</u>

The emoluments of the five (2001: five) individuals with the highest emoluments are within the following bands:

	2002	Number of individuals 2001
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,500,001 – HK\$4,000,000	3	3
HK\$15,000,001 – HK\$15,500,000	1	–
HK\$23,000,001 – HK\$23,500,000	–	1

10 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of HK\$710,383,000 (2001: HK\$869,649,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2002 HK\$'000	2001 HK\$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	710,383	869,649
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	136,343	435,931
Company's profit for the year (note 32(c))	<u>846,726</u>	<u>1,305,580</u>

11 Dividends

(a) Dividends attributable to current year

	2002 HK\$'000	2001 HK\$'000
Interim dividend declared and paid of HK\$0.45 per share (2001: HK\$0.4 per share)	181,638	161,456
Final dividend proposed after the balance sheet date of HK\$1.58 per share (2001: HK\$1.46 per share)	637,750	589,314
	<u>819,388</u>	<u>750,770</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividend attributable to previous financial year, approved and paid during the current year

	2002 HK\$'000	2001 HK\$'000
Final dividend in respect of previous financial year, approved and paid during the year, of HK\$1.46 per share (2001: HK\$1.25 per share)	<u>589,314</u>	<u>504,549</u>

12 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$939,603,000 (2001: restated HK\$1,539,441,000) and 403,639,413 shares in issue during the two years.

13 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Bus operations : The provision of franchised and non-franchised public buses services.

Media sales services : The provision of audio-video programming through a multi-media on-board system and marketing of exterior advertising spaces on transit vehicles and transit vehicle shelters.

13 Segment reporting (continued)

Business segments (continued)

	Bus operations		Media sales business		Inter-segment elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000 restated	HK\$'000	HK\$'000 restated	HK\$'000	HK\$'000	HK\$'000	HK\$'000 restated
Revenue from external customers	6,639,933	6,533,143	203,461	328,666	–	–	6,843,394	6,861,809
Inter-segment revenue	–	–	24,235	25,736	(24,235)	(25,736)	–	–
Other revenue from external customers	37,128	50,626	597	–	–	–	37,725	50,626
Total	6,677,061	6,583,769	228,293	354,402	(24,235)	(25,736)	6,881,119	6,912,435
Segment result	1,056,314	1,280,180	117,810	239,643	–	–	1,174,124	1,519,823
Unallocated net operating income and expenses							13,775	54,984
Profit from operations							1,187,899	1,574,807
Deemed profit on partial disposal of a subsidiary							2,724	349,569
Finance costs							(49,858)	(113,984)
Share of profits less losses of associates and jointly controlled entity	342	(682)	1,081	–	–	–	1,423	(682)
Income tax expense							(174,859)	(236,685)
Minority interests							(27,726)	(33,584)
Profit attributable to shareholders							939,603	1,539,441
Depreciation for the year	830,616	646,966	18,634	18,621	–	–		
Significant non-cash expenses (other than depreciation and amortisation)	–	–	2,261	7,581	–	–		
Segment assets	6,893,211	6,189,754	292,235	316,110	–	–	7,185,446	6,505,864
Interests in associates and jointly controlled entity	5,672	6,283	57,765	–	–	–	63,437	6,283
Unallocated assets							1,914,266	2,239,852
Total assets							9,163,149	8,751,999
Segment liabilities	1,375,374	1,311,849	20,260	14,574	–	–	1,395,634	1,326,423
Unallocated liabilities							2,962,364	3,017,979
Total liabilities							4,357,998	4,344,402
Capital expenditure incurred during the year	1,313,881	1,177,038	460	133,765	–	–		

Geographical segments

The Group's turnover and operating profit are almost entirely derived from Hong Kong. Accordingly, no analysis by geographical segment is provided.

14 Fixed assets

(a) The Group:

	Leasehold land HK\$'000	Buildings HK\$'000	Buses and other motor vehicles HK\$'000	Vessels HK\$'000	Buses and vessels under construction HK\$'000	Others HK\$'000	Total HK\$'000
<i>Cost or valuation:</i>							
At 1 January 2002	130,011	1,298,495	7,697,184	–	180,034	1,040,364	10,346,088
Additions							
– through acquisition of subsidiaries	–	–	705	–	–	267	972
– others	–	149,769	30,432	–	915,738	239,530	1,335,469
Disposals	–	(10,471)	(237,565)	–	–	(9,707)	(257,743)
Transfer of buses/vessels	–	–	788,930	98,349	(887,279)	–	–
Transfer to property under development	–	(39,066)	–	–	–	–	(39,066)
At 31 December 2002	130,011	1,398,727	8,279,686	98,349	208,493	1,270,454	11,385,720
<i>Accumulated depreciation:</i>							
At 1 January 2002	35,033	486,913	3,255,919	–	–	549,304	4,327,169
Through acquisition of subsidiaries	–	–	104	–	–	189	293
Charge for the year	2,087	91,878	528,215	411	–	226,659	849,250
Written back on disposal	–	(10,471)	(237,449)	–	–	(7,777)	(255,697)
At 31 December 2002	37,120	568,320	3,546,789	411	–	768,375	4,921,015
<i>Net book value:</i>							
At 31 December 2002	92,891	830,407	4,732,897	97,938	208,493	502,079	6,464,705
<i>Add:</i>							
Deposits paid in respect of buses on order							32,036
							6,496,741
<i>Net book value:</i>							
At 31 December 2001	94,978	811,582	4,441,265	–	180,034	491,060	6,018,919
<i>Add:</i>							
Deposits paid in respect of buses on order							28,341
							6,047,260

(b) The Company:

	Others HK\$'000
<i>Cost:</i>	
At 1 January 2002 and 31 December 2002	201
<i>Accumulated depreciation:</i>	
At 1 January 2002	68
Charge for the year	34
At 31 December 2002	102
<i>Net book value:</i>	
At 31 December 2002	99
At 31 December 2001	133

14 Fixed assets (continued)

(c) All the Group's leasehold land and buildings are held in Hong Kong and on medium-term leases.

(d) Valuation

Included in the cost or valuation of fixed assets of the Group of HK\$130,011,000 at 31 December 2002 is the following asset shown at valuation:

	Date of valuation	Valuation HK\$'000	Net book value HK\$'000
Leasehold land	15 July 1959	<u>3,284</u>	<u>–</u>

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80 of SSAP 17 (revised) "Property, Plant and Equipment" issued by the HKSA, with the effect that leasehold land has not been revalued to fair value at the balance sheet date.

15 Goodwill

	HK\$'000
<i>Cost:</i>	
At 1 January 2002	23,172
Additions through acquisition of subsidiaries	33,903
At 31 December 2002	57,075
<i>Accumulated amortisation:</i>	
At 1 January 2002	2,557
Amortisation for the year	1,744
At 31 December 2002	4,301
<i>Carrying amount:</i>	
At 31 December 2002	52,774
At 31 December 2001	20,615

16 Non-current prepayments

Non-current prepayments consisted of deposit for long-term investment, advance payments for concession and rights for advertising and media programme placement on transit vehicles and transit network furniture.

17 Interest in subsidiaries

	2002 HK\$'000	The Company 2001 HK\$'000
Unlisted shares, at cost	1,036,507	1,036,507
Amounts due from subsidiaries	1,660,377	1,564,534
Amounts due to subsidiaries	(40,977)	(16,664)
	<u>2,655,907</u>	<u>2,584,377</u>

17 Interest in subsidiaries (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiaries	
The Kowloon Motor Bus Company (1933) Limited	Hong Kong	403,639,413 shares of HK\$1 each	100	—	100	Provision of franchised public bus services in Hong Kong
Long Win Bus Company Limited	Hong Kong	100,000,000 shares of HK\$1 each	100	—	100	Provision of franchised public bus services for North Lantau and the airport at Chek Lap Kok
Sun Bus Limited	Hong Kong	2 shares of HK\$1 each	100	—	100	Provision of non-franchised bus services in Hong Kong
Chomang Travel Transport Company Limited	Hong Kong	10,000 shares of HK\$1 each	100	—	100	Provision of non-franchised bus services in Hong Kong
Bun Tang Bus Service Company Limited	Hong Kong	120,000 shares of HK\$1 each	100	—	100	Provision of non-franchised bus services in Hong Kong
Sau Luen P.L.B. Co., Limited	Hong Kong	10,000 shares of HK\$1 each	100	—	100	Provision of non-franchised bus services in Hong Kong
New Hong Kong Bus Company Limited	Hong Kong	1,000 shares of HK\$1 each	100	—	100	Provision of cross border shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen)
Park Island Transport Company Limited	Hong Kong	10,000 shares of HK\$1 each	65	—	65	Provision of non-franchised bus and ferry services in Hong Kong
RoadShow Holdings Limited	Bermuda	997,365,332 shares of HK\$0.1 each	73	—	73	Investment holding

17 Interest in subsidiaries (continued)

Details of the principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiaries	
CityVision Limited	Hong Kong	10,000 shares of HK\$1 each	65.7	—	90	Operation of multi-media on-board business on transit vehicles
KM-Vision Limited	Hong Kong	10,000 shares of HK\$1 each	74.4	—	100	Operation of multi-media on-board business on transit vehicles
LW-Vision Limited	Hong Kong	10,000 shares of HK\$1 each	74.4	—	100	Operation of multi-media on-board business on transit vehicles
RoadShow Creations Limited	Hong Kong	2 shares of HK\$1 each	73	—	100	Trading of souvenir
RoadShow Media Limited	Hong Kong	2 shares of HK\$1 each	73	—	100	Provision of media sales and management services for advertising on transit vehicle exteriors and shelters, and for the multi-media on-board business
RoadShow Productions Limited	Hong Kong	2 shares of HK\$1 each	73	—	100	Production of content for multi-media on-board systems
Lai Chi Kok Properties Investment Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	—	100	Property holding
KMB Financial Services Limited	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding
HK Macau Ltd	British Virgin Islands	1,200 shares of US\$1 each	60	—	60	Investment holding

18 Interest in associates

	2002 HK\$'000	2001 HK\$'000
Share of net assets	45,518	59
Loans to associates	20,807	5,500
Amount due to associates	(4,922)	(4,922)
	<u>61,403</u>	<u>637</u>

Details of the associates are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	held by the Company	held by subsidiary	
Art East Limited	Incorporated	Hong Kong	200,000 shares of HK\$1 each	50	–	50	Dormant
HK Macau Investment (Tianjin) Limited	Incorporated	British Virgin Islands	2 shares of US\$1 each	50	–	50	Investment holding
AdSociety Daye Advertising Company Limited	Sino-foreign joint equity enterprise	PRC	RMB74,380,984	35.8	–	49	Provision of full range of advertising services

19 Interest in jointly controlled entity

	2002 HK\$'000	2001 HK\$'000
Share of net assets	333	2,906
Amount due from jointly controlled entity	1,701	2,740
	<u>2,034</u>	<u>5,646</u>

Details of the Group's interest in the jointly controlled entity are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	held by the Company	held by subsidiary	
Dalian HK Macau Motor Bus Services Limited	Co-operative joint venture	PRC	Registered capital of RMB22,000,000	(Note)	–	(Note)	Provision of bus services in Dalian, PRC

Note:

A co-operative joint venture, Dalian HK Macau Motor Bus Services Limited ("Dalian HK Macau"), was formed between HK Macau Ltd ("HK Macau"), a 60% owned subsidiary of the Group, and 大連市第一公共汽車公司, a PRC entity. The principal activity of Dalian HK Macau is the operation of bus services in Dalian, the PRC.

Pursuant to the joint venture agreement, HK Macau contributed the whole of the registered capital of RMB22 million. The joint venture is for a period of 15 years commencing from 31 July 1997. The capital contribution is repayable by Dalian HK Macau in equal annual instalments over 5 years. The profits and losses of Dalian HK Macau are shared equally by HK Macau and 大連市第一公共汽車公司.

According to the joint venture agreement, HK Macau has the right to appoint five out of a total of nine directors of Dalian HK Macau with each director carrying one vote. Although this represents a majority of the board of directors, a board resolution can only be passed with a minimum of six votes in accordance with the articles of association of the joint venture. Accordingly, HK Macau has no effective control over the board of directors and Dalian HK Macau has been excluded from consolidation and dealt with in the consolidated financial statements under the equity method of accounting and classified as a jointly controlled entity.

20 Investment securities

	2002 HK\$'000	2001 HK\$'000
Unlisted equity securities	<u>15,355</u>	<u>15,355</u>

21 Employee benefit assets

The Group makes contributions to two defined benefit schemes that provide pension benefits for employees of the Group. The schemes are administered by trustees, the majority of which are independent, with their assets held separately from those of the Group.

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

	2002 HK\$'000
Present value of funded obligations	(2,020,295)
Fair value of plan assets	2,179,910
Net unrecognised actuarial losses	<u>118,090</u>
	<u>277,705</u>

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future refund or reduction of contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(b) Movements in the net asset recognised in the consolidated balance sheet are as follows:

	2002 HK\$'000
At 1 January	—
Adjustment for change in accounting policy	252,500
Contributions paid to schemes	116,469
Expense recognised in the income statement (note 6(a))	<u>(91,264)</u>
At 31 December	<u>277,705</u>

(c) Expense recognised in the consolidated income statement is as follows:

	2002 HK\$'000
Current service cost	136,434
Interest cost	135,735
Expected return on plan assets	<u>(180,905)</u>
	<u>91,264</u>

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

	2002 HK\$'000
Actual return on plan assets – loss	<u>235,176</u>

(d) The principal actuarial assumptions used as at 31 December 2002 are as follows:

	2002
Discount rate at 31 December	5%
Expected rate of return on plan assets	7.5%
Future salary increases	<u>0–4%</u>

22 Other investments

	2002 HK\$'000	2001 HK\$'000
Trading securities (at market value)		
Listed equity securities in Hong Kong	29,610	36,068
Other securities		
Unlisted debt securities	52,344	50,169
	<u>81,954</u>	<u>86,237</u>

23 Accounts receivable

	2002 HK\$'000	2001 HK\$'000
Trade and other receivables	262,978	346,326
Interest receivable	2,455	3,083
	<u>265,433</u>	<u>349,409</u>

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

	2002 HK\$'000	2001 HK\$'000
Current	46,905	182,933
Less than 3 months overdue	12,054	31,013
More than 3 months overdue	82,019	1,883
	<u>140,978</u>	<u>215,829</u>

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

24 Cash and cash equivalents

	2002 HK\$'000	The Group 2001 HK\$'000	2002 HK\$'000	The Company 2001 HK\$'000
Cash at bank and in hand	59,778	29,727	8,103	6,076
Deposits with banks maturing within three months	1,422,581	2,090,118	–	–
Cash and cash equivalents in the balance sheet	1,482,359	2,119,845	8,103	6,076
Bank overdrafts	(56,571)	(33,495)		
Cash and cash equivalents in the consolidated cash flow statement	<u>1,425,788</u>	<u>2,086,350</u>		

25 Bank loans and overdrafts

At 31 December 2002, the interest-bearing bank loans and overdrafts were repayable as follows:

	2002 HK\$'000	2001 HK\$'000
Within 1 year or on demand	<u>438,311</u>	<u>602,919</u>
After 1 year but within 2 years	277,083	475,037
After 2 years but within 5 years	1,140,121	985,916
After 5 years	<u>412,500</u>	<u>281,788</u>
	<u>1,829,704</u>	<u>1,742,741</u>
	<u>2,268,015</u>	<u>2,345,660</u>

At 31 December 2002, the bank loans and overdrafts were secured as follows:

	2002 HK\$'000	2001 HK\$'000
Unsecured bank overdrafts	56,571	33,495
Bank loans		
– secured	100,000	–
– unsecured	<u>2,111,444</u>	<u>2,312,165</u>
	<u>2,268,015</u>	<u>2,345,660</u>

At 31 December 2002 the banking facilities of a subsidiary of the Group amounted to HK\$200,000,000 (2001: HK\$Nil), of which HK\$100,000,000 was utilised and secured by a pledged bank deposit.

26 Accounts payable and accruals

	2002 HK\$'000	The Group 2001 HK\$'000 restated	2002 HK\$'000	The Company 2001 HK\$'000
Trade payables	107,894	142,417	–	–
Other payables and accruals	<u>873,608</u>	<u>759,921</u>	<u>10,620</u>	<u>12,582</u>
	<u>981,502</u>	<u>902,338</u>	<u>10,620</u>	<u>12,582</u>

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

	2002 HK\$'000	2001 HK\$'000
Due within 1 month or on demand	96,334	138,882
Due after 1 month but within 3 months	11,560	1,461
Due after 3 months but within 12 months	<u>–</u>	<u>2,074</u>
	<u>107,894</u>	<u>142,417</u>

27 Other unsecured loans

As at 31 December 2002, the interest-bearing other unsecured loans were repayable after two years but within five years.

28 Contingency provision – insurance

	2002 HK\$'000
At 1 January	201,980
Provision written back during the year	(84,735)
At 31 December	117,245

This provision represents amounts set aside annually by the Group to meet liabilities which are expected to arise from third party claims in connection with the Group's bus operations.

29 Deferred tax

(a) The deferred tax assets and liabilities are attributable to the following items:

	2002 HK\$'000	Assets 2001 HK\$'000	2002 HK\$'000	Liabilities 2001 HK\$'000	2002 HK\$'000	Net 2001 HK\$'000 restated
Fixed assets	–	–	762,107	704,893	762,107	704,893
Spare parts and stores	(3,743)	(4,603)	–	–	(3,743)	(4,603)
Accounts receivable	(285)	(285)	–	–	(285)	(285)
Accounts payable and accruals	(15,408)	(15,321)	–	–	(15,408)	(15,321)
Contingency provision – insurance	(18,759)	(32,316)	–	–	(18,759)	(32,316)
Provision for long service payments	(6,859)	–	–	–	(6,859)	–
Tax losses carried forward recognised	(62,059)	(60,889)	–	–	(62,059)	(60,889)
Net tax liabilities	(107,113)	(113,414)	762,107	704,893	654,994	591,479

(b) Movements in temporary differences multiplied by the applicable tax rate comprise:

	At 1 January 2002 HK\$'000	Opening balance adjustment HK\$'000	Recognised in consolidated income statement HK\$'000	At 31 December 2002 HK\$'000
Fixed assets	704,893	–	57,214	762,107
Spare parts and stores	(4,603)	–	860	(3,743)
Accounts receivable	(285)	–	–	(285)
Accounts payable and accruals	(15,321)	–	(87)	(15,408)
Contingency provision – insurance	(32,316)	–	13,557	(18,759)
Provision for long service payments	–	(6,730)	(129)	(6,859)
Tax losses carried forward recognised	(60,889)	–	(1,170)	(62,059)
	591,479	(6,730)	70,245	654,994

30 Provision for long service payments

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

	2002 HK\$'000
At 1 January	—
Adjustment for change in accounting policy	46,675
Expense recognised in the income statement	6,419
Payments made during the year	(4,910)
At 31 December	<u>48,184</u>

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement schemes that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

31 Share capital

	2002 HK\$'000	2001 HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$1 each	<u>600,000</u>	<u>600,000</u>
Issued and fully paid:		
403,639,413 ordinary shares of HK\$1 each	<u>403,639</u>	<u>403,639</u>

32 Reserves

	2002 HK\$'000	The Group 2001 HK\$'000 restated	2002 HK\$'000	The Company 2001 HK\$'000
(a) <i>Capital reserve</i>				
At 1 January and 31 December	<u>2,412</u>	<u>2,412</u>	<u>—</u>	<u>—</u>
(b) <i>General reserve</i>				
At 1 January	17,601	17,601	—	—
Transfer from retained profits	<u>238</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December	<u>17,839</u>	<u>17,601</u>	<u>—</u>	<u>—</u>

32 Reserves (continued)

	2002 HK\$'000	The Group 2001 HK\$'000 restated	2002 HK\$'000	The Company 2001 HK\$'000
<i>(c) Retained profits</i>				
At 1 January				
– as previously reported	3,292,894	2,320,887	874,850	235,275
– prior period adjustments in respect of:				
– short-term employee benefits (note 2(b))	(97,404)	(92,851)	–	–
– deferred tax assets and liabilities (note 2(d))	(522,000)	(470,452)	–	–
As restated	2,673,490	1,757,584	874,850	235,275
Adjustments in respect of changes in accounting policies for:				
– defined benefit plans (note 2(a))	252,500	–	–	–
– long service payments (note 2(c))	(39,945)	–	–	–
– provisions	–	1,125,070	–	–
Profit for the year (2001 Group: as restated) (note 10)	939,603	1,539,441	846,726	1,305,580
Dividends approved in respect of the previous financial year (note 11(b))	(589,314)	(504,549)	(589,314)	(504,549)
Dividends declared in respect of the current year	(181,638)	(161,456)	(181,638)	(161,456)
Transfer to staff retirement fund reserve	–	(1,082,600)	–	–
Transfer to general reserve	(238)	–	–	–
At 31 December	3,054,458	2,673,490	950,624	874,850
<i>(d) Contributed surplus</i>				
At 1 January and 31 December	–	–	1,300,000	1,300,000
<i>(e) Staff retirement fund reserve</i>				
At 1 January	1,082,600	–	–	–
Transferred from retained profits	–	1,082,600	–	–
At 31 December	1,082,600	1,082,600	–	–
Total reserves	4,157,309	3,776,103	2,250,624	2,174,850

Included in the figure for the retained profits of the Group is a profit of HK\$965,000 (2001: a loss of HK\$116,000) attributable to associates; and a profit of HK\$60,000 (2001: a loss of HK\$282,000) attributable to a jointly controlled entity.

The distributable reserves of the Company as at 31 December 2002 amounted to HK\$2,250,624,000 (2001: HK\$2,174,850,000).

Retained earnings arising from the adjustment in respect of provision for staff retirement funds have been transferred to a staff retirement fund reserve in 2001 for future utilisation.

33 Acquisition of subsidiaries

	2002 HK\$'000
<i>Net assets acquired</i>	
Fixed assets	679
Interest in associates	2,143
Spare parts and stores	92
Deposits and prepayments	187
Tax recoverable	673
Cash and cash equivalents	2,933
Accounts payable and accruals	(4,256)
Minority interests	(38)
Net identifiable assets and liabilities	2,413
Positive goodwill arising on consolidation	33,903
Total purchase price paid, satisfied in cash	36,316
Less: Cash of the subsidiaries acquired	(2,933)
Net cash outflow in respect of the purchase of subsidiaries	33,383

34 Equity compensation benefits

Under two share option schemes of RoadShow, options were granted to certain directors and employees of the Group to subscribe for shares of RoadShow.

For options granted before 1 September 2001, the exercise price of the options was determined by RoadShow's board of directors and was the higher of the nominal value of the shares and will not be less than 80% of the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. For options granted after 1 September 2001, the exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of the grant and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant.

Each option gives the holder the right to subscribe for one RoadShow's share.

(a) Movements in share options of RoadShow

	2002 Number '000	2001 Number '000
At 1 January	28,058	—
Granted	23,340	28,579
Exercised	(4,349)	—
Lapsed on grantee ceasing employment with the Group	(6,948)	(521)
	<u>40,101</u>	<u>28,058</u>
Options vested at 31 December	<u>40,101</u>	<u>28,058</u>

34 Equity compensation benefits (continued)

(b) Terms of unexpired and unexercised RoadShow's share options at balance sheet date

Date granted	Exercise period	Exercise price	2002 Number '000	2001 Number '000
26 June 2001	28 December 2001 to 27 December 2003	HK\$1.80	21,861	28,058
11 March 2002	12 March 2002 to 11 March 2005	HK\$2.25	18,240	—
			40,101	28,058

(c) Details of RoadShow's share options granted during the year, all of which were granted for nil consideration

Exercise period	Exercise price	2002 Number '000	2001 Number '000
28 December 2001 to 27 December 2003	HK\$1.80	—	28,579
12 March 2002 to 11 March 2005	HK\$2.25	23,340	—

(d) Details of RoadShow's share options exercised during the year

Exercise dates	Exercise price	Weighted average closing market price per share	Proceeds received HK\$'000	Number '000
Various	HK\$1.80	HK\$2.39	7,828	4,349

35 Commitments

(a) Commitments outstanding at 31 December 2002 not provided for in the financial statements were as follows:

	2002 HK\$'000	The Group 2001 HK\$'000	2002 HK\$'000	The Company 2001 HK\$'000
Contracted for	579,089	590,367	—	—
Authorised but not contracted for	311,560	200,280	75,560	—
	890,649	790,647	75,560	—

(b) At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2002 HK\$'000	2001 HK\$'000
Within 1 year	2,714	4,801
After 1 year but within 5 years	640	2,523
	3,354	7,324

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease when all the terms are renegotiated. The leases do not include contingent rentals.

36 Contingent liabilities

At 31 December 2002, the Company has undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK\$275,000,000 (2001: HK\$582,330,000). 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\$75,000,000 (2001: HK\$5,000,000).

37 Material related parties transactions

- (a) During the year, the Group entered into a contract with a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), its substantial shareholder, for the provision of insurance services to the Group. This company entered into the contract with the Group under the same terms as those available to other customers in the ordinary course of business. The insurance premium paid by the Group amounted to HK\$74,582,000 (2001: HK\$46,112,000) during the year ended 31 December 2002. The amount due from this company at the year end amounted to HK\$5,000 (2001: HK\$258,000).
- (b) During the year, the Group provided coach services to certain subsidiaries of SHKP under the same terms as those available to other customers in the ordinary course of business. The service fees received by the Group amounted to HK\$55,856,000 (2001: HK\$46,235,000) during the year ended 31 December 2002. The amounts due from these companies at the year end amounted to HK\$13,756,000 (2001: HK\$17,409,000).
- (c) The Group entered into a contract with a subsidiary of SHKP for the provision of project consultancy services relating to the construction of a new bus depot of the Group. The contract sum of the project consultancy services is HK\$15,800,000 or 3.2% of the total construction cost of the new bus depot, whichever is higher. During the year, the payment for these project consultancy services made by the Group to this company amounted to HK\$2,370,000 (2001: HK\$1,580,000). The remaining balance amounted to HK\$790,000 was accrued in the financial statements at the year end (2001: HK\$Nil). No capital commitment was outstanding at the year end (2001: HK\$3,160,000) under this contract.
- (d) The Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to the property development of the Group. The contract sum of the project management services is HK\$15,000,000, or the lower of 1% of the project costs and HK\$20,000,000, whichever is higher. During the year, the payment for these project management services made by the Group to this company amounted to HK\$3,000,000 (2001: HK\$Nil). There was no outstanding amount (2001: HK\$Nil) due to this company at the year end. The Group's capital commitment outstanding at 31 December 2002 under this contract amounted to HK\$14,000,000 (2001: HK\$17,000,000) as disclosed in note 35(a).
- (e) A subsidiary of the Group, Park Island Transport Company Limited ("PITC"), entered into a contract with a subsidiary of SHKP for the provision of transportation services for Ma Wan Island in Hong Kong. The subsidiary commenced operations on 14 December 2002. PITC shall be entitled to a return lying within the range of 9% and 16% per annum of the simple arithmetic average of the opening balance and the closing balance of the net book value of PITC's fixed assets with respect to the accounting period concerned (the "Entitled Net Return"). The Entitled Net Return for the year was HK\$477,000 (2001: HK\$Nil).

Further, from January 2002 Sun Hung Kai (Ma Wan) Transport Company Limited, a wholly-owned subsidiary of SHKP, advances to PITC an unsecured loan (the "Loan") in the sum of HK\$2,000,000 per month for a period of 26 calendar months and at an interest rate of 1% per annum above HIBOR, which together with interest is to be repaid upon expiration or early termination of the contract or be charged against by any shortfall between the minimum Entitled Net Return and operating profits or losses (the "Shortfall") incurred by PITC. The total amount of principal and interest of the Loan outstanding at the year end, after set-off by the Shortfall, was HK\$16,684,000 (2001: HK\$Nil).

This transaction also constitutes a connected transaction under the Listing Rules.

37 Material related parties transactions (continued)

- (f) Under a Loyalty Share Bonus Scheme of RoadShow, the loyal shareholders of RoadShow who acquired and held its shares 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 ("Bonus Shares") for every 10 shares acquired and held on 28 June 2002. The Bonus Shares would be transferred by KMB Resources Limited, one of the Group's subsidiaries and the immediate holding company of RoadShow, to the loyal shareholders at nil consideration. On 28 June 2002, a total number of 2,456,729 RoadShow's shares were transferred to the loyal shareholders, out of which the following substantial shareholders and Directors of the Company were entitled to:

	Number of shares transferred
Substantial shareholders	
Sun Hung Kai Properties Limited ("SHKP") (note 1)	956,800
Arklake Limited (note 1)	547,800
HSBC Holdings plc Group (note 2)	1,005,459
Directors	78,864

Notes:

- 1 The Bonus Shares transferred to and disclosed by SHKP includes the 547,800 shares transferred to Arklake Limited.
- 2 For the purposes of the Securities (Disclosure of Interests) Ordinance, HSBC Holdings plc and certain of its subsidiaries ("HSBC Holdings plc Group") are deemed to be interested in the 956,800 Bonus Shares transferred to SHKP. In addition, certain subsidiaries of HSBC Holdings plc Group are the trustees of various trusts which have been transferred with 48,659 Bonus Shares. Accordingly, HSBC Holdings plc Group is deemed to be transferred with a total of 1,005,459 Bonus Shares.

The Directors of the Company are of the opinion that the above related parties transactions were conducted on normal commercial terms and in the ordinary course of business.

38 Post balance sheet event

After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in note 11.

39 Comparative figures

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements".

Certain comparative figures have also been adjusted as a result of changes in accounting policies for short-term employee benefits and deferred taxation, details of which are set out in note 2.

Corporate Directory

Board of Directors

The Hon Sir Sze-yuen CHUNG*

GBM, GBE, PhD, FEng, JP
Chairman

Norman LEUNG Nai Pang

GBS, JP, BA
Deputy Chairman

Dr the Hon WOO Pak Chuen*

JP, LLD(Hon), LLB, PhD

KWOK Ping-luen, Raymond

MA(Cantab), MBA, Hon DBA

KWOK Ping-sheung, Walter

JP, MSc(Lond), DIC, MICE

YU Shu Chuen

Honorary Executive Director

NG Siu Chan

William LOUEY Lai Kuen
BSc(Econ)

John CHAN Cho Chak

GBS, JP, DBA(Hon), BA, DipMS,
MIMgt, FCILT, FHKIoD
Managing Director

Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT
Executive Director

Winnie J NG

BA, MBA(Chicago)
Executive Director

Dr KUNG Ziang Mien, James*

OBE

George CHIEN Yuan Hwei

MSc(Lond), BSc(Eng), DIC, FICE,
CEng, PEng, MITE

The Hon Eric LI Ka Cheung*

OBE, JP, LLD, DSocSc, BA(Econ) Hon, FHKSA,
Hon HKAT, FCA, FCIS

LUI Pochiu

MCILT

Edmond HO Tat Man

MA(Cantab), MBA, MCILT, MHKIoD
Deputy Managing Director

Lana WOO

BA, AAT, CGA, ACIS, MIFC, CFC
(Alternate Director to Dr the Hon
WOO Pak Chuen, JP)

SHAM Yat Wah

BSc, MIMarE, CEng, MHKIE
(Alternate Director to Mr KWOK
Ping-luen, Raymond)

Susanna LAU Shung Oi

BA, ACA
(Alternate Director to Mr KWOK
Ping-sheung, Walter, JP)

(* Independent Non-Executive Director)

Company Secretary

Lana WOO

BA, AAT, CGA, ACIS, MIFC, CFC

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Services Limited
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Hong Kong

Bermuda

Butterfield Corporate Services Limited
11 Rosebank Centre, Bermudiana Road
Hamilton, Bermuda

Register of Members

Book closed from 5 May 2003 to
15 May 2003, both dates inclusive

Annual General Meeting

Date & Time: 15 May 2003, 2:30 pm
Venue: The Royal Plaza Hotel
Ballroom, 193 Prince
Edward Road West
Kowloon, Hong Kong

Dividends

Interim

HK\$0.45 per share,
paid on 10 October 2002

Final (proposed)

HK\$1.58 per share,
payable on 16 May 2003

Stock Code

The Stock Exchange of Hong Kong: 062
Bloomberg: 62HK
Reuters: 0062.HK

(This Annual Report is also available on our corporate website: <http://www.kmb.com.hk/>)