



STEERING THROUGH THE CHALLENGES IN HONG KONG



THE KOWLOON MOTOR BUS HOLDINGS LIMITED

2003 Annual Report



HEADING FOR BUSINESS EXPANSION IN CHINA MAINLAND



During 2003, the Group made substantial progress towards our long-term business strategy of seeking growth opportunities in China Mainland by concluding three large-scale joint venture projects

Our strategy is to diversify our business
by continuing to explore new growth
opportunities that can be leveraged from
our core competencies

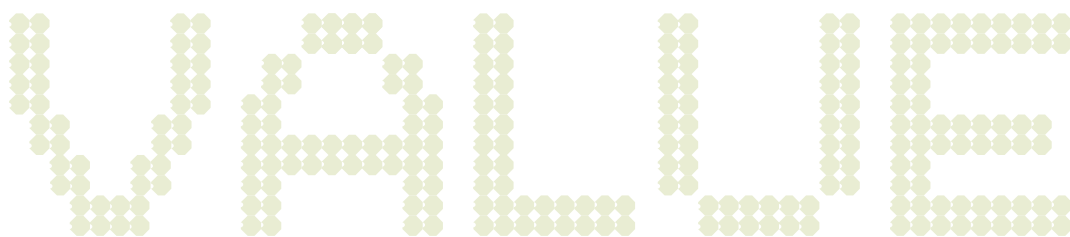
2023



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THE KMB BRAND VALUE



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.

THE 5Cs OF OUR CORPORATE CULTURE

Concern for customer service

Concern for safety

Caring for employees

Concern for the environment

Community outreach

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 about three million passenger trips daily. The Group comprises six divisions: Franchised Public Bus Operations, Non-Franchised Transport Operations, Mainland Transport Operations, Media Sales Business, Property Holdings and Internal Financial Services.

The Kowloon Motor Bus Company (1933) Limited ("KMB"), the Group's wholly owned flagship subsidiary, was founded 70 years ago and has been providing franchised public bus services in Hong Kong since then.

4,400 franchised public buses

KMB's fleet of about 4,300 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 Hong Kong International Airport and North Lantau.

The Group also operates non-franchised bus and ferry services in Hong Kong.

Through investment in certain joint venture companies established on the Mainland of the People's Republic of China, the Group also operates public transport services in Beijing, Tianjin, Wuxi and Dalian.

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 in Hong Kong, Macau and major cities on the Mainland. RoadShow markets advertising space on the exteriors and interiors of transit vehicles and bus shelters, out-of-home advertising spaces as well as merchandises commemorative items. 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's Internal Financial Services Division is responsible for rendering internal support services in relation to finance and treasury management to the members of the Group.

13,700 professional staff

The Group employs some 13,700 staff, of whom about 8,900 and 2,300 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.

BUSINESS AT A GLANCE



THE KOWLOON MOTOR BUS HOLDINGS LIMITED

FRANCHISED PUBLIC BUS OPERATIONS DIVISION



Comprising KMB, the flagship company of the Group, and LWB with about 4,440 franchised public buses running on more than 400 routes in Hong Kong

NON-FRANCHISED TRANSPORT OPERATIONS DIVISION



Operating non-franchised bus services for residential and commercial sector on both charter hire and fixed routes basis in Hong Kong

MAINLAND TRANSPORT OPERATIONS DIVISION



Investing strategically in transportation businesses in major cities on the Mainland including Beijing, Tianjin, Dalian and Wuxi, and potentially in Shenzhen

MEDIA SALES BUSINESS DIVISION



Operating proprietary Multi-media On-board on transit vehicles in Hong Kong, and outdoor multi-media businesses in Hong Kong and on the Mainland

PROPERTY HOLDINGS DIVISION



Redeveloping the old Lai Chi Kok Depot site into a prestigious residential and commercial complex which is scheduled for completion in mid-2006

INTERNAL FINANCIAL SERVICES DIVISION



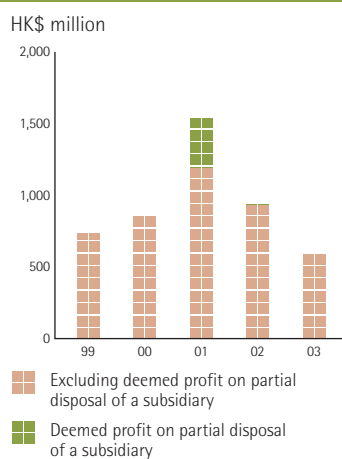
Managing and administering the Group's financial resources and treasury functions

FINANCIAL AND OPERATIONAL HIGHLIGHTS

for the year ended 31 December

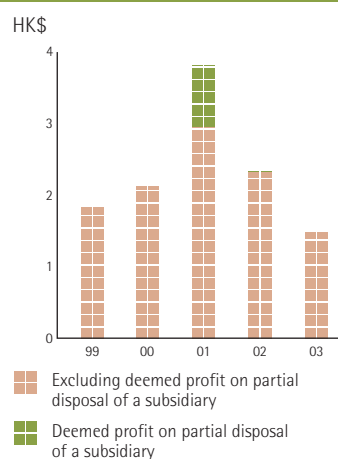
	Unit	2003	2002
Financial highlights			
Turnover	HK\$ million	6,540.2	6,843.4
Profit from ordinary activities before taxation	HK\$ million	857.2	1,142.2
Profit attributable to shareholders	HK\$ million	597.0	939.6
Earnings per share	HK\$	1.48	2.33
Dividends per share	HK\$	2.03	2.03
Shareholders' funds	HK\$ million	4,338.6	4,560.9
Total assets	HK\$ million	9,460.1	9,163.1
Net borrowings	HK\$ million	973.3	689.5
Net finance charges	HK\$ million	13.7	13.1
Cash generated from operations	HK\$ million	1,628.9	1,873.2
Financial ratios			
Profit margin		9.1%	13.7%
Return on shareholders' funds		13.8%	20.6%
Net gearing (ratio of net borrowings to shareholders' funds)		0.22	0.15
Interest cover (ratio of profit from ordinary activities before taxation to net finance charges)		62.8	87.2
Dividend cover (ratio of profit attributable to shareholders to total dividends paid and proposed for the year)		0.73	1.15
Franchised public bus operational highlights			
Average number of passenger trips per day	million trips	2.96	3.16
Number of licensed buses at year-end		4,440	4,586
Number of staff at year-end		12,968	13,649
Average number of staff per licensed bus		2.92	2.98
Non-franchised transport operational highlights			
Number of licensed buses at year-end		250	223
Number of catamarans at year-end		7	6
Number of staff at year-end		536	503

Profit attributable to shareholders



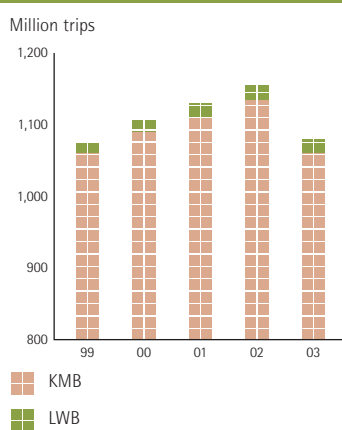
Profit attributable to shareholders for 2003 was HK\$597.0 million

Earnings per share



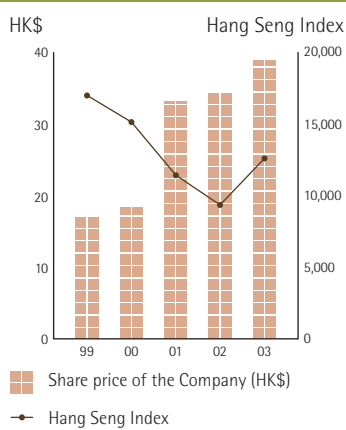
Earnings per share for 2003 was HK\$1.48

Number of passenger trips (Franchised public bus operations)



Number of passenger trips in 2003 was 1.08 billion, down by 6.5% from 1.15 billion in 2002

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



The closing share price of the Company at year-end 2003 was HK\$38.8 per share, up 12.8% from 31 December 2002

STRATEGIC LOCATIONS OF THE GROUP

The Group's investments in China Mainland



Beijing

Joint venture operating taxi and car rental businesses

Dalian, Tianjin and Wuxi

Joint ventures operating public bus business

Shenzhen

Joint venture to be set up to operate public bus business



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



Customer service centres of KMB and LWB



Bus termini of "Huang Bus"



High land area

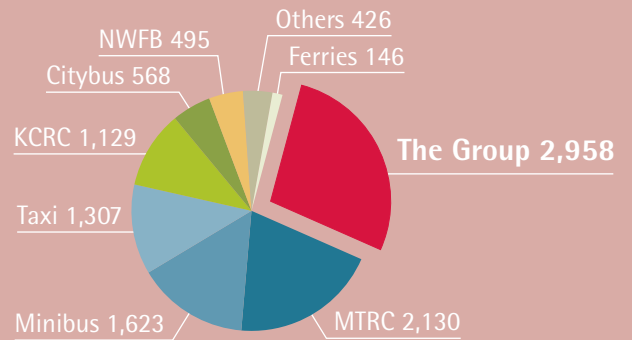


Railways

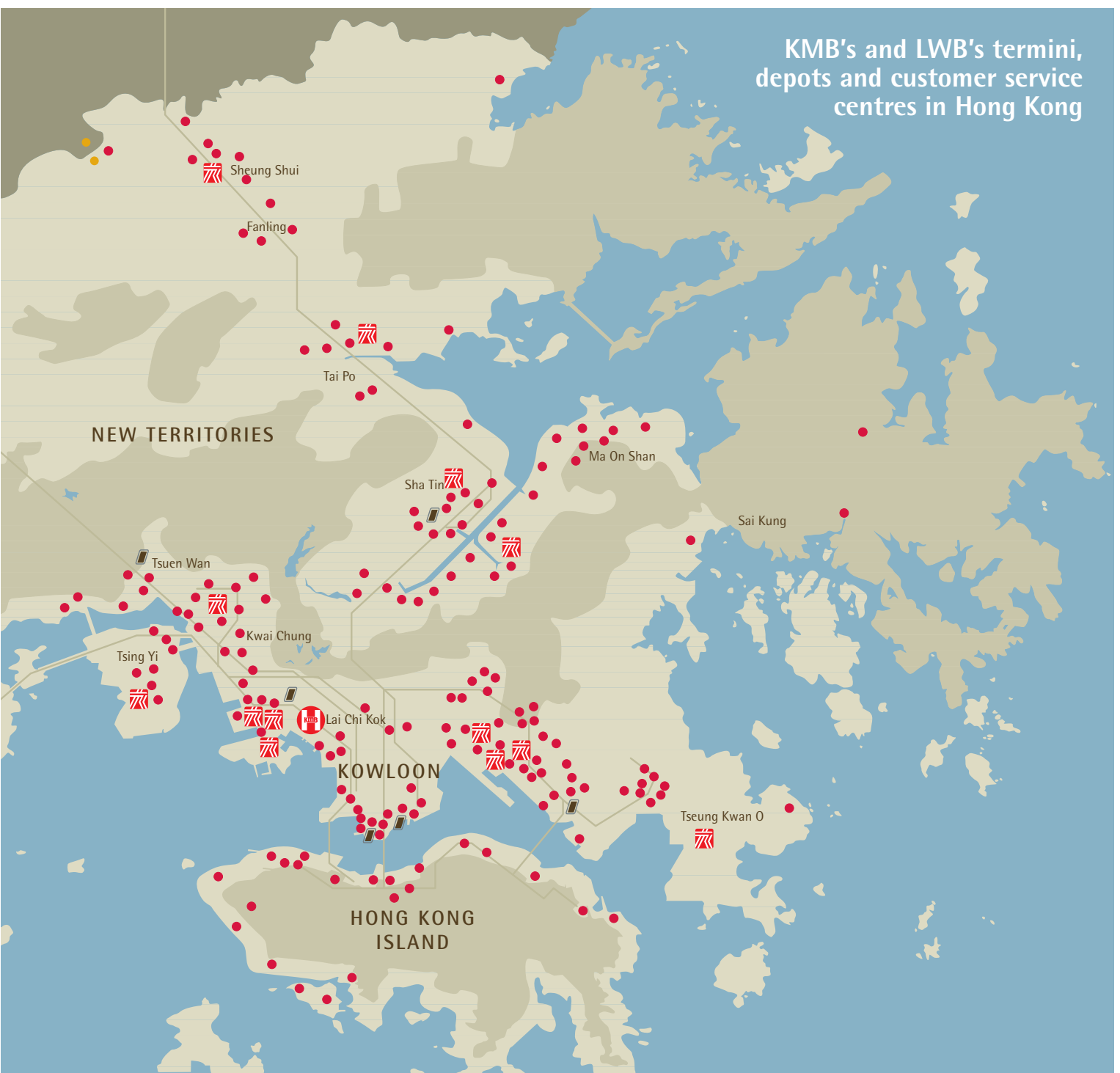


Average number of passenger trips per day by mode of transport in 2003

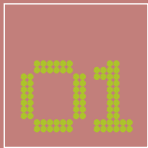
Thousand of passenger trips per day



KMB's and LWB's termini, depots and customer service centres in Hong Kong

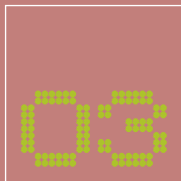


CORPORATE MILESTONES



New "Super Bus"

KMB made history by launching Hong Kong's first "Super Bus" featuring a wider bus saloon, a revolutionary straight staircase design and a new air-conditioning system with enhanced circulation inside the bus compartment. The Super Bus also adopts a new saloon design in a brand new ergonomic seat in meteor pink colour. A total of 120 Super Buses were ordered.

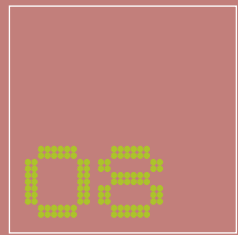


The "Wright Bus"

KMB again led Hong Kong's bus industry into a new era by ordering 50 "Wright Bus" which has a stylish body and meets Euro IV emissions standards. The Wright Bus also offers a wider bus body and a straight staircase design.

Beijing taxi business

Together with certain Mainland investors, the Group established a Sino-foreign joint stock company, named Beijing Beiqi Kowloon Taxi Company Limited ("BBKT"), in Beijing which operates taxi and car rental businesses with a fleet of more than 4,000 vehicles and some 4,200 employees. The Group invested about HK\$75.5 million for a 31.38% stake in BBKT.



Special general meeting

To leverage on the expertise of Sun Hung Kai Properties Limited ("SHKP"), Lai Chi Kok Properties Investment Limited, a wholly owned subsidiary of the Group, engaged certain members of SHKP to provide project management, building construction, marketing, letting and sales agency, and property management services for redevelopment of the Group's old Lai Chi Kok Depot site into a residential and commercial complex. In accordance with the Listing Rules issued by The Stock Exchange of Hong Kong Limited, these connected transactions required shareholders' approvals which were obtained at a special general meeting held on 26 August 2003.



KMB retreaded 500,000 tyres

KMB's Tyre Retreading Plant, the largest tyre retreading operation in Hong Kong, has been retreading bus tyres for over 30 years. It marked the production of the 500,000th retreaded bus tyre in September 2003. Tyre retreading is one of our waste recycling measures that helps environmental protection and reduce operating costs. Working to the ISO 9002 quality standards, the Plant ensures production of top quality retreaded tyres.



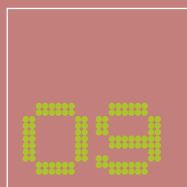
Included in Dow Jones Sustainability Index again

The Kowloon Motor Bus Holdings Limited was again included as a component company of the Dow Jones Sustainability Index ("DJSI") in the corporate sustainability assessment conducted in 2003. KMB achieved excellent results across all dimensions of corporate sustainability in the assessment. The DJSI is the world's first sustainability index which tracks the performance of the leading sustainability-driven companies worldwide. KMB has been a component company since 2000.



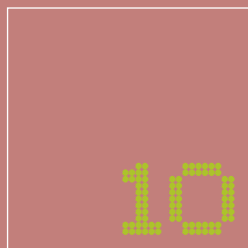
First tourist cyber bus stop

Hong Kong's first tourist cyber bus stop was installed at Tsim Sha Tsui by KMB. It provides tourists with a one-stop point for obtaining useful and comprehensive travel and transport information that enables visitors to explore the multi-dimensional attractions of Hong Kong more conveniently and confidently.



Advancement to ISO14001 accreditation

KMB's new Lai Chi Kok Depot obtained ISO14001 certification from the Hong Kong Quality Assurance Agency. This followed the earlier certification of our Sha Tin Depot. Being the first bus company in Hong Kong to achieve such accreditation, KMB again proved its firm commitment to operating in an environment-friendly manner.

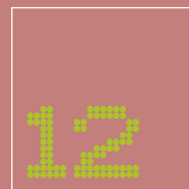


Investment in Wuxi bus operation

The Group signed an agreement to acquire a 45% interest in a Sino-foreign joint stock company in Wuxi, Jiangsu Province. This joint stock company, named Wuxi Kowloon Transport Company Limited, was formed in February 2004, and is currently operating some 1,600 buses on 106 routes in Wuxi.

Electronic Terminus Management System

KMB is developing an Electronic Terminus Management System that will facilitate the use of personal data assistants (PDA) by terminus supervisors to record bus arrival and departure times. The new system increases the speed of transmitting information from termini to bus depots and the relevant departments enabling faster decision-making on bus operations and allowing terminus supervisors to spend more time on serving passengers.



Investment in Shenzhen bus operation

KMB (Shenzhen) Transport Investment Limited, a wholly owned subsidiary of the Group, entered into an agreement to acquire a 35% interest in a Sino-foreign joint stock company to be formed in Shenzhen, Guangdong Province, to principally operate local public bus services with about 3,300 vehicles on 109 routes.

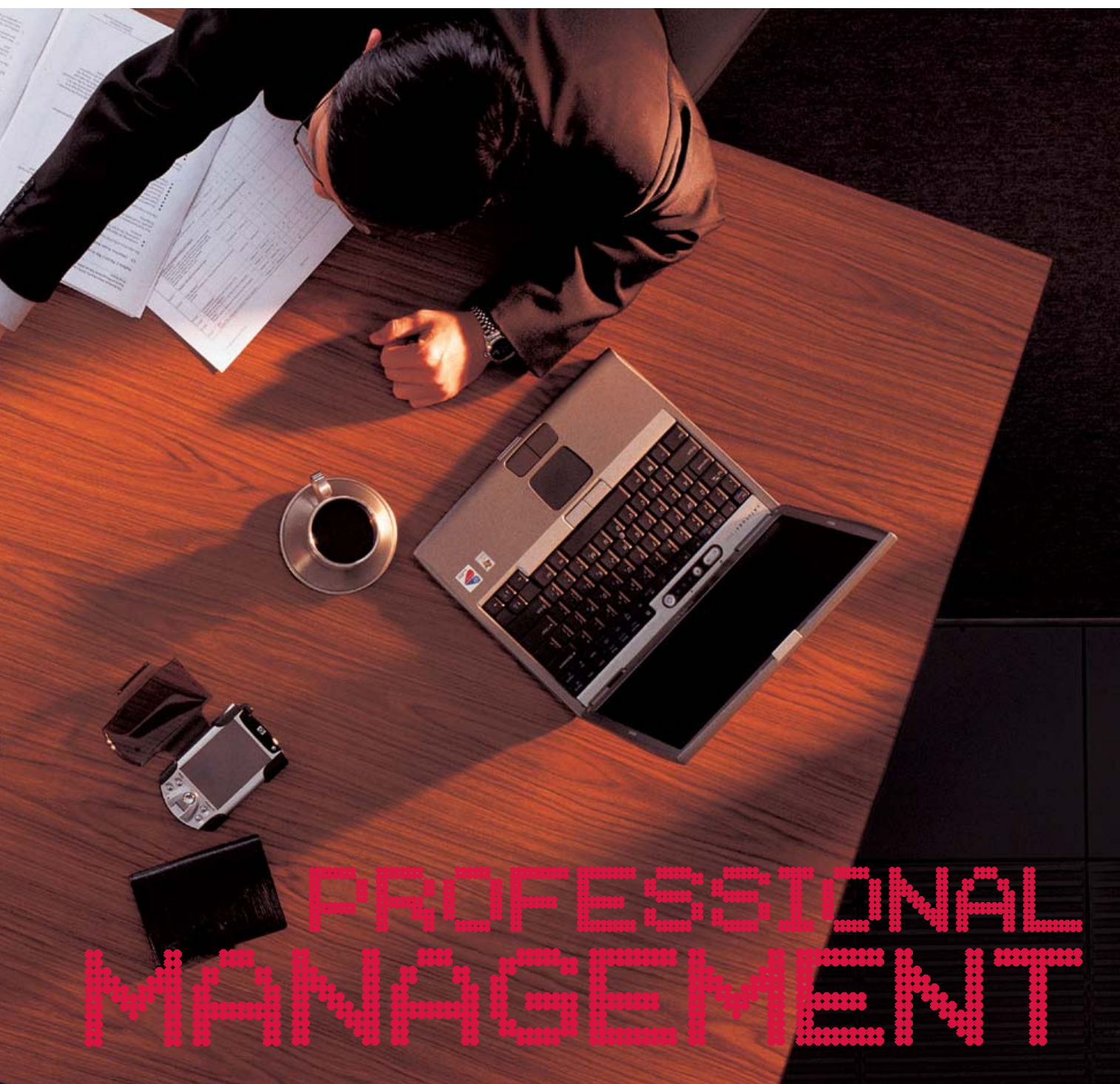
First diesel-electric hybrid bus launched

Park Island Transport Company Limited, a subsidiary of the Group, introduced three diesel-electric hybrid air-conditioned super-low floor single-deck buses, the first of their type in Hong Kong. Powered by the rechargeable batteries and the small diesel engines, these environment-friendly buses can achieve ultra low emission level.



Our professional management team directs,
governs and manages the Group's businesses
with a clear vision for the future





CHAIRMAN'S STATEMENT

CLEAR VISION



S.Y. CHUNG
Chairman

The Group is committed to long-term sustainable business growth through our core businesses and by investing in new opportunities to enhance the Group's value to our shareholders

REMAINING RESOLUTE DURING A TIME OF ADVERSITY

The year 2003 was a challenging year for the Group as well as the Hong Kong Special Administrative Region ("HKSAR" or "Hong Kong") in general. During the first half of the year, the local economy was devastated by the unprecedented outbreak of Severe Acute Respiratory Syndrome ("SARS") and the Group's business was heavily affected. However, when SARS subsided during the second half of the year, the local economy began to recover and the Group's performance steadily improved. The business climate, particularly in the tourism sector, was further enhanced by the introduction of the Individual Visit Scheme which commenced on 28 July 2003 to facilitate entry into Hong Kong by visitors from certain cities on the Mainland of China.

During the SARS crisis, the Group remained dedicated to serving the community and caring for our customers and staff. We are gratified that no single passenger or employee contracted SARS while patronising or operating the Group's bus services. This is credited to the Group's effort to upkeep hygiene to the highest possible standard in our operations.

During 2003, The Kowloon Motor Bus Company (1933) Limited ("KMB") recorded a loss of some 100,000 passenger trips a day to the Mass Transit Railway ("MTR") Tseung Kwan O Extension, which completed its first full year of operation. Long Win Bus Company Limited ("LWB") also saw a big decrease in ridership due to the substantial drop in the number of tourists during the SARS outbreak.

KMB, the flagship company of the Group, celebrated its 70th anniversary in 2003. Although at the age of 70, KMB continues to be young and energetic and adaptable to the continuously changing operating environment. As a result, KMB remains the industry leader in Hong Kong and one of the best bus companies in the world. Over the years, it has received a great deal of recognition for its professional and public service as well as environmental protection achievements. This has reinforced our commitment to providing world-class bus services to the Hong Kong community in the years ahead.

Despite increases in fuel prices, insurance premiums, tunnel charges and some other costs, KMB and LWB, being responsible corporate citizens, continued to support the community during times of economic difficulty. We expanded the coverage of our Bus-bus Interchange ("BBI") schemes and offered fare concessions for passengers travelling on relatively long distance routes. These concessions were made possible by productivity enhancements and stringent cost control measures.

In line with the Group's strategy to seek long-term business growth opportunities in China Mainland, we concluded three large-scale joint venture projects in Beijing, Shenzhen and Wuxi during 2003. Whilst the Shenzhen project is still awaiting statutory approval by the relevant government authorities, the Beijing and Wuxi projects commenced operations in March 2003 and February 2004 respectively.

The Group deeply regrets the two serious KMB bus incidents that occurred during the year resulting in a large number of deaths and injuries. The causes of these incidents are under investigation and are the subject of court proceedings. We have been co-operating fully with the authorities in determining the circumstances and causes of these incidents. Safety has always been our first priority and measures are in place to ensure the highest standards of safety in our bus services. We continuously monitor our operations, review safety measures and provide refresher training to our bus captains. We pledge to maintain these high standards to ensure safe bus services for our customers.

DIVIDEND LEVEL MAINTAINED DESPITE SARS IMPACT

Results for the year

The Group's profit attributable to shareholders for the year ended 31 December 2003 was HK\$597.0 million. This represents a decrease of 36.5% compared with HK\$939.6 million for the previous year. Earnings per share for the year were HK\$1.48 compared with HK\$2.33 for 2002.

The profit from KMB for 2003 was HK\$599.8 million, representing a decrease of 31.2% compared with HK\$872.3 million for 2002. LWB made a loss of HK\$3.3 million for 2003 compared with a profit of HK\$4.6 million for 2002. The profit from non-franchised transport operations amounted to HK\$19.0 million, representing an increase of 65.2% compared with 2002.

Dividends

Despite the adverse impact of SARS on the Group's 2003 results, the Directors have proposed to maintain the dividend for 2003 at the same level as 2002. 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 2003 (2002: HK\$1.58 per share). Together with the interim dividend of 45 cents per share paid on 15 October 2003 (2002: 45 cents per share), total dividends for the year will amount to HK\$2.03 per share (2002: HK\$2.03 per share). The total dividend payout for the year will amount to HK\$819.4 million (2002: HK\$819.4 million).

Outlook

The commissioning of the Kowloon-Canton Railway West Rail in December 2003 and the Ma On Shan Extension in September 2004 are bound to have an adverse impact on our patronage. However, we anticipate that the improved economy and the surge of tourists from the Mainland will generate some passenger growth to partially offset the loss of patronage to those new railways. We will work closely with the HKSAR Government and the Kowloon-Canton Railway Corporation ("KCRC") to develop Bus-rail Interchange schemes and feeder bus services that will benefit both KMB's and KCRC's customers.

In addition, we will need to rationalise our bus network because of the impact of the new railways on our passenger numbers. This will entail re-deploying resources from those affected areas to other locations in need of bus service. Excess resources will be disposed of through natural attrition. Over the longer term, we anticipate our patronage will grow steadily when more new towns are developed to cope with the expected population growth.

We expect more pressure for fare concessions in the wake of the Legislative Council elections in September 2004. Also, the HKSAR Government had initiated discussions during 2003 to develop a new fare determination mechanism and these deliberations are expected to continue in 2004. The Group's overall goal is to develop a mechanism that would strike the right balance between the interests of our customers, our shareholders and the community at large. We are evaluating the HKSAR Government's proposals as well as developing alternatives to achieve the said goal. Until the new mechanism is finalised, our existing fare concessions and fare discounts tied to our expanded BBI schemes will play an important role in responding to community expectations.

Business strategy

Our strategy is to diversify our business by continuing to explore new growth opportunities that can be leveraged on our core competencies. The Group is well positioned to take up investments on the Mainland because of our expertise and widely recognised brand name for service excellence. We anticipate that our current Mainland operations will make an increasing contribution to the Group's earnings in the years ahead.

EXPLORING NEW GROWTH OPPORTUNITIES ON THE MAINLAND

The Group will continue to develop its non-franchised transport business in Hong Kong through meeting our customers' specific needs, whether for prestige premium services or value-for-money services. We anticipate that our media sales business will strengthen in 2004 in line with the economic recovery. Nevertheless, we will continue to explore further business opportunities both in Hong Kong and on the Mainland.

The redevelopment of the former Lai Chi Kok Depot site into a residential and commercial complex is scheduled for completion by 2006. This project will bring us a new source of income as well as a population centre that will be a potential source of new customers for KMB.

Corporate governance

We recognise the importance of good corporate governance and transparency. We provide access to information to a variety of audiences including shareholders, financial analysts, financial institutions, customers, the media and our staff. We will continue to improve our channels of communication to accomplish and meet this important responsibility.

Social responsibility

To earn the right to retain our franchise to serve the community, we are fully aware of our responsibility to continue to offer quality service at fair prices and take measures to protect the environment. The Group is deeply committed to doing our very best in improving our vehicles and our depot operations.

Our people

Our employees continued to demonstrate their dedication and high level of performance during a difficult year in 2003. The Board thanks all the Group's employees for their invaluable contributions and we look forward to their continued support moving forward.

Directors

Mr Rafael Hui Si-yan, GBS, JP was appointed as a Director of the Company, KMB and LWB with effect from 1 February 2004. I would like to welcome Mr Hui to the Board.

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 2003, the incumbents were Mr Robert Footman, JP and Mr Arthur Ho, JP respectively. I appreciate their valuable contributions.

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

Lastly, I want to thank my fellow Directors, in particular our Managing Director, Mr John Chan Cho Chak, GBS, JP, for their efforts and contributions in 2003.



S.Y. CHUNG

Chairman

25 March 2004

CORPORATE GOVERNANCE

SOUND GOVERNING FRAMEWORK

MAINTAINING EXCELLENT STANDARDS OF CORPORATE GOVERNANCE

Enhanced corporate governance

The Group operates the largest franchised public bus fleet in Hong Kong with about three million passenger trips daily. Apart from conducting our businesses in the interest of our shareholders, we are also subject to public scrutiny and are responsible to the society as a whole. In this respect, we strive to maintain the highest standards of corporate governance which requires a full range of sound policies, procedures and rules and a culture of integrity on the part of each staff member and Board member.

Over the years, the Group has emphasised the maintenance and enhancement of its top quality of corporate governance by:

- ensuring that the Group's corporate decision-making process, internal audit and controls, disclosure of information and communication with shareholders are conducted in accordance with sound management practices and in full compliance with regulatory standards;
- creating a culture in which all members of our staff and our Board of Directors know the importance of their role in making the Group a success and are aware of how critical their commitment to integrity is to the whole organisation; and
- adopting internationally recognised quality standards through ISO certification since 1999 to cultivate a strong sense of quality management in every aspect of our day-to-day operations, thereby enhancing the performance and value of the Group as a whole.

Board of Directors

The Company's Board of Directors, whose profiles are presented on pages 74 to 79 of this Annual Report, comprises 17 Directors, four of whom are Independent Non-executive Directors. Board meetings are normally held monthly to discuss and decide on major corporate, strategic and operational issues as well as evaluate major investment opportunities. Apart from the Independent Non-executive Directors, eight Directors of the Board are not involved in the day-to-day management of the Group and therefore are able to analyse management issues impartially during the decision-making process.

The Board is responsible for steering the Group and endeavours to enhance the value of the Company's shares. Each Director has his or her own role to play and is well aware of his or her duty to act in the best interest of the Group in good faith. Besides being accountable to the shareholders, the Directors also manage and monitor the relationship between the Group and its customers, its creditors, the community and the HKSAR Government.

AUGMENTED VALUES TO SHAREHOLDERS

The respective Boards of Directors of KMB and LWB, which are wholly owned subsidiaries of the Company, comprise a total of 19 Directors including the Company's 17 Directors and two Directors nominated by the HKSAR Government. Currently, these two Directors are the Commissioner for Transport and the Deputy Secretary for the Environment, Transport and Works.

Board Committees

The Company's Board has three committees, namely, the Executive Committee, the Audit Committee and the Remuneration Committee. These committees play a key role in overseeing various aspects of the Company.

Executive Committee

The Executive Committee consists of five Directors, including the Managing Director. It meets monthly with senior management to review and discuss financial, operational and strategic issues in relation to the Group's current businesses and potential investment opportunities, and reports to the Board of Directors.

Audit Committee

The Group's Audit Committee comprises three Non-executive Directors, two of whom are Independent Non-executive Directors. Meetings are held as required 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 reviews the effectiveness of internal controls and practices. Two committee meetings were held during 2003. After each meeting, the Chairman of the committee submitted a report to the Board of Directors and gave a briefing on significant issues.

Remuneration Committee

The Group's Remuneration Committee, first established in December 2003, comprises three Non-executive Directors, two of whom are Independent Non-executive Directors. It formulates policies on remuneration of the Directors and the employees of the Company and its subsidiaries (including establishing guidelines for determining the terms and conditions of employment, remuneration and retirement benefits of individual executive directors, as well as setting appropriate criteria for awarding performance-related bonuses to employees) and reviews and makes recommendations on human resources related policies to the Board of Directors. A committee meeting was held in February 2004 to review the Group's remuneration structures including Directors' remuneration for 2003.

Internal audit

The Head of Internal Audit Department, who reports directly to the Managing Director and the Audit Committee, supervises the implementation of comprehensive audits and reviews 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 ensuring that the procedures and practices comply with the relevant requirements of ISO 9001 : 2000 and ISO 14001 : 1996. In striving to achieve the ISO standards, individual staff members become highly aware of the need for quality and integrity, thereby enhancing the total quality and performance of the Group.

Enhanced shareholder value

The Group conducts its businesses based on the highest standards of corporate governance. The corporate decision-making process is carried out in a professional, open and systematic manner with the aim to inspire investor confidence in the Group's management and internal controls so as to enhance the value of the Group to our shareholders.

MANAGING DIRECTOR'S REPORT

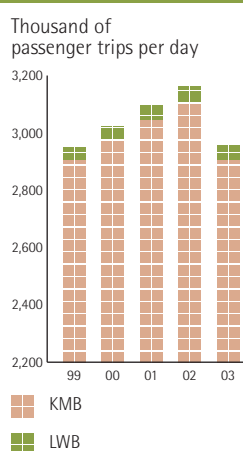
STRATEGIC MANAGEMENT



John CHAN Cho Chak
Managing Director

Our team successfully managed the challenges of the SARS crisis in 2003 and held firm to our commitment to seeking new investment opportunities to propel the Group forward

Average number of passenger trips per day
(Franchised public bus operations)



The Group's management and staff worked diligently and productively during a difficult year impacted by the outbreak of SARS. Our determination to face the challenges enabled us to continue to fulfil our commitment to delivering world-class transport services to our customers. At the same time, in our pursuit of business diversification, the Group increased its investment in the public transport services sector on the Mainland of China during 2003.

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

KMB's fare revenue for the year decreased by 5.7% to HK\$5,880.1 million from HK\$6,234.0 million for 2002. The decrease was due mainly to the impact of SARS, the full year adverse effect of the MTR Tseung Kwan O Extension and the three fare concession schemes introduced since 1 October 2003. A total of 1,060.5 million (a daily average of 2.91 million) passenger trips was made on KMB buses in 2003, a decrease of 6.5% compared with 1,134.4 million (a daily average of 3.11 million) passenger trips in 2002. The decline was attributable to the impact of SARS and the loss of passengers to the expanded railways but was mitigated by our continuous effort in providing quality service to retain our current customers and attract new riders.

Long Win Bus Company Limited ("LWB")

LWB's fare revenue for the year amounted to HK\$216.9 million, representing a decrease of 6.5% compared with HK\$232.1 million for 2002. The total ridership of LWB in 2003 was 19.3 million (a daily average of 52,766) passenger trips, a decrease of 5.1% compared with 20.3 million (a daily average of 55,616) passenger trips in the previous year. The decrease was due mainly to the outbreak of SARS which resulted in a substantial reduction in the number of local holiday travellers and overseas tourists.

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

The SBH Group comprises six non-franchised bus business units, with Sun Bus Limited as its flagship. Since operation commenced in 1998, the SBH Group has provided bus services to large residential estates, shopping malls, major employers and schools. The SBH Group's turnover decreased by 18.1% from HK\$136.2 million in 2002 to HK\$111.6 million in 2003. The decrease was due mainly to the impact of SARS on the local non-franchised transport market.

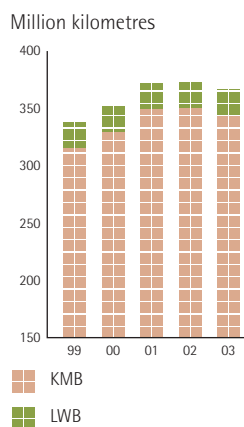
Park Island Transport Company Limited ("PITC")

PITC, a 65% owned subsidiary of the Group, commenced its shuttle bus and ferry services for Ma Wan Island in December 2002. During the year, PITC's patronage grew steadily with the population intake of Park Island, a prestigious residential development on Ma Wan Island. The average daily patronage for December 2003 reached 13,200 passenger trips, an increase of 169% compared to 4,900 for December 2002.

New Hong Kong Bus Company Limited ("NHKB")

NHKB jointly operates with its Shenzhen counterpart the cross-boundary shuttle bus service between Lok Ma Chau and Huanggang. Since 27 January 2003, NHKB has extended the service to a 24-hour operation for the benefit of regular commuters and holiday travellers. Together with the increase in tourists from the Mainland during the second half of the year, this has resulted in a significant increase in the average monthly patronage from 695,700 in 2002 to 959,600 in 2003. To cope with the increased demand, NHKB added three new air-conditioned single-deck buses to its fleet, bringing the total number of buses deployed to 24 by the end of 2003.

Bus kilometres operated (Franchised public bus operations)



Mainland transport operations

The Group has made good progress in expanding its public transport businesses into the Mainland. We concluded three equity joint ventures ("EJVs") in Beijing, Shenzhen and Wuxi during 2003. While the Shenzhen EJV is still pending final approval from the relevant government authorities, the EJVs in Beijing and Wuxi commenced operations in March 2003 and February 2004 respectively.

The Group's two co-operative joint ventures in Dalian and Tianjin respectively made steady progress in 2003.

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

The RoadShow Group's performance was depressed as a result of the outbreak of SARS in the first half of 2003 but improved towards the end of the year due to better market conditions and the resultant upturn in consumer confidence in Hong Kong and on the Mainland. The RoadShow Group's joint ventures on the Mainland achieved their revenue goals and made contributions to profit, a trend that is expected to continue.

Lai Chi Kok Properties Investment Limited ("LCKPI")

The redevelopment of the former Lai Chi Kok Depot into a residential and commercial complex progressed smoothly during 2003. Following the completion of the foundation work, the construction of the sub-structure and the super-structure commenced in January 2004. It is expected that the redevelopment will be completed by mid-2006. For the planning of the pre-sale of the residential property, we shall closely monitor the local property market which has shown a significant upturn since the last quarter of 2003.

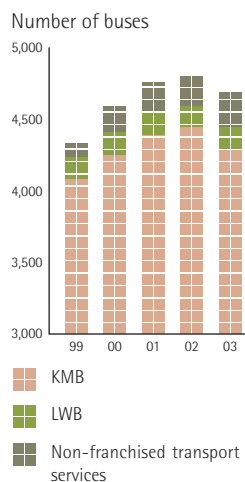
Safety first

The Group's focus on safety has resulted in a steady improvement in mechanical reliability and traffic accident rates throughout the years. However, all of us at KMB were taken aback and saddened when we experienced two serious incidents during the year. We remain totally committed to the highest standards of safety and are doing everything possible to avoid a repeat of such tragic cases. We have made sizeable investments in the best facilities, including the only bus simulator in Hong Kong to train our existing bus captains and new recruits. Also, under the current ISO certified maintenance programmes, KMB and LWB buses are subject to daily, monthly and annual inspections and examinations in our depots and the HKSAR Government vehicle examination centre.

Concern for the environment

We are committed to operating our businesses in an environment-friendly manner as demonstrated by the certification of our Sha Tin Depot and new Lai Chi Kok Depot to the ISO 14001 : 1996 standard as well as the winning of the 2003 Hong Kong Awards for Industry: Environmental Performance Award. Furthermore, three diesel-electric hybrid super-low floor air-conditioned buses, the first of their kind in Hong Kong, were introduced by PITS for the shuttle bus services for Ma Wan Island.

Number of licensed buses at 31 December



Bus-bus Interchange ("BBI") and Bus-rail Interchange ("BRI") schemes

The concept of BBI and BRI is a win-win solution for both the passengers and the transport operators concerned. Passengers can benefit from significant fare discounts offered on the second leg of their journey whilst the operator is able to deploy resources more efficiently to serve new customers without having to introduce new routes. At the year-end, KMB offered 44 BBI schemes on 200 bus routes. These include certain inter-modal schemes introduced with other bus operators. The BRI schemes between KMB and the Kowloon-Canton Railway West Rail, covering 18 feeder routes and three West Rail stations, were introduced upon the opening of West Rail.

LWB and another bus company operated a joint-operator Octopus BBI scheme at Tung Chung Town Centre. LWB also introduced two Octopus BBI schemes at the Tsing Ma Control Area to provide discounted fares to passengers interchanging between LWB Airbus routes and other LWB routes.

Customer facilities

To further strengthen our customer service, two new KMB customer service centres were built at the Hung Hom Cross Harbour Tunnel Bus Terminus and the Tin Heng Bus Terminus respectively, bringing the total number of service centres to seven at the end of the year. During the SARS period, we distributed facemasks free of charge to our customers at the centres.

Twelve KMB bus termini were refurbished and 100 new waiting shelters were built during the year. About 2,200 advertising panels were installed by the year-end to generate advertising revenue. LWB's customer service centres at Hong Kong International Airport continued to provide convenient ticketing and enquiry services to tourists.

Listening to customers

We are committed to openness and user-friendliness in all of our dealings and communications with our customers. Our website, award winning hotline service, passenger liaison meetings and press information programmes enable us to receive customer feedback for planning and implementation of service improvements.

Going forward

The past year was a very challenging year for all of us. While we have experienced good and bad times over the years, we have always provided top quality service to our customers and the community at large. This dedication to world-class service is an impetus to a promising future for the Group. I thank all our people for their hard work and contributions that made our accomplishments in 2003 possible.

John CHAN Cho Chak

Managing Director

25 March 2004

MANAGEMENT DISCUSSION AND ANALYSIS

We do our very best to manage the Group to ensure operational excellence and sound financial performance and to fulfil our social responsibilities



DEDICATED
MANAGEMENT TEAM

From left to right: **Mr William S K HO** *Finance and Administration Director*; **Mr LUI Pochiu** *Operations Director*;
Mr Edmond T M HO *Deputy Managing Director*; **Mr John C C CHAN** *Managing Director*;
Ms Winnie NG *Executive Director*; **Mr Peter MAK** *Commercial Director*

OPERATIONAL REVIEW

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Franchised Public Bus Operations Division
Non-Franchised Transport Operations Division
Mainland Transport Operations Division
Media Sales Business Division
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CORPORATE CULTURE

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Concern for customer service
Concern for safety
Caring for employees
Concern for the environment
Community outreach

FINANCIAL REVIEW

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The Group
Individual business units
Connected transactions

Our status as a world-class bus operator
gives impetus to our strategy of
business diversification





OPERATIONAL REVIEW

Franchised Public Bus Operations Division





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

Long Win Bus Company Limited ("LWB")

The Division provides franchised public bus services in Hong Kong through the Group's wholly owned subsidiaries, KMB and LWB.

KMB, a company with 70 years of experience in operating franchised public bus services in Hong Kong, provides extensive bus services covering Kowloon, the New Territories and, via the cross-harbour tunnels, Hong Kong Island. LWB, which began operations in 1997, operates bus routes plying between the New Territories and Hong Kong International Airport and North Lantau.

Operational excellence

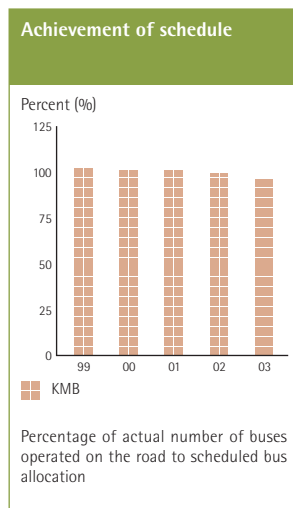
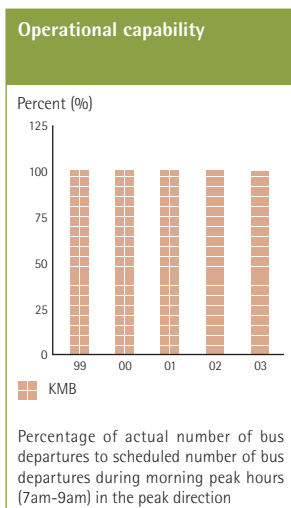
International Organisation for Standardisation ("ISO") Certification

KMB has been ISO 9001 : 1994 certified throughout its entire organisation since 1999. In December 2002, new ISO 9001 : 2000 certificates were issued to KMB from the Hong Kong Quality Assurance Agency upon the completion of ISO 9001 : 2000 Quality Management System upgrading audits on KMB's five certification areas: KMB Headquarters, Traffic Department and Depots, Overhaul Centre, Bus Body Construction Depot, and Kwai Chung Depot (Service Department). By the end of October 2003, each of the foregoing areas successfully completed the first Surveillance Visit in connection with ISO 9001 : 2000, reconfirming KMB's commitment to excellence in quality management systems.

In August 2003, KMB's Sha Tin Depot successfully completed the first Surveillance Visit in connection with the ISO 14001 : 1996 Environmental Management System. The new Lai Chi Kok Depot became the second KMB Depot to be ISO 14001 : 1996 certified in November 2003. This again demonstrated KMB's high priority accorded to environmental protection.

In keeping with the spirit and intent of ISO 9001 : 2000 and ISO 14001 : 1996, KMB will continuously improve the efficiency, reliability and user-friendliness of our public bus services to meet and, where possible, exceed the needs and expectations of our customers.

KMB remains the only public bus company in Hong Kong accredited with ISO 9001 and ISO 14001 certifications.



Performance pledge

Throughout our 70-year history of operation, we have provided superior quality, safe and reliable bus services and we continually add enhancements to our services to benefit our customers. To demonstrate our dedication and to benchmark our achievements on a yearly basis, we abide by a Performance Pledge involving mechanical reliability and operational capability, the two core competencies in bus operations.

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 throughout the entire bus network.

According to our Performance Pledge Report 2002/2003 for the 12 months ended 30 June 2003, KMB achieved 2,759:1 (2001/2002: 2,658:1) on mechanical reliability, against a target of 1,800:1. The performance in respect of operational capability was 99.5% (2001/2002: 100.3%), against a target of 100%, reflecting the impact of SARS during the first half of the year. LWB achieved 1,540:1 (2001/2002: 1,968:1) on mechanical reliability and 101.6% (2001/2002: 100.8%) on operational capability respectively.

Depots

Maintaining our bus fleet in excellent condition is fundamental to providing the highest standard of bus services and our bus depots play a key role in bus maintenance. We continuously monitor and improve our depot facilities to ensure that they maintain a high level of productivity and quality service.

Currently, KMB operates six main permanent depots which provide routine maintenance and repair services for more than 4,200 buses, 13 satellite depots which provide bus parking spaces and minor maintenance services, one bus body construction depot for assembly of new buses and one overhaul centre for major overhaul of buses. LWB operates a depot in Siu Ho Wan for daily maintenance of its 145 buses. We will continue to enhance our bus depot facilities to ensure the utmost safety and reliability of our bus fleet.

During 2003, two new satellite depots became operational. One of them is situated at the former Kai Tak Airport site with an area of approximately 11,500 square metres serving some 126 buses. The other one is in Sha Tin (Fo Tan) with a capacity for 70 buses.



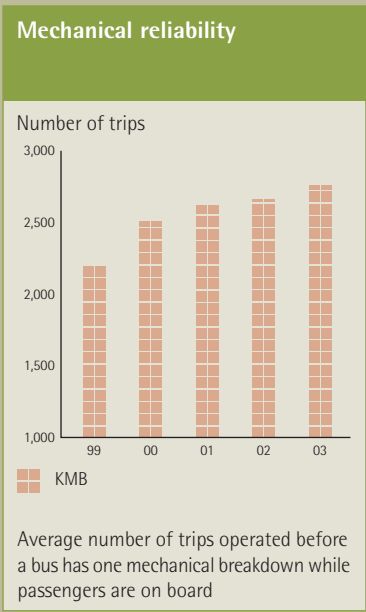
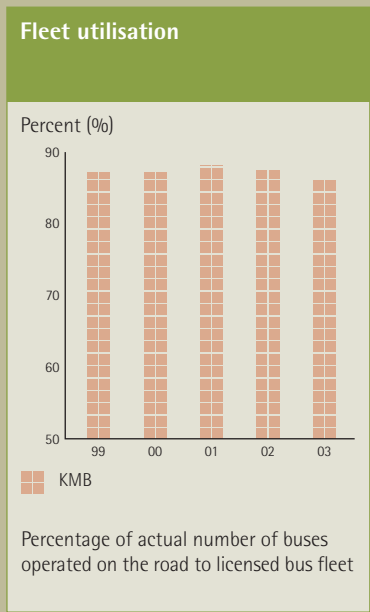


OUR DEPOT NETWORK SERVING



Areas served / purpose of Depot	Depot
East Kowloon	Kowloon Bay Depot Kwun Tong Depot
East New Territories	Shatin Depot
South and West Kowloon	New Lai Chi Kok Depot
North and West New Territories	Tuen Mun Depot Tuen Mun Overhaul Centre
Lantau Island	Siu Ho Wan Depot
Bus body construction	Tuen Mun Bus Body Construction Depot
Bus engine maintenance	Kwai Chung Depot
Total	

- Notes:
1. The Bus Body Construction Depot provides 32 bus body building bays for building new buses
 2. Kwai Chung Depot is a multi-storey building for maintenance of bus engines and gearboxes
 3. KMB also operates 13 temporary depots in various locations in Hong Kong at the end of 2003 for the purposes of parking buses and minor maintenance services



KMB AND LWB

	Floor area (square metres)	Number of buses served at year-end 2003	Operations commenced
	71,379	1,189	1990
	26,152		1966
	66,915	792	1988
	60,311	950	2002
	13,844	1,364	1979
	35,401		1983
	7,660	145	1998
	9,843	(note 1)	1978
	17,789	(note 2)	1976
	309,294	4,440	



New Lai Chi Kok Depot

2,300
maintenance staff
serving some 4,400 KMB and LWB buses

Comprehensive bus maintenance programmes

Each bus undergoes the following maintenance and examination programmes in our depots to stay in the best working conditions:

- Daily maintenance including refuelling, basic check-up and bus body cleaning
- Monthly inspection on major mechanical components
- Half-yearly in-depth check and minor modifications
- Yearly thorough maintenance check and components replacement
- Yearly examination by the HKSAR Government for issuing Certificate of Roadworthiness
- Spot check by the HKSAR Government on a random basis



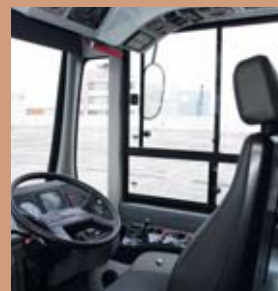
OUR ADVANCED BUS FLEET



Wider bus body with spacious saloon



New door design for enhanced safety



Comfortable and practical driving cab



Wright Bus

As at 31 December 2003, 3,510 buses (82%) of the entire fleet were air-conditioned and 1,474 buses (34%) were equipped with easy access facilities, compared to 3,327 (75%) and 1,275 (29%) respectively at the end of 2002. Also, KMB had 127 new buses on order and 92 buses under construction at the end of 2003. These buses will enter into service in the ensuing years.

Fleet upgrade

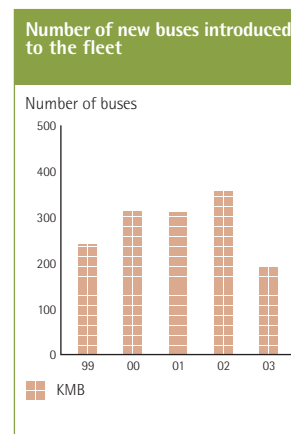
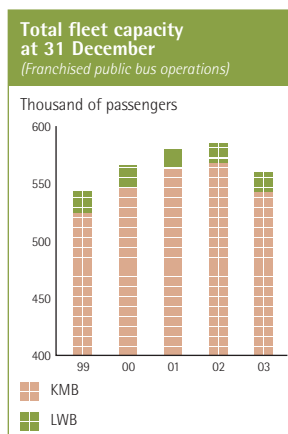
Over the years, we have made substantial investments in new buses with the latest designs and features. The fleet upgrade process is ongoing and one of KMB's major operational priorities.

In December 2003, KMB launched the newest type of double-deck bus which has a body made by Wright, a United Kingdom ("UK") manufacturer. This bus type was selected as the winner of the "Bus Stage Carriage – Double Deck" organised by the Institute of Vehicle Engineers and the Society of Automobile Engineers ("SAE") of UK and the "The Best Overseas Entry" in the Exclusive First Edition Showbus International 2003 exhibition held in the UK.

Bus fleet

During the year, KMB introduced 201 air-conditioned super-low floor easy access buses (including 10 used single-deck buses purchased from New World First Bus Services Limited) and disposed of 347 old non air-conditioned and air-conditioned buses, reducing the total number of buses from 4,441 at the beginning of the year to 4,295 at the year-end.

KMB's bus feet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Non Air-conditioned double-deck buses	Total number of buses
At 1 Jan 2003	3,084	243	1,114	4,441
Addition during the year	191	10	—	201
Disposal during the year	(2)	(16)	(329)	(347)
At 31 Dec 2003	3,273	237	785	4,295





**Straight staircase
for easy manoeuvre**



**Attractive pink
coloured seats**



**Innovative
compartment design**



**Spacious wheelchair
area**

The super-low floor easy access buses that KMB has introduced since 1998 provide improved accessibility to all passengers, particularly the disabled and elderly. To further enhance accessibility, KMB introduced two new models of buses in 2003. Of the 201 buses added to the fleet during the year, seven were Wright Buses and 135 were Super Buses. This new generation of buses are the first of their kind in Hong Kong that offer a wider bus saloon and entryway and a straight staircase providing easier access to and from the upper deck. These new buses are also equipped with air-conditioning systems enhanced with electrostatic air filters and refined temperature control mechanisms. These filters can remove 80% more dust particles, whilst the temperature control mechanisms provide a more comfortable interior environment. All buses under construction and on order at the end of 2003 are either Wright Buses or Super Buses.

Bus tracking capability

In 2003, KMB continued its development of a bus tracking system and a two-way messaging system that provide real-time connection between the buses and the control centre. The satellite global positioning technology which helps locate bus positions within the KMB network was continuously tested on 30 buses operating on route no. 1A during 2003. A further trial involving over 70 buses operating on route nos. 1, 1A, 6 and 6A is planned for the first half of 2004. The technology will enable KMB to provide passengers with an estimated arrival time of the next bus at en route bus stops and to respond quickly to incidents such as breakdowns, traffic accidents and congestion.

Electronic tachograph

The electronic tachograph is now included as standard equipment on all of KMB's new buses. This device helps KMB monitor its bus captains' performance by recording vehicle speed and associated information during bus operations. This will help to deter bus captains from over-speeding on highways. At the end of 2003, 1,262 KMB buses and 40 LWB buses, mostly operating on highways, were equipped with these devices.

LWB buses

LWB had 136 air-conditioned double-deck buses and nine air-conditioned single-deck buses at the year-end serving Tung Chung and Hong Kong International Airport. All its double-deck buses are of the super-low floor type and equipped with wheelchair access for the convenience of the elderly and disabled as well as commuters with luggage.



LWB's advanced fleet of easy access buses plying to and from Hong Kong International Airport



T6, a new recreational route for countryside enthusiasts

Bus routes and service network

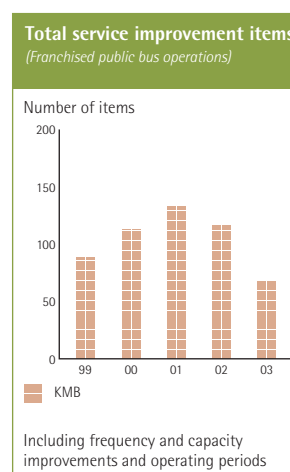
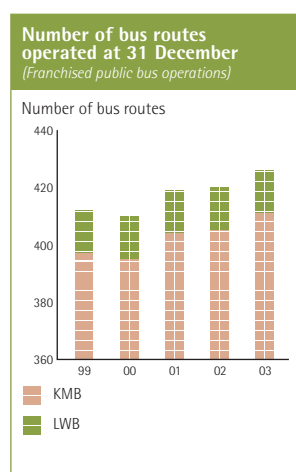
Bus routes

At the end of 2003, KMB operated a total of 411 bus routes. During the year, eight new KMB bus routes were launched. Five of these new routes serve the New Territories whilst two routes provide cross-harbour services to meet overnight and recreational demand respectively. The other one was a special service between Princess Margaret Hospital and Tin Yan that provided free transportation to hospital staff during the SARS period. The special service was discontinued at the end of May 2003 when the crisis was over.

LWB operated 15 bus routes serving Hong Kong International Airport and Tung Chung New Town at the end of 2003.

Bus network reorganisation

The Tseung Kwan O Line of the Mass Transit Railway ("MTR") and the West Rail of the Kowloon-Canton Railway ("KCR"), commenced operations in August 2002 and December 2003 respectively. To adapt to the changing market conditions, KMB reorganised its bus service network in the Tseung Kwan O, Tuen Mun, Tin Shui Wai and Yuen Long areas. The reorganisation involved the cancellation of certain bus routes and a reduction of frequencies on routes with diminished demand. Such adjustments will be an ongoing process to enhance operational efficiency. Rationalisation of the routes serving Tseung Kwan O was completed in mid-2003 while that for the Tuen Mun, Tin Shui Wai and Yuen Long areas will be implemented by phases starting from February 2004. A summary of the implemented or proposed reorganisation is tabulated on the next page.



	MTR Tseung Kwan O Line		KCR West Rail	
	Number of bus routes involved	Number of buses saved	Number of bus routes involved	Number of buses saved
Cancellation/rationalisation	9	37	8	67
Frequency adjustment	20	89	47	26
Total	29	126	55	93

Resources made available as a result of the rationalisation are either deployed to other areas with increasing demand or eliminated through natural attrition.

Frequency adjustments along busy corridors

In response to the HKSAR Government's initiative to improve traffic conditions along busy corridors such as Nathan Road in Kowloon, Des Voeux Road in Central, and Hennessy Road in Causeway Bay, we adjusted the frequency of certain bus routes while minimising any inconvenience to passengers. This enables improved traffic conditions, which helps reduce journey time, and allows us to deploy our resources in a more efficient manner.

Information technology

Information technology is used extensively by KMB in its daily operation for performance monitoring, forward planning and efficiency improvement purposes. There were 1,479 personal computers installed at KMB headquarters, six major depots, eight satellite depots and 14 bus termini at the year-end. These computers are inter-linked to 96 server computers located at headquarters. Forty-eight software applications, including in-house developed programmes and proprietary software, are used for our day-to-day operational and financial management. Continuous upgrading of our information technology systems enables us to improve cost control, human resources management, fleet and depot operations and customer service.

Advanced finance and administration systems

SAP e-Business Software (mySAP.com) is employed for our financial management. For our staff administration and planning processes, we are equipped with the SAP human resources management module. These advanced systems enable management to develop appropriate strategies in a timely manner. Our company-wide electronic document management system substantially cuts down the amount of paper used and the amount of time required for document distribution, filing and retrieval.

Migration of applications

By the end of 2003, all our computer application systems were successfully migrated from the mainframe computer system to a new PC-based system platform. This has upgraded our computer systems with strengthened capability, greater capacity and enhanced efficiency.

Traffic Operations Management System

In 2003, KMB and LWB implemented a Traffic Operations Management System ("TOMS") to replace the old manual sign-in procedure for employees reporting for duty at our bus depots. With TOMS, depot staff can use a Radio Frequency Identification handheld reader to identify the parking locations of our buses and upload the information to the system. This information, together with the route number, vehicle registration number, duty schedule and any ad-hoc operational arrangement, are available for the bus captains' reference when they place their Octopus cards on the system reader. This system has made the daily assignment and despatch process more efficient and allowed management to obtain the latest information on duty allocation and despatch as well as operational arrangements at different depots in a timely manner.

Non-Franchised Transport Operations Division



A catamaran of PITC at Ma Wan (Tung Wan) Pier

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

Our first non-franchised bus company, Sun Bus Limited, commenced operations with a small fleet in 1998. Through expansion over the years, the SBH Group has become one of the leading operators in the non-franchised bus industry in Hong Kong. At present, the 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, as well as the general public through chartered hire service. The SBH Group operates two main categories of services: prestige premium services for customers seeking high quality and general services for customers wanting value for money.

The SBH Group increased its fleet size to 223 buses at the end of 2003 from 207 at the previous year-end. Although the operations of its different business units may differ, some major cost components such as fuel, spare parts and administration are pooled to take advantage of the economies of scale.

Park Island Transport Company Limited ("PITC")

PITC, a 65% owned subsidiary of the Group, has been operating shuttle bus and ferry services for Park Island, a prestigious residential development on Ma Wan Island, since mid-December 2002.

At the end of 2003, PITC served Park Island with a ferry fleet of four 38-metre 412-seat catamarans, two 28-metre 403-seat catamarans and one 26-metre 223-seat catamaran, as well as an air-conditioned bus fleet of six 10-metre and four 11.3-metre Dennis Dart super-low floor single-deck buses, three diesel-electric hybrid super-low floor single-deck buses and one 28-seat mini-bus.

Currently, PITC operates two ferry routes and two bus routes. One ferry route plies between Ma Wan and Central on a 24-hour basis, whilst the other operates between Ma Wan and the Tsuen Wan Public Pier from 6:40 am to 11:55 pm daily. The bus services run 24 hours a day between Ma Wan (Tung Wan Bus Terminus) and Tsing Yi Airport Railway Station, and between Ma Wan (Tung Wan Bus Terminus) and Kwai Fong.

PITC is well positioned to serve the growing travel demand of Park Island. We will continue to monitor the patronage level and cater for the extra demand by adding operational resources.



The SBH Group's broad customer base includes tertiary institutions



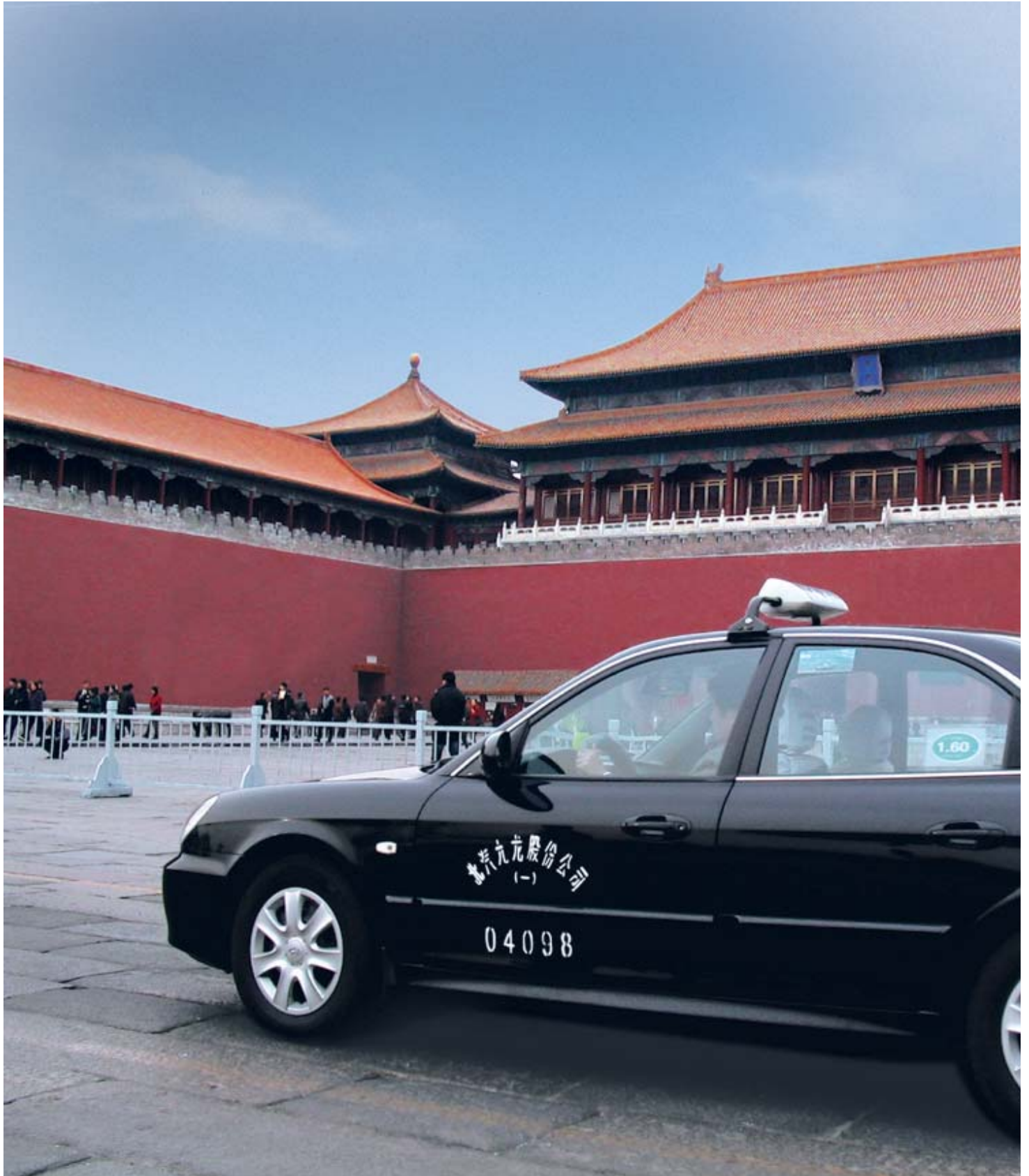
NHKB's "Huang Bus" fleet serves travellers round the clock

New Hong Kong Bus Company Limited ("NHKB")

NHKB jointly operates the cross-boundary shuttle bus service, commonly known as the "Huang Bus" service, with its Shenzhen counterpart serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.

NHKB has extended its shuttle bus operating hours to 24 hours a day since 27 January 2003 upon the commencement of the round-the-clock boundary crossing arrangements at the Lok Ma Chau and Huanggang checkpoints. The overnight service has been well received by night commuters. To cope with the increased demand, NHKB introduced three additional air-conditioned super-low floor single-deck buses to its fleet in 2003, bringing the total number of buses to 24 at the year-end.

Mainland Transport Operations Division



A taxi of BBKT in Beijing



New bus fleet of WKPT in Wuxi

Dalian

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 Dalian City, Liaoning Province. The Dalian CJV had 46 double-deck buses and 30 single-deck buses operating on three routes serving Dalian City.

Tianjin

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 2003, the Tianjin CJV operated seven bus routes with 110 single-deck buses in Tianjin City.

Beijing

Beijing Beiqi Kowloon Taxi Company Limited ("BBKT"), a Sino-foreign joint stock company in which the Group has a 31.38% interest, was established in Beijing in March 2003 and was the first of its kind in the taxi and car rental industry on the Mainland. BBKT's shareholders comprise KMB (Beijing) Taxi Investment Limited, which is a wholly owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited, Beijing Bashi Company Limited, CITIC Automobile Company Limited and Nanjing Zhongbei Group Company Limited. BBKT principally engages in the taxi and car rental businesses with a fleet of over 4,000 vehicles and about 4,200 employees. The Group's investment in BBKT was HK\$75.5 million.

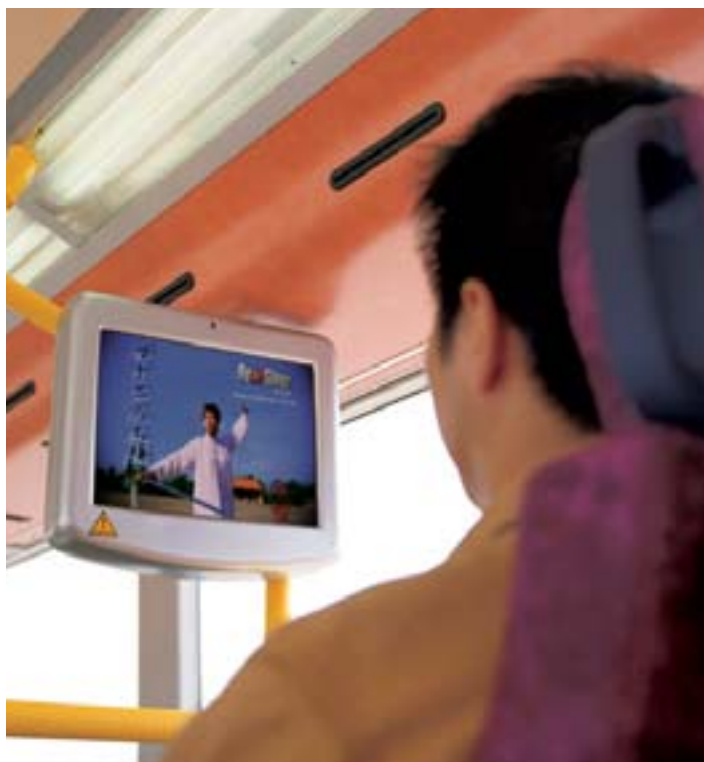
Wuxi

Wuxi Kowloon Public Transport Company Limited ("WKPT"), a Sino-foreign joint stock company in which the Group has a 45% interest, was established in Wuxi City, Jiangsu Province in February 2004. WKPT currently operates some 1,600 buses on 106 routes serving Wuxi City.

Shenzhen

In December 2003, the Group entered into agreements to acquire a 35% stake of a Sino-foreign joint stock company, which would be formed from reorganisation of the existing Shenzhen Public Transportation Group Limited. This transaction is subject to the statutory approval by the relevant authorities on the Mainland. Upon approval, the reorganised company will principally operate public bus services in Shenzhen, Guangdong Province, with around 3,300 vehicles on 109 routes.

Media Sales Business Division



MMOB system provides infotainment on board every day

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

The RoadShow Group is a leading media sales group in the Greater China region. It markets advertising aimed at passengers of public transit vehicles through a proprietary Multi-media On-board ("MMOB") system and manages and markets advertising spaces on bus shelters, billboards, panel light boxes, bus bodies and telephone booths. Apart from operating in Hong Kong, the RoadShow Group also participates in a number of joint venture companies for developing media sales businesses in Macau and major cities on the Mainland.

Hong Kong

At the end of 2003, about 4,000 transit vehicles were installed with MMOB equipment and achieved a full territory wide coverage.

Beijing

Together with Daye Transmedia Co., Ltd., a company owned by the People's Daily, a joint venture has been set up to operate a 30-year full-service national advertising licence covering all media platforms throughout China. This joint venture strengthened the RoadShow Group's presence in the advertising market on the Mainland.

Shanghai

In Shanghai, the RoadShow Group successfully built its network by operating media sales business on "Lamplight Rainbow" at Huaihai Road and outdoor billboards.

Guangzhou and Shenzhen

The RoadShow Group engaged in various media sales business in Guangzhou and Shenzhen through bus shelter and bus body advertising. Furthermore, the RoadShow Group has a strong presence in Guangzhou by operating media sales on the Guangzhou Metro Line 2 as well as on certain billboards, telephone booths and signages.

Macau

A joint venture with Shun Tak Holdings Limited manages the MMOB systems and related advertising sales business for "TurboJET" high speed passenger ferries plying between Hong Kong and Macau.

The RoadShow Group will focus on taking advantage of the opportunities ahead, such as China's accession to World Trade Organisation, conclusion of Closer Economic Partnership Arrangement (CEPA) as well as hosting of the 2008 Olympic Games in Beijing, and seek other business opportunities on the Mainland.

The RoadShow Group 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 holds a 73.0% interest in the RoadShow Group.

Property Holdings Division



Artist's impressions of the redevelopment on our former Lai Chi Kok Depot site

Lai Chi Kok Properties Investment Limited ("LCKPI")

LCKPI, a wholly owned subsidiary of the Group, is the owner of the old depot site at Po Lun Street, Lai Chi Kok. The depot ceased operations in 2002 and was demolished in the same year. The site is being redeveloped into a residential and commercial complex with a total gross floor area of about one million square feet and a retail podium area of about 50,000 square feet. The current plan is to construct four multi-storey prestigious residential blocks comprising some 1,300 residential units for sale. Piling and foundation work commenced in 2003 and was completed in January 2004, with construction of the sub-structure and super-structure followed immediately thereafter. The project is planned for completion in mid-2006. We shall closely monitor the local property market for formulating marketing strategies for the property in due course.

Quality assurance

As undertaking property development projects is not the Group's principal business, LCKPI has engaged members of Sun Hung Kai Properties Limited ("SHKP") to provide project management, building construction, marketing, letting and sales agency and property management services in respect of this project in order to leverage on SHKP's expertise and experience in these areas.

Environment-friendly design

LCKPI is committed to developing an environment-friendly property, providing the future residents with healthy living conditions and metropolitan convenience. An environmental design consultant has been engaged in the development process and a series of "Green and Innovative" facilities will be incorporated into the property.

The KMB brand has been established over 70 years and represents a corporate culture of caring, safety, reliability, user-friendliness and responsible corporate citizenship





KINE BRAND
PROMISES

CORPORATE CULTURE

Concern for customer service



The disabled are served with our easy access buses and well-trained bus captains

As a major transportation provider in the HKSAR, the Group endeavours to provide quality customer service that meets and exceeds the expectations of our customers.

Bus fare discount schemes

Bus fare discounts for franchised bus customers

Being responsible corporate citizens, KMB and LWB have offered the following fare concession schemes for a period of 12 consecutive months starting from 1 October 2003 to relieve our customers' travelling expenses amid the domestic economic downturn, especially after the SARS crisis. The two schemes offering fare discounts of 10% and 5% respectively aim at helping relatively long distance passengers.

	Discount rates	Exceptions
Fares at or above HK\$15	10% on all KMB and LWB routes	Airport "A" and recreation routes
Fares between HK\$10 and HK\$14.9	5% on all KMB and LWB routes	Airport "A" and recreation routes
Passengers aged 65 or above	Flat fare of HK\$1 on Sundays and public holidays on all KMB and LWB routes	Airport "A" and racecourse routes

Bus fare discounts for local domestic helpers

KMB launched a programme that offered discounted fares to local domestic helpers trained by the Employees Retraining Board ("ERB"). For a one-year period from 1 November 2002 to 31 October 2003, this programme offered a 50% discount on bus fares on more than 300 KMB bus routes, including nine cross-harbour bus routes solely operated by KMB. The objective was to lower travelling expenses thereby encouraging those local domestic helpers who live in the New Territories to fill employment vacancies in Urban Kowloon and Hong Kong Island in order to ease the geographical mismatch between the domestic helpers and job vacancies.

The "Octopus" Smart Card

The entire fleet of KMB and LWB has been equipped with Octopus card readers since late 2000. In December 2003, 81.5% and 75.5% of KMB's and LWB's fare revenue respectively were paid by Octopus cards, up from 78.0% and 71.5% respectively in December 2002. This payment method has led to a reduction in coin volume and consequently enabled the Group to save costs on coin collection and administration. Passengers paying bus fares by Octopus cards while patronising the Group's bus-bus interchange schemes and bus-rail interchange schemes receive fare discounts on the second legs of their 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. Today, we have the largest number of Octopus card readers among Hong Kong's public transport operators.

Octopus Bus-bus/Bus-rail Interchange schemes ("Octopus BBI/BRI schemes")

Expansion of Octopus BBI schemes, both within the KMB route network and joint inter-modal schemes with other bus operators, benefits our passengers who can enjoy fare discounts on the second legs of their journeys and the convenience of extended network coverage. These schemes also help to save the additional operational resources, including buses, otherwise required to serve the bigger transportation network, thereby relieving traffic congestion on busy corridors. As at 31 December 2003, KMB had 44 Octopus BBI schemes covering over 200 bus routes. An Octopus BRI scheme between KMB and KCR West Rail (the "West Rail"), covering 18 feeder routes and three West Rail stations, was introduced upon the opening of the West Rail in December 2003.

Since December 2000, LWB has participated in a joint-operator Octopus BBI scheme with KCR Light Rail at Tin Shui Wai Town Centre. In January 2003, LWB and The New Lantau Bus Company (1973) Limited launched a new joint-operator Octopus BBI scheme at Tung Chung Town Centre. In addition, LWB introduced two Octopus BBI schemes at the Tsing Ma Control Area in June 2003 to provide discounted fares to passengers interchanging between LWB Airbus and other LWB bus routes running to and from North Lantau.

Bus-stop announcement system

KMB first introduced the on-board electronic bus-stop announcement system with light emitting diode ("LED") display panels on its buses in 1998. The voice announcements and LED displays have been well received by passengers, particularly those with visual or hearing difficulties. In 2003, KMB equipped 609 buses with the announcement system, bringing the total number of buses equipped to 2,653 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 2003. These buses serve all Airbus routes and North Lantau external routes. LWB is planning to extend this feature to the entire double-deck bus fleet in 2004.

Integrated bus service information display system

During 2003, KMB installed three additional integrated bus service information display systems at the bus termini at Sha Tin KCR Station, Tuen Mun Pier Head and Olympic MTR Station, bringing the total number to 16 at the year-end.

This system displays information such as the next departure times, bus route destinations and fares on large LED or plasma display panels. Messages may also be displayed to alert our customers about emergencies, major traffic disruptions, etc. The closed circuit television systems and public address systems installed at the bus termini enable monitoring of the local traffic and operating conditions at the regulators' offices and also the main control room at KMB Headquarters. KMB plans to install these systems at three more bus termini in 2004.

Cyber bus stop

Following the launch of Hong Kong's first cyber bus stop in early 2002 at the Star Ferry Bus Terminus, KMB installed the second cyber bus stop on Canton Road, Tsim Sha Tsui in early 2003 providing a one-stop information point that is particularly useful for tourists. Three LED panels on the cyber bus stop display bus route information, as well as local and international news and weather information. The public address system provides 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

During the year, KMB built 100 new shelters and about 2,200 advertising panels for improvement of waiting environment and generation of advertising revenue. New illuminated bus route information panels were also incorporated into the shelters to facilitate passengers reading bus route information at night. As at 31 December 2003, KMB had a total of 2,174 bus shelters.

LWB had 20 bus shelters at the year-end 2003.

Customer service centres

In 2003, a new customer service centre was opened for service at the Hung Hom Cross Harbour Tunnel Bus Interchange. This new centre provides bus route information, KMB homepage browsing facilities, KMB souvenir sales and Octopus card services. Bus route information and traffic news may be accessed from the multi-media kiosk and obtained from KMB's customer service staff in the centres. KMB operated a total of seven customer service centres as at the year-end. During the SARS period, from March to June 2003, these centres distributed free of charge facemasks to our customers.

KMB's customer service centres won the 2003 Hong Kong Award for Services: Customer Service Award organised by Hong Kong Productivity Council and Hong Kong Retail Management Association. The centres also won the Bronze Award in the Customer Service Excellence Award category organised by the Hong Kong Association for Customer Service Excellence in 2003. Also, a service centre representative won the Silver Award in the Staff Award Category in the same award scheme.

LWB's customer service centre in the arrivals hall of Hong Kong International Airport and the ticketing booth at the Ground Transportation Centre handled about 100,000 customer enquiries and ticket sales in 2003.



Our customer service centres provide helpful information to our local customers and tourists

Bus terminus upgrading

In 2003, KMB refurbished 12 bus termini at Chun Shek, Chevalier Garden, Kwong Yuen, Yuen Long West, Yuen Long East, Tai Wo, Tsim Sha Tsui East, Allways Garden, Cheung Hong, Kai Yip, Shun Tin and Sau Mau Ping (upper). The terminus refurbishment programme will continue in 2004.

Marketing and advertising

Marketing programmes

To mark its 70th Anniversary, KMB published a bilingual brochure which gives an account of the history of the company since its founding in 1933. The brochure discusses the evolution of KMB and how its culture of service excellence enabled it to become a world-class leader in bus transportation.

During the SARS period, KMB sponsored the "A Facemask for Everyone" campaign that involved providing free of charge facemasks to passengers at its customer service centres. Messages to remind our customers about the importance of personal hygiene were shown on display panels at our bus termini and on bus bodies.

A series of 10-second programmes was launched by KMB in September 2003 and ran for six months. Broadcast on TVB, ATV, Cable TV and RoadShow, these programmes promoted the importance of proper conduct on buses. We believe that the overall safety and quality of our bus services can be improved with passengers playing their own part.

Marketing programme awards

Marketing programmes designed to reinforce KMB's reputation as a leader in the public transport industry received a number of awards in 2003.

KMB received the "Superbrands Hong Kong 2003" certification from the Hong Kong Superbrands Council, thus designating KMB as a leading brand in Hong Kong.

KMB also won the "Certificate of Recognition in the Golden World Award for Excellence in Community Relations" for its community campaign. This prestigious award was organised by the International Public Relations Association.

Media events

During 2003, KMB hosted 25 news media sessions to promote various events and activities to demonstrate the company's service to the public and to generate public awareness of a variety of social and environmental issues.

Customer service hotline

KMB customer service hotline "2745 4466"

The KMB's customer service hotline received 4.5 million calls in 2003, an average of 375,000 calls per month. The 24-hour hotline system, which provides bus route information, fax-on-demand services, traffic news, bus services updates and voice mail recording, is operated in Cantonese, English and Putonghua. The hotline's operator service is available from 7:00 am to 11:00 pm daily.

KMB's Digital Map Passenger Enquiry System won the "IT Excellence Award – Application Bronze Award" presented by the Hong Kong Computer Society. Utilising more than 100,000 landmarks and three-dimension images of prominent buildings, the Digital Map enables our hotline operators to provide bus route information to customers efficiently and accurately. In addition, it automatically identifies optimal bus routes according to customer preferences and provides real time information on traffic conditions throughout Hong Kong.

KMB's Hotline won the Bronze Award in the Customer Service Excellence Award 2003 organised by the Hong Kong Association for Customer Service Excellence.



Three-dimension Digital Map assists our hotline officers to better serve our customers

LWB customer service helpline "2261 2791"

In 2003, LWB's operator-assisted helpline received about 16,000 calls. The Helpline operators answer inquiries, receive customer opinions and handle lost and found property.

KMB website "<http://www.kmb.com.hk>"

The website <http://www.kmb.com.hk> provides a wide range of information about KMB, LWB and other Group companies, including financial information for our investors. One of the main features of the website allows passengers to determine how best to travel from one point to another using a bilingual route search function. To further assist our passengers, photographs of more than 4,200 KMB bus stops are placed on the website with each named for easy identification. Passengers can also use WAP mobile phones to access the KMB website.

The KMB website provides user-friendly facilities to those with visual impairments as well as to novice internet users. Novice users will see written elaboration in user-friendly text boxes when they browse images, hyperlinks and pop-up windows. Visually handicapped users can receive audio messages to assist them in their navigation. In August 2003, the KMB website was selected as one of the "Internet Content Rating Association's Labeled Websites" by the Television and Entertainment Licensing Authority and the Hong Kong Internet Service Providers Association. The popularity of the KMB website was reflected by an average daily hit rate of three million in December 2003.

Route information publications

A comprehensive Bus Guide was published in Chinese and English incorporating all KMB bus routes and maps with the location of bus stops. All proceeds from the sale of the Bus Guide were donated to The Community Chest of Hong Kong.

A total of 5,173 copies of the handout "LWB Bus Services for the New Territories, North Lantau and the Airport" and 23,123 copies of the "Airbus Card", with detailed bus routing and departure information, were distributed to the public in 2003.

Concern for safety



Brake testing is one of our numerous safety measures

The Group's number one priority has always been safety in all of its operations, from passenger services to bus maintenance. Over the years, a great deal of effort has been made to enhance the safety of our bus operations through the strengthening of bus captain training and performance monitoring as well as improvement in bus design and maintenance. As a result of our commitment to safety and the effectiveness of safety measures in place, KMB's average number of bus accidents involving personal injuries and deaths per million vehicle-kilometres declined over the years from 2.98 in 1999 to 2.67 in 2003.

Training courses for bus captains

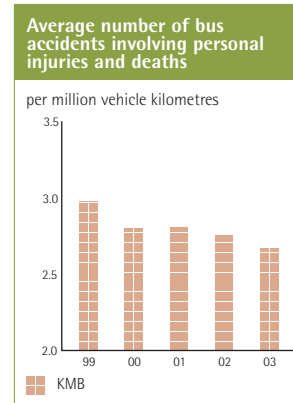
The KMB Bus Captain Training School is responsible for training new bus captains and providing enhancement courses for our existing bus captains.

For newly recruited bus captains, the School provides comprehensive courses with the use of Hong Kong's first and only indoor bus simulator to train them to drive in a professional and safe manner. Apart from driving examinations held by the Government of the HKSAR, stringent internal assessments are in place to ensure that bus captains are well qualified and capable of doing the job.

For experienced bus captains, the School provides enhancement training courses to reinforce their sensitivity to safety issues, knowledge of defensive driving techniques and driving skills. Route training courses are also provided to bus captains before they are assigned to drive on unfamiliar routes.



Bus captains are properly trained to drive safely and smoothly



Bus captain performance monitoring

A specialised KMB team closely monitors the performance of bus captains through a systematic performance assessment mechanism. Bus captains whose performance is not up to acceptable standards are required to attend remedial training courses. The Disciplinary and Monitoring Team will closely follow up with the subsequent performance of each retrained bus captain. Disciplinary actions are taken in the case of poor performers. Bus captains who demonstrate above average performance are also identified and granted various awards and bonuses, such as Outstanding Service Award, Safe Driving Award, Good Service Annual Bonus and Safe Driving Annual Bonus, etc.

High standard of bus design and maintenance

Design and maintenance of buses play a critical role in ensuring safe operations. We have been co-operating with major bus manufacturers in designing buses to ensure new bus types are compatible with the unique operating environment in Hong Kong. Standard equipment on our new buses, such as speed limiting devices as well as electronic tachographs that record bus operating information, help us monitor and ensure safe bus operations.

Under our current ISO certified maintenance programmes, KMB and LWB buses are subject to daily, monthly and annual inspections and examinations in our depots. In addition, the Transport Department of the HKSAR Government carries out spot checks on our buses on a random basis.

Caring for employees



A sense of belonging is fundamental to our quality service

"Caring for People" is our human resources management philosophy. Continuous effort has been made by the Group's management to promulgate a sense of belonging among our staff and to instill a culture of quality service and teamwork throughout the organisation. With this philosophy in mind, we train, motivate and reward our staff to reinforce their dedication to providing quality customer service.

The table below tabulates the number of staff in each of the divisions of the Group at the year-end of 2003 and 2002 respectively:

Division	2003	2002
Franchised Public Bus Services • KMB • LWB	12,569 399	13,247 402
Non-franchised Transport Services	536	503
Media Sales Business #	180	153
Mainland Transport Operation *	5	3
Total	13,689	14,308

including the employees of the Group's subsidiary companies on the Mainland

* excluding the employees of the Group's joint venture companies on the Mainland

Employee opinion survey

During 2003, KMB conducted an employee opinion survey which was designed to measure staff commitment to their work and enable management to better understand employees' priorities, expectations and current perceptions of the company. The 4,300 employees who responded to the survey indicated general satisfaction with their work, pay levels and working environment. Analysis also showed that employee satisfaction and commitment to the company depends on career opportunities, interaction with supervisors and senior leaders, performance recognition and availability of the necessary resources to accomplish their jobs.

Staff communications

Joint Consultative Committees

The six Joint Consultative Committees ("JCC") of KMB and LWB are effective communication channels which enable management and employee representatives to meet and discuss improvement opportunities in the workplace, safety, working procedures and staff welfare. To keep abreast of the latest developments in the bus industry in various cities on the Mainland, 65 JCC members visited Zhongshan, Zhuhai and Panyu in December 2003.

Staff intranet "<http://www.kmb.org.hk>"

A KMB homepage is maintained exclusively for KMB and LWB staff to keep them informed of the latest information, including management announcements, real-time weather reports, details of upcoming activities, reports of past staff events and a list of shops offering special discounts. The homepage also incorporates new training features, such as an on-line orientation training course and e-learning programmes on computer software, which enable individual staff to learn at their own pace.

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 employees. These communication tools have been designed to keep our field staff informed of the latest development of our organisation and the industry.

Outstanding Service Award

During 2003, KMB organised the "Outstanding Service Award" to promote our quality service culture. Forty-eight staff, including 22 KMB bus captains, nine maintenance staff, eight operations staff and nine supporting staff, were recognised for their excellent performance.

Staff performance

During 2003, KMB and LWB presented the following awards to staff in appreciation of their dedication and contribution:

Good Service and Safe Driving Annual Bonus for bus captains

Number of employees	KMB	LWB	Total
Good Service Annual Bonus	6,817	178	6,995
Safe Driving Annual Bonus	4,237	196	4,433

Safe Driving Award for bus captains

Number of employees	KMB	LWB	Total
15-year accident free	88	3	91
10-year accident free	164	4	168
5-year accident free	458	9	467

THE KMB BUS CAPTAIN TRAINING SCHOOL



Bus captains undergo comprehensive and specially designed training programmes that assure top performances

Through our unique indoor bus simulator, our bus captains can familiarise with the advanced driving cab of our buses in classroom



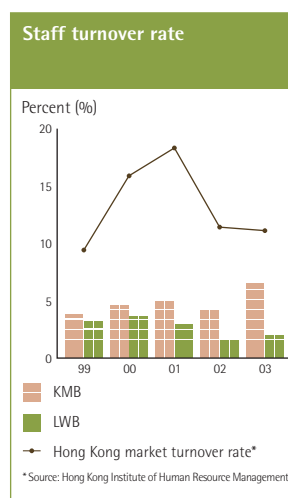
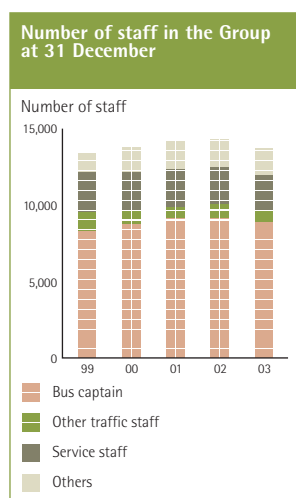
The Training School provides

training courses for newly joined bus captains on:

- theories on road traffic and safety
- practical bus driving skills
- use of bus equipment on-board
- routes familiarisation

training courses for experienced bus captains on:

- enhanced bus driving skills
- defensive driving skills
- updates of theories on road traffic and safety
- routes familiarisation
- remedial training



Good Service and Attendance Award for terminus supervisors, assistant terminus supervisors and customer service assistants

Number of employees	KMB	LWB	Total
Good Service Award	478	18	496
Attendance Award	297	5	302

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 training in new bus technology such as "Neo-Man A34" Bus Prototype, Deans Door EPROM upgrade, Knorr Bremse Disc Brake System, Volvo B9TL BEA and AIC Training, Nexa Autocolor Products and Systems, Denso Air-conditioning System and Volvo VEC System. During 2003, 329 training sessions were held for 3,257 skilled workers and 22 for engineers, supervisors and foremen in conjunction with our vehicle manufacturers.

Apprentice training

The KMB Technical Training School also runs a four-year apprentice-training scheme for young school leavers. Whilst providing job opportunities and training to youngsters, the scheme ensures an adequate supply of skilled maintenance workers for KMB. In 2003, 14 apprentices graduated from the School, which brings the total number of graduates since 1973 to 2,042. At the end of 2003, there were 85 apprentices receiving training in the School.

The quality of our apprentice training standards was again recognised in 2003. Two of our apprentices won prizes in the automobile combined mechanical trade and electrical trade category of the "2003 Best Apprentice Competition" organised by the Vocational Training Council ("VTC"). The winners were invited to visit the Mazda Plant in Japan. Another apprentice won the "Outstanding Apprentice Award" in the vehicle trade category of the "2003 Best Apprentice Competition". He was invited to represent Hong Kong in the VTC Exchange Tour to Shanghai.

Bus Captain of the Year Competition

The Bus Captain of the Year Competition is a great opportunity for KMB bus captains to demonstrate their driving skills. The event also provided recreational activities for our employees and the public, including bus displays and game booths. The 2002-03 event was held at KMB Sha Tin Depot and over 13,000 members of the public attended.

Out of more than 8,500 bus captains, 42 were selected as finalists based on their work performance, driving skills and knowledge of passenger safety and traffic regulations. The "Bus Captain of the Year" prize was presented to the overall winner.

Staff welfare and recreational activities

A variety of internal and external recreational activities were organised to promote teamwork during the year. These included a long distance run and soccer, table tennis, basketball and slogan competitions. KMB also sponsored staff tours to various attractions in Hong Kong.

Our employees also participated in the Community Chest Corporate Challenge Half Marathon, the Standard Chartered Hong Kong Marathon 2003, Green Power Hike, Hang Seng Table Tennis Competition, Outward Bound Challenge, Community Chest — Dress Casual Day, the Inter-Hong Games and various dragon boat races.

Concern for the environment



Diesel-electric hybrid buses of Park Island Transport Company Limited



The Group is committed to conducting its business in an environment-friendly manner. Various environmental protection procedures are implemented in our depot, office and fleet operations. In addition, our staff also participate in various environmental preservation activities such as tree planting.

In recognition of this commitment, KMB was granted the 2003 Environmental Performance Award in the Hong Kong Awards for Industry, organised by the Business Environment Council.

Environment-friendly bus fleet

We continuously upgrade our buses to ensure that they are in compliance with, and in many aspects exceed internationally recognised environment standards. Using innovative techniques and equipment, we lead the bus industry in Hong Kong, and even the world, by making various environment-friendly enhancements to our buses.

Ultra Low Sulphur Diesel ("ULSD")

All KMB and LWB buses have been using ULSD since January 2001. Today, the Group has the largest bus fleet in the Asia-Pacific region using ULSD. The use of ULSD has resulted in significant reduction in exhaust emission levels of sulphur oxides, nitrous oxides and particulates.

Euro engines

At the end of 2003, 1,489 KMB buses and all LWB air-conditioned double-deck buses were equipped with environment-friendly Euro II engines which meet the exhaust emission standards of 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. 703 KMB buses were equipped with Euro III engines at the end of 2003.

Catalytic converter

Catalytic converters are installed on all of KMB's buses with pre-Euro I or Euro I engines and LWB's single-deck air-conditioned buses with pre-Euro engines. With the catalytic converters, the exhaust emissions of pre-Euro I and Euro I buses are brought up to the standards of Euro I and Euro II engines respectively in terms of particulate matters.

Exhaust soot filter

Buses equipped with Continuous Regeneration Traps ("CRTs") can achieve a significant reduction of particulate matters and reduce smoke levels to virtually zero. The exhaust emission quality in terms of particulate matters also meets Euro IV engine standards.

At the end of 2003, KMB had a total of 385 Euro II and Euro III-engined buses equipped with CRTs plus an exhaust gas recirculation device, enabling them to meet emission standards at a level very close to Euro IV engine standards.

Air foam filter

At year-end 2003, KMB and LWB had 2,806 and 111 buses respectively using air foam engine filters to replace the conventional air paper filters. After numerous tests, the air foam filter was proved to be successful in reducing waste entering the engines and has a life span six times that of a conventional air filter. The entire KMB and LWB bus fleet will change to air foam filters in 2004.

Eco-Driveline

The pioneering Eco-Driveline on buses was developed by KMB 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. A total of nine KMB buses were equipped with Eco-Driveline at the end of 2003. The new system provides passengers with a smoother ride and also reduces fuel consumption and exhaust emissions by 6% to 10% respectively.

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

Synthetic transmission oil

The use of synthetic transmission oil extends the oil drain interval substantially when compared to traditional mineral oil.

A total of 1,573 ZF gearboxes and 240 Voith gearboxes in KMB and all gearboxes in LWB have used synthetic oil since their introduction in 2001. The oil drain interval was extended from 30,000 kilometres to 100,000 kilometres, resulting in a 70% reduction in waste oil. The use of synthetic oil will be extended to all Voith gearboxes in 2004.

Synthetic oil has also been used in 46 MAN engines since their introduction in 2001 with their oil drain interval extended from 25,000 kilometres to 45,000 kilometres, resulting in a 45% reduction in waste oil.

Mileage-based engine oil change scheme

With the mileage-based engine oil change scheme, which is evaluated by computer-aided programmes, KMB achieved a 40% reduction in engine oil consumption and oil waste.

Revolutionary diesel-electric hybrid buses

Park Island Transport Company Limited introduced three diesel-electric hybrid air-conditioned super-low floor single-deck buses, the first of their type in Hong Kong, in December 2003. These environment-friendly buses are powered by rechargeable batteries with an energy-regenerating function while braking and moving down slopes. The small and newly-designed diesel engines on board only come into operation when the batteries run down to a pre-set level. The Group will continue to evaluate the performance of this type of diesel-electric hybrid buses.

Emission standard of Euro engines

Engine	Year first introduced to the fleet	Carbon Monoxide gram per kw/h	Hydrocarbons gram per kw/h	Nitrogen Oxides gram per kw/h	Particulates gram per kw/h
Euro I	1992	4.50	1.10	8.00	0.36
Euro II	1996	4.00	1.10	7.00	0.15
Euro III	2001	2.10	0.66	5.00	0.10
Euro IV	2003	1.50	0.46	3.50	0.02

All buses of KMB and LWB are fitted with engines which fulfil the above Euro I to Euro IV requirements respectively, including the pre-Euro I buses which are retro-fitted with catalytic converters.



Euro II and III engined buses become the mainstay of KMB's fleet

Environment-friendly non-franchised buses

As a result of a continual vehicle replacement programme, 100% (99% in 2002) of the fleet of the Sun Bus Holdings Limited Group and New Hong Kong Bus Company Limited (the "Huang Bus") was equipped with environment-friendly engines at the end of 2003, of which over 16% are equipped with the latest commercially available Euro III engines.

Environment-friendly bus depot

In the design, construction and operation of bus depots, environmental protection and energy conservation are paramount concerns. All depots are equipped with waste water treatment systems, water recycling facilities and environment-friendly fire service systems. In addition, the lighting, air-conditioning and ventilation systems are installed with energy saving features.

KMB's Lai Chi Kok Depot, a new environment-friendly bus depot in the West Kowloon Reclamation area, implemented the Automatic Building Management System in 2003, which uses electrical zoning control to substantially reduce electricity consumption.

KMB's Sha Tin Depot and Lai Chi Kok Depot were certified to the ISO 14001 : 1996 environmental management standards in November 2002 and November 2003 respectively.

Environment-friendly offices

The Group has introduced the "Green Office" concept in the design and renovation of our headquarters. This involves switching off office lighting when it is not needed, such as during lunch time and after office hours, by pre-set timers, or when light from outside is strong enough as determined by automatic sensors. Temperature control devices are installed to help maintain the office temperature within a comfortable range while minimising the use of electricity.

Waste treatment

Waste water

Waste water from our operations is treated according to regulatory standards before it is discharged into the public sewage system. In 2003, KMB maintained 11 automatic waste water treatment systems for its fleet and depots. Total daily treatment capacity amounted to 860 cubic metres.

Waste oil

Used lubricating oil from bus maintenance sites is collected by a registered waste oil recycling agent who handles the subsequent recycling or disposal processes in accordance with the statutory standards.

Solid chemical waste

In 2003, approximately 382,000 kilograms of solid chemical waste were disposed. The solid chemical waste was initially treated and stored by type at our bus depots in special areas, and then disposed of by a registered chemical waste collector at the authorised landfills.

Tyre retreading and recycling of scrap tyres

During 2003, KMB's tyre retreading plant retreaded approximately 32,600 tyres, bringing the total number of tyres retreaded since its operation to over 500,000. In addition, about 203 tonnes of tyre chips were collected and used for manufacture of playground flooring. Compared with 2002, tyre retreading and tyre chip collection in the year both decreased by 1%. All these measures help to minimise industrial waste and fully utilise our resources.



Tyre retreading helps us fully utilise resources

Community outreach



Being a responsible corporate citizen, we actively contribute to the society

The Group's concern for the community has been demonstrated by its active participation in a wide range of community programmes and charitable activities for many years. As a responsible corporate citizen, the Group continues to make contributions to the society through providing assistance to the youth, elderly, handicapped and people in need.

KMB's and LWB's contributions to the community earned awards from the Community Chest and other non-profit organisations during the year.

In 2003, KMB was selected as a "Caring Company" by the Hong Kong Council of Social Service. Also, KMB won the First Runner-Up in a survey on the public's ranking of public transport in Hong Kong organised by the Democratic Alliance for Betterment of Hong Kong.

Passenger Opinion Cabin

Our Passenger Opinion Cabin, a modified single-deck bus, made six visits during the year to different Hong Kong districts to sample customer opinions on KMB's bus services.

Passenger Liaison Groups

Six Passenger Liaison Group sessions ("PLGs") were organised by KMB during the year where management and participating passengers discussed our bus services. Transport Department representatives and university lecturers were invited to moderate and observe the sessions.

LWB also organised six PLGs during 2003 with topics involving "The development of Long Win bus network" and "Passengers' expectations on Long Win staff's service quality" which involved the bus network and service standards for the Airport and North Lantau area, bus captains' performance, bus design and other operational issues.

FRIENDS OF KMB

To promote the "Helping Others" spirit, FRIENDS OF KMB, our passenger club, continued to actively participate in various community building, civic, educational, environmental protection and social activities during the year. FRIENDS OF KMB had 2,200 members at the end of 2003, compared to 2,000 in 2002.

FRIENDS OF KMB received its fifth consecutive "Gold Award for Volunteer Service" from the Social Welfare Department of the Government in 2003. The club was also selected as one of the recipients of the Top 10 High Service Hour Award (2002) (Private Organisation) by the Steering Committee on the Promotion of Volunteer Service.

During the year, more than 1,000 members participated in over 5,500 hours of voluntary work.

The Community Chest and other non-profit-making organisations

In 2003, KMB received the "Award of Distinction" from the Community Chest in recognition of its active participation in various fund raising programmes during the year. These included the Corporate and Employee Contribution Programme, Dress Casual Day, Hong Kong and Kowloon Walk for Millions, the Community Chest Corporate Challenge Half Marathon, Christmas Greetings for the Chest, Adopt a Vintage Tree for the Chest and the Community, and the Community Chest Green Day.

In addition, KMB sponsored many community activities organised by the Government of the HKSAR, professional bodies and charitable organisations during the year. 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, Horses Across Hong Kong, Operation UNITE and the World Environment Day 2003.

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

For the second year, KMB organised the "KMB and You, Heading for a Brighter Future" Award Scheme to reward candidates who achieved Grade "A" in 10 subjects in the Hong Kong Certificate of Education Examination. KMB awarded one-year KMB free-travel passes to 18 successful candidates in August 2003.

International Day of Disabled Person

As a token of our support of the International Day of Disabled Persons, KMB and LWB gave free rides to disabled persons and their escorts on 30 November 2003.

KMB Hong Kong International Dragon Boat Races 2003

For the fourth successive year, KMB was honoured to act as the title sponsor of the KMB Hong Kong International Dragon Boat Races at Sai Kung, one of the showcase events on the international sporting calendar in Hong Kong. KMB's dragon boat team won the 1st Runner-up in both the marathon and the half marathon races.

Our robust financial base enables the Group to meet challenges ahead and capitalise on emerging business opportunities



PRUDENT FINANCIAL STRATEGY



FINANCIAL REVIEW

The Group

Financial performance

Consolidated results for the year

The Group's profit attributable to shareholders for the year ended 31 December 2003 was HK\$597.0 million. This represents a decrease of 36.5% compared with HK\$939.6 million for the previous year. Earnings per share for the year were HK\$1.48 per share compared with HK\$2.33 per share for 2002.

Dividends

The proposed final dividend for the year is HK\$1.58 per share (2002: HK\$1.58 per share). Together with the interim dividend of HK\$0.45 per share (2002: HK\$0.45 per share) paid on 15 October 2003, the total dividends for the year ended 31 December 2003 amount to HK\$2.03 per share (2002: HK\$2.03 per share). This represents dividend cover of 0.73 times (2002: 1.15 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.

Segment information on the main businesses of the Group is shown in note 11 on the financial statements on pages 110 to 111 of this Annual Report.

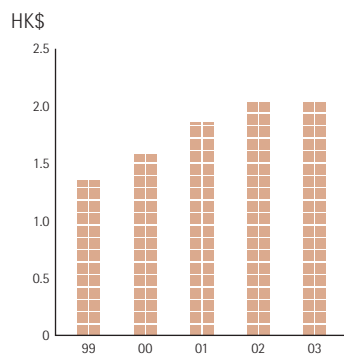
Taxation

Taxation for the year was HK\$259.6 million (2002: HK\$174.9 million), representing an increase of 48.4% compared with the previous year. In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate from 16% to 17.5% which has been applicable to the Group's operations in Hong Kong. The change in tax rate has resulted in an increase in deferred tax liabilities of HK\$61.4 million, which arose from recomputing outstanding deferred tax liabilities brought forward from 2002 using the new tax rate of 17.5%. The breakdown of the income tax expense is set out in note 5(a) on the financial statements on page 107 of this Annual Report.

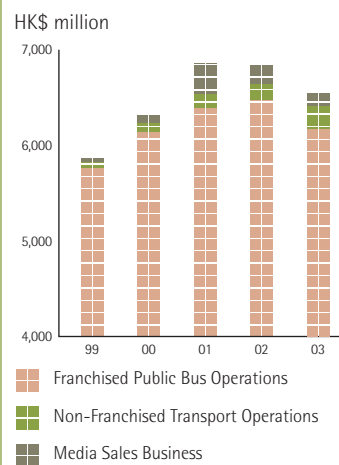
The Group's performance by Division

HK\$ million	Turnover		Profit from ordinary activities before taxation	
	2003	2002	2003	2002
Franchised Public Bus Operations Division	6,168.5	6,532.1	882.3	1,091.0
Non-Franchised Transport Operations Division	233.8	173.6	25.1	13.7
Media Sales Business Division	137.9	137.7	(29.4)	53.1
Mainland Transport Operations Division	—	—	1.9	0.3
Property Holdings Division	—	—	14.1	3.5
Internal Financial Services Division	—	—	23.9	34.7
	<u>6,540.2</u>	<u>6,843.4</u>	<u>917.9</u>	<u>1,196.3</u>
Deemed profit on partial disposal of a subsidiary			—	2.7
Finance costs			(34.8)	(49.9)
Unallocated net operating income and expenses			<u>(25.9)</u>	<u>(6.9)</u>
Profit from ordinary activities before taxation			<u>857.2</u>	<u>1,142.2</u>

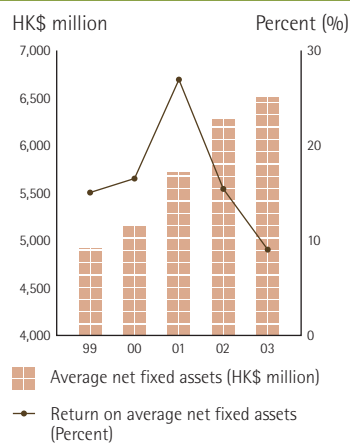
Dividends per share



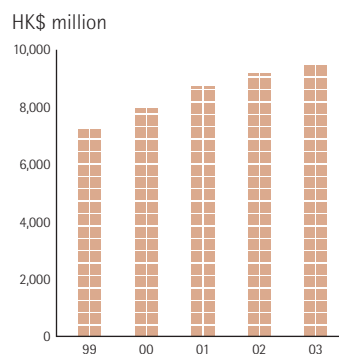
Group turnover



Return on average net fixed assets employed



Total assets at 31 December



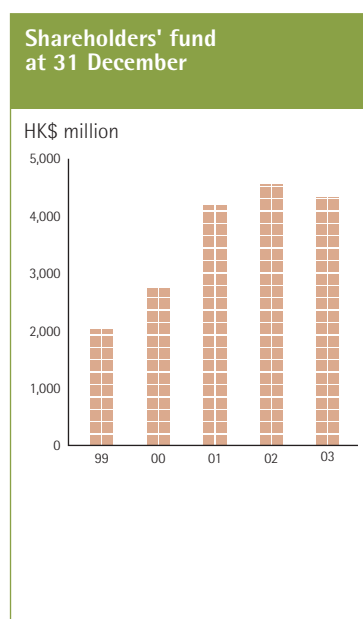
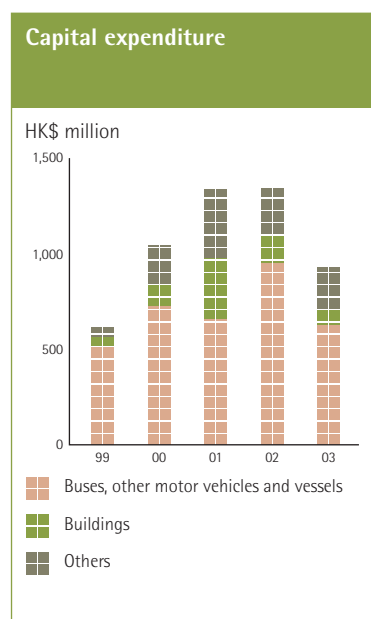
Cash flow

The net cash inflow from operating activities of the Group in 2003 was HK\$1,561.5 million (2002: HK\$1,648.3 million). Net cash used in investing activities during the year amounted to HK\$992.3 million (2002: HK\$1,461.1 million), of which payment for capital expenditure amounted to HK\$919.5 million (2002: HK\$1,265.8 million). Net cash used in financing activities during the year amounted to HK\$423.1 million (2002: HK\$866.4 million), of which total dividend payments to the shareholders amounted to HK\$816.8 million (2002: HK\$771.0 million). The consolidated cash flow statement of the Group for the year ended 31 December 2003 is set out on pages 97 to 98 of this Annual Report.

Financial position

Capital expenditure and commitments

The Group's fixed assets mainly represent buses, vessels, other vehicles, land and buildings. During the year, capital expenditure incurred by the Group amounted to HK\$930.2 million (2002: HK\$1,340.1 million). The breakdown of the capital expenditure incurred is shown in note 12(a) on the financial statements on page 112 of this Annual Report.



Commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2003 amounted to HK\$2,299.2 million (2002: HK\$890.6 million). A summary of the nature of the commitments is set out below:

HK\$ million	2003	2002
Purchase of buses and other motor vehicles	304.5	255.4
Construction of depots and other depot facilities	4.9	5.1
Re-development of the old Lai Chi Kok Depot site	1,202.8	127.7
Purchase of other fixed assets	297.1	502.4
Investment in new projects on the Mainland	489.9	—
Total	2,299.2	890.6

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

At 31 December 2003, the Group had 127 (2002: 134) air-conditioned double-deck buses on order for delivery in 2004 and 92 (2002: 60) buses under various stages of construction.

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, capital expenditure and investment. Furthermore, sufficient cash balances are maintained to meet operational requirements, potential business expansion and development from time to time.

The Group's operations were mainly financed by shareholders' funds, bank loans and overdrafts in 2003. The major operating companies of the Group 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 to fit the unique operating environment of each subsidiary.

The gearing ratio and liquidity ratio of the Group are as follows:

	2003	2002
Gearing ratio at year-end (the ratio of net borrowings to the total share capital and reserves)	0.22	0.15
Liquidity ratio at year-end (the ratio of current assets to current liabilities)	1.32	1.27

The Group's current assets mainly comprised of liquid funds, accounts receivable and property under development whilst current liabilities include current portion of bank loans, bank overdrafts and accounts and other payables.

Net borrowings

At 31 December 2003, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$973.3 million (2002: HK\$689.5 million), representing an increase of HK\$283.8 million as compared with 2002. An analysis of the Group's net borrowings by currency at 31 December 2003 is shown below:

	2003		2002	
	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		1,140.1		993.9
United States Dollar	(11.3)	(87.9)	(28.3)	(221.2)
British Pound Sterling	(6.5)	(90.1)	(6.7)	(83.2)
Renminbi	11.8	11.2	—	—
Total		973.3		689.5

Bank loans, overdrafts and other loans

Bank loans, overdrafts and other loans at 31 December 2003 amounted to HK\$2,654.1 million (2002: HK\$2,284.7 million).

Except for a bank loan of HK\$100 million (2002: HK\$100 million) which was secured by a pledged bank deposit of the same amount (2002: HK\$100 million), all bank loans and overdrafts, and other loans were unsecured as at 31 December 2003 and 31 December 2002.

The maturity profile of the bank loans and overdrafts, and other loans of the Group at 31 December 2003 and 31 December 2002 is set out in note 25 on the financial statements on page 120 of this Annual Report.

Cash and deposits at bank

At 31 December 2003, the Group's cash and deposits at banks amounted to HK\$1,680.8 million (2002: HK\$1,595.2 million), and they were mainly denominated in Hong Kong dollars, United States dollars, British Pound Sterling ("GBP") and Renminbi.

Banking facilities

At 31 December 2003, the Group had stand-by banking facilities totalling HK\$2,236.7 million (2002: HK\$549.5 million).

Finance costs and interest cover

Due mainly to the market interest rates consistently staying at a relatively low level in 2003, the total finance costs incurred by the Group decreased to HK\$34.8 million in 2003 from HK\$49.9 million in 2002.

Interest cover, representing the ratio of profit from ordinary activities before taxation to net finance charges (i.e. total finance costs less interest income), decreased from 87.2 times in 2002 to 62.8 times in 2003.

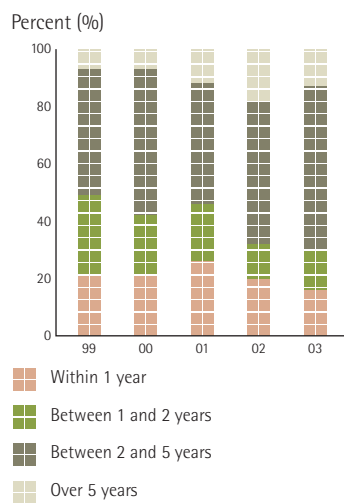
Treasury policies

Currency risk management

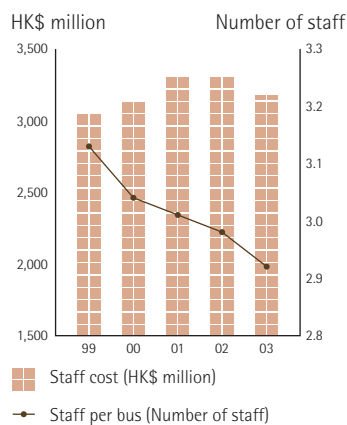
The Group's major revenue sources are fare receipts from the franchised bus services and revenue from non-franchised transport operations and the media sales business, all denominated in Hong Kong dollars. Further, major expenses such as staff costs are also paid in Hong Kong dollars. Therefore, financing in Hong Kong dollars provides a natural currency hedge for the Group.

However, certain expenditures such as purchase of new buses and motor vehicle components require payments in foreign currencies. During 2003, the relatively weak United States Dollar led to a significant appreciation of GBP and other currencies. In view of this, the Group hedged certain amount of GBP by placing forward foreign exchange contracts during the second half of the year. This effectively locked all GBP payments during that period to a preferred exchange rate. At 31 December 2003, there were no outstanding forward foreign exchange contracts, and the Group's foreign currency exposure did not pose significant risk to the Group as the levels of foreign current assets and liabilities were relatively low compared to its total asset base. The Group will continue to closely monitor the prevailing market conditions and devise suitable strategies against foreign currency risk.

Debt maturity profile at 31 December



Staff cost and staff per bus (Franchised public bus operations)



Interest rate risk management

As at 31 December 2003, the Group's borrowings were mainly denominated in Hong Kong dollars and on a floating interest rate basis. This provided flexibility to the Group to take full advantage of the relatively low interest rates in 2003. The average interest rate in respect of the Group's borrowings for 2003 was 1.4%, a decrease of 120 basis points compared with 2.6% for 2002. The Group will continue to review its strategy on interest rate risk management in the light of the prevailing market conditions.

Accounting standards and policies

The financial statements set out on page 92 to 126 have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, 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").

During the year, a revised Statement of Standard Accounting Practice 12 "Income Taxes" ("SSAP 12") became effective. The Group had already adopted SSAP 12 for the preparation of its 2002 financial statements.

Employees

Provision of both franchised public bus and non-franchised transport services is a labour intensive business. In terms of the Group's cost structure, staff costs accounted for 52% of the total costs in 2003. Due largely to the operation of KMB was scaled down in certain service areas during the year to adapt to the changing operating environment with the opening of the MTR Tseung Kwan O Extension in August 2002 and the Kowloon-Canton Railway West Rail in December 2003, the number of staff of the Group decreased by 4.3%, mainly through natural attrition. The Group will continue to closely monitor the number and remuneration of its employees against productivity and market trends. The number and remuneration of employees of the Group (including employees of the Group's subsidiary companies on the Mainland) over the past two years are tabulated below:

	2003	2002
Number of employees at year-end	13,689	14,308
Total remuneration (in HK\$ million)	3,176	3,320
Remuneration as percentage of total costs	52%	56%

Individual business units

Franchised public bus operations

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

	Unit	2003	2002
Total revenue, including media sales revenue	HK\$ million	6,041.7	6,352.6
Total operating and finance costs	HK\$ million	(5,185.7)	(5,316.8)
Profit from franchised public bus operations before taxation	HK\$ million	856.0	1,035.8
Income tax expense	HK\$ million	(256.2)	(163.5)
Profit from franchised public bus operations after taxation	HK\$ million	599.8	872.3
Net profit margin		9.9%	13.7%
Passenger volume	Million passenger trips	1,060.5	1,134.4
Kilometres travelled	Million km	344.3	349.9
Staff number at year-end	No. of staff	12,569	13,247
Fleet size at year-end	No. of buses	4,295	4,441
Total assets value	HK\$ million	6,504.6	6,518.0

Profit from franchised public bus operations after taxation of KMB for 2003 amounted to HK\$599.8 million (2002: HK\$872.3 million), representing a decrease of 31.2% compared with that of the previous year.

KMB's fare revenue for the year decreased by 5.7% to HK\$5,880.1 million from HK\$6,234.0 million for 2002. The decrease was due mainly to the outbreak of SARS in March 2003, the full year adverse effect of losing passengers to the Mass Transit Railway ("MTR") Tseung Kwan O Extension since its opening in August 2002 and the three fare concession schemes introduced since 1 October 2003.

A total of 1,060.5 million (a daily average of 2.91 million) passenger trips was made on KMB buses in 2003, a decrease of 6.5% compared with 1,134.4 million (a daily average of 3.11 million) passenger trips in 2002. KMB's patronage for the first, second, third and fourth quarters of 2003 was respectively 3.9%, 15.5%, 4.6% and 2.0% less than the corresponding periods of 2002. The decline was attributable to the impact of SARS and the loss of passengers to the expanded railways but was mitigated by KMB's continuous effort in providing quality service to retain current customers and attract new riders.

The actual distance travelled by KMB's buses totalled 344.3 million kilometres during the year (2002: 349.9 million kilometres). The decrease in distance travelled was primarily due to the temporary reduction of bus services during the SARS period and the rationalisation of certain bus routes to cater for the opening of the new railway lines.

KMB's advertising revenue for the year amounted to HK\$75.9 million (2002: HK\$71.4 million), an increase of 6.3% compared with the previous year.

Total operating cost for 2003 decreased by 2.2% compared with that for 2002 due mainly to lower activity level during the SARS crisis, rationalisation of certain bus routes to cater for the opening of the MTR Tseung Kwan O Extension, and implementation of more stringent cost control measures. Finance costs also decreased due to the decline in interest rates over the year. The above cost savings were, however, offset by increases in depreciation, fuel costs, insurance premiums and toll charges.

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")

	Units	2003	2002
Total revenue, including media sales revenue	HK\$ million	222.6	246.4
Total operating and finance costs	HK\$ million	(227.6)	(240.9)
(Loss)/profit from franchised bus operations before taxation	HK\$ million	(5.0)	5.5
Income tax credit/(expense)	HK\$ million	1.7	(0.9)
(Loss)/profit from franchised bus operations after taxation	HK\$ million	(3.3)	4.6
Net profit margin		N/A	1.9%
Passenger volume	Million passenger trips	19.3	20.3
Kilometres travelled	Million km	22.7	23.1
Staff number at year-end	No. of staff	399	402
Fleet size at year-end	No. of buses	145	145
Total assets value	HK\$ million	288.8	303.4

LWB recorded a loss of HK\$3.3 million for the year (2002: a profit of HK\$4.6 million).

LWB's fare revenue for the year amounted to HK\$216.9 million, representing a decrease of 6.5% compared with HK\$232.1 million for 2002. The total ridership of LWB in 2003 was 19.3 million (a daily average of 52,766) passenger trips, a decrease of 5.1% compared with 20.3 million (a daily average of 55,616) passenger trips in the previous year. The decrease was due mainly to the outbreak of SARS which resulted in a substantial reduction in the number of local holiday travellers and overseas tourists.

Total mileage operated for the year was 22.7 million kilometres (2002: 23.1 million kilometres).

The advertising revenue of LWB decreased to HK\$1.2 million in 2003 from HK\$1.3 million in 2002. The decrease was attributable to the weak local economy during the year.

Non-franchised transport operations

The Group's Non-Franchised Transport Operations Division reported a profit before tax of HK\$23.0 million for 2003 (2002: HK\$13.7 million), representing an increase of 67.9% compared with that for the previous year. Turnover increased by 34.7% from HK\$173.6 million in 2002 to HK\$233.8 million in 2003. This was primarily due to the growth in patronage of the cross-boundary shuttle bus services and the full year operation of Park Island Transport Company Limited. The increase was, however, offset by the temporary decline in residential, commercial and contract hiring businesses due to the SARS outbreak in the year.

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

With Sun Bus Limited as the flagship, the SBH Group provides various types of non-franchised bus services mainly for residential estates, commercial clients, employees, tourists, students and contract-hire customers. Turnover of the SBH Group for the year amounted to HK\$111.6 million, a decrease of 18.1% compared with 2002. This was mainly due to a reduction in patronage of student and local charter hire customers during the period of the SARS outbreak.

At 31 December 2003, the SBH Group had a fleet of 223 buses (2002: 207 buses). During the year, 23 buses (2002: 15 buses) were purchased for enhancement of service quality and replacement of older buses.

Park Island Transport Company Limited ("PITC")

PITC, a 65% owned subsidiary of the Group, has been providing shuttle bus and ferry services for Ma Wan Island since 14 December 2002. It completed its first full year operation in 2003 satisfactorily.

At the year-end, PITC operated two ferry routes and two bus routes serving Ma Wan Island, with seven catamarans, 11 air-conditioned single-deck buses and three air-conditioned single-deck diesel-electric hybrid buses. Another catamaran was on order at 31 December 2003 and put into service in January 2004.

New Hong Kong Bus Company Limited ("NHKB")

NHKB, together with its Shenzhen counterpart, jointly operates a direct, economical, 24-hour cross-boundary shuttle bus service between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen. The overnight service was well received by night commuters. To cope with the increased demand, NHKB added three air-conditioned super-low floor single-deck buses to its fleet in 2003, bringing the total number of buses to 24 at the year-end.

Mainland transport operations

At 31 December 2003, the Group's total interest in associates and jointly controlled entity amounted to HK\$79.9 million (2002: HK\$5.7 million). The investments were in respect of the operation of passenger bus services in Dalian and Tianjin, as well as taxi and car rental businesses in Beijing. The Group's Mainland Transport Operations Division reported a profit before tax of HK\$1.9 million for 2003 (2002: HK\$0.3 million).

Dalian

This co-operative joint venture ("CJV") in Dalian was established in 1997 by a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company in Liaoning Province. At 31 December 2003, the Dalian CJV had 46 double-deck buses and 30 single-deck buses operating on three routes serving Dalian City. This CJV made satisfactory progress and recorded a profit in 2003.

Tianjin

The CJV in Tianjin, formed between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited in Tianjin, has begun operation since January 2002. During 2003, the Tianjin CJV operated seven bus routes with 110 single-deck buses in Tianjin City, and continued to make steady progress during 2003.

Beijing

Beijing Beiqi Kowloon Taxi Company Limited ("BBKT"), a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT's shareholders comprise KMB (Beijing) Taxi Investment Limited, which is a wholly owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited and three other Mainland investors. BBKT principally engages in the taxi and car rental businesses with a fleet of over 4,000 vehicles and about 4,200 employees. The Group's investment in BBKT was HK\$75.5 million, representing 31.38% of BBKT's equity interest. BBKT's businesses were adversely affected by the SARS outbreak but have recovered since the fourth quarter of 2003.

Other projects

During 2003, the Group entered into contracts to acquire a 45% interest in a Sino-foreign joint stock company in Wuxi City, Jiangsu Province and a 35% interest in a Sino-foreign joint stock company in Shenzhen City, Guangdong Province, to principally operate local public bus services. The former, named Wuxi Kowloon Public Transport Company Limited and formed in February 2004, is currently operating some 1,600 buses on 106 routes in Wuxi City. The latter is still awaiting final approval from the relevant government authorities, and is expected to operate bus services in Shenzhen City with around 3,300 vehicles on 109 routes. As at 31 December 2003, the Group's commitment in these projects amounted to Renminbi 522.5 million (HK\$489.9 million).

Media sales business

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

The RoadShow Group reported a total operating revenue of HK\$173.4 million (2002: HK\$173.4 million) and a loss attributable to shareholders of HK\$37.0 million (2002: a profit of HK\$55.0 million) for the year ended 31 December 2003.

The RoadShow Group

HK\$ million	2003	2002
Total revenue	173.4	173.4
Total operating and finance costs	(205.5)	(102.2)
(Loss)/profit from ordinary activities before taxation	(32.1)	71.2
Income tax credit/(expense)	1.6	(7.7)
(Loss)/profit from ordinary activities after taxation	(30.5)	63.5
Minority interests	(6.5)	(8.5)
(Loss)/profit from ordinary activities after taxation and minority interests	(37.0)	55.0

The RoadShow Group's revenue was derived principally from its media sales and management services business operated in Hong Kong and on the Mainland of China.

The loss for the year was mainly attributable to the poor economic environment in Hong Kong and the outbreak of SARS both in Hong Kong and the major cities on the Mainland, and the additional provisions made in 2003. The RoadShow Group's performance improved towards the end of the year due to better market conditions and the resultant upturn in consumer confidence in Hong Kong and on the Mainland. Its joint ventures on the Mainland achieved their revenue goals and made contributions to profit, a trend that is expected to continue.

In 2003, the RoadShow Group expanded its media sales businesses in Beijing, Shanghai, Guangzhou and other major cities on the Mainland of China which made a profit contribution to the RoadShow Group in their first full year of operations.

Further information relating to the RoadShow Group is available in its 2003 final results announcement and annual report.

Property development

Lai Chi Kok Properties Investment Limited ("LCKPI")

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. The old depot building was demolished in 2002. According to the current plan, the depot will be developed into a residential and commercial complex comprising four residential blocks of 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. LCKPI has engaged certain subsidiaries of Sun Hung Kai Properties Limited for the provision of services in relation to the development, construction, letting and sales, and management of the future residential and commercial complex.

At the year-end, the total construction cost incurred for the project amounted to HK\$112.0 million (2002: HK\$39.1 million). This amount was capitalised as property under development in the financial statements. At 31 December 2003, the commitment in the project was HK\$1,202.8 million (2002: HK\$127.7 million). The project will be partially financed by unsecured bank loans. It is expected that the whole project will be completed in mid-2006. LCKPI will closely monitor the local property market for marketing the property in due course.

Connected transactions

Park Island Transport Company Limited

Transaction with Sun Hung Kai (Ma Wan) Transport Company Limited

As detailed in note 35(d) on the financial statements on page 125 of this Annual Report, the continuing transaction during the year between PITC and Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW"), a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), for the provision of transport 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 2002.

Lai Chi Kok Properties Investment Limited

As detailed in notes 35(e), (f) and (g) on the financial statements on pages 125 to 126 of this Annual Report, LCKPI entered into the following transactions with certain subsidiaries of SHKP in relation to the development, construction, letting and sales, and management of a residential and commercial complex on, above or near to New Kowloon Marine Lot Number 3 Section A (the "Development"). Particulars of the connected transactions were disclosed in the announcement of the Company dated 21 July 2003.

Prime Cost Contract

LCKPI entered into the Prime Cost Contract with a wholly owned subsidiary of SHKP, Chun Fai Construction Co. Ltd. ("Chun Fai") on 17 July 2003. Pursuant to the Prime Cost Contract, Chun Fai acts as the management contractor to construct and complete the substructure and superstructure of the Development. The maximum consideration payable by LCKPI under the Prime Cost Contract is HK\$1,160,171,400. As this amount exceeds the higher of HK\$10,000,000 or 3% of the net tangible asset value of the Group as at 31 December 2002, the Prime Cost Contract constitutes a connected transaction subject to disclosure and shareholders' approval requirements under the Listing Rules. This transaction was approved by shareholders at the special general meeting of the Company held on 26 August 2003.

Letting and Sales Agency Agreement, and Management Agreement

LCKPI entered into the Letting and Sales Agency Agreement with Sun Hung Kai Real Estate Agency Limited ("SHKRE") on 17 July 2003 to appoint SHKRE for the provision of letting and sales agency and marketing services for the residential units, commercial units and the car parking spaces of the Development.

LCKPI entered into the Management Agreement with Hong Yip Service Company Limited ("Hong Yip") on 17 July 2003 to agree to appoint Hong Yip as the manager of the Development and to engage its services in relation to the terms and conditions set out in the deed(s) of mutual covenant and management agreement(s) of the Development to be entered into by LCKPI, Hong Yip and the first purchaser of a unit of the completed Development.

The transactions contemplated under each of the aforesaid two agreements constitute a continuing connected transaction under the Listing Rules.

Conditional waivers

In compliance with the conditional waivers granted to the Company by The Stock Exchange of Hong Kong Limited from strict compliance with the requirement of disclosure by press notice as stipulated in Chapter 14 of the Listing Rules in connection with the foregoing connected transactions with SHKMW, SHKRE and Hong Yip on each occasion they arise, the Directors including the Independent Non-executive Directors of the Company have reviewed and confirmed that:-

1. each of the foregoing connected transactions with SHKMW, SHKRE and Hong Yip was:-
 - (i) entered into in the ordinary and usual course of business of the Group;
 - (ii) conducted either on normal commercial terms or on terms no less favourable than the terms available to or from independent third parties or (where there was no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
 - (iii) entered into in accordance with the terms of the respective agreements;
2. the annual permitted return for the year ended 31 December 2003 entitled by PITC under the agreement between PITC and SHKMW did not exceed 3% of the audited consolidated net tangible assets of the Company as at 31 December 2002; and
3. the annual aggregate amount for the year ended 31 December 2003 payable by LCKPI under each of the Letting and Sales Agency Agreement and the Management Agreement did not exceed the higher of HK\$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2002.

The auditors of the Company had also confirmed to the Board that the continuing connected transactions (a) had received the approval of the Board of the Company; (b) had been entered into on normal commercial terms or with the terms of the agreement relating to the transactions; and (c) had not exceeded the higher of HK\$10,000,000 or 3% of the value of the audited consolidated net tangible assets of the Group as disclosed in the Company's 2002 Annual Report.

FINANCIAL SUMMARY

for the year ended 31 December

	2003 HK\$'M	2002 HK\$'M	2001 HK\$'M	2000 HK\$'M
Income statement				
Turnover	<u>6,540</u>	<u>6,843</u>	<u>6,862</u>	<u>6,323</u>
Profit before exceptional item	<u>857</u>	<u>1,142</u>	<u>1,810</u>	<u>936</u>
Exceptional item	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit from ordinary activities before taxation	<u>857</u>	<u>1,142</u>	<u>1,810</u>	<u>936</u>
Income tax	<u>259</u>	<u>175</u>	<u>237</u>	<u>81</u>
Profit from ordinary activities after taxation	<u>598</u>	<u>967</u>	<u>1,573</u>	<u>855</u>
Minority interests	<u>1</u>	<u>28</u>	<u>34</u>	<u>—</u>
Transfer from/(to) development fund	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit attributable to shareholders	<u>597</u>	<u>939</u>	<u>1,539</u>	<u>855</u>
Balance sheet				
Fixed assets	<u>6,527</u>	<u>6,497</u>	<u>6,047</u>	<u>5,381</u>
Goodwill	<u>50</u>	<u>53</u>	<u>21</u>	<u>22</u>
Intangible asset	<u>25</u>	<u>—</u>	<u>—</u>	<u>—</u>
Non-current prepayments	<u>105</u>	<u>101</u>	<u>—</u>	<u>—</u>
Investment securities	<u>15</u>	<u>15</u>	<u>15</u>	<u>1</u>
Interest in subsidiaries	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Interest in associates	<u>162</u>	<u>61</u>	<u>1</u>	<u>—</u>
Interest in jointly controlled entity	<u>1</u>	<u>2</u>	<u>6</u>	<u>10</u>
Employee benefit assets	<u>339</u>	<u>278</u>	<u>—</u>	<u>—</u>
Net current assets/(liabilities)	<u>548</u>	<u>465</u>	<u>854</u>	<u>926</u>
Employment of funds	<u>7,772</u>	<u>7,472</u>	<u>6,944</u>	<u>6,340</u>
<i>Financed by:</i>				
Share capital	<u>404</u>	<u>404</u>	<u>404</u>	<u>404</u>
Reserves	<u>3,935</u>	<u>4,157</u>	<u>3,776</u>	<u>2,341</u>
Shareholders' funds	<u>4,339</u>	<u>4,561</u>	<u>4,180</u>	<u>2,745</u>
Contingency provision — insurance	<u>106</u>	<u>117</u>	<u>202</u>	<u>298</u>
Development fund	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Minority interests	<u>260</u>	<u>244</u>	<u>228</u>	<u>4</u>
Long term bank loans	<u>2,218</u>	<u>1,830</u>	<u>1,743</u>	<u>2,176</u>
Other liabilities	<u>849</u>	<u>720</u>	<u>591</u>	<u>1,117</u>
Funds employed	<u>7,772</u>	<u>7,472</u>	<u>6,944</u>	<u>6,340</u>
Earnings per share (HK\$)	<u>1.48</u>	<u>2.33</u>	<u>3.81</u>	<u>2.12</u>
Dividends per share (HK\$)	<u>2.03</u>	<u>2.03</u>	<u>1.86</u>	<u>1.58</u>
Special cash bonuses per share (HK\$)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Note: In order to comply with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 34 "Employee benefits" and SSAP 12 (revised) "Income taxes", the Group adopted a new accounting policy for short-term employee benefits and deferred taxation respectively 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
<u>5,871</u>	<u>5,510</u>	<u>4,863</u>	<u>4,451</u>	<u>3,973</u>	<u>3,500</u>
893	679	555	588	540	490
—	—	—	—	—	1,711
893	679	555	588	540	2,201
<u>154</u>	<u>93</u>	<u>4</u>	<u>62</u>	<u>77</u>	<u>84</u>
739	586	551	526	463	2,117
—	—	—	—	—	—
—	—	—	2	(2)	—
<u>739</u>	<u>586</u>	<u>551</u>	<u>528</u>	<u>461</u>	<u>2,117</u>
4,952	4,882	4,441	3,342	2,777	2,479
4	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	24	—
(5)	(5)	(2)	—	—	—
13	17	20	—	—	—
—	—	—	—	—	—
<u>881</u>	<u>374</u>	<u>(156)</u>	<u>(60)</u>	<u>40</u>	<u>36</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>
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>
2,456	2,186	2,041	1,918	1,766	1,635
305	299	273	288	175	175
—	—	—	—	2	—
6	6	6	—	—	—
1,961	1,694	1,116	346	303	229
<u>1,117</u>	<u>1,083</u>	<u>867</u>	<u>730</u>	<u>595</u>	<u>476</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>1.83</u>	<u>1.45</u>	<u>1.36</u>	<u>1.31</u>	<u>1.14</u>	<u>5.24</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>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3.81</u>

DIRECTORS' PROFILES



The Hon Sir Sze-yuen CHUNG*

GBM, GBE, PhD, FREng, JP

Chairman, aged 86. 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 and Sun Hung Kai Properties Limited; and Pro-Chancellor of The Hong Kong University of Science and 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, The Hong Kong University of Science and 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 63. 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, KMB and LWB since 14 June 2001. He is the Executive Deputy Chairman of Television Broadcasts Limited and a Director of Wing Lung Bank Limited. As for public service, he is the Commissioner of Civil Aid Service and Member of the Electoral Affairs Commission.



Dr the Hon WOO Pak Chuen*

JP, LLD(Hon), LLB, PhD

Director, aged 94. 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. Consultant 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 Ms Lana Woo, who holds the position of Company Secretary in the Company.



KWOK Ping-luen, Raymond

MA(Cantab), MBA, Hon DBA, Hon LLD

Director, aged 50. 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 degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 Development Council and Vice Chairman of the Council of The Chinese University of Hong Kong. He is also Chairman of the Management Committees of the Police Children's Education Trust and the Police Education and Welfare Trust. 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 53. 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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. He is also a Member of MBA Programmes Committee of The Chinese University of Hong Kong.

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 91. 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. Mr Yu is active in community services. He 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 73. 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 Ms Winnie 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 44. 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 60. 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 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, Board Member and Executive Committee Deputy 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 69. 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 NG

BA, MBA(Chicago)

Executive Director, aged 40. 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. In December 2003, Ms Ng won the Yazhou Zhoukan Young Chinese Entrepreneur Award 2003. Ms Ng holds an MBA degree from the University of Chicago.



Dr KUNG Ziang Mien, James*

GBS, OBE

Director, aged 73. 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. Retired Chairman and Chief Manager of Chekiang First Bank Ltd, after 53 years of services. Graduated from the Soochow University Law School LLB in 1950. Conferred by The Chinese University of Hong Kong, Doctor of Laws, 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 de la Légion d'Honneur of France in 1996, Commander in the Order of Leopold II of Belgium in 1997, Officier de la Légion d'Honneur in 2000 and Commandeur de la Légion d'Honneur in 2003. Dr Kung is Chairman of the Hong Kong Digestive Foundation, Member of the Exchange Fund Advisory Committee and the Land Fund Advisory Committee, Member of the Advisory 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, President of the Légion d'Honneur Club Hong Kong Chapter and President of the Hong Kong-Shanghai Economic Development Association.



George CHIEN Yuan Hwei

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

Director, aged 66. 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 Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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.



Dr the Hon Eric LI Ka Cheung*

GBS, OBE, JP, LLD, DSocSc, BA, FHKSA, Hon HKAT, FCA, FCPA, FCIS

Director, aged 50. 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, Hang Seng Bank Limited, China Vanke Co., Ltd. and China Resources Enterprise, Limited. 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

CMILT

Director, aged 61. 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, CMILT, MHKIoD

Deputy Managing Director, aged 42. 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 1 January 2001. Joined KMB in September 1998 and served as Finance and Administration Director from January 1999 to April 2003. 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 on the Mainland. Also former director of four Sino-foreign joint venture companies of an international leading soft drink brand.



Rafael HUI Si-yan

GBS, JP, BA(Hons) HKU, MPA Harvard

Director, aged 56. Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 February 2004. Mr Hui first joined the Civil Service in 1970 and was subsequently appointed an Administrative Officer in 1971. He rose to the rank of Secretary, Government Secretariat in 1996. During the early years of his career, he held appointments in a number of branches and departments including Home Affairs Department, Security Branch, Economic Services Branch and Transport Branch. He was seconded to ICAC from 1977 to 1979 and attended an overseas training programme in Harvard from 1982 to 1983 where he obtained his Master's Degree in Public Administration. He was Deputy Secretary-General in the former UMELCO from 1985 to 1986, Deputy Secretary for Economic Services from 1986 to 1990, Deputy Secretary for Works from 1990 to 1991, when he was appointed Director, New Airport Projects Co-ordination Office. He took up the post of Commissioner for Transport in 1992 and was appointed in 1995 to the post of Secretary for Financial Services which he held for five years. In June 2000, having resigned from the civil service, he assumed the post of Managing Director of the Mandatory Provident Fund Schemes Authority until June 2003. Mr Hui was appointed a Justice of the Peace in 1986 and received the honour of Gold Bauhinia Star in 1998. In 2002, he was elected a Steward of the Hong Kong Jockey Club. He is also the Vice Chairman of the Hong Kong Arts Festival Society and Chairman of its Programme Committee.

(*Independent Non-executive Director)

SENIOR EXECUTIVES

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 NG # BA, MBA(Chicago)	Executive Director	1990
Edmond T M HO MA(Cantab), MBA, CMILT, 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 NG # BA, MBA(Chicago)	Executive Director	1990
Edmond T M HO MA(Cantab), MBA, CMILT, MHKIoD	Deputy Managing Director	1998
LUI Pochiu CMILT	Operations Director	1970
Peter C K MAK	Commercial Director	1994
William S K HO BBA, CA(Canada), FHKSA	Finance and Administration Director	2003
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, MIMgt, 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, CMILT	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

Name	Position Held in the Group	Year Joined the Group
The Kowloon Motor Bus Company (1933) Limited (continued)		
Tim IP BSocSc, MSc, DIC, CMILT	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 MA, CMILT	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 NG # BA, MBA(Chicago)	Executive Director	1990
Edmond T M HO MA(Cantab), MBA, CMILT, MHKIoD	Deputy Managing Director	1998
Kenrick FOK CMILT	General Manager	1988
Lana WOO * BA, AAT, CGA, ACIS, MIFC, CFC	Alternate Director and Company Secretary	1984
Sun Bus Holdings Limited		
Benjamin C H WONG CMILT	General Manager	1998
New Hong Kong Bus Company Limited		
Simon TU CMILT	General Manager	1997
KMB (China) Holdings Limited		
Charles LUI Chung Yuen M.H., BEc, AASA, FCILT	Chairman	1960
Edmond T M HO MA(Cantab), MBA, CMILT, MHKIoD	Managing Director	1998
Simon TU CMILT	General Manager	1997
RoadShow Holdings Limited		
Winnie 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
Thomas MAK Hing Keung	Chief Financial Officer and Company Secretary	2001
Brian AU Chi Tong	General Manager, Strategic Development	2003

Ms Winnie NG is the daughter of Mr NG Siu Chan, who is a Director of the Company

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

+ Ms 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 2003.

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 transportation as well as the provision of media sales services. Particulars of the Company's subsidiaries are set out in note 16 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 11 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 2003 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 92 to 126 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 62 to 71 of this Annual Report.

Dividends

An interim dividend of 45 cents per share (2002: 45 cents per share) was paid to the shareholders on 15 October 2003. The Directors now recommend that a final dividend of HK\$1.58 per share (2002: HK\$1.58 per share) in respect of the year ended 31 December 2003 be paid to the shareholders on 21 May 2004.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$1,898,000 (2002: HK\$2,287,000).

Fixed Assets

During the year, major additions to the fixed assets of the Group were buses and vessels under construction with a total cost of HK\$583,805,000 (2002: HK\$915,738,000). Buses and vessels with a total cost of HK\$519,260,000 (2002: HK\$887,279,000) were licensed and put into service during the year following the completion of construction.

Details of other movements in fixed assets during the year are set out in note 12 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 , <i>GBM, GBE, PhD, FREng, JP*</i>	(Chairman)
Norman Leung Nai Pang , <i>GBS, JP</i>	(Deputy Chairman)
Dr the Hon Woo Pak Chuen , <i>JP*</i>	
Kwok Ping-luen , <i>Raymond</i>	
Kwok Ping-sheung , <i>Walter, JP</i>	
Yu Shu Chuen	
Ng Siu Chan	
William Louey Lai Kuen	
John Chan Cho Chak , <i>GBS, JP</i>	(Managing Director)
Charles Lui Chung Yuen , <i>M.H.</i>	
Winnie Ng	
Dr Kung Ziang Mien , <i>James, GBS, OBE*</i>	
George Chien Yuan Hwei	
Dr the Hon Eric Li Ka Cheung , <i>GBS, OBE, JP*</i>	
Lui Pochiu	
Edmond Ho Tat Man	
Rafael Hui Si-yan , <i>GBS, JP</i>	(appointed on 1 February 2004)
Lana Woo	(Alternate Director to Dr the Hon Woo Pak Chuen, JP)
Sham Yat Wah	(Alternate Director to Mr Kwok Ping-luen, Raymond)
Susanna Lau Shung Oi	(Alternate Director to Mr Kwok Ping-sheung, Walter, JP)

* Independent Non-executive Director

In accordance with Bye-Law 87, Mr Yu Shu Chuen, Mr George Chien Yuan Hwei, Dr the Hon Eric Li Ka Cheung, Mr Lui Pochiu and Mr Edmond Ho Tat Man 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 74 to 79 of this Annual Report.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

The Directors of the Company who held office at 31 December 2003 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' interests and short positions required to be kept under Section 352 of the SFO:

(i) Interests in Issued Shares

(a) The Company

Ordinary shares of HK\$1 each						
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen Chung, <i>GBM, GBE, PhD, FREng, JP</i>	18,821	—	—	—	18,821	0.005%
Norman Leung Nai Pang, <i>GBS, JP</i>	—	—	—	—	—	—
Dr the Hon Woo Pak Chuen, JP	210,047	—	—	—	210,047	0.052%
Kwok Ping-luen, Raymond	393,350	—	—	—	393,350	0.097%
Kwok Ping-sheung, Walter, JP	61,522	—	—	—	61,522	0.015%
Yu Shu Chuen	2,943	70,803	—	6,909,481 (Note 1)	6,983,227	1.730%
Ng Siu Chan	—	21,000,609	—	—	21,000,609	5.203%
William Louey Lai Kuen	6,222,926	4,475	—	—	6,227,401	1.543%
John Chan Cho Chak, GBS, JP	2,000	—	—	—	2,000	—
Charles Lui Chung Yuen, M.H.	12,427	—	—	2,651,750 (Note 2)	2,664,177	0.660%
Winnie Ng	41,416	—	—	21,000,609 (Note 3)	21,042,025	5.213%
Dr Kung Ziang Mien, James <i>GBS, OBE</i>	—	—	172,000	—	172,000	0.043%
George Chien Yuan Hwei	2,000	—	—	—	2,000	—
Dr the Hon Eric Li Ka Cheung, <i>GBS, OBE, JP</i>	—	—	—	—	—	—
Lui Pochiu	452,113	—	—	—	452,113	0.112%
Edmond Ho Tat Man	—	—	—	—	—	—
Lana Woo (Alternate Director to Dr the Hon Woo Pak Chuen, JP)	9,475	—	—	—	9,475	0.002%
Sham Yat Wah (Alternate Director to Mr Kwok Ping-luen, Raymond)	—	—	—	—	—	—
Susanna Lau Shung Oi (Alternate Director to Mr Kwok Ping-sheung, Walter, JP)	—	—	—	—	—	—

Notes:

- 1 HSBC International Trustee Limited held 6,909,481 shares in the Company as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of 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 shares in the Company.
- 3 Ms Winnie Ng has interest in 21,000,609 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (continued)

(i) Interests in Issued Shares (continued)

(b) RoadShow Holdings Limited ("RoadShow"), a subsidiary of the Company

Ordinary shares of HK\$0.1 each						
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen Chung, <i>GBM, GBE, PhD, FREng, JP</i>	4,000	—	—	—	4,000	—
Norman Leung Nai Pang, <i>GBS, JP</i>	—	—	—	—	—	—
Dr the Hon Woo Pak Chuen, JP	19,253	—	—	—	19,253	0.002%
Kwok Ping-luen, Raymond	37,400	—	—	—	37,400	0.004%
Kwok Ping-sheung, Walter, JP	6,600	—	—	—	6,600	0.001%
Yu Shu Chuen	33,000	6,576	—	535,825 (Note 1)	575,401	0.058%
Ng Siu Chan	—	123,743	—	—	123,743	0.012%
William Louey Lai Kuen	412,371	—	—	—	412,371	0.041%
John Chan Cho Chak, GBS, JP	—	—	—	—	—	—
Charles Lui Chung Yuen, M.H.	—	—	—	209,131 (Note 2)	209,131	0.021%
Winnie Ng	1,000,000	—	—	123,743 (Note 3)	1,123,743	0.113%
Dr Kung Ziang Mien, James <i>GBS, OBE</i>	—	—	164,000	—	164,000	0.016%
George Chien Yuan Hwei	—	—	—	—	—	—
Dr the Hon Eric Li Ka Cheung, <i>GBS, OBE, JP</i>	—	—	—	—	—	—
Lui Pochiu	24,863	—	—	—	24,863	0.002%
Edmond Ho Tat Man	—	—	—	—	—	—
Lana Woo (Alternate Director to Dr the Hon Woo Pak Chuen, JP)	2,000	—	—	—	2,000	—
Sham Yat Wah (Alternate Director to Mr Kwok Ping-luen, Raymond)	—	—	—	—	—	—
Susanna Lau Shung Oi (Alternate Director to Mr Kwok Ping-sheung, Walter, JP)	—	—	—	—	—	—

Notes:

- 1 HSBC International Trustee Limited held 535,825 shares in RoadShow as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of shares.
- 2 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 209,131 shares in RoadShow.
- 3 Ms Winnie Ng has interest in 123,743 shares in RoadShow as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

As at 31 December 2003, none of the Directors had any non-beneficial interest in the share capital of the Company.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (continued)

(ii) Interests in Underlying Shares

Certain Directors of the Company have been granted options under RoadShow's share option schemes, details of which are set out in the section "Share option schemes" below.

Apart from the foregoing, none of the Directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, its subsidiaries or fellow subsidiaries, as recorded in the register of directors' interests and short positions required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Share Option Schemes

Options were granted to certain Directors and employees of the Group to subscribe for shares in RoadShow under the following two RoadShow share option schemes: Pre-Listing Share Option Scheme and Share Option Scheme, subject to the terms and conditions stipulated in the schemes.

(a) Pre-Listing Share Option Scheme

The scheme expired on 27 December 2003.

	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 options during the year	Exercise price per share	Market value per share at date of grant of options
Directors of the Company					
Norman Leung Nai Pang, <i>GBS, JP</i>	2,380,000	Nil	Nil	HK\$1.80	Note 2
Kwok Ping-luen, Raymond	338,000	Nil	Nil	HK\$1.80	Note 2
Ng Siu Chan	338,000	Nil	Nil	HK\$1.80	Note 2
John Chan Cho Chak, <i>GBS, JP</i>	2,380,000	Nil	Nil	HK\$1.80	Note 2
Charles Lui Chung Yuen, <i>M.H.</i>	338,000	Nil	Nil	HK\$1.80	Note 2
Winnie Ng	3,380,000	Nil	Nil	HK\$1.80	Note 2
George Chien Yuan Hwei	168,000	Nil	Nil	HK\$1.80	Note 2
Lui Pochiu	188,000	Nil	Nil	HK\$1.80	Note 2
Edmond Ho Tat Man	188,000	Nil	Nil	HK\$1.80	Note 2
Lana Woo (<i>Alternate Director to Dr the Hon Woo Pak Chuen, JP</i>)	168,000	Nil	Nil	HK\$1.80	Note 2
Employees	11,995,000	Nil	Nil	HK\$1.80	Note 2

The above options were granted on 26 June 2001 and were exercisable during the period from 28 December 2001 to 27 December 2003 (Note 1). No options were exercised during the year and all of them expired on 27 December 2003.

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) exercise 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

The total number of securities available for issue as at 31 December 2003 was 16,660,000 shares which represented approximately 1.7% of the issued share capital of RoadShow at 31 December 2003. In respect of the maximum entitlement of each participant under the scheme, 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 2003, a director and employees of the Group had the following interests in options to subscribe for shares of RoadShow (market value per share at 31 December 2003 was HK\$0.98) granted for a consideration of HK\$1 under RoadShow's Share Option Scheme. The options are unlisted and 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.

	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 options during the year	Exercise price per share	Market value per share at date of grant of options
Director of the Company					
Winnie Ng	3,800,000	3,800,000	Nil	HK\$2.25	HK\$2.25
Employees	14,440,000	12,860,000	Nil	HK\$2.25	HK\$2.25

The above options were granted on 11 March 2002 and are exercisable during the period from 12 March 2002 to 11 March 2005. During the year, 1,580,000 options lapsed because the grantees ceased their employment with the RoadShow Group.

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

Save for the Prime Cost Contract as disclosed in note 35(e) on the financial statements, in which Messrs. Kwok Ping-luen, Raymond and Kwok Ping-sheung, Walter, who had beneficial interests in Sun Hung Kai Properties Limited, were interested, no other contract of significance to which the Company and 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 Shareholders' and Other Person's Interests in Shares and Short Positions in Shares, Underlying Shares and Debentures

The Company has been notified of the following interests in the Company's issued shares at 31 December 2003 amounting to 5% or more of the ordinary shares in issue:

Ordinary shares of HK\$1 each				
	Registered shareholders	Corporate interests	Total number of shares held	Percentage of total issued shares
Substantial shareholders				
Sun Hung Kai Properties Limited (Notes 1 and 2)	—	133,271,012	133,271,012	33.0%
Arklake Limited (Note 1)	68,600,352	—	68,600,352	17.0%
HSBC International Trustee Limited (Note 3)	175,216,949	—	175,216,949	43.4%
Other person				
Kwong Tai Holdings Limited (Note 4)	21,000,609	—	21,000,609	5.2%

Notes:

- The interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 68,600,352 shares disclosed by Arklake Limited.
- 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.
- HSBC International Trustee Limited is deemed to be interested in 175,216,949 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.
- The interest disclosed by Kwong Tai Holdings Limited includes 21,000,609 shares disclosed by Mr Ng Siu Chan and Ms Winnie Ng, both are Directors of 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 pages 80 to 81 of this Annual Report.

Staff Retirement Schemes

The Group operates mainly two separate non-contributory defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme ("The KMB Monthly Rated Employees Scheme") and The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme ("The KMB Daily Rated Employees 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 retirement schemes that provide pension benefits for employees upon retirement. The schemes are administered by an independent trustee and the assets are 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 2004 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 on the next page.

Staff Retirement Schemes (continued)

Defined Benefit Retirement Schemes (continued)

The KMB Monthly Rated Employees 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 at 6.5% and Salary Escalation at 5.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 65.
- iii) The market value of the scheme assets at 31 December 2003 was HK\$759.5 million.
- iv) The minimum level of funding commencing from 1 January 2004 recommended by the actuary is 7.1% of pay.
- v) The ongoing funding surplus in the scheme was HK\$151.4 million and the solvency surplus was HK\$147.8 million at 31 December 2003.

The KMB Daily Rated Employees 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 at 6.5% and Salary Escalation at 5.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 60.
- iii) The market value of the scheme assets at 31 December 2003 was HK\$1,970.9 million.
- iv) The minimum level of funding commencing from 1 January 2004 recommended by the actuary is 4.5% of pay.
- v) The ongoing funding surplus in the scheme was HK\$400.7 million and the solvency surplus was HK\$585.3 million at 31 December 2003.

Note:

The obligations in respect of defined benefit retirement schemes included in the financial statements are calculated using the projected unit credit method under different actuarial assumptions (see note 1(q)(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 a 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 contributions 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 contributions made in that corresponding financial year. The amount of forfeited contributions utilised during the year and the amount available for use as at 31 December 2003 were insignificant to the Group.

Bank Loans and Overdrafts

Particulars of bank loans and overdrafts of the Group as at 31 December 2003 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 72 and 73 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 the 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 re-appointment. A resolution for the re-appointment 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, 25 March 2004



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 92 to 126 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 solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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, 25 March 2004

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	2	6,540,198	6,843,394
Other net income	3	96,395	78,228
Staff costs	4(a)	(3,176,105)	(3,319,752)
Depreciation and amortisation		(903,034)	(850,994)
Spare parts, stores and fuel oil consumed		(721,025)	(705,999)
Other operating expenses		(953,325)	(856,978)
Profit from operations		883,104	1,187,899
Deemed profit on partial disposal of a subsidiary		–	2,724
Finance costs	4(b)	(34,803)	(49,858)
Share of profit of associates		7,548	1,081
Share of profit of jointly controlled entity		1,304	342
Profit from ordinary activities before taxation	4	857,153	1,142,188
Income tax	5(a)	(259,581)	(174,859)
Profit from ordinary activities after taxation		597,572	967,329
Minority interests		(619)	(27,726)
Profit attributable to shareholders	8 & 32(c)	596,953	939,603
Dividends attributable to the year:	9 & 32(c)		
Interim dividend paid of HK\$0.45 per share (2002: HK\$0.45 per share)		181,638	181,638
Proposed final dividend of HK\$1.58 per share (2002: HK\$1.58 per share)		637,750	637,750
		819,388	819,388
Earnings per share	10	HK\$1.48	HK\$2.33

The notes on pages 99 to 126 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Fixed assets	12(a)	6,527,422	6,496,741
Goodwill	13	49,841	52,774
Intangible asset	14	24,944	—
Non-current prepayments	15	104,643	101,040
Interest in associates	17	162,322	61,403
Interest in jointly controlled entity	18	1,014	2,034
Investment securities	19	15,355	15,355
Employee benefit assets	20(a)	339,287	277,705
		<u>7,224,828</u>	<u>7,007,052</u>
Current assets			
Other investments	22	91,275	81,954
Property under development		111,980	39,066
Spare parts and stores		79,827	82,907
Accounts receivable	23	200,750	265,433
Deposits and prepayments		70,644	62,985
Current tax recoverable	29(a)	—	28,517
Pledged bank deposit	25	100,000	100,000
Deposits with banks		—	12,876
Cash and cash equivalents	24	1,580,824	1,482,359
		<u>2,235,300</u>	<u>2,156,097</u>
Current liabilities			
Bank loans and overdrafts	25	415,392	438,311
Accounts payable and accruals	26	935,208	981,502
Third party claims payable		282,240	271,374
Current tax payable	29(a)	54,910	—
		<u>1,687,750</u>	<u>1,691,187</u>
Net current assets		<u>547,550</u>	<u>464,910</u>
Total assets less current liabilities		<u>7,772,378</u>	<u>7,471,962</u>

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2003 (CONTINUED)

	Note	2003 HK\$'000	2002 HK\$'000
Non-current liabilities			
Bank loans	25	2,217,621	1,829,704
Other unsecured loans	27	21,123	16,684
Contingency provision – insurance	28	106,408	117,245
Deferred taxation	29(b)	776,328	654,994
Provision for long service payments	30	52,321	48,184
		<u>3,173,801</u>	<u>2,666,811</u>
Minority interests		<u>259,973</u>	<u>244,203</u>
		<u>3,433,774</u>	<u>2,911,014</u>
NET ASSETS		<u>4,338,604</u>	<u>4,560,948</u>
CAPITAL AND RESERVES			
Share capital	31	403,639	403,639
Reserves	32	<u>3,934,965</u>	<u>4,157,309</u>
		<u>4,338,604</u>	<u>4,560,948</u>

Approved and authorised for issue by the Board of Directors on 25 March 2004

S. Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 99 to 126 form part of these financial statements.

BALANCE SHEET

AT 31 DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Fixed assets	12(b)	65	99
Interest in subsidiaries	16	2,740,652	2,655,907
		<u>2,740,717</u>	<u>2,656,006</u>
Current assets			
Deposits and prepayments		358	774
Current tax recoverable	29(a)	69	—
Cash and cash equivalents	24	10,691	8,103
		<u>11,118</u>	<u>8,877</u>
Current liability			
Accounts payable and accruals	26	12,842	10,620
		<u>(1,724)</u>	<u>(1,743)</u>
NET ASSETS		<u>2,738,993</u>	<u>2,654,263</u>
CAPITAL AND RESERVES			
Share capital	31	403,639	403,639
Reserves	32	2,335,354	2,250,624
		<u>2,738,993</u>	<u>2,654,263</u>

Approved and authorised for issue by the Board of Directors on 25 March 2004

S. Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 99 to 126 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 HK\$'000	2002 HK\$'000
Shareholders' equity at 1 January	4,560,948	4,392,297
Exchange differences on translation of the financial statements of foreign entities	91	—
Net profit not recognised in the consolidated income statement	91	—
Net profit for the year	596,953	939,603
Dividend approved in respect of the previous financial year	(637,750)	(589,314)
Interim dividend paid during the year	(181,638)	(181,638)
Shareholders' equity at 31 December	4,338,604	4,560,948

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 HK\$'000	2002 HK\$'000
Operating activities		
Profit from ordinary activities before taxation	857,153	1,142,188
Adjustments for:		
– Realised and unrealised (gain)/loss on investments in securities	(9,321)	4,283
– Dividend income from listed securities	(1,291)	(1,008)
– Interest income	(21,153)	(36,761)
– Finance costs	34,803	49,858
– Depreciation and amortisation	903,034	850,994
– Gain on disposal of fixed assets	(5,883)	(2,519)
– Share of profit of associates	(7,548)	(1,081)
– Share of profit of jointly controlled entity	(1,304)	(342)
Effect of foreign exchange rates	(8,573)	(18,653)
Operating profit before changes in working capital	1,739,917	1,986,959
Decrease in spare parts and stores	3,080	265
Decrease in accounts receivable	63,987	83,353
Increase in deposits and prepayments	(7,659)	(38,883)
Increase in non-current prepayments	(16,903)	(101,040)
Increase in property under development	(72,914)	–
(Decrease)/increase in accounts payable and accruals	(25,289)	1,886
Decrease in amount due from jointly controlled entity	2,051	1,039
Increase in third party claims payable	10,866	48,079
Decrease in contingency provision – insurance	(10,837)	(84,735)
Increase in provision for long service payments	4,137	1,509
Increase in employee benefit assets	(61,582)	(25,205)
Cash generated from operations	1,628,854	1,873,227
Interest received	21,849	37,384
Interest paid	(34,788)	(50,225)
Hong Kong Profits Tax paid	(52,342)	(211,727)
PRC tax paid	(2,085)	(381)
Net cash from operating activities	1,561,488	1,648,278

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

	Note	2003 HK\$'000	2002 HK\$'000
Investing activities			
Withdrawal/(placement) of deposits with banks		12,876	(12,876)
Placement of pledged bank deposit		—	(100,000)
Payment for purchase of fixed assets		(919,468)	(1,265,775)
Proceeds from disposal of fixed assets		6,487	4,565
Payment for purchase of subsidiaries, net of cash acquired		—	(33,383)
Payment for purchase of associate		(75,500)	(42,235)
New loans to associates		(18,264)	(15,307)
Capital repayment from jointly controlled entity		273	2,915
Dividends received from listed securities		1,291	1,008
Net cash used in investing activities		(992,305)	(1,461,088)
Financing activities			
Dividends paid		(816,800)	(770,952)
Proceeds from new bank loans		1,787,000	2,896,000
Repayment of bank loans		(1,365,740)	(2,996,721)
Proceeds from other unsecured loans		24,000	24,000
Repayment of other unsecured loans		(40,684)	(7,316)
Repayment to minority shareholders		(10,896)	(11,416)
Net cash used in financing activities		(423,120)	(866,405)
Net increase/(decrease) in cash and cash equivalents		146,063	(679,215)
Cash and cash equivalents at 1 January		1,425,788	2,086,350
Effect of foreign exchange rates changes		8,664	18,653
Cash and cash equivalents at 31 December	24	1,580,515	1,425,788

The notes on pages 99 to 126 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 Hong Kong Financial Reporting Standards (which includes 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 also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") 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) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company 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. 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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)).

(d) 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. 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 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(j)).

(f) Other 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 less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)).

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) Intangible asset (other than goodwill)

Intangible asset represents fees of advertising right paid to secure exclusive rights to all advertising space on certain specified assets or at certain specified locations for a specific period of time. Advertising rights are stated at cost less accumulated amortisation and impairment losses (see note 1(j)).

Amortisation of intangible asset is calculated on a straight-line basis over 20 years.

1 Significant Accounting Policies (continued)

(i) 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 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
Coaches, light duty coaches and other motor vehicles	– 5 to 10 years
Others	– 2 to 7 years

No depreciation is provided for buses and vessels under construction.

(j) 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;
- intangible asset;
- investments in subsidiaries, associates and jointly controlled entity; 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 in the income statement whenever the carrying amount of such 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.

(k) 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.

(l) 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.

1 Significant Accounting Policies (continued)

(m) Cash equivalents

Cash and cash equivalents comprise cash at bank and in 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.

(n) 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.

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.

(o) 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.

(p) 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.

1 Significant Accounting Policies (continued)

(q) 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.
- (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 subsidiaries, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(r) 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.

1 Significant Accounting Policies (continued)

(s) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
 - in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) 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.

1 Significant Accounting Policies (continued)

(u) 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.

(v) 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 Turnover

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 16 on the financial statements.

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

	2003 HK\$'000	2002 HK\$'000
Fare revenue from franchised bus services	6,098,559	6,466,333
Revenue from non-franchised transport services	233,774	173,600
Media sales revenue	207,865	203,461
	<u>6,540,198</u>	<u>6,843,394</u>

3 Other Net Income

	2003 HK\$'000	2002 HK\$'000
Claims received	36,978	29,106
Interest income from bank deposits	17,631	33,240
Realised and unrealised gain/(loss) on investments in securities carried at fair value	9,321	(4,283)
Gain on disposal of fixed assets	5,883	2,519
Interest income from unlisted debt securities	3,522	3,521
Dividend income from listed securities	1,291	1,008
Net miscellaneous business receipts	6,451	3,655
Sundry revenue	15,318	9,462
	<u>96,395</u>	<u>78,228</u>

4 Profit from Ordinary Activities before Taxation

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

	2003 HK\$'000	2002 HK\$'000
(a) Staff costs:		
Contributions to defined contribution plan	47,734	46,675
Defined benefit plans expense (notes 20(b) and (c))	49,314	91,264
Provision for long service payments (note 30)	12,606	6,419
	<u>109,654</u>	<u>144,358</u>
Retirement costs	3,066,451	3,175,394
Salaries, wages and other benefits	<u>3,176,105</u>	<u>3,319,752</u>
(b) Finance costs:		
Interest on bank loans, overdrafts and other unsecured loans	<u>34,803</u>	<u>49,858</u>
(c) Other items:		
Auditors' remuneration	3,415	3,337
Operating lease charges on properties, temporary bus depots, ferries and terminal shelters	15,850	2,384
Amortisation of positive goodwill	2,933	1,744
Amortisation of intangible asset	<u>1,198</u>	<u>—</u>

5 Income Tax in the Consolidated Income Statement

(a) Taxation in the consolidated income statement represents:

	2003 HK\$'000	2002 HK\$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	135,887	107,582
Under/(over)-provision in respect of prior years	96	(5,286)
	<u>135,983</u>	<u>102,296</u>
Current tax – Provision for PRC taxation		
Income tax for the year	1,871	2,318
	<u>137,854</u>	<u>104,614</u>
Deferred tax		
Origination and reversal of temporary differences	72,351	71,415
Benefit of tax losses recognised	(12,423)	(1,170)
Effect of increase in tax rate on deferred tax balances at 1 January	61,406	—
	<u>121,334</u>	<u>70,245</u>
Share of associate's taxation	393	—
Total income tax	<u>259,581</u>	<u>174,859</u>

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate from 16% to 17.5% which has been applicable to the Group's operations in Hong Kong. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. Taxation for PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the PRC.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003 HK\$'000	2002 HK\$'000
Profit before tax	<u>857,153</u>	<u>1,142,188</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	149,372	184,127
Tax effect of non-deductible expenses	6,139	3,458
Tax effect of non-taxable revenue	(13,990)	(12,220)
Tax effect of unused tax losses not recognised	5,951	5,329
Tax effect of unrecognised deferred tax in respect of prior year	60,064	—
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	61,406	—
Under/(over)-provision in prior years	96	(5,286)
Others	(9,457)	(549)
Actual tax expense	<u>259,581</u>	<u>174,859</u>

6 Directors' Remuneration

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

	2003 HK\$'000	2002 HK\$'000
Fees	3,175	1,080
Salaries and other allowances	13,715	13,715
Discretionary and performance related bonuses	10,255	15,706
Retirement scheme contributions	1,805	1,818
	<u>28,950</u>	<u>32,319</u>

Included in the Directors' remuneration were fees and other emoluments of HK\$1,236,400 (2002: 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 21.

The remuneration of the Directors is within the following bands:

	Number of Directors	
	2003	2002
HK\$Nil – HK\$1,000,000	13	13
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	—
HK\$3,500,001 – HK\$4,000,000	3	3
HK\$11,500,001 – HK\$12,000,000	1	—
HK\$15,000,001 – HK\$15,500,000	—	1

7 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, four (2002: four) are Directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	884	377
Salaries and other allowances	14,365	14,365
Discretionary and performance related bonuses	8,155	12,622
Retirement scheme contributions	1,878	1,891
	<u>25,282</u>	<u>29,255</u>

7 Individuals with Highest Emoluments (continued)

The emoluments of the five (2002: five) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2003	2002
HK\$2,500,001 – HK\$3,000,000	1	1
HK\$3,500,001 – HK\$4,000,000	3	3
HK\$11,500,001 – HK\$12,000,000	1	–
HK\$15,000,001 – HK\$15,500,000	–	1

8 Profit Attributable to Shareholders

The consolidated profit attributable to shareholders includes a profit of HK\$861,301,000 (2002: HK\$710,383,000) 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:

	2003 HK\$'000	2002 HK\$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	861,301	710,383
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	42,817	136,343
Company's profit for the year (note 32(c))	904,118	846,726

9 Dividends

(a) Dividends attributable to the year

	2003 HK\$'000	2002 HK\$'000
Interim dividend declared and paid of HK\$0.45 per share (2002: HK\$0.45 per share)	181,638	181,638
Final dividend proposed after the balance sheet date of HK\$1.58 per share (2002: HK\$1.58 per share)	637,750	637,750
	819,388	819,388

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 year

	2003 HK\$'000	2002 HK\$'000
Final dividend in respect of previous financial year, approved and paid during the year, of HK\$1.58 per share (2002: HK\$1.46 per share)	637,750	589,314

10 Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$596,953,000 (2002: HK\$939,603,000) and 403,639,413 shares in issue during the two years.

11 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 transport services.
Media sales business:	The provision of audio-video programming through a multi-media on-board system and marketing of exterior advertising spaces on transit vehicles exteriors, shelters and outdoor signages.

	Bus operations		Media sales business		Inter-segment elimination		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Revenue from external customers	6,332,333	6,639,933	207,865	203,461	—	—	6,540,198	6,843,394
Inter-segment revenue	—	—	25,661	24,235	(25,661)	(24,235)	—	—
Other revenue from external customers	52,799	37,128	336	597	—	—	53,135	37,725
Total	6,385,132	6,677,061	233,862	228,293	(25,661)	(24,235)	6,593,333	6,881,119
Segment result	827,263	1,056,314	33,690	117,810	—	—	860,953	1,174,124
Unallocated net operating income and expenses							22,151	13,775
Profit from operations							883,104	1,187,899
Deemed profit on partial disposal of a subsidiary							—	2,724
Finance costs							(34,803)	(49,858)
Share of profits of associates and jointly controlled entity	1,918	342	6,934	1,081	—	—	8,852	1,423
Income tax							(259,581)	(174,859)
Minority interests							(619)	(27,726)
Profit attributable to shareholders							596,953	939,603

11 Segment Reporting (continued)

Business segments (continued)

	Bus operations		Media sales business		Inter-segment elimination		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Depreciation and amortisation for the year	876,472	830,616	26,562	18,634	—	—		
Significant non-cash expenses (other than depreciation and amortisation)	—	—	15,801	2,261	—	—		
Segment assets	6,875,319	6,893,211	394,810	292,235	—	—	7,270,129	7,185,446
Interests in associates and jointly controlled entity	79,872	5,672	83,464	57,765	—	—	163,336	63,437
Unallocated assets							2,026,663	1,914,266
Total assets							9,460,128	9,163,149
Segment liabilities	1,276,793	1,375,374	71,939	20,260	—	—	1,348,732	1,395,634
Unallocated liabilities							3,512,819	2,962,364
Total liabilities							4,861,551	4,357,998
Capital expenditure incurred during the year	821,972	1,313,881	108,216	460	—	—		

Geographical segments

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

12 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
Cost:							
At 1 January 2003	130,011	1,398,727	8,279,686	98,349	208,493	1,270,454	11,385,720
Additions	—	84,441	35,680	262	583,805	220,782	924,970
Disposals	—	(9,700)	(322,171)	—	—	(2,129)	(334,000)
Transfer of buses/ vessels	—	—	507,142	12,118	(519,260)	—	—
Transfer to property under development	(2,874)	—	—	—	—	—	(2,874)
At 31 December 2003	127,137	1,473,468	8,500,337	110,729	273,038	1,489,107	11,973,816
Accumulated depreciation:							
At 1 January 2003	37,120	568,320	3,546,789	411	—	768,375	4,921,015
Charge for the year	2,088	87,161	567,513	4,975	—	237,166	898,903
Transfer to property under development	(2,874)	—	—	—	—	—	(2,874)
Written back on disposal	—	(9,700)	(321,747)	—	—	(1,949)	(333,396)
At 31 December 2003	36,334	645,781	3,792,555	5,386	—	1,003,592	5,483,648
Net book value:							
At 31 December 2003	90,803	827,687	4,707,782	105,343	273,038	485,515	6,490,168
Add:							
Deposits paid in respect of buses on order							37,254
							6,527,422
Net book value:							
At 31 December 2002	92,891	830,407	4,732,897	97,938	208,493	502,079	6,464,705
Add:							
Deposits paid in respect of buses on order							32,036
							6,496,741

12 Fixed Assets (continued)

(b) The Company:

	Others HK\$'000
Cost:	
At 1 January 2003 and 31 December 2003	201
Accumulated depreciation:	
At 1 January 2003	102
Charge for the year	34
At 31 December 2003	136
Net book value:	
At 31 December 2003	65
At 31 December 2002	99

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

13 Goodwill

	HK\$'000
Cost:	
At 1 January 2003 and 31 December 2003	57,075
Accumulated amortisation:	
At 1 January 2003	4,301
Amortisation for the year	2,933
At 31 December 2003	7,234
Carrying amount:	
At 31 December 2003	49,841
At 31 December 2002	52,774

Positive goodwill is amortised as expense on a straight-line basis over 20 years. The amortisation is included in "depreciation and amortisation" in the consolidated income statement.

14 Intangible Asset

	HK\$'000
Cost:	
At 1 January 2003	—
Additions	26,142
At 31 December 2003	26,142
Accumulated amortisation:	
At 1 January 2003	—
Amortisation for the year	1,198
At 31 December 2003	1,198
Carrying amount:	
At 31 December 2003	24,944
At 31 December 2002	—

The amortisation charge for the year is included in "depreciation and amortisation" in the consolidated income statement.

15 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.

16 Interest in Subsidiaries

	The Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	1,036,507	1,036,507
Amounts due from subsidiaries	1,736,691	1,660,377
Amounts due to subsidiaries	(32,546)	(40,977)
	<u>2,740,652</u>	<u>2,655,907</u>

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

16 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	
KMB Resources Limited	British Virgin Islands	1 share of US\$1	100	100	—	Investment holding
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	Incorporated in Hong Kong and operates in Hong Kong and PRC	1,000 shares of HK\$1 each	100	—	100	Provision of cross-boundary 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
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 bus souvenir

16 Interest in Subsidiaries (continued)

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

Percentage of equity						
Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective holding	held by the Company	held by subsidiaries	Principal activity
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 development
LCK Real Estate 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	Incorporated in the British Virgin Islands and operates in Hong Kong	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
Guangzhou Key Media Advertising Company Limited	PRC	RMB 56,346,939	37	—	51	Provision of media advertising agency service and design and production of advertisements
Shanghai Yafei Advertising Company Limited (Limited liability company)	PRC	RMB600,000	37	—	51	Provision of media advertising agency service and design production of advertisements

17 Interest in Associates

	2003 HK\$'000	2002 HK\$'000
Share of net assets	128,173	45,518
Loans to associates	39,071	20,807
Amounts due to associates	(4,922)	(4,922)
	<u>162,322</u>	<u>61,403</u>

17 Interest in Associates (continued)

Details of the associates are as follows:

Proportion of ownership interest							
Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	held by the Company	held by subsidiaries	Principal activity
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 equity joint venture	PRC	RMB 74,380,984	35.8	—	49	Provision of full range of advertising services
Beijing Beiqi Kowloon Taxi Company Limited	Sino-foreign joint stock company	PRC	RMB 166,600,000	31.4	—	31.4	Provision of taxi and car rental services

18 Interest in Jointly Controlled Entity

	2003 HK\$'000	2002 HK\$'000
Share of net assets	1,364	333
Amount due (to)/from jointly controlled entity	(350)	1,701
	<u>1,014</u>	<u>2,034</u>

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

Proportion of ownership interest							
Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	held by the Company	held by subsidiary	Principal activity
Dalian HK Macau Motor Bus Services Limited	Co-operative joint venture	PRC	Registered capital of RMB 22,000,000	(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. 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. Pursuant to the joint venture agreement, the joint venture is for a period of 15 years commencing from 31 July 1997.

19 Investment Securities

	2003 HK\$'000	2002 HK\$'000
Unlisted equity securities, at cost	<u>15,355</u>	<u>15,355</u>

20 Employee Benefit Assets

The Group makes contributions to two defined benefit retirement schemes that provide pension benefits for employees of the Group. The schemes are administered by an independent trustee and the assets are held separately from those of the Group.

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

	2003 HK\$'000	2002 HK\$'000
Present value of funded obligations	(2,008,346)	(2,020,295)
Fair value of plan assets	2,730,387	2,179,910
Net unrecognised actuarial (gains)/losses	(382,754)	118,090
	<u>339,287</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:

	2003 HK\$'000	2002 HK\$'000
At 1 January	277,705	252,500
Contributions paid to schemes	110,896	116,469
Expense recognised in the income statement (note 4(a))	(49,314)	(91,264)
At 31 December	<u>339,287</u>	<u>277,705</u>

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

	2003 HK\$'000	2002 HK\$'000
Current service cost	117,790	136,434
Interest cost	96,096	135,735
Expected return on plan assets	(164,572)	(180,905)
	<u>49,314</u>	<u>91,264</u>

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

The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of HK\$613,978,000 (2002: net loss of HK\$235,176,000).

(d) The principal actuarial assumptions used at the respective year ends are as follows:

	2003	2002
Discount rate at 31 December	5%	5%
Expected rate of return on plan assets	7.5%	7.5%
Future salary increases	<u>1 - 4%</u>	<u>0 - 4%</u>

21 Equity Compensation Benefits

Under the share option schemes of RoadShow Holdings Limited ("RoadShow"), a subsidiary of the Company, 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 i) the nominal value of the shares, ii) the closing price of the shares on the Stock Exchange on the date of the grant and iii) 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

	2003 Number '000	2002 Number '000
At 1 January	40,101	28,058
Granted	—	23,340
Exercised	—	(4,349)
Expired	(21,861)	—
Lapsed on grantee ceasing employment with the Group	(1,580)	(6,948)
At 31 December	16,660	40,101
Options vested at 31 December	16,660	40,101

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

Date granted	Exercise period	Exercise price	2003 Number '000	2002 Number '000
26 June 2001	28 December 2001 to 27 December 2003	HK\$1.80	—	21,861
11 March 2002	12 March 2002 to 11 March 2005	HK\$2.25	16,660	18,240
			16,660	40,101

22 Other Investments

	2003 HK\$'000	2002 HK\$'000
Trading securities (at market value)		
Listed equity securities in Hong Kong	40,162	29,610
Other securities		
Unlisted debt securities	51,113	52,344
	91,275	81,954

23 Accounts Receivable

	2003 HK\$'000	2002 HK\$'000
Trade and other receivables	198,991	262,978
Interest receivable	1,759	2,455
	<u>200,750</u>	<u>265,433</u>

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

	2003 HK\$'000	2002 HK\$'000
Current	81,731	46,905
Less than 3 months overdue	14,985	12,054
More than 3 months overdue	9,848	82,019
	<u>106,564</u>	<u>140,978</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

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash at bank and in hand	505,890	59,778	10,691	8,103
Deposits with banks maturing within three months	1,074,934	1,422,581	—	—
Cash and cash equivalents in the balance sheet	<u>1,580,824</u>	<u>1,482,359</u>	<u>10,691</u>	<u>8,103</u>
Bank overdrafts	(309)	(56,571)		
Cash and cash equivalents in the consolidated cash flow statement	<u>1,580,515</u>	<u>1,425,788</u>		

25 Bank Loans and Overdrafts

At 31 December 2003, the interest-bearing bank loans and overdrafts were repayable as follows:

	2003 HK\$'000	2002 HK\$'000
Within 1 year or on demand	415,392	438,311
After 1 year but within 2 years	374,916	277,083
After 2 years but within 5 years	1,492,705	1,140,121
After 5 years	350,000	412,500
	<u>2,217,621</u>	<u>1,829,704</u>
	<u>2,633,013</u>	<u>2,268,015</u>

25 Bank Loans and Overdrafts (continued)

At 31 December 2003, the bank loans and overdrafts were secured as follows:

	2003 HK\$'000	2002 HK\$'000
Unsecured bank overdrafts	309	56,571
Bank loans		
– secured	100,000	100,000
– unsecured	<u>2,532,704</u>	<u>2,111,444</u>
	<u>2,633,013</u>	<u>2,268,015</u>

As at 31 December 2003, bank loan of HK\$100,000,000 (2002: HK\$100,000,000) was secured by a pledged bank deposit of the same amount (2002:HK\$100,000,000).

26 Accounts Payable and Accruals

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade payables	123,607	107,894	–	–
Other payables and accruals	<u>811,601</u>	<u>873,608</u>	<u>12,842</u>	<u>10,620</u>
	<u>935,208</u>	<u>981,502</u>	<u>12,842</u>	<u>10,620</u>

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

	2003 HK\$'000	2002 HK\$'000
Due within 1 month or on demand	94,707	96,334
Due after 1 month but within 3 months	<u>28,900</u>	<u>11,560</u>
	<u>123,607</u>	<u>107,894</u>

27 Other Unsecured Loans

Other unsecured loans are interest-free and not expected to settle within one year.

28 Contingency Provision – Insurance

	2003 HK\$'000
At 1 January	117,245
Provision written back during the year	<u>(10,837)</u>
At 31 December	<u>106,408</u>

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 Income Tax in the Balance Sheet

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Provision for Hong Kong Profits Tax for the year	135,887	107,582	—	—
Provisional Profits Tax (paid)/refunded	(81,729)	(136,958)	(69)	199
	54,158	(29,376)	(69)	199
Balance of Profits Tax recoverable relating to prior year	(298)	(405)	—	(199)
	53,860	(29,781)	(69)	—
PRC income tax payable	1,050	1,264	—	—
Tax payable/(recoverable)	54,910	(28,517)	(69)	—

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation HK\$'000	Provisions HK\$'000	Tax losses HK\$'000	Defined benefit assets HK\$'000	Total HK\$'000
At 1 January 2002	704,893	(59,255)	(60,889)	—	584,749
Charged/(credited) to consolidated income statement	57,214	14,201	(1,170)	—	70,245
At 31 December 2002	762,107	(45,054)	(62,059)	—	654,994
At 1 January 2003	762,107	(45,054)	(62,059)	—	654,994
Charged/(credited) to consolidated income statement	84,633	(4,434)	(18,241)	59,376	121,334
At 31 December 2003	846,740	(49,488)	(80,300)	59,376	776,328

	2003 HK\$'000	2002 HK\$'000
Net deferred tax liabilities recognised on the consolidated balance sheet	776,328	654,994

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of HK\$15,670,725 (2002: HK\$10,083,360) in respect of tax losses of HK\$89,547,000 (2002: HK\$63,021,000). The tax losses do not expire under current tax legislation.

30 Provision for Long Service Payments

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

	2003 HK\$'000
At 1 January	48,184
Expense recognised in the income statement (note 4(a))	12,606
Payments made during the year	(8,469)
At 31 December	52,321

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 the above remaining obligations.

31 Share Capital

	2003 HK\$'000	2002 HK\$'000
Authorised: 600,000,000 ordinary shares of HK\$1 each	600,000	600,000
Issued and fully paid: 403,639,413 ordinary shares of HK\$1 each	403,639	403,639

32 Reserves

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
(a) Capital reserve				
At 1 January and 31 December	2,412	2,412	—	—
(b) General reserve				
At 1 January	17,839	17,601	—	—
Transfer from retained profits	—	238	—	—
At 31 December	17,839	17,839	—	—
(c) Retained profits				
At 1 January	3,054,458	2,886,045	950,624	874,850
Dividends approved in respect of the previous financial year (note 9(b))	(637,750)	(589,314)	(637,750)	(589,314)
Profit for the year (note 8)	596,953	939,603	904,118	846,726
Dividends declared in respect of the current year (note 9(a))	(181,638)	(181,638)	(181,638)	(181,638)
Transfer to general reserve	—	(238)	—	—
At 31 December	2,832,023	3,054,458	1,035,354	950,624
(d) Contributed surplus				
At 1 January and 31 December	—	—	1,300,000	1,300,000

32 Reserves (continued)

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
(e) Staff retirement fund reserve				
At 1 January and 31 December	<u>1,082,600</u>	<u>1,082,600</u>	<u>—</u>	<u>—</u>
(f) Exchange reserve				
Exchange differences on translation of financial statements of foreign entities	<u>91</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December	<u>91</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total reserves	<u>3,934,965</u>	<u>4,157,309</u>	<u>2,335,354</u>	<u>2,250,624</u>

Included in the figure for the retained profits of the Group is a profit of HK\$8,120,000 (2002: HK\$965,000) attributable to associates; and a profit of HK\$1,364,000 (2002: HK\$60,000) attributable to a jointly controlled entity.

The distributable reserves of the Company as at 31 December 2003 amounted to HK\$2,335,354,000 (2002: HK\$2,250,624,000).

33 Commitments

(a) Commitments outstanding at 31 December 2003 of the Group and not provided for in the financial statements were as follows:

	2003 HK\$'000	2002 HK\$'000
Contracted for	2,062,665	579,089
Authorised but not contracted for	<u>236,580</u>	<u>311,560</u>
	<u>2,299,245</u>	<u>890,649</u>

(b) At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2003 HK\$'000	2002 HK\$'000
Within 1 year	4,963	2,714
After 1 year but within 5 years	<u>4,034</u>	<u>640</u>
	<u>8,997</u>	<u>3,354</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to seven years. The leases do not include contingent rentals.

34 Contingent Liabilities

At 31 December 2003, the Company has undertaken to guarantee certain bank loans granted to certain wholly owned subsidiaries to the extent of HK\$574,166,000 (2002: HK\$275,000,000). Additionally, together with an external party, the Company had undertaken to guarantee jointly and severally bank loans granted to Park Island Transport Company Limited, a 65% owned subsidiary, to finance its purchase of fixed assets and daily operations to the extent of HK\$110,000,000 (2002: HK\$75,000,000). Such bank loans will be repayable by instalments commencing from February 2005 to August 2008.

35 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\$93,442,000 (2002: HK\$74,582,000) during the year ended 31 December 2003. The amount due to this company at the year end amounted to HK\$1,001,000 (2002: due from this company HK\$5,000).
- (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\$35,608,000 (2002: HK\$55,856,000) during the year ended 31 December 2003. The amounts due from these companies at the year end amounted to HK\$8,950,000 (2002: HK\$13,756,000).
- (c) 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, no payment for these project management services was made by the Group to this company (2002: HK\$3,000,000). The amount accrued in the financial statements at the year end under this contract amounted to HK\$3,000,000 (2002: HK\$Nil). The Group's capital commitment outstanding at 31 December 2003 under this contract amounted to HK\$11,000,000 (2002: HK\$14,000,000).
- (d) A subsidiary of the Group, Park Island Transport Company Limited ("PITC"), entered into a contract with Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW"), a wholly owned subsidiary of SHKP, for the provision of transport services for Ma Wan Island in Hong Kong. Under the terms of the contract, 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\$11,002,000 (2002: HK\$477,000). Furthermore, for a period of 26 calendar months commenced from January 2002, SHKMW advances to PITC an unsecured loan in the sum of HK\$2,000,000 per month 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 amount receivable from this company at the year end under this contract, after set-off by the Shortfall, was HK\$16,432,000 (2002: a payable of HK\$16,684,000). This transaction also constitutes an ongoing connected transaction under the Listing Rules.
- (e) During the year, Lai Chi Kok Properties Investment Limited ("LCKPI"), an indirectly wholly owned subsidiary of the Company, entered into a prime cost contract (the "Prime Cost Contract") with a subsidiary of SHKP for the provision of management contractor services to construct and complete the substructure and superstructure of the development to be constructed on or above Section A of New Kowloon Marine Lot No. 3 (the "Development"). Based on the estimate of the total prime cost of all works set out in the Prime Cost Contract, and on the assumption that the total prime cost required to complete the Development does not exceed that estimate, the aggregate consideration payable under the Prime Cost Contract shall not exceed HK\$1,160,171,000. During the year, no payment for the Prime Cost Contract was made by LCKPI to the subsidiary of SHKP. The Group's capital commitment outstanding at 31 December 2003 under this contract amounted to HK\$1,160,171,000. This transaction constitutes a connected transaction under the Listing Rules, and was approved by the shareholders at the Special General Meeting of the Company held on 26 August 2003.

35 Material Related Parties Transactions (continued)

- (f) During the year, LCKPI appointed a subsidiary of SHKP for the provision of letting and sales agency and marketing services for the residential units, commercial units and the car parking spaces of the Development. In consideration of the provision of these services, LCKPI shall pay this company (i) letting agency fees at the rate of one month's rental for each commercial and residential unit and car parking space of the Development let or pre-let at the first instance; and (ii) sales agency fees at the rate of 0.75% of the sale for each commercial and residential unit and car parking space sold or pre-sold at the first instance. The total amount of letting and sales agency fees payable by LCKPI to this company during the term of appointment under the agreement shall not exceed HK\$46,000,000. The terms of the agreement will be conducted in the ordinary and usual course of business of the Group and were negotiated on an arm's length basis, and are comparable with the market rates charged by third party service providers. No payment has been made during the year and no amount was outstanding at 31 December 2003 under this agreement. This transaction also constitutes an ongoing connected transaction under the Listing Rules.
- (g) During the year, LCKPI agreed to appoint a subsidiary of SHKP as the manager of the Development and to engage its services in relation to, inter alia, management, operation, cleansing, security and repair of the common areas and facilities of the Development on the terms and conditions set out in the deed(s) of mutual covenant and management agreement(s) (the "Agreements") in relation to the Development to be entered by LCKPI (as the developer), the manager and the first purchaser of a unit of the Development. The appointment shall be for an initial term of two years from the date of the Agreements. Under the agreement, the remuneration payable to the manager shall not exceed 10% of the total management expenses incurred in performance of its duties under the Agreements. It is expected that the maximum amount of remuneration payable to the manager in relation to its appointment as the manager during the initial term of appointment shall be HK\$5,586,000, and the maximum amount of management fees (including the management expenses and the remuneration) payable by LCKPI during the initial term of appointment shall not exceed HK\$61,451,000, assuming that LCKPI shall be responsible for the management fees of all the residential and commercial units and car parking spaces of the Development.

Upon commencement of the sales and letting of the residential and commercial units and car parking spaces of the Development after completion, the respective amounts of management fees will eventually be borne and payable by the purchasers and/or the tenants for those commercial/residential units and car parking spaces that will be purchased/leased by them. The terms of the agreement are on normal commercial terms and were negotiated on an arm's length basis. No payment has been made during the year and no amount was outstanding at 31 December 2003 under this agreement. This transaction also constitutes an ongoing connected transaction under the Listing Rules.

36 Post Balance Sheet Event

After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in note 9.

CORPORATE DIRECTORY

Board of Directors

The Hon Sir Sze-yuen CHUNG*

GBM, GBE, PhD, FREng, JP

Chairman

Norman LEUNG Nai Pang

GBS, JP, BA

Deputy Chairman

Dr the Hon WOO Pak Chuen*

JP, LLD(Hon), LLB, PhD

KWOK Ping-uen, Raymond

MA(Cantab), MBA, Hon DBA, Hon LLD

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 NG

BA, MBA(Chicago)

Executive Director

Dr KUNG Ziang Mien, James*

GBS, OBE

George CHIEN Yuan Hwei

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

Dr the Hon Eric LI Ka Cheung*

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LUI Pochiu

CMILT

Edmond HO Tat Man

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Deputy Managing Director

Rafael HUI Si-yan

GBS, JP, BA(Hons) HKU, MPA Harvard

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-uen, 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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Hong Kong

Bermuda

Butterfield Corporate Services Limited

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Register of Members

Book closed from 10 May 2004 to
20 May 2004, both dates inclusive

Annual General Meeting

Date and Time:

20 May 2004, 3:00 pm

Venue:

The Royal Plaza Hotel, Grand Ballroom,
193 Prince Edward Road West, Kowloon,
Hong Kong

Dividends

Interim

HK\$0.45 per share,
paid on 15 October 2003

Final (proposed)

HK\$1.58 per share,
payable on 21 May 2004

Stock Code

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



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www.kmb.com.hk

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