

Group Profile

The Group's businesses are grouped under five divisions: Franchised Public Bus Operations, Non-Franchised Transport Operations, Property Holdings, Mainland China Operations, and Internal Financial Services. The flagship of the Group, which was founded 67 years ago, is The Kowloon Motor Bus Company (1933) Limited. The Group provides public bus transport in Hong Kong and Mainland China.

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QUALITY IN EVERY WAY

Our Mission

Our policy is to do all we can to provide an efficient, reliable and user-friendly bus service to all public transport users travelling within our operating area.

Our objective is to make our buses the mode of public transport preferred by most public transport users most of the time; to maximise simultaneously the value for money given to our customers and the profit earned by the Group; and to contribute to the economic and social development of Hong Kong.

We will endeavour continuously to improve the quality of our service to meet the needs and expectations of public transport users within our operating area as a whole.

KMB is the first public bus company in Hong Kong to obtain ISO 9001 certification for the entire corporation



Financial and Operational Highlights

For the year ended 31 December

	unit	1999	1998
Turnover	HK\$ million	5,871.2	5,510.4
Profit from ordinary activities before taxation	HK\$ million	892.5	678.6
Profit attributable to shareholders	HK\$ million	738.6	585.5
Earnings per share	HK\$	1.83	1.45
Dividends per share	HK\$	1.35	1.15
Shareholders' funds	HK\$ million	2,019.7	1,830.8
Total assets	HK\$ million	7,222.0	6,529.7
Net borrowings	HK\$ million	698.4	846.9
Net finance charges	HK\$ million	46.3	96.2

Financial Ratios

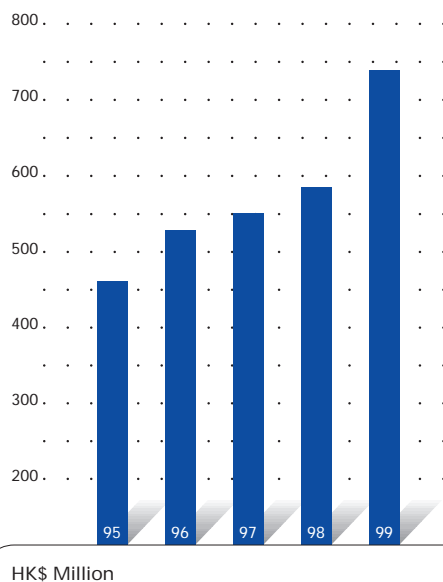
Profit margin	12.6%	10.6%
Return on shareholders' funds	36.6%	32.0%
Net gearing (ratio of net borrowings to shareholders' funds)	0.35	0.46
Interest cover (ratio of profit from ordinary activities before taxation to net finance charges)	19.3	7.1

Franchised Public Bus Operations

Average number of passenger trips per day	million trips	2.95	2.87
Number of licensed buses at year end		4,237	4,152
Number of staff at year end		13,275	13,361
Average number of staff per licensed bus		3.13	3.22

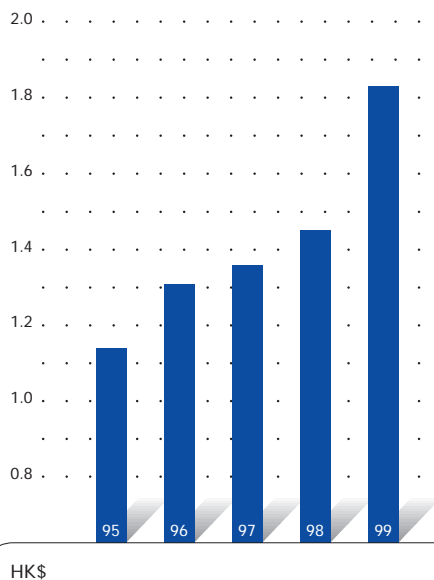
Profit attributable to shareholders

Profit attributable to shareholders for 1999 was HK\$738 million, an increase of 26.2% over 1998



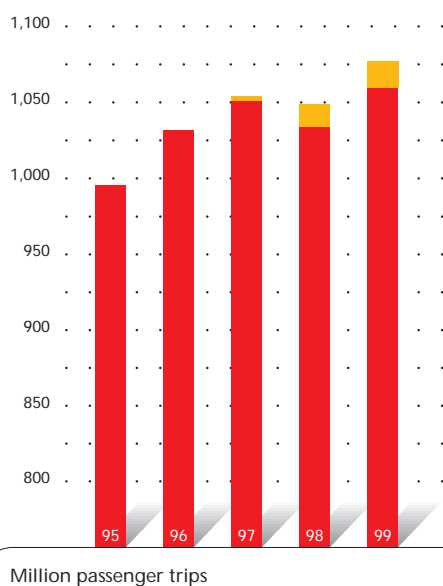
Earnings per share

Earnings per share for 1999 was HK\$1.83, compared with HK\$1.45 for 1998



Number of passenger trips

The Group transported more than 1 billion passengers in 1999, 2.5% more than the number in 1998



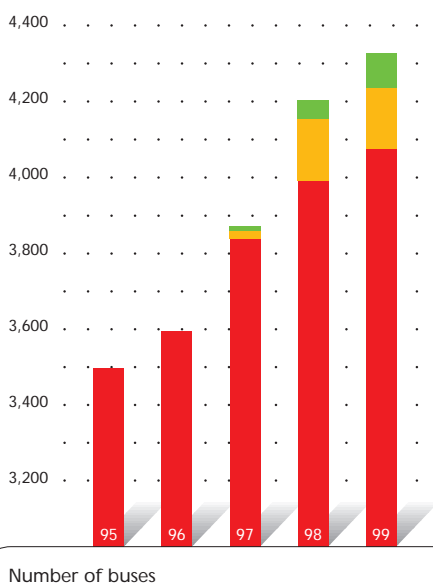
Franchised Public Bus Operations

- KMB
- LWB

Number of licensed buses

at 31 December


The Group operated more than 4,300 buses in Hong Kong at the year end of 1999




■ KMB
■ LWB
■ Non-franchised bus services


Locations of KMB's and LWB's Terminals and Depots

With their extensive network of terminals and bus routes, KMB and LWB provide convenient and quality service to the general public of Hong Kong

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

 The depots of Long Win Bus Company Limited ("LWB")

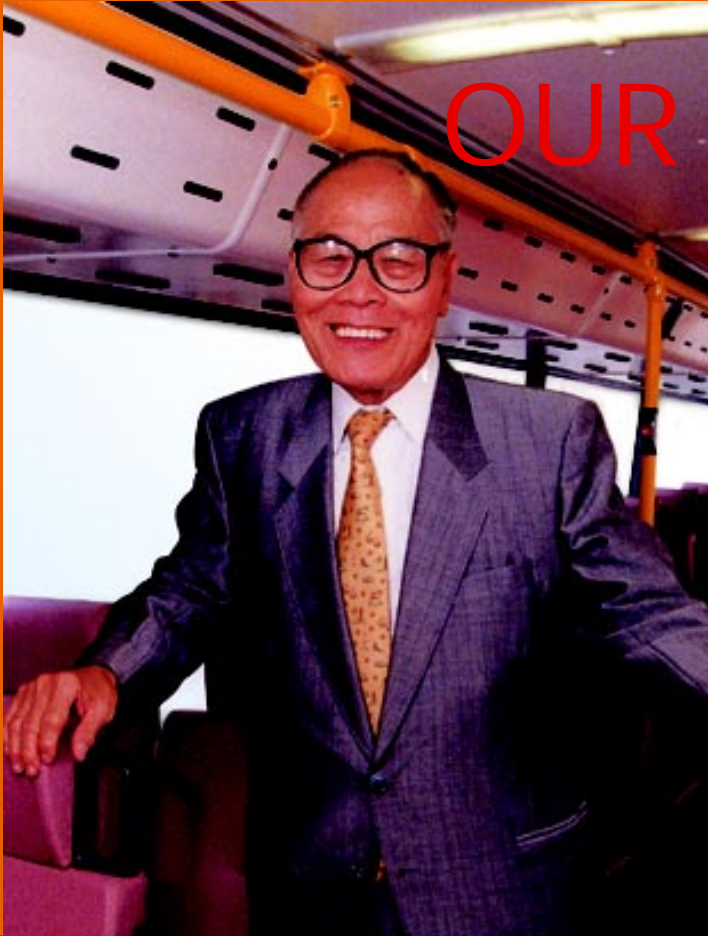
● Bus terminals of KMB and LWB

 Hills or highland areas





Chairman's Statement



OUR STRATEGY

to remain the
leader in the public
bus transport industry
of Hong Kong
is based on our
eagerness to
embrace change

1999 in Retrospect

The recovery process in the Hong Kong economy, which began in the second quarter, continued to gather momentum during the second half of 1999.

The general economic sentiment turned more positive as the stock market regained strength, consumer spending increased and the labour market held generally stable. Investment spending in public sector building and construction turned positive, partially offsetting the slowdown in private sector building activity.

In 1999, Hong Kong's gross domestic product ("GDP") attained a growth of around 2.9% although there continued to be slack in the retail business and tourism recovery continued at a slow pace.

The Group achieved good results during the year and experienced a satisfactory growth in the number of passenger trips. With our commitment to quality services and the enhancement of our

bus fleet, we will work diligently to retain the loyal patronage of both our long-standing and new customers.

Results for the Year

The Group's profit attributable to shareholders for the year ended 31 December 1999 was HK\$738.6 million, representing an increase of 26.2% over the HK\$585.5 million for the previous year. The profit from the franchised bus operations, i.e. The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited, for the year amounted to HK\$704.3 million, an increase of 23.3% over the HK\$571.4 million for 1998. Earnings per share for the year amounted to HK\$1.83 compared with HK\$1.45 for the year earlier.

Dividends

At the forthcoming Annual General Meeting, the Directors will recommend the payment of a final dividend of HK\$1.07 per share for the year ended 31 December 1999. This compares with 88 cents per share in

1998. Together with the interim dividend of 28 cents per share paid on 5 October 1999 (1998 – 27 cents per share), dividends for the year will amount to HK\$1.35 per share compared

**We continue to
look for ways to
be innovative
and to run the
BEST managed
bus companies
IN THE WORLD**

with HK\$1.15 for 1998. The total dividend payout for the year will amount to HK\$544.9 million compared with HK\$464.2 million in 1998.

Meeting Customer Needs

Bus transport – our core business – is the most convenient, flexible and economical form of public transportation and will become increasingly important as Hong Kong's population and

economic activities grow. The Group places strong emphasis on providing a safe and comfortable experience for its customers.

We continue to operate effectively and decisively in CREATING AND ENHANCING VALUE for our shareholders and the community at large

We recognise that our industry is highly competitive and we must be ever vigilant to ensure that the Group remains the leader in providing the best possible quality services to our customers. During the year, we have rigorously taken advantage of opportunities presented to us in the form of new technology to continually explore new avenues of

providing the quality service our customers have come to expect.

Our strategy to remain the leader in the Hong Kong market is based on our eagerness to embrace change. We continue to look for ways to be innovative and to run the best managed bus companies in the world.

Integrated Public Transport

While we remain fiercely competitive, we are also eager to develop co-operative arrangements with other transport operators that are beneficial to all parties and result in a more integrated public transportation network.

During the year, we demonstrated the feasibility of this approach when The Kowloon Motor Bus Company (1933) Limited ("KMB") assumed operation of the Kowloon-Canton Railway Corporation's seven East Rail feeder bus routes which link with its rail services.

The entire community benefits from this approach where we can interchange between bus

and rail as well as the buses of other companies. Fewer buses are required with such an arrangement and there is less duplication of services. This concept also lessens congestion along busy urban routes which translates into better care of our environment.

We will be pursuing similar opportunities in the future as a greater need for bus services materialises to link with new rail stops and emerging new towns.

The Future

An efficient public transport system is vital to Hong Kong's success and we remain confident about the future of the Group and the bus transportation industry. Despite the many challenges we face – keen competition, expansion of the rail network and environmental issues – there will be ample room for business and profit growth.

Over the long term, continued population growth, which some say may exceed Government projections, and the development and strengthening of the tourism industry, have many beneficial implications.

With our COMMITMENT to quality services, we will work diligently to retain the loyal patronage of both our long-standing and new customers

The Disneyland project will lend both short and long-term benefits to our business. In the short term, we anticipate growth in passenger numbers from the workers at the project site who will need public transport for their commutation. In the long term, the number of tourists and Hong Kong people travelling to Disneyland is expected to be substantial. Environmental concerns will also increase demand for bus transport as will the current Government policy of discouraging the use of private transport.

We will capitalise on these growth opportunities and utilise fully our established core competencies and our economies of scale built up over our 67-year history.

Creating and Enhancing Value

Our future planning is conducted with the customers' interest in mind as well as that of the Group. We are always mindful that everything we do must in the end provide value for money and greater convenience

and comfort for our customers while at the same time maximising return for our shareholders.

We have realised profit growth because of the increase in ridership, sound management practices, cost controls and greater productivity on the part of the staff. Whilst the number of bus captains has grown in proportion to the growth of the fleet and route network, the size of the support staff has trended downward in terms of the average number of employees per bus.

We will continue, as in the past, to upgrade our bus fleet and institute measures to ensure our operations are environmentally friendly. All of this, of course, represents considerable investments of capital. We have been able to manage these expenditures satisfactorily even though we have not increased fares since December 1997, thanks to our greater cost-effectiveness and to negative inflation. KMB is one of the few large privately operated bus companies in the world that is profitable without

any government subsidy. We intend to keep it that way.

The Group represents a sound long-term investment in a market area that will grow and flourish. Our management is dedicated to ensuring that we operate effectively and decisively in meeting the challenges ahead as well as creating and enhancing value for our shareholders and the community at large.

Our People

The Group's future success is dependent on our people, a team of experienced and dedicated professionals who are the best in the public bus transport business. Their contributions are invaluable and management is committed to helping our people develop and

become even more productive through sound management and the best training and development programmes that can be devised.

Serving the Community

We are extremely cognisant of the fact that we are not a monopoly, but the steward of a privilege, in the form of our franchise, to serve the community. We know we have an obligation to provide a service that benefits the community at large. We will continue to earn the right to retain this privilege by offering the best quality service possible.

Directors

I have the pleasure of having been appointed an Independent Non-Executive Director and Chairman of the Company and of its subsidiaries, The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB"), with effect from 12 August 1999. I would like to take this opportunity to express my personal and sincere thanks to

our former Chairman, Dr. the Honourable P C Woo, under whose leadership the Group has made significant achievements of which we are all proud.

I would also like to thank the Audit Committee, chaired by Mr. George Chien Yuan Hwei and comprising Dr. James Kung Ziang Mien, OBE and the Honourable Eric Li Ka Cheung, OBE, JP as members, for the painstaking and professional work it has done during the year.

Under the Public Bus Services Ordinance, the Commissioner for Transport and the Deputy Secretary for Transport are appointed by the Chief Executive of the Hong Kong Special Administrative Region Government to sit on the Boards of KMB and LWB. The incumbents of the Commissioner for Transport and the Deputy Secretary for Transport posts are Mr. Robert Footman, JP and Miss Linda Lai respectively. I would like to express my sincere appreciation of the valuable contributions that Mr. Footman

and Miss Lai have made throughout the year.

On 18 March 2000, the Board appointed Mr. Norman Leung Nai Pang, OBE, JP as a Director of the Company, KMB and LWB. The Board welcomes Mr. Leung to the Group.

Lastly, I would also like to thank all my fellow Directors, in particular the Managing Director, Mr. John Chan, GBS, JP, and our highly professional staff for their dedication and contribution towards the success of the Group.

S. Y. CHUNG

Chairman

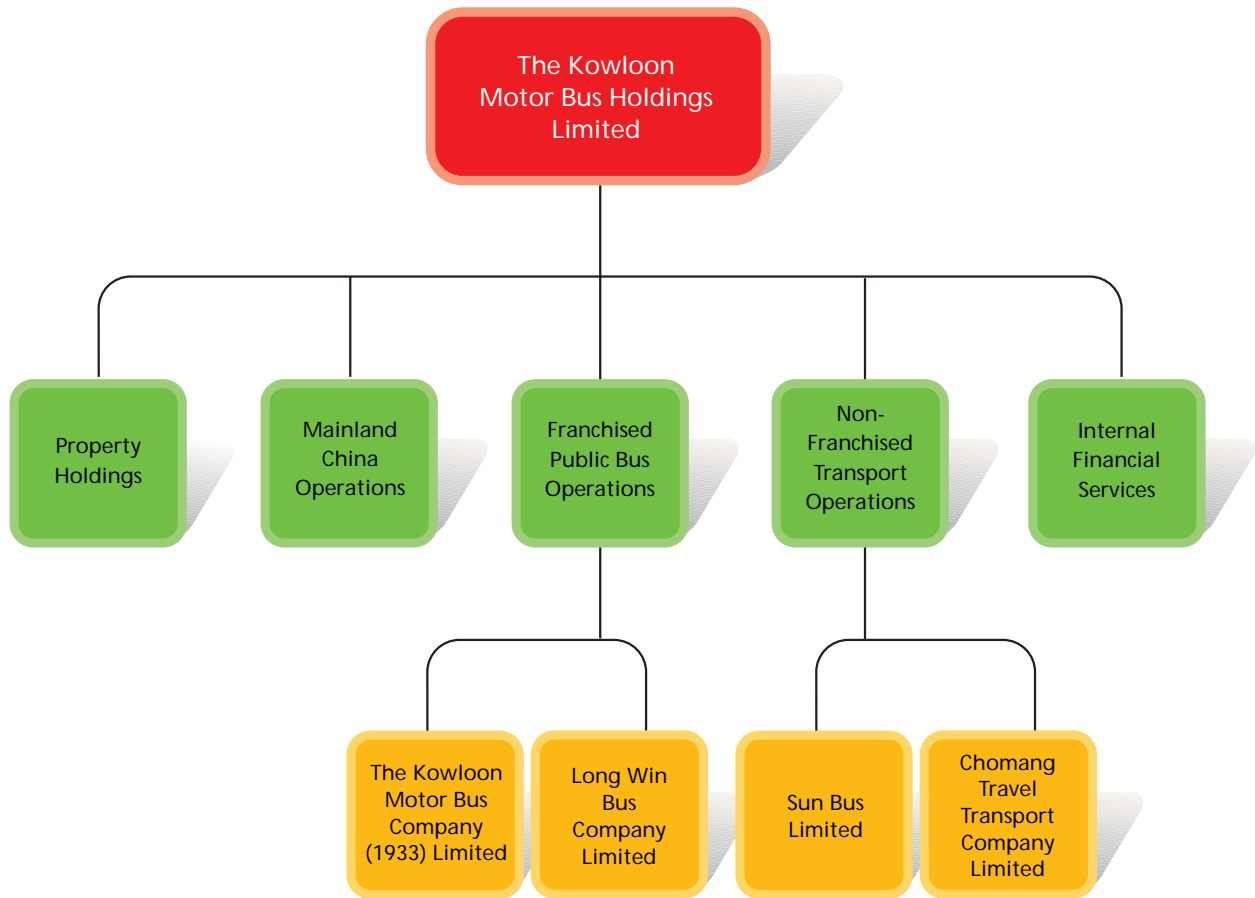
13 April 2000

Managing Director's Report



WE COMMIT

ourselves to
achieving the
highest standards
of quality in all
aspects of our
operations in the
years ahead



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

In the year under review, KMB saw an increase in daily ridership of 2.5% compared with 1998. A total of 1,060.0 million passenger trips was made on KMB buses in 1999 compared with 1,034.4 million in 1998. The average daily ridership of KMB for the fourth quarter of 1999 was 3.0 million compared with 2.9 million during the same period last year.

We attribute this passenger growth to several factors. For one, the economic downturn that occurred as a result of the Asian financial crisis during 1997 resulted in many commuters choosing a less expensive form of transport. Those who opted to use our bus services regularly chose to remain our customers because we worked hard to provide a quality service that met with their approval. Other factors have been the influx of newcomers, the

growth of new towns and the introduction of new routes.

Long Win Bus Company Limited ("LWB")

LWB's total ridership during the year reached 16.9 million passenger trips, or a daily average of 46,300, an increase of 17.2% over the year before. This new business was launched in early 1997 to provide bus services to and from the new Airport at Chek Lap Kok. Starting with two routes and subsequently expanded upon

the opening of the new Airport, LWB has proven to be an efficient and reliable means of public transport for the New Territories and North Lantau. However, market conditions during the year for North Lantau and the Airport continued to be sluggish and LWB suffered operating losses. LWB responded by consolidating and rationalising its bus network in order to improve cost-effectiveness. The future for LWB will depend largely on the recovery of the tourism industry and the further development of Tung Chung New Town. In the longer term, LWB, as the largest non-rail, land-based operator serving North Lantau and the airport, should benefit from its competitive edge in pricing and direct routing and the Government's plan for new towns in the New Territories.

Non-Franchised Service

Our non-franchised service continued to progress toward becoming one of the leading operators in this sector of the market. Sun Bus Limited ("SB"), the first business unit in the

Group's Non-Franchised Transport Operations Division, began operations on 1 January 1998 while Chomang Travel Transport Company Limited ("CM") was acquired in August 1999. SB services urban and sub-urban areas, including the new airport, and caters to large residential estates, shopping centres and major employers. CM provides residential and tour services for the local populace which seeks value for money. The total staff force for both units of 140 employees are highly competitive and emphasise high productivity, flexibility and efficiency. The upward trend in demand for residential, commercial and employee bus services in areas with no direct mass transit link will enable our non-franchised business to grow as it expands its presence in the market.

Commitment to Quality

A firm commitment to quality will guide KMB during the years ahead. This applies to all aspects of our operations including traffic, maintenance, service and management.

Quality in this context means a commitment to international best practices and standards of excellence.

We achieved a major milestone in November 1999 when all of our headquarters departments received ISO 9001 certification. As all of our depots were certified in previous years, KMB thus became the fourth corporate entity and the first public bus company in Hong Kong to obtain ISO certification on a corporate-wide basis. As far as we can determine, we are the only public bus company in the world operating on such a large scale to have achieved ISO certification covering every single aspect of its operations.

Accompanying this certification is a commitment to constantly improve and periodically reaffirm that we adhere to the highest possible standards of quality. Ours is an irrevocable commitment to world class standards of excellence. We aim to be the quality leader in our industry and the benchmark against which all others will be measured.

KMB became the fourth corporate entity and the FIRST public bus company in Hong Kong to obtain ISO 9001 certification on a corporate-wide basis

Responsive Management

Supporting this commitment to quality, the second phase of our management restructuring, which we discussed in our 1998 report, was completed in July 1999 when we devolved day-to-day operational decision-making to four Depot General Managers. By being closer to the market, they can deal with day-to-day operational issues and respond quickly and decisively to the needs of our customers. The overall goal is to streamline management and the decision-making process to ensure faster responsiveness, and to adopt best corporate governance practices.

The decision-making process and the communication channels between management and staff are now significantly shortened and more direct. Whilst the new structure will take time to reach its full potential, preliminary results during the second half of the year were very positive and we

firmly believe that the structure will greatly enhance our ability to provide quality services to our customers.

Technology

We have put technology to good use as we explore and develop new, practical and cost-effective ways to improve all areas of service delivery. But in so doing, we carefully test new concepts to ensure they meet high standards of reliability and cost-effectiveness before adopting them for use throughout our network.

For example, we installed a pilot cyber bus stop at Kowloon Park to test advanced technology that offers route, fare and schedule information as well as local, international and financial news to passengers. It is also equipped with a microcomputer and a touch-screen liquid crystal display ("LCD") panel enabling customers to browse KMB's homepage. We will be closely

monitoring the use of this high-tech facility and, if customer feedback is positive, the system will be rolled out progressively to other bus stops. We have also developed and launched other pilot systems in our bus terminals and aboard the buses to provide a greater array of information to our customers.

Most of the advances in our information technology systems are developed by our own professional and technical staff. The quality of their work received public recognition during the year when our Bus Maintenance Information System, which was developed in-house, received the Silver Award in the 1999 IT Excellence Awards organised by the Hong Kong Computer Society. The system was cited for generating considerable cost savings whilst reducing the number of bus breakdowns.

To further strengthen our management information technology, we are undertaking a comprehensive survey of all of our systems to determine how well the present infrastructure is

serving us and what needs to be done to meet our future needs. We anticipate significant enhancements in the next year or two using the latest technology available.

Y2K Readiness

As a further tribute to our IT staff, the transition to the Year 2000 was smooth and seamless. Recognising that our computer systems might be affected before, during or after the New Year, the management adopted the conformity requirements issued by the British Standards Institution for Year 2000 compliance.

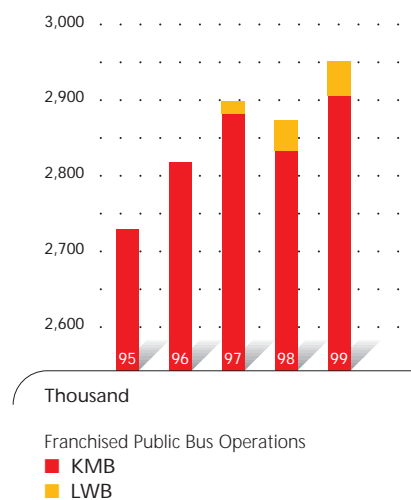
A Year 2000 compliance programme was implemented to address all critical areas. These included all relevant computer systems, applications and equipment with embedded systems and involved impact analysis, risk assessment and rigorous testing. Also, our business partners and major suppliers were asked for assurances that the Group would not be exposed to risk arising from any Year 2000 non-compliance on their part. A

project team led by a Year 2000 co-ordinator closely monitored the programme and provided progress reports to the management on a regular basis.

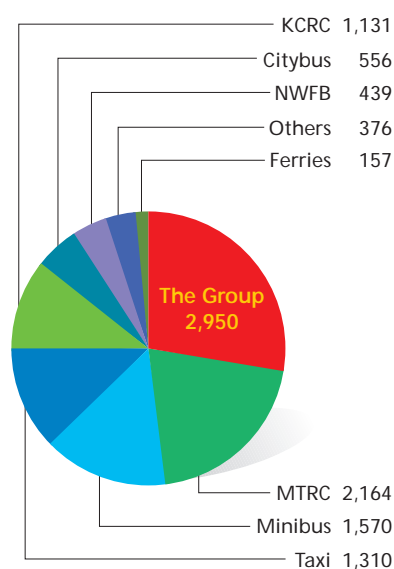
All systems and equipment that had not been Year 2000 compliant were converted and contingency plans were developed to minimise any possible disruption to our operations and services. In addition, the Group's readiness was independently reviewed by an external consultant. At the turn of the year and on 29 February 2000, there were no Year 2000 incidents.

The aggregate costs for the programme did not have a significant effect on the Group's operating results and, at 31 December 1999, there were no outstanding commitments in respect of the Year 2000 modifications.

Number of passenger trips per day



Average number of passenger trips per day by mode of transport in 1999



Thousand of passenger trips per day

The Group transported more people than any other public transport services in Hong Kong

Providing QUALITY SERVICE to our customers is our business and a CULTURE of service permeates the entire organisation

Protecting the Environment

All of us at KMB share the community's growing concern for the environment in Hong Kong and we are working diligently to develop a variety of measures to ensure that our operations are environmentally sound.

These steps have included equipping our buses with Euro I and II engines that comply with the European Union's strict exhaust emission standards and we are preparing to introduce Euro III engines which comply with even more stringent measurements. We also successfully tested a catalytic converter that will be installed on all our pre-Euro I engine buses during 2000.

Other measures include equipping our depots with modern water and chemical waste treatment systems, fitting buses with a fuel filling system that stops fuel spillage, and testing

an ultra low sulphur fuel. All in all, KMB has one of the largest environmentally friendly bus fleets in the world.

We will continue to explore and develop new means to ensure that we conduct our business in a manner that is compatible with environmental protection.

Increasing Network Efficiency

Environmental concerns are also addressed as we increase the overall quality of our route system. By taking advantage of the efficiencies made possible by our bus-bus interchange concept, we can provide services over a wider area, but with fewer buses. Rather than operating direct bus services on every route, we aim to encourage customers to transfer from one bus to another to reach their destination. The advantages we realise include less traffic congestion and a reduction in noise and air pollution. We are also able to

compensate for the shortage of terminal space in urban areas. The interchange concept, which has a positive effect on the environment while preserving the comprehensive coverage of our network, benefits our customers and the community at large.

Customer acceptance of the bus-bus interchange concept has been excellent as illustrated by the growing number of daily interchanging passengers during the past year.

Octopus Smart Card

At year end, about one-half of the KMB and LWB fleet had Octopus readers installed and an average of 720,000 fare payments were made using the card every day. This compared with a daily average of 330,000 payments in 1998. We also began testing the Octopus Card on two Sha Tin bus-bus interchange routes and passenger acceptance has been very encouraging.

KMB was one of the founders of the consortium that started the Octopus Smart Card

System, the largest and most sophisticated fare payment system of its kind in the world. Already we have the largest number of card readers amongst Hong Kong's public transport operators. The Octopus Card readers will be installed throughout the entire fleet by the end of 2000.

New Routes

Our competitive advantage was demonstrated once again when we won the right to operate six Tin Shui Wai (North) routes that will eventually require a total of 120 air-conditioned buses. Bids were also sought for the right to operate Tseung Kwan O routes, but as the Government had stated as a tender condition that in the interest of enhancing competition, each successful applicant would be awarded a maximum of one package, we deemed it impractical to tender a bid. Had it not been for the pre-condition, we would have sought those routes as well.

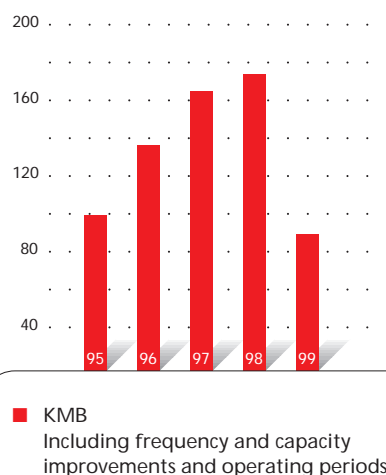
Enhancing Fleet Quality

KMB continued to add new buses with improved design, attractiveness and comfort to Hong Kong's largest bus fleet. We deployed 240 new air-conditioned (of which 190 were super-low floor double-deck) buses during the year to meet the ever-increasing demand for this service. An additional 274 new super-low floor double-deck buses will be delivered during 2000. At the end of 1999, over half of the KMB fleet – 2,355 buses – were air-conditioned.

A Quality Service Culture

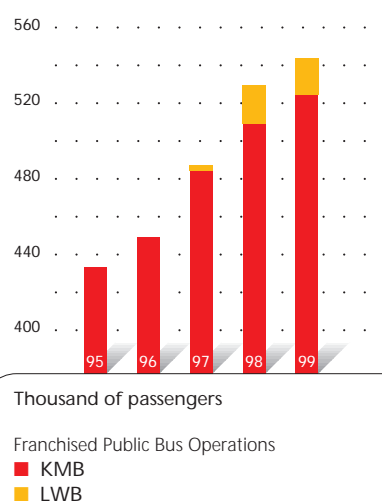
Providing quality service to our customers is our business and a culture of service permeates the entire organisation. To reinforce this attitude, we retained consultants to design a formal training programme for some 9,000 front-line and support staff. We will continue to seek opportunities to further improve service quality.

Total service improvement items

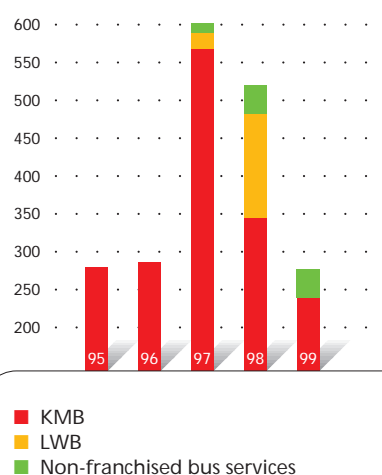


Total fleet capacity

at 31 December



Number of new buses introduced to the fleet



Listening to the Customer

As we work hard to retain passenger loyalty and win new customers, we place a high priority on identifying and meeting their expectations. To be successful, we fully recognise the importance of having processes in place to determine these needs and desires. We host community meetings to discuss public transport issues, organise passenger liaison groups, and maintain other channels of communication such as our website.

We also strive to maintain an open and transparent attitude in terms of providing information to our customers and the community, both directly and through our press information programme. We keep people abreast of our pilot programmes as we experiment with new ideas to improve customer service, our plans for new buses, the introduction of new technology, and our environmental protection efforts. This attitude of openness is an important element of the KMB culture.

Senior Staff Retirements

Our former General Manager, Mr. Charles Lui Chung Yuen and our former Deputy General Manager, Mr. John Choy Chung Yuen retired during the year after 39 years and 27 years of service respectively. On behalf of the Board and of all the staff of the Group, I wish to extend to Messrs. Lui and Choy our deepest gratitude for their invaluable contributions and distinguished leadership throughout the years.

Management-Staff Teamwork

Our Group has a strong and loyal management team and a dedicated, highly professional workforce with a tremendous sense of teamwork. Our people are an invaluable asset of the Group.

We have a strong foundation and a long history of solid professionalism, adherence to high quality standards, commitment to public service and a willingness to explore new ideas. Our team looks forward with confidence to the Group's

continued success in meeting future challenges and capitalising on every opportunity to move the Group forward. I want to thank all the staff for their contribution to the Group's success.

John CHAN Cho Chak
Managing Director

13 April 2000

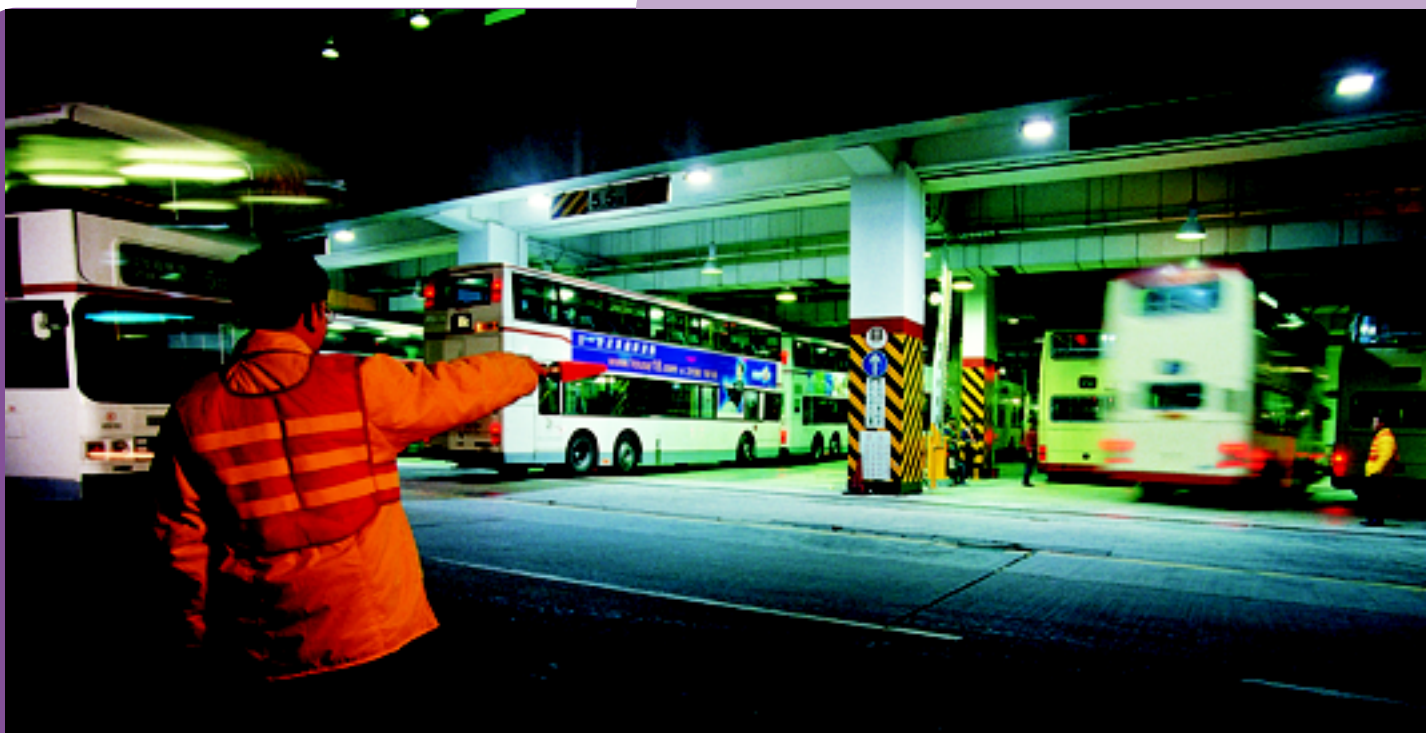
Operational Review



OUR TEAM

is committed to a
decision-making
process that provides
fast response
and delivers
quality service to
customers

From left to right:
Miss Winnie J Ng, Commercial Director
Mr. Lui Po Chiu, Operations Director
Mr. Edmond Ho, Finance and Administration Director



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

THE INTERNATIONAL ORGANIZATION FOR STANDARDIZATION (ISO) CERTIFICATION

KMB is the first public bus company and the fourth corporation in Hong Kong to be ISO certified throughout its entire organisation. This occurred when the company's Headquarters was certified according to the requirements of ISO 9001:1994 by the Hong Kong Quality Assurance Agency ("HKQAA") in November 1999.

KMB's Traffic Department and depots were certified in previous years as having adapted a set of quality management systems as prescribed by the ISO, a worldwide federation of national standards bodies.

In keeping with the spirit of ISO and KMB corporate goals, the company is committed to continu-

ous improvements that will provide efficient, reliable and user-friendly bus services to our customers.

OPERATIONAL EXCELLENCE

Performance Pledge

The Performance Pledge made on mechanical reliability and operational capability, the two core competencies in bus operations, reflects our commitment to providing passengers with the highest possible quality of bus service.

Mechanical reliability is determined by the average number of trips operated before a bus experiences one mechanical breakdown on the road with passengers on board. Operational capability is measured by the ratio of actual to scheduled departure trips travelling in the peak directions within the overall bus network during the morning peak hours of 7:00 a.m. – 9:00 a.m.

As shown in the Performance Pledge Report for the year ended 30 June 1999, our performance was 2,199:1 on mechanical reliability and 100.09% on operational capability, better than our targets of 1800:1 and 100%, respectively.

Depots

Fundamental to upholding our performance commitment are our highly skilled people and modern maintenance facilities. We continued to upgrade our depots to ensure that the working environment is conducive to high levels of productivity and quality service.

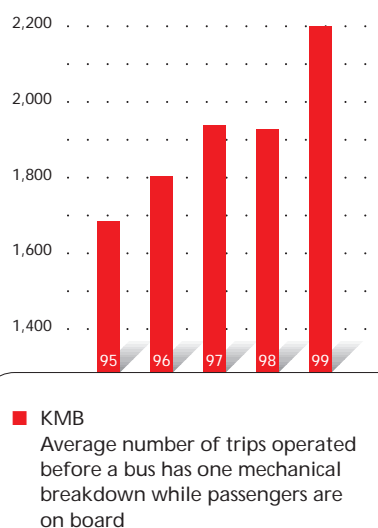
Several projects were undertaken or completed during the year. The new Tuen Mun and the West Kowloon temporary depots were completed and construction of the new Tseung Kwan O temporary depot will be finished in August 2000. Design work and site investigation of the permanent depot on West Kowloon Reclamation Area, to replace the Lai Chi Kok Depot, was completed. Piling work began in early 2000 with construction taking about 20 months.

Renovation of lighting facilities and the addition of vehicle exhaust ventilation systems in various bus depots and comprehensive renovation of the Tuen Mun Depot were completed. Work began on the renovation of the KMB Overhaul Centre which is planned for completion in 2000.

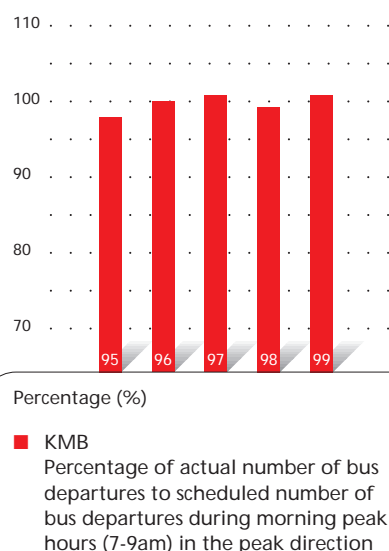
Fleet Upgrade

During 1999, KMB continued to upgrade Hong Kong's largest bus fleet including the deployment of additional air-conditioned buses to meet the growing demand for this service as reflected in patronage trends and passenger surveys.

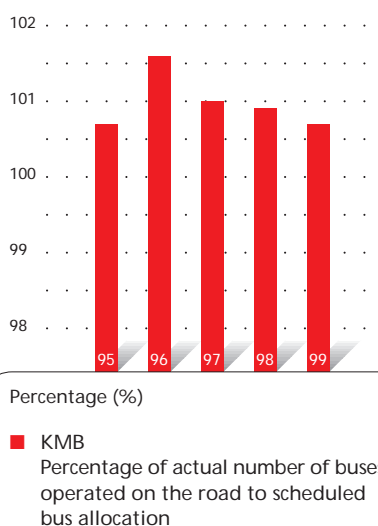
Mechanical reliability



Operational capability



Achievement of schedule





Bus parking facility at our Kowloon Bay Depot can accommodate more than 500 buses

A total of 240 new three-axle air-conditioned double-deck buses were introduced increasing the number of air-conditioned buses to 2,355 from 2,115. Of these, 2,090 are double-deck and 265 are single-deck buses. At year end 1999, air-conditioned buses represented 58% of KMB's total fleet which numbered 4,078 buses.

Easy Access Buses

Having introduced super-low floor three-axle double-deck buses to Hong Kong in 1997, KMB now has the largest fleet of this kind in the world. The company added 190 of these vehicles during the year and had a total of 287 easy access buses – 275 double-deck and 12 single-deck – deployed on 28 routes at year end. The super-low floor design and wheelchair access are of particular benefit to

disabled passengers, the elderly and young travellers. The number of wheelchair bound passengers increased greatly during the year with more than 600 wheelchair passenger trips per month recorded in the fourth quarter.

61 Volvo Super Olympian and 19 Neoplan Centroliner buses joined the Dennis Trident in KMB's super-low floor fleet. An additional 274 super-low floor double-deck buses will be delivered during 2000.

The new champagne colour chosen for these vehicles continued to receive favourable reviews from passengers and the community at large.

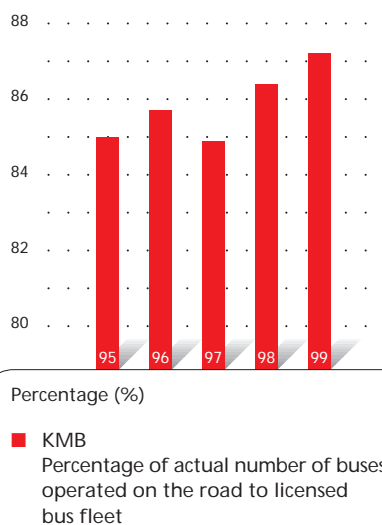


New Routes and Service Expansion

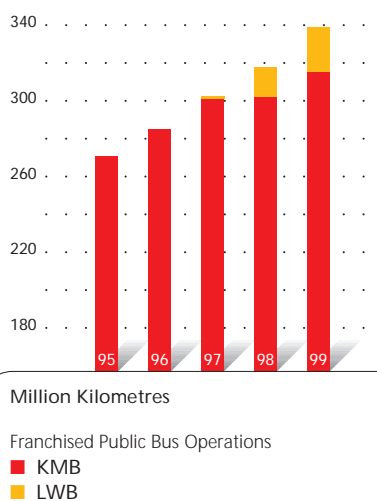
At year end, KMB operated a total of 397 bus routes serving urban Kowloon, the 12 new towns of North District, Kwai Chung, Ma On Shan, Sai Kung, Sha Tin, Tai Po, Tin Shui Wai, Tseung Kwan O, Tsing Yi, Tsuen Wan, Tuen Mun and Yuen Long in the New Territories as well as cross-harbour services to Hong Kong Island.

A total of 17 new routes were launched, seven of these to fulfil demand arising from the rapid development in the New Territories. Two are overnight services for Tin Shui Wai and Sheung Shui in North District. A recreation route was provided to cater for the demand for service between Tuen Mun and Sheung Shui on Sundays and public holidays. KMB has also taken over from

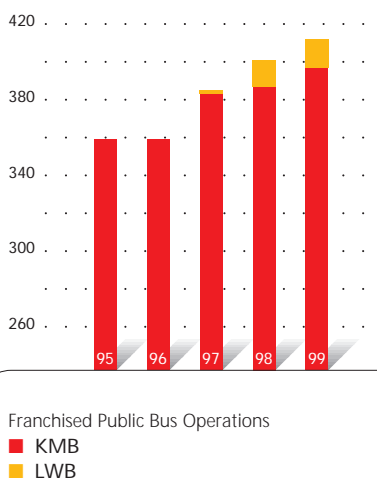
Fleet utilisation



Bus kilometres operated



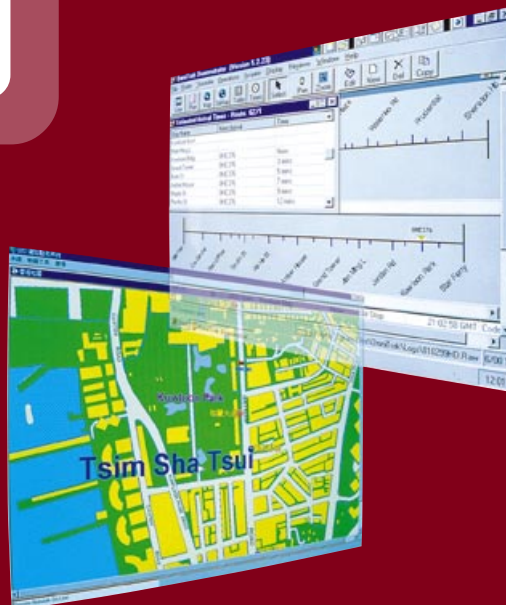
Number of routes operated



BETTER INFORMATION FOR BETTER SERVICES

Information
technology
improves our
ability to offer
improvements
in all areas of
service delivery

Bus tracking
systems enable
our operation
staff to mobilise
buses more
effectively.
One of the bus
tracking systems
using GPS
technology
under trial
comprises an
antenna
installed on the
bus roof for data
transmission





the Kowloon-Canton Railway Corporation seven East Rail feeder bus routes that serve more than 56,000 passenger trips per day. This initiative supports the Government's better bus-rail co-ordination policy as advocated in the Comprehensive Transport Studies ("CTS III").

In addition, KMB was awarded operating right for six Tin Shui Wai (North) routes requiring a total of 120 air-conditioned buses. The first route was launched in March 2000 while the others will be phased in over time. This will further consolidate KMB's position as the leader in the public transport market.

day operations. The Information Technology Department has 49 professional and technical staff. There are a total of 850 personal computers and mainframe terminals installed throughout the Lai Chi Kok Headquarters, seven major depots and five satellite depots. These computers are inter-linked to the mainframe and server computers at Headquarters via high-speed communication links. Currently, KMB uses some 65 software applications that have been developed by our staff to meet specific operational and management requirements. These applications are key to KMB's efficient and cost-effective management and operation.

Information Technology

KMB's information technology infrastructure and software applications play a key role in its day-to-

IT Excellence Awards

An important element supporting our Performance Pledge is our Bus Maintenance Information System,



Computerised diagnosis of buses in all depots ensures high degree of mechanical reliability

jointly developed in-house by the Information Technology Department and the Service Department and fully implemented in 1999. This system won the Silver Award in the Application Category of the 1999 IT Excellence Awards.

The award programme was organised by the Hong Kong Computer Society and sponsored by the Information Technology and Broadcasting Bureau and the Industry Department of the HKSAR Government. The panel of judges said KMB's system was selected because it ".... effected considerable cost savings and significantly improved bus failure rates. From the start it has fully involved and energised frontline staff work culture and accountability are being visibly enhanced."

This computer system handles all information related to the servicing and maintenance of the KMB bus fleet including bus history and repair records, maintenance scheduling, workers' attendance records and job assignments. The system is used by workshop staff at all depots to manage labour and material costs, enhance productivity and improve bus availability and reliability.

The award further demonstrated the quality of KMB's IT staff in building effective application systems that help streamline work processes. The main beneficiaries of this in the end are our customers.

Bus Tracking Capability

The trial of two high-tech bus tracking systems continued during the year. The aim is to identify a system that can accurately locate buses and enable the operations staff to respond faster to traffic incidents and to deploy resources more effectively to provide the highest levels of passenger service.

One system uses the global positioning system ("GPS") technology while the other uses distance reckoning technology. The trial results will be evaluated and used in planning implementation of one of these systems.

Electronic Tachograph

Other technologies under trial or development include the electronic tachograph, or black box, and a two-way communication system between the control centre and the buses. The electronic tachograph records the speed and other measurements of a bus in operation. This permits better monitoring of driving performance and enhances safety. The two-way messaging system will provide real-time communication between the bus and the control centre as well as enable the control centre to send messages to a selected group of target buses. In conjunction with the bus tracking system, such messaging system will enable the control centre to react quickly to incidents.

CUSTOMER SERVICES

Octopus Smart Card

By mid-March 2000, 189 bus routes, or about one-half of the KMB and Long Win Bus Company ("LWB") network, accepted the Octopus Card for fare payment; on average, about 850,000 fare payments were made using the Octopus Card every day. This is about 50% of the passenger trips made on those routes offering this convenience, reflecting the high level of acceptance of this payment method. Usage is highest on the cross harbour routes with around 70% of the fare payments made using the Octopus Card.

MEETING CUSTOMER NEEDS IS OUR MOTIVATION

New information
technology is
introduced at bus
shelters to
provide bus
information and
news to our
customers

right:
LED display
system at
waiting shelter
disseminates
real-time
information

left:
Cyber Bus Stop
with a
microcomputer
and a touch
screen LCD
panel enables
customers to
browse KMB's
homepage and
search bus route
information





The Octopus system is scheduled to be implemented throughout the network by the end of 2000 and a new maintenance workshop and 20 staff will be dedicated to maintaining the operation. At year end, approximately HK\$73.5 million, out of a total planned capital cost of HK\$130 million, had been spent to install the system.

Octopus Bus-Bus Interchange Pilot Scheme

A number of bus-bus interchange schemes using the Octopus Card as a means of fare payment were considered during 1999 and a pilot programme began in May 1999 for Sha Tin routes numbered 87A and 88K. Results were encouraging and demonstrated that such a bus-bus interchange scheme improves our network coverage and competitiveness as well as contributing to customer satisfaction.

With bus-bus interchange, customers can change buses at major nodal points, lessening the need to introduce direct bus services for each origin-destination pair. Passengers do not have to wait for a specific route, but can board any bus that is heading in the right direction and then interchange.

Bus-bus interchange enables us to provide a more comprehensive network, wider coverage, lower fares and higher bus frequency. We also benefit by more efficient utilisation of bus capacity which minimises the number of buses running on busy corridors, resulting in reduced noise and air pollution in core urban areas.

Bus Stop Announcement System

Since the successful testing of the bus stop announcement system using voice plus a light emitting diode ("LED") display in mid-1998, a total of 133 air-conditioned buses have been equipped

with such a system. An additional 467 units have been delivered or are on order for installation during the first half of 2000.

Waiting Shelters

At year end, KMB had a total of 1,700 waiting shelters. New shelter construction and renovation work was contracted for 200 bus stop locations throughout Kowloon and the New Territories. The new shelters are designed to provide comfortable and pleasant waiting facilities. They are also easily modified to suit various site conditions. The new shelters utilise stainless steel rafters to support a roof made from light green polycarbonate which is heat and glare resistant.

Another use of technology to provide improved service involves a bus shelter at Park Lane, Tsim Sha Tsui, which is a test site for an LED system that displays bus routes, local and international news, financial reports, weather forecasts and the latest traffic conditions. If customer reception to this innovative service is positive, similar systems will be installed in some other bus shelters during 2000.

Cyber Bus Stop

A Cyber Bus Stop at Kowloon Park was equipped with a broadcasting system and two LED display panels offering up-to-date information to passengers. The bus stop has a microcomputer and a touch-screen LCD panel enabling passengers to browse KMB's homepage and read bus route information. If the system proves satisfactory, it will be installed at other bus stops along Nathan Road.

Terminal Upgrades

To ensure a pleasant and clean waiting environment, KMB continued to upgrade its major bus terminals. This involved replacing route plates,



Terminal Information System installed at the Star Ferry Bus Terminal in Tsim Sha Tsui

information panels and stop poles; refurbishing regulator kiosks, and water tanks; repainting queue railings and shelters and other improvements. During 1999, the following bus terminals were improved: Wong Tai Sin; Lam Tin MTR Station; Lok Fu; Kowloon City Ferry; So Uk; Mongkok KCR Station; Kwai Fong MTR Station; Tuen Mun Ferry; Leung King Estate; Tuen Mun; Shatin City One; Shatin KCR Station and Tai Po KCR Station. Twelve additional terminals are scheduled to be upgraded during 2000.

Terminal Information System

Three modern electronic systems were installed at Star Ferry, Tsuen Wan MTR and Tuen Mun Town Centre bus terminals. Large LED display boards at the central part of each terminal provide information on destinations, departure times and fares. Emergency messages such as advisories on major traffic disruptions can also be displayed. Smaller LED display boards at individual platforms show routings, departure times and fares. Also in

operation is a public address system and a closed circuit TV monitoring system for the terminal regulator's office and the headquarters' radio control section. Installation of these systems is planned for all the major terminals.

Route Information

To draw attention to KMB's extensive network and inform customers of KMB's routes, several promotional campaigns were directed at various customer segments who ride KMB buses for different reasons.

Appealing to shoppers, both locals and tourists, the "Shopping Spree" promotion along with a "Shopper's Bus Guide" was launched to call attention to KMB's Nathan Road bus routes. A "Captain KMB" character was created to promote the selected routes along Nathan Road and reinforce the communication with the public. Through a series of television advertisements and editorials in "Eat & Travel Weekly" magazine, customers were acquainted with bus services destined for summer leisure sites. And, at the beginning of the new

school year, the convenience of travelling to school by KMB was communicated through a “Back-to-School” campaign. The KMB Bus Guide – 25,000 copies – containing detailed route maps was produced to provide user-friendly information for all KMB bus routes.

Marketing and Advertising

Because we operate in a highly competitive industry, marketing efforts were designed to strengthen our brand equity by projecting a progressive, customer-focused image. Campaigns were developed to communicate KMB's dedication to add value through continuous service improvements. Highlighting “professional bus maintenance”, “super-low floor buses” and “environmentally friendly engines” reminded customers of the company's commitment to a bus fleet of the highest quality.

Advertising messages projected the professional and customer-oriented qualities of KMB bus captains and also drew attention to the “1998-99 Bus Captain of the Year Competition”. Capitalising on the 50th Anniversary of both the People's Republic of China and the introduction of the first double-deck bus in Hong Kong, advertisements were placed demonstrating KMB's leadership in keeping the community on the move.

Market research measuring the effectiveness of these campaigns showed that the overall image of KMB had improved in the areas of service improvement, network coverage and overall performance when compared to all other transport providers. The research also showed that overall brand recognition had substantially increased.



“Captain KMB” promotes Nathan Road shopping routes



The Customer Service Hotline Centre at KMB Headquarters

Customer Service Hotline

The Customer Service Hotline received 4.3 million calls during the year, representing an average of 360,000 calls per month. The 24-hour automatic answering system uses Cantonese, Putonghua and English for bus service inquiries, fax-on-demand services and voice mail recording.

To reinforce our commitment to excellence in customer service, the operating hours of the Customer Service Hotline were extended to provide manned service on weekdays between 9:00a.m. and 7:00p.m., thus providing 15 additional service hours per week.

KMB Customer Service Centres

A Customer Service Centre similar to the facility at the Sha Tin New Town Plaza was introduced at the Tsuen Wan Bus Terminal in September 1999. Such Customer Service Centres offer a direct channel for customers to enquire about bus service information.

KMB Web Site

KMB's web page has proved to be an excellent vehicle for communicating with customers and the community as a whole. The total "hit-rate" since it

was launched in 1995 has been about 26 million.

The daily rate during 1999 was over 40,000. KMB was the first public utility company in Hong Kong to establish a web page and in 1996 won the Silver Award in the Sing Tao NetWorld HK Web sites Competition. Displayed are latest company developments, bus service information, business news, interactive games and entertainment. Our website address is <http://www.kmb.com.hk/>.

KMB STAFF

Caring for People

Human resources are our most valuable asset as the continued success of our company is very much dependent on our people. In line with our mission of "Caring for People", we promote team work and a sense of belonging. We also endeavour to provide a pleasant working environment and to foster harmonious working relationships between staff members and the management. This leads to a loyal staff force as demonstrated by the low turnover rate.

IT'S OUR PEOPLE MAKE THE DIFFERENCE

The Group's
continued
success is
very much
dependent on
our dedicated
and professional
staff

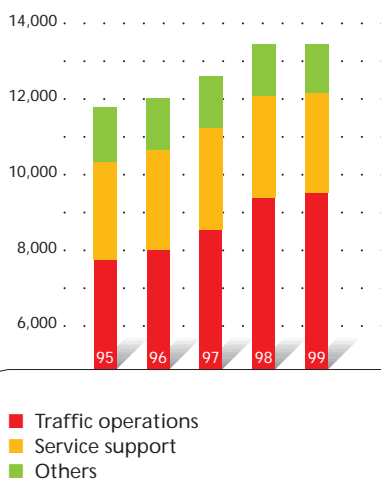
Frontline and
support staff
underwent service
enhancement
training during the
year to augment
our customer
service culture. This
initiative supports
our commitment to
quality in
everything we do



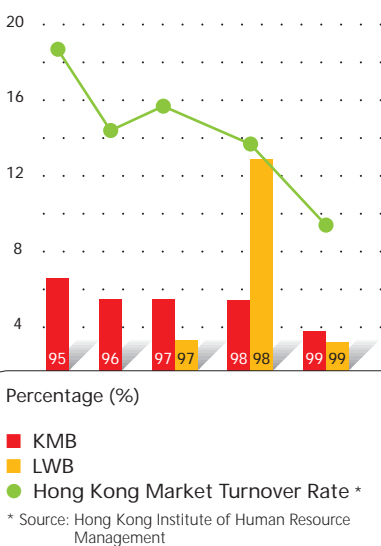


Number of staff in the Group

at 31 December



Staff turnover rate



The company facilitates continual staff improvement and development by providing various forms of training and we reward our people who render good service and exemplary performance. We also adhere to the principle of equal opportunity and pay full attention to any grievances in an effort to maintain a satisfied and productive staff.

Loyal and Steady

KMB's staff number reduced from 12,956 at the end of 1998 to 12,866 towards the end of 1999. Staff turnover for the year was 3.8%, the lowest of the past ten years.

Staff Performance

During the year, the company presented the following awards to the staff as an appreciation for their dedication to KMB and contribution to the community:

Good Service Annual Bonus

A total of 3,633 bus captains were eligible for this annual award which is based on the employee not having been subject to disciplinary action related to service for a full year.

Safe Driving Annual Bonus

A total of 4,144 bus captains received this award for having had no accidents for a full year.

Safe Driving Award

A total of 75 bus captains were eligible for the 15-year accident-free award, 145 for the 10-year accident-free award and 409 for the 5-year accident-free award.

Loyal Service Award

A total of 215 employees received this award for rendering good service in 1999 including helping passengers recover lost properties, protecting company property and other exemplary actions.

Service Culture

A consulting firm was engaged in October 1999 to conduct a Service Enhancement Project for all front-line and support staff to further improve service to customers. Involving a total of 9,000 employees, the programme reinforces the customer service culture within the organisation, particularly among front-line staff – bus captains, inspectors and regulators – who represent KMB in their daily contact with the public. Support staff are trained to provide quality service to front-line staff to enable them to deliver this quality bus service.

The first phase of the programme was completed when all participants had attended a seminar. Workshops are being conducted for staff on the concepts and methods of dealing with customers in various situations. The third phase of the programme will involve training the trainers who will continue the instruction in-house.

Technical Training

Since its establishment in 1973, the KMB Technical Training School has been keeping the maintenance staff abreast of the latest technology in bus transportation. The current curricula cover anti-locking braking and anti-skid systems, electronic fuel systems, diesel catalytic converters and computerised fault diagnosis. During 1999, a total of 100 in-house training sessions were held for 527 skilled workers and 23 sessions were organised for engineers, supervisors and foremen in conjunction with our vehicle manufacturers. Such emphasis on technical training demonstrated our commitment to total quality management.

Apprentice Training

A four-year apprentice-training scheme is conducted at the KMB Technical Training School for

young school leavers to ensure an adequate supply of skilled maintenance workers. 72 apprentices graduated from the school in 1999, making a total of 1,853 since 1973. At the end of 1999, there were 188 in training.

The high standard of KMB's apprentice training was underscored when KMB apprentices won all the prizes in the automobile electrician trade category in the Best Apprentice Competition 1999 organised by the Vocational Training Council. The three winners were invited to visit the Mazda Plant in Japan.

Staff Communication

A video production entitled "KMB News" was introduced during the year to keep staff abreast of the latest company developments. The video was produced on an "as needed" basis, normally three to four times a year, and was shown at duty dispatch offices and canteens as a supplement to the staff magazine "KMB Today".

The Joint Consultative Committees at each of the operating depots were restructured to reflect the management restructuring completed in July 1999. These committees are concerned with such matters as improvement of the working environment, safety and work procedures, staff training, welfare and matters affecting the daily operation of the depots and workers.

Staff Welfare and Activities

The welfare of employees is a high priority with KMB. The company's annual contribution to the two staff retirement schemes totalled HK\$159.7 million in 1999. KMB also operates an in-house medical centre for providing high standard medical care for all its staff free of charge.

BUSINESS IS NOT OUR ONLY BUSINESS

We place a high
priority on
conducting our
business in a
manner
compatible with
environmental
protection

right:

Assembly of new
buses equipped with
environmentally
friendly Euro II
engines takes place
at KMB's Bus Body
Construction Depot
in Tuen Mun

below:

KMB uses tyre
retreading
equipment to retread
old tyres as part of its
program to fully
utilise its resources
and reduce
unnecessary waste.
During 1999, KMB
retreaded
33,209 tyres





KMB encourages its staff to participate in inter-company sports and to represent the company in community competitions. The Staff Welfare Section continued to organise various recreational activities such as a long distance run, football, badminton and basketball tournaments and picnics. Staff members competed in the Corporate Games organised by the Provisional Urban Council, participated in the Dragon Boat competition, joined the Community Chest Corporate Challenge 10Km run that raised funds for charity, played in the Hang Seng Cup Table Tennis Competition and raced in the Standard Chartered Hong Kong 10Km Run.

CONCERN FOR THE ENVIRONMENT

As a socially responsible company, KMB places a high priority on conducting its business in a manner that is compatible with environmental protection. For many years the company has introduced and adopted new technologies to fulfil this commitment. We are proud of our achievements and have published a booklet documenting these initiatives and plans for the future. Some of the numerous measures which KMB introduced for a better environment during the year were as follows:

Air Quality

A total of 240 buses equipped with engines of Euro II standard were introduced during the year. The Euro II engines comply with the European Union's exhaust emission standards.

With a total of 978 buses with Euro I engines and 1,005 buses with Euro II engines, KMB has one of the largest environmentally friendly bus fleets in the world. The even more advanced Euro III engines will be installed in newly acquired buses starting in 2001. These engines comply with even more

stringent emission standards and will decrease the emission of carbon monoxide and particulates by 50% and 30%, respectively, when compared with Euro II engines.

To further improve exhaust emission quality, catalytic converters were installed and tested successfully on 42 pre-Euro I engine buses. We will install these devices on all pre-Euro I engine buses during 2000. Once the installation is completed, it is expected that the amount of particulates emitted by such vehicles will be reduced by about 40%.

In 1999, a total of 2,500 buses were equipped with the Posilock fuel filling system which has become a standard feature for all new buses. This device enables faster refuelling and prevents spillage.

Protection of the Ozone Layer

All KMB's air-conditioned buses use refrigerant R134A, which meets the standards laid down by the Montreal Protocol. The refrigerant does no harm to the Ozone layer. KMB also introduced environmentally friendly gas extinguisher systems on buses and in depots for the protection of the Ozone layer.

Tyres

To alleviate pollution problems caused by waste and to fully utilise its resources, KMB uses tyre retreading equipment to retread old tyres. During 1999, KMB retreaded 33,209 tyres. In addition, all KMB buses are fitted with asbestos-free brake linings.

Green Fuel

KMB began tests of "Green Fuel", an ultra low sulphur diesel fuel that greatly improves emission levels. The test results will be evaluated for formulating our strategy on the use of alternative fuels.

Lubricant and Chemical Waste

All used lubricating oil collected during bus maintenance is delivered to a waste oil recycle agent.

During 1999, 124,600 litres of used lubricating oil was treated.

Chemical wastes are treated and stored, according to type, in specially designated areas of the bus depots. Treated chemical waste is collected by registered chemical waste collectors and disposed of in a designated Government landfill.

Waste Water

Waste water produced from the daily operations of depots is treated before it is discharged into the public drainage system. In 1999, we had 11 automatic waste water treatment systems for the fleet with a total daily treatment capacity of 1,000 cubic metres compared with a capacity of 800 cubic metres in 1998. Waste water discharge is closely monitored in all depots to ensure compliance with regulatory requirements and environmental protection.

Pest Control

More environmentally friendly procedures were introduced in pest control. This included using a qualitative and quantitative standard scale to monitor the performance of pest control service providers and adherence to the standards set by the World Health Organisation. The latter determines the degree of dosage and permits selection of a safe level of chemical in the pest control service scheme.

Recycled Toners

KMB adopted the use of recycled toner and negotiated service exchange units for spare parts whenever possible to reduce both wastage and costs.



KMB's Engineering Manager introduces the catalytic converters, which will be installed on all pre-Euro I engine buses during 2000

Depot Planning

We consider environmental protection issues and energy conservation as two of the most important elements to be taken into consideration during both the design and construction of our new bus depots.

Environmental Organisations

KMB supports various environmental protection programmes organised by community organisations. These include the Corporate Afforestation Scheme, the Annual Business and Industry Environment Conference, the Diesel Vehicle Exhaust Treatment Technology and Motorcycle Emissions Workshop 1999, Clear the Air Forum, the Printer Cartridge Recycling Programme, Hong Kong's Coastal Heritage Campaign, Family Green Walk 99 and the Green Hong Kong Campaign.

COMMUNITY OUTREACH

Passenger Liaison

KMB organised six Passenger Liaison Group sessions in 1999 to collect passenger opinions and feedback on bus services. This proved effective in generating ideas to improve service quality. Participants were recruited throughout Hong Kong. University lecturers served as moderators, while representatives of the Transport Department acted as observers.

FRIENDS of KMB

FRIENDS of KMB, the company's passenger club, continues to promote the "Helping Others" spirit and the socially responsible character of the company by encouraging members to participate in various social service, community building and civic education activities.

During the year, FRIENDS of KMB was awarded the "Gold Award for Volunteer Service" by the Social Welfare Department. Also, 100 members were

selected as Environmental Protection Ambassadors to participate in environmental protection activities.

Mobile Service Centre

To facilitate direct communication with passengers, the KMB Mobile Service Centre, established in 1996, travels weekly to different districts to collect passengers' opinions on bus services. The Passenger Opinion Cabin, modified from a single-deck bus had served to receive a total of 720 customer suggestions during 1999 compared with 671 the year before.

Red Heart Bus

Beginning in July 1999, KMB and Commercial Radio collaborated to provide social services through KMB's Red Heart Bus that travels regularly to different districts to visit various charitable organisations or offer beneficial services to social organisations. The bus incorporates a special, multi-purpose interior design and can be used for a variety of purposes such as transporting programme participants or serving as an activity room or as a mobile exhibition centre.

Community Chest and Other Non-profit Organisations

KMB was awarded the President's Award for Excellence by the Community Chest in recognition of the company's efforts to raise over HK\$1 million in various fund-raising programmes for the year 1998/99. These included the Corporate and Employee Contribution Programme, Corporate Challenge, Community for the Chest, Dress Casual Day, Walk for Millions and the Christmas Greeting for the Chest Campaign.



Red Heart Bus helps charitable organisations

KMB also supported many other charitable bodies and community activities through sponsorships of various campaigns organised by the Government and charitable organisations, including the Hong Kong Awards for Industry, the Hong Kong Awards for Services, the Hong Kong Arts Festival and the Caritas Bazaars.

International Day of Disabled Persons

KMB and LWB offered free rides to disabled persons and their carers on 5 December 1999 in support of the International Day of Disabled Persons.

Bus Captain of the Year Award and Competition

The annual Bus Captain of the Year Competition is a festive event for both employees and the public. In addition to showcasing the skills of bus captains, there were a variety of exciting programmes, bus displays and game booths.

From among 7,900 bus captains, 40 competitors were selected according to their work performance, driving skills and knowledge of passenger safety and traffic regulations.

Provisional District Boards and Community Groups

To enhance communication with different sectors of the community, meetings were arranged with members of the Provisional District Boards and various local community groups to exchange views on bus services. KMB's representatives attended 50 Provisional District Board and user group meetings during the year.



KMB's Managing Director, Mr John Chan, presents prizes to the winners of Bus Captain of the Year Competition

The chairmen and members of all the 18 Provisional District Boards visited the company and met with top management. These visits proved to be effective in enhancing mutual understanding and fostering a closer working relationship.

A public survey conducted by the Democratic Alliance for the Betterment of Hong Kong in July on the performance of all public transport operators ranked KMB the highest among all bus service providers and indicated that the public was most satisfied with KMB's services.



Long Win Bus Company Limited ("LWB")

OPERATIONS

Routes

In 1999, LWB started with 14 routes and entered a year of consolidation and rationalisation of the bus network. The sluggish market environment for North Lantau and the Airport prevailed throughout the year and competition from both the rail and non-franchised bus operators was intense. LWB made the following improvements to the bus route network to improve its competitive edge:

- Three new services, comprising an Airbus service to North District, one shuttle route and an overnight route to Ma On Shan, were introduced during the year;
- Two Airport shuttle routes were cancelled under the rationalisation package designed to stream-

line the shuttle bus network within Chek Lap Kok. As a result, seven buses were made available for other routes.

At the end of 1999, LWB operated 15 bus routes with a fleet of 159 buses. Despite operating fewer buses than last year, the service area of LWB was extended to cover North District and Ma On Shan. Other markets such as Tseung Kwan O and New Territories West are being explored in response to perceived demand.

Despite the prevailing market conditions, LWB's network has proven to be an efficient and reliable means of public transport for the New Territories and North Lantau by virtue of its competitive edge in pricing and direct routing. With the Government's comprehensive development plans for Tung Chung New Town and North Lantau, LWB

is well placed to cater for future demand through its continued commitment to the provision of safe, efficient, comfortable and high quality transport.

Fleet

At the end of 1999, LWB had 149 air-conditioned double-deck buses and 10 air-conditioned single-deck buses serving Tung Chung and the Airport. All the double-deck buses are super-low floor buses with wheelchair access and many of the features recommended by the United Kingdom Disabled Persons Public Transport Advisory Committee (DPTAC), and they are all equipped with environmentally friendly Euro II engines. The Euro II engines comply with the European Union's exhaust emission standards.

Depot

The bus servicing site at Tung Chung Town Centre and the depot at Siu Ho Wan provide support services including refuelling, coin collection, bus washing, routine maintenance and parking for the fleet. A waste water treatment system is employed at Siu Ho Wan Depot to treat waste water before it is discharged into the public drainage system to ensure compliance with regulatory requirements.

Customer Service Centre

LWB's Customer Service Centre at the Arrivals Hall and the ticketing booth at the Ground Transportation Centre of the Airport Passenger Terminal Building provide passenger information, coin change and ticket sales services. In 1999, over 120,000 passenger enquiries and ticket sales were handled at these two outlets.

Promotion

To promote the convenient, door-to-door services of LWB's Airbus and strengthen customer awareness of the A-routes travelling directly to the Airport, an Airbus campaign was launched in August targeting the peak summer holiday travel season.

Apart from newspaper and magazine advertisements promoting the brand image of Airbus, the campaign also made use of bus terminal banners, bus body advertising, inside-bus stickers and bus pole signage. LWB's bus services on Routes A31, A41, A41P and A43 were promoted to residents in the service areas of Tsuen Wan, Kwai Chung, Shatin and the Northern New Territories through various advertising means.

CUSTOMER SERVICES

Octopus Card and Electronic Bus Stop Announcement System

LWB's entire fleet is equipped with the Octopus Smart Card system and the response from customers has been encouraging as reflected by the high usage rate of about 40%. A total of 25 double-deck air-conditioned buses are equipped with the electronic Bus Stop Announcement System with LED displays for operation on Routes A31 and A41.

PEOPLE

LWB's staff force totalled 409 at year end, compared with 405 in 1998, of which 361 and 48 are traffic operations staff and service support staff, respectively.

In upholding the Group's human resources policy of "Caring for People", LWB has trained, motivated and rewarded its staff to provide quality service to customers.



Non-Franchised Bus Services

LOCAL COACH AND SHUTTLE BUS SERVICES

Both Sun Bus Limited ("SB") and Chomang Travel Transport Company Limited ("CM") are business units in the Group's Non-Franchised Transport Operations Division. Whilst SB was newly established in 1997, CM was acquired in August 1999. Each company targets a different market segment that seeks different modes of operation especially with regard to bus type and driver requirements. In spite of their operational differences, they share management and administration overheads for maximum cost efficiency.

SB's services concentrate on private residential estates, shopping centres and prime employers. These services are of the highest quality and customised to the clients' specific requirements.

CM focuses on residential and tour services for the local general public who seek value for money.

Fleet

At the end of 1999, the total bus fleet size of SB and CM was 87. These buses are all air-conditioned single-deck buses with seating capacity ranging from 24 to 61. More than 95% of the fleet is equipped with Euro-standard engines that are environmentally friendly.

The Future

Upon the addition of CM, the overall monthly turnover averaged more than HK\$5 million, and the total staff force totalled 140.

Although facing keen competition in the market, our non-franchised transport business will continue to grow and realise better market penetration. Added value in terms of bus quality, staff efficiency and customer satisfaction will be the driving force during 2000.

CROSS-BOUNDARY SHUTTLE BUS SERVICE

A cross-boundary shuttle bus service between Lok Ma Chau and Huanggang has been jointly operated by the Group and a Shenzhen based bus company since 1997.

The popularity of this service was reflected by its impressive patronage growth. With only 10 air-conditioned single-deck buses allocated to this

route, the number of passengers carried monthly averaged about 350,000 during the year compared with 251,000 in 1998.

PRC OPERATIONS

Dalian HK Macau Motor Bus Services Limited is a co-operative joint venture between HK Macau Ltd, a 60% owned subsidiary of the Group, and Dalian City No.1 Bus Company. This joint venture company has been providing passenger transport services in Dalian, China since August 1997. At the end of 1999, it operated 3 routes with a fleet of 47 double-deck and 30 single-deck buses.



Cross-boundary shuttle bus service provides a convenient link between Lok Ma Chau and Huanggang

Financial Review

Results for the Year

The Group's profit attributable to shareholders for the year ended 31 December 1999 was HK\$738.6 million (1998 – HK\$585.5 million), representing an increase of 26.2% over the previous year. Earnings per share for the year amounted to HK\$1.83 (1998 – HK\$1.45). The profit was mainly derived from the operation of franchised buses which is the core business of the Group.

Dividends

The total dividend per share for the year was HK\$1.35 (1998 – HK\$1.15), an increase of 17.4% over 1998. This represents dividend cover of 1.36 times (1998 – 1.26 times).

Turnover

The Group's turnover for the year was HK\$5,871.2 million (1998 – HK\$5,510.4 million), comprising the following:

	1999 HK\$ million	1998 HK\$ million
Fare revenue from franchised bus services	5,762.4	5,447.6
Advertising revenue	50.8	45.6
Revenue from non-franchised bus services	58.0	17.2
Total Turnover	5,871.2	5,510.4

Cash Flow

In 1999, the net cash inflow from bus operations of the Group was HK\$1,499.6 million (1998 – HK\$1,410.6 million). Cash outflow in respect of the total dividend payments to the shareholders during the year amounted to HK\$468.2 million (1998 – HK\$440.0 million). Payment for capital investment and repayment of bank loans amounted to HK\$545.3 million (1998 – HK\$903.6 million) and HK\$889.4 million (1998 – HK\$445.3 million) respectively. The consolidated cash flow statement

of the Group for the year ended 31 December 1999 is set out on page 72 of this Annual Report.

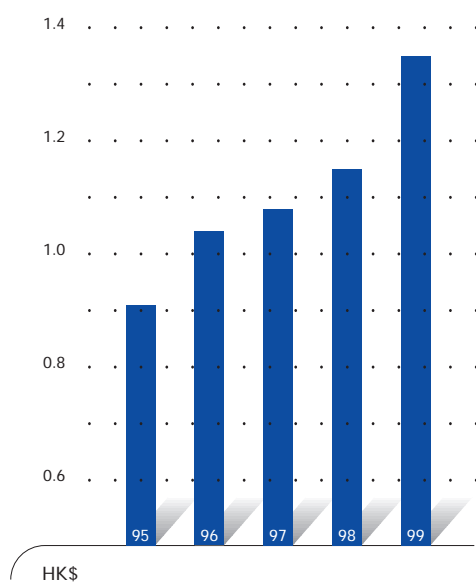
Liquidity and Financial Resources

At 31 December 1999, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$698.4 million (1998 – HK\$846.9 million), representing a decrease of HK\$148.5 million as compared with 1998. The net gearing ratio, representing the ratio of net borrowings to the total share capital and reserves of the Group, decreased from 0.46 in 1998 to 0.35 in 1999. The finance charge for the year amounted to HK\$147.6 million (1998 – HK\$147.6 million). At 31 December 1999, the Group's cash and deposits at banks amounted to HK\$1,783.3 million (1998 – HK\$1,286.3 million). At 31 December 1999, the Group had stand-by credit facilities totalling HK\$10.0 million (1998 – HK\$10.0 million). Bank loans and overdrafts at year end amounted to HK\$2,481.6 million (1998 – HK\$2,133.2 million). The maturity profile of the bank loans and overdrafts of the Group is set out in the note 17 on the accounts on page 86 of this Annual Report.

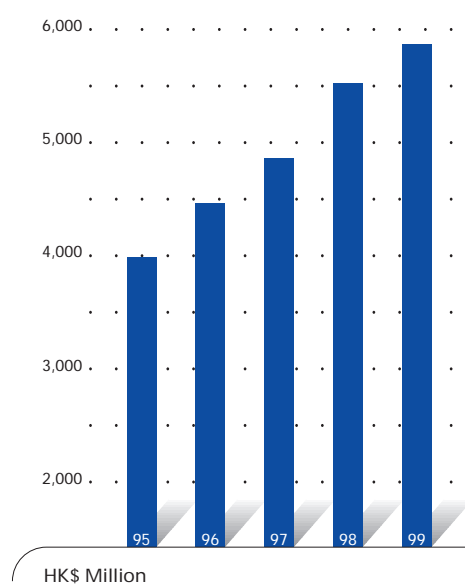
Taxation

The tax charge for the year was HK\$153.7 million, representing an effective tax rate of 17.2% of profits (1998 – 13.7%), after taking into account the share of the tax charge on the jointly controlled entity's profit. The tax payable will always be sensitive to the volume of new buses purchased and deferred taxation may need to be provided for when the number of buses to be purchased in the next few years are expected to be reduced. At 31 December 1999, the Directors considered that certain potential deferred tax liabilities might

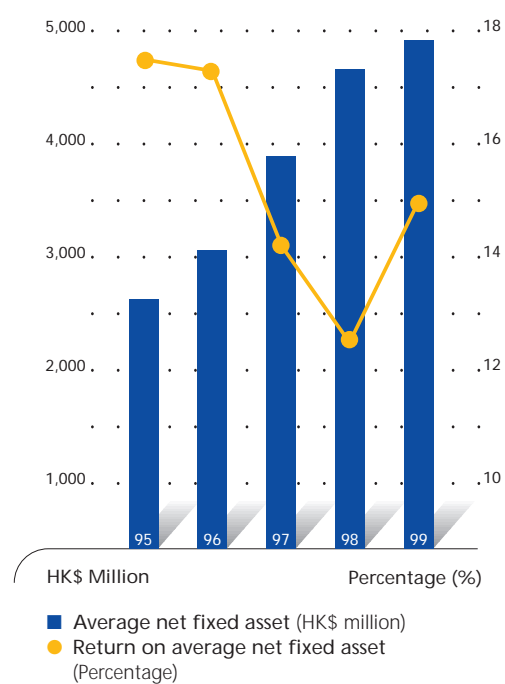
Dividends per share



Turnover

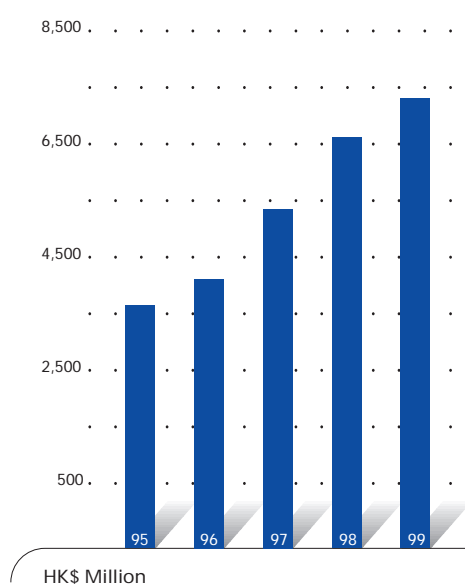


Return on average net fixed asset employed



Total assets

at 31 December



crystallise in the foreseeable future and a provision of HK\$35.0 million (1998 – HK\$Nil) has been made in the accounts accordingly. Major components of the deferred tax are set out in Note 20 of the accounts on pages 87 and 88 of the Annual Report.

Shareholders' Funds

Shareholders' funds increased from HK\$1,830.8 million at the end of 1998 to HK\$2,019.7 million by the end of the year, mainly as a result of the increase in retained profits. This represents HK\$5.00 per share (1998 – HK\$4.54).

Capital Expenditure and Capital Commitment

Capital expenditure incurred by the Group during the year amounted to HK\$613.8 million (1998 – HK\$895.5 million). The breakdown of the capital expenditure incurred is shown in Note 11 on the accounts on pages 81 and 82 of this Annual Report.

Capital commitments outstanding and not provided for in the accounts of the Group as at 31 December 1999 amounted to HK\$541.4 million (1998 – HK\$437.5 million). Of these, HK\$388.6 million (1998 – HK\$285.6 million) was for the purchase of buses and other motor vehicles, HK\$95.8 million (1998 – HK\$38.3 million) was for the construction of new depots, project management and the improvement of depot facilities and HK\$ 57.0 million (1998 – HK\$113.6 million) was for the purchase of other fixed assets. At 31 December 1999, the Group had 274 (1998 – 283) air-conditioned double-deck buses on order for delivery in 2000, of which 46 (1998 – 134) were in various stages of construction. The commitments are to be financed by bank loans and the working capital of the Group.

Financing Policies

KMB and LWB, the two major operating companies of the Group, arrange their own financing to meet specific requirements. Financing for the other subsidiaries of the Group is mainly provided by their ultimate holding company from its capital base. Small stand-by credit facilities and overdrafts are maintained to facilitate routine treasury operations.

At 31 December 1999, the majority of the Group's borrowings were on a Hong Kong dollar floating rate basis. As fare revenue from the franchised bus operations denominated in Hong Kong dollars is the Group's major revenue source, financing in Hong Kong dollars provides a good match. As local interest rates were generally on a downward trend during 1999, no arrangement for hedging the Group's financing obligations on floating rates was made. However, it is the Group's policy to review its interest rate hedging strategy in the light of prevailing market conditions from time to time.

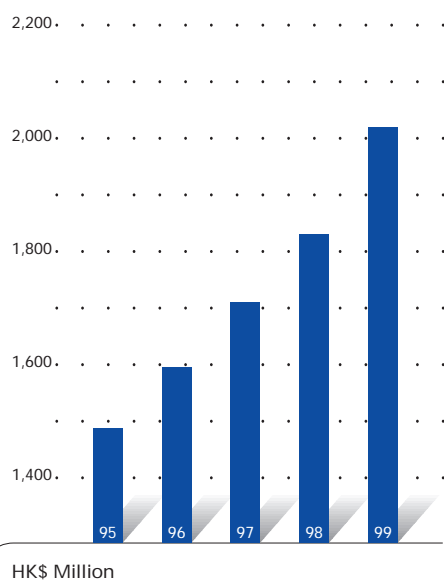
Accounting Policies

The presentation of the accounts has complied with the following new or revised accounting standards issued by the Hong Kong Society of Accountants:

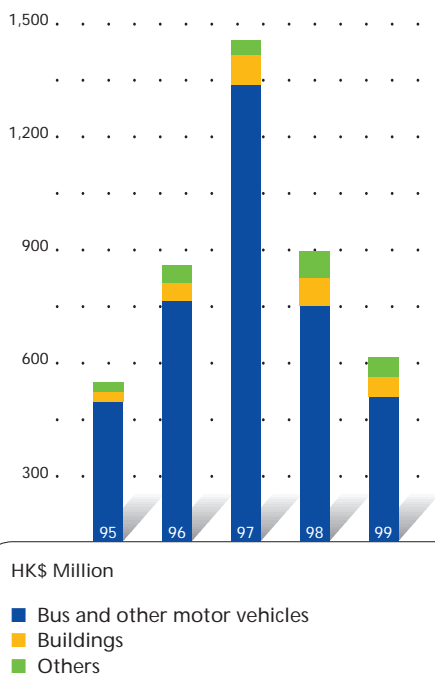
- SSAP 1 (revised) – Presentation of financial statements;
- SSAP 2 (revised) – Net profit or loss for the period, fundamental errors and changes in accounting policies;
- SSAP 10 (revised) – Accounting for Investments in Associates;
- SSAP 24 – Accounting for investments in securities.

Shareholders' funds

at 31 December

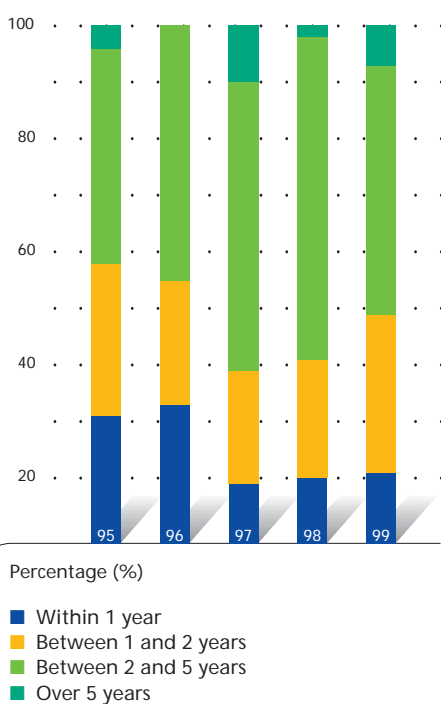


Capital expenditure

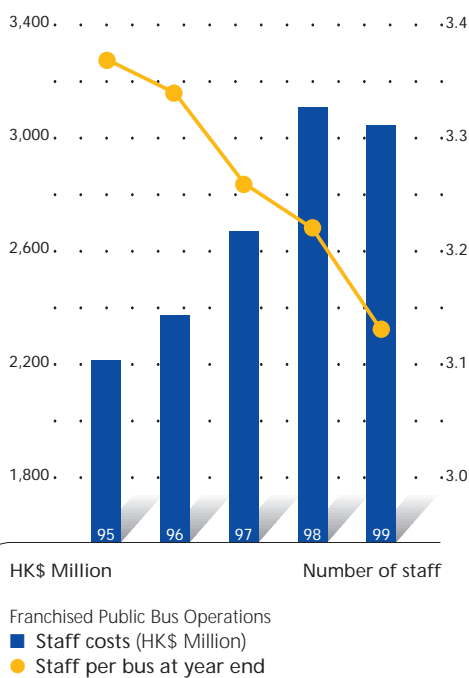


Debt maturity profile

at 31 December



Staff cost and staff per bus



Performance of Individual Business Units

The Kowloon Motor Bus Company (1933) Limited ("KMB")			
	Units	1999	1998
Total revenue	HK\$ Million	5,754.6	5,466.4
Total operating and finance costs	HK\$ Million	(4,862.5)	(4,778.4)
Profit from franchised bus operations before taxation	HK\$ Million	892.1	688.0
Taxation	HK\$ Million	(149.1)	(89.6)
Profit from franchised bus operations after taxation	HK\$ Million	743.0	598.4
Profit Margin		12.9%	10.9%
Patronage	Million passenger trips	1,060.0	1,034.4
Kilometres travelled	Million Km	315.4	302.5
Staff number at year end		12,866	12,956
Fleet size at year end	Number of buses	4,078	3,989

Results

The profit from the franchised bus operations of KMB for the year amounted to HK\$743.0 million (1998 – HK\$598.4 million), representing an increase of 24.2% over the previous year.

KMB recorded 1,060.0 million passenger trips during the year (1998 – 1,034.4 million). The daily average number of passenger trips in 1999 was 2.90 million (1998 – 2.83 million). This represents an increase of 2.5% in the number of passenger trips as compared with the previous year. The actual distance travelled by KMB's buses totalled 315.4 million kilometres during 1999 (1998 – 302.5 million kilometres). The increase was primarily due to the launch of new routes and improved frequencies on certain routes.

Revenue and operating costs related to KMB's franchised bus operations increased by 5.3% and 3.0% respectively, as compared with the previous year. The increase in revenue was mainly due to the increase in passenger volume, the introduction of more air-conditioned buses and new routes. The increase in operating costs was mainly due to the increased level of bus services and additional costs incurred for enhancement of the quality of service.

KMB's advertising revenue amounted to HK\$48.1 million in 1999, an increase of 8.7% over the previous year. The increase was achieved by turning bus bodies into a cost-effective advertising medium and developing a number of innovative advertising formats to capture a wider clientele base.

Depots

As part of the Group's reorganisation scheme started in late 1997, the property at No. 1 Po Lun Street, Kowloon (New Kowloon Marine Lot No. 3) was transferred from KMB to its wholly owned subsidiary, Lai Chi Kok Properties Investment Limited, for a consideration of HK\$5,500 million in May 1999. The capital gain arising from the transaction was eliminated on consolidation, thus the transfer had no effect on the Group's consolidated results.

The above-mentioned property, which has been used by the Group for bus depot operation, was stated at the net book value of HK\$53.4 million in the Group's consolidated accounts for the year ended 31 December 1999 (1998 – HK\$58.2 million).

Long Win Bus Company Limited ("LWB")

	Units	1999	1998
Total revenue	HK\$ Million	195.0	141.9
Total operating and finance costs	HK\$ Million	(233.7)	(169.0)
Loss from franchised bus operations before taxation	HK\$ Million	(38.7)	(27.1)
Taxation	HK\$ Million	–	–
Loss from franchised bus operations after taxation	HK\$ Million	(38.7)	(27.1)
Patronage	Million passenger trips	16.9	14.4
Kilometres travelled	Million Km	23.3	15.0
Staff number at year end		409	405
Fleet size at year end	Number of buses	159	163

Results

The total ridership of LWB for the year under review was 16.9 million (1998 – 14.4 million) passenger trips or a daily average of 46,300 (1998 – 39,500).

This represents an increase of 17.2% over the previous year. The increase was primarily due to the full year operation of the network. Total mileage operated for the year was 23.3 million (1998 – 15.0 million) kilometres.

LWB recorded a loss of HK\$38.7 million in 1999 (1998 – a loss of HK\$27.1 million). Capital expenditure incurred by LWB during 1999 amounted to HK\$11.0 million (1998 – HK\$187.0 million).

The advertising revenue of LWB for 1999 amounted to HK\$2.4 million, an increase of 81.8% over the previous year. Such increase was mainly due to the long-term clients using LWB's bus bodies as an advertising medium to target air travellers.

of SB and the acquisition of a non-franchised local bus company, CM, in August 1999 which brought about higher economies of scale and an increased customer base.

In 1999, the turnover attributable to the Group by SB and CM amounted to HK\$46.5 million (1998 – HK\$16.1 million).

At year end, these two companies owned 87 buses, which had a total net asset value of HK\$34.8 million, as the major asset. During the year, a total of 37 buses (including the 23 acquired with CM) were purchased, of which 26 are full sized air-conditioned coaches while the rest are air-conditioned midi-buses.

Non-Franchised Bus Service

Sun Bus Limited ("SB") Chomang Travel Transport Company Limited ("CM")

The Non-Franchised Transport Operations Division of the Group became profitable in 1999. This is an encouraging improvement when compared with the small loss made in 1998. The improved results were mainly attributable to the further expansion

Associate and Jointly Controlled Entity

At 31 December 1999, the Group's total interest in associate and jointly controlled entity amounted to HK\$8.2 million (1998 – HK\$11.9 million). The investments were in respect of the operation of a cross-boundary bus transport service between Lok Ma Chau and Huanggang and three bus routes in Dailian, China, both of which started operations in 1997. Positive contributions from these bus operations to the Group were satisfactory in terms of the amounts of investment, and steady although insignificant during the year.

Financial Summary

for the year ended 31 December

	1999 HK\$m	1998 HK\$m	1997 HK\$m
Profit and loss account			
Turnover	5,871	5,510	4,863
Profit before exceptional item	893	679	555
Exceptional item	—	—	—
Profit from ordinary activities before taxation	893	679	555
Taxation	154	93	4
Profit from ordinary activities after taxation	739	586	551
Transfer from/(to) development fund	—	—	—
Profit attributable to shareholders	739	586	551
Balance sheet			
Fixed assets	4,952	4,882	4,441
Interest in subsidiaries	—	—	—
Interest in associate	(5)	(5)	(2)
Interest in jointly controlled entity	13	17	20
Net current assets/(liabilities)	449	19	(487)
Employment of funds	5,409	4,913	3,972
Financed by:			
Share capital	404	404	404
Reserves	1,616	1,427	1,306
Shareholders' funds	2,020	1,831	1,710
Contingency provision — insurance	305	299	273
Development fund	—	—	—
Minority interests	6	6	6
Long term bank loans	1,961	1,694	1,116
Other liabilities	1,117	1,083	867
Funds employed	5,409	4,913	3,972
Earnings per share	\$ 1.83	\$ 1.45	\$ 1.36
Dividends per share	\$ 1.35	\$ 1.15	\$ 1.08
Special cash bonuses per share	—	—	—

1996 HK\$m	1995 HK\$m	1994 HK\$m	1993 HK\$m	1992 HK\$m	1991 HK\$m	1990 HK\$m
<u>4,451</u>	<u>3,973</u>	<u>3,500</u>	<u>2,998</u>	<u>2,775</u>	<u>2,579</u>	<u>2,184</u>
588	540	490	384	389	372	301
<u>—</u>	<u>—</u>	<u>1,711</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
588	540	2,201	384	389	372	301
<u>62</u>	<u>77</u>	<u>84</u>	<u>62</u>	<u>60</u>	<u>43</u>	<u>34</u>
526	463	2,117	322	329	329	267
<u>2</u>	<u>(2)</u>	<u>—</u>	<u>30</u>	<u>1</u>	<u>(31)</u>	<u>—</u>
<u>528</u>	<u>461</u>	<u>2,117</u>	<u>352</u>	<u>330</u>	<u>298</u>	<u>267</u>
3,342	2,777	2,479	2,241	2,049	1,903	1,702
—	24	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
<u>(383)</u>	<u>(239)</u>	<u>(206)</u>	<u>(317)</u>	<u>(243)</u>	<u>(303)</u>	<u>(386)</u>
<u>2,959</u>	<u>2,562</u>	<u>2,273</u>	<u>1,924</u>	<u>1,806</u>	<u>1,600</u>	<u>1,316</u>
404	404	404	404	404	404	404
<u>1,191</u>	<u>1,083</u>	<u>989</u>	<u>733</u>	<u>656</u>	<u>584</u>	<u>519</u>
1,595	1,487	1,393	1,137	1,060	988	923
288	175	175	146	140	128	108
—	2	—	—	30	31	—
—	—	—	—	—	—	—
346	303	229	358	370	316	220
<u>730</u>	<u>595</u>	<u>476</u>	<u>283</u>	<u>206</u>	<u>137</u>	<u>65</u>
<u>2,959</u>	<u>2,562</u>	<u>2,273</u>	<u>1,924</u>	<u>1,806</u>	<u>1,600</u>	<u>1,316</u>
<u>\$ 1.31</u>	<u>\$ 1.14</u>	<u>\$ 5.24</u>	<u>\$ 0.87</u>	<u>\$ 0.82</u>	<u>\$ 0.74</u>	<u>\$ 0.66</u>
<u>\$ 1.04</u>	<u>\$ 0.91</u>	<u>\$ 0.80</u>	<u>\$ 0.68</u>	<u>\$ 0.64</u>	<u>\$ 0.58</u>	<u>\$ 0.52</u>
<u>—</u>	<u>—</u>	<u>\$ 3.81</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Profiles of Directors and Senior Executives



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

Aged 82, Chairman and Non-Executive Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 12 August 1999. He is also Director of Cable & Wireless HKT Limited, CLP Holdings Limited and Wheelock & Company Limited; and Pro-Chancellor of the Hong Kong University of Science & Technology. He has contributed significantly in Hong Kong's political, industrial 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 and Hong Kong University of Science & Technology in 1991. 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 (1994-97).



Raymond KWOK Ping Luen
MA, MBA

Deputy Chairman, aged 46. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 September 1981 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Vice Chairman and Managing Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Securities (Disclosure of Interests) Ordinance. Chairman and Chief Executive Officer of SUNeVision Holdings Limited. Also Chairman of SmarTone Telecommunications Holdings Limited and a Director of Route 3 (CPS) Company Limited, Airport Freight Forwarding Centre Company Limited, Information Technology Entrepreneurs Association Limited and Versitech Limited; a member of the Advisory Board of Beijing Technology Development Fund and Senior Advisor to Dynafund II. With respect to his civic activities, he is a Non-Executive Director of the Securities and Futures Commission; a member of the Hong Kong Port and Maritime Board; Vice-Chairman of the Council of Chinese University of Hong Kong and a Council Member of the University of Hong Kong; and Chairman of the Management Committees of the Police Children's Education Trust and the Police Education and Welfare Trust. Mr Kwok is also a member of the Ninth Chinese People's Political Consultative Conference Beijing Committee. Brother of Mr Walter Kwok Ping Sheung who is a Director of the Company.



Dr the Hon WOO Pak Chuen*
JP, LLD(Hon), LLB, PhD

Director, aged 90. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 26 May 1969 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Solicitor and Notary Public, Messrs P C Woo & Co, Solicitors. Also Chairman of Hong Kong Yakult Co Limited and Director of Liu Chong Hing Investment Limited. Former Member of the Hong Kong Legislative Council (1964-73) and Executive Council (1972-76) (Permitted by Her Majesty the Queen to retain the title "Honourable" after leaving the Executive Council). Life Member of the Court of the University of Hong Kong and of the Council of the Chinese University of Hong Kong. Father of Miss Lana Woo who holds the position of Company Secretary in the Company.



YU Shu Chuen

Honorary Executive Director, aged 87. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 September 1961 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Vice Chairman of Kowloon Development Co Limited, a substantial shareholder of the Company as defined in the Securities (Disclosure of Interests) Ordinance. Also Director of several private property investment companies. Adviser to the Hong Kong Taishan Chamber of Commerce. Active in community services. 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 The Kowloon Motor Bus Company (1933) Limited for over 50 years before his retirement in 1984 as Personnel Manager.



Walter KWOK Ping Sheung
JP, MSc(Lond), DIC, MICE

Director, aged 49. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 15 November 1990 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Chairman and Chief Executive of Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Securities (Disclosure of Interests) Ordinance. Director of SUNeVision Holdings Limited, Wilson Parking (HK) Limited and Hung Cheong Import & Export Co Limited. Director of the Real Estate Developers Association of Hong Kong, Honorary Treasurer of the Federation of Hong Kong Hotel Owners, a member of the National Committee of the Chinese People's Political Consultative Conference, a Vice Chairman of the All-China Federation of Industry and Commerce. Chairman of the Former Directors Committee of the Community Chest of Hong Kong, a Board Member of the Lord Wilson Heritage Trust, Founding Court Member of The Hong Kong Polytechnic University and Founding Member of the Court of the Hong Kong University of Science & Technology. Brother of Mr Raymond Kwok Ping Luen who is Deputy Chairman of the Company.



NG Siu Chan

Director, aged 69. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 3 March 1983 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Chairman and Managing Director of Kowloon Development Company Limited, a substantial shareholder of the Company as defined in the Securities (Disclosure of Interests) Ordinance. Also Director of Century City International Holdings Limited, Paliburg Holdings Limited, Wing Lung Bank Limited, Manor House Holdings Limited, Golden Princess Amusement Company Limited and Cinema City Company Limited. Father of Miss Winnie Ng who is a Director of the Company and Commercial Director of The Kowloon Motor Bus Company (1933) Limited.



William LOUEY Lai Kuen
BSc(Econ)

Director, aged 40. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 14 January 1993 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Director and Assistant Managing Director of Kowloon Development Company Limited, a substantial shareholder of the Company as defined in the Securities (Disclosure of Interests) Ordinance. 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.



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

Managing Director, aged 57. Appointed 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. Managing Director of The Kowloon Motor Bus Holdings Limited since 4 September 1997. Also Director of Hang Seng Bank Limited, Amway Asia Pacific Limited, AXA General Insurance Hong Kong Limited and Guangdong Investment Limited. Former 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. Steward of the Hong Kong Jockey Club, Director of Hong Kong Exchanges and Clearing Limited and Second Vice President and Campaign Committee Chairman of the Community Chest and member of the Council of the University of Hong Kong.



Charles LUI Chung Yuen
BEC, AASA, FCIT

Director, aged 65. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively. Director of The Kowloon Motor Bus Holdings Limited since 4 September 1997. Joined The Kowloon Motor Bus Company (1933) Limited 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.



Winnie J NG

BA, MBA(Chicago)

Director, aged 36. Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 12 October 1995 and 8 May 1997 respectively. Director of The Kowloon Motor Bus Holdings Limited ("the Company") since 4 September 1997. Joined The Kowloon Motor Bus Company (1933) Limited in 1990 and appointed Commercial Director in 1999. Active in community services, she is Council Member of Agency for Volunteer Service, Public Relations Committee Member of The Community Chest, Member of Zonta Club of Hong Kong East, and also President of Little Chair Foundation. Daughter of Mr Ng Siu Chan who is a Director of the Company.



Dr James KUNG Ziang Mien*

OBE

Director, aged 69. 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. Financing and banking industry executive. Chairman and Chief Manager of Chekiang First Bank Limited. Graduated from the Soochow University Law School LLB 1950. Conferred by The Chinese University of Hong Kong, Doctor of Law, LL.D (honoris causa) in 1990. DBA, Doctor of Business Administration (honoris causa) by Hong Kong Polytechnic in 1991. Doctor of Laws honoris causa conferred by the University of Hong Kong in 2000. 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 dans l'Ordre National de la Légion d'Honneur of France in 1996 and Commander in the Order of Leopold II of Belgium in 1997. Dr Kung is Chairman of Chekiang First Bank (Luxembourg) SA, Member of Banque Générale du Luxembourg SA Board of International Advisor and Vice Chairman of Bank Consortium Holding Ltd. He is also Chairman of the Hong Kong Digestive Foundation, Chairman of the Finance Committee of the Hong Kong Liver Foundation, Member of the Exchange Fund Advisory Committee and the Land Fund Advisory Committee.



George CHIEN Yuan Hwei

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

Director, aged 62. 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. Alternate Director to Mr Walter Kwok Ping Sheung during the period 8 June 1995 to 13 October 1998 inclusive. Appointed Chairman of the Audit Committee of the Company on 11 February 1999. Holder of "Transportation Advisor" post in the Sun Hung Kai Properties Limited, a substantial shareholder of the Company as defined in the Securities (Disclosure of Interests) Ordinance. 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.



The Hon Eric Li Ka Cheung *

JP, BA(Econ) Hon, FHKSA, FCA, FCIS, OBE

Director, aged 46. Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. 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, SIIC Medical Science & Technology (Group) Limited and Hang Seng Bank Limited. Mr Li is a member of the Legislative Council of the Hong Kong Special Administrative Region and serves as Chairman of its Public Accounts Committee and Vice-Chairman of its Panel of Financial Affairs. He was also a past president of the Hong Kong Society of Accountants.



Norman LEUNG Nai Pang

OBE, JP, BA

Director, aged 59. Appointed as Director of The Kowloon Motor Bus Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited on 18 March 2000. Chairman of Silver Systems Limited, Chairman of Hong Kong Business Aviation Centre Limited and Deputy Chairman of Airport Freight Forwarding Centre Company Limited. As for public service, he is the Chairman of the Broadcasting Authority, Chairman of the Council of City University of Hong Kong, Commissioner of Civil Aid Service, Member of the Electoral Affairs Commission and Member of the Disaster Relief Fund Advisory Committee. As regards charities, he is the Deputy Chairman of The Save the Children Fund (Hong Kong) and a Council Member of The Hong Kong Digestive Foundation.

(*Independent Non-Executive Director)

Senior Executives

	Position Held in the Group	Age	Year Joined the Group	Number of Years of Working Experience
The Kowloon Motor Bus Holdings Limited				
John C C CHAN, GBS, JP, DBA(Hon), BA, DipMS, MIMgt, FCIT, FHKIoD	Managing Director	57	1993	35
* Lana WOO, BA, AAT, CGA, ACIS, MIFC, CFC	Alternate Director & Company Secretary	40	1984	17
The Kowloon Motor Bus Company (1933) Limited				
John C C CHAN, GBS, JP, DBA(Hon), BA, DipMS, MIMgt, FCIT, FHKIoD	Managing Director	57	1993	35
LUI Po Chiu, MCIT	Operations Director	57	1970	30
** Winnie J NG, BA, MBA(Chicago)	Commercial Director	36	1990	14
Edmond T M HO, MA(Cantab), MBA, MCIT	Finance & Administration Director	38	1998	16
TSANG Lap Chung	Treasury Manager	56	1968	36
Queenie L M YAU, BBA	Office Administration Manager	48	1972	28
Tommy H T LEUNG, BSc, DMS	Information Technology Manager	43	1979	20
Lisa L M NG, BA	Purchasing Manager	44	1979	20
LEUNG Kin Wang, BSc, MIMechE, CEng	Service Manager	42	1980	20
SHUM Yuet Hung, BSc(Eng), MSc(Eng), MBA, MIRTE, MIMechE, CEng, MHKIE, ACGI	Engineering Manager	44	1981	20
Alice LUK, BBA, AAIL, MCI Arb	Insurance Manager	41	1981	19
* Lana WOO, BA, AAT, CGA, ACIS, MIFC, CFC	Alternate Director & Company Secretary	40	1984	17
Doris K K LAU, FCCA, AHKSA	Financial Planning & Costing Manager	42	1985	22
Peter S H MACK, MBA, MSc(Finance), LLB(Peking), FCCA, AHKSA, ACIS	Accounting Manager	44	1986	21
Thomas M L LEUNG, BSc(Hons), FCCA, AHKSA, CGA	Internal Audit Manager	43	1987	20
James C LOUEY, BSc	Human Resources Manager	34	1990	14
Mark LEUNG, BBA, MIM, MCIT	Planning & Development Manager	48	1992	24
Tim IP, BSocSc, MSc, DIC, MCIT	Traffic Manager	46	1994	21
Peter C K MAK	Quality Manager	59	1994	40
Thomas T M TONG, MSc, CEng, MStructE, MHKIE, RPE, AP, RSE	Internal Services Manager	36	1997	12
NG Lai Fan, Nancy, BBA, MBA	Marketing & Sales Manager	43	1998	21
LUI Yuk Fan	General Manager (Lai Chi Kok Depot)	55	1979	30
WAN Kin Tim, BSc	General Manager (Kowloon Bay Depot)	46	1981	23
HO Chi Man	General Manager (Shatin Depot)	43	1981	18
WOO Kin Keung	General Manager (Tuen Mun Depot)	47	1974	26
Long Win Bus Company Limited				
John C C CHAN, GBS, JP, DBA(Hon), BA, DipMS, MIMgt, FCIT, FHKIoD	Managing Director	57	1993	35
Kenrick FOK, MCIT	General Manager	36	1988	14
* Lana WOO, BA, AAT, CGA, ACIS, MIFC, CFC	Alternate Director & Company Secretary	40	1984	17
Sun Bus Limited				
Chomang Travel Transport Company Limited				
Simon TU, MCIT	General Manager	39	1997	17

* Miss Lana WOO is the daughter of Dr the Hon WOO Pak Chuen, who is a Director of the Company.

** Miss Winnie J NG is the daughter of Mr NG Siu Chan, who is a Director of the Company.

Report of the Directors

The Directors have pleasure in submitting their Annual Report together with the audited accounts for the year ended 31 December 1999.

Principal activities

The principal activity of the Company is investment holding and the principal activities of the subsidiaries are the operation of both franchised and non-franchised public buses in Hong Kong. Particulars of the Company's subsidiaries are set out in note 12 on the accounts.

The Group's turnover and profit are almost entirely attributable to bus operations. Accordingly, no analysis by activity is provided. Turnover and contribution to the Group's profit from non-Hong Kong activities are insignificant.

Accounts

The profit of the Group for the year ended 31 December 1999 and the state of the Company's and the Group's affairs as at that date are set out in the accounts on pages 67 to 92 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 48 to 53 of this Annual Report.

Dividends

An interim dividend of 28 cents per share was paid to the shareholders on 5 October 1999. The Directors now recommend that a final dividend of HK\$1.07 per share in respect of the year ended 31 December 1999 be paid to the shareholders on 16 June 2000.

Charitable donations

Donations made by the Group during the year amounted to HK\$1,943,000 (1998: HK\$2,955,000).

Fixed assets

During the year, major additions of the Group were buses under construction with a total cost of HK\$424,386,000 (1998: HK\$728,259,000). During the year, buses under construction with a total cost of HK\$559,747,000 (1998: HK\$1,097,806,000) were licensed and transferred to buses.

Details of other movements in fixed assets during the year are set out in note 11 on the accounts.

Directors

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

The Hon Sir Sze-yuen CHUNG, GBM, GBE, PhD, FEng, JP*	(Chairman, appointed on 12 August 1999)
Raymond KWOK Ping Luen	(Deputy Chairman)
Dr the Hon WOO Pak Chuen, JP*	
YU Shu Chuen	
Walter KWOK Ping Sheung, JP	
NG Siu Chan	
William LOUEY Lai Kuen	
John CHAN Cho Chak, GBS, JP	(Managing Director)
Charles LUI Chung Yuen	
Winnie J NG	
Dr James KUNG Ziang Mien, OBE*	
George CHIEN Yuan Hwei	

Directors (continued)

The Hon Eric LI Ka Cheung, OBE, JP *

Norman LEUNG Nai Pang, OBE, JP (appointed on 18 March 2000)

TSIM Tak Po (Alternate Director to Mr Raymond KWOK Ping Luen)

Lana WOO (Alternate Director to Dr the Hon WOO Pak Chuen, JP)

Patrick CHAN Kai Lung (Alternate Director to Mr Walter KWOK Ping Sheung, JP)

(* Independent Non-Executive Director)

In accordance with Bye-Law 87, Messrs Raymond KWOK Ping Luen, Dr the Hon WOO Pak Chuen and Charles LUI Chung Yuen and Miss Winnie J NG retire from the Board by rotation and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 56 to 60 of this Annual Report.

Directors' interests in shares

At 31 December 1999, the Directors had the following interests in the issued share capital of the Company as recorded in the register of Directors' interests in shares:

	Shares of HK\$1 each			
	Personal interests	Family interests	Corporate interests	Other interests
The Hon Sir Sze-yuen CHUNG, GBM, GBE, PhD, FREng, JP.	18,821	–	–	–
Raymond KWOK Ping Luen	393,350	–	–	–
Dr the Hon WOO Pak Chuen, JP.	210,047	–	–	–
YU Shu Chuen.	2,943	70,803	–	5,768,281 (Note 1)
Walter KWOK Ping Sheung, JP.	61,522	–	–	–
NG Siu Chan.	–	11,196,877	–	–
William LOUEY Lai Kuen	1,058,465	–	–	–
John CHAN Cho Chak, GBS, JP.	2,000	–	–	–
Charles LUI Chung Yuen.	1,091,404	–	–	1,299,965 (Note 2)
Winnie J NG	25,200	–	–	11,196,877 (Note 3)
Dr James KUNG Ziang Mien, OBE	–	–	–	–
George CHIEN Yuan Hwei	2,000	–	–	–
The Hon Eric LI Ka Cheung, OBE, JP.	–	–	–	–
TSIM Tak Po (Alternate Director to Mr Raymond KWOK Ping Luen).	10,000	–	–	–
Lana WOO (Alternate Director to Dr the Hon WOO Pak Chuen, JP).	9,475	–	–	–
Patrick CHAN Kai Lung (Alternate Director to Mr Walter KWOK Ping Sheung, JP)	–	–	–	–

Notes:

- 1 HSBC International Trustee Ltd held 5,768,281 shares in the Company as trustee of a discretionary trust. Mr YU Shu Chuen is deemed to have interest in the discretionary trust.
- 2 Mr Charles LUI Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 1,299,965 shares in the Company.
- 3 Miss Winnie J NG has interest in certain private trusts which beneficially held 11,196,877 shares in the Company.

As at 31 December 1999, none of the Directors had any non-beneficial interest in the share capital of the Company.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors (continued)

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

No 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 interests in the share capital of the Company

The Company has been notified of the following interests in the Company's issued shares at 31 December 1999 amounting to 10% or more of the shares in issue:

	Shares held	Percentage of total issued shares
Sun Hung Kai Properties Limited · · · · ·	134,683,173	33.37%
Arklake Limited · · · · ·	66,888,352	16.57%
Kowloon Development Company Limited · · · · ·	48,064,720	11.91%

The register of substantial shareholders indicates that the interest disclosed by Sun Hung Kai Properties Limited includes the 66,888,352 shares disclosed by Arklake Limited.

Purchase, sale or redemption of the Company's shares

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's own shares.

Senior management profiles

Brief biographical details of the members of senior management of the Company are set out on page 61 of this Annual Report.

Staff retirement schemes

The Group operates two separate non-contributory defined benefit retirement schemes, namely "The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme" and "The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme" for its monthly-rated and daily-rated employees respectively. The assets of these schemes are held separately from those of the Group. Both schemes are formally established under trust and are registered under the Occupational Retirement Schemes Ordinance. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the retirement schemes at regular intervals, usually triennially, and are charged to the profit and loss account.

The most recent actuarial valuations of the two schemes were at 31 December 1997 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:

The KMB Monthly Rated Employees Provident Fund 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. Other major The

KMB Monthly Rated Employees Provident Fund Schem (continued)

assumptions used in the valuation were: Investment Return and Salary Escalation at 8% per annum; Mortality Rates 1991 Hong Kong Life Tables; Normal Retirement Age 65; and Service Related Withdrawal Rates.

- iii) The market value of the scheme assets at 31 December 1997 was HK\$602.8 million.
- iv) The minimum level of funding as recommended by the actuary was 11% of pay.
- v) The ongoing funding surplus in the scheme was HK\$105.2 million and the solvency basis funding surplus was HK\$168.6 million at 31 December 1997.

The KMB Daily Rated Employees Retirement Fund 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. Other major assumptions used in the valuation were: Investment Return and Salary Escalation at 8% per annum; Mortality Rates 1991 Hong Kong Life Tables; Normal Retirement Age 60; and Service Related Withdrawal Rates.
- iii) The market value of the scheme assets at 31 December 1997 was HK\$1,401.5 million.
- iv) The minimum level of funding as recommended by the actuary was 7.2% of pay.
- v) The ongoing funding surplus in the scheme was HK\$108.3 million and the solvency basis funding surplus was HK\$455.3 million at 31 December 1997.

Bank loans and overdrafts

Particulars of bank loans and overdrafts of the Company and the Group as at 31 December 1999 are set out in note 17 on the accounts.

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 54 and 55 of this Annual Report.

Compliance with the Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules, except that the Independent Non-Executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Bye-Laws of the Company.

Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

S. Y. CHUNG

Chairman

Hong Kong, 13 April 2000



Auditors' report to the shareholders of The Kowloon Motor Bus Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 67 to 92 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 accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 December 1999 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, 13 April 2000

Consolidated profit and loss account

For the year ended 31 December 1999

	Note	1999 HK\$'000	1998 HK\$'000
Turnover	2	5,871,202	5,510,365
Other revenue	3	140,599	79,023
Other net income	3	3,945	10,530
Staff costs		(3,049,001)	(3,107,698)
Depreciation		(531,855)	(452,259)
Spare parts and stores consumed		(625,510)	(587,858)
Other operating expenses		(769,499)	(625,810)
Profit from operations		1,039,881	826,293
Finance cost	4	(147,640)	(147,612)
Share of profit of associate		—	—
Share of profit/(loss) of jointly controlled entity		293	(52)
Profit from ordinary activities before taxation	4	892,534	678,629
Taxation	5(a)	(153,656)	(92,754)
Profit from ordinary activities after taxation		738,878	585,875
Minority interests		(272)	(425)
Profit attributable to shareholders	8 & 22	738,606	585,450
Dividends	9	(544,913)	(464,186)
Retained profit for the year		193,693	121,264
Earnings per share	10	\$1.83	\$1.45
Profit for the year is retained as follows:			
By the Company and its subsidiaries		193,488	121,316
By associate		—	—
By jointly controlled entity		205	(52)
		193,693	121,264

The notes on pages 73 to 92 form part of these accounts.

Consolidated statement of recognised gains and losses

For the year ended 31 December 1999

	1999 HK\$'000	1998 HK\$'000
Net profit for the year	738,606	585,450
Movement of goodwill taken directly to reserves	(4,790)	—
	<u>733,816</u>	<u>585,450</u>

The notes on pages 73 to 92 form part of these accounts.

Consolidated balance sheet

At 31 December 1999

	Note	1999 HK\$'000	1998 HK\$'000
Non-current assets			
Fixed assets	11	4,952,372	4,881,720
Interest in associate	13	(4,862)	(4,948)
Interest in jointly controlled entity	14	13,015	16,834
		<u>4,960,525</u>	<u>4,893,606</u>
Current assets			
Current investment	15	100,880	—
Spare parts and stores		223,520	242,939
Accounts receivable		128,413	86,746
Deposits and prepayments		25,387	20,096
Deposits with banks and other financial institutions		254,000	30,000
Cash and cash equivalents	16	1,529,269	1,256,310
		<u>2,261,469</u>	<u>1,636,091</u>
Current liabilities			
Accounts payable		618,087	563,330
Insurance claims payable		216,193	172,092
Current portion of interest-bearing bank loans and overdrafts	17	520,883	439,081
Taxation	5(b)	25,730	86,851
Proposed final dividend	9	431,894	355,203
		<u>1,812,787</u>	<u>1,616,557</u>
Net current assets		<u>448,682</u>	<u>19,534</u>
Total assets less current liabilities		<u>5,409,207</u>	<u>4,913,140</u>

Consolidated balance sheet (continued)

At 31 December 1999

	Note	1999 HK\$'000	1998 HK\$'000
Non-current liabilities			
Interest-bearing bank loans	17	1,960,752	1,694,159
Contingency provision - insurance	18	304,787	299,098
Staff retirement fund	19	1,082,600	1,082,600
Deferred taxation	20	35,000	—
		3,383,139	3,075,857
Minority interests		6,374	6,492
		3,389,513	3,082,349
NET ASSETS		2,019,694	1,830,791
CAPITAL AND RESERVES			
Share capital	21	403,639	403,639
Reserves	22	1,616,055	1,427,152
		2,019,694	1,830,791

Approved by the Board of Directors on 13 April 2000

S. Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 73 to 92 form part of these accounts.

Balance sheet

At 31 December 1999

	Note	1999 HK\$'000	1998 HK\$'000
Non-current assets			
Interest in subsidiaries	12	<u>2,221,639</u>	<u>2,206,616</u>
Current assets			
Deposits and prepayments		69	293
Cash and cash equivalents	16	<u>2,578</u>	<u>1,465</u>
		<u>2,647</u>	<u>1,758</u>
Current liabilities			
Accounts payable		4,738	2,536
Taxation	5(b)	1,141	2,050
Proposed final dividend	9	<u>431,894</u>	<u>355,203</u>
		<u>437,773</u>	<u>359,789</u>
Net current liabilities		<u>(435,126)</u>	<u>(358,031)</u>
NET ASSETS		<u>1,786,513</u>	<u>1,848,585</u>
CAPITAL AND RESERVES			
Share capital	21	403,639	403,639
Reserves	22	<u>1,382,874</u>	<u>1,444,946</u>
		<u>1,786,513</u>	<u>1,848,585</u>

Approved by the Board of Directors on 13 April 2000

S. Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 73 to 92 form part of these accounts.

Consolidated cash flow statement

For the year ended 31 December 1999

	Note	1999 HK\$'000	1998 HK\$'000
Net cash inflow from operating activities	23(a)	1,499,575	1,410,567
Returns on investments and servicing of finance			
Interest received		91,646	43,241
Interest paid		(144,117)	(147,255)
Dividends paid		(468,222)	(439,967)
Net cash outflow from returns on investments and servicing of finance		(520,693)	(543,981)
Taxation			
Hong Kong Profits Tax paid		(179,689)	—
Investing activities			
Payment for purchase of fixed assets		(545,337)	(903,624)
Proceeds from sale of fixed assets		4,989	4,151
Payment for purchase of investments in securities		(125,610)	—
Proceeds from sale of investments in securities		28,000	—
Payment for deposits with banks and other financial institutions		(224,000)	—
Capital repayment from jointly controlled entity		5,090	3,239
Payment for purchase of subsidiary	23(c)	(10,399)	—
Net cash outflow from investing activities		(867,267)	(896,234)
Net cash outflow before financing		(68,074)	(29,648)
Financing			
New bank loans	23(d)	1,204,000	1,193,136
Repayment of bank loans	23(d)	(889,407)	(445,284)
Payment for obligations under hire purchase contracts	23(d)	(6,401)	—
Repayment to minority shareholders	23(d)	(390)	—
Net cash inflow from financing		307,802	747,852
Increase in cash and cash equivalents		239,728	718,204
Cash and cash equivalents at 1 January		1,246,636	528,426
Effect of foreign exchange rates		(571)	6
Cash and cash equivalents at 31 December	23(e)	1,485,793	1,246,636

The notes on pages 73 to 92 form part of these accounts.

1 Significant accounting policies

(a) *Statement of compliance*

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

(b) *Basis of preparation of the accounts*

The measurement basis used in the preparation of the accounts is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) *Basis of consolidation*

- (i) The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.
- (ii) Goodwill arising on the acquisition of subsidiary, being the excess of the cost of investment in the company over the fair value of the Group's share of the separable net assets acquired, is charged to revenue reserves in the year in which it arises.

(d) *Interest in subsidiaries*

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors.

Interest in subsidiaries in the Company's balance sheet is stated at cost less any provisions for diminution in value which is other than temporary as determined by the Directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) *Associate and jointly controlled entity*

An associate is a company in which the Group or Company 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 or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

Notes on the accounts (continued)

1 Significant accounting policies (continued)

(e) *Associate and jointly controlled entity* (continued)

Unless the interest in the associate or the jointly controlled entity is acquired and held exclusively with a view to subsequent disposal in the near future, an interest in an associate or a jointly controlled entity is accounted for in the consolidated accounts 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 profit and loss account reflects the Group's share of the post-acquisition results of the associate and jointly controlled entity for the year.

Unrealised profits and losses resulting from transactions between the Group and its associate and jointly controlled entity are eliminated to the extent of the Group's interest in the associate 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 profit and loss account.

(f) *Investments in securities*

The Group's and the Company's policies for investments in securities other than interest in subsidiaries, associate and jointly controlled entity are as follows:

- (i) Dated debt securities that the Group and/or the Company have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) 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 profit and loss account, such provisions being determined for each investment individually.
- (iii) 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 profit and loss account 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.
- (iv) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (v) 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 profit and loss account as they arise.

1 Significant accounting policies (continued)

(g) 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 or valuation 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
Light duty coaches and other motor vehicles	6 years
Plant and machinery, lifts, fixtures and equipment	7 years
Computer equipment	5 years

(h) 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 profit and loss account as follows:

- (i) Fare revenue is recognised when the relevant bus services are provided.
- (ii) Advertising revenue is recognised when the related advertisement or commercial appears before the public.
- (iii) Interest income from bank deposits and debt securities held as current investment is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(i) Spare parts and stores

Spare parts and stores are valued at cost less provisions. Cost is calculated using the first-in, first-out cost method and comprises all costs of purchase, direct labour and an appropriate proportion of overheads.

(j) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(k) 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 profit and loss account.

Notes on the accounts (continued)

1 Significant accounting policies (continued)

(l) Operating leases

Rentals payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(m) Retirement costs

The Group operates two separate non-contributory defined benefit retirement schemes. Annual contributions to the defined benefit retirement schemes during the year are paid and charged to the profit and loss account in accordance with the recommendations of independent actuaries based on triennial actuarial valuations.

(n) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred.

(o) Related parties

For the purposes of these accounts, 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 entities.

(p) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

2 Turnover

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 12 on the accounts.

Turnover comprises fare revenue and advertising income from the operation of franchised and non-franchised bus services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	1999 HK\$'000	1998 HK\$'000
Fare revenue from franchised bus services	5,762,426	5,447,644
Advertising revenue	50,803	45,571
Revenue from non-franchised bus services	57,973	17,150
	5,871,202	5,510,365

3 Income

	1999 HK\$'000	1998 HK\$'000
Other revenue		
Interest income from listed securities	5,611	—
Other interest income	95,708	51,426
Insurance claims received	30,848	18,994
Sundry revenue	8,432	8,603
	140,599	79,023
Other net income		
Realised and unrealised gains on listed securities carried at fair value	3,270	—
(Loss)/profit on sale of fixed assets	(6,261)	1,471
Miscellaneous business receipts	6,936	9,059
	3,945	10,530

4 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	1999 HK\$'000	1998 HK\$'000
(a) Finance cost:		
Interest on bank loans and overdrafts	147,640	147,612
(b) Other items:		
Retirement costs included in staff costs		
— annual contributions to retirement schemes	164,548	156,755
— additional provision for staff retirement fund	—	215,000
Auditors' remuneration	1,316	1,555
Operating lease charges on temporary bus depots and terminal shelters	2,656	7,336

Notes on the accounts (continued)

5 Taxation

	1999 HK\$'000	1998 HK\$'000
<i>(a) Taxation in the consolidated profit and loss account represents:</i>		
Provision for Hong Kong Profits Tax at 16% (1998:16%)		
for the year	118,689	93,960
Overprovision in respect of prior years	(121)	(1,206)
	118,568	92,754
Deferred taxation (note 20)	35,000	—
	153,568	92,754
Share of jointly controlled entity's taxation	88	—
	153,656	92,754

(b) Taxation in the balance sheets represents:

	The Group		The Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Provision for Hong Kong Profits Tax for the year . .	118,689	93,960	2,634	2,050
Provisional Profits				
Tax paid	(92,959)	—	(1,493)	—
	25,730	93,960	1,141	2,050
Balance of Profits				
Tax provision relating to prior years	—	(7,109)	—	—
	25,730	86,851	1,141	2,050

6 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	1999 HK\$'000	1998 HK\$'000
Fees	712	556
Salaries and allowances	8,010	8,070
Discretionary and performance related bonuses	9,589	6,668
Retirement fund contributions	1,361	1,414
	19,672	16,708

Included in the directors' remuneration were fees and other emoluments of HK\$956,000 (1998: HK\$576,000) paid to the Independent Non-Executive Directors during the year.

The remuneration of the Directors is within the following bands:

	Number of Directors	
	1999	1998
HK\$ Nil — HK\$ 1,000,000	13	13
HK\$ 1,500,001 — HK\$ 2,000,000	—	1
HK\$ 2,000,001 — HK\$ 2,500,000	1	—
HK\$ 2,500,001 — HK\$ 3,000,000	1	—
HK\$ 3,500,001 — HK\$ 4,000,000	—	1
HK\$ 9,000,001 — HK\$ 9,500,000	—	1
HK\$11,500,001 — HK\$12,000,000	1	—

7 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (1998: two) are Directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other two (1998: three) individuals are as follows:

	1999 HK\$'000	1998 HK\$'000
Salaries and allowances	3,894	5,329
Discretionary and performance related bonuses	847	940
Retirement fund contributions	351	478
	5,092	6,747

Notes on the accounts (continued)

7 Individuals with highest emoluments (continued)

The emoluments of the two (1998: three) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	1999	1998
HK\$1,500,001 — HK\$2,000,000	—	1
HK\$2,000,001 — HK\$2,500,000	1	1
HK\$2,500,001 — HK\$3,000,000	1	1

8 Profit attributable to shareholders

The profit attributable to shareholders includes a profit of HK\$482,841,000 (1998: HK\$609,132,000) which has been dealt with in the accounts of the Company.

9 Dividends

	1999 HK\$'000	1998 HK\$'000
Interim dividend paid of 28 cents per share (1998: 27 cents per share)	113,019	108,983
Final dividend proposed of HK\$1.07 per share (1998: 88 cents per share)	431,894	355,203
	544,913	464,186

10 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$738,606,000 (1998: HK\$585,450,000) and 403,639,413 shares in issue during the two years.

11 Fixed assets

(a) The Group

	Leasehold land HK\$'000	Buildings HK\$'000	Buses and other motor vehicles HK\$'000	Buses under construction HK\$'000	Others HK\$'000	Total HK\$'000
Cost or valuation:						
At 1 January 1999	132,909	848,927	5,979,319	332,597	436,837	7,730,589
Additions	—	51,828	15,994	424,386	51,446	543,654
Acquisition of subsidiary	—	—	12,000	—	—	12,000
Transfer of buses	—	—	559,747	(559,747)	—	—
Disposals	—	(12,023)	(106,370)	—	(6,407)	(124,800)
At 31 December 1999	<u>132,909</u>	<u>888,732</u>	<u>6,460,690</u>	<u>197,236</u>	<u>481,876</u>	<u>8,161,443</u>
Aggregate depreciation:						
At 1 January 1999	28,991	318,445	2,192,626	—	325,376	2,865,438
Charge for the year	2,143	55,364	435,327	—	39,021	531,855
Written back on disposal	—	(3,658)	(103,696)	—	(6,196)	(113,550)
At 31 December 1999	<u>31,134</u>	<u>370,151</u>	<u>2,524,257</u>	<u>—</u>	<u>358,201</u>	<u>3,283,743</u>
Net book value:						
At 31 December 1999	<u>101,775</u>	<u>518,581</u>	<u>3,936,433</u>	<u>197,236</u>	<u>123,675</u>	<u>4,877,700</u>
Add:						
Deposits paid in respect of buses on order						<u>74,672</u>
						<u>4,952,372</u>
Net book value:						
At 31 December 1998	<u>103,918</u>	<u>530,482</u>	<u>3,786,693</u>	<u>332,597</u>	<u>111,461</u>	<u>4,865,151</u>
Add:						
Deposits paid in respect of buses on order						<u>16,569</u>
						<u>4,881,720</u>

Notes on the accounts (continued)

11 Fixed Assets (continued)

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

(c) Valuation

Included in the cost or valuation of fixed assets of the Group is the following asset shown at valuation:

	Date of valuation	Valuation HK\$'000	Net book value HK\$'000
Leasehold land	15 July 1959	3,284	—

In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 72 of SSAP 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants, with the effect that leasehold land has not been revalued to fair value at the balance sheet date.

12 Interest in subsidiaries

	1999 HK\$'000	1998 HK\$'000
Unlisted shares, at cost	1,036,507	1,036,507
Amounts due from subsidiaries	1,206,207	1,175,554
Amounts due to subsidiaries	(21,075)	(5,445)
	2,221,639	2,206,616

Details of subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
KMB Resources Limited	British Virgin Islands	1 share of US\$1	100	100	—	Investment holding
KMB Public Bus Services Holdings 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
LCK Properties Holdings Limited	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding

12 Interest in subsidiaries (continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Lai Chi Kok Properties Investment Limited	Incorporated in British Virgin Islands and operated in Hong Kong	1 share of US\$1	100	—	100	Property holding
LW Holdings Limited	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding
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
NHKB Holdings Limited	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding
New Hong Kong Bus Company Limited	Hong Kong	1,000 shares of HK\$1 each	100	—	100	Provision of cross border shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen)
KMB Properties Holdings Limited	British Virgin Islands	1 share of US\$1	100	—	100	Dormant
KMB Creations Holdings Limited	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding
KMB Creations Limited	Hong Kong	2 shares of HK\$1 each	100	—	100	Trading of souvenir
KMB (China) Holdings Limited (formerly Dragon View Holdings Limited)	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding
HKM Holdings Limited	British Virgin Islands	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

Notes on the accounts (continued)

12 Interest in subsidiaries (continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Nine Dragon Transportation Holdings Limited	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding
Sun Bus Holdings Limited	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding
Sun Bus Limited	Hong Kong	2 shares of HK\$1 each	100	—	100	Provision of non-franchised bus services in Hong Kong
Top Art Limited	British Virgin Islands	12,820 shares of US\$1 each	100	—	100	Investment holding
KMB Financial Services Limited	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding
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
Bus Focus Limited	British Virgin Islands	1 share of US\$1	100	—	100	Dormant
Cyberstop Limited	British Virgin Islands	1 share of US\$1	100	—	100	Dormant
KMB Productions Limited	British Virgin Islands	1 share of US\$1	100	—	100	Dormant

13 Interest in associate

	The Group	
	1999 HK\$'000	1998 HK\$'000
Unlisted shares		
Share of net assets less provision	59	59
Amount due to associate	(4,921)	(5,007)
	(4,862)	(4,948)

13 Interest in associate (continued)

Details of the associate are as follows:

Name of associate	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	held by the Company	held by subsidiary	
Art East Limited	Hong Kong	200,000 shares of HK\$1 each	50	—	50	Dormant

14 Interest in jointly controlled entity

	The Group	
	1999 HK\$'000	1998 HK\$'000
Share of net assets	11,435	16,320
Amount due from jointly controlled entity	1,580	514
	13,015	16,834

Details of the Group's interest in the jointly controlled entity are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	held by the Company	held by subsidiary	
Dalian HK Macau Motor Bus Services Limited	Incorporated	People's Republic of China ("PRC")	Registered capital of RMB 22,000,000	(note)	—	(note)	Provision of bus services in Dalian, PRC

Note:

A co-operative joint venture, Dalian HK Macau Motor Bus Services Limited ("Dalian HK Macau"), was formed between HK Macau Ltd ("HK Macau"), a 60% owned subsidiary of the Group, and 大连市第一公共汽车公司, a PRC entity. The principal activity of Dalian HK Macau is the operation of bus services in Dalian, the PRC.

Pursuant to the joint venture agreement, HK Macau contributed the whole of the registered capital of RMB22 million. The joint venture is for a period of 15 years commencing 31 July 1997. The capital contribution is repayable by Dalian HK Macau in equal annual instalments over 5 years. The profits and losses of Dalian HK Macau are shared equally by HK Macau and 大连市第一公共汽车公司.

According to the joint venture agreement, HK Macau has the right to appoint five out of a total of nine directors of Dalian HK Macau with each director carrying one vote. Although this represents a majority of the board of directors, a board resolution can only be passed with a minimum of six votes in accordance with the articles of association of the joint venture. Accordingly, HK Macau has no effective control over the board of directors and Dalian HK Macau has been excluded from consolidation and dealt with in the consolidated accounts under the equity method of accounting and classified as a jointly controlled entity.

Notes on the accounts (continued)

15 Current investment

	The Group	
	1999 HK\$'000	1998 HK\$'000
Trading securities (at market value)		
Listed debt securities outside Hong Kong	100,880	—

16 Cash and cash equivalents

	The Group		The Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Deposits with banks	1,491,538	1,209,922	—	—
Cash at bank and in hand	37,731	46,388	2,578	1,465
	1,529,269	1,256,310	2,578	1,465

17 Interest-bearing bank loans and overdrafts

At 31 December 1999, the bank loans and overdrafts were repayable as follows:

	The Group	
	1999 HK\$'000	1998 HK\$'000
Within 1 year or on demand	520,883	439,081
After 1 year but within 2 years	685,907	441,907
After 2 years but within 5 years	1,089,845	1,208,085
After 5 years	185,000	44,167
	1,960,752	1,694,159
	2,481,635	2,133,240

At 31 December 1998, a bank loan of HK\$500,000,000 was secured by a first fixed charge over certain of the Group's buses with an aggregate value of HK\$539,174,000. All bank loans and overdrafts were unsecured at 31 December 1999.

18 Contingency provision — insurance

	The Group	
	1999 HK\$'000	1998 HK\$'000
Balance at 1 January	299,098	272,819
Provision made during the year	5,689	26,279
Balance at 31 December	<u>304,787</u>	<u>299,098</u>

This provision represents amounts set aside annually by the Group to meet liabilities which may arise from third party claims in connection with the Group's bus operations and to cover potential losses which may be caused by fire damage to the bus fleet.

19 Staff retirement fund

	The Group	
	1999 HK\$'000	1998 HK\$'000
Balance at 1 January	1,082,600	867,600
Provision made during the year	—	215,000
Balance at 31 December	<u>1,082,600</u>	<u>1,082,600</u>

The above fund represents the provision for the retirement benefits to employees.

20 Deferred taxation

Major components of deferred tax of the Group are set out below:

	1999		1998	
	Provided HK\$'000	Potential liabilities unprovided HK\$'000	Provided HK\$'000	Potential liabilities unprovided HK\$'000
Depreciation allowances in excess				
of related depreciation	35,000	543,644	—	550,395
General provisions	—	(228,437)	—	(229,687)
Future benefit of tax losses	—	(63,018)	—	(51,454)
	<u>35,000</u>	<u>252,189</u>	<u>—</u>	<u>269,254</u>
	Note (a)	Note (b)	Note (a)	Note (b)

Notes on the accounts (continued)

20 Deferred taxation (continued)

Notes:

- (a) A provision has been made in the accounts for deferred taxation amounting to HK\$35,000,000 (1998: HK\$Nil) during the year which the Directors expect with reasonable probability to crystallise in the foreseeable future.
- (b) The Directors consider that these potential liabilities will not crystallise in the foreseeable future as the timing differences will be replaced by similar timing differences from the Group's capital expenditure in the coming years and therefore will not reverse. Accordingly, no provision for deferred taxation has been made.
- (c) There are no significant potential deferred tax liabilities of the Company for which provision has not been made.

21 Share capital

	1999 HK\$'000	1998 HK\$'000
<i>Authorised:</i>		
600,000,000 shares of HK\$1 each	<u>600,000</u>	<u>600,000</u>
<i>Issued and fully paid:</i>		
403,639,413 shares of HK\$1 each	<u>403,639</u>	<u>403,639</u>

22 Reserves

	The Group		The Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
<i>(a) Capital reserve</i>				
At 1 January and 31 December	<u>2,412</u>	<u>2,412</u>	<u>—</u>	<u>—</u>
<i>(b) General reserve</i>				
At 1 January and 31 December	<u>17,601</u>	<u>17,601</u>	<u>—</u>	<u>—</u>
<i>(c) Retained profits</i>				
At 1 January	<u>1,407,139</u>	<u>1,285,875</u>	<u>144,946</u>	<u>—</u>
Profit for the year	<u>738,606</u>	<u>585,450</u>	<u>482,841</u>	<u>609,132</u>
Dividends	<u>(544,913)</u>	<u>(464,186)</u>	<u>(544,913)</u>	<u>(464,186)</u>
Goodwill written off on acquisition of subsidiary	<u>(4,790)</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December	<u>1,596,042</u>	<u>1,407,139</u>	<u>82,874</u>	<u>144,946</u>
<i>(d) Contributed surplus</i>				
At 1 January and 31 December	<u>—</u>	<u>—</u>	<u>1,300,000</u>	<u>1,300,000</u>
Total reserves	<u>1,616,055</u>	<u>1,427,152</u>	<u>1,382,874</u>	<u>1,444,946</u>

22 Reserves (continued)

Included in the figure for the retained profits of the Group is a loss of HK\$116,000 (1998: HK\$116,000) attributable to an associate; and a profit of HK\$114,000 (1998: a loss of HK\$91,000) attributable to a jointly controlled entity.

The distributable reserves of the Company as at 31 December 1999 amounted to HK\$1,382,874,000 (1998: HK\$1,444,946,000).

23 Notes on the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	1999 HK\$'000	1998 HK\$'000
Operating profit	892,241	678,681
Interest expense	147,640	147,612
Interest income	(101,319)	(51,426)
Depreciation	531,855	452,259
Loss/(profit) on sale of fixed assets	6,261	(1,471)
Realised and unrealised gains on investment in securities	(3,270)	—
Decrease in spare parts and stores	19,419	27,230
Increase in accounts receivable	(31,984)	(22,390)
Increase in deposits and prepayments	(5,291)	(5,458)
Increase in amount due from jointly controlled entity	(1,066)	(266)
(Decrease)/increase in amount due to associate	(86)	2,912
Decrease in accounts payable	(5,186)	(54,320)
Increase/(decrease) in insurance claims payable	44,101	(4,069)
Increase in contingency provision — insurance	5,689	26,279
Increase in provision for staff retirement fund	—	215,000
Effect of foreign exchange rates	571	(6)
Net cash inflow from operating activities	<u>1,499,575</u>	<u>1,410,567</u>

Notes on the accounts (continued)

23 Notes on the consolidated cash flow statement (continued)

(b) Purchase of subsidiary

	HK\$'000
Net assets acquired:	
Fixed assets	12,000
Other receivable	10
Obligations under hire purchase contracts	(6,401)
	5,609
Goodwill arising on consolidation	4,790
	10,399
Satisfied by : cash paid	10,399

(c) Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiary

	HK\$'000
Net outflow of cash and cash equivalents in respect of the purchase of subsidiary	10,399

(d) Analysis of changes in financing during the year

	Bank loans HK\$'000	Minority interests HK\$'000	Obligations under hire purchase contracts HK\$'000	Total HK\$'000
Balance at 1 January 1998	1,375,714	6,067	—	1,381,781
Cash inflows from financing	747,852	—	—	747,852
Minority interests in profit for the year	—	425	—	425
Balance at 31 December 1998	2,123,566	6,492	—	2,130,058
Balance at 1 January 1999	2,123,566	6,492	—	2,130,058
Purchase of subsidiary	—	—	6,401	6,401
Cash inflows/(outflows) from financing	314,593	(390)	(6,401)	307,802
Minority interests in profit for the year	—	272	—	272
Balance at 31 December 1999	2,438,159	6,374	—	2,444,533

23 Notes on the consolidated cash flow statement (continued)

(e) Analysis of the balances of cash and cash equivalents

	1999 HK\$'000	1998 HK\$'000
Cash at bank and in hand	37,731	46,388
Deposits with banks and other financial institutions maturing within three months from the date of the advance	1,491,538	1,209,922
Bank loans and overdrafts repayable within three months from the date of the advance	(43,476)	(9,674)
	<u>1,485,793</u>	<u>1,246,636</u>

24 Commitments

(a) Capital commitments of the Group outstanding at 31 December 1999 not provided for in the accounts were as follows:

	1999 HK\$'000	1998 HK\$'000
Contracted for	535,376	353,781
Authorised but not contracted for	6,000	83,730
	<u>541,376</u>	<u>437,511</u>

(b) At 31 December 1999, the Group had commitments under operating leases for properties to make payments in the next year as follows:

	1999 HK\$'000	1998 HK\$'000
Leases expiring:		
Within 1 year	1,314	203
After 1 year but within 5 years	4,449	4,599
	<u>5,763</u>	<u>4,802</u>

Notes on the accounts (continued)

25 Contingent liabilities

At 31 December 1999, the Company has undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK\$1,079,000,000 (1998: HK\$1,365,000,000).

26 Material related party transactions

- (a) During the year, the Group entered into a contract with a subsidiary of Sun Hung Kai Properties Limited, its substantial shareholder, for the provision of insurance services to the Group. This company entered into the contract with the Group under the same terms as those available to other customers in the ordinary course of business. The insurance premium paid by the Group amounted to HK\$44,026,000 (1998: HK\$42,392,000) during the year ended 31 December 1999. The amount due from/(to) this company at the year end amounted to HK\$310,000 (1998: HK\$(65,000)).
- (b) During the year, the Group provided coach services to certain subsidiaries of Sun Hung Kai Properties Limited under the same terms as those available to other customers in the ordinary course of business. The services fees received by the Group amounted to HK\$16,567,000 (1998: HK\$5,999,000) during the year ended 31 December 1999. The amounts due from these companies at the year end amounted to HK\$4,391,000 (1998: HK\$1,981,000).
- (c) The Group has entered into a contract with a subsidiary of Sun Hung Kai Properties Limited for the provision of project consultancy services relating to the construction of a new bus depot of the Group. The contract sum of the project consultancy services is HK\$15.8 million or 3.2% of the total construction cost of the new bus depot, whichever is the higher. During the year, the payment for these project consultancy services made by the Group to this company amounted to HK\$1,896,000 (1998: HK\$Nil). There was no amount (1998: HK\$Nil) due to this company at the year end. The Group's capital commitment outstanding at 31 December 1999 under this contract amounted to HK\$13.9 million (1998: HK\$15.8 million) as disclosed in note 24(a).
- (d) During the year, the Group entered into a contract with a subsidiary of Sun Hung Kai Properties Limited for the provision of project management services relating to the proposed property 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 the higher. During the year, there were no such services rendered by this company. The Group's capital commitment outstanding at 31 December 1999 under this contract amounted to HK\$20 million (1998: HK\$Nil) as disclosed in note 24(a).

27 Comparative figures

The presentation and classification of items in the accounts have been changed due to the adoption of the requirements of SSAP 1 (revised) "Presentation of financial statements". As a result, additional line items have been included on the face of the consolidated profit and loss account and the balance sheets as required by SSAP 1 (revised). Comparative figures have been reclassified to conform with the current year's presentation.

BOARD OF DIRECTORS

The Hon Sir Sze-yuen CHUNG*

GBM, GBE, PhD, FREng, JP
Chairman

Raymond KWOK Ping Luen

MA, MBA
Deputy Chairman

Dr the Hon WOO Pak Chuen*

JP, LLD(Hon), LLB, PhD

YU Shu Chuen

Honorary Executive Director

Walter KWOK Ping Sheung

JP, MSc(Lond), DIC, MICE

NG Siu Chan

William LOUEY Lai Kuen

BSc(Econ)

John CHAN Cho Chak

GBS, JP, DBA(Hon), BA, DipMS, MIMgt,
FCIT, FHKIoD
Managing Director

Charles LUI Chung Yuen

BEC, AASA, FCIT

Winnie J NG

BA, MBA(Chicago)

Dr James KUNG Ziang Mien*

OBE

George CHIEN Yuan Hwei

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

The Hon Eric LI Ka Cheung*

JP, BA(Econ) Hon, FHKSA, FCA, FCIS,
OBE

Norman LEUNG Nai Pang

OBE, JP, BA

TSIM Tak Po

BSc(Hon), ACA, AHKSA
(Alternate Director to
Mr Raymond KWOK Ping Luen)

Lana WOO

BA, AAT, CGA, ACIS, MIFC, CFC
(Alternate Director to
Dr the Hon WOO Pak Chuen, JP)

Patrick CHAN Kai Lung

BEC(Hon), MEd
(Alternate Director to
Mr Walter KWOK Ping Sheung, JP)
(* Independent Non-Executive Director)

COMPANY SECRETARY

Lana WOO

BA, AAT, CGA, ACIS, MIFC, CFC

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Long Win Bus Company Limited

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Company Limited

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Limited

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Hong Kong

Bermuda

Butterfield Corporate Services Limited

11 Rosebank Centre

Bermudiana Road

Hamilton, Bermuda

REGISTER OF MEMBERS

Book closed from 5 June 2000 to
15 June 2000, both dates inclusive

ANNUAL GENERAL MEETING

Date & Time : 15 June 2000,
3:00 pm

Venue : The Royal Plaza Hotel
Ballroom, 193 Prince
Edward Road West
Kowloon, Hong Kong

DIVIDENDS

Interim

HK\$0.28 per share,
paid on 5 October 1999

Final (proposed)

HK\$1.07 per share,
payable on 16 June 2000