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INTERIM RESULTS

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2002 was HK\$572.1 million (2001: HK\$884.7 million), including a non-recurrent deemed profit of HK\$2.7 million (2001: HK\$319.5 million). Earnings per share for the period amounted to HK\$1.42 (2001: HK\$2.19). These represent a decrease of 35.3% compared with the same period of 2001.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK\$0.45 per share (2001: HK\$0.4 per share), totalling HK\$181.6 million (2001: HK\$161.5 million), for the six months ended 30 June 2002. This interim dividend will be paid on 10 October 2002 to the shareholders who are on the Register of Members at the close of business on 4 October 2002. The Register will be closed from 30 September 2002 to 4 October 2002, both dates inclusive. To qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 27 September 2002.

REVIEW OF OPERATIONS AND RESULTS

Franchised Public Bus Operations

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

- Profit after taxation for the six months ended 30 June 2002 amounted to HK\$504.7 million (2001: HK\$508.9 million), representing a decrease of 0.8% as compared with that of the same period of 2001.
- During the period under review, fare revenue and patronage amounted to HK\$3,118.7 million (2001: HK\$3,030.0 million) and 568.6 million passenger trips (2001: 546.9 million passenger trips) respectively. These represent an increase of 2.9% and 4.0% compared with the first half of 2001 respectively. Such increases were mainly attributable to the introduction of new bus routes and more air-conditioned buses, improvement of frequencies on certain bus routes, population growth and enhanced marketing and promotional efforts.

Advertising revenue amounted to HK\$35.0 million for the first half of 2002 (2001: HK\$41.8 million). The decrease in advertising revenue was primarily due to the subdued local economy during the period.

- Bus operating costs for the first half of 2002 increased by 2.1% over the same period of 2001. The increase was due mainly to the increase in salaries and wages, depreciation, toll charges and other expenses incurred as a result of enhanced operating activity.
- Two new routes were introduced during the first half of 2002. One of the routes is an overnight route plying between the New Territories and Hong Kong Island while the other route serves the Hong Kong Science Park. During the period, KMB launched a further six packages of bus-bus interchange schemes to extend the network coverage. Together with the packages introduced in previous years, the bus-bus interchange schemes have all been well received by our customers. KMB continues to explore the possibility of introducing more bus-bus interchange packages in other busy areas. Certain packages under consideration may involve co-operation with railway companies and other franchised bus operators.

- An additional 137 new air-conditioned double-deck buses were licensed during the period. At 30 June 2002, KMB had a fleet of 4,440 licensed buses, comprising 4,191 double-deckers and 249 single-deckers, of which a total of 3,100 or 69.8% were air-conditioned. In addition, there were 110 buses under construction and 151 buses on order.
- The new permanent depot on the West Kowloon Reclamation for replacing the old Lai Chi Kok Depot was completed and has been operational since 11 May 2002. This modern bus depot is well equipped with a wide range of environmental protection measures and state-of-the-art bus servicing systems, providing maintenance service for some 1,000 buses serving the West Kowloon and South-West New Territories regions.

Long Win Bus Company Limited ("LWB")

- LWB recorded a profit of HK\$0.5 million for the first half of 2002 compared with the loss of HK\$6.4 million for the same period last year. The turnaround was mainly attributable to increase in patronage during the period under review.
- The total ridership of LWB for the first six months of 2002 increased to 9.8 million passenger trips (or a daily average of 54,169), representing an increase of 7.7% compared with the same period last year. The increase was mainly due to the continual population intake at Yat Tung Estate, a large-scale public housing estate in North Lantau, and the increase in recreational demand. The growth in patronage is expected to be sustained in the second half of 2002.
- LWB's advertising revenue decreased to HK\$0.9 million for the first half of 2002, compared to HK\$1.1 million for the same period of the previous year.
- LWB continued to implement rationalisation measures to further consolidate its bus network. During the period, two shuttle bus routes in North Lantau were merged in order to deploy resources more efficiently and provide a more integrated bus network for customer convenience. A total of 14 routes were operated as at 30 June 2002 (2001: 15).
- As at 30 June 2002, LWB had 150 air-conditioned double-deck buses and 10 air-conditioned single-deck buses.

Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division recorded a turnover of HK\$83.0 million (2001: HK\$67.8 million) and a profit after taxation of HK\$8.5 million (2001: HK\$5.9 million) for the first half of 2002. These represent increases of 22.4% and 44.1% respectively as compared with those of the corresponding period of 2001. The improved results were mainly attributable to higher penetration in the local non-franchised bus market, and the patronage growth in the cross-boundary service. A review of the principal business units in this Division is given as follows:

Sun Bus Holdings Limited ("SBH")

- SBH endeavours to maintain its position in Hong Kong's non-franchised bus sector by providing quality bus services tailored for target customers' needs. Being one of the leading operators in the market, SBH increased its fleet size to 209 buses at 30 June 2002, up from 197 buses at 30 June 2001.
- SBH's various strategic business units, with Sun Bus Limited as the flagship, provide bus services to different client groups ranging from residential and commercial ones to employees and students. SBH will strive to improve its service quality and further leverage on its enhanced economies of scale.

New Hong Kong Bus Company Limited ("NHKB")

- NHKB jointly operates a cross-boundary shuttle bus service together with its Shenzhen counterpart serving regular commuters and holiday travellers between Lok Ma Chau and Huanggang. During the first half of 2002, the average monthly ridership of this service increased significantly to 637,800 passenger trips, an increase of 50.4% over the corresponding period of 2001. To meet the growing demand, five new air-conditioned single-deck buses with larger carrying capacity and better accessibility were deployed by NHKB during the period to replace the smaller ones used previously.

Park Island Transport Company Limited ("PITC")

- PITC, a 65% subsidiary of the Group, entered into an agreement with Sun Hung Kai (Ma Wan) Transport Company Limited, a subsidiary of Sun Hung Kai Properties Limited (a substantial shareholder of the Company), to provide bus and ferry services to and from Ma Wan Island starting from late 2002. Air-conditioned buses and high-speed catamarans will be deployed to provide high quality services for this prestige development.

Media Sales Business***RoadShow Holdings Limited and its subsidiaries ("RoadShow Group")***

- The RoadShow Group is principally engaged in out-of-home media sales for marketing advertising spaces on the exterior and interior of transit vehicles and at transit vehicle shelters, as well as advertising segments in its multi-media on-board ("MMOB") programmes. It has become a leading out-of-home media sales company in Hong Kong since its establishment in 2001. At 30 June 2002, the RoadShow Group's operation comprised 1,892 transit vehicle shelter panels with a territory wide coverage and a total of 2,600 MMOB transit vehicles with a sizeable audience reach of over two million daily.
- For the first half of 2002, the RoadShow Group reported a total operating revenue of HK\$120.5 million (2001: HK\$99.8 million) and profit attributable to shareholders of HK\$60.0 million (2001: HK\$55.7 million). These represent an increase of approximately 21% and 8% compared with the first half of 2001 respectively.
- Further information relating to the RoadShow Group is available in its 2002 interim report.

Mainland Operations***Dalian and Tianjin Operations***

- At 30 June 2002, the Group's total interest in associates and jointly controlled entity with these operations totalled HK\$5.0 million (31 December 2001: HK\$6.2 million). Such investments are related to passenger bus services in Dalian and Tianjin. They continued to make steady progress during the period under review.
- The co-operative joint venture ("CJV") in Dalian was established in 1997 between a 60% owned subsidiary of the Company and Dalian City No.1 Bus Company in Liaoning Province. This CJV operates three routes deploying 46 double-deck and 30 single-deck buses.
- The CJV in Tianjin was formed at the end of 2000 between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited. This CJV has been providing public bus services since January 2001, deploying 110 single-deck buses on seven routes.

Property Development

- The old bus depot at Lai Chi Kok was vacated in May 2002 and demolition work commenced in June 2002. The site will be redeveloped into a residential and commercial complex with four multi-storey towers with a total gross floor area of approximately 1.1 million square feet. The project is expected to be completed by 2005.

FINANCIAL LIQUIDITY AND RESOURCES

The Group's policy is to maintain a healthy financial position such that cash inflow from operating activities together with undrawn committed banking facilities should meet the requirements for loan repayments and capital expenditures. Furthermore, sufficient amount of cash is maintained to meet proposed service expansions and development of new businesses. The Group has been mainly financed by shareholders' funds and bank loans and overdrafts.

- The gearing ratio, representing the ratio of net borrowings to the total share capital and reserves of the Group, was 10.3% as at 30 June 2002 (31 December 2001: 4.7%).
- At 30 June 2002, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$518.9 million, representing an increase of HK\$293.1 million as compared with the net borrowings of HK\$225.8 million at 31 December 2001. An analysis of the Group's net borrowings by currency at 30 June 2002 is shown below:

Currency	At 30 June 2002		At 31 December 2001	
	Net borrowings/ (cash) in foreign currency million	Net borrowings/ (cash) HK\$ million	Net borrowings/ (cash) in foreign currency million	Net borrowings/ (cash) HK\$ million
Hong Kong Dollar		974.0		739.1
United States Dollar	(37.0)	(289.1)	(43.1)	(336.1)
British Pound Sterling	(13.7)	(163.3)	(15.7)	(177.2)
Others		(2.7)		—
Total		518.9		225.8

- Bank loans and overdrafts at 30 June 2002 amounted to HK\$2,066.1 million (31 December 2001: HK\$2,345.6 million). All bank loans and overdrafts were unsecured at 30 June 2002. The maturity profile of the bank loans and overdrafts of the Group was as follows:

	At 30 June 2002 HK\$ million	At 31 December 2001 HK\$ million
Within 1 year or on demand	<u>562.8</u>	<u>602.9</u>
After 1 year but within 2 years	336.7	475.0
After 2 years but within 5 years	668.8	985.9
After 5 years	<u>497.8</u>	<u>281.8</u>
	<u>1,503.3</u>	<u>1,742.7</u>
Total	<u>2,066.1</u>	<u>2,345.6</u>

- At 30 June 2002, the Group had stand-by banking facilities totalling HK\$735.0 million (31 December 2001: HK\$381.5 million).
- The finance charge for the period under review amounted to HK\$28.6 million (2001: HK\$72.4 million). This represents an average interest rate of 2.6% per annum for the first half of 2002, down from 5.6% per annum for the same period last year.
- Interest cover for the period under review, representing the ratio of profit from ordinary activities before interest and taxation to net finance charges, was 83.7 times (2001: 41.9 times).
- At 30 June 2002, the Group's cash and deposits at banks (mainly denominated in Hong Kong Dollars, US Dollars and British Pound Sterling) amounted to HK\$1,559.2 million (31 December 2001: HK\$2,119.8 million).

FUNDING AND TREASURY POLICIES

- Certain major operating companies of the Group such as KMB, LWB, the RoadShow Group and PITC, arrange their own financing to meet specific requirements. Financing for the other subsidiaries of the Group has been mainly provided by the Company or their own capital base. Stand-by credit facilities and overdrafts have been maintained to facilitate routine treasury operations.
- The Group's major revenue sources have been fare revenue from the franchised bus services, revenue from non-franchised transport operations and the media sales business, all denominated in Hong Kong Dollar. Financing in Hong Kong Dollars has provided a natural currency hedge to the Group. At 30 June 2002, the Group's total borrowings were substantially denominated in Hong Kong Dollar and on a floating rate basis. This had enabled the Group to take full advantage of the low interest rates during the first half of 2002. However, it is the Group's policy to review its interest rate hedging strategy in light of the prevailing market conditions from time to time.

- Foreign currency exposure did not pose significant risk for the Group as the levels of foreign currency assets and liabilities were relatively low when compared to its total asset base at the end of the period under review. Certain expenditures such as purchase of new buses and motor vehicle components require payments by the Group in foreign currencies. It has been the Group's policy to closely monitor its exposure to foreign exchange movements in formulating its hedging strategy on an ongoing basis.
- Capital commitments outstanding and not provided for in the interim financial report of the Group as at 30 June 2002 amounted to HK\$953.9 million (31 December 2001: HK\$790.6 million). The commitments are mainly in respect of the re-development of the Lai Chi Kok Depot, the construction of new bus depots, the capital contribution for investments and the purchase of buses, ferries and other fixed assets. The commitments are to be financed by borrowings and the Group's working capital.

CONTINGENT LIABILITIES

At 30 June 2002, the Company had undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK\$396.7 million (31 December 2001: HK\$577.3 million). Additionally, together with an external party, the Company had undertaken to guarantee jointly and severally a bank loan granted to a subsidiary to the extent of HK\$30.0 million (31 December 2001: HK\$5.0 million).

EMPLOYEES AND REMUNERATION POLICIES

The Group employs over 13,000 employees for its franchised and non-franchised bus services, and media sales businesses. Due to the labour intensive nature of the businesses, staff costs represent a substantial portion of operating costs of the Group. The number and remuneration of the employees have been closely monitored to meet expansion plans and yet align with market trends. The number and remuneration of employees of the Group over the period under review and the corresponding period of 2001 were as follows:

Period	Number of employees at period end	Total remuneration for the period (in HK\$ million)	Remuneration as % of total operating costs for the period
Jan - Jun 2002	13,999	1,636.9	56
Jan - Jun 2001	14,163	1,618.5	57

PROSPECTS

We strive for continuous growth in patronage of and revenue from our franchised and non-franchised bus services. KMB faces with both challenges and opportunities upon the opening of the Mass Transit Railway Tseung Kwan O Extension in August 2002. We will continue to serve Tseung Kwan O District with a user-friendly and efficient bus network with rationalised routes and feeder services. We anticipate that the RoadShow Group will continue to implement its expansion plans and bring contribution to the Group. The redevelopment of our depot site at Lai Chi Kok into residential property, commenced during the period, will generate a new income stream for the Group in the near future. Additionally, we also seek to expand our transport and media sales businesses in the Mainland. We are confident that our professional management team and committed staff force will be able to embrace challenges and materialise growth opportunities ahead for the continued success of the Group.

SUPPLEMENTARY INFORMATION

Directors' Interest in Shares

At 30 June 2002, the Directors of the Company had the following interests in the issued share capital of the Company and RoadShow Holdings Limited, a subsidiary of the Company, as recorded in the register of Directors' interests in shares kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance:

a) *The Kowloon Motor Bus Holdings Limited*

	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	—	—	—
Norman LEUNG Nai Pang, GBS, JP	—	—	—	—
Dr the Hon WOO Pak Chuen, JP*	210,047	—	—	—
Raymond KWOK Ping Luen	393,350	—	—	—
Walter KWOK Ping Sheung, JP	61,522	—	—	—
YU Shu Chuen	2,943	70,803	—	6,909,481 (Note 1)
NG Siu Chan	—	19,226,233	—	—
William LOUEY Lai Kuen	6,222,926	4,475	—	—
John CHAN Cho Chak, GBS, JP	2,000	—	—	—
Charles LUI Chung Yuen, MH	12,427	—	—	2,651,750 (Note 2)
Winnie J NG	25,200	—	—	19,226,233 (Note 3)
Dr KUNG Ziang Mien, James, OBE*	—	—	—	—
George CHIEN Yuan Hwei	2,000	—	—	—
The Hon Eric Li Ka Cheung, OBE, JP*	—	—	—	—
LUI Pochiu	452,113	—	—	—
Edmond HO Tat Man	—	—	—	—
Lana WOO (Alternate Director to Dr the Hon WOO Pak Chuen, JP)	9,475	—	—	—
SHAM Yat Wah (Alternate Director to Mr Raymond KWOK Ping Luen)	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr Walter KWOK Ping Sheung, JP)	—	—	—	—

b) RoadShow Holdings Limited ("RoadShow")

	Shares of HK\$0.10 each			
	Personal interests	Family interests	Corporate interests	Other interests
The Hon Sir Sze-yuen CHUNG, GBM, GBE, PhD, FREng, JP*	4,000	—	—	—
Norman LEUNG Nai Pang, GBS, JP	—	—	—	—
Dr the Hon WOO Pak Chuen, JP*	19,253	—	—	—
Raymond KWOK Ping Luen	37,400	—	—	—
Walter KWOK Ping Sheung, JP	6,600	—	—	—
YU Shu Chuen	33,000	6,576	—	535,825 (Note 1)
NG Siu Chan	—	—	—	—
William LOUEY Lai Kuen	412,371	—	—	—
John CHAN Cho Chak, GBS, JP	—	—	—	—
Charles LUI Chung Yuen, MH	—	—	—	218,127 (Note 2)
Winnie J NG	—	—	—	—
Dr KUNG Ziang Mien, James, OBE*	—	—	—	—
George CHIEN Yuan Hwei	—	—	—	—
The Hon Eric Li Ka Cheung, OBE, JP*	—	—	—	—
LUI Pochiu	24,863	—	—	—
Edmond HO Tat Man	—	—	—	—
Lana WOO (Alternate Director to Dr the Hon WOO Pak Chuen, JP)	2,000	—	—	—
SHAM Yat Wah (Alternate Director to Mr Raymond KWOK Ping Luen)	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr Walter KWOK Ping Sheung, JP)	—	—	—	—

* Independent Non-executive Director of the Company

Notes:

- 1 HSBC International Trustee Ltd held 6,909,481 and 535,825 shares in the Company and RoadShow respectively as trustee of a discretionary trust. By virtue of Section 31 of the Securities (Disclosure of Interests) Ordinance, Mr Yu Shu Chuen was deemed to have interests in the aforesaid shares.
- 2 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 2,651,750 and 218,127 shares in the Company and RoadShow respectively.
- 3 Miss Winnie J Ng has interest in certain private trusts which beneficially held 19,226,233 shares in the Company.

As at 30 June 2002, none of the Directors had any non-beneficial interest in the share capital of the Company.

Except as stated herein, at no time during the period 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.

Share Option Schemes

RoadShow Pre-listing Share Option Scheme

Under a Pre-listing Share Option Scheme (the "Pre-listing Option Scheme") of RoadShow, options have been granted to certain Directors and employees of the Company and/or RoadShow or its subsidiary companies to subscribe for shares in RoadShow. Each option gives the holder the right to subscribe for one RoadShow share at HK\$1.80 per share. The following Directors of the Company had personal interests in share options under the Pre-listing Option Scheme as at 30 June 2002:

Directors of the Company	Number of options outstanding at 1 January and 30 June 2002
Norman LEUNG Nai Pang, GBS, JP	2,380,000
Raymond KWOK Ping Luen	338,000
NG Siu Chan	338,000
John CHAN Cho Chak, GBS, JP	2,380,000
Charles LUI Chung Yuen, MH	338,000
Winnie J NG	3,380,000
George CHIEN Yuan Hwei	168,000
LUI Pochiu	188,000
Edmond HO Tat Man	188,000
Lana WOO (Alternate Director to Dr the Hon WOO Pak Chuen, JP)	168,000

The above options were conditionally granted to the above Directors. The exercise period for the above Directors who have been granted options under the Pre-listing Option Scheme shall be two years commencing six months from 28 June 2001 except that, for Directors who are granted options to subscribe for 1,000,000 or more shares of RoadShow under the Pre-listing Option Scheme, they could (a) during the period from the beginning of the seventh month up to the end of the twelfth month from 28 June 2001 exercise up to 50% of the number of options that they have been granted under the Pre-listing Option Scheme, and (b) exercise the remaining unexercised options after the end of the twelfth month from 28 June 2001 up to the end of the exercise period. No Director had exercised the options during the period.

During the period, 771,000 options have lapsed as a result of certain grantees ceasing their employment with the RoadShow Group. A total of 4,309,000 options were exercised by certain grantees during the period. The weighted average closing market price of RoadShow shares immediately before the date on which these options were exercised during the period was HK\$2.39 per share.

The options granted are not recognised in the interim financial report until they are exercised.

RoadShow Share Option Scheme

Under a share option scheme of RoadShow (the "Share Option Scheme"), options were granted to certain Directors and employees of the Company and/or RoadShow or its subsidiary companies to subscribe for shares in RoadShow on 11 March 2002. The following Director of the Company had personal interests in share options granted under the Share Option Scheme as at 30 June 2002:

	Date of grant	Number of share options outstanding at 30 June 2002	Exercise price per share	Exercise period
Winnie J Ng	11 March 2002	3,800,000	HK\$2.25	12 March 2002 to 11 March 2005

The closing market price of the RoadShow shares immediately before the date on which the above options were granted was HK\$2.25 per share. No options were exercised, cancelled or lapsed during the period from the date of grant to 30 June 2002.

The options granted are not recognised in the interim financial report until they are exercised.

According to the Black-Scholes model (Note), the total value of the options granted to the above Director under the Share Option Scheme during the period was estimated at approximately HK\$3,827,780 as at 11 March 2002 with the following variables and assumptions:

- | | |
|---|--|
| (i) Risk free rate | 5.903%, being the approximate yield of 7-year Exchange Fund Note traded on 11 March 2002. |
| (ii) Expected volatility | 66.49%, being the annualised volatility of the closing price of the shares of RoadShow from 28 June 2001 to 11 March 2002. |
| (iii) Expected dividend yield | 1.7%, being 2001 prospective dividend yield of the shares of RoadShow. |
| (iv) Expected life of the share options | 3 years. |
| (v) Number of outstanding options under the Share Option Scheme | 23,340,000. |

Note: The Black-Scholes model ("Model") is developed to estimate the fair value of traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. As any change in the variables so adopted may materially affect the estimation of the fair value of an option, the Model does not necessarily provide a reliable measure of the fair value of the options.

Directors' Interest 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 30 June 2002 or at any time during the six months ended 30 June 2002.

Substantial Interest in the Share Capital of the Company

The Company has been notified of and recorded in the register of substantial shareholders the following interests in the Company's issued shares at 30 June 2002 amounting to 10% or more of the shares in issue:

	Shares held	Percentage of total issued shares
Sun Hung Kai Properties Limited (Note 1)	133,271,012	33.02
Arklake Limited (Note 1)	68,600,352	17.00
HSBC Holdings plc Group (Note 2)	173,784,872	43.05

Notes:

- 1 The register of substantial shareholders indicates that the interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 68,600,352 shares disclosed by Arklake Limited.
- 2 For the purposes of the Securities (Disclosure of Interests) Ordinance, HSBC Holdings plc and certain of its subsidiaries ("HSBC Holdings plc Group") are deemed to be interested in the 133,271,012 shares held by SHKP in the Company. In addition, certain subsidiaries of HSBC Holdings plc Group are the trustees of various trusts which have interest amounting to 40,513,860 shares in the Company. Accordingly, HSBC Holdings plc Group has a deemed interest in a total of 173,784,872 shares in the Company.

Purchase, Sale or Redemption of the Company's Shares

During the six months ended 30 June 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

Corporate Governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance 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.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, and also reviewed the unaudited interim financial report for the six months ended 30 June 2002. The review of the unaudited interim financial report was conducted with the Group's external auditors, KPMG. The independent review report of the external auditors is set out on page 29 of this interim report.

By order of the Board

S.Y. CHUNG

Chairman

Hong Kong, 12 September 2002

Condensed consolidated profit and loss account for the six months ended 30 June 2002

	Note	Six months ended 30 June	
		2002 HK\$ million (Unaudited)	2001 HK\$ million (Unaudited)
Turnover	2	3,450.3	3,325.9
Other revenue		38.8	83.8
Other net income		2.1	4.0
Staff costs		(1,636.9)	(1,618.5)
Depreciation		(388.9)	(323.7)
Spare parts, stores and fuel oil consumed		(323.5)	(325.2)
Other operating expenses		(447.2)	(421.0)
Profit from operations		694.7	725.3
Deemed profit on partial disposal of a subsidiary	3	2.7	319.5
Finance cost		(28.6)	(72.4)
Share of profit of associates		—	—
Share of profit/(loss) of jointly controlled entity		0.1	(0.7)
Profit from ordinary activities before taxation	4	668.9	971.7
Taxation	5	(76.8)	(84.6)
Profit from ordinary activities after taxation		592.1	887.1
Minority interests		(20.0)	(2.4)
Profit attributable to shareholders		572.1	884.7
Dividends attributable to the interim period	6(a)	181.6	161.5
Earnings per share	7	\$1.42	\$2.19

The notes on pages 19 to 28 form part of this interim financial report.

Condensed consolidated statement of changes in equity for the six months ended 30 June 2002

	Note	2002 HK\$ million (Unaudited)	2001 HK\$ million (Unaudited)
At 1 January - total equity			
- As previously reported		4,799.1	2,218.2
- Changes in accounting policies with respect to dividends and goodwill		—	526.3
As restated		4,799.1	2,744.5
Change in accounting policy pursuant to the adoption of Statement of Standard Accounting Practice 34	1(b)	252.5	—
Change in accounting policy pursuant to the adoption of Statement of Standard Accounting Practice 28		—	1,125.1
Profit for the period		5,051.6	3,869.6
Dividends approved in respect of the previous financial year	6(b)	(589.3)	(504.5)
At 30 June - total equity		5,034.4	4,249.8

The notes on pages 19 to 28 form part of this interim financial report.

Condensed consolidated balance sheet at 30 June 2002

	Note	30 June 2002 HK\$ million (Unaudited)	31 December 2001 HK\$ million (Audited)
Non-current assets			
Fixed assets		6,299.7	6,047.3
Goodwill		46.6	20.6
Interest in associates		3.5	0.6
Interest in jointly controlled entity		3.6	5.6
Investment securities		15.4	15.4
Employee benefit assets	1(b)	206.8	—
		<u>6,575.6</u>	<u>6,089.5</u>
Current assets			
Other investments		85.0	86.2
Spare parts and stores		79.4	83.1
Accounts receivable	9	361.1	349.4
Deposits and prepayments		118.4	23.9
Deposits with banks	10	1,508.0	2,090.1
Cash and cash equivalents	10	51.2	29.7
		<u>2,203.1</u>	<u>2,662.4</u>
Current liabilities			
Accounts payable and accruals	11	765.6	804.9
Third party claims payable		234.5	223.3
Bank loans and overdrafts		562.8	602.9
Taxation		132.9	79.7
		<u>1,695.8</u>	<u>1,710.8</u>
Net current assets		<u>507.3</u>	<u>951.6</u>
Total assets less current liabilities		<u>7,082.9</u>	<u>7,041.1</u>

Condensed consolidated balance sheet (continued) at 30 June 2002

	Note	30 June 2002 HK\$ million (Unaudited)	31 December 2001 HK\$ million (Audited)
Non-current liabilities			
Bank loans		1,503.3	1,742.7
Other unsecured loans		12.0	—
Contingency provision - insurance		222.2	202.0
Deferred taxation		65.0	65.0
		<u>1,802.5</u>	<u>2,009.7</u>
Minority interests		246.0	232.3
		<u>2,048.5</u>	<u>2,242.0</u>
NET ASSETS		5,034.4	4,799.1
CAPITAL AND RESERVES			
Share capital		403.6	403.6
Reserves	12	4,630.8	4,395.5
		<u>5,034.4</u>	<u>4,799.1</u>

Approved by the Board of Directors on 12 September 2002

S.Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 19 to 28 form part of this interim financial report.

Condensed consolidated cash flow statement for the six months ended 30 June 2002

	Six months ended 30 June	
	2002	2001
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
		restated
Net cash from operating activities	228.4	692.3
Net cash used in investing activities	(562.8)	(568.4)
	(334.4)	123.9
Net cash used in financing activities	(258.4)	(107.5)
Net (decrease)/increase in cash and cash equivalents	(592.8)	16.4
Cash and cash equivalents at 1 January	2,086.3	2,069.6
Effect of foreign exchange rates	8.8	(0.3)
Cash and cash equivalents at 30 June	1,502.3	2,085.7
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	51.2	31.3
Deposits with bank maturity within three months of the balance sheet date	1,469.2	2,112.9
Bank overdrafts	(18.1)	(58.5)
Cash and cash equivalents at 30 June	1,502.3	2,085.7

The notes on pages 19 to 28 form part of this interim financial report.

Notes on the unaudited interim financial report

1 Significant accounting policies

(a) Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants (the "HKSA"). KPMG's independent review report to the board of directors is included on page 29. The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the "Exchange"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the financial year ended 31 December 2001, on which auditors have expressed an unqualified opinion in their report dated 11 March 2002, are available from the Company's registered office.

This interim financial report is prepared on a basis consistent with the accounting policies adopted in the 2001 annual report, except as disclosed under note 1(b) below.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 annual report.

(b) Defined benefit plans

In prior years, annual contributions to the two defined benefit retirement schemes, namely The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme and The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme, are charged to the profit and loss account. With effect from 1 January 2002, in order to comply with SSAP 34 "Employee benefits" issued by the HKSA, the Group adopted a new policy for recognising its net obligation in respect of the defined benefit retirement schemes, by estimating the present value of future benefit that employees have earned in return for their services in the current and prior periods, net of the fair value of plan assets at the balance sheet date. As a result of the adoption of this new accounting policy, the profit for the period has been decreased by HK\$45.7 million and the net assets have been increased by HK\$206.8 million.

The effect of adopting the changed policy at 1 January 2002 has been adjusted to the opening balance of retained profits. No restatement of the profit for the period ended 30 June 2001 has been made.

2 Turnover

Turnover of the operations of the Group during the financial periods, after elimination of all material intercompany transactions, is as follows:

	Six months ended 30 June	
	2002	2001
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
Operation of franchised bus services	3,230.7	3,137.1
Operation of non-franchised bus services	83.0	67.7
Media sales business	136.6	121.1
	3,450.3	3,325.9

3 Deemed profit on partial disposal of a subsidiary

Deemed profit on partial disposal of a subsidiary during the period represents the profit arising from the reduction of the Group's shareholding in RoadShow Holdings Limited ("RoadShow") from 73.3% at the preceding financial yearend to 73.0% at 30 June 2002, as a result of the transfer of RoadShow shares by the Group to the loyal shareholders under RoadShow's Loyalty Share Bonus Scheme (as described in note 15(f) below) and the exercise of RoadShow share options by the option grantees in 2002. The comparative figure represents the deemed profit arising from the spin-off of 25% of the issued shares of RoadShow from the Group pursuant to RoadShow's listing on the Hong Kong Stock Exchange and International Placing in June 2001.

4 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2002	2001
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
Interest on bank loans and overdrafts	28.6	72.4
Interest income	(21.5)	(55.1)
Gain on disposal of fixed assets	(1.5)	(0.7)

5 Taxation

The provision for Hong Kong Profits Tax is calculated at the rate of 16% (2001: 16%) on the estimated assessable profits for the period.

6 Dividends

(a) Dividends attributable to the interim period:

	Six months ended 30 June	
	2002	2001
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
Interim dividend declared after the interim period end of HK\$0.45 per share (2001: HK\$0.4 per share)	181.6	161.5

(b) Dividends attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2002	2001
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous year, approved and paid during the interim period, of HK\$1.46 per share (2001: HK\$1.25 per share)	589.3	504.5

7 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$572.1 million (2001: HK\$884.7 million) and 403.6 million (2001: 403.6 million) shares in issue during the period.

8 Segmental information

Turnover and contribution to the Group's profit from principal activities during the period, after elimination of all material intercompany transactions, are as follows:

	Turnover		Contribution to profit from operations	
	Six months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operation of franchised and non-franchised bus services	3,313.7	3,204.8	571.5	594.1
Media sales business	136.6	121.1	100.9	94.2
	3,450.3	3,325.9	672.4	688.3
Unallocated net operating income and expenses			22.3	37.0
Profit from operations			694.7	725.3

Turnover and contribution to the Group's profit from activities outside Hong Kong are insignificant. Accordingly, no analysis by geographical location is required.

9 Accounts receivable

	30 June 2002 HK\$ million (Unaudited)	31 December 2001 HK\$ million (Audited)
Trade and other receivables	358.9	346.3
Interest receivable	2.2	3.1
	361.1	349.4

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

	30 June 2002 HK\$ million (Unaudited)	31 December 2001 HK\$ million (Audited)
Current	72.7	182.9
1 to 3 months overdue	34.6	31.0
More than 3 months overdue	139.8	1.9
	247.1	215.8

Debts are normally due within 30 to 90 days from the date of billing.

10 Cash and cash equivalents

	30 June 2002 HK\$ million (Unaudited)	31 December 2001 HK\$ million (Audited)
Deposits with banks	1,508.0	2,090.1
Cash at bank and in hand	51.2	29.7
	1,559.2	2,119.8

11 Accounts payable and accruals

	30 June 2002	31 December 2001
	HK\$ million (Unaudited)	HK\$ million (Audited)
Trade payables	107.5	142.4
Other payables and accruals	658.1	662.5
	765.6	804.9

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

	30 June 2002	31 December 2001
	HK\$ million (Unaudited)	HK\$ million (Audited)
Due within 1 month or on demand	64.8	138.9
Due after 1 month but within 3 months	40.9	1.4
Due after 3 months but within 12 months	1.8	2.1
	107.5	142.4

12 Reserves

	HK\$ million (Unaudited)
(a) Capital reserve	
At 1 January and 30 June 2002	2.4
(b) General reserve	
At 1 January and 30 June 2002	17.6
(c) Retained profits	
At 1 January 2002 - as previously reported	3,292.9
Change in accounting policy pursuant to the adoption of Statement of Standard Accounting Practice 34 (note 1(b))	252.5
	3,545.4
Profit for the period	572.1
Dividends approved in respect of the previous financial year (note 6(b))	(589.3)
At 30 June 2002	3,528.2
(d) Staff retirement fund reserve	
At 1 January and 30 June 2002	1,082.6
Total reserves	
At 30 June 2002	4,630.8
At 31 December 2001	4,395.5

13 Commitments

Capital commitments of the Group outstanding at 30 June 2002 not provided for in the interim financial report are as follows:

	30 June 2002 HK\$ million (Unaudited)	31 December 2001 HK\$ million (Audited)
Contracted for	585.1	590.3
Authorised but not contracted for	368.8	200.3
	953.9	790.6

14 Contingent liabilities

At 30 June 2002, The Kowloon Motor Bus Holdings Limited ("the Company") has undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK\$396.7 million (31 December 2001: HK\$577.3 million). Additionally, together with an external party, the Company had undertaken to guarantee jointly and severally a bank loan granted to a subsidiary to the extent of HK\$30.0 million (31 December 2001: HK\$5.0 million).

15 Material related parties transactions

- (a) During the period, the Group entered into a contract with a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), 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\$72.6 million (2001: HK\$23.0 million) during the period ended 30 June 2002. The amount due to/(from) this company at 30 June 2002 amounted to HK\$0.3 million (31 December 2001: HK\$(0.3 million)).
- (b) During the period, the Group provided coach services to certain subsidiaries of SHKP under the same terms as those available to other customers in the ordinary course of business. The services fees received by the Group amounted to HK\$30.5 million (2001: HK\$20.7 million) during the period ended 30 June 2002. The amounts due from these companies at 30 June 2002 amounted to HK\$15.0 million (31 December 2001: HK\$17.4 million).
- (c) The Group entered into a contract with a subsidiary of SHKP 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 higher. During the period, no payment was paid for these project consultancy services (2001: HK\$1.6 million). There were no outstanding amounts due to this company at 30 June 2002 and 31 December 2001. The Group's capital commitment outstanding at 30 June 2002 and 31 December 2001 under this contract amounted to HK\$3.2 million.

- (d) The Group entered into a contract with a subsidiary of SHKP 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 period, no payment for these project management services was made by the Group to this company (2001: HK\$ Nil). There were no outstanding amounts due to this company at 30 June 2002 and 31 December 2001. The Group's capital commitment outstanding at 30 June 2002 under this contract amounted to HK\$17 million (31 December 2001: HK\$17 million).
- (e) The Group entered into a contract with a subsidiary of SHKP for the provision of transportation services for Ma Wan Island in the Hong Kong SAR. The service had not commenced during the period. Park Island Transport Company Limited ("PITC"), a subsidiary of the Group, shall be entitled to a return lying within the range of 9% and 16% per annum of the simple arithmetic average of the opening balance and the closing balance of the net book value of PITC's fixed assets with respect to the accounting period concerned. Further, Sun Hung Kai (Ma Wan) Transport Company Limited, a wholly-owned subsidiary of SHKP, shall make an advance to PITC every calendar month, commencing from 1 January 2002, an unsecured loan in the sum of HK\$2 million for the period of 26 calendar months at the interest rate of one per cent above HIBOR per annum, which together with interest is to be repaid upon expiration or early termination of the contract. During the period, the amount of unsecured loan drawn by PITC was HK\$12.0 million (2001: HK\$ Nil). The amount of interest costs incurred was HK\$0.1 million (2001: HK\$ Nil). Therefore, the total amount of principal and interest outstanding at 30 June 2002 was HK\$12.1 million (31 December 2001: HK\$ Nil).
- (f) Under a Loyalty Share Bonus Scheme of RoadShow, the loyal shareholders of RoadShow, who acquired and held its shares continuously for one year since the date of RoadShow's listing on 28 June 2001 under a Preferential Offer, were entitled to receive one bonus share ("Bonus Shares") for every 10 shares acquired and held on 28 June 2002. The Bonus Shares would be transferred by KMB Resources Limited, one of the Group's subsidiaries and the immediate holding company of RoadShow, to the loyal shareholders at nil consideration. On 28 June 2002, a total number of 2,456,729 RoadShow shares were transferred to the loyal shareholders, out of which the following substantial shareholders and Directors of the Company in aggregate were entitled to:

	Number of shares transferred
Substantial shareholders	
Arklake Limited (note 1)	547,800
SHKP (note 1)	956,800
HSBC Holdings plc Group (note 2)	1,005,459
Directors	78,864

Note 1: The Bonus Shares transferred to and disclosed by SHKP includes the 547,800 shares transferred to Arklake Limited.

Note 2: For the purposes of the Securities (Disclosure of Interests) Ordinance, HSBC Holdings plc and certain of its subsidiaries ("HSBC Holdings plc Group") are deemed to be interested in the 956,800 Bonus Shares transferred to SHKP. In addition, certain subsidiaries of HSBC Holdings plc are the trustees of various trusts which have been transferred with 48,659 Bonus Shares. Accordingly, HSBC Holdings plc Group is deemed to be transferred with a total of 1,005,459 Bonus Shares.

16 Comparative figures

Comparative figures have been restated based on the change in accounting policy as set out in note 1(b) in the interim financial report.

17 Approval of interim financial report

The interim financial report was approved by the Board of Directors on 12 September 2002.

Independent review report to the Board of Directors of The Kowloon Motor Bus Holdings Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 14 to 28.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

KPMG

Certified Public Accountants

Hong Kong, 12 September 2002

Corporate Directory

BOARD OF DIRECTORS

The Hon Sir Sze-yuen CHUNG*

GBM, GBE, PhD, FREng, JP
Chairman

Norman LEUNG Nai Pang

GBS, JP, BA
Deputy Chairman

Dr the Hon WOO Pak Chuen*

JP, ILLD(Hon), LLB, PhD

Raymond KWOK Ping Luen

MA(Cantab), MBA, Hon DBA

Walter KWOK Ping Sheung

JP, MSc(Lond), DIC, MICE

YU Shu Chuen

Honorary Executive Director

NG Siu Chan

William LOUEY Lai Kuen

BSc(Econ)

John CHAN Cho Chak

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

Managing Director

Charles LUI Chung Yuen

MH, BEc, AASA, FCILT
Executive Director

Winnie J NG

BA, MBA(Chicago)
Executive Director

Dr KUNG Ziang Mien, James*

OBE

George CHIEN Yuan Hwei

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

The Hon Eric Li Ka Cheung*

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LUI Pochiu

MCILT

Edmond HO Tat Man

MA(Cantab), MBA, MCILT, MHKIoD
Deputy Managing Director

Lana WOO

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

SHAM Yat Wah

BSc, MIMarE, CEng
(Alternate Director to
Mr Raymond KWOK Ping Luen)

Susanna LAU Shung Oi

BA, ACA
(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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REGISTER OF MEMBERS

Book closed from 30 September 2002 to
4 October 2002, both dates inclusive

DIVIDENDS

Interim

HK\$0.45 per share,
payable on 10 October 2002

STOCK CODE

The Stock Exchange of Hong Kong: 00062
Bloomberg: 62HK
Reuters: 0062.HK

