

FINANCIAL REPORTS

83-90	REPORT OF THE DIRECTORS
91	AUDITORS' REPORT
92	CONSOLIDATED INCOME STATEMENT
93-94	CONSOLIDATED BALANCE SHEET
95	BALANCE SHEET
96	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
97-98	CONSOLIDATED CASH FLOW STATEMENT
99-126	NOTES ON THE FINANCIAL STATEMENTS

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	1,580,824	1,482,359	10,691	8,103
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	2,532,704	2,111,444
	<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	811,601	873,608	12,842	10,620
	<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	28,900	11,560
	<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	(10,837)
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.