



THE KOWLOON MOTOR BUS HOLDINGS LIMITED



**Striving** for sustainable business growth

2004  
Annual Report

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## Recognising



**Actions** speak louder than words



> Optimising > Exceeding > Maximising >

Recognising >





## our Strengths

Our professional management team drives the Group with clear vision and outstanding strengths. We operate with honesty and a firm commitment to providing excellent and yet affordable public transport services.

Optimising >







## our Performance

Our dedication to high performance relates to both our staff and our bus fleet. By constantly enhancing service delivery through innovative vehicle design and a commitment to recognised quality standards, KMB is dedicated to providing world-class public bus services.



Exceeding >







## our Customers' Expectations

Our culture is not just to meet customers' expectations, but to exceed them with vehicles that provide a high level of comfort and safety, fares that are reasonable and services which are in tune with public demands.

A man in a dark suit and glasses is smiling while looking at a laptop. In the background, a KMB double-decker bus is visible, and further back, several people are standing near bus stop information boards.

Maximising >

## our Value

Our prudent financial and commercial principles carefully balance our short term performance with sensibly defined long term development strategies.

# The KMB Brand Value

## Our **Mission**

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

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

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

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

Our **Corporate Culture** focuses on

Customer service

Safety

Employees

Environment

Communities

# Group Profile

The Kowloon Motor Bus Holdings Limited (the “Company” and, together with its subsidiaries, the “Group”) is a name synonymous with quality public transport. In terms of ridership, we are Hong Kong’s largest public transport provider, with about three million passenger trips made daily on our buses. On China Mainland, both our name and our profile are increasingly recognised for efficient and reliable bus and taxi services.

The Group has six divisions:

## Franchised Public Bus Operations Division

The Kowloon Motor Bus Company (1933) Limited (“KMB”) – a wholly-owned subsidiary of the Group and our flagship for franchised public bus services in Hong Kong. With more than 70 years’ history and excellent track record, KMB currently operates a fleet of about 4,150 buses serving some 400 routes across Kowloon, the New Territories and on Hong Kong Island.

Long Win Bus Company Limited (“LWB”) – another wholly-owned subsidiary of the Group. Established in 1996, LWB currently operates 145 buses on 15 routes plying between the New Territories, Hong Kong International Airport and North Lantau.

## Non-franchised Transport Operations Division

Individual companies within the division operate a growing fleet of buses and ferries designed to serve niche markets in Hong Kong, including Ma Wan Island, as well as providing cross-boundary shuttle bus services between Hong Kong (Lok Ma Chau) and Shenzhen (Huanggang).

## Mainland Transport Operations Division

Businesses include the provision of public transport services in Beijing, Dalian, Shenzhen, Tianjin and Wuxi through the Group’s joint venture companies.

## Media Sales Business Division

RoadShow Holdings Limited (“RoadShow”) – a 73% owned subsidiary of the Group and a leading provider of innovative multi-media services in Hong Kong, Macau and major cities on the Mainland. As well as marketing advertising space on the exteriors and interiors of transit vehicles, bus shelters and out-of-home advertising spaces, RoadShow also undertakes merchandising business. It has been separately listed on the Main Board of The Stock Exchange of Hong Kong Limited since 28 June 2001.

## Property Holdings and Development Division

Lai Chi Kok Properties Investment Limited – a wholly-owned subsidiary of the Group and the owner and developer of KMB’s former Lai Chi Kok Depot site. It is currently redeveloping this site into a high-end residential complex with a total gross floor area of about one million square feet and a retail podium area of about 50,000 square feet.

## Internal Financial Services Division

Responsible for providing internal support services in relation to finance and treasury management to companies operating under the umbrella of the Group.



# Business at a Glance



## THE KOWLOON MOTOR BUS HOLDINGS LIMITED

### 1 FRANCHISED PUBLIC BUS OPERATIONS

This division comprises The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited, both are franchised public bus companies in Hong Kong.



### 2 NON-FRANCHISED TRANSPORT OPERATIONS

This division operates non-franchised bus and ferry services for residential and commercial sectors in Hong Kong.

### 3 MAINLAND TRANSPORT OPERATIONS

This division oversees the Group's bus and taxi operations and initiatives on China Mainland.



### 4 MEDIA SALES BUSINESS

This division provides media sales and management services, and markets transport-related advertising spaces in Hong Kong and on China Mainland.

### 5 PROPERTY HOLDINGS AND DEVELOPMENT

This division oversees the redevelopment of the Group's former Lai Chi Kok Depot site into a prestigious residential and commercial complex.



### 6 INTERNAL FINANCIAL SERVICES

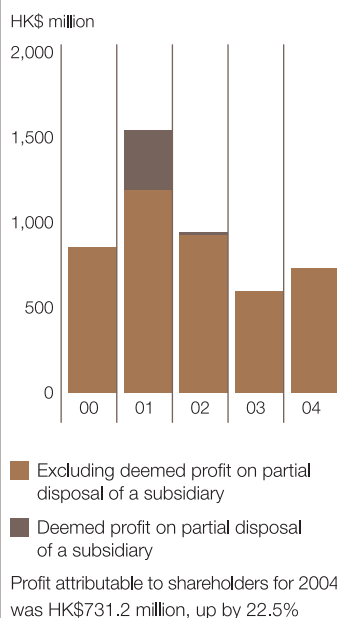
This division underpins the financial aspects of the Group's businesses.

# Financial and Operational Highlights

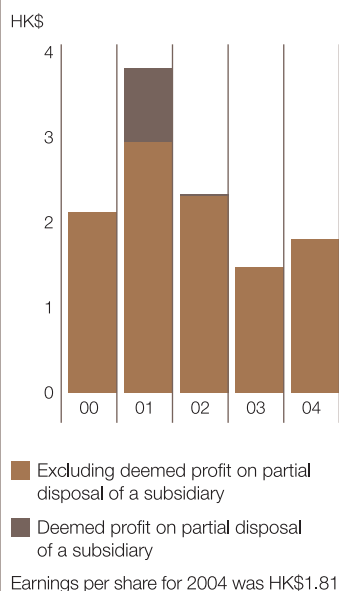
for the year ended 31 December 2004

	Unit	2004	2003
<b>Financial Highlights</b>			
Turnover	HK\$ million	<b>6,544.3</b>	6,540.2
Profit from ordinary activities before taxation	HK\$ million	<b>925.2</b>	857.2
Profit attributable to shareholders	HK\$ million	<b>731.2</b>	597.0
Earnings per share	HK\$	<b>1.81</b>	1.48
Dividends per share	HK\$	<b>2.03</b>	2.03
Shareholders' funds	HK\$ million	<b>4,250.4</b>	4,338.6
Total assets	HK\$ million	<b>9,412.3</b>	9,460.1
Net borrowings	HK\$ million	<b>1,621.8</b>	952.2
Net finance charges	HK\$ million	<b>2.4</b>	13.7
Cash generated from operations	HK\$ million	<b>1,438.3</b>	1,645.8
<b>Financial Ratios</b>			
Profit margin		<b>11.2%</b>	9.1%
Return on shareholders' funds		<b>17.2%</b>	13.8%
Net gearing (ratio of net borrowings to shareholders' funds)	Times	<b>0.38</b>	0.22
Interest cover (ratio of profit from ordinary activities before taxation to net finance charges)	Times	<b>391.9</b>	62.8
Dividend cover (ratio of profit attributable to shareholders to total dividends paid and proposed for the year)	Times	<b>0.89</b>	0.73
<b>Franchised Public Bus Operational Highlights</b>			
Average number of passenger trips per day	Million trips	<b>2.97</b>	2.96
Number of licensed buses at year-end		<b>4,295</b>	4,440
Number of staff at year-end		<b>12,906</b>	12,968
Average number of staff per licensed bus at year-end		<b>3.00</b>	2.92
<b>Non-franchised Transport Operational Highlights</b>			
Number of licensed buses at year-end		<b>259</b>	250
Number of catamarans at year-end		<b>7</b>	7
Number of staff at year-end		<b>557</b>	536

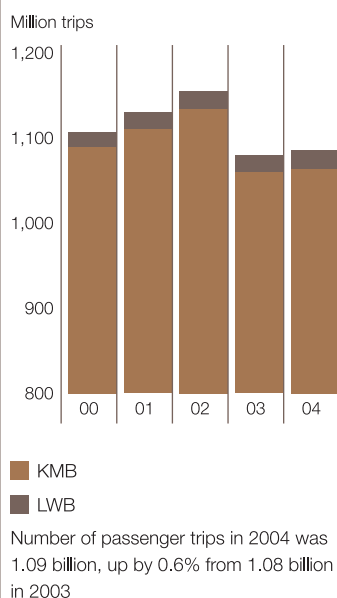
### Profit attributable to shareholders



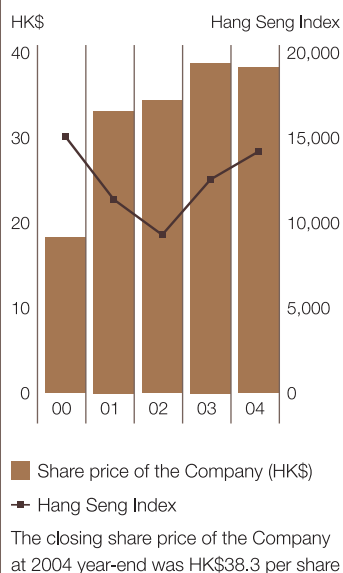
### Earnings per share



### Number of passenger trips (Franchised Public Bus Operations)



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



# The Group's Strategic Locations

The Group's investments  
on China Mainland



## Beijing

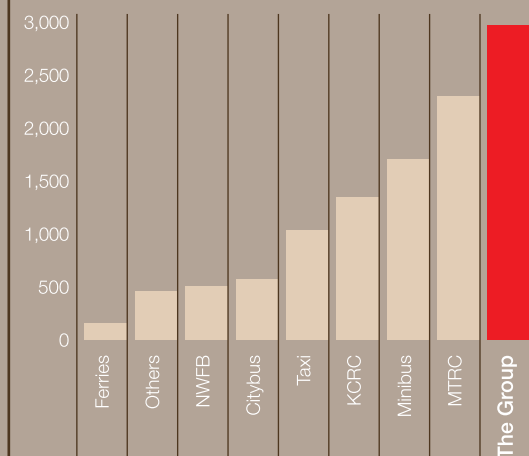
Joint venture operating taxi and car rental businesses









## Dalian, Shenzhen, Tianjin and Wuxi

Joint ventures operating public bus business

Average number of passenger trips  
per day by mode of transport in 2004

Thousand of passenger trips per day

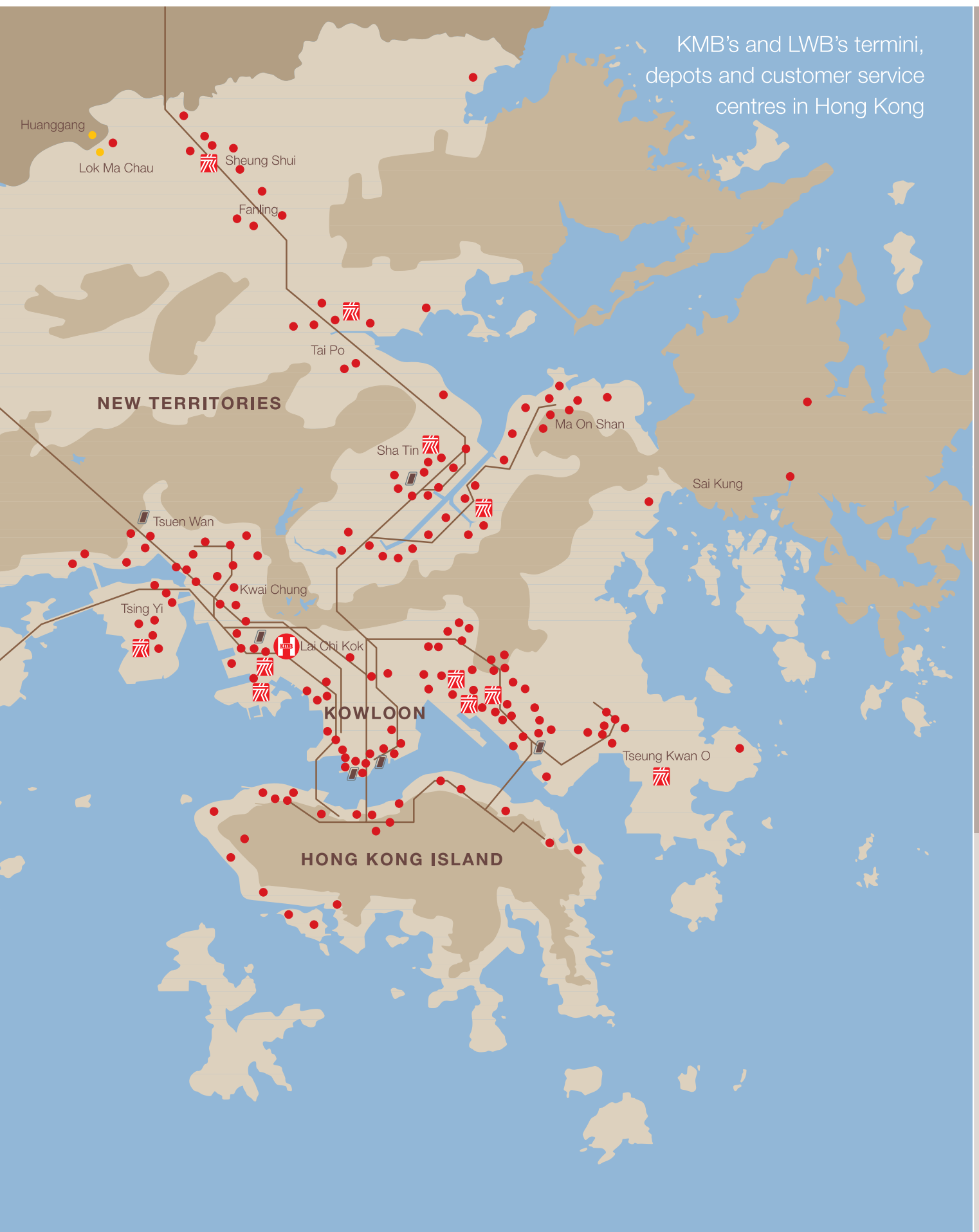


-  The Group's headquarters
-  Depots of The Kowloon Motor Bus Company (1933) Limited ("KMB")
-  Depot of Long Win Bus Company Limited ("LWB")
-  Bus termini of KMB and LWB
-  Customer service centres of KMB and LWB
-  Bus termini of "Huang Bus"
-  High land area
-  Railways





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



# Corporate Milestones



## February 2004

### New System Facilitates Operations (pic.1)

The Kowloon Motor Bus Company (1933) Limited ("KMB") introduced the in-house developed pocket PC based Electronic Terminus Management System to ensure rapid and appropriate decisions are made on bus operations at termini, depots and control centres.

*A KMB terminus supervisor at Olympic Station Bus Terminus said: "I can now record bus arrival times on my pocket PC which transmits the relevant data to the electronic display boards installed at the terminus so that our passengers can be informed of the up-to-date bus departure information. The information flow to passengers is immediate."*

## March 2004

### WKPT Commenced Operations (pic.2)

Wuxi Kowloon Public Transport Company Limited ("WKPT"), a Sino-foreign joint stock company, was formed with The Kowloon Motor Bus Holdings Limited ("KMBH") as a key shareholder. The Group regards this as a strategic investment; the municipal authorities in Wuxi welcome KMBH as a partner with a proven track record in the provision of public transport services.

*KMBH's Managing Director, Mr John C C Chan said: "Our investment in Wuxi represents a key milestone in the Group's business development on the Mainland."*

## June 2004

### Global Index Admits KMBH

KMBH became a constituent member of the FTSE4Good Global Index which includes companies that meet globally recognised corporate social responsibility standards such as environmental sustainability, positive stakeholder relationships and universal human rights.

*KMBH's Managing Director, Mr John C C Chan said: "This sends a powerful message to investors and stakeholders about KMBH's commitment to responsible business practices."*

## August 2004

### TOMS Won Major Award

KMB's in-house developed Traffic Operations Management System ("TOMS") won the 2004 IT Excellence Awards – Application Bronze Award organised by The Hong Kong Computer Society. TOMS replaces the manual system formerly used by staff to sign in at depots, making it easier for bus captains to access duty allocation and operational arrangements at different depots in a timely manner.



## September 2004

### KMB Introduced State-of-the-Art Tyre (pic.3)

KMB introduced the world's first Super Single Tyre for double-deck buses resulting in wide ranging cost and efficiency advantages. This is another example of our commitment to improving bus services through the adoption of the most up-to-date products and technologies.

*Mr Shum Yuet Hung, KMB's Principal Engineer, Bus Engineering said: "By replacing the traditional twin fitting tyres with the Super Single Tyre, we have achieved improved brake cooling, increased bus stability, more effective energy savings and a more comfortable ride for passengers."*

## October 2004

### KMB Celebrated the 15th Anniversary of Female Captains Recruitment (pic.4)

KMB, a pioneer in the recruitment of female bus captains, celebrated the 15th anniversary of having women behind the steering wheels of its buses. The first female bus captain was employed in 1989. Today, KMB employs over 500 female bus captains and recruitment numbers are growing each year.

### Company Scores on Sustainability

KMBH was again included as a component company of the Dow Jones Sustainability Index ("DJSI"). The DJSI is based on sustainability assessments undertaken on a global basis to gauge the constituent companies' results in the economic and social dimensions of corporate sustainability.

## November 2004

### Television Campaign Received Accolades (pic.5)

KMB's civic education television commercials won the Citation for Outstanding TV Campaign at the HKMA/TVB Award for Marketing Excellence. The commercials were judged to have made the best use of 10 seconds by linking everyday situations with bus safety and courtesy in a humorous and idiosyncratic style.

### Shareholders Approved Redevelopment Upgrade

Shareholders approved plans to upgrade the redevelopment of the Group's former depot site at Lai Chi Kok into luxurious residential accommodation. The redevelopment is scheduled to be completed by the end of 2006.

## December 2004

### Annual Report Took Bronze Award (pic.6)

KMBH's 2003 Annual Report won a Bronze Award in the General Category of the 2004 Best Annual Reports Awards organised by the Hong Kong Management Association. The award recognises our efforts in ensuring an excellent level of disclosure across all aspects of our businesses.

### Donation Made to Tsunami Victims

In an effort to help victims of the earthquake and tsunami that swept across South Asia on 26 December 2004, The Group donated HK\$1 million to the relief funds.

### KMBH Entered Shenzhen Market (pic.7)

Statutory approval for our acquisition of a 35% stake in the Shenzhen Bus Group Company Limited ("SBG") was obtained in December 2004. SBG started operations in January 2005 with about 3,500 buses on some 120 routes.

## Chairman's Statement



**S. Y. CHUNG** Chairman

“ We have met the challenges of the past 12 months with solutions that place the Group in a strong position for future growth. ”

Building  
for the Future



## To Our Shareholders and Partners

### Results for the Year

For the fiscal year ended 31 December 2004, the Group's profit attributable to shareholders was HK\$731.2 million (2003: HK\$597.0 million), representing an increase of 22.5% compared with last year. Earnings per share for the year were HK\$1.81 (2003: HK\$1.48).

### Dividends

At the forthcoming Annual General Meeting, the Directors will recommend the payment of a final dividend of HK\$1.58 per share for the year ended 31 December 2004 (2003: HK\$1.58 per share). Together with the interim dividend of 45 cents per share paid on 13 October 2004 (2003: 45 cents per share), total dividends for the year will amount to HK\$2.03 per share (2003: HK\$2.03 per share). The total dividend payout for the year will amount to HK\$819.4 million (2003: HK\$819.4 million).

### Moving Ahead

Public transport is integral to the lives of most people in Hong Kong and, increasingly, people living in major cities on the Mainland. The Group, through its franchised public bus services in Hong Kong and joint venture operations on the Mainland, has continued its leadership role over the past year, setting a track record of excellence in transport services. We have emerged from 2003's difficult business environment that was heavily influenced by Severe Acute Respiratory Syndrome (SARS) with refined and, where possible, expanded services and sustainable business growth.

### Meeting Customer Needs

The Group operates in specific niche markets. The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") are key transport providers, operating under franchises and within specific catchment areas in the Hong Kong Special Administrative Region ("Hong Kong" or "HKSAR"). It is the Group's responsibility to ensure that the communities within those catchments have a bus transport system that operates to the highest standards. We have continued to put considerable effort and resources into the design of our bus fleets ensuring ease of access for all passengers, including passengers who may have disabilities. Our vehicles, depots and bus termini operate with cutting-edge technology that ensures we can provide a safe, efficient, reliable and user-friendly bus service for the general public. It is this commitment to our passengers that makes KMB an industry leader in Hong Kong and one of the best bus companies in the world.

### Finding Solutions

Like most in our industry, we continue to face increased operating costs. Oil prices, insurance premiums and tunnel tolls have all risen. Yet, we have maintained our fares at 1997 levels, continued to expand the coverage of our Bus-bus interchange and Bus-rail interchange schemes and provided fare concessions on many travel sectors. I am pleased to report that this has been achieved through productivity enhancements and stringent cost control measures and not through any lowering of our standards of service. When it comes to challenges, we are a solution orientated group.

We have met the competition from new rail networks during the year, by reviewing bus routes and operations, primarily those affected by the commissioning of the West Rail, the Tsim Sha Tsui East Extension and the Ma On Shan rail network – all new Kowloon-Canton Railway Corporation ("KCRC") developments. As a result, KMB made changes to some existing routes and introduced new feeder bus routes to rail stations. We will continue to work closely with the HKSAR Government and KCRC to further develop interchange schemes and feeder bus services that will benefit all customers.

As a leading public transport provider, we recognise our responsibility to the community, not just in terms of the provision of bus services, but also the fares that we charge. We are continuing our discussions with the HKSAR Government on the development of a new fare determination mechanism that we hope will strike a balance between the interests of all stakeholders — our customers, shareholders, staff and the community.

## Diversifying Business

Our other business interests continued to move ahead during 2004. Our non-franchised transport services are meeting new market demands by providing customer specific services and charters within Hong Kong and across the boundary with the Mainland. The media sales business continues to grow particularly in the context of the Mainland.

The redevelopment of the Group's former Lai Chi Kok Depot site is scheduled for completion by the end of 2006. The development will contain high-end luxurious residential apartments, together with clubhouse facilities and a retail podium. We hope to begin marketing the development by the end of 2005 or early 2006.

We have continued our long-term strategy of identifying business opportunities on the Mainland. In addition to joint venture transportation projects in Dalian, Tianjin and Beijing, two new joint ventures were set up in Wuxi and Shenzhen and commenced operations in March 2004 and January 2005 respectively. These two projects are important milestones in the context of our presence on the Mainland and I am confident that the Group is now well positioned to expand further into other major population centres there.

## Corporate Governance

We have always recognised the importance of good corporate governance and the need to provide access to the Group's information by a variety of audiences including shareholders, creditors, financial analysts, customers, the media and our staff. To meet our stakeholders' increasing expectations on transparency, we will continue to improve our communication channels.

## Board of Directors

The Group continues to benefit from a wide range of expertise that our Board members bring to our business. During the last year, Mr Siu Kwing-chue, Gordon, GBS, CBE, JP was appointed as an Independent Non-executive Director of the Company, KMB and LWB with effect from 26 October 2004. I welcome Mr Siu to the Board. Dr the Hon Woo Pak Chuen, JP, LL.D(Hon), LLB, PhD resigned from the Boards of Directors of the Company, KMB and LWB with effect from 24 June 2004. I thank Dr Woo for his invaluable contributions over the past 35 years.

Under the Public Bus Services Ordinance (Chapter 230), the Commissioner for Transport and the Deputy Secretary for the Environment, Transport and Works are appointed by the Chief Executive of the HKSAR Government to sit on the Boards of KMB and LWB. The incumbents were Mr Robert Footman, JP and Ms Cathy Chu Man Ling (who replaced Mr Arthur Ho, JP with effect from 15 November 2004) respectively. I thank them for their invaluable contributions.

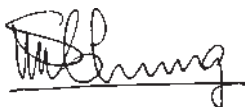
I would like to thank the Group's Audit Committee, chaired by Dr Eric Li Ka Cheung, GBS, OBE, JP with Dr Kung Ziang Mien, James, GBS, OBE and Mr George Chien Yuan Hwei as members, and the Remuneration Committee, chaired by Dr Norman Leung Nai Pang, GBS, JP with Dr Eric Li Ka Cheung and Dr Kung Ziang Mien, James as members for their hard work during the year.

I also thank my fellow board members, in particular our Managing Director, Mr John Chan Cho Chak, GBS, JP for their painstaking efforts towards achieving a number of milestones during 2004.

## Team Effort

Our achievements over the past year are attributable to the dedication and hard work of the staff members of the Group. On behalf of the Board, I thank our staff for their contributions.

The Group is a top performing business entity with a proud record that is sustained through changing economic conditions. There is growth potential – within our core Hong Kong business and particularly our diverse interests on the Mainland and we are prepared to maximise the opportunities that lie ahead in the interests of all stakeholders.



**S.Y. CHUNG**

Chairman

17 March 2005

# Corporate Governance

The Group works to maintain the highest standards of corporate governance by implementing a range of sound policies, procedures and rules that are followed by staff and board members alike in a culture of integrity. Business is conducted in the interest of shareholders but with an acute awareness of community expectations.

To achieve our corporate governance objectives we ensure that the processes of corporate decision-making, internal audit and controls, disclosure of information and communication with shareholders, are conducted in accordance with sound management practices and in full compliance with regulatory standards.

Staff members and our Board of Directors understand the importance of their roles to the Group's success. Our adoption of internationally recognised quality standards through ISO certification, gives us a strong sense of quality management in all aspects of our day-to-day operations. This enhances the performance and value of the Group.

## Board of Directors

The Company's Board of Directors, whose profiles are presented on pages 78 to 83 of this Annual Report, comprises 17 Directors, four of whom are Independent Non-executive Directors. During the year, the Group has fully complied with Rules 3.10(1) and (2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") regarding the number of independent non-executive directors and the requirement that at least one of these directors must hold appropriate professional qualifications.

Directors at 17 March 2005 are:

### Independent Non-executive Directors

The Hon Sir Sze-yuen CHUNG, *GBM, GBE, PhD, FREng, JP* (Chairman)  
Dr KUNG Ziang Mien, James, *GBS, OBE* (with Mr KUNG Lin Cheng, Leo as alternate)  
Dr Eric LI Ka Cheung, *GBS, OBE, JP*  
Mr SIU Kwing-chue, Gordon, *GBS, CBE, JP*

### Non-executive Directors

Dr Norman LEUNG Nai Pang, *GBS, JP* (Deputy Chairman)  
Mr KWOK Ping-luen, Raymond (with Mr SHAM Yat Wah as alternate)  
Mr KWOK Ping-sheung, Walter, *JP* (with Ms Susanna LAU Shung Oi as alternate)  
Mr YU Shu Chuen  
Mr NG Siu Chan  
Mr William LOUEY Lai Kuen  
Mr George CHIEN Yuan Hwei  
Mr Rafael HUI, *GBS, JP*

### Executive Directors

Mr John CHAN Cho Chak, *GBS, JP* (Managing Director)  
Mr Charles LUI Chung Yuen, *M.H.*  
Ms Winnie NG  
Mr LUI Pochiu  
Mr Edmond HO Tat Man (Deputy Managing Director)

In our Group, the roles of the Chairman and the Managing Director are segregated. The Chairmanship is held by The Hon Sir Sze-yuen Chung, an Independent Non-executive Director. The Chairman is responsible for managing the operations of the Board while the Managing Director, Mr John Chan Cho Chak, oversees the Group's businesses.

The Board is responsible for steering the Group and endeavours to enhance its share value. Each Director has a specific role and is aware of his or her duty to act in the best interest of the Group and in good faith.

As well as being accountable to shareholders, the Directors also manage and monitor the relationship between the Group and its customers, its creditors, the community and the HKSAR Government.

The respective Boards of Directors of The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited (“LWB”), which are wholly owned subsidiaries of the Company, comprise a total of 19 Directors including the Company’s 17 Directors and two Directors nominated by the HKSAR Government. Currently, these two Directors are the Commissioner for Transport and the Deputy Secretary for the Environment, Transport and Works.

## Board Meetings

Board meetings are normally held monthly to discuss and decide on major corporate, strategic and operational issues as well as evaluate major investment opportunities. The four Independent Non-executive Directors and the other eight Non-executive Directors of the Board are not involved in the day-to-day management of the Group and therefore are able to analyse the Group’s management issues with different perspectives during decision-making processes. In general, the Board makes decisions on major operational and financial affairs as well as investments. The general management and day-to-day administrative decisions are delegated to the management team. This facilitates a prompt response to a rapidly changing market environment.



The Company’s Board of Directors reports the affairs of the Group to the shareholders at the 2004 Annual General Meeting

“ Good corporate governance produces collaborative management and sound partnerships with stakeholders. ”



## Board Committees

The Board has three committees — the Executive Committee, the Audit Committee and the Remuneration Committee which play a key role in overseeing various aspects of the Company.

### Executive Committee

The Executive Committee consists of five Directors, namely Mr John Chan Cho Chak, Mr Kwok Ping-luen, Raymond, Mr Rafael Hui, Mr Ng Siu Chan and Mr Charles Lui Chung Yuen. It normally meets with senior management once a month to review and discuss financial, operational and strategic issues in relation to current businesses and potential investment opportunities. It reports to the Board of Directors.

### Audit Committee

The Group's Audit Committee comprises three Non-executive Directors — Dr Eric Li Ka Cheung (Chairman), Dr Kung Ziang Mien, James and Mr George Chien Yuan Hwei, of whom the first two Directors are Independent Non-executive Directors. The responsibilities of the Audit Committee are largely based on the recommendations provided in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Such responsibilities include but are not limited to:

- meeting as required to review with senior management the accounting principles and practices adopted by the Group, the accuracy and fairness of the financial statements, and the scope of both internal and external audit work;
- meeting with external auditors and reviewing their work and findings relating to interim and final published financial statements;
- reviewing the effectiveness of internal controls and practices; and
- recommending re-appointment, dismissal, remuneration and replacement of external auditors to the Board subject to approval by the shareholders at the Company's annual general meetings.

Two meetings were held during 2004. After each meeting, the Chairman of the committee submitted a report to the Board of Directors and gave a briefing on significant issues.

### Remuneration Committee

The Group's Remuneration Committee, first established in December 2003, comprises three Non-executive Directors, namely Dr Norman Leung Nai Pang (Chairman), Dr Eric Li Ka Cheung and Dr Kung Ziang Mien, James, of whom the latter two are Independent Non-executive Directors. The committee formulates policies on remuneration, including establishing guidelines to determine terms and conditions of employment, remuneration and retirement benefits. It also sets appropriate criteria for performance-related bonuses and reviews and makes recommendations on human resources related policies to the Board of Directors. Two meetings were held to review the Group's remuneration structures including Directors' remuneration for 2004.

The following table shows the attendance records of the Directors of the Company during the year 2004:

Directors	Attendance of individual Directors at Board/Committee Meetings in 2004			
	Board Meeting	Executive Committee Meeting	Audit Committee Meeting	Remuneration Committee Meeting
The Hon Sir Sze-yuen CHUNG (Chairman)	10/10			
Dr Norman LEUNG Nai Pang (Deputy Chairman)	9/10	1/1 (note 1)		2/2
Mr KWOK Ping-luen, Raymond (with Mr SHAM Yat Wah as alternate)	9/10	12/12		
Mr KWOK Ping-sheung, Walter (with Ms Susanna LAU Shung Oi as alternate)	5/10			
Mr YU Shu Chuen	9/10			
Mr NG Siu Chan	8/10	11/12		
Mr William LOUEY Lai Kuen	9/10			
Mr John CHAN Cho Chak (Managing Director)	10/10	12/12		
Mr Charles LUI Chung Yuen	6/10	11/12		
Ms Winnie NG	9/10			
Dr KUNG Ziang Mien, James (with Mr KUNG Lin Cheng, Leo as alternate)	7/10		2/2	2/2
Mr George CHIEN Yuan Hwei	10/10		2/2	
Dr Eric LI Ka Cheung	8/10		2/2	2/2
Mr LUI Pochiu	10/10			
Mr Edmond HO Tat Man (Deputy Managing Director)	10/10			
Mr Rafael HUI	8 /10 (note 2)	11/11 (note 2)		
Mr SIU Kwing-chue, Gordon	1/2 (note 3)			

- Notes:**
1. Dr Norman Leung Nai Pang ceased to be a member of the Executive Committee since 1 February 2004.
  2. Mr Rafael Hui was appointed as a Non-executive Director of the Company and a member of the Executive Committee with effect from 1 February 2004.
  3. Mr Siu Kwing-chue, Gordon was appointed as an Independent Non-executive Director of the Company with effect from 26 October 2004.

## Internal Audit

The Head of the Internal Audit Department, who reports directly to the Managing Director and the Audit Committee, supervises the implementation of comprehensive audits and reviews of financial and operational procedures and practices of the Group on both a regular and an ad-hoc basis. He is also responsible for ensuring that the procedures and practices comply with the relevant requirements of ISO 9001:2000 and ISO 14001:1996. Under the ISO systems, individual staff members are highly aware of the need for quality and integrity and they are required to work towards achieving or even exceeding the ISO standards. This enhances the total quality performance of the Group.

## External Auditors

In line with the sound practice that the independence of external auditors should not be impaired by other non-audit assignments, we ensure that assignments other than statutory audits undertaken by external auditors should not have an adverse impact on their independence. For the year ended 31 December 2004, KPMG, our external auditors, received fees from the Group for the following services:

	HK\$ million
Audit services	3.7
Non-audit services	2.4
<b>Total</b>	<b>6.1</b>

## Code of Conduct

Our Code of Conduct for Directors and Employees (the “Code”) has long been published to ensure that both our Directors and employees are keep abreast of and fulfil a set of defined ethical obligations and appropriate behaviours when conducting businesses and/or performing their duties. The Code also provides guidance on responsibility to our shareholders, customers and the community. Any member in breach of the Code is subject to disciplinary actions. The Code is updated from time to time, taking into account changes in the relevant legislations and the business environment.

## Communications

### Financial Reporting

It is our objective to prepare financial statements that provide a true and fair representation of the Group’s financial position and its prospects in a clear and concise manner. We prepare interim and annual announcements and financial reports with full compliance to relevant statutory requirements.

### Reporting in relation to services and operations

The Group publishes reports and brochures that focus on specific aspects of operations from time to time. The two major subsidiaries of the Company, KMB and LWB, publish and distribute the following reports and brochures to enhance our customers’ and the community’s understanding of our services and operations. The reports and brochures are also available on our website for public information.

- More about KMB
- KMB Service Charter
- Introduction on KMB’s four bus depots
- KMB / Long Win Passenger Liaison Group Report
- More about Long Win
- KMB Performance Pledge
- KMB’s Efforts in Environmental Protection
- KMB Today (a monthly magazine)

## Enhanced Shareholder Value

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

## A Conversation with the Managing Director



John CHAN Cho Chak Managing Director

“ On China Mainland, the potential growth in demand for public transport services is huge. The Group is well placed to tap this potential. ”

# Steering **Forward**

At KMB, we are constantly exploring stakeholder expectations of our business. In a conversation with the Managing Director, Mr John Chan Cho Chak, writer Glynis Green explores key issues that have been commonly raised by stakeholders – investors, financial analysts, business partners and community groups.

**Q:** How would you describe the operating environments of Hong Kong and the Chinese Mainland in the context of the Group's business aspirations?

**A:** Both operating environments are very challenging, but in different ways. In Hong Kong we have had several years of deflation in the overall economy, but continuously rising costs — mainly wages and fuel — for the bus industry. This has created a dichotomy in which the community perceives an increasing gap between public transport fares and general consumer prices. Given that bus fares are controlled by the Government, this perception has meant that, politically, it has become increasingly difficult for the bus industry to be allowed to recover its rising costs from fares. The Group's fares have not increased since December 1997. In fact, they have been reduced as a result of various fare concessions that we have introduced, either through Bus-bus Interchange Schemes or by way of direct reductions of certain fares. At the same time, the successive opening of new railways, at a time when the population has remained relatively stable, has created a situation of significant over-supply in public transport services. This has resulted in more intense competition among different public transport modes. All these factors have combined to squeeze the profit margin of the Hong Kong franchised bus operation that still accounts for over 90% of the Group's top-line revenue.

Whilst the public transport market in Hong Kong is essentially a mature market with passenger growth generally in line with the relatively slow population growth, and while Hong Kong can boast one of the best public transport systems in the world, the situation on the Chinese Mainland is quite different. Public transport services on the Mainland are still in the developing phase and dominated by state-owned enterprises. The Central People's Government has now firmly embarked on a process of privatisation aimed at uplifting the quantity and quality of public transport services and reducing, if not eliminating, the heavy burden of Government subsidies. With strong economic growth and rising incomes in many provinces and cities, the potential growth in demand for public transport services is huge. With its wealth of operational experience, strong management and internationally recognised brand name, the Group is well placed to tap this potential and to contribute to the development of public transport services on the Mainland. The main challenges on the Chinese Mainland revolve around the need to learn to adapt to the local regulatory environment, to select the most promising projects from a myriad of possibilities and to identify joint venture partners with whom we can establish mutual rapport and respect.



**Q:** What are your investment priorities in terms of the allocation of capital resources and what is the rationale behind these priorities?

**A:** Over the next few years, apart from the redevelopment of the former Lai Chi Kok Bus Depot into a commercial and residential complex, the main engine for growth in the Group's business is going to be on the Mainland market. We shall continue to explore business opportunities on the Mainland and to invest in suitable projects that can be expected to contribute to the Group's profit. But while this may be the priority area in relative terms, we are mindful of our obligations and commitment, as Hong Kong's largest public transport provider operating under a Government franchise, to make continuous improvement to our franchised public bus services in Hong Kong. This has to be done also for a practical commercial reason, namely to maintain our competitive edge over other modes and against the background of the ever-rising expectations of our customers. We shall continue to invest in updating and upgrading our fleet of buses in Hong Kong, in minimising the impact of our operations on the environment and in training and developing our human resources.

**Q:** With increasingly competitive transport operations in Hong Kong and global uncertainties such as the weak US dollar and fluctuating oil prices, what can be done operationally and strategically to moderate impacts on the Group?

**A:** Our focus for the near term will be on controlling costs and improving productivity in areas that are within our own control. Fluctuations in exchange rates and oil prices are totally outside our control, but even there we shall be on the lookout for opportunities to gain some protection from hedging arrangements. Improving the internal productivity of our network, through realigning and rationalising our routes and redeploying our resources from catchments that have experienced reduced demand for our services to catchments where there is still unsatisfied demand, will be an important part of the strategy. On this, however, we shall need to work hard to gain the support of Government and of the community at large, as without such support the process of rationalisation will be extremely difficult to implement. We shall have to try to convince the community that the maintenance of excess capacity is wasteful and will eventually work against the interests of commuters at large.

At the same time, and as I have said before, the Group will keep on trying to sharpen its competitive edge in the Hong Kong market by continuously improving services and by seeking new opportunities for business growth on the Mainland.

**Q:** What business profile do you visualise for the Group in 10 years?

**A:** Our business strategy is to anchor our business activities firmly in our core competency — providing world-class public transport services to the communities that we serve. At the same time we will also seek business growth in related businesses. As well as further development of our Mainland operations, we shall continue to explore new business opportunities. Our successful launch of the highly innovative concept of RoadShow is an excellent example of what could be done.

I am sure that, in 10 years' time, KMB will still be a key player in the Hong Kong public transport scene, and a recognised leader and standard setter in the international bus industry. But the Group's business in other areas will have grown substantially and will, I believe, be making a contribution to the Group's profit that will at least equal that from the Hong Kong franchised bus operation.

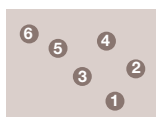
**Q:** Corporate social responsibility is now on the agenda of companies across the globe. To what extent does KMB address environmental, social and economic issues as integral aspects of its business strategy?

**A:** We recognise that active corporate citizenship requires us to look at sustainability practices across our business – in business planning, day to day operations, staffing policies and long-term investment strategies. Additionally, we are in the transportation industry and that brings with it a serious level of responsibility towards the environment. The Group has never shirked this responsibility and continues to work on proactive policies and measures aimed at improved environmental performance. As a Group, we were particularly pleased that in 2004 our commitment to corporate social responsibility was recognised globally when we were invited to become a constituent member of the FTSE4Good Global Index.

# Management Discussion and Analysis



“ KMB – the brand that defines realistic objectives and achieves sustainable business growth. ”



1. Mr John CHAN Cho Chak *Managing Director*
2. Ms Winnie NG *Executive Director*
3. Mr Edmond HO Tat Man *Deputy Managing Director*

4. Mr LUI Pochiu *Operations Director*
5. Mr Peter MAK Chun Keung *Commercial Director*
6. Mr William HO Sai Kei *Finance and Administration Director*

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**OPERATIONAL  
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- Franchised Public Bus Operations
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**CORPORATE  
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- The Group
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Defining **Strategies**



## OPERATIONAL REVIEW

### Franchised Public Bus Operations



KMB's bus fleet and captains aim for excellence





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

The Group operates two franchised public bus companies in Hong Kong – The Kowloon Motor Bus Company (1933) Limited (“KMB”), which operates extensive, quality bus services covering Kowloon, the New Territories and, through the cross-harbour tunnels, Hong Kong Island; and Long Win Bus Company Limited (“LWB”), which operates bus routes between the New Territories and Hong Kong International Airport and North Lantau. As at 31 December 2004, the two companies employed 12,906 people and operated 4,295 buses on a network of 420 routes.

### **Operational Excellence**

The philosophy underlining all operations at KMB and LWB is centred on the safety, comfort and convenience of our passengers. Our standards in terms of public transport provision are regarded as among the best in the world. In Hong Kong, our reliable bus service providing excellent value for money has made us the most preferred mode of public transport.

### **International Organisation for Standardisation (“ISO”) Certification**

To achieve and maintain this status, we implement internationally recognised quality management systems across our services and in our facilities. KMB has been ISO 9001:1994 certified organisation-wide since 1999. Upgrade audits for ISO 9001:2000 certificates have since been undertaken and the relevant certificates reconfirmed across five areas: KMB headquarters, Traffic Department and Depots, Overhaul Centre, Bus Body Construction Depot and Kwai Chung Depot (Service Department).

Our depots at Sha Tin and Lai Chi Kok are ISO 14001:1996 Environmental Management System certified, demonstrating KMB's commitment to environmental protection. In keeping with the spirit and intent of these certification systems, we are continually improving the efficiency, reliability and user-friendliness of our bus services to meet and, where possible, exceed community expectations.

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

“ KMB and LWB currently employ some 12,900 staff in Hong Kong who operate to a common ethos: service excellence and total customer satisfaction. ”

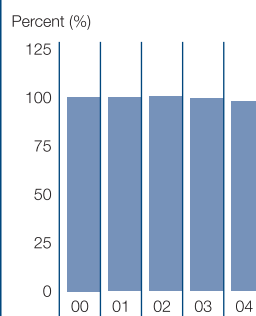


Our New Lai Chi Kok Depot contains state-of-the-art bus servicing facilities

## Performance Pledge

Performance statistics are a key operational benchmark. For the 12 months to 30 June 2004, KMB achieved 2,729:1 (2002/2003: 2,759:1) on mechanical reliability against a target of 1,800:1. Its performance in respect of operational capability was 97.95% (2002/2003: 99.50%). LWB achieved 1,976:1 on mechanical reliability and 101.75% on operational capability, compared with the previous year's figures of 1,540:1 and 101.6% respectively. Mechanical reliability is defined as the average number of trips a bus operates before it

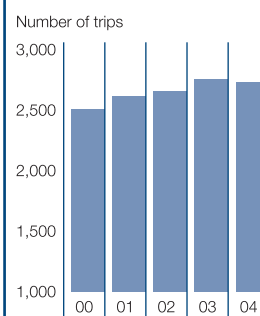
### Operational capability



■ KMB

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

### Mechanical reliability



■ KMB

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





experiences one mechanical breakdown on the road with passengers on board. Operational capability is the ratio of actual to scheduled departures in the peak direction during the peak operational hours of 7:00 a.m. to 9:00 a.m. across the entire bus network.

## Depots

Facilities at our bus depots are critical to the smooth operation of our bus fleets. We are constantly monitoring and improving depot facilities to ensure they deliver high levels of productivity and service for both KMB and LWB.

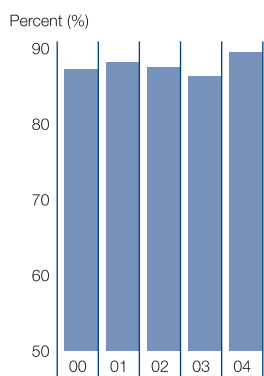
Currently, KMB operates five permanent depots which offer routine maintenance and repair services for 4,150 buses. In addition, there are 12 satellite depots which provide bus parking spaces and minor maintenance services, a bus body construction depot for the assembly of new buses and one overhaul centre for the major overhaul of buses. LWB operates a depot in Siu Ho Wan for the daily maintenance of its buses. We will continue to enhance these facilities to ensure the utmost safety and reliability of our bus fleet.

## Our Depot Network Serving KMB and LWB Buses

Areas served / purpose of depot	Depot	Floor area (square metres)	Number of buses served at 31 December 2004	Operations commenced
East Kowloon	Kowloon Bay Depot	71,379	1,171	1990
	Kwun Tong Depot	26,152		1966
East New Territories	Sha Tin Depot	66,915	776	1988
South and West Kowloon	New Lai Chi Kok Depot	60,311	910	2002
North and West New Territories	Tuen Mun Depot	13,844	1,293	1979
	Tuen Mun Overhaul Centre	35,401		1983
Lantau Island	Siu Ho Wan Depot	7,660	145	1998
Bus Body Construction	Tuen Mun Bus Body Construction Depot	9,843	(note 1)	1978
<b>Total</b>		<b>291,505</b>	<b>4,295</b>	

**Notes:** 1. The Bus Body Construction Depot provides facilities for building new buses  
2. KMB also operates 12 temporary depots in various locations in Hong Kong at the end of 2004 for bus parking purpose

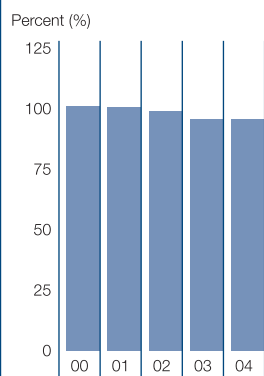
### Fleet utilisation



■ KMB

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

### Achievement of schedule



■ KMB

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

### Bus Fleet

The number of air-conditioned buses deployed by KMB increased from 3,510 at the beginning of the year to 3,625 at the year-end. This figure included 3,450 double-deck and 175 single-deck buses. At the end of 2004, 87.3% of our fleet was air-conditioned. This figure will increase over the coming years as we continue to invest in new buses.

A total of 177 super-low floor double-deck buses were introduced in 2004, bringing the total number of super-low floor buses on the road to 1,651. These buses have wheelchair access and provide better accessibility to passengers with disabilities, the elderly and young travellers. KMB will take delivery of an additional 44 super-low floor buses in 2005.

## Fleet Upgrade

Over the years, we have invested substantially in new buses with the latest designs and features. Fleet upgrades are ongoing operational priorities of KMB. In 2004, KMB continued to introduce the latest generation super-low floor double-deck buses which have wider bodies with straight rather than the normal spiral staircases. This design makes it easier for passengers to access upper decks.

KMB's Bus Fleet	Air-conditioned Double-deck Buses	Air-conditioned Single-deck Buses	Non air-conditioned Double-deck Buses	Total Number of Buses
At 1 Jan 2004	3,273	237	785	4,295
Addition during the year	177	—	—	177
Disposal during the year	—	(62)	(260)	(322)
At 31 Dec 2004	3,450	175	525	4,150

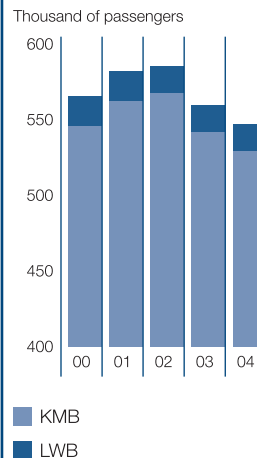


At the end of 2004, LWB operated 136 air-conditioned double-deck buses and nine air-conditioned single-deck buses serving Tung Chung and Hong Kong International Airport. All the double-deck buses are super-low floor type and equipped with wheelchair access. These buses have been well received by the disabled, the elderly and airport passengers with luggage.

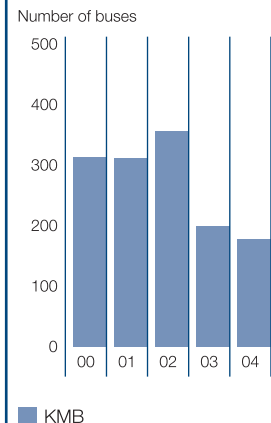
## Bus Tracking Capability

We have continued the development of a bus tracking system, which will provide real-time precise locations information of individual buses. Due mainly to the complex technologies involved in developing this system, we have been carrying out stringent tests on some market available systems of this kind. During the year, we continued testing on one of these systems which deploy satellite global positioning technology. We will continue to evaluate such systems aiming to develop one effective system which will enable us to locate buses on our network accurately and cost effectively, and also improve services to customers by showing estimated arrival times at bus stops along routes. We are also developing a two-way messaging system which allows bus captains on board to communicate verbally with our control centres. With these two systems in place, our response time to incidents and deployment of operational resources will be further improved.

**Total fleet capacity at 31 December**



**Number of new buses introduced to the fleet**



## Electronic Tachograph

The electronic tachograph (commonly known as electronic blackbox), which records the speed and other measurements of a bus while in operation, is now standard equipment on all of KMB's new buses. The purpose of this device is to enhance safety. In 2004, we retrofitted electronic tachographs on 927 buses which operate primarily along highways. By the end of 2004, 2,095 KMB buses and 134 LWB buses were equipped with these devices.



LWB's airport bus services are proving popular





Additional bus services at Hong Kong Coliseum are well received by concert-goers

## Bus Routes and Service Networks

With intensifying competition from new railways, KMB and LWB continue to tap new market niches to maintain their leadership positions.

### Bus Routes

At the end of 2004, KMB operated 405 bus routes. During the year, three new KMB bus routes were launched to serve the New Territories as well as another four recreational routes providing direct and reasonably priced services to audiences from the Hong Kong Coliseum travelling to Cheung Ching, Tuen Mun Pier Head, Siu Hong Court and Tin Heng Estate. These recreational routes only operate when needed,

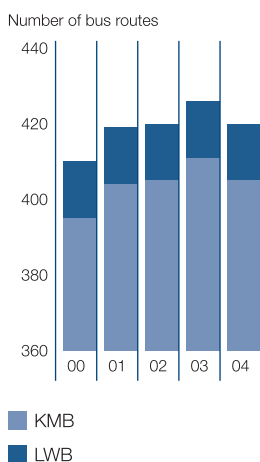
allowing KMB to make better use of its revenue generating resources during over-night non-peak hours.

LWB operated 15 bus routes serving Hong Kong International Airport and Tung Chung New Town in 2004, with strengthened service levels to meet the increasing demand of airport passengers and workers as well as residents of Tung Chung.

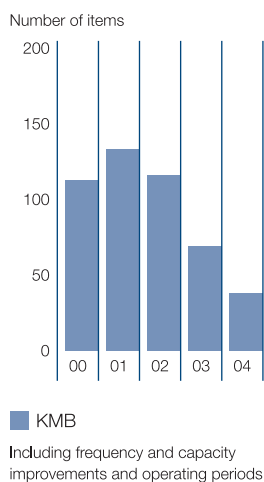
### Bus Network Reorganisation

Careful strategic planning enabled KMB to meet the challenges resulting from the opening of two new rail systems – the Kowloon-Canton Railway Corporation ("KCRC")'s West Rail and Ma On Shan Rail. In New Territories West, KMB reorganised its bus service network

**Number of bus routes operated at 31 December**



**Total service improvement items**



by cancelling some bus routes and making service adjustments on others to meet the changes in demand. Resources made available as a result of the reorganisation were either deployed to other areas with increasing demand or eliminated through natural attrition. Similar bus network reorganisation will also be implemented by phases in areas affected by the Ma On Shan Rail starting from February 2005. A summary of the implemented and proposed reorganisation is tabulated below:

	West Rail		Ma On Shan Rail	
	Number of bus routes involved	Number of buses saved	Number of bus routes involved	Number of buses saved
Cancellation/Rationalisation	7	54	5	25
Frequency adjustment	29	32	32	79
<b>Total</b>	<b>36</b>	<b>86</b>	<b>37</b>	<b>104</b>

Despite the commissioning of KCRC's East Rail Extension to Tsim Sha Tsui in October 2004, KMB's direct and customer friendly cross-harbour tunnel bus routes serving the Hung Hom Toll Plaza have remained most of our customers' preferred choice. Future bus service adjustments will be made as appropriate.

## Information Technology

KMB and LWB use information technology extensively to monitor and optimise operating performance. New systems introduced over the past year have also resulted in significant cost and man-hour savings and efficiency improvements. By the end of 2004, there were 1,627 personal computers installed within all KMB facilities.

They are inter-linked to 119 computer servers located at KMB headquarters. Almost 40 software applications, including z in-house developed programs and proprietary software, are used for day-to-day operational and financial management functions.

### Advanced Finance and Administration Systems

SAP e-Business Software is employed for both our financial and human resources management. These advanced systems enable management to develop appropriate strategies in a timely manner. Our company-wide electronic document management system substantially cuts down the amount of paper used and the amount of time required for document distribution, filing and retrieval.

### Traffic Operations Management System

KMB's in-house developed Traffic Operations Management System ("TOMS") won the '2004 IT Excellence Awards – Application Bronze Award' presented by The Hong Kong Computer Society. TOMS replaces a manual sign-in procedure for employees reporting for duty at our bus depots. With TOMS, depot staff use radio frequency identification handheld readers to identify the parking locations of buses and upload the information to the system. Bus captains then apply their personalised Octopus cards to a system reader to access this information, including the route number, vehicle registration number, duty schedule and any ad-hoc operational arrangements. As well as making the daily assignment and despatch process more efficient, management can obtain up-to-the-minute operational information from all depots.

### Electronic Terminus Management System

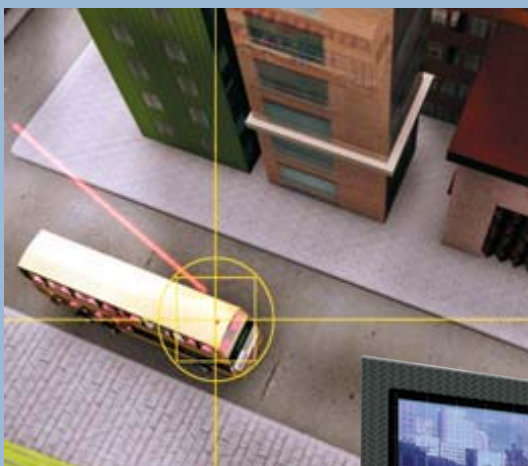
Another in-house development, the Electronic Terminus Management System has now been successfully deployed at 18 bus termini. Our terminus supervisors use pocket personal computers to record the arrival and departure times of buses. This system speeds up the recording and transmission of operational information to control centres at bus depots and relevant departments, enabling management to make timely service adjustments and other decisions on bus operations, and terminus supervisors to have more time to take care of our customers and to manage the traffic of the bus terminus. The information can also be retrieved by our Customer Service Hotline officers instantly to answer telephone call enquiries.

# Advanced Technology and its Operational Use

Advanced technology, often developed internally, drives our operations. Computerised operational systems enhance work efficiency and help sustain our internationally recognised standards.

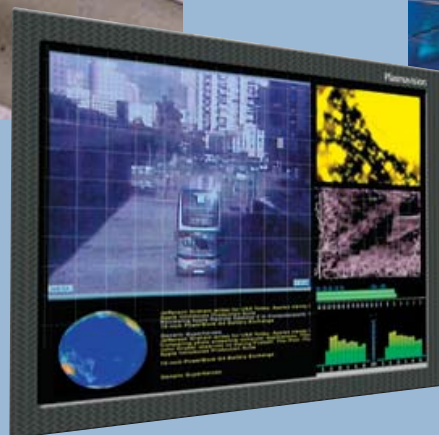
## Electronic Terminus Management System

Terminus supervisors use pocket personal computers to record bus arrival and departure times which are then instantly displayed on electronic display boards in bus termini for our passengers' information.



## Bus Tracking System

We are developing a system that uses satellite global positioning technology to identify the location of buses accurately and cost-effectively.







## Traffic Operations Management System ("TOMS")

TOMS enables bus captains to access a wide range of daily operational information through their personalised Octopus cards.

Such information includes the parking location of buses, which are identified by handheld radio frequency identification readers, in our large depots.





## Non-franchised Transport Operations



The SBH Group's school bus services continue to grow



The Group's non-franchised transport operations division provides transport services in Hong Kong, as well as cross-boundary services between Hong Kong and Shenzhen.

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

The SBH Group is one of the leading operators in Hong Kong's non-franchised bus industry. It has six business units including its flagship, Sun Bus Limited, and provides bus services to large residential estates and shopping malls, major employers and schools, as well as the general public through chartered hire services. The SBH Group operates two main categories of services: prestige premium service for customers seeking high quality transportation and general services for customers wanting value for money transport.

At the end of 2004, the SBH Group had a fleet size of 230 buses, an increase of seven buses compared with the previous year-end. Over the past year, the SBH Group has worked hard to cultivate new business segments, particularly in the tourism sector. The SBH Group plans to become a market leader in this sector and, by working closely with major travel agencies, has been positioning itself to benefit from opportunities that will accompany the opening of Hong Kong Disneyland.



Ferry services connect Park Island, Central and Tsuen Wan



Hong Kong — Shenzhen cross-boundary shuttle bus service

### Park Island Transport Company Limited ("PITC")

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

By the end of 2004, PITC served Park Island with a ferry fleet of four 38-metre 412-seat catamarans, one 28-metre 403-seat catamaran and two 26-metre 223-seat catamarans, as well as an air-conditioned bus fleet of ten super-low floor single-deck buses, three diesel-electric hybrid super-low floor single-deck buses and one 28-seat mini-bus.

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

With residents moving into Park Island Phase III in early 2005, PITC is well positioned to serve Ma Wan's growing travel demands. We will continue to monitor patronage levels and increase operational resources as required.

### New Hong Kong Bus Company Limited ("NHKB")

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

During 2004, the number of visitors to Hong Kong from the Mainland continued to grow with the extension of the Individual Visit Scheme to more cities in Guangdong Province. To cope with this increased demand, NHKB added two air-conditioned super-low floor single-deck buses to its fleet, bringing the total number of buses to 15 at the end of 2004. NHKB has also renovated the waiting facilities for its passengers outside the new San Tin Public Transport Interchange to improve both the waiting environment and services for customers.

## Mainland Transport Operations



Our participation in Shenzhen bus operations commenced in January 2005



The Group operates a range of transport businesses in five major cities on the Mainland and plans to explore further investment opportunities over the coming years.

## Dalian

Established in 1997, this co-operative PRC joint venture ("Dalian CJV"), formed between a 60% owned subsidiary of the Group and Dalian City No. 1 Bus Company in Dalian City, Liaoning Province, has been performing steadily. The Dalian CJV has 16 double-deck buses and 67 single-deck buses operating on three routes serving Dalian City.

## Tianjin

This co-operative PRC joint venture ("Tianjin CJV") was established in January 2001 between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company. The Tianjin CJV operates seven bus routes with 110 single-deck buses in Tianjin City.

## Beijing

Established in Beijing in 2003, Beijing Beiqi Kowloon Taxi Company Limited ("BBKT") is the first Sino-foreign joint stock taxi and car rental company to operate on the Mainland. The Group invested RMB80 million (HK\$76 million), representing an interest of 31.38%, in BBKT. The shareholders of BBKT comprise KMB (Beijing) Taxi Investment Limited, which is a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited, Beijing Bashi Company Limited, CITIC Automobile Company Limited and Nanjing Zhongbei Group Company Limited. BBKT currently employs about 4,000 people and has a fleet of around 4,000 vehicles. With the 2008 Olympic Games to be held in Beijing, BBKT is well positioned to benefit from opportunities presented by the influx of visitors.



One of the 4,000 BBKT taxis fleet in Beijing



Bus operations in Dalian City



The WKPT bus fleet

## Wuxi

Wuxi Kowloon Public Transport Company Limited ("WKPT") is a Sino-foreign joint stock company established in Wuxi City, Jiangsu Province in February 2004. It is the only franchised bus operator in Wuxi City and has about 1,700 buses operating on over 110 routes. The Group has invested RMB135 million (HK\$127 million), equivalent to a 45% stake, in WKPT together with three other Mainland shareholders.

## Shenzhen

In December 2004, the relevant authorities on the Mainland approved the setting up of Shenzhen Bus Group Company Limited ("SBG"), a Sino-foreign joint stock company. SBG was formed by KMB (Shenzhen) Transport Investment Limited, a wholly-owned subsidiary of the Group, with four other Mainland investors. The Group has invested RMB387 million (HK\$364 million), representing a 35% stake, in SBG. Commencing operation on 1 January 2005, SBG principally operates public bus services in Shenzhen with about 3,500 vehicles serving 120 routes.

## Media Sales Business



The RoadShow Group offers innovative services

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

RoadShow Holdings Limited (“RoadShow”), established by the Group to launch multi-media services, is separately listed on the Main Board of The Stock Exchange of Hong Kong Limited. Currently, the Group has a 73.0% interest in RoadShow.

The RoadShow Group is a leading media sales company in Hong Kong and Greater China. It is engaged in marketing advertising aimed at passengers riding public transit vehicles in Hong Kong through a proprietary Multi-media On-board (“MMOB”) system, and outdoor advertising in Hong Kong and major cities on the Mainland such as Beijing, Shanghai, Guangzhou and Shenzhen. The RoadShow Group also provides tailor made advertising services for all phases and placements on an advertising network that extends across China Mainland.

The RoadShow Group achieved satisfactory results for the year 2004. Both revenue and profit improved significantly compared with 2003. In addition, substantial progress was made on the RoadShow Group’s prudent and focused expansion strategy.

## Hong Kong

The RoadShow Group’s businesses in Hong Kong have benefited from the continued rebound of the economy. Advertising revenue was generated from advertisements

in between quality and attractive programmes produced by the RoadShow Group. In order to enable advertisers and advertising agencies to attain the maximum desired effects from their promotional campaigns, more flexible packages were introduced. In terms of programme content, enhancements were made so that watching RoadShow’s programmes becomes a natural part of the passengers’ daily routine.

## China Mainland

The RoadShow Group has been engaged in media sales businesses and will continue to focus on expanding its presence in Beijing, Shanghai, Guangzhou, Shenzhen and other major cities on the Mainland.

The RoadShow Group continued to develop and expand the outdoor media sales business involving bus bodies and shelters, billboards, telephone booths and metro transit networks on the Mainland. During the year, additional bus shelter advertising spaces were placed in prime locations in Beijing and Guangzhou to boost revenue levels.

The RoadShow Group’s advertising services also include creative design and production, media planning and advertisement placements on over 200 television stations on the Mainland. It also tailors its advertising service to meet specific client needs and manages advertising campaigns.



Marketing attractive and effective bus advertising is only one of the many outdoor media sales businesses of the RoadShow Group on China Mainland



# Property Holdings and Development



Former depot site is being transformed into towers of prestigious apartments

## Lai Chi Kok Properties Investment Limited ("LCKPI")

LCKPI is a wholly-owned subsidiary of the Group and is the developer of the old depot site at Po Lun Street, Lai Chi Kok. The former depot site is being redeveloped into a residential and commercial complex with a total gross floor area of about one million square feet and a retail podium area of about 50,000 square feet. The current plan is to construct five multi-storey prestigious residential blocks comprising some 1,100 residential units for sale.

LCKPI has engaged various members of Sun Hung Kai Properties Limited ("SHKP") to provide project management, building construction, marketing, letting and sales, and property management services for the project. In 2004, LCKPI upgraded the design, materials and quality of workmanship for the development. The upscale residential units will include large-sized flats which are currently scarce in the district. Our aim is to provide future residents with a luxurious and healthy lifestyle in a metropolitan environment. The superior standard of development reflects the Group's commitment to quality and its optimism over the prospects for the high-end residential property market in Hong Kong.

By the end of 2004, 80% of the podium structure was completed and the residential towers were standing at a quarter of their final height. The project is planned for completion in late 2006. Our sales and marketing strategies will be determined by reference to the prevailing property market conditions in 2005.

## Metropolitan Convenience

The site is located at the hub of Kowloon peninsula and at the heart of an efficient multi-modal transport network. Residents will enjoy the convenience of a nearby MTR station, West Rail station, bus terminus and highways such as the West Kowloon Expressway and the planned Route 9 east-west corridor. The development lies within 30 minutes travelling time of almost any part of Hong Kong, offering residents a city life as well as easy access to Hong Kong's beaches, outlying islands and country parks.

A dedicated covered footbridge with elevators and escalators will form an all-weather pedestrian link between the development and a public transport interchange.

## Luxury Standards

The Group has appointed world-class architects and interior designers to this project to ensure it becomes the landmark of West Kowloon. High quality materials and finishes have been selected. The development's defining features include a facade and podium of granite, metal and signature glass and a stylish rooftop penthouse suite. Other features include a prestigious lift lobby, high ceilings throughout the living areas and the use of as much natural light as possible. A 50,000 square feet residents' club with recreation and fitness training facilities will include a clubhouse with indoor and outdoor swimming pools. The tall residential towers have been carefully orientated to maximise views across Victoria Harbour.

## Green and Healthy Living

We are committed to building in an environment-friendly manner. An environmental design consultant has guided the detailed design of the units. "Green and Innovative" features include a double-height sky garden located at the midway point of each residential tower. A fully landscaped garden covering the entire podium deck will provide additional recreation space.



An artist's impression of the future residential complex



## CORPORATE CULTURE

### Customer Service



Customer satisfaction remains at the heart of KMB's business philosophy

Across all aspects of our operations, our corporate culture is built around the provision of quality customer service and an awareness of community needs. Whether we are devising new routes, developing new fare structures, designing bus shelters or handling operational issues which may have social or environmental impacts, we take a meticulous approach to our decisions.

## Bus Fare Discount Schemes

Over the past year, we have reviewed fare concessions offered by both KMB and LWB to Octopus card users in the wake of the economic downturn, especially after the SARS crisis. The following three fare concession schemes, first implemented for a period of 12 consecutive months from 1 October 2003, were extended to 28 February 2005. The first and second of these schemes were subsequently extended further to 31 May 2005.

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

## The "Octopus" Smart Card

The electronic Octopus Smart Card System, a fleet-wide feature, is being adopted by an increasing number of passengers for fare payment. In December 2004, about 84.2% and 85.3% of KMB's and LWB's fare revenue respectively was paid by Octopus cards, compared with the corresponding ratios of 81.5% and 82.1% in December 2003. Passengers can board buses quickly using the Octopus cards instead of coins to pay fares. Journey times are shortened and there is a significant cost saving in terms of cash collection and administration. Today, the Group is the largest corporate user of Octopus cards in Hong Kong in terms of the number of card payment transactions.

The expansion of the Octopus Bus-bus/Bus-rail Interchange Schemes ("Octopus BBI/BRI Schemes"), both within the KMB route network and joint inter-modal schemes with other public transport operators, offers more fare discounts to our passengers. At the same time, these schemes improve network coverage, save resources and

relieve traffic congestion on busy corridors. By the end of 2004, KMB had 47 Octopus BBI Schemes covering over 204 bus routes and an Octopus BRI Scheme operating between KMB and KCRC's West Rail which covered 18 feeder routes and three West Rail stations.

LWB has two Octopus BBI Schemes at Tsing Ma Control Area and a joint-operator BBI Scheme at Tung Chung Town Centre. The joint-operator Octopus BBI Scheme at Tin Shui Wai Town Centre was discontinued in January 2004 following the opening of the West Rail.

## Electronic Bus-stop Announcement System

Passengers have welcomed the on-board electronic bus-stop announcement system which was introduced on KMB buses since 1998. The system delivers voice announcements and shows upcoming bus stops on light emitting diode ("LED") displays. During 2004, KMB extended the system to 952 buses of its fleet, bringing the total number of buses with this system to 3,605. KMB intends to make it standard equipment on its entire fleet in the near future. The same system has also been installed on all 136 LWB double-deck buses operating on Airbus and North Lantau external routes. Electronic fare display machines installed on KMB and LWB buses also provide clear information on full and concessionary fares.

## Bus Service Information

We are constantly looking at improvements to when and how service information is made available to passengers. Integrated Bus Service Information Display Systems ("IBSID Systems") are the foundation of our information dissemination programmes and new systems were commissioned at Tsz Wan Shan (Central) and Sheung Shui Termini in 2004, bringing the total number of termini equipped with these systems to 19. In most cases, large LED or plasma display panels have been positioned at the centre of the termini to provide information on bus route destinations, departure times and fares. Emergency messages such as major traffic disruptions can also be shown. The closed circuit television systems allow monitoring of local traffic and operating conditions at the terminus supervisor's office and at KMB headquarters. At other termini, smaller LED display boards are positioned at individual passenger waiting platforms showing routes, departure times and fares. Similar IBSID Systems will be

installed at three additional termini in 2005 and progressively at all other major termini in the years ahead.

The earlier generation of IBSID Systems is being upgraded and will incorporate an Electronic Terminus Management System which has been developed in-house. This system facilitates the use of personal data assistants ("PDA") by terminus supervisors to record bus arrival and departure times, speeding up the transmission of information from termini to bus depots and relevant departments for faster operational decision-making. By the end of 2004, upgrades at 13 termini had been completed.

## Cyber Bus Stops and Waiting Shelters

Tourists in particular are finding KMB's new cyber bus stops at the Star Ferry, on Canton Road and Nathan Road outside Grand Tower useful. Three LED panels at cyber bus stops display route information, local and international news and weather information. The public address system issues route information in Cantonese, English and Putonghua and there is access to the KMB website for point-to-point route search and service information.

During the year, KMB built 100 new shelters to improve the waiting environment for passengers. The company now has 2,258 bus shelters and has installed a total of 2,300 advertising panels at these bus shelters to generate further advertising revenue. LWB has constructed one new bus shelter, bringing the total number of bus shelters along its routes to 21.

## Customer Service Centres

A new customer service centre was opened for service at Tin Heng Bus Terminus in 2004, bringing the total number of customer service centres to eight. The Tin Heng Bus Terminus Centre, in Tin Shui Wai, provides a

convenient one-stop service to public transport users across the northwestern New Territories. With bus route information, KMB homepage browsing facilities, souvenir sales and Octopus card services as well as assistance from the customer service ambassadors, the centres offer passengers a trouble free KMB experience. Other customer service centres are located at transport interchange hubs at Tsim Sha Tsui, Hung Hom, Sha Tin, Mei Foo, Tsuen Wan, Lam Tin and Tuen Mun.

At the Ground Transportation Centre of the Hong Kong International Airport, LWB's customer service centre and ticketing office strengthened their services on handling passenger enquiries and ticket sales in 2004. LWB aims to attract more passengers by improving customer service.

## Bus Terminus Upgrading

KMB has refurbished bus termini at Lai Kok, Cheung Wang, MTR Kowloon Station, Lam Tin (Kwong Tin Estate), Kwun Tong MTR, Ngau Tau Kok, Kam Ying Court, Sui Wo Court, Sha Tin Wai, Tin Tsz Estate, Wah Ming and Fu Heng over the past year. This programme will continue in 2005 with a goal of a further of 12 termini refurbishments.

## Enquiry Hotlines and Websites

The KMB customer service hotline continues to provide a rapid response to customer enquiries. Last year it received 4.6 million calls — an average of 385,000 calls per month. The 24-hour hotline system operates in Cantonese, English and Putonghua, providing bus route information, traffic news, fax-on-demand services, bus service updates and voice mail recording. An operator service on the hotline is available from 7:00 a.m. to 11:00 p.m. daily. LWB's customer service helpline at the Hong Kong International Airport's customer service centre handled over 15,000 calls in 2004, an average of 1,250 calls per month. The helpline also collates customer opinions and handles lost and found enquiries.

The KMB website continues to provide a wide range of information about KMB, LWB and other companies in the Group. A new version with simplified Chinese characters was added at the beginning of 2004. A PDA version of the popular route search function was also launched to give customers access to route information, whenever and wherever they need it. The website's popularity was reflected in the average daily hit rate of 4.2 million in December 2004.



Interactive facilities provide bus route and fare information





Customer Service Ambassadors

## Understanding Passenger Needs

We recognise that to maintain our leadership role, we need to tap into public opinion and identify customer needs. Our Passenger Opinion Cabin, a modified single-deck bus, visited 12 areas to collect passengers' opinions on KMB's services. More than 100 opinions and suggestions were received from members of the public during 2004. To further ensure that we understand passenger needs and expectations, six Passenger Liaison Group sessions ("PLGs") were held to gather feedback on bus services and public expectations. Participants came from throughout Hong Kong, with university lecturers serving as moderators, and representatives from the HKSAR Government's Transport Department acting as observers. In October 2004, the results were published in four Hong Kong newspapers. In general, our passengers are satisfied with KMB's services. Some service adjustments have been made in the wake of collated opinion data.

Six PLGs held by LWB during the year received a similarly satisfactory response to discussions which focused on challenges and opportunities for LWB.

## Information Publications

An updated edition of the KMB Bus Guide was published in September 2004 providing comprehensive route information in Chinese. Available from newsstands, bookstores, convenience stores and KMB's customer service centres, all proceeds from sales of this guidebook were donated to The Community Chest of Hong Kong. Newspaper advertisements and supplements as well as in-bus and in-store posters boosted sales.

Publicity material on LWB services was distributed throughout the year. The "Airbus Card", with detailed routing and departure information, was popular with time-conscious air-bound passengers.

## Marketing and Public Relations

In an initiative to assist visitors to Hong Kong, particularly those from the Mainland, KMB produced Tourist Kits which contained gift cameras, guidebooks and information on our comprehensive bus network. The Tourist Kits were made available through KMB customer service centres and China Travel (HK & Macau Tour) Management Hong Kong Ltd.

Other marketing and community programmes initiated during the year included a series of 10-second civic education television advertisements to promote the importance of proper conduct on buses. Supplementary advertisements were printed on bus bodies and posters were placed in bus shelters to support the campaign. The series of commercials won the Citation for Outstanding TV Campaign at the HKMA/TVB Awards for Marketing Excellence 2004.

Continuing the Group's emphasis on supporting Hong Kong's visitors, a booklet entitled "Enjoy the Hong Kong Experience with KMB" was published in traditional Chinese characters, simplified Chinese characters and English to provide information on tourist sites in Hong Kong along with KMB access details.

KMB won silver awards from the China International Public Relations Association in the 6th China Golden Awards for Excellence in Public Relations (2004) in three categories:

- Brand Management: Sales of KMB Bus Guide
- Community Relations: Interviews with Chairmen of District Council Traffic & Transport Committees
- Others: KMB Website Revamp

The Group's proactive stance in ensuring it continues to operate in the interests of stakeholders was recognised during the year through a number of other awards. The China International Public Relations Association selected the "Interviews with Chairmen of District Council Traffic & Transport Committees" and "KMB Website Revamp" as case studies. KMB also won the "Certificate of Recognition in the Golden World Awards for Excellence" in three categories including "Recovery from Crisis", "Customer Marketing – New Product or Service" and "Special Events". The International Public Relations Association organised these prestigious awards.

## Safety and Training



All buses are maintained to the highest standards by our trained mechanics



Safety has always been the Group's number one priority. A great deal of effort has been made to enhance the safety of our bus operations through the strengthening of bus captain training and performance monitoring as well as improvements in the design of our buses and their maintenance. As a result of our commitment to safety and the effectiveness of existing safety measures, KMB's average number of bus accidents involving personal injuries and deaths per million vehicle-kilometres has declined steadily over the years. The number of accidents reduced from 2.80 per million vehicle-kilometres in 2000 to 2.71 per million vehicle-kilometres in 2004.

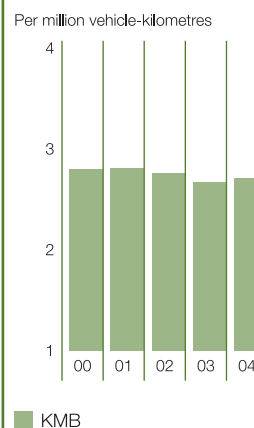
## Driver Training

The KMB Bus Driver Training School (the "School") is responsible for training new bus captains and providing enhancement courses for existing bus captains. For newly recruited bus captains, the School provides comprehensive courses with the use of Hong Kong's first and only indoor bus simulator. In addition to the HKSAR Government driving examinations, stringent internal assessments are made to ensure that bus captains are well qualified and capable of handling the responsibility of their positions. For experienced bus captains, driving enhancement training courses reinforce their safety awareness and sensitivity to passenger comfort. These courses, which include both classroom lectures and road practice, also cover defensive driving and highway driving techniques, service enhancement and emergency handling procedures. Bus captains also undergo route-training courses before they are assigned to drive on unfamiliar routes.



Training through our bus simulator ensures in-depth understanding among bus captains of the advanced driving cab of our buses

### Average number of bus accidents involving personal injuries and deaths



## Monitoring Performance

A specialised KMB team closely monitors the performance of bus captains through a systematic performance assessment mechanism. Bus captains whose performance is not up to acceptable standards are required to attend remedial training courses. The Disciplinary and Monitoring Team monitors the performance of each retrained bus captain and disciplinary action is taken in the case of poor performers. Bus captains who demonstrate above average performance are recognised with various awards and bonuses.

## Bus Design and Maintenance

The design and maintenance of buses is critical to ensuring safe operations. We have been collaborating with major bus manufacturers in designing buses to ensure new models are compatible with Hong Kong's unique operating environment. Standard equipment such as speed limiting devices and electronic tachographs that record bus-operating information are used to monitor and ensure safe operations.

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

Our People



九巴服務 日日進步



Staff are committed to quality operations and service



Our ethos is “Caring for People”. The result is a staff force of more than 13,000 people who are committed to the Group, its operations and its culture of quality service. We train, motivate and reward our staff in an environment that values performance and instills a sense of responsibility, not just to the Group, but also to the community at large.

The table below tabulates the number of staff in each of the divisions of the Group at the year-end of 2004 and 2003 respectively:

Division	2004	2003
Franchised Public Bus Operations		
• KMB	12,499	12,569
• LWB	407	399
Non-franchised Transport Operations	557	536
Media Sales Business #	132	127
Mainland Transport Operations*	6	5
<b>Total</b>	<b>13,601</b>	<b>13,636</b>

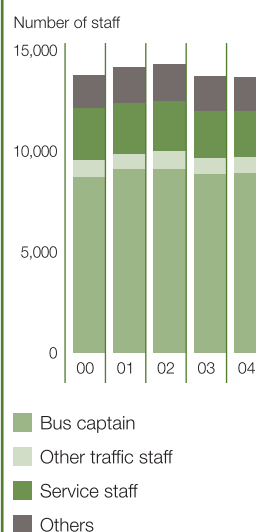
# including the employees of the Group's subsidiary companies on the Mainland

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

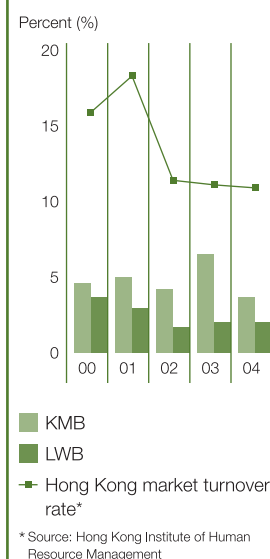
## Staff Communications

Communication is at the heart of our staff relations policies. The six Joint Consultative Committees in place provide a constructive and proactive channel for management and employee representatives to discuss matters that affect our daily bus operations. The Committee meets monthly at KMB and bi-monthly at LWB and looks at the working environment, safety and operating procedures, and welfare. A homepage is maintained exclusively for KMB and LWB staff with information on management announcements, real-time weather reports, details of upcoming activities and reports of staff events. It also incorporates on-line orientation training courses and e-learning programmes. Periodic video compact discs and a monthly in-house magazine are published to keep field staff informed of developments within both the Group and the industry.

### Number of staff in the Group at 31 December



### Staff turnover rate



## Outstanding Service Award

During 2004, KMB organised the “Outstanding Service Award” to promote our quality service culture. A total of 61 staff members were recognised for their excellent performances. In addition, the following awards were also presented to KMB's and LWB's staff in appreciation of their dedication and contribution:

### 2004 Good Service and Safe Driving Annual Bonus for bus captains

Number of Bus Captains	KMB	LWB	Total
Good Service Annual Bonus	6,707	200	6,907
Safe Driving Annual Bonus	4,332	185	4,517

### 2004 Safe Driving Award for bus captains

Number of Bus Captains	KMB	LWB	Total
15-year accident free	60	2	62
10-year accident free	167	3	170
5-year accident free	596	36	632

#### 2004 Good Service and Attendance Award for terminus supervisors/assistant terminus supervisors/customer service assistants

Number of employees	KMB	LWB	Total
Good Service Award	453	16	<b>469</b>
Attendance Award	298	7	<b>305</b>

## General Training

Training programmes are a major human resource investment. In 2004, KMB continued to provide training programmes across various grades of staff to maintain and upgrade the quality of human resource skills. Training sessions focused on computer software applications, Putonghua, English and Chinese business writing skills, leadership skills, communication and presentation skills, media skills workshops and a workshop for managing complaints and stress in the workplace. A comprehensive staff survey was conducted and a course was organised for bus maintenance supervisors to enhance their management skills.

## Technical and Apprentice Training

The KMB Technical Training School provides training for all maintenance staff in the latest bus transportation technology. During 2004, a total of 200 in-house training sessions were held for 1,553 skilled workers and 17 sessions were organised for engineers, supervisors and foremen in conjunction with our vehicle manufacturers.

A four-year apprentice-training scheme ensures we have an adequate supply of skilled maintenance workers. A total

of 29 apprentices graduated from the KMB Technical Training School in 2004, bringing the number of graduates since 1973 to 2,071. At the end of 2004, there were 74 apprentices in training. The Vocational Training Council of the HKSAR Government has acknowledged the high standards of these apprentice-training programmes through its annual "Best Apprentice Competition".

## Skills and Awards

The Bus Captain of the Year Competition is a great opportunity for KMB and LWB bus captains to demonstrate their driving skills. The event is also a recreational event for employees and the public and includes bus displays and game booths. The 2004 event held at our Sha Tin Depot received overwhelming support with an attendance of some 21,000 members of the public. From more than 8,500 bus captains, 45 were selected as finalists based on their driving skills, work performance and knowledge of passenger safety and traffic regulations. The "Bus Captain of the Year" prize was presented to the overall winner.

## Staff Welfare and Recreational Activities

A variety of internal and external team building activities involving a range of sporting events, hobbies and interests proved popular. Our staff members are community spirited people and over the year they have participated in a range of events including the Community Chest Corporate Challenge, the Standard Chartered Hong Kong Marathon 2004 and Green Power Hike.



Bus Captain of the Year Awards ceremony



# Concern for the Environment



Caring for the environment is an investment for the future

Globally, transport operators have a clear and increasing responsibility to the environment. The Group takes this responsibility seriously and is dedicated to conducting its business in a manner that minimises and mitigates environmental impacts across the spectrum of its operations. We are a socially responsible corporate citizen - not just in words, but also in practice.

## Environment-friendly Buses

We continuously upgrade our fleet to ensure that both KMB and LWB buses comply with, and in many aspects exceed, internationally recognised environmental standards. Using innovative techniques and equipment, we are now industry leaders in terms of initiating environmental enhancements to buses.

### Ultra Low Sulphur Diesel ("ULSD")

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

### Euro Engines

At the end of 2004, all KMB's and LWB's buses were equipped with environment-friendly engines which meet the stringent exhaust emission standards of the European Council of Environmental Ministers. During the year, 177 buses with emission standards equivalent to Euro III standard were introduced to the fleet, bringing the total number of buses equipped with such engines to 880 at the end of 2004.

Based on the specification of the Euro engines, catalytic converters and exhaust soot filters have been retrofitted to the fleet to further enhance the emission standards of the buses.

Catalytic converters are installed on all of KMB's 1,780 buses with pre-Euro I or Euro I engines and LWB's nine single-deck air-conditioned buses with pre-Euro engines. With the catalytic converters, the exhaust emissions of pre-Euro I and Euro I buses are brought up to the standards of Euro I and Euro II engines respectively in terms of particulate matters.

Buses equipped with Continuous Regeneration Traps ("CRTs") can achieve a significant reduction of particulate matters and reduce smoke levels to virtually zero. The exhaust emission quality in terms of particulate matters also meets Euro IV engine standards. At the end of 2004, KMB had a total of 473 Euro III-engined buses equipped with CRTs plus an exhaust gas recirculation device, enabling them to meet emission standards at a level very close to Euro IV engine standards.

The numbers of KMB's and LWB's buses that met the respective emission standards as at 31 December 2004 are tabulated below:

Emission Standards	Number of buses meeting such standards	
	KMB	LWB
Euro I	839	9
Euro II	2,431	136
Euro III	880	—
<b>Total</b>	<b>4,150</b>	<b>145</b>

### Air Foam Filter

At year-end 2004, the entire fleet of KMB and LWB buses was using air foam engine filters to replace the conventional paper filters. After numerous tests, the air foam filter proved to be successful in extending its service interval to six times the life span for a conventional one without compromising its performance. Further, solid waste associated with used filters has been largely reduced.

### Eco-Driveline

The pioneering Eco-Driveline on buses was developed by KMB by integrating an engine with a high torque, six-speed double overdrive gearbox, an optimised final drive ratio axle and a sophisticated electronic control gear-shift programme. This system provides passengers with a smoother ride and also reduces fuel consumption and exhaust emissions by 6% to 10% respectively. The Eco-Driveline concept has been a standard feature for all new buses from 2004 onwards.



### Synthetic Transmission Oil

The use of synthetic transmission oil extends the oil drain interval substantially from 30,000 km to 100,000 km resulting in a 70% reduction in waste oil when compared with traditional mineral oil. Following detailed testing in 2003, all the gearboxes of KMB's and LWB's double-deck buses have been using synthetic oil since 2004.

### Mileage-Based Engine Oil Change Scheme

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

### Revolutionary Diesel-Electric Hybrid Buses

Park Island Transport Company Limited operates three environment-friendly diesel-electric hybrid air-conditioned super-low floor single-deck buses which are powered by rechargeable batteries with an energy-regenerating function while braking and moving down slopes. Their small and newly designed micro-turbines only use diesel once the batteries have run down to a pre-set level.

### Environment-friendly Non-franchised Buses

The SBH Group and New Hong Kong Bus Company Limited's bus fleets are equipped with environment-friendly engines. Over 20% of the fleet operates with the latest commercially available Euro III engines.

### Environmental Report

KMB publishes reports on its environmental protection initiatives from time to time to keep the public informed of our efforts and achievements. The latest report published in early 2004 entitled "KMB Efforts in Environmental Protection" contains our environmental policy, detailed description of our breakthrough in ensuring an environment-friendly bus operation, as well as acknowledgements from Government and various prominent environment protection organisations. The report is available on KMB's website.

## Bus Depots and Offices

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

The "Green Office" concept has been applied to the design and renovation of our headquarters. This involves using pre-set timers to switch off lighting when it is not needed or when light from outside is strong enough. Temperature control devices are installed to keep the office temperature within a comfortable range while minimising the use of electricity. Our headquarters was awarded the Indoor Air Quality Certificate by the Environmental Protection Department in recognition of the building's hygienic work environment.

## Waste Treatment

### Waste Water

Waste water from our operations is treated according to regulatory standards before it is discharged into the public sewage system. In 2004, KMB maintained 11 automatic wastewater treatment systems for its fleet and depots with a total daily treatment capacity of 804 cubic metres.

### Waste Oil and Chemical Waste

Approximately 1,023,000 litres of consumed lubricating oil from our bus maintenance programme were delivered to a registered waste oil recycling agent for treatment and 344,000 kilograms of solid chemical waste went to authorised landfills.

### Tyre Retreading and Recycling of Scrap Tyres

To alleviate the pollution problem caused by industrial waste and to fully utilise resources, 33,000 tyres were retreaded in the KMB tyre retreading plant in 2004. Approximately 216 tonnes of tyre chips were collected and used to manufacture playground flooring.



## Working with Communities



Working with the communities, for the communities



Our concern extends beyond our companies to the districts and neighbourhoods where each of our companies operates. For many years, the Group has actively participated in a wide range of community programmes and charitable activities. As a responsible corporate citizen, we continue to support the youth, the elderly, the handicapped and people in need through sponsorship of many community activities organised by the HKSAR Government, professional bodies and charitable organisations. In 2004, KMB was named the Fifth Top Donor of the Year by The Community Chest of Hong Kong and was also named a "Caring Company" by the Hong Kong Council of Social Service.

## FRIENDS OF KMB

Our passengers are not simply customers – they are our partners, fellow citizens and friends with similar concerns and aspirations. KMB's passenger club, FRIENDS OF KMB, actively participates in community building, civic, education, environmental protection and social activities. By the end of 2004, membership stood at 2,400 and 6,500 hours of community work were contributed during the year. This work involved voluntary visits to centres for the elderly, a children's home and a narcotics recovery centre, as well as assistance in charity walks, raffle ticket sales, carnivals and environmental protection activities. The club received recognition for its service to the community from the Social Welfare Department of the HKSAR Government and the Steering Committee on Promotion of Volunteer Service.

## The Community Chest of Hong Kong and other Non-profit-making Organisations

KMB has been a long-term supporter of The Community Chest of Hong Kong. In recognition of the company-wide support it has received, The Community Chest of Hong Kong named KMB as its "Fifth Top Donor". This award recognises the contribution our Group and our staff have made to Community Chest programmes including the Corporate and Employee Contribution programme, Dress Casual Day, the New Territories Walk for Millions, the Community Chest Charity Walk and the Community Chest Corporate Challenge Half Marathon. Our staff also participated in the Christmas Greetings for the Chest and the Community Chest Green Day.

KMB's community sponsorship over the year has extended to the arts and to campaigns that focus on industry improvement and social awareness. Involvement in these areas covered the Hong Kong Awards for Industry, the Hong Kong Awards for Services, the Hong Kong Management Association Quality Award, the China AIDS Initiative TV gala, the Hong Kong Arts Festival and World Environment Day.

In April, KMB sponsored the Hoi Ha Wan Charity Walk which attracted more than 1,300 participants. Hoi Ha Wan is a marine reserve in the New Territories and the walk, organised by the World Wide Fund for Nature was aimed at spreading understanding among Hong Kong's population of both the beauty and the protection of the coral and marine life that is being regenerated in the area. For the second successive year, KMB provided transport between Sai Kung and Wong Shek Pier for all participants in the walk.

This broad-based commitment to the community in which we operate, ensures our staff have a clear empathy with social concerns and improvements.

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

One of the Group's key education schemes is the "KMB and You, Heading for a Brighter Future" Award which rewards candidates who receive Grade A in ten subjects in the Hong Kong Certificate of Education Examination. The 11 successful candidates in 2004 each received free KMB/LWB bus-travel passes for one year. Over the coming years, we look forward to strengthening our commitment to Hong Kong's young people.

## Assisting Those with Special Needs

In November 2004, KMB and LWB both offered free bus rides to different categories of passengers. 21 November was declared "Elderly Day" across Hong Kong and, to support this event, our two franchised bus companies offered free rides to people aged 65 and above. A week later on 28 November, both companies actively supported "International Day of Disabled Persons" by offering free rides on all routes to disabled people and their escorts.

# FINANCIAL REVIEW

## The Group

### Financial Performance

#### Consolidated Results for the Year

The Group's profit attributable to shareholders for the year ended 31 December 2004 was HK\$731.2 million (2003: HK\$597.0 million). This represents an increase of 22.5% compared with 2003. Earnings per share for the year were HK\$1.81 compared with HK\$1.48 for 2003.

#### Dividends

The proposed final dividend for the year is HK\$1.58 per share (2003: HK\$1.58 per share). Together with the interim dividend of HK\$0.45 per share (2003: HK\$0.45 per share) paid on 13 October 2004, the total dividend for the year ended 31 December 2004 amounts to HK\$2.03 per share (2003: HK\$2.03 per share). This represents dividend cover of 0.89 times (2003: 0.73 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 to the financial statements on page 112 of this Annual Report.

#### Income Tax

Income tax expense for the year was HK\$181.5 million (2003: HK\$259.6 million), representing a decrease of 30.1% compared with the previous year. The decrease was due mainly to the relatively high taxation amount for 2003 resulting from the change in the Hong Kong profits tax rate from 16% to 17.5% that became applicable to the Group's operations in Hong Kong for the year ended 31 December 2003. The change in tax rate resulted in an increase in deferred tax liability of HK\$61.4 million for 2003 arising from recomputing the deferred tax liabilities brought forward from 2002 based on the new tax rate of 17.5%. The breakdown of the income tax expense is set out in note 5(a) to the financial statements on page 109 of this Annual Report.

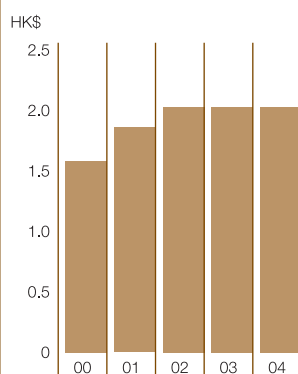
### Cash Flow

The net cash inflow from operating activities of the Group in 2004 was HK\$1,289.9 million (2003: HK\$1,578.4 million). Net cash used in investing activities during the year was HK\$1,032.3 million (2003: HK\$1,009.2 million), of which payment for capital expenditure amounted to HK\$610.1 million (2003: HK\$919.5 million). Net cash used in financing activities during the year amounted to HK\$676.8 million (2003: HK\$423.1 million), of which total dividend payment to shareholders amounted to HK\$830.1 million (2003: HK\$816.8 million). The consolidated cash flow statement of the Group for the year ended 31 December 2004 is set out on pages 100 and 101 of this Annual Report.

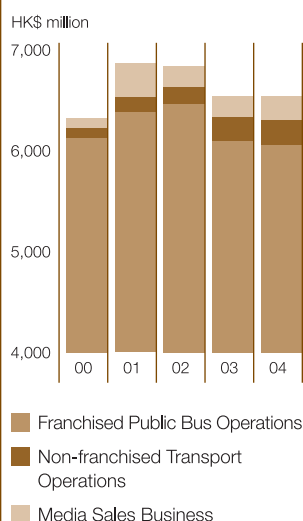
HK\$ million	Turnover		Profit from ordinary activities before taxation	
	2004	2003	2004	2003
Franchised Public Bus Operations Division	<b>6,121.4</b>	6,168.5	<b>862.3</b>	882.3
Non-franchised Transport Operations Division	<b>256.4</b>	233.8	<b>30.4</b>	25.1
Media Sales Business Division	<b>166.5</b>	137.9	<b>32.8</b>	(29.4)
Mainland Transport Operations Division	—	—	<b>21.3</b>	1.9
Property Holdings and Development Division	—	—	<b>12.7</b>	14.1
Internal Financial Services Division	—	—	<b>10.5</b>	23.9
	<b>6,544.3</b>	6,540.2	<b>970.0</b>	917.9
Finance costs			<b>(15.4)</b>	(34.8)
Unallocated net operating expenses			<b>(29.4)</b>	(25.9)
Profit from ordinary activities before taxation			<b>925.2</b>	857.2



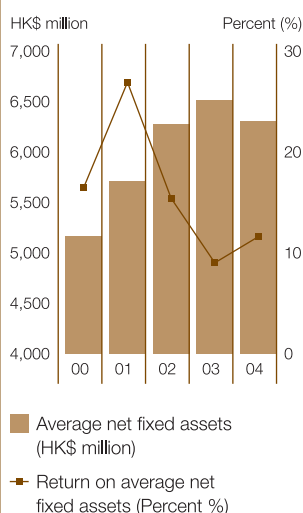
**Dividends per share**



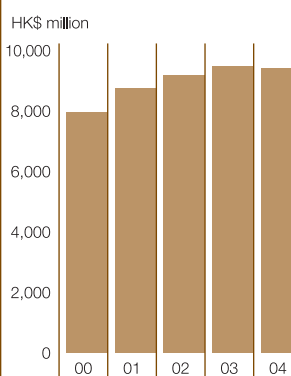
**Group turnover**



**Return on average net fixed assets employed**



**Total assets at 31 December**



## Financial Position

### Capital Expenditure and Commitments

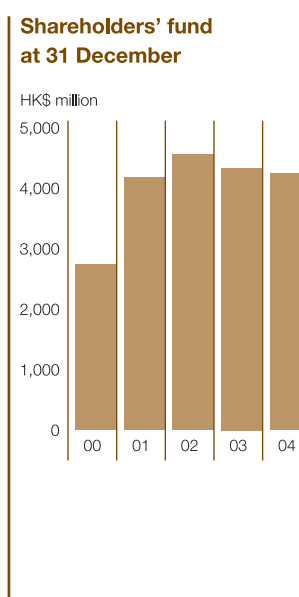
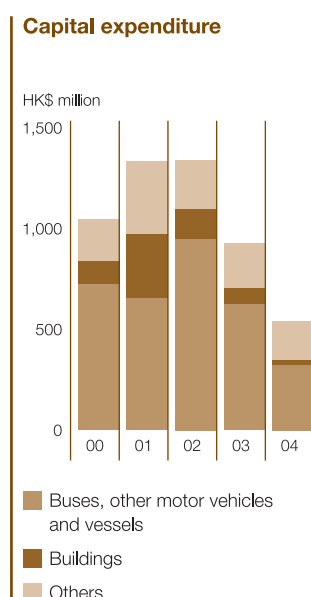
The Group's fixed assets mainly comprise buses, vessels, other motor vehicles, land and buildings. During the year, capital expenditure incurred by the Group amounted to HK\$541.6 million (2003: HK\$930.2 million). The decrease was mainly attributable to the purchase of fewer new buses by KMB in 2004 in the light of redeployment of existing buses following the commissioning of new railways. The breakdown of the capital expenditure incurred is shown in note 12(a) to the financial statements on page 113 of this Annual Report.

Commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2004

amounted to HK\$1,841.4 million (2003: HK\$2,299.2 million).

A summary of the nature of the commitments is set out below:

HK\$ million	2004	2003
Purchase of buses and other motor vehicles	26.5	304.5
Re-development of the old Lai Chi Kok Depot site	1,473.9	1,202.8
Purchase of other fixed assets	327.6	297.1
Investment in new projects on the Mainland	9.5	489.9
Construction of depots and other depot facilities	3.9	4.9
<b>Total</b>	<b>1,841.4</b>	<b>2,299.2</b>



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

At 31 December 2004, the Group had two (2003: 127) air-conditioned double-deck buses on order for delivery in 2005 and 42 (2003: 92) 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 2004. 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 by these companies 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:

	2004	2003
Gearing ratio at year-end (the ratio of net borrowings to the total share capital and reserves)	<b>0.38</b>	0.22
Liquidity ratio at year-end (the ratio of current assets to current liabilities)	<b>1.15</b>	1.32

The increase in the gearing ratio was due mainly to the increase in the Group's net borrowings as a result of the redevelopment of the old Lai Chi Kok Depot site and the increased investments on the Mainland.

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

## Net Borrowings

At 31 December 2004, the Group's net borrowings (i.e. total bank loans and overdrafts less cash and deposits at banks) amounted to HK\$1,621.8 million (2003: HK\$952.2 million), representing an increase of HK\$669.6 million compared with 2003. An analysis of the Group's net borrowings by currency at 31 December 2004 is shown below:

Currency	2004		2003	
	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		1,736.9		1,140.1
United States Dollar	(10.6)	(83.0)	(11.3)	(87.9)
British Pound Sterling	(1.5)	(22.1)	(6.5)	(90.1)
Renminbi	(10.6)	(10.0)	(10.6)	(9.9)
<b>Total</b>		<b>1,621.8</b>		<b>952.2</b>

## Bank Loans and Overdrafts

Bank loans and overdrafts, all unsecured, amounted to HK\$2,792.0 million at 31 December 2004 (2003: HK\$2,633.0 million, of which HK\$100 million was secured by a pledged bank deposit of the same amount).

The maturity profile of bank loans and overdrafts of the Group at 31 December 2004 and 31 December 2003 is set out in note 26 to the financial statements on page 121 of this Annual Report.

## Cash and Deposits at Banks

At 31 December 2004, the Group's cash and deposits at banks amounted to HK\$1,170.2 million (2003: HK\$1,680.8 million). They were mainly denominated in Hong Kong Dollar, United States Dollar, British Pound Sterling ("GBP") and Renminbi.

## Banking Facilities

At 31 December 2004, the Group had stand-by banking facilities totalling HK\$1,945.7 million (2003: HK\$2,236.7 million).

## Finance Costs and Interest Cover

Due mainly to the further decline in market interest rates and repayment of loans in 2004, the total finance cost incurred by the Group decreased to HK\$15.4 million in 2004 from HK\$34.8 million in 2003. The average interest rate in respect of the Group's borrowings for 2004 was 0.63%, a decrease of 77 basis points compared with 1.4% for 2003.

Interest cover, representing the ratio of profit from ordinary activities before taxation to net finance charges (i.e. total finance costs less interest income), increased from 62.8 times in 2003 to 391.9 times in 2004.

## Treasury Policies

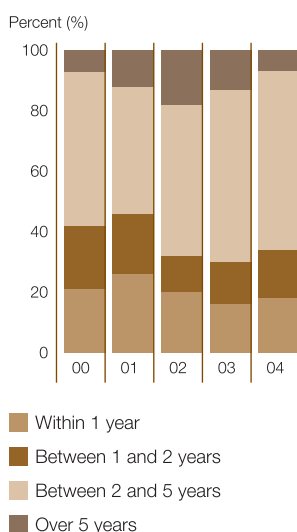
### Currency Risk Management

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

However, payments for certain expenditures such as purchase of new buses and overseas motor vehicle components are mainly denominated in GBP. In view of the trend that GBP would continue to strengthen against the Hong Kong Dollar towards the end of 2004, the Group had hedged certain amounts of GBP in the second half of the year by entering into forward foreign exchange contracts. This effectively fixed all GBP payments during that period to a preferred exchange rate. At 31 December 2004, there were no outstanding forward foreign exchange contracts. As the levels of foreign current assets and liabilities of the Group were relatively low compared to its total asset base and the amount of expenditure that required payments in GBP had been reduced during the year, foreign currency exposure did not pose a significant risk to the Group. However, the Group will continue to closely monitor the prevailing market conditions and devise suitable strategies against foreign currency risk.

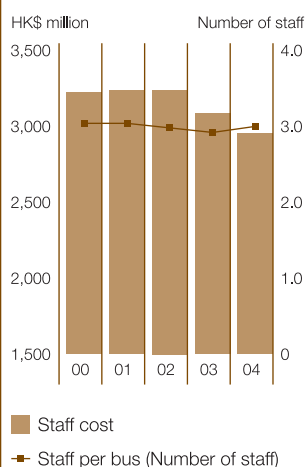


### Debt maturity profile at 31 December



### Staff cost and staff per bus

(Franchised Public Bus Operations)



### Interest Rate Risk Management

As at 31 December 2004, the Group's borrowings were mainly denominated in Hong Kong Dollar and on a floating interest rate basis. This provided flexibility to the Group to take full advantage of the low interest rates in 2004. 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 pages 95 to 126 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (formerly known as 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").

## Employees

As the provision of franchised public bus and non-franchised transport services is labour intensive, staff costs accounted for a substantial portion of the total cost of the Group. Due largely to the route rationalisation plans implemented by KMB as a result of the opening of the Kowloon-Canton Railway Corporation ("KCRC") West Rail, the number of staff of the Group decreased by 0.2% compared with last year, mainly through natural attrition. The Group will continue to closely monitor and align 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:

	2004	2003
Number of employees at year-end	13,661	13,689
Total remuneration (in HK\$ million)	3,048	3,176
Remuneration as percentage of total costs	52%	52%

# Individual Business Units

## Franchised Public Bus Operations

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

	Unit	2004	2003
Total revenue, including advertising revenue	HK\$ million	<b>5,954.7</b>	6,041.7
Total operating and finance costs	HK\$ million	<b>(5,123.2)</b>	(5,185.7)
Profit from franchised public bus operations before taxation	HK\$ million	<b>831.5</b>	856.0
Income tax expense	HK\$ million	<b>(156.0)</b>	(256.2)
Profit from franchised public bus operations after taxation	HK\$ million	<b>675.5</b>	599.8
Net profit margin		<b>11.3%</b>	9.9%
Passenger volume	Million passenger trips	<b>1,063.8</b>	1,060.5
Kilometres travelled	Million km	<b>342.8</b>	344.3
Staff number at year-end	Number of staff	<b>12,499</b>	12,569
Fleet size at year-end	Number of buses	<b>4,150</b>	4,295
Total assets value	HK\$ million	<b>6,165.9</b>	6,504.6

Profit from franchised public bus operations before taxation of KMB for 2004 amounted to HK\$831.5 million (2003: HK\$856.0 million), representing a decrease of 2.9% compared with that of the previous year. The profit after taxation, however, increased by 12.6% from HK\$599.8 million in 2003 to HK\$675.5 million in 2004.

KMB's fare revenue for the year amounted to HK\$5,808.8 million (2003: HK\$5,880.1 million), a decrease of 1.2% compared with 2003. The decrease was mainly attributed to the loss of patronage to the KCRC West Rail since its opening in December 2003 and the offering of fare concessions to passengers for the full year in 2004 under the three fare concession schemes introduced since 1 October 2003.

Due to the recovery of the local economy after the subsidence of Severe Acute Respiratory Syndrome (“SARS”) and the increase in the number of visitors from the Mainland after the extension of the Individual Visit Scheme to more cities in Guangdong Province, the total passenger trips of KMB slightly increased by 0.3% from 1,060.5 million in 2003 to 1,063.8 million in 2004, despite the loss of patronage to the new railways.

The actual distance travelled by KMB's buses totalled 342.8 million kilometres during the year (2003: 344.3 million kilometres). The decrease in distance travelled was primarily due to the rationalisation of certain bus routes as a result of the opening of the KCRC West Rail.

KMB's advertising revenue for the year amounted to HK\$74.5 million (2003: HK\$75.9 million), a decrease of 1.8% compared with the previous year.

Total operating cost for 2004 decreased by 0.8% compared with that for 2003. The decrease was due mainly to the reduction in staff costs resulting from the rationalisation of certain bus routes and the implementation of more stringent cost control measures to meet the challenges arising from the commissioning of new railway lines. Finance costs also decreased by 65.2% from HK\$29.0 million in 2003 to HK\$10.1 million in 2004 due to lower interest rates over the year. These cost savings were, however, largely offset by the drastic increase in fuel costs by HK\$151.3 million or 34.1% from HK\$443.8 million in 2003 to HK\$595.1 million in 2004 as a result of the surge in fuel prices.

Despite the persistence of deflation in Hong Kong over the past seven years, KMB has been facing huge cost pressure arising from increases in fuel prices, insurance premiums, tunnel tolls and wages. Clearly the consumer price indexes do not necessarily reflect changes in KMB's operating costs. Nevertheless, KMB has managed not to increase its bus fares since December 1997 through effective cost control.

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

## Long Win Bus Company Limited (“LWB”)

	Unit	2004	2003
Total revenue, including advertising revenue	HK\$ million	<b>246.8</b>	222.6
Total operating and finance costs	HK\$ million	<b>(227.1)</b>	(227.6)
Profit/(loss) from franchised public bus operations before taxation	HK\$ million	<b>19.7</b>	(5.0)
Income tax (expense)/credit	HK\$ million	<b>(3.4)</b>	1.7
Profit/(loss) from franchised public bus operations after taxation	HK\$ million	<b>16.3</b>	(3.3)
Net profit margin		<b>6.6%</b>	N/A
Passenger volume	Million passenger trips	<b>22.3</b>	19.3
Kilometres travelled	Million km	<b>23.5</b>	22.7
Staff number at year-end	Number of staff	<b>407</b>	399
Fleet size at year-end	Number of buses	<b>145</b>	145
Total assets value	HK\$ million	<b>230.0</b>	288.8

LWB recorded a profit after taxation of HK\$16.3 million for the year (2003: a loss after taxation of HK\$3.3 million).

LWB's fare revenue for the year amounted to HK\$243.0 million, representing an increase of 12.0% compared with HK\$216.9 million for 2003. The total ridership of LWB in 2004 was 22.3 million (a daily average of 60,942) passenger trips, an increase of 15.5% compared with 19.3 million (a daily average of 52,766) passenger trips in the previous year. The increase was due mainly to the continued growth of population in Tung Chung New Town and the recovery of the travel demand for transport links to the Hong Kong International Airport.

Total mileage operated for the year was 23.5 million kilometres (2003: 22.7 million kilometres).

The advertising revenue of LWB decreased to HK\$0.6 million in 2004 from HK\$1.2 million in 2003.

LWB's total operating and finance costs for 2004 decreased by 0.2% compared with that for 2003. The slight decrease was due mainly to the savings in the major cost items and lower interest rate but was mostly offset by the drastic increase in fuel costs by HK\$6.6 million or 32.0% from HK\$20.6 million for 2003 to HK\$27.2 million for 2004 as a result of the surge in fuel prices.

## Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a profit before tax of HK\$29.4 million for 2004 (2003: HK\$23.0 million), representing an increase of 27.8% compared with that for the previous year. Turnover increased by 9.7% from HK\$233.8 million in 2003 to HK\$256.4 million in 2004. The increase was due primarily to the recovery of the local economy and the growth in patronage of the cross-boundary shuttle bus service. This increase was, however, partially offset by the opening of the KCRC West Rail and the decline in residential, commercial and contract hiring businesses due to intensified competition in the relevant market sectors.

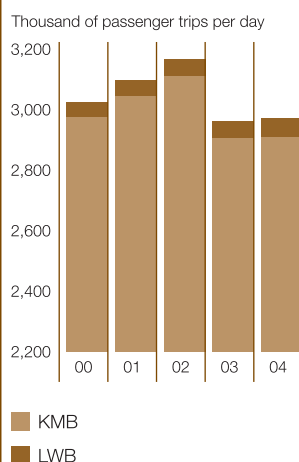
### Sun Bus Holdings Limited and its subsidiaries (the “SBH Group”)

The SBH Group is a major provider of various non-franchised bus services to residential estates, shopping malls, corporations, employers, schools, tourists, and contract-hire customers. Turnover of the SBH Group for the year amounted to HK\$102.1 million, a decrease of 8.5% compared with 2003. The decrease was mainly due to the loss of patronage on certain residential bus services to the KCRC West Rail and the intensified competition within the non-franchised bus service market.



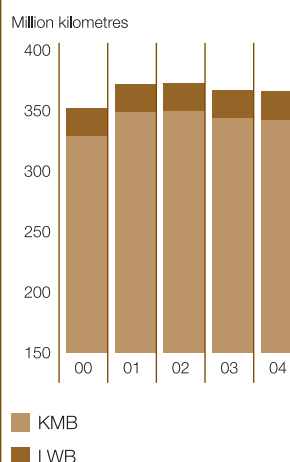
### Average number of passenger trips per day

(Franchised Public Bus Operations)

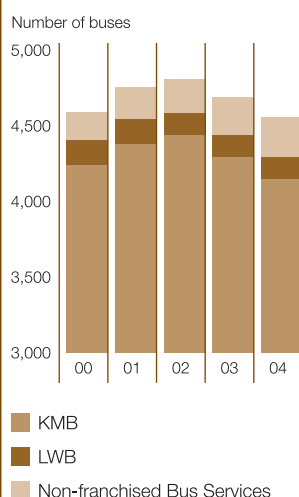


### Bus kilometres operated

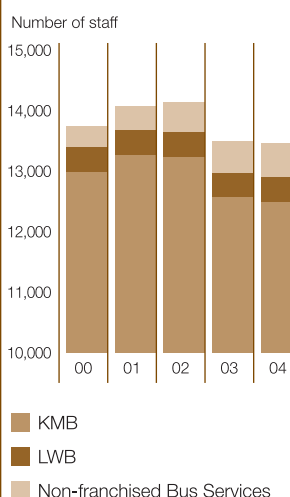
(Franchised Public Bus Operations)



### Number of licensed buses at 31 December



### Number of staff at 31 December



At 31 December 2004, the SBH Group had a fleet of 230 buses (2003: 223 buses). During the year, seven buses (2003: 23 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. At the year-end, PITC operated two ferry routes and two bus routes serving Ma Wan Island, with seven high speed catamarans, 15 air-conditioned single-deck buses and three air-conditioned single-deck diesel-electric hybrid buses. The patronage for the year was 5.1 million passenger trips, an increase of 27.5% compared with 4.0 million passenger trips for 2003. This increase

was due mainly to further population in-take and the sales campaign of residential flats of Park Island Phase III.

### 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. With the growth in the number of visitors from the Mainland as a result of the extension of the Individual Visit Scheme to more cities in Guangdong Province, NHKB’s average monthly ridership for 2004 increased by 32.3% compared with the previous year. To cope with the increased demand, NHKB added two air-conditioned super-low floor single-deck buses to its fleet in 2004, bringing the total number of buses to 15 at the year-end.

## Mainland Transport Operations

At 31 December 2004, the Group's total interest in associates and jointly controlled entity amounted to HK\$224.3 million (2003: HK\$79.9 million). The investments were in respect of the operation of passenger bus services in Dalian, Tianjin and Wuxi, as well as taxi hire and car rental businesses in Beijing. The Group's Mainland Transport Operations Division reported a profit before tax of HK\$21.3 million for 2004 (2003: HK\$1.9 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 2004, the Dalian CJV had 16 double-deck buses and 67 single-deck buses operating on three routes serving Dalian City. This CJV made satisfactory progress and recorded a profit in 2004.

### 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 been in operation since January 2001. During 2004, the Tianjin CJV operated seven bus routes with 110 single-deck buses in Tianjin City, and continued to make steady progress.

### 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 hire and car rental businesses with a fleet of around 4,000 vehicles and about 4,000 employees. The Group's investment in BBKT was HK\$75.5 million, representing 31.38% of BBKT's equity interest. The businesses of BBKT saw significant growth in 2004 compared with the SARS-influenced 2003.

### Wuxi

Wuxi Kowloon Public Transport Company Limited ("WKPT"), a Sino-foreign joint stock company in which the Group has 45% interest, was established in Wuxi City, Jiangsu Province in February 2004. WKPT currently operates some 1,700 buses on over 110 routes. The Group's investment in WKPT was RMB135.4 million (HK\$127.2 million). WKPT achieved satisfactory results over the 10 months ended 31 December 2004.

### Shenzhen

In December 2004, the Group obtained approval from the relevant Mainland government authorities to acquire a 35% interest in a Sino-foreign joint stock company, Shenzhen Bus Group Company Limited ("SBG"), which was formed from reorganisation of the existing Shenzhen Public Transportation Group Limited. SBG commenced operations in January 2005 and principally operates local public bus services in Shenzhen City, Guangdong Province, with around 3,500 vehicles on 120 routes. It is expected that SBG will make contribution to the profit of the Group in the coming years.

## Summary of Investments in Mainland Transport Operations

Location	Nature of Business	Form of Business Structure	Fleet Size at 31 December 2004 (Number of vehicles)	Initial Investment (RMB million)	Operations Commenced
Dalian	Bus Services	Co-operative joint venture	83	22	August 1997
Tianjin	Bus Services	Co-operative joint venture	110	5	January 2001
Beijing	Taxi and Car Rental Services	Sino-foreign joint stock company	4,022	80	April 2003
Wuxi	Bus Services	Sino-foreign joint stock company	1,744	135	March 2004
Shenzhen	Bus Services	Sino-foreign joint stock company	3,503	387	January 2005

## Media Sales Business

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

HK\$ million	2004	2003
Total revenue	<b>198.1</b>	173.4
Total operating and finance costs	<b>(180.7)</b>	(212.4)
Share of profit of associate	<b>14.0</b>	6.9
Profit/(loss) from ordinary activities before taxation	<b>31.4</b>	(32.1)
Income tax (expense)/credit	<b>(7.6)</b>	1.6
Profit/(loss) from ordinary activities after taxation	<b>23.8</b>	(30.5)
Minority interests	<b>(3.7)</b>	(6.5)
Profit/(loss) from ordinary activities after taxation and minority interests	<b>20.1</b>	(37.0)

The RoadShow Group achieved significant operational and financial improvement in 2004 as compared with 2003. For the year ended 31 December 2004, the RoadShow Group reported a total operating revenue of HK\$198.1 million (2003: HK\$173.4 million) and a profit attributable to shareholders of HK\$20.1 million (2003: a loss of HK\$37.0 million).

The profit for the year was mainly attributable to the continuous improvement in the economic environment 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.

Further information relating to the RoadShow Group is available in its 2004 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 and is currently under development into a residential and commercial complex comprising about 1,100 flats in five residential blocks, 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 (“SHKP”) for the provision of services in relation to the development, construction, letting and sales, and management of the future residential and commercial complex.

During the year, LCKPI decided to upgrade the design, materials and quality of workmanship of the development to luxurious quality and standard. It is expected that as the property market in Hong Kong has been recovering, in particular the market segment of upscale domestic accommodation, the upgrade would be beneficial to the Group. The additional construction costs for effecting the upgrading works were estimated to be around HK\$457.6 million.

At the year-end, the total construction cost incurred for the project amounted to HK\$323.2 million (2003: HK\$112.0 million). This amount was capitalised as property under development in the financial statements. At 31 December 2004, the commitment in the project was HK\$1,473.9 million (2003: HK\$1,202.8 million). The project will be partially financed by unsecured bank loans. It is expected that the whole project will be completed by the end of 2006. LCKPI will closely monitor the local property market conditions with a view to drawing up an appropriate timetable for marketing the property.



## Connected Transactions

### The Group

#### **Transactions with Sun Hung Kai Properties Insurance Limited (“SHKPI”)**

As detailed in note 35(a) to the financial statements on page 125 of this Annual Report, the Group has entered into certain insurance arrangements with SHKPI, a wholly-owned subsidiary of SHKP in 2004, pursuant to which SHKPI provides insurance coverage and services to the Group (the “Insurance Arrangements”). The Insurance Arrangements are and will be carried out on a recurring basis and will be expected to extend over a period of time. Hence, transactions under the Insurance Arrangements constitute continuing connected transactions of the Company under the Listing Rules. For the year ended 31 December 2004, the annual insurance premium paid by the Group to SHKPI amounted to HK\$93,138,000. It is estimated that the annual insurance premium paid and payable by the Group to SHKPI for the two financial years ending 31 December 2005 and 2006 will not exceed HK\$126,000,000 and HK\$154,000,000 respectively. The transactions under the Insurance Arrangements are only subject to the reporting and announcement requirements of the Listing Rules and are exempt from the independent shareholders’ approval requirements. Particulars of these connected transactions were disclosed in the announcement of the Company dated 28 May 2004.

### Park Island Transport Company Limited

#### **Transactions with Sun Hung Kai (Ma Wan) Transport Company Limited (“SHKMW”)**

As detailed in note 35(e) to the financial statements on page 126 of this Annual Report, the transactions during the year between PITC and SHKMW, a subsidiary of SHKP, for the provision of transport services for Ma Wan Island constitute continuing connected transactions of the Company under the Listing Rules. Particulars of these connected transactions were disclosed in the announcement of the Company dated 25 May 2002.

### Lai Chi Kok Properties Investment Limited (“LCKPI”)

LCKPI has 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 following connected transactions were disclosed in the announcement of the Company dated 21 July 2003 and 15 October 2004.

#### **Supplementary Agreement to the Prime Cost Contract**

As disclosed in note 35(c) to the financial statements on page 125 of this Annual Report, LCKPI entered into a 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\$1,160,171,000. The transactions contemplated under the Prime Cost Contract constituted connected transactions of the Company and were approved by the independent shareholders at the special general meeting of the Company held on 26 August 2003.

On 15 October 2004, LCKPI entered into a supplementary agreement to the Prime Cost Contract with Chun Fai (the “Supplementary Agreement”) for the purposes of upgrading the design, materials and quality of the workmanship of the Development. The additional prime costs required for performing the upgrading works were estimated to be HK\$448,066,000. Pursuant to the Supplementary Agreement, certain terms and conditions of the Prime Cost Contract were varied and amended. The maximum aggregate consideration payable by LCKPI to Chun Fai will be increased by HK\$457,572,000 to HK\$1,617,743,000. The transactions contemplated under the Supplementary Agreement constituted

discloseable and connected transactions of the Company under the Listing Rules and were approved by the independent shareholders at the special general meeting of the Company held on 25 November 2004.

### 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 also 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 continuing connected transactions of the Company under the Listing Rules.

### Conditional Waivers

In compliance with the Listing Rules and the conditions of the 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 14A of the Listing Rules in connection with the foregoing continuing connected transactions with SHKMW, SHKRE, Hong Yip and SHKPI 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 continuing connected transactions with SHKMW, SHKRE, Hong Yip and SHKPI was entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

2. the annual permitted return for the year ended 31 December 2004 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 2003;
3. the annual aggregate amount for the year ended 31 December 2004 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 2003; and
4. the annual insurance premium paid and payable by the Group to SHKPI for the year ended 31 December 2004 did not exceed the maximum amount of HK\$94,000,000 as disclosed in the announcement dated 28 May 2004.

The auditors of the Company had also confirmed to the Board that the continuing connected transactions (a) had received the approval of the boards of directors of the relevant companies; (b) had been entered into in accordance with the relevant agreement governing the transactions; and (c) had not exceeded the caps as stated above.

# Financial Summary

for the year ended 31 December

	2004 HK\$'M	2003 HK\$'M	2002 HK\$'M	2001 HK\$'M
<b>Income Statement</b>				
Turnover	6,544	6,540	6,843	6,862
Profit from ordinary activities before taxation	925	857	1,142	1,810
Income tax	181	259	175	237
Profit from ordinary activities after taxation	744	598	967	1,573
Minority interests	13	1	28	34
Transfer from/(to) development fund	–	–	–	–
Profit attributable to shareholders	731	597	939	1,539
<b>Balance Sheet</b>				
Fixed assets	6,119	6,491	6,497	6,047
Goodwill	47	50	53	21
Media assets	115	61	–	–
Non-current prepayments	470	105	101	–
Investment securities	15	15	15	15
Interests in subsidiaries	–	–	–	–
Interests in associates	313	162	61	1
Interest in jointly controlled entity	5	1	2	6
Employee benefit assets	414	339	278	–
Net current assets/(liabilities)	253	548	465	854
Employment of funds	7,751	7,772	7,472	6,944
Financed by:				
Share capital	404	404	404	404
Reserves	3,847	3,935	4,157	3,776
Shareholders' funds	4,251	4,339	4,561	4,180
Contingency provision – insurance	59	106	117	202
Development fund	–	–	–	–
Minority interests	289	260	244	228
Long term bank loans	2,298	2,218	1,830	1,743
Other liabilities	854	849	720	591
Funds employed	7,751	7,772	7,472	6,944
<b>Earnings per share (HK\$)</b>	1.81	1.48	2.33	3.81
<b>Dividends per share (HK\$)</b>	2.03	2.03	2.03	1.86

**Note:**

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



2000 HK\$'M	1999 HK\$'M	1998 HK\$'M	1997 HK\$'M	1996 HK\$'M	1995 HK\$'M
<u>6,323</u>	<u>5,871</u>	<u>5,510</u>	<u>4,863</u>	<u>4,451</u>	<u>3,973</u>
936	893	679	555	588	540
<u>81</u>	<u>154</u>	<u>93</u>	<u>4</u>	<u>62</u>	<u>77</u>
855	739	586	551	526	463
—	—	—	—	—	—
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>(2)</u>
<u>855</u>	<u>739</u>	<u>586</u>	<u>551</u>	<u>528</u>	<u>461</u>
5,381	4,952	4,882	4,441	3,342	2,777
22	4	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
1	—	—	—	—	—
—	—	—	—	—	24
—	(5)	(5)	(2)	—	—
10	13	17	20	—	—
—	—	—	—	—	—
<u>926</u>	<u>881</u>	<u>374</u>	<u>(156)</u>	<u>(60)</u>	<u>40</u>
<u>6,340</u>	<u>5,845</u>	<u>5,268</u>	<u>4,303</u>	<u>3,282</u>	<u>2,841</u>
404	404	404	404	404	404
<u>2,341</u>	<u>2,052</u>	<u>1,782</u>	<u>1,637</u>	<u>1,514</u>	<u>1,362</u>
2,745	2,456	2,186	2,041	1,918	1,766
298	305	299	273	288	175
—	—	—	—	—	2
4	6	6	6	—	—
2,176	1,961	1,694	1,116	346	303
<u>1,117</u>	<u>1,117</u>	<u>1,083</u>	<u>867</u>	<u>730</u>	<u>595</u>
<u>6,340</u>	<u>5,845</u>	<u>5,268</u>	<u>4,303</u>	<u>3,282</u>	<u>2,841</u>
2.12	1.83	1.45	1.36	1.31	1.14
<u>1.58</u>	<u>1.35</u>	<u>1.15</u>	<u>1.08</u>	<u>1.04</u>	<u>0.91</u>

# Directors' Profiles



## **The Hon Sir Sze-yuen CHUNG\*** GBM, GBE, PhD, FREng, JP

Chairman and Independent Non-executive Director, aged 87. Sir Sze-yuen Chung has been the Chairman and an Independent Non-executive Director of The Kowloon Motor Bus Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 12 August 1999. He is a Director of CLP Holdings Limited and Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and Pro-Chancellor of The Hong Kong University of Science and Technology. Until August 2003 he was a director of Wheelock & Company Limited. Sir Sze-yuen Chung has contributed significantly in Hong Kong's political, industrial, social and tertiary education fields for over four decades. He was Senior Member of Hong Kong Legislative Council (1974-78), Executive Council (1980-88), and again Convenor of HKSAR Executive Council (1997-99). He was Chairman of Federation of Hong Kong Industries (1966-70), and Hong Kong Productivity Council (1974-78); and President of Engineering Society of Hong Kong (1960-61) and Hong Kong Academy of Engineering Sciences (1994-97). He established Hong Kong Polytechnic in 1972, City Polytechnic in 1984, The Hong Kong University of Science and Technology in 1991 and Hospital Authority in 1990. He was deeply involved in the Sino-British Negotiation on Hong Kong's future (1982-85) and the establishment of the Hong Kong Special Administrative Region (1992-97).



## **Dr Norman LEUNG Nai Pang** GBS, JP, LLD, BA

Deputy Chairman and Director, aged 64. Dr Leung has been a Director of The Kowloon Motor Bus Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 18 March 2000 and Deputy Chairman of the Company, KMB and LWB since 14 June 2001. He is the Executive Deputy Chairman of Television Broadcasts Limited and a Director of Wing Lung Bank Limited. He was also the former Deputy Chairman and Non-executive Director of RoadShow Holdings Limited, an indirect subsidiary of the Company listed on The Stock Exchange of Hong Kong Limited. As for public service, he is the Commissioner of Civil Aid Service and the Pro-Chancellor of the City University of Hong Kong.



## **KWOK Ping-luen, Raymond** MA(Cantab), MBA, Hon DBA, Hon LLD

Director, aged 51. Mr Kwok has been a Director of The Kowloon Motor Bus Holdings Limited (the "Company") since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 September 1981 and 8 May 1997 respectively. Mr Kwok holds a Master of Arts degree in Law from Cambridge University, a Master degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong. He is the Vice Chairman and Managing Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. He is also Chairman and Chief Executive Officer of SUNeVision Holdings Ltd., Chairman of SmarTone Telecommunications Holdings Limited and an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited.

In civic activities, Mr Kwok is a Non-executive Director of the Securities and Futures Commission, a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce, a Member of the Hong Kong Port Development Council and Vice Chairman of the Council of The Chinese University of Hong Kong. He is also Chairman of the Management Committees of the Police Children's Education Trust and the Police Education and Welfare Trust. Mr Kwok is the younger brother of Mr Kwok Ping-sheung, Walter, who is a Director of the Company.



#### **KWOK Ping-sheung, Walter** JP, MSc(Lond), DIC, MICE

Director, aged 54. Mr Kwok has been a Director of The Kowloon Motor Bus Holdings Limited (the “Company”) since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 15 November 1990 and 8 May 1997 respectively. He holds a Master of Science degree in Civil Engineering from Imperial College, University of London, and is a Member of the Institute of Civil Engineers, U.K., and a Member of the Hong Kong Institution of Engineers. He is currently the Chairman and Chief Executive of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, an Executive Director of SUNeVision Holdings Ltd., and a Director of Wilson Parking (Holdings) Limited and Hung Cheong Import & Export Co., Ltd. Mr Kwok is also a Director of the Real Estate Developers Association of Hong Kong and Tsimshatsui East Property Developers’ Association Ltd. and Honorary Treasurer of the Federation of Hong Kong Hotel Owners.

On the community front, he is the Member of the Former Directors Committee of The Hong Kong Community Chest, and Board Member of the Lord Wilson Heritage Trust. He is also a Member of MBA Programmes Committee of The Chinese University of Hong Kong. Mr Kwok is an Honorary Citizen of Beijing & Guangzhou, a Standing Committee Member of the National Committee of the Chinese People’s Political Consultative Conference. Mr Kwok is the elder brother of Mr Kwok Ping-luen, Raymond, who is a Director of the Company.



#### **YU Shu Chuen**

Honorary Executive Director, aged 92. Mr Yu has been a Director of The Kowloon Motor Bus Holdings Limited since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited since 1 September 1961 and 8 May 1997 respectively. Mr Yu is Director of several private property investment companies and the Adviser to the Hong Kong Taishan Chamber of Commerce. Mr Yu is active in community services. He made significant financial and personal contribution in 1984 towards establishing the Wu Xi Secondary School in Taishan, his hometown, and elected Chairman of its Board in 1994. The school has won numerous prizes both in the province and the city. Awarded a “Gold Plate for the Contribution to the Development of Taishan” by the People’s Government of Taishan City in 1992 and also awarded a “Certificate for Devotion to Children” by the People’s Government of Jiangmen City in 1993. In 1997, Mr Yu was recognised as an Honorary Citizen by the People’s Government of Taishan City. Mr Yu had worked in KMB for over 50 years before his retirement in 1984 as Personnel Manager.



#### **NG Siu Chan**

Director, aged 74. Mr Ng has been a Director of The Kowloon Motor Bus Holdings Limited (the “Company”) since 4 September 1997 and a Director of The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited (“LWB”) since 3 March 1983 and 8 May 1997 respectively. Mr Ng is also an Independent Non-executive Director of Wing Lung Bank Limited, Century City International Holdings Limited and Paliburg Holdings Limited. Mr Ng is the father of Ms Winnie Ng, who is a Director and Executive Director of the Company, KMB, LWB and KMB (China) Holdings Limited, and Group Managing Director of RoadShow Holdings Limited.

\* Independent Non-executive Director



**William LOUEY Lai Kuen** BSc(Econ)

Director, aged 45. Mr Louey has been a Director of The Kowloon Motor Bus Holdings Limited (the “Company”) since 4 September 1997. He is also a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 14 January 1993 and 8 May 1997 respectively. He has previously worked for an international merchant bank in the United Kingdom for five years and an international accounting firm in the United Kingdom for three years. In 1995, he set up the William S D Louey Educational Foundation in memory of his grandfather, Mr William S D Louey, to finance outstanding students from China and Hong Kong to further their education abroad. Having aware of the success of the Foundation, Mr Louey was invited to become a committee member of the Hong Kong Oxford Scholarship Fund in 1999.



**John CHAN Cho Chak** GBS, JP, DBA(Hon), BA, DipMS, MIMgt, FCILT, FHKIoD

Managing Director, aged 61. Mr Chan has been the Managing Director of The Kowloon Motor Bus Holdings Limited (the “Company”) since 4 September 1997 and was appointed the Managing Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 1 November 1993 and 8 May 1997 respectively. He is also the Chairman and Non-executive Director of RoadShow Holdings Limited, an indirect subsidiary of the Company listed on The Stock Exchange of Hong Kong Limited and an Independent Non-executive Director of Hang Seng Bank Limited and Guangdong Investment Limited. He was formerly an Independent Non-executive Director of the Hong Kong Exchanges and Clearing Limited, 2000-03 and a member of the Hong Kong Civil Service, 1964-78 and 1980-93. Key posts held in Government included Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. Also former Executive Director and General Manager of Sun Hung Kai Finance Company Limited, 1978-80. Deputy Chairman of the Hong Kong Jockey Club, Vice Patron and Campaign Committee Co-Chairman of The Community Chest, Chairman of the Council of the Hong Kong University of Science and Technology, Member of the Advisory Committee on Corruption and Member of the East Asian Games Planning Committee. In December 2000, Mr Chan won the Executive Award in the DHL/SCMP HK Business Awards 2000 and received an Honorary University Fellowship from The University of Hong Kong.



**Charles LUI Chung Yuen** M.H., BEc, AASA, FCILT

Executive Director, aged 70. Mr Lui has been a Director of The Kowloon Motor Bus Holdings Limited since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively. Joined KMB in 1960 as Accountant and promoted to Chief Accountant, Assistant General Manager and appointed as General Manager on 1 March 1989. Retired as General Manager on 21 July 1999 on reaching the retirement age of 65 years. Mr Lui was appointed the Deputy Managing Director of KMB (China) Holdings Limited on 1 September 1999. Relinquished the post of Deputy Managing Director to assume the post of Chairman of KMB (China) Holdings Limited on 13 August 2003.





**Winnie NG** BA, MBA(Chicago)

Executive Director, aged 41. Ms Ng has been a Director of The Kowloon Motor Bus Holdings Limited (the “Company”) since 4 September 1997. She has also been a Director of The Kowloon Motor Bus Company (1933) Limited (“KMB”), Long Win Bus Company Limited (“LWB”) and KMB (China) Holdings Limited (“KMB (China)”) since 12 October 1995, 8 May 1997 and 1 September 1997 respectively. She has been the Group Managing Director of RoadShow Holdings Limited since its inception in 2001. She joined KMB in 1990 and was appointed as Commercial Director in 1999 and then appointed as Executive Director of the Company, KMB, LWB and KMB (China) in 2001. In December 2003, she won the Yazhou Zhoukan Young Chinese Entrepreneur Award 2003. Ms Ng is active in public service, having served the community in her capacities as Board Member of Agency for Volunteer Service, Public Relations Committee Member of The Community Chest, Member of Zonta Club of Hong Kong East, Council Member of the Hong Kong Digestive Foundation, Steering Committee Member on Promotion of Volunteer Service of the Social Welfare Department, and President of Little Chair Foundation. Ms Ng is also the Vice Chairman of Council of China’s Foreign Trade, China Council for the Promotion of International Trade. Ms Ng is the daughter of Mr Ng Siu Chan, who is a Director of the Company. Ms Ng holds an MBA degree from the University of Chicago.



**Dr KUNG Ziang Mien, James\*** GBS, OBE

Independent Non-executive Director, aged 74. Dr Kung has been the Independent Non-executive Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. He retired from the Chairman and Chief Manager of Chekiang First Bank Ltd, after 53 years of service. Dr Kung graduated from the Soochow University Law School LLB in 1950. He was conferred Doctor of Laws, LL.D (honoris causa) by The Chinese University of Hong Kong in 1990; DBA, Doctor of Business Administration (honoris causa) by Hong Kong Polytechnic in 1991 and Doctor of Laws honoris causa by The University of Hong Kong in 2000. Dr Kung was awarded OBE by Her Majesty the Queen in 1994. Diplomatic Service: 1989 — present Honorary Consul of Luxembourg. Other awards include Grand Officer of Order of Merit of the Grand Duchy of Luxembourg in 1994, Chevalier de la Légion d’Honneur of France in 1996, Commander in the Order of Leopold II of Belgium in 1997, Officier de la Légion d’Honneur in 2000 and Commandeur de la Légion d’Honneur in 2003. Dr Kung is Chairman of the Hong Kong Digestive Foundation, Member of the Exchange Fund Advisory Committee and the Land Fund Advisory Committee, Member of the Advisory Council, One Country Two Systems Research Institute, Chairman of the HKU-Pasteur Research Centre Ltd and Trustee of The University of Hong Kong’s Staff Terminal Benefits Scheme (1988), Staff Provident Fund and Terms of Services III Staff Retirement Scheme, President of the Légion d’Honneur Club Hong Kong Chapter and President of the Hong Kong-Shanghai Economic Development Association.



**George CHIEN Yuan Hwei** MSc(Lond), BSc(Eng), DIC, FICE, CEng, PEng, MITE

Director, aged 67. Mr Chien has been a Director of The Kowloon Motor Bus Holdings Limited (the “Company”), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 16 July 1998. He was the Alternate Director to Mr Kwok Ping-sheung, Walter during the period from 8 June 1995 to 13 October 1998 inclusive. He is a member of the Audit Committee of the Company. Mr Chien is the holder of “Transportation Advisor” post in Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Previously worked for the Toronto Transit Commission in Canada for more than 10 years and in the ex-Public Works Department of the Hong Kong Government for about 24 years.

\* Independent Non-executive Director



**Dr Eric Li Ka Cheung\*** GBS, OBE, JP, LL.D., DSocSc, BA, FCPA(Practising), FCA, FCPA(Aust.), FCIS

Independent Non-executive Director, aged 51. Dr Li has been a Director of The Kowloon Motor Bus Holdings Limited (the “Company”), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. Dr Li was appointed an Independent Non-executive Director of RoadShow Holdings Limited since 16 September 2004. He is a Senior Partner of Li, Tang, Chen & Co., Certified Public Accountants and an independent non-executive director of SmarTone Telecommunications Holdings Limited, Wong’s International (Holdings) Limited, CATIC International Holdings Limited, Hang Seng Bank Limited, China Vanke Co., Ltd., China Resources Enterprise, Limited, Sinochem Hong Kong Holdings Limited and Strategic Global Investments plc. He is a Board Member of the International Federation of Accountants and a member of the 10th National Committee of the Chinese People’s Political Consultative Conference. He was also a former member of the Legislative Council of Hong Kong and a past president of the Hong Kong Institute of Certified Public Accountants. Dr Li is the Chairman of the Audit Committee of the Company.



**LUI Pochiu** CMILT

Director, aged 62. Mr Lui has been a Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited since 1 January 2001. Mr Lui has been the Operations Director of KMB since 1999. In his capacity, Mr Lui manages the Planning and Development Department, Service Department and Traffic Department, looking after the overall planning, co-ordination and implementation of operations policies as well as practices. Mr Lui first joined KMB in November 1970 as Assistant Accountant. In the subsequent 30 years, Mr Lui had served in various different departments, taking up such roles as Stores Controller, Depot Manager and Traffic Manager. Mr Lui was educated in Australia and became a member of the Chartered Institute of Logistics & Transport in Hong Kong (formerly, Chartered Institute of Transport) in 1985.



**Edmond HO Tat Man** MA(Cantab), MBA, CMILT, MHIKLoD

Deputy Managing Director, aged 43. Mr Ho has been a Director of The Kowloon Motor Bus Holdings Limited (the “Company”), The Kowloon Motor Bus Company (1933) Limited (“KMB”) and Long Win Bus Company Limited (“LWB”) since 1 January 2001. Joined KMB in September 1998 and served as Finance and Administration Director from January 1999 to April 2003. Appointed as Deputy Managing Director of the Company, KMB and LWB with effect from 10 January 2002. Posts previously held included Investment Director of a merchant bank and executive director of a number of transport infrastructure management and investment companies in Hong Kong and on the Mainland. Also former director of four Sino-foreign joint venture companies of an international leading soft drink brand. Mr Ho holds a master’s degree in engineering from Cambridge University and an MBA degree from The University of Hong Kong.



**Rafael HUI** GBS, JP, BA(Hons) HKU, MPA Harvard

Director, aged 57. Mr Hui has been a Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 February 2004. Mr Hui first joined the Civil Service in 1970 and was subsequently appointed an Administrative Officer in 1971. He rose to the rank of Secretary, Government Secretariat in 1996. During the early years of his career, he held appointments in a number of branches and departments including Home Affairs Department, Security Branch, Economic Services Branch and Transport Branch. He was seconded to ICAC from 1977 to 1979 and attended an overseas training programme in Harvard from 1982 to 1983 where he obtained his Master's Degree in Public Administration. He was Deputy Secretary-General in the former UMELCO from 1985 to 1986, Deputy Secretary for Economic Services from 1986 to 1990, Deputy Secretary for Works from 1990 to 1991, when he was appointed Director, New Airport Projects Co-ordination Office. He took up the post of Commissioner for Transport in 1992 and was appointed in 1995 to the post of Secretary for Financial Services which he held for five years. In June 2000, having resigned from the civil service, he assumed the post of Managing Director of the Mandatory Provident Fund Schemes Authority until June 2003.

Mr Hui was appointed a Justice of the Peace in 1986 and received the honour of Gold Bauhinia Star in 1998. In 2002, he was elected a Steward of the Hong Kong Jockey Club. He is also the Vice Chairman of the Hong Kong Arts Festival Society (and Chairman of its Programme Committee), Honorary Secretary of The Hong Kong International Film Festival Society Limited and member of the Executive Committee of the Hong Kong Philharmonic Society Limited.



**SIU Kwing-chue, Gordon\*** GBS, CBE, JP, MSS(Birmingham, UK)

Independent Non-executive Director, aged 58. Mr Siu was appointed Independent Non-executive Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 26 October 2004. Mr Siu joined the Civil Service in 1966, rose to the rank of Secretary, Government Secretariat in 1993 and retired from the Service in July 2002 with a service of over 36 years. His recent positions in Government included Deputy Secretary for the Civil Service (1981-1985), Secretary-General of OMELCO (1985-1988), Postmaster General (1988-1989), Commissioner for Transport (1989-1992), Director, New Airport Projects Co-ordination Office (1992-1993), Secretary for Economic Services (1993-1996), Secretary for Transport (1996-1997), Head, Central Policy Unit (1997-1999) and Secretary for Planning, Environment & Lands (1999-2002). Mr Siu was awarded the honours of Commander of the Most Excellent Order of the British Empire (CBE) in 1997 and Gold Bauhinia Star (GBS) in 2002, and appointed a non-official Justice of the Peace in 2003.

\* Independent Non-executive Director

# Senior Management

**John CHAN Cho Chak** GBS, JP, DBA(Hon), BA, DipMS, MIMgt, FCILT, FHKIoD

Aged 61. Managing Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Chairman and Non-executive Director of RoadShow Holdings Limited. Brief biography of Mr Chan is set out on page 80 of this Annual Report.

**Charles LUI Chung Yuen** M.H., BEc, AASA, FCILT

Aged 70. Executive Director of The Kowloon Motor Bus Holdings Limited. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Chairman of KMB (China) Holdings Limited. Brief biography of Mr Lui is set out on page 80 of this Annual Report.

**Winnie NG** BA, MBA(Chicago)

Aged 41. Executive Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited and KMB (China) Holdings Limited. Also Group Managing Director of RoadShow Holdings Limited. Brief biography of Ms Ng is set out on page 81 of this Annual Report.

**Edmond HO Tat Man** MA(Cantab), MBA, CMILT, MHKIoD

Aged 43. Deputy Managing Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Managing Director of KMB (China) Holdings Limited. Brief biography of Mr Ho is set out on page 82 of this Annual Report.

**LUI Pochiu** CMILT

Aged 62. Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Also Operations Director of The Kowloon Motor Bus Company (1933) Limited. Brief biography of Mr Lui is set out on page 82 of this Annual Report.

**Peter MAK Chun Keung**

Aged 64. Commercial Director of The Kowloon Motor Bus Company (1933) Limited. Also Director of RoadShow Holdings Limited. Mr Mak joined the Group in 1994 and had previously held senior executive positions in foreign and local banking institutions. He has over 20 years of experience in international banking and finance.

**William HO Sai Kei** BBA, CA(Canada), FCPA

Aged 37. Qualified Accountant of The Kowloon Motor Bus Holdings Limited. Also Finance and Administration Director of The Kowloon Motor Bus Company (1933) Limited. Mr Ho joined the Group in 2003 and had previously held senior finance positions in two groups of companies listed on The Stock Exchange of Hong Kong Limited. He also has over nine years of experience in public accounting in Canada and Hong Kong.



# Corporate Executives

Name	Position Held in the Group
<b>The Kowloon Motor Bus Holdings Limited</b>	
Lana WOO BA, AAT, CGA, ACIS, MIFC, CFC	Company Secretary
<b>The Kowloon Motor Bus Company (1933) Limited</b>	
Lana WOO BA, AAT, CGA, ACIS, MIFC, CFC	Company Secretary
Peter S H MACK MBA, MSc(Finance), LLB(Peking), FCCA, CPA, ACIS	Head of Accounts Department
Susanne HO	Head of Corporate Communications Department
CHAN Pik Yin BA	Head of Customer Service Department
Thomas T M TONG MSc, CEng, MStructE, MHKIE, RPE, AP, RSE	Head of Facilities Management Department
Doris K K LAU FCCA, CPA	Head of Financial Planning and Costing Department
James C LOUEY BSc	Head of Human Resources Department
Tommy H T LEUNG BSc, DMS	Head of Information Technology Department
Alice LUK BBA, ANZIIF(Snr Assoc), MCI Arb	Head of Insurance Department
Thomas M L LEUNG BSc(Hons), FCCA, CPA, CGA	Head of Internal Audit Department
Queenie L M YAU BBA	Head of Office Administration Department
Mark LEUNG BBA, CMILT	Head of Planning and Development Department
Lisa L M NG BA	Head of Purchasing Department
LEUNG Kin Wang BSc, MIMechE, CEng	Head of Service Department
SHUM Yuet Hung BSc(Eng), MSc, MSc(Eng), MBA, MIRTE, MIMechE, CEng, MHKIE, ACGI, MSOE	Principal Engineer, Bus Engineering
Tim IP BSocSc, MSc, DIC, CMILT	Head of Traffic Department
TSANG Lap Chung	Head of Treasury Department
WAN Kin Tim BSc	General Manager (Kowloon Bay Depot)
LUI Yuk Fan	General Manager (Lai Chi Kok Depot)
HO Chi Man MA, CMILT	General Manager (Sha Tin Depot)
WOO Kin Keung	General Manager (Tuen Mun Depot)
<b>Long Win Bus Company Limited</b>	
Kenrick FOK CMILT	General Manager
Lana WOO BA, AAT, CGA, ACIS, MIFC, CFC	Company Secretary
<b>Sun Bus Holdings Limited</b>	
Benjamin C H WONG CMILT	General Manager
<b>KMB (China) Holdings Limited and New Hong Kong Bus Company Limited</b>	
Simon TU CMILT	General Manager
<b>RoadShow Holdings Limited</b>	
Amanda LUI Yee Fai BA	Director and Chief Operations Officer
Eric YEUNG Chun Yiu	Chief Programme Officer
Thomas MAK Hing Keung BCom, CA, FCPA	Chief Financial Officer and Company Secretary

# Financial Reports

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# Report of the Directors

The Directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2004.

## 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, property holdings and development and the provision of media sales services. Particulars of the Company's principal subsidiaries are set out in note 16 to 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 to 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 2004 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 95 to 126 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 64 to 75 of this Annual Report.

## Dividends

An interim dividend of 45 cents per share (2003: 45 cents per share) was paid to the shareholders on 13 October 2004. The Directors now recommend that a final dividend of HK\$1.58 per share (2003: HK\$1.58 per share) in respect of the year ended 31 December 2004 be paid to the shareholders on 20 May 2005.

## Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$4,634,924 (2003: HK\$1,898,000).

## 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\$329,647,000 (2003: HK\$583,805,000). Buses and vessels with a total cost of HK\$499,326,000 (2003: HK\$519,260,000) 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 to the financial statements.

## Directors

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

<b>The Hon Sir Sze-yuen Chung*</b> , <i>GBM, GBE, PhD, FREng, JP</i>	(Chairman)
<b>Dr Norman Leung Nai Pang</b> , <i>GBS, JP</i>	(Deputy Chairman)
<b>Dr the Hon Woo Pak Chuen*</b> , <i>JP</i>	(resigned on 24 June 2004)
<b>Kwok Ping-luen, Raymond</b>	
<b>Kwok Ping-sheung, Walter</b> , <i>JP</i>	
<b>Yu Shu Chuen</b>	
<b>Ng Siu Chan</b>	
<b>William Louey Lai Kuen</b>	
<b>John Chan Cho Chak</b> , <i>GBS, JP</i>	(Managing Director)
<b>Charles Lui Chung Yuen</b> , <i>M.H.</i>	
<b>Winnie Ng</b>	
<b>Dr Kung Ziang Mien, James*</b> , <i>GBS, OBE</i>	
<b>George Chien Yuan Hwei</b>	
<b>Dr Eric Li Ka Cheung*</b> , <i>GBS, OBE, JP</i>	
<b>Lui Pochiu</b>	
<b>Edmond Ho Tat Man</b>	(Deputy Managing Director)
<b>Rafael Hui</b> , <i>GBS, JP</i>	(appointed on 1 February 2004)
<b>Siu Kwing-chue, Gordon*</b> , <i>GBS, CBE, JP</i>	(appointed on 26 October 2004)
<b>Lana Woo</b>	(Alternate Director to Dr the Hon Woo Pak Chuen*, <i>JP</i> , resigned on 24 June 2004)
<b>Sham Yat Wah</b>	(Alternate Director to Mr Kwok Ping-luen, Raymond)
<b>Susanna Lau Shung Oi</b>	(Alternate Director to Mr Kwok Ping-sheung, Walter, <i>JP</i> )
<b>Kung Lin Cheng, Leo</b>	(Alternate Director to Dr Kung Ziang Mien, James*, <i>GBS, OBE</i> , appointed on 1 July 2004)

\* Independent Non-executive Director

In accordance with Bye-law 87 of the Company and Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, The Hon Sir Sze-yuen Chung, Dr Norman Leung Nai Pang, Mr Kwok Ping-sheung, Walter, Mr Ng Siu Chan, Mr William Louey Lai Kuen, Mr John Chan Cho Chak, Dr Kung Ziang Mien, James, Mr Rafael Hui and Mr Siu Kwing-chue, Gordon retire from the Board by rotation and, being eligible, offer themselves for re-election.

Brief biography of the Directors of the Company are set out on pages 78 to 83 of this Annual Report.

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

At 31 December 2004, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they are taken or deemed to have under such provisions of the SFO or were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or were to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows: –

### (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
<b>The Hon Sir Sze-yuen Chung*</b>	18,821	–	–	–	18,821	0.005%
<b>Dr Norman Leung Nai Pang</b>	–	–	–	–	–	–
<b>Kwok Ping-luen, Raymond</b>	393,350	–	–	–	393,350	0.097%
<b>Kwok Ping-sheung, Walter</b>	61,522	–	–	–	61,522	0.015%
<b>Yu Shu Chuen</b>	2,943	70,803	–	6,909,481 (Note 1)	6,983,227	1.730%
<b>Ng Siu Chan</b>	–	21,000,609	–	–	21,000,609	5.203%
<b>William Louey Lai Kuen</b>	6,222,926	4,475	–	–	6,227,401	1.543%
<b>John Chan Cho Chak</b>	2,000	–	–	–	2,000	–
<b>Charles Lui Chung Yuen</b>	12,427	–	–	2,651,750 (Note 2)	2,664,177	0.660%
<b>Winnie Ng</b>	41,416	–	–	21,000,609 (Note 3)	21,042,025	5.213%
<b>Dr Kung Ziang Mien, James*</b>	–	–	172,000	–	172,000	0.043%
<b>George Chien Yuan Hwei</b>	2,000	–	–	–	2,000	–
<b>Dr Eric Li Ka Cheung*</b>	–	–	–	–	–	–
<b>Lui Pochiu</b>	452,113	–	–	–	452,113	0.112%
<b>Edmond Ho Tat Man</b>	–	–	–	–	–	–
<b>Rafael Hui</b>	–	–	–	–	–	–
<b>Siu Kwing-chue, Gordon*</b>	–	–	–	–	–	–
<b>Sham Yat Wah</b> (Alternate Director to Mr Kwok Ping-luen, Raymond)	–	–	–	–	–	–
<b>Susanna Lau Shung Oi</b> (Alternate Director to Mr Kwok Ping-sheung, Walter)	–	–	–	–	–	–
<b>Kung Lin Cheng, Leo</b> (Alternate Director to Dr Kung Ziang Mien, James*)	–	–	–	–	–	–

\* Independent Non-executive Director

#### 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*	4,000	–	–	–	4,000	–
Dr Norman Leung Nai Pang	–	–	–	–	–	–
Kwok Ping-luen, Raymond	37,400	–	–	–	37,400	0.004%
Kwok Ping-sheung, Walter	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	–	–	–	–	–	–
Charles Lui Chung Yuen	–	–	–	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*	–	–	268,000	–	268,000	0.027%
George Chien Yuan Hwei	–	–	–	–	–	–
Dr Eric Li Ka Cheung*	–	–	–	–	–	–
Lui Pochiu	24,863	–	–	–	24,863	0.002%
Edmond Ho Tat Man	–	–	–	–	–	–
Rafael Hui	–	–	–	–	–	–
Siu Kwing-chue, Gordon*	–	–	–	–	–	–
Sham Yat Wah (Alternate Director to Mr Kwok Ping-luen, Raymond)	–	–	–	–	–	–
Susanna Lau Shung Oi (Alternate Director to Mr Kwok Ping-sheung, Walter)	–	–	–	–	–	–
Kung Lin Cheng, Leo (Alternate Director to Dr Kung Ziang Mien, James*)	–	–	–	–	–	–

\* Independent Non-executive Director

### 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 2004, 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

Under a share option scheme of RoadShow ("Share Option Scheme"), options were granted to a Director and certain employees of the Group to subscribe for shares in RoadShow, subject to the terms and conditions stipulated in the Share Option Scheme.

The total number of securities available for issue under the Share Option Scheme as at 31 December 2004 was 14,270,000 shares which represented 1.4% of the issued share capital of RoadShow at 31 December 2004. In respect of the maximum entitlement of each participant under the Share Option 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 2004, a Director and certain employees of the Group had the following interests in options to subscribe for shares in RoadShow under the Share Option Scheme. The market value per share of RoadShow at 31 December 2004 was HK\$0.79. Each grantee had paid a consideration of HK\$1 to RoadShow for the granting of the options. 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
<b>Director of the Company</b>					
Winnie Ng	3,800,000	3,800,000	Nil	HK\$2.25	HK\$2.25
<b>Employees</b>	12,860,000	10,470,000	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, 2,390,000 options lapsed because the grantees ceased their employment with the Group.

Apart from the above, 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 Issuers.

### 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 and the Supplementary Agreement as disclosed in note 35(c) to 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 or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

## Substantial Shareholders' and Other Person's Interests in Shares and Short Positions in Shares, Underlying Shares and Debentures

At 31 December 2004, the interests or short positions of the persons (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows: –

Ordinary shares of HK\$1 each				
	Registered shareholders	Corporate interests	Total number of shares held	Percentage of total issued shares
<b>Substantial shareholders</b>				
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)	191,131,736	–	191,131,736	47.4%
<b>Other person</b>				
Kwong Tai Holdings Limited (Note 4)	21,000,609	–	21,000,609	5.2%

### Notes:

- 1 The interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 68,600,352 shares disclosed by Arklake Limited.
- 2 In accordance with the Codes on Takeovers and Mergers and Share Repurchases (the "Codes"), a person becomes obliged to make a mandatory offer if the person's voting rights in a listed company exceeds a threshold. With effect from 19 October 2001, the threshold for triggering a mandatory offer obligation under the Codes has been reduced from 35% to 30%. However, transitional provisions will be applied where a person holds 30% or more of the voting rights of a listed company but less than 35% of such voting rights immediately prior to 19 October 2001. For so long as such holding remains in this range and until 10 years after that date, the Codes shall be interpreted and applied as if the 30% trigger was 35% for such person. For avoidance of doubt, where such person continues to hold 30% or more but less than 35% of the voting rights of the company at the end of the 10-year period, it will not be necessary for such person to sell his/her voting rights to take his/her holding below 30% in order not to trigger a mandatory offer obligation. In this regard, the transitional provisions are applicable to SHKP.
- 3 HSBC International Trustee Limited is deemed to be interested in 191,131,736 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.
- 4 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 Management

Brief particulars of the senior management of the Group are set out on page 84 of this Annual Report.

## Staff Retirement Schemes

The Group operates two separate non-contributory defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme ("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 mainly 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.

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 below:

## 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) for calculation of contributions paid to the scheme. 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) for calculation of contributions paid to the scheme. 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 notes 1(r)(iii) and 20 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 2004 were insignificant to the Group.

## Bank Loans and Overdrafts

Particulars of bank loans and overdrafts of the Group as at 31 December 2004 are set out in note 26 to 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 76 and 77 of this Annual Report.

## Model Code for Securities Transactions by Directors

The Company has adopted the code of conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules during the year and all Directors have complied with the required standard of dealings set out therein.

## Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules, except that 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 reviewed with management the accounting principles and policies adopted by the Group and discussed auditing, internal control and financial reporting matters, and also reviewed the financial statements for the year ended 31 December 2004. The review of the financial statements was conducted with the Group's external auditors, KPMG. The Auditors' Report of the external auditors is set out on page 94 of this Annual Report.

## 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.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

By Order of the Board

**S.Y. CHUNG**

Chairman

Hong Kong, 17 March 2005



# 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 95 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 Institute of Certified Public 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 2004 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, 17 March 2005

# Consolidated Income Statement

for the year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>	2	<b>6,544,281</b>	6,540,198
Other net income	3	<b>67,140</b>	96,395
Staff costs	4(a)	<b>(3,048,098)</b>	(3,176,105)
Depreciation and amortisation		<b>(901,700)</b>	(903,034)
Spare parts, stores and fuel oil consumed		<b>(883,895)</b>	(721,025)
Other operating expenses		<b>(872,408)</b>	(953,325)
Profit from operations		<b>905,320</b>	883,104
Finance costs	4(b)	<b>(15,376)</b>	(34,803)
Share of profit of associates		<b>34,227</b>	7,548
Share of profit of jointly controlled entity		<b>1,065</b>	1,304
<b>Profit from ordinary activities before taxation</b>	4	<b>925,236</b>	857,153
Income tax	5(a)	<b>(181,478)</b>	(259,581)
<b>Profit from ordinary activities after taxation</b>		<b>743,758</b>	597,572
Minority interests		<b>(12,593)</b>	(619)
<b>Profit attributable to shareholders</b>	8 & 32(c)	<b>731,165</b>	596,953
<b>Dividends attributable to the year:</b>	9		
Interim dividend paid of HK\$0.45 per share (2003: HK\$0.45 per share)		<b>181,638</b>	181,638
Proposed final dividend of HK\$1.58 per share (2003: HK\$1.58 per share)		<b>637,750</b>	637,750
		<b>819,388</b>	819,388
<b>Earnings per share</b>	10	<b>HK\$1.81</b>	HK\$1.48

The notes on pages 102 to 126 form part of these financial statements.

# Consolidated Balance Sheet

at 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Fixed assets	12(a)	<b>6,118,569</b>	6,491,053
Goodwill	13	<b>46,987</b>	49,841
Media assets	14	<b>114,722</b>	61,313
Non-current prepayments	15	<b>470,445</b>	104,643
Interests in associates	17	<b>312,813</b>	162,322
Interest in jointly controlled entity	18	<b>5,382</b>	1,014
Investment securities	19	<b>15,355</b>	15,355
Employee benefit assets	20(a)	<b>413,833</b>	339,287
		<b>7,498,106</b>	7,224,828
<b>Current assets</b>			
Other investments	22	<b>93,385</b>	91,275
Property under development	23	<b>323,209</b>	111,980
Spare parts and stores		<b>74,675</b>	79,827
Accounts receivable	24	<b>203,766</b>	200,750
Deposits and prepayments		<b>48,980</b>	70,644
Pledged bank deposit	26	<b>–</b>	100,000
Cash and cash equivalents	25	<b>1,170,184</b>	1,580,824
		<b>1,914,199</b>	2,235,300
<b>Current liabilities</b>			
Bank loans and overdrafts	26	<b>494,256</b>	415,392
Accounts payable and accruals	27	<b>821,066</b>	935,208
Third party claims payable		<b>298,595</b>	282,240
Current tax payable	29(a)	<b>47,013</b>	54,910
		<b>1,660,930</b>	1,687,750
<b>Net current assets</b>		<b>253,269</b>	547,550
<b>Total assets less current liabilities</b>		<b>7,751,375</b>	7,772,378



# Consolidated Balance Sheet

at 31 December 2004 (continued)

	Note	2004 HK\$'000	2003 HK\$'000
<b>Non-current liabilities</b>			
Bank loans	26	2,297,704	2,217,621
Contingency provision – insurance	28	58,502	106,408
Deferred taxation	29(b)	807,461	776,328
Provision for long service payments	30	48,253	52,321
		<u>3,211,920</u>	<u>3,152,678</u>
<b>Minority interests</b>		<u>289,019</u>	<u>281,096</u>
		<u>3,500,939</u>	<u>3,433,774</u>
<b>NET ASSETS</b>		<u>4,250,436</u>	<u>4,338,604</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	31	403,639	403,639
Reserves	32	3,846,797	3,934,965
		<u>4,250,436</u>	<u>4,338,604</u>

Approved and authorised for issue by the Board of Directors on 17 March 2005

**S.Y. CHUNG**

Chairman

**John CHAN Cho Chak**

Managing Director

The notes on pages 102 to 126 form part of these financial statements.

# Balance Sheet

at 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Fixed assets	12(b)	30	65
Investments in subsidiaries	16(a)	1,036,507	1,036,507
		<u>1,036,537</u>	<u>1,036,572</u>
<b>Current assets</b>			
Deposits and prepayments		329	358
Amounts due from subsidiaries	16(b)	2,370,048	1,736,691
Current tax recoverable	29(a)	–	69
Cash and cash equivalents	25	13,362	10,691
		<u>2,383,739</u>	<u>1,747,809</u>
<b>Current liabilities</b>			
Accounts payable and accruals	27	15,729	12,842
Amounts due to subsidiaries	16(b)	849,653	32,546
		<u>865,382</u>	<u>45,388</u>
<b>Net current assets</b>		<u>1,518,357</u>	<u>1,702,421</u>
<b>NET ASSETS</b>		<u>2,554,894</u>	<u>2,738,993</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	31	403,639	403,639
Reserves	32	2,151,255	2,335,354
		<u>2,554,894</u>	<u>2,738,993</u>

Approved and authorised for issue by the Board of Directors on 17 March 2005

**S.Y. CHUNG**

Chairman

**John CHAN Cho Chak**

Managing Director

The notes on pages 102 to 126 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
<b>Shareholders' equity at 1 January</b>	<b>4,338,604</b>	4,560,948
Exchange differences on translation of the financial statements of foreign entities	55	91
<b>Net gain not recognised in the consolidated income statement</b>	<b>55</b>	91
Net profit for the year	731,165	596,953
Dividend approved in respect of the previous financial year	(637,750)	(637,750)
Interim dividend paid during the year	(181,638)	(181,638)
<b>Shareholders' equity at 31 December</b>	<b>4,250,436</b>	4,338,604

# Consolidated Cash Flow Statement

for the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
<b>Operating activities</b>		
Profit from ordinary activities before taxation	925,236	857,153
Adjustments for:		
– Realised and unrealised gain on investments in securities	(2,110)	(9,321)
– Dividend income from listed securities	(1,323)	(1,291)
– Interest income	(13,015)	(21,153)
– Finance costs	15,376	34,803
– Depreciation and amortisation	901,700	903,034
– Gain on disposal of fixed assets	(7,475)	(5,883)
– Share of profit of associates	(34,227)	(7,548)
– Share of profit of jointly controlled entity	(1,065)	(1,304)
Effect of foreign exchange rates	(7,538)	(8,573)
<b>Operating profit before changes in working capital</b>	<b>1,775,559</b>	<b>1,739,917</b>
Decrease in spare parts and stores	5,152	3,080
(Increase)/decrease in accounts receivable	(3,162)	63,987
Decrease/(increase) in deposits and prepayments	21,664	(7,659)
Increase in property under development	(211,205)	(72,914)
Decrease in accounts payable and accruals	(34,590)	(25,289)
Increase in amounts due from associates	(993)	–
(Increase)/decrease in amount due from jointly controlled entity	(4,000)	2,051
Increase in third party claims payable	16,355	10,866
Decrease in contingency provision – insurance	(47,906)	(10,837)
(Decrease)/increase in provision for long service payments	(4,068)	4,137
Increase in employee benefit assets	(74,546)	(61,582)
<b>Cash generated from operations</b>	<b>1,438,260</b>	<b>1,645,757</b>
Interest received	13,161	21,849
Interest paid	(15,833)	(34,788)
Hong Kong Profits Tax paid	(144,027)	(52,342)
PRC tax paid	(1,679)	(2,085)
<b>Net cash from operating activities</b>	<b>1,289,882</b>	<b>1,578,391</b>



# Consolidated Cash Flow Statement

for the year ended 31 December 2004 (continued)

	Note	2004 HK\$'000	2003 HK\$'000
<b>Investing activities</b>			
Withdrawal of deposits with banks		–	12,876
Withdrawal of pledged bank deposit		100,000	–
Payment for purchase of fixed assets		(610,071)	(919,468)
Payment for non-current prepayments		(365,802)	(16,903)
Payment for advertising display panels under construction		(40,057)	–
Proceeds from disposal of fixed assets		9,381	6,487
Payment for purchase of associate		(127,180)	(75,500)
New loans to associates		–	(18,264)
Capital repayment from jointly controlled entity		–	273
Dividends received from associates		70	–
Dividends received from listed securities		1,323	1,291
<b>Net cash used in investing activities</b>		<b>(1,032,336)</b>	<b>(1,009,208)</b>
<b>Financing activities</b>			
Dividends paid		(830,056)	(816,800)
Proceeds from new bank loans		1,629,000	1,787,000
Repayment of bank loans		(1,471,083)	(1,365,740)
Proceeds from other unsecured loan		24,000	24,000
Repayment of other unsecured loan		(24,000)	(40,684)
Repayment to minority shareholders		(4,670)	(10,896)
<b>Net cash used in financing activities</b>		<b>(676,809)</b>	<b>(423,120)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(419,263)</b>	<b>146,063</b>
<b>Cash and cash equivalents at 1 January</b>		<b>1,580,515</b>	<b>1,425,788</b>
<b>Effect of foreign exchange rates changes</b>		<b>7,593</b>	<b>8,664</b>
<b>Cash and cash equivalents at 31 December</b>	25	<b>1,168,845</b>	<b>1,580,515</b>

The notes on pages 102 to 126 form part of these financial statements.

# Notes to 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 and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), 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 (the “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) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the results of operations and financial position.

### (c) Basis of preparation of the financial statements

The financial statements are prepared on a basis consistent with the accounting policies and methods adopted in the 2003 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.

### (d) 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 consolidated income statement.

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

### (e) 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(f).

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

## 1 Significant Accounting Policies (continued)

### (f) 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 acquisitions of controlled subsidiaries and associates, 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(k)).

### (g) Other investments in securities

The Group's policies for investments in securities other than investments 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.

### (h) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(j)) and any impairment losses (see note 1(k)).

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.

### (i) Media assets

Media assets comprise the following intangible assets:

- advertising rights; and
- advertising display panels under construction.

Advertising rights represent the costs of acquiring operating rights for the placement of advertisements in advertising display panels in the PRC and include any directly attributable costs of bringing advertising display panels to their present condition and location for their intended use. Advertising rights are stated at cost less accumulated amortisation and any impairment losses (see note 1(k)).

Advertising display panels under construction include the cost of construction and other direct costs attributable to the construction of advertising display panels. They are transferred to advertising rights when the construction is completed and the assets are exchanged for the exclusive rights to the advertising space on the advertising display panels.

Amortisation is calculated on straight-line basis over 5-10 years, the agreed periods of use of the advertising rights and no amortisation is provided in respect of construction of advertising display panels in progress.

## 1 Significant Accounting Policies *(continued)*

### (j) 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
Other motor vehicles	– 5 to 10 years
Others	– 2 to 7 years

No depreciation is provided for buses and vessels under constructions.

### (k) 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;
- media assets;
- 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 the 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.

### (l) Property under 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.

### (m) 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)

### (n) 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.

### (o) 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.

### (p) 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 is recognised when the related advertisements are telecasted 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.

### (q) 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.

### (r) Employee benefits

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

## 1 Significant Accounting Policies (continued)

### (r) Employee benefits (continued)

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

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

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

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

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

### (s) 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.

### (t) 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.

- (iv) 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.

## 1 Significant Accounting Policies (continued)

### (t) Income tax (continued)

#### (iv) (continued)

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.

- (v) 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.

### (u) 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.

### (v) 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.

### (w) 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 principal subsidiaries are set out in note 16 to the financial statements.

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

	2004 HK\$'000	2003 HK\$'000
Fare revenue from franchised public bus services	6,053,523	6,098,559
Revenue from non-franchised transport services	256,401	233,774
Media sales revenue	234,357	207,865
	<u>6,544,281</u>	<u>6,540,198</u>

## 3 Other Net Income

	2004 HK\$'000	2003 HK\$'000
Claims received	28,994	36,978
Interest income from bank deposits	9,493	17,631
Gain on disposal of fixed assets	7,475	5,883
Interest income from unlisted debt securities	3,522	3,522
Realised and unrealised gain on investments in securities carried at fair value	2,110	9,321
Dividend income from listed securities	1,323	1,291
Net miscellaneous business receipts	1,871	6,451
Sundry revenue	12,352	15,318
	<u>67,140</u>	<u>96,395</u>

## 4 Profit from Ordinary Activities before Taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2004 HK\$'000	2003 HK\$'000
<b>(a) Staff costs:</b>		
Contributions to defined contribution plan	47,413	47,734
Net defined benefit plans (income)/expense (note 20 (c))	(815)	49,314
Movements in provision for long service payments (note 30)	(629)	12,606
Retirement costs	45,969	109,654
Salaries, wages and other benefits	3,002,129	3,066,451
	<u>3,048,098</u>	<u>3,176,105</u>
<b>(b) Finance costs:</b>		
Interest on bank loans, overdrafts and other unsecured loans	15,400	34,803
Less: borrowing costs capitalised into property under development*	(24)	–
	<u>15,376</u>	<u>34,803</u>
* The borrowing costs have been capitalised at the average interest rate of 0.46% per annum.		
<b>(c) Other items:</b>		
Auditors' remuneration		
– audit services	3,727	3,415
– other services	2,394	3,313
Operating lease charges on properties, temporary bus depots, buses, ferries and terminal shelters	24,115	15,850
Depreciation (note 12)	891,922	898,903
Amortisation of positive goodwill (note 13)	2,854	2,933
Amortisation of media assets (note 14)	6,924	1,198



## 5 Income Tax in the Consolidated Income Statement

(a) Taxation in the consolidated income statement represents:

	2004 HK\$'000	2003 HK\$'000
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
Hong Kong Profits Tax for the year	150,621	135,887
(Over)/under-provision in respect of prior years	(13,547)	96
	<b>137,074</b>	<b>135,983</b>
<b>Current tax – Provision for PRC taxation</b>		
Income tax for the year	735	1,871
	<b>137,809</b>	<b>137,854</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	22,138	72,351
Benefit of tax losses utilised/(recognised)	8,995	(12,423)
Effect resulting from increment in Hong Kong Profits Tax rate	–	61,406
	<b>31,133</b>	<b>121,334</b>
<b>Share of associates' taxation</b>	<b>11,839</b>	<b>393</b>
<b>Share of jointly controlled entity's taxation</b>	<b>697</b>	<b>–</b>
<b>Total income tax</b>	<b>181,478</b>	<b>259,581</b>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries in the People's Republic of China ("PRC") 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:

	2004 HK\$'000	2003 HK\$'000
Profit from ordinary activities before taxation	925,236	857,153
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	166,546	149,372
Tax effect of non-deductible expenses	7,531	6,139
Tax effect of non-taxable revenue	(9,172)	(13,990)
Tax effect of unused tax losses not recognised	6,703	5,951
Tax effect of unrecognised deferred tax in respect of prior year	–	60,064
Reversal of previously recognised deferred taxation	24,499	–
Effect on opening deferred tax balances resulting from an increase in tax rate	–	61,406
(Over)/under-provision in prior years	(13,547)	96
Others	(1,082)	(9,457)
Actual tax expense	<b>181,478</b>	<b>259,581</b>

## 6 Directors' Remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	5,137	3,175
Salaries and other allowances	13,016	13,715
Discretionary and performance related bonuses	9,293	10,255
Retirement scheme contributions	1,734	1,805
	<b>29,180</b>	<b>28,950</b>

Included in the Directors' remuneration were fees and other emoluments of HK\$1,256,000 (2003: HK\$1,236,400) for the Independent Non-executive Directors.

In addition to the above remuneration, a Director was granted share options under RoadShow's share option scheme. The details of these benefits in kind are disclosed in note 21 to the financial statements.

The remuneration of the Directors is within the following bands:

Number of Directors		
	2004	2003
HK\$Nil – HK\$1,000,000	17	13
HK\$1,000,001 – HK\$1,500,000	1	1
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\$12,000,001 – HK\$12,500,000	1	–

## 7 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, four (2003: four) are Directors whose emoluments are disclosed in note 6 to the financial statements. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	1,316	884
Salaries and other allowances	14,081	14,365
Discretionary and performance related bonuses	9,066	8,155
Retirement scheme contributions	1,808	1,878
	<b>26,271</b>	<b>25,282</b>

The emoluments of the five (2003: five) individuals with the highest emoluments are within the following bands:

Number of individuals		
	2004	2003
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\$12,000,001 – HK\$12,500,000	1	–

## 8 Profit Attributable to Shareholders

The consolidated profit attributable to shareholders includes a profit of HK\$602,998,000 (2003: HK\$861,301,000) 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:

	2004 HK\$'000	2003 HK\$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	602,998	861,301
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	32,291	42,817
Company's profit for the year (note 32(c))	635,289	904,118

## 9 Dividends

(a) Dividends attributable to the year

	2004 HK\$'000	2003 HK\$'000
Interim dividend declared and paid of HK\$0.45 per share (2003: HK\$0.45 per share)	181,638	181,638
Final dividend proposed after the balance sheet date of HK\$1.58 per share (2003: 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

	2004 HK\$'000	2003 HK\$'000
Final dividend in respect of previous financial year, approved and paid during the year, of HK\$1.58 per share (2003: HK\$1.58 per share)	637,750	637,750

## 10 Earnings per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$731,165,000 (2003: HK\$596,953,000) and 403,639,413 shares in issue during the two years.

(b) Diluted earnings per share

The diluted earnings per share for the current and the previous year are not presented as there are no dilutive potential ordinary shares as at the year end.

## 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue from external customers	6,309,924	6,332,333	234,357	207,865	–	–	6,544,281	6,540,198
Inter-segment revenue	–	–	22,609	25,661	(22,609)	(25,661)	–	–
Other revenue from external customers	41,731	52,799	2,200	336	–	–	43,931	53,135
Total	<u>6,351,655</u>	<u>6,385,132</u>	<u>259,166</u>	<u>233,862</u>	<u>(22,609)</u>	<u>(25,661)</u>	<u>6,588,212</u>	<u>6,593,333</u>
Segment result	<u>824,880</u>	<u>827,263</u>	<u>75,655</u>	<u>33,690</u>	<u>–</u>	<u>–</u>	<u>900,535</u>	<u>860,953</u>
Unallocated net operating income							4,785	22,151
Profit from operations							905,320	883,104
Finance costs							(15,376)	(34,803)
Share of profits of associates and jointly controlled entity	21,253	1,918	14,039	6,934	–	–	35,292	8,852
Income tax							(181,478)	(259,581)
Minority interests							(12,593)	(619)
Profit attributable to shareholders							<u>731,165</u>	<u>596,953</u>
Depreciation and amortisation for the year	865,793	876,472	35,907	26,562	–	–		
Significant non-cash expenses (other than depreciation and amortisation)	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,801</u>	<u>–</u>	<u>–</u>		
Segment assets	6,605,625	6,875,319	406,396	394,810	–	–	7,012,021	7,270,129
Interests in associates and jointly controlled entity	224,285	79,872	93,910	83,464	–	–	318,195	163,336
Unallocated assets							2,082,089	2,026,663
Total assets							<u>9,412,305</u>	<u>9,460,128</u>
Segment liabilities	1,139,609	1,276,793	63,474	71,939	–	–	1,203,083	1,348,732
Unallocated liabilities							3,669,767	3,491,696
Total liabilities							<u>4,872,850</u>	<u>4,840,428</u>
Capital expenditure incurred during the year	<u>533,755</u>	<u>821,972</u>	<u>47,836</u>	<u>108,216</u>	<u>–</u>	<u>–</u>		

### Geographical segments

The Group's turnover and operating profit derived from activities outside Hong Kong were insignificant. 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	Tools and others HK\$'000	Total HK\$'000
<b>Cost:</b>							
At 1 January 2004	127,137	1,437,099	8,500,337	110,729	273,038	1,489,107	11,937,447
Additions	–	27,304	22,228	4,880	329,647	189,242	573,301
Disposals	–	(2,475)	(319,504)	–	–	(47,887)	(369,866)
Transfer of buses/vessels	–	–	492,044	7,282	(499,326)	–	–
Transfer to media assets (note)	–	(23,953)	–	–	–	–	(23,953)
At 31 December 2004	127,137	1,437,975	8,695,105	122,891	103,359	1,630,462	12,116,929
<b>Accumulated depreciation:</b>							
At 1 January 2004	36,334	645,781	3,792,555	5,386	–	1,003,592	5,483,648
Charge for the year	2,087	59,225	591,265	6,097	–	233,248	891,922
Written back on disposal	–	(2,174)	(318,300)	–	–	(47,486)	(367,960)
Transfer to media assets (note)	–	(3,677)	–	–	–	–	(3,677)
At 31 December 2004	38,421	699,155	4,065,520	11,483	–	1,189,354	6,003,933
<b>Net book value:</b>							
At 31 December 2004	88,716	738,820	4,629,585	111,408	103,359	441,108	6,112,996
Add:							
Deposits paid in respect of buses on order							5,573
							6,118,569
<b>Net book value:</b>							
At 31 December 2003	90,803	791,318	4,707,782	105,343	273,038	485,515	6,453,799
Add:							
Deposits paid in respect of buses on order							37,254
							6,491,053

**Note:**

In previous years, the RoadShow Group owned certain advertising panels and recorded them under buildings. Owing to changes in arrangements in 2004, the RoadShow Group no longer owns these advertising display panels, but instead has the exclusive rights to the advertising space on the advertising display panels for specified periods ranging from 5 to 10 years. Accordingly, the cost and accumulated depreciation of these advertising display panels were transferred to advertising rights under media assets (note 14) during the year.

## 12 Fixed Assets (continued)

(b) The Company:

	Others HK\$'000
<b>Cost:</b>	
At 1 January 2004 and 31 December 2004	201
<b>Accumulated depreciation:</b>	
At 1 January 2004	136
Charge for the year	35
At 31 December 2004	171
<b>Net book value:</b>	
At 31 December 2004	30
At 31 December 2003	65

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

## 13 Goodwill

	HK\$'000
<b>Cost:</b>	
At 1 January 2004 and 31 December 2004	57,075
<b>Accumulated amortisation:</b>	
At 1 January 2004	7,234
Amortisation for the year	2,854
At 31 December 2004	10,088
<b>Carrying amount:</b>	
At 31 December 2004	46,987
At 31 December 2003	49,841

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

## 14 Media Assets

	Advertising display panels under construction HK\$'000	Advertising rights HK\$'000	Total HK\$'000
<b>Cost:</b>			
At 1 January 2004	36,369	26,142	62,511
Transfer from fixed assets	–	23,953	23,953
Additions	40,057	–	40,057
Transfer	(74,048)	74,048	–
At 31 December 2004	2,378	124,143	126,521
<b>Accumulated amortisation:</b>			
At 1 January 2004	–	1,198	1,198
Transfer from fixed assets	–	3,677	3,677
Amortisation for the year	–	6,924	6,924
At 31 December 2004	–	11,799	11,799
<b>Carrying amount:</b>			
At 31 December 2004	2,378	112,344	114,722
At 31 December 2003	36,369	24,944	61,313

Advertising display panels under construction are transferred to advertising rights when the construction is completed and the assets are exchanged for the exclusive rights to the advertising space on the advertising display panels.

Amortisation of advertising rights 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 Investments in Subsidiaries

### (a) Investments in subsidiaries

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	1,036,507	1,036,507

### (b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of settlement/repayment.

The list on pages 116 and 117 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(d) and have been consolidated into the Group's consolidated financial statements.

## 16 Investments in Subsidiaries (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered 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	75.2	–	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 souvenirs



## 16 Investments in Subsidiaries (continued)

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

Name of company	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiaries	
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 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 (Sino-foreign co-operative joint venture)	PRC	RMB 56,346,939	37.2	–	51	Provision of media advertising agency service and design and production of advertisements
Shanghai Yafei Advertising Company Limited (Limited liability company)	PRC	RMB 600,000	37.2	–	51	Provision of media advertising agency service and design and production of advertisements

## 17 Interests in Associates

	2004 HK\$'000	2003 HK\$'000
Share of net assets	277,671	128,173
Loans to associates	40,064	39,071
Amounts due to associates	(4,922)	(4,922)
	<u>312,813</u>	<u>162,322</u>

## 17 Interests in Associates (continued)

Details of the principal associates are as follows:

Proportion of ownership interest							
Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued/ registered and paid up capital	Group's effective interest	held by the Company	held by subsidiaries	Principal activity
HK Macau Investment (Tianjin) Limited	Incorporated	British Virgin Islands	2 shares of US\$1 each	50	–	50	Investment holding
AdSociety Daye Advertising Company Limited (note)	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 hiring and car rental services
Wuxi Kowloon Public Transport Company Limited	Sino-foreign joint stock company	PRC	RMB 300,880,000	45	–	45	Provision of bus services

**Note:**

The joint venture partner of the associate agreed to maintain the return of the associate for the period from 1 January 2003 to 31 December 2005 at a specified level. The share of profit recognised in the financial statements included the return as agreed to be maintained by the joint venture partner.

## 18 Interest in Jointly Controlled Entity

	2004 HK\$'000	2003 HK\$'000
Share of net assets	1,732	1,364
Amount due from/(to) jointly controlled entity	3,650	(350)
	<u>5,382</u>	<u>1,014</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 establishment and operation	Particulars of registered 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	RMB 22,000,000	(Note)	–	(Note)	Provision of bus services in Dalian, PRC

**Note:**

The 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

	2004 HK\$'000	2003 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:

	2004 HK\$'000	2003 HK\$'000
Present value of funded obligations	(2,174,037)	(2,008,346)
Fair value of plan assets	3,098,115	2,730,387
Net unrecognised actuarial gains	(510,245)	(382,754)
	<u>413,833</u>	<u>339,287</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 recoverable 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:

	2004 HK\$'000	2003 HK\$'000
At 1 January	339,287	277,705
Contributions paid to schemes	73,731	110,896
Net income/(expense) recognised in the income statement	815	(49,314)
At 31 December	<u>413,833</u>	<u>339,287</u>

(c) Net (income)/expense recognised in the consolidated income statement is as follows:

	2004 HK\$'000	2003 HK\$'000
Current service cost	115,913	117,790
Interest cost	97,687	96,096
Expected return on plan assets	(206,442)	(164,572)
Net actuarial gains recognised	(7,973)	–
	<u>(815)</u>	<u>49,314</u>

The above net (income)/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 received and benefits paid) was net income of HK\$390,876,000 (2003: HK\$613,978,000).

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

	2004	2003
Discount rate at 31 December	4.5%	5%
Expected rate of return on plan assets	7.5%	7.5%
Future salary increases	2 – 4%	1 – 4%

## 21 Equity Compensation Benefits

Under the share option scheme of RoadShow Holdings Limited ("RoadShow"), a subsidiary of the Company, options were granted to a Director and employees of the Group to subscribe for shares in RoadShow.

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 share in RoadShow.

### (a) Movements in share options of RoadShow

	2004 Number '000	2003 Number '000
At 1 January	16,660	40,101
Expired	–	(21,861)
Lapsed on grantee ceasing employment with the Group	(2,390)	(1,580)
At 31 December	14,270	16,660
Options vested at 31 December	14,270	16,660

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

Date granted	Exercise period	Exercise price	2004 Number '000	2003 Number '000
11 March 2002	12 March 2002 to 11 March 2005	HK\$2.25	14,270	16,660

## 22 Other Investments

	2004 HK\$'000	2003 HK\$'000
<b>Trading securities (at market value)</b>		
Listed equity securities in Hong Kong	44,887	40,162
<b>Other securities (at fair value)</b>		
Unlisted debt securities	48,498	51,113
	93,385	91,275

## 23 Property under Development

	2004 HK\$'000	2003 HK\$'000
Development and incidental costs	323,185	111,980
Borrowing costs capitalised	24	–
	323,209	111,980

## 24 Accounts Receivable

	2004 HK\$'000	2003 HK\$'000
Trade and other receivables	202,153	198,991
Interest receivable	1,613	1,759
	203,766	200,750

## 24 Accounts Receivable (continued)

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

	2004 HK\$'000	2003 HK\$'000
Current	106,723	81,731
Less than 3 months overdue	10,097	14,985
More than 3 months overdue	31,070	9,848
	<u>147,890</u>	<u>106,564</u>

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

## 25 Cash and Cash Equivalents

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash at bank and in hand	67,179	505,890	13,362	10,691
Deposits with banks maturing within three months	1,103,005	1,074,934	–	–
Cash and cash equivalents in the balance sheet	<u>1,170,184</u>	<u>1,580,824</u>	<u>13,362</u>	<u>10,691</u>
Bank overdrafts	(1,339)	(309)		
Cash and cash equivalents in the consolidated cash flow statement	<u>1,168,845</u>	<u>1,580,515</u>		

## 26 Bank Loans and Overdrafts

At 31 December 2004, the interest-bearing bank loans and overdrafts were repayable as follows:

	2004 HK\$'000	2003 HK\$'000
Within 1 year or on demand	494,256	415,392
After 1 year but within 2 years	458,416	374,916
After 2 years but within 5 years	1,639,288	1,492,705
After 5 years	200,000	350,000
	<u>2,297,704</u>	<u>2,217,621</u>
	<u>2,791,960</u>	<u>2,633,013</u>

At 31 December 2004, the bank loans and overdrafts were unsecured and made up as follows:

	2004 HK\$'000	2003 HK\$'000
Unsecured bank overdrafts	1,339	309
Bank loans		
– secured	–	100,000
– unsecured	2,790,621	2,532,704
	<u>2,791,960</u>	<u>2,633,013</u>

At 31 December 2003, bank loan of HK\$100,000,000 was secured by a pledged bank deposit of the same amount.



## 27 Accounts Payable and Accruals

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	133,955	123,607	–	–
Other payables and accruals	687,111	811,601	15,729	12,842
	<u>821,066</u>	<u>935,208</u>	<u>15,729</u>	<u>12,842</u>

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

	2004 HK\$'000	2003 HK\$'000
Due within 1 month or on demand	92,533	94,707
Due after 1 month but within 3 months	41,422	28,900
	<u>133,955</u>	<u>123,607</u>

## 28 Contingency Provision — Insurance

	2004 HK\$'000
At 1 January	106,408
Provision written back during the year	(47,906)
At 31 December	<u>58,502</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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Provision for Hong Kong Profits Tax for the year	150,621	135,887	–	–
Provisional Profits Tax paid	(101,081)	(81,729)	–	(69)
	<u>49,540</u>	<u>54,158</u>	<u>–</u>	<u>(69)</u>
Balance of Profits Tax recoverable relating to prior year	(2,633)	(298)	–	–
	<u>46,907</u>	<u>53,860</u>	<u>–</u>	<u>(69)</u>
PRC income tax payable	106	1,050	–	–
Tax payable/(recoverable)	<u>47,013</u>	<u>54,910</u>	<u>–</u>	<u>(69)</u>

## 29 Income Tax in the Balance Sheet (continued)

### (b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets) or 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 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
At 1 January 2004	846,740	(49,488)	(80,300)	59,376	776,328
(Credited)/charged to consolidated income statement	(26,892)	35,984	8,995	13,046	31,133
At 31 December 2004	819,848	(13,504)	(71,305)	72,422	807,461

	2004 HK\$'000	2003 HK\$'000
Net deferred tax liabilities recognised on the consolidated balance sheet	807,461	776,328

### (c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of HK\$22,373,505 (2003: HK\$15,670,725) in respect of tax losses of HK\$127,848,600 (2003: HK\$89,547,000). The tax losses do not expire under the current tax legislation.

## 30 Provision for Long Service Payments

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

	2004 HK\$'000
At 1 January	52,321
Provision written back in the income statement (note 4(a))	(629)
Payments made during the year	(3,439)
At 31 December	48,253

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

	2004 HK\$'000	2003 HK\$'000
<b>Authorised:</b> 600,000,000 ordinary shares of HK\$1 each	<u>600,000</u>	<u>600,000</u>
<b>Issued and fully paid:</b> 403,639,413 ordinary shares of HK\$1 each	<u>403,639</u>	<u>403,639</u>

## 32 Reserves

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>(a) Capital reserve</b>				
At 1 January and 31 December	<u>2,412</u>	<u>2,412</u>	<u>–</u>	<u>–</u>
<b>(b) General reserve</b>				
At 1 January and 31 December	<u>17,839</u>	<u>17,839</u>	<u>–</u>	<u>–</u>
<b>(c) Retained profits</b>				
At 1 January	<u>2,832,023</u>	<u>3,054,458</u>	<u>1,035,354</u>	<u>950,624</u>
Dividends approved in respect of the previous financial year (note 9(b))	<u>(637,750)</u>	<u>(637,750)</u>	<u>(637,750)</u>	<u>(637,750)</u>
Profit for the year	<u>731,165</u>	<u>596,953</u>	<u>635,289</u>	<u>904,118</u>
Dividends declared in respect of the current year (note 9(a))	<u>(181,638)</u>	<u>(181,638)</u>	<u>(181,638)</u>	<u>(181,638)</u>
At 31 December	<u>2,743,800</u>	<u>2,832,023</u>	<u>851,255</u>	<u>1,035,354</u>
<b>(d) Contributed surplus</b>				
At 1 January and 31 December	<u>–</u>	<u>–</u>	<u>1,300,000</u>	<u>1,300,000</u>
<b>(e) Staff retirement fund reserve</b>				
At 1 January and 31 December	<u>1,082,600</u>	<u>1,082,600</u>	<u>–</u>	<u>–</u>
<b>(f) Exchange reserve</b>				
At 1 January	<u>91</u>	<u>–</u>	<u>–</u>	<u>–</u>
Exchange differences on translation of financial statements of foreign entities	<u>55</u>	<u>91</u>	<u>–</u>	<u>–</u>
At 31 December	<u>146</u>	<u>91</u>	<u>–</u>	<u>–</u>
Total reserves	<u>3,846,797</u>	<u>3,934,965</u>	<u>2,151,255</u>	<u>2,335,354</u>

Included in the retained profits of the Group is profits of HK\$30,513,000 (2003: HK\$8,120,000) attributable to associates; and profits of HK\$1,732,000 (2003: HK\$1,364,000) attributable to a jointly controlled entity.

The distributable reserves of the Company as at 31 December 2004 amounted to HK\$2,151,255,000 (2003: HK\$2,335,354,000).

### 33 Commitments

(a) Capital commitments outstanding at 31 December 2004 of the Group and not provided for in the financial statements were as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Contracted for	1,548,828	2,062,665
Authorised but not contracted for	292,620	236,580
	<u>1,841,448</u>	<u>2,299,245</u>

(b) At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2004 HK\$'000	2003 HK\$'000
Within 1 year	19,754	4,963
After 1 year but within 5 years	50,862	4,034
More than 5 years	60,849	–
	<u>131,465</u>	<u>8,997</u>

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

### 34 Contingent Liabilities

At 31 December 2004, the Company has undertaken to guarantee certain bank loans granted to certain subsidiaries to the extent of HK\$820,000,000 (2003: HK\$574,166,000). 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\$135,000,000 (2003: HK\$110,000,000). 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"), Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of insurance services to the Group. SHKPI 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\$93,138,000 (2003: HK\$93,442,000) during the year ended 31 December 2004. The amount due to this company at the year end amounted to HK\$7,000 (2003: HK\$1,001,000).
- (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\$27,893,000 (2003: HK\$35,608,000) during the year ended 31 December 2004. The amounts due from these companies at the year end amounted to HK\$8,654,000 (2003: HK\$8,950,000).
- (c) 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 Chun Fai Construction Co. Ltd. ("Chun Fai"), a subsidiary of SHKP, for the provision of management contractor services relating to the property under development of the Group (the "Development") in 2003. During the year, a supplementary agreement to the Prime Cost Contract (the "Supplementary Agreement") was entered into between LCKPI and Chun Fai for the purposes of upgrading the design, materials and quality of the workmanship of the Development. Pursuant to the Supplementary Agreement, the maximum aggregate consideration payable by LCKPI to Chun Fai will be increased from HK\$1,160,171,000 to HK\$1,617,743,000. During the year, total payment made by LCKPI to Chun Fai amounted to HK\$178,411,000 (2003: HK\$ Nil) and the amount accrued in the financial statements at 31 December 2004 amounted to HK\$2,409,000 (2003: HK\$ Nil). The Group's capital commitment outstanding under the Prime Cost Contract at 31 December 2004 amounted to HK\$1,436,923,000 (2003: HK\$1,160,171,000).

### 35 Material Related Parties Transactions (continued)

- (d) The Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to the Development of the Group. The contract sum of the project management services is HK\$15 million, or the lower of 1% of the project costs and HK\$20 million, whichever is higher. During the year, the payment for these project management services made by the Group to this company amounted to HK\$3,000,000 (2003: HK\$ Nil). There was no outstanding balance payable for this contract at the year end (2003: HK\$3,000,000). The Group's capital commitment outstanding at 31 December 2004 under this contract amounted to HK\$11,000,000 (2003: HK\$11,000,000).
- (e) 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 year concerned (the "Entitled Net Return"). The Entitled Net Return for the year was HK\$12,320,000 (2003: HK\$11,002,000). Furthermore, SHKMW advances to PITC an unsecured loan in the sum of HK\$2,000,000 per month (the "Loan") 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 incurred by PITC. The amount receivable from SHKMW at the year end under this contract, after set-off by the Loan, was HK\$49,911,000 (2003: HK\$16,432,000).

### 36 Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

### 37 Post Balance Sheet Event

After the balance sheet date, the Directors proposed a final dividend for the year. Further details are disclosed in note 9 to the financial statements.



# Corporate Directory

## Board of Directors

### The Hon Sir Sze-yuen CHUNG\*

GBM, GBE, PhD, FREng, JP

Chairman

### Dr Norman LEUNG Nai Pang

GBS, JP, LLD, BA

Deputy Chairman

### KWOK Ping-luen, Raymond

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

### KWOK Ping-sheung, Walter

JP, MSc(Lond), DIC, MICE

### YU Shu Chuen

Honorary Executive Director

### NG Siu Chan

### William LOUEY Lai Kuen

BSc(Econ)

### John CHAN Cho Chak

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

FCILT, FHKIoD

Managing Director

### Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT

Executive Director

### Winnie NG

BA, MBA(Chicago)

Executive Director

### Dr KUNG Ziang Mien, James\*

GBS, OBE

### George CHIEN Yuan Hwei

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

PEng, MITE

### Dr Eric LI Ka Cheung\*

GBS, OBE, JP, LLD, DSocSc, BA,

FCPA(Practising), FCA, FCPA(Aust.), FCIS

### LUI Pochiu

CMILT

### Edmond HO Tat Man

MA(Cantab), MBA, CMILT, MHKIoD

Deputy Managing Director

### Rafael HUI

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

### SIU Kwing-chue, Gordon\*

GBS, CBE, JP, MSS(Birmingham, UK)

### SHAM Yat Wah

BSc, MIMarE, CEng, MHKIE

(Alternate Director to Mr KWOK Ping-luen,  
Raymond)

### Susanna LAU Shung Oi

BA, ACA

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

### KUNG Lin Cheng, Leo

(Alternate Director to Dr KUNG Ziang Mien,  
James\*, GBS, OBE)

## Company Secretary

### Lana WOO

BA, AAT, CGA, ACIS, MIFC, CFC

## Registered Office

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Hamilton HM11, Bermuda

## Principal Office

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## Customer Service Hotlines

### The Kowloon Motor Bus Company (1933) Limited

Telephone: (852) 2745 4466

Facsimile: (852) 2745 0600

### Long Win Bus Company Limited

Telephone: (852) 2261 2791

(852) 2261 2792

### Sun Bus Limited

Telephone: (852) 2371 2666

## Auditors

### KPMG

8/F, Prince's Building, 10 Chater Road

Central, Hong Kong

## Registrars

### Hong Kong

Computershare Hong Kong Investor

Services Limited

17/F, Hopewell Centre

183 Queen's Road East

Hong Kong

### Bermuda

Butterfield Corporate Services Limited

11 Rosebank Centre, Bermudiana Road

Hamilton, Bermuda

## Register of Members

Book closed from 9 May 2005 to 19 May

2005, both dates inclusive

## Annual General Meeting

Date and Time:

19 May 2005, 2:30 pm

Venue:

The Royal Plaza Hotel, Grand Ballroom

193 Prince Edward Road West, Kowloon

Hong Kong

## Dividends

### Interim

HK\$0.45 per share, paid on 13 October 2004

### Final (proposed)

HK\$1.58 per share, payable on 20 May 2005

## Stock Code

The Stock Exchange of Hong Kong: 062

Bloomberg: 62HK

Reuters: 0062.HK

(\* Independent Non-executive Director)

This Annual Report is also available on our corporate website: [www.kmb.hk](http://www.kmb.hk)

# 2004 Annual Report

## **The Kowloon Motor Bus Holdings Limited**

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