

MANAGING DIRECTOR'S REPORT

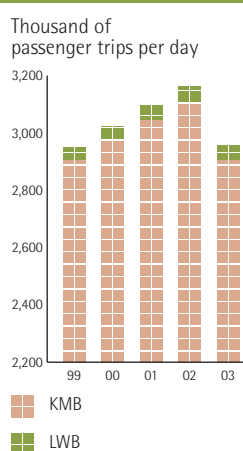
STRATEGIC MANAGEMENT



John CHAN Cho Chak
Managing Director

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

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



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

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

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

Long Win Bus Company Limited ("LWB")

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

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

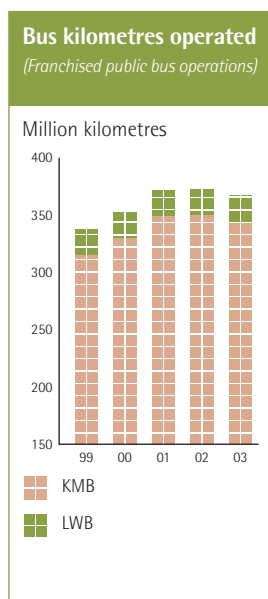
The SBH Group comprises six non-franchised bus business units, with Sun Bus Limited as its flagship. Since operation commenced in 1998, the SBH Group has provided bus services to large residential estates, shopping malls, major employers and schools. The SBH Group's turnover decreased by 18.1% from HK\$136.2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

Park Island Transport Company Limited ("PITC")

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

New Hong Kong Bus Company Limited ("NHKB")

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



Mainland transport operations

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

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

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

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

Lai Chi Kok Properties Investment Limited ("LCKPI")

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

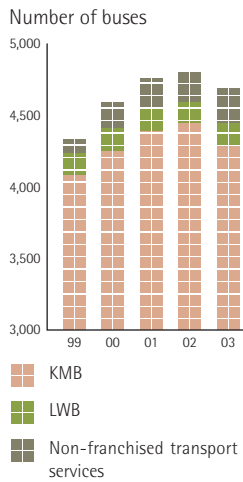
Safety first

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

Concern for the environment

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

Number of licensed buses at 31 December



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

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

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

Customer facilities

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

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

Listening to customers

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

Going forward

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

John CHAN Cho Chak

Managing Director

25 March 2004