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


PRUDENT FINANCIAL
STRATEGY

FINANCIAL REVIEW

The Group

Financial performance

Consolidated results for the year

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

Dividends

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

Summary of the Group's performance by Division

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

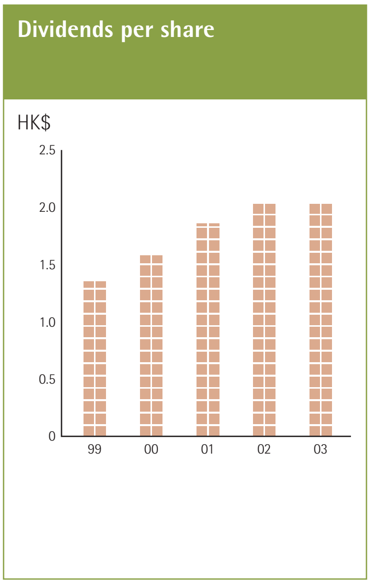
Segment information on the main businesses of the Group is shown in note 11 on the financial statements on pages 110 to 111 of this Annual Report.

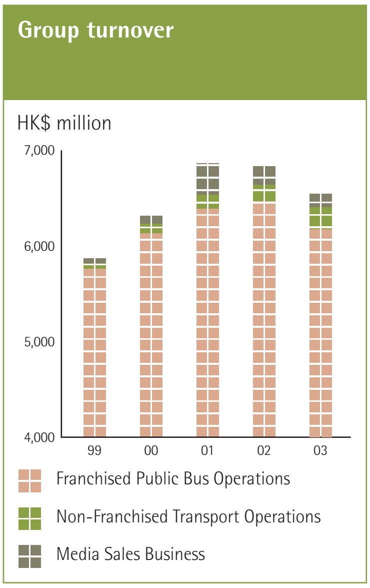
Taxation

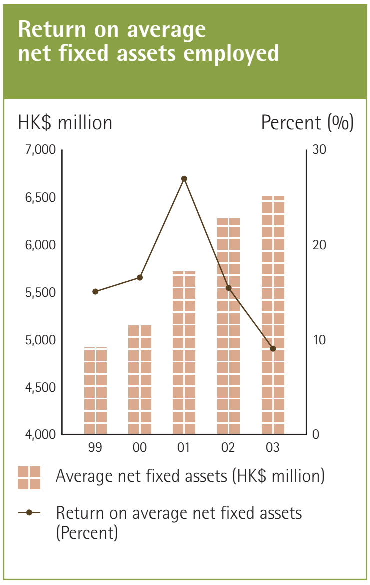
Taxation for the year was HK$259.6 million (2002: HK$174.9 million), representing an increase of 48.4% compared with the previous year. In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate from 16% to 17.5% which has been applicable to the Group's operations in Hong Kong.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

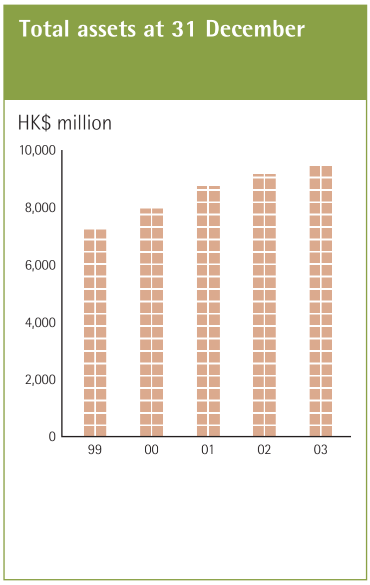
The Group's performance by Division

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









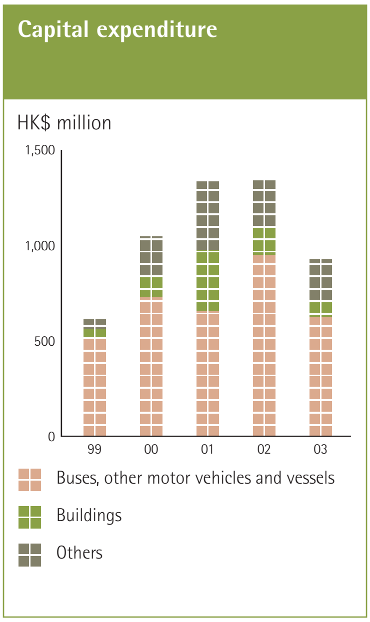
Cash flow

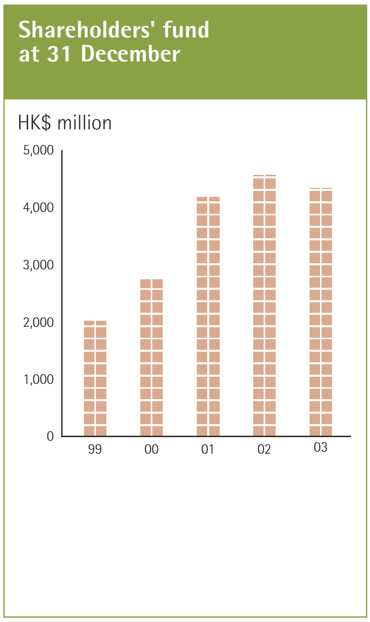
The net cash inflow from operating activities of the Group in 2003 was HK$1,561.5 million (2002: HK$1,648.3 million). Net cash used in investing activities during the year amounted to HK$992.3 million (2002: HK$1,461.1 million), of which payment for capital expenditure amounted to HK$919.5 million (2002: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

Financial position

Capital expenditure and commitments

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





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

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

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

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

Liquidity and financial resources

The Group's policy is to maintain a healthy financial position such that net cash inflow from operating activities together with undrawn committed and uncommitted banking facilities should meet the requirements for loan repayments, capital expenditure and investment. Furthermore, sufficient cash balances are maintained to meet operational requirements, potential business expansion and development from time to time.

The Group's operations were mainly financed by shareholders' funds, bank loans and overdrafts in 2003. The major operating companies of the Group arrange their own financing to meet specific requirements. The main sources of financing for these companies are proceeds from operations and unsecured long-term bank loans. Uncommitted stand-by banking facilities and overdrafts are also maintained to facilitate routine treasury operations. Financing for the other subsidiaries of the Group is mainly provided by the holding company from its capital base. The Group reviews its strategy from time to time with a view to selecting the financing methods that provide the lowest finance costs with the required maturity and flexibility to fit the unique operating environment of each subsidiary.

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

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

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

Net borrowings

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

	2003		2002	
	Net borrowings/ (cash) in foreign currency million	Net borrowings/ (cash) in HK$ million	Net borrowings/ (cash) in foreign currency million	Net borrowings/ (cash) in HK$ million
Hong Kong Dollar		**1,140.1**		993.9
United States Dollar	**(11.3)**	**(87.9)**	(28.3)	(221.2)
British Pound Sterling	**(6.5)**	**(90.1)**	(6.7)	(83.2)
Renminbi	**11.8**	**11.2**	–	–
Total		973.3		689.5

Bank loans, overdrafts and other loans

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

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

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

Cash and deposits at bank

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

Banking facilities

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

Finance costs and interest cover

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

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

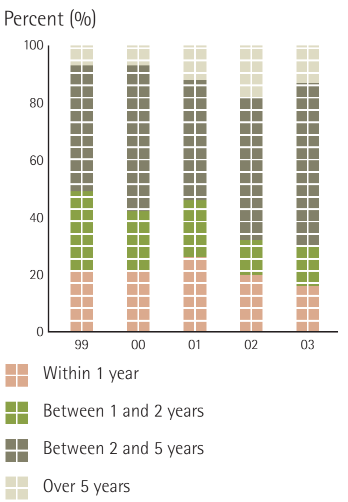
Treasury policies

Currency risk management

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

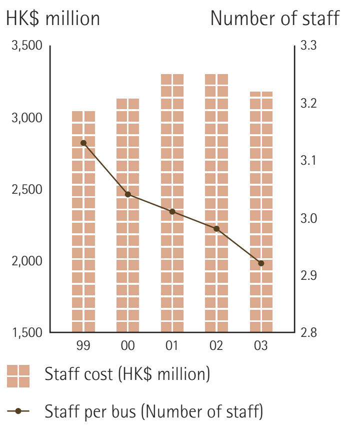
However, certain expenditures such as purchase of new buses and motor vehicle components require payments in foreign currencies. During 2003, the relatively weak United State Dollar led to a significant appreciation of GBP and other currencies. In view of this, the Group hedged certain amount of GBP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

Debt maturity profile at 31 December



Staff cost and staff per bus

(Franchised public bus operations)



Interest rate risk management

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

Accounting standards and policies

The financial statements set out on page 92 to 126 have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

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

Employees

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

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

Individual business units

Franchised public bus operations

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

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

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

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

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

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

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

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

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

Long Win Bus Company Limited ("LWB")

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

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

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

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

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

Non-franchised transport operations

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

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

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

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

Park Island Transport Company Limited ("PITC")

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

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

New Hong Kong Bus Company Limited ("NHKB")

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

Mainland transport operations

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

Dalian

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

Tianjin

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

Beijing

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

Other projects

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

Media sales business

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

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

The RoadShow Group

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

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

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

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

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

Property development

Lai Chi Kok Properties Investment Limited ("LCKPI")

LCKPI, a wholly owned subsidiary of the Group, is the owner of the old Lai Chi Kok Depot site located at Po Lun Street, Lai Chi Kok, Kowloon. The old depot building was demolished in 2002. According to the current plan, the depot will be developed into a residential and commercial complex comprising four residential blocks of about 1,300 flat units with a total residential gross floor area of about one million square feet and a retail podium area of about 50,000 square feet. LCKPI has engaged certain subsidiaries of Sun Hung Kai Properties Limited for the provision of services in relation to the development, construction, letting and sales, and management of the future residential and commercial complex.

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

Connected transactions

Park Island Transport Company Limited

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

As detailed in note 35(d) on the financial statements on page 125 of this Annual Report, the continuing transaction during the year between PITC and Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW"), a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), for the provision of transport services for Ma Wan Island constitutes a connected transaction under the Listing Rules. Particulars of the connected transaction were disclosed in the announcement of the Company dated 25 May 2002.

Lai Chi Kok Properties Investment Limited

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

Prime Cost Contract

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

Letting and Sales Agency Agreement, and Management Agreement

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

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

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

Conditional waivers

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

1. each of the foregoing connected transactions with SHKMW, SHKRE and Hong Yip was:-

    (i) entered into in the ordinary and usual course of business of the Group;

    (ii) conducted either on normal commercial terms or on terms no less favourable than the terms available to or from independent third parties or (where there was no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

    (iii) entered into in accordance with the terms of the respective agreements;

2. the annual permitted return for the year ended 31 December 2003 entitled by PITC under the agreement between PITC and SHKMW did not exceed 3% of the audited consolidated net tangible assets of the Company as at 31 December 2002; and

3. the annual aggregate amount for the year ended 31 December 2003 payable by LCKPI under each of the Letting and Sales Agency Agreement and the Management Agreement did not exceed the higher of HK$10,000,000 or 3% of the audited consolidated net tangible assets of the Company as at 31 December 2002.

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