

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. ”

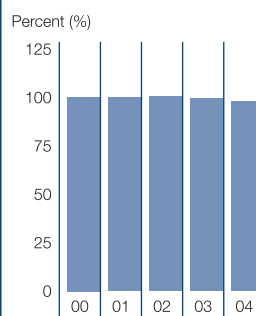


Our New Lai Chi Kok Depot contains state-of-the-art bus servicing facilities

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

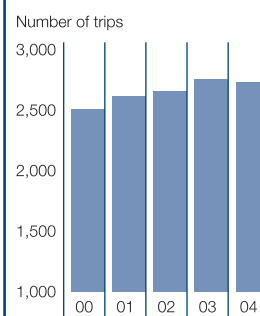
Operational capability



■ 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.

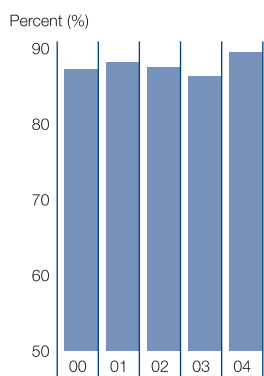
Currently, KMB operates five permanent depots which offer routine maintenance and repair services for 4,150 buses. In addition, there are 12 satellite depots which provide bus parking spaces and minor maintenance services, a bus body construction depot for the assembly of new buses and one overhaul centre 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
Total		291,505	4,295	

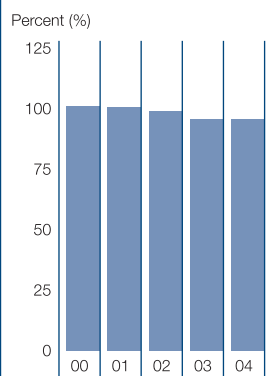
Notes: 1. The Bus Body Construction Depot provides facilities for building new buses
2. KMB also operates 12 temporary depots in various locations in Hong Kong at the end of 2004 for bus parking purpose

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.

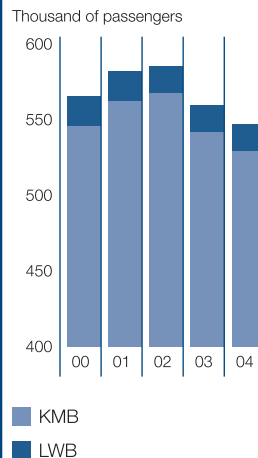
KMB's Bus Fleet	Air-conditioned Double-deck Buses	Air-conditioned Single-deck Buses	Non air-conditioned Double-deck Buses	Total Number of Buses
At 1 Jan 2004	3,273	237	785	4,295
Addition during the year	177	—	—	177
Disposal during the year	—	(62)	(260)	(322)
At 31 Dec 2004	3,450	175	525	4,150

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.

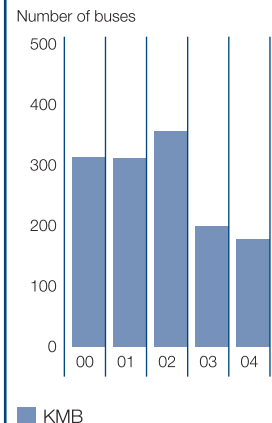
Bus Tracking Capability

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

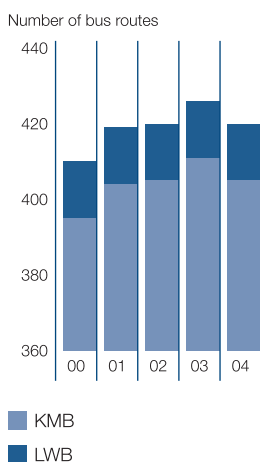
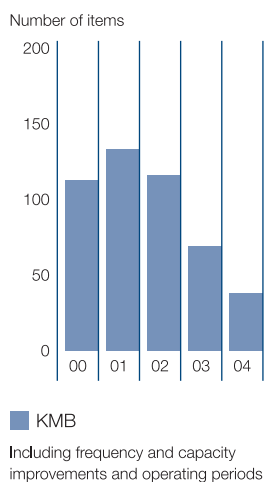
At the end of 2004, KMB operated 405 bus routes. During the year, three new KMB bus routes were launched to serve the New Territories as well as another four recreational routes providing direct and reasonably priced services to audiences from the Hong Kong Coliseum travelling to Cheung Ching, Tuen Mun 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
Total	36	86	37	104

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

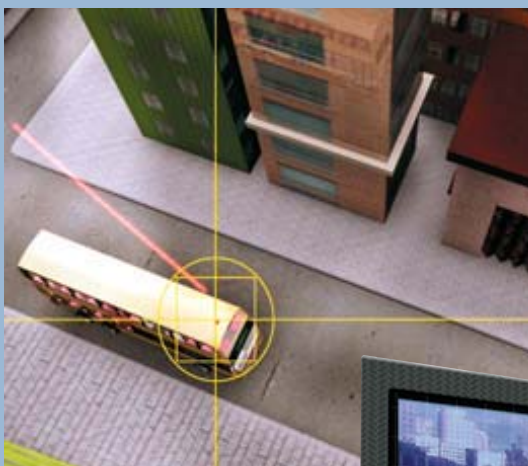
Another in-house development, the Electronic Terminus Management System has now been successfully deployed at 18 bus termini. Our terminus supervisors use pocket personal computers to record the arrival and departure times of buses. This system speeds up the recording and transmission of operational 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.

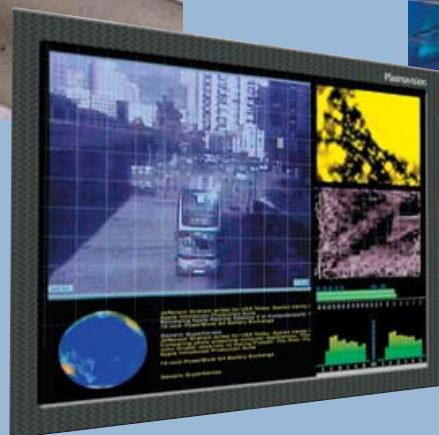
Electronic Terminus Management System

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