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INTERIM RESULTS

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2004 was HK\$360.4 million. This represents an increase of 55.7% compared with HK\$231.5 million for the same period in 2003. Earnings per share for the period under review amounted to HK\$0.89 compared with HK\$0.57 for the same period in 2003.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK\$0.45 per share (2003: HK\$0.45 per share), totalling HK\$181.6 million (2003: HK\$181.6 million), for the six months ended 30 June 2004. This interim dividend will be paid on 13 October 2004 to the shareholders who are on the Register of Members at the close of business on 7 October 2004. The Register will be closed from 5 October 2004 to 7 October 2004, 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 4 October 2004.

MANAGEMENT REVIEW AND OUTLOOK

Review of operations and results of individual business unit

Franchised Public Bus Operations

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

- Profit after taxation for the six months ended 30 June 2004 amounted to HK\$338.6 million (2003: HK\$249.7 million), representing an increase of 35.6% compared with that of the same period in 2003.
- In the first half of 2004, fare revenue and ridership amounted to HK\$2,878.4 million (2003: HK\$2,856.3 million) and 528.3 million passenger trips (2003: 513.4 million passenger trips) respectively. These represent increases of 0.8% and 2.9% respectively compared with the corresponding period in 2003. Such increases were mainly attributable to the recovery of the local economy after the subsidence of Severe Acute Respiratory Syndrome ("SARS") and the increase in tourists from the Mainland after the introduction and extension of the Individual Visit Scheme since July 2003. These positive factors on fare revenue were, however, partially offset by the three fare concession schemes introduced since 1 October 2003 and the loss of patronage to the Kowloon-Canton Railway ("KCR") West Rail which commenced operations in December 2003.
- Advertising revenue for the first half of 2004 amounted to HK\$38.2 million. This represents a slight increase of 0.8% when compared to HK\$37.9 million recorded in the same period in 2003.
- During the period under review, total bus operating costs slightly increased by about 0.11% compared with the same period last year. Whilst fuel costs increased significantly by 17.9% as a result of the surge in fuel prices, such increase was mostly offset by our effort to lower staff costs and other operating expenses through enhancement of staff productivity, improvement in operational efficiency and continuation of stringent cost control measures.
- KMB operated a total of 403 routes at the end of June 2004, compared with 411 at the end of 2003. During the period under review, one new route was introduced whilst eight routes were cancelled in the Tuen Mun and Yuen Long areas due to the opening of KCR West Rail and one route serving the Tseung Kwan O area was also cancelled as part of a rationalisation exercise.



- At the end of June 2004, there were 47 Octopus Bus-bus Interchange (“BBI”) schemes covering over 202 bus routes. In addition, KMB has also introduced an Octopus Bus-rail Interchange (“BRI”) scheme with KCR West Rail covering 18 feeder routes and three West Rail Stations. All the BBI and BRI schemes introduced to date have been well received by our customers.
- An additional 68 new air-conditioned double-deck buses were licensed during the first half of 2004. At 30 June 2004, KMB had a fleet of 4,149 licensed buses, comprising 3,941 double-deckers and 208 single-deckers, of which a total of 3,549 or 85.5% was air-conditioned. In addition, there were 86 buses under construction and 66 buses on order.

Long Win Bus Company Limited (“LWB”)

- LWB recorded a profit after taxation of HK\$3.3 million for the first half of 2004 compared with a loss after taxation of HK\$4.4 million for the corresponding period of 2003.
- For the first six months of 2004, LWB recorded a total ridership of 10.6 million (or a daily average of 58,407) passenger trips, an increase of 19.1% compared with 8.9 million (or a daily average of 49,299) passenger trips for the same period last year. The increase was due mainly to the new population intake at Tung Chung New Town and the recovery of travel demand to and from the Hong Kong International Airport.
- As at 30 June 2004, LWB had 136 air-conditioned double-deck buses and nine air-conditioned single-deck buses serving a total of 15 routes. Its fleet size and number of routes remained the same as at the end of 2003.

Non-franchised Transport Operations

The Group’s Non-franchised Transport Operations Division recorded a turnover of HK\$124.4 million (2003: HK\$109.5 million) and a profit after taxation of HK\$13.6 million (2003: HK\$6.4 million) for the first half of 2004. The increase in turnover and profit was mainly attributable to the recovery of the local economy and the growth in patronage of the cross-boundary shuttle bus services. A review of the operations of the principal business units in this Division is set out as follows:

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

- The turnover of the SBH Group slightly decreased by 0.2% as compared to the same period last year. The decrease in turnover was mainly due to the loss of patronage on certain residential bus services to KCR West Rail, which commenced operations in December 2003. The loss was, however, largely offset by the improvement in patronage with the recovery of the local economy after the subsidence of SARS.
- By providing quality bus services tailored for target customers’ needs, the SBH Group has been maintaining its leading position in Hong Kong’s non-franchised bus sector. During the period under review, six new coaches were added to its fleet bringing the total number to 229 buses at 30 June 2004.
- The SBH Group’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. The SBH Group will continue to leverage on its economies of scale to materialise expansion through penetrating further into different market sectors and by providing quality and value-for-money bus services.



New Hong Kong Bus Company Limited (“NHKB”)

- NHKB jointly operates a popular cross-boundary shuttle bus service with its Shenzhen counterpart serving regular commuters and holiday travellers between Lok Ma Chau and Huanggang. Due mainly to the improved economic environment and the increase in the number of visitors from the Mainland since the introduction of the Individual Visit Scheme in July 2003, the average monthly ridership increased by 31.2% to 1,171,600 passenger trips for the first six months of 2004 from 892,800 passenger trips for the same period in 2003. A total of 24 buses were deployed to the service at 30 June 2004, same as at the end of 2003.

Park Island Transport Company Limited (“PITC”)

- PITC, a 65% owned subsidiary of the Company, provides high quality shuttle bus and ferry services for the residents of and visitors to Park Island, a prestige development on Ma Wan Island. Due mainly to further population intake and the sales campaign of residential flats of Park Island Phase III, PITC’s patronage increased to 486,000 passenger trips in June 2004 from 346,000 in June 2003. At the end of June 2004, PITC operated a fleet of 14 air-conditioned buses and seven high-speed catamarans, same as at the end of 2003.

Media Sales Business

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

- The RoadShow Group is a leading media sales group in the Greater China region and it markets advertising aimed at passengers of transit vehicles through a proprietary Multi-media On-board (“MMOB”) system. It also manages and markets display advertising spaces on bus shelters, billboards, panel light boxes, bus bodies and telephone booths.
- For the first half of 2004, the RoadShow Group reported a total operating revenue of HK\$98.1 million (2003: HK\$71.6 million) and a profit attributable to shareholders of HK\$10.3 million (2003: a loss of HK\$26.2 million).
- Further information relating to the RoadShow Group is available in its 2004 interim report.

Mainland China Transport Operations

As at 30 June 2004, the Group’s total interest in associates and jointly controlled entity in respect of Mainland transport operations amounted to HK\$215.0 million (31 December 2003: HK\$79.9 million). Such investments are related to the provision of passenger bus services in Dalian, Tianjin and Wuxi, and taxi and car rental services in Beijing. During the period under review, these businesses contributed a profit before taxation of HK\$12.2 million to the Group’s results for the first half of 2004 (2003: a loss before taxation of HK\$1.9 million). The turnaround was due mainly to the increase in the Group’s investments and the subsidence of SARS on the Mainland compared with the same period last year.

Dalian

The co-operative joint venture (“CJV”) in Dalian, Liaoning Province was established in July 1997 between a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company. This CJV operates three routes in Dalian city deploying 46 double-deck and 30 single-deck buses.



Tianjin

The CJV in Tianjin was formed in December 2000 between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited. This CJV provides bus services in Tianjin City with 110 single-deck buses on seven routes.

Beijing

Beijing Beiqi Kowloon Taxi Company Limited (“BBKT”), a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT’s shareholders include KMB (Beijing) Taxi Investment Limited, a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Co. Limited, Beijing Bashi Co., Ltd. and three other Mainland investors. BBKT principally engages in taxi hire and car rental businesses in Beijing City with a fleet of over 4,000 vehicles. The Group’s investment in BBKT was RMB 80.0 million (HK\$75.5 million), representing approximately 31.38% of BBKT’s equity interest.

Wuxi

Wuxi Kowloon Public Transport Company Limited (“WKPT”), a Sino-foreign joint stock company in which the Group has 45% equity interest, was established in Wuxi City, Jiangsu Province in February 2004. WKPT currently operates some 1,700 buses on 106 routes. The Group’s investment in WKPT was RMB 135.0 million (HK\$127.2 million).

Shenzhen

In December 2003, the Group entered into agreements to acquire a 35% stake of a Sino-foreign joint stock company, which would be formed from reorganisation of the existing Shenzhen Public Transportation Group Limited. This transaction is awaiting the statutory approval of the relevant authorities on the Mainland. Upon approval, the reorganised company will principally operate public bus services in Shenzhen, Guangdong Province, with around 3,400 vehicles on 120 routes.

Property Development

- The redevelopment of the former Lai Chi Kok Depot site progressed smoothly in the first half of 2004. The site is being redeveloped into a residential and commercial complex with a total gross floor area of about one million square feet and a retail podium area of about 50,000 square feet. It is intended that several multi-storey prestigious residential towers will be constructed with about 1,300 units for sale and/or letting.
- The piling and foundation work of the development was completed in January 2004. It is expected that the development will be completed in the second half of 2006. We shall closely monitor the property market conditions with a view to drawing up an appropriate timetable for marketing the property.
- At 30 June 2004, the total construction cost incurred for the project amounted to HK\$217.9 million (31 December 2003: HK\$112.0 million). The project will be financed by the Group’s working capital and unsecured bank loans.



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, capital expenditures and investment. Furthermore, sufficient cash balances are maintained to meet operational requirements, potential business expansion and development from time to time. The Group has been financed mainly 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 36% as at 30 June 2004 (31 December 2003: 22%).
- At 30 June 2004, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$1,477.1 million, representing an increase of HK\$503.8 million as compared with the net borrowings of HK\$973.3 million at 31 December 2003. An analysis of the Group's net borrowings by currency at 30 June 2004 is shown below:

Currency	At 30 June 2004		At 31 December 2003	
	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		1,575.1		1,140.1
United States Dollar	(7.6)	(59.5)	(11.3)	(87.9)
British Pound Sterling	(1.4)	(19.7)	(6.5)	(90.1)
Renminbi	(19.9)	(18.8)	11.8	11.2
Total		<u>1,477.1</u>		<u>973.3</u>

- Bank loans and overdrafts at 30 June 2004 amounted to HK\$2,625.0 million (31 December 2003: HK\$2,633.0 million). The maturity profile of the bank loans and overdrafts of the Group is as follows:

	At 30 June 2004 HK\$ million	At 31 December 2003 HK\$ million
Within 1 year or on demand	<u>481.8</u>	<u>415.4</u>
After 1 year but within 2 years	380.9	374.9
After 2 years but within 5 years	1,412.3	1,492.7
After 5 years	<u>350.0</u>	<u>350.0</u>
	<u>2,143.2</u>	<u>2,217.6</u>
Total	<u>2,625.0</u>	<u>2,633.0</u>

- At 30 June 2004, other unsecured loans amounted to HK\$21.1 million (31 December 2003: HK\$21.1 million) are interest-free and not expected to be settled within one year.



- At 30 June 2004, the Group had stand-by banking facilities totalling HK\$2,235.0 million (31 December 2003: HK\$2,236.7 million).
- The finance costs for the period under review amounted to HK\$5.6 million (2003: HK\$21.4 million). This represents an average interest rate of 0.46% per annum for the first half of 2004, down from 1.7% per annum for the same period last year.
- At 30 June 2004, the Group's cash and deposits at banks (mainly denominated in Hong Kong Dollars, US Dollars, British Pound Sterling and Renminbi) amounted to HK\$1,169.0 million (31 December 2003: HK\$1,680.8 million).

Funding and treasury policies

- Major operating companies of the Group arrange their own financing to meet specific requirements whilst other subsidiaries of the Group obtain financing from 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 is derived from fare revenue from the franchised bus services, and revenue from non-franchised transport operations and the media sales business, mainly denominated in Hong Kong Dollars. Financing in Hong Kong Dollars has provided a natural currency hedge to the Group. At 30 June 2004, the Group's total borrowings were substantially denominated in Hong Kong Dollars and on a floating interest rate basis. This had enabled the Group to take full advantage of the low interest rates during the first half of 2004. 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 a significant risk for the Group as the levels of foreign currency assets and liabilities were relatively low 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.

Commitments

Commitments outstanding and not provided for in the interim financial report of the Group as at 30 June 2004 amounted to HK\$1,901.5 million (31 December 2003: HK\$2,299.2 million). The commitments are mainly in respect of the redevelopment of the former Lai Chi Kok Depot site, the construction of new bus depots, the capital contribution for investments and the purchase of buses and other fixed assets. The commitments are to be financed by bank borrowings and the Group's working capital.

Contingent liabilities

At 30 June 2004, the Company had undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK\$628.0 million (31 December 2003: HK\$574.2 million). Additionally, together with an external party, the Company had undertaken to guarantee jointly and severally a bank loan granted to a 65% owned subsidiary, to finance its purchase of fixed assets and daily operations, to the extent of HK\$135.0 million (31 December 2003: HK\$110.0 million). Such bank loan will be repayable by instalments commencing from February 2005 to August 2008.



Employees and remuneration policies

Over 13,000 employees are employed by the Group for its franchised bus and non-franchised transportation services, and media sales business. Due to the labour intensive nature of the businesses, staff costs represent a substantial portion of the operating costs of the Group. The number and remuneration of the employees have been closely monitored to meet expansion or rationalisation plans and yet align with market trends. At 30 June 2004, the Group had 13,620 employees (2003: 14,021 employees), with total remuneration for the period amounting to approximately HK\$1,530.2 million (2003: HK\$1,587.4 million), representing 52% (2003: 53%) of the total operating costs for the corresponding period.

Outlook

We expect that the ridership of the Group's franchised public bus business will continue to be adversely affected by KCR West Rail in the second half of the year. Further, the scheduled opening of the Ma On Shan Extension and the Tsim Sha Tsui Extension of KCR East Rail by the end of 2004 will be bound to aggravate the adverse impact on our patronage. However, we anticipate that the improving economy and the expanding Individual Visit Scheme, which facilitate more visitors from different provinces on the Mainland to travel to Hong Kong, will generate some passenger growth for the Group to partially offset the loss of patronage to the new railways.

Meanwhile, we will continue to monitor our patronage trends and rationalise our bus network as necessary in light of the opening of the new railways. Resources from the affected areas will be re-deployed to other locations in need of our bus services. In the longer term, we anticipate that our patronage will grow steadily when more new towns are developed to cope with the expected population growth and the shifting of population to the rural areas due to the extension of railway lines.

Oil prices are expected to stay at a relatively high level in the second half of 2004. We will continue to step up our cost control measures to mitigate the adverse financial impact on the Group as far as practicable.

With the continuous improvement in the local economic environment, we anticipate that our non-franchised transport business, particularly the cross-boundary shuttle service, and our media sales business will further strengthen in the second half of 2004. The redevelopment of our former Lai Chi Kok Depot site into a residential and commercial complex is progressing smoothly and is expected to generate income for the Group in the near future.

Our investments on the Mainland are expected to gradually provide more contribution to the Group's earnings in the coming years. We will continue to explore new growth opportunities in both transportation and media sales businesses on the Mainland in accordance with the Group's strategy of sustaining long-term business growth through business diversification.

By order of the Board

S.Y. CHUNG

Chairman

Hong Kong, 16 September 2004



SUPPLEMENTARY INFORMATION

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

At 30 June 2004, the interest of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they are taken or deemed to have under such provisions of the SFO or were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or were to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:-

I. Interests in Issued Shares

a) The Company

	Ordinary shares of HK\$1 each				Total number of shares held	Percentage of total issued shares
	Personal interests	Family interests	Corporate interests	Trustee interests		
The Hon Sir Sze-yuen CHUNG, GBM, GBE, PhD, FREng, JP*	18,821	—	—	—	18,821	0.005%
Norman LEUNG Nai Pang, GBS, JP	—	—	—	—	—	—
KWOK Ping-luen, Raymond	393,350	—	—	—	393,350	0.097%
KWOK Ping-sheung, Walter, JP	61,522	—	—	—	61,522	0.015%
YU Shu Chuen	2,943	70,803	—	6,909,481	6,983,227	1.730%
				(Note 1)		
NG Siu Chan	—	21,000,609	—	—	21,000,609	5.203%
William LOUEY Lai Kuen	6,222,926	4,475	—	—	6,227,401	1.543%
John CHAN Cho Chak, GBS, JP	2,000	—	—	—	2,000	—
Charles LUI Chung Yuen, M.H.	12,427	—	—	2,651,750	2,664,177	0.660%
				(Note 2)		
Winnie NG	41,416	—	—	21,000,609	21,042,025	5.213%
				(Note 3)		
Dr KUNG Ziang Mien, James, GBS, OBE*	—	—	172,000	—	172,000	0.043%
George CHIEN Yuan Hwei	2,000	—	—	—	2,000	—
Dr the Hon Eric LI Ka Cheung, GBS, OBE, JP*	—	—	—	—	—	—
LUI Pochiu	452,113	—	—	—	452,113	0.112%
Edmond HO Tat Man	—	—	—	—	—	—
Rafael HUI Si-yan, GBS, JP	—	—	—	—	—	—
SHAM Yat Wah (Alternate Director to Mr KWOK Ping-luen, Raymond)	—	—	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter, JP)	—	—	—	—	—	—

* Independent Non-executive Director of the Company



Notes:

1. HSBC International Trustee Limited held 6,909,481 shares in the Company as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of shares.
2. Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 2,651,750 shares in the Company.
3. Ms Winnie Ng has interest in 21,000,609 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

b) *RoadShow Holdings Limited (“RoadShow”), a subsidiary of the Company*

	Ordinary shares of HK\$0.1 each				Total number of shares held	Percentage of total issued shares
	Personal interests	Family interests	Corporate interests	Trustee interests		
The Hon Sir Sze-yuen CHUNG, GBM, GBE, PhD, FREng, JP*	4,000	—	—	—	4,000	—
Norman LEUNG Nai Pang, GBS, JP	—	—	—	—	—	—
KWOK Ping-luen, Raymond	37,400	—	—	—	37,400	0.004%
KWOK Ping-sheung, Walter, JP	6,600	—	—	—	6,600	0.001%
YU Shu Chuen	33,000	6,576	—	535,825	575,401	0.058%
				(Note 1)		
NG Siu Chan	—	123,743	—	—	123,743	0.012%
William LOUEY Lai Kuen	412,371	—	—	—	412,371	0.041%
John CHAN Cho Chak, GBS, JP	—	—	—	—	—	—
Charles LUI Chung Yuen, M.H.	—	—	—	209,131	209,131	0.021%
				(Note 2)		
Winnie NG	1,000,000	—	—	123,743	1,123,743	0.113%
				(Note 3)		
Dr KUNG Ziang Mien, James, GBS, OBE*	—	—	164,000	—	164,000	0.016%
George CHIEN Yuan Hwei	—	—	—	—	—	—
Dr the Hon Eric LI Ka Cheung, GBS, OBE, JP*	—	—	—	—	—	—
LUI Pochiu	24,863	—	—	—	24,863	0.002%
Edmond HO Tat Man	—	—	—	—	—	—
Rafael HUI Si-yan, GBS, JP	—	—	—	—	—	—
SHAM Yat Wah (Alternate Director to Mr KWOK Ping-luen, Raymond)	—	—	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter, JP)	—	—	—	—	—	—

* Independent Non-executive Director of the Company



Notes:

1. HSBC International Trustee Limited held 535,825 shares in RoadShow as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of shares.
2. Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 209,131 shares in RoadShow.
3. Ms Winnie Ng has interest in 123,743 shares in RoadShow as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

As at 30 June 2004, none of the Directors had any non-beneficial interest in the share capital of the Company.

II. Interests in Underlying Shares

A Director of the Company has been granted options under RoadShow's share option scheme, details of which are set out in the section "Share Option Scheme" below.

Apart from the foregoing, none of the Directors or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, its subsidiaries or fellow subsidiaries, as recorded in the register of directors' interests and short positions required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Share Option Scheme

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

The total number of securities available for issue under the Share Option Scheme as at 30 June 2004 was 14,920,000 shares which represented 1.5% of the issued share capital of RoadShow at 30 June 2004. In respect of the maximum entitlement of each participant under the Share Option Scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of RoadShow's ordinary shares in issue.



At 30 June 2004, a Director and certain employees of the Group had the following interests in options to subscribe for shares of RoadShow (market value per share at 30 June 2004 was HK\$0.8) granted for a consideration of HK\$1 under the Share Option Scheme. The options are unlisted and each option gives the holder the right to subscribe for one share. The options granted are not recognised in the interim financial report until they are exercised.

	Number of options outstanding at 1 January 2004	Number of options outstanding at 30 June 2004	Number of shares acquired on exercise of options during the period	Exercise price per share	Market value per share at date of grant of options
<i>Director of the Company</i>					
Winnie NG	3,800,000	3,800,000	Nil	HK\$2.25	HK\$2.25
<i>Employees</i>	12,860,000	11,120,000	Nil	HK\$2.25	HK\$2.25

The above options were granted on 11 March 2002 and are exercisable during the period from 12 March 2002 to 11 March 2005. During the period, 1,740,000 options lapsed because the grantees ceased their employment with the RoadShow Group.

Directors' Interest in Contracts

Save for the Prime Cost Contract as disclosed in note 13(d) to the interim financial report, in which Messrs. Kwok Ping-luen, Raymond and Kwok Ping-sheung, Walter, who had beneficial interests in Sun Hung Kai Properties Limited, were interested, no other contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at 30 June 2004 or at any time during the six months ended 30 June 2004.



Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

At 30 June 2004, the interest or short position of the persons (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:-

	Ordinary shares of HK\$1 each			
	Registered shareholders	Corporate interests	Total number of shares held	Percentage of total issued shares
Substantial shareholders				
Sun Hung Kai Properties Limited (Notes 1 and 2)	—	133,271,012	133,271,012	33.0%
Arklake Limited (Note 1)	68,600,352	—	68,600,352	17.0%
HSBC International Trustee Limited (Note 3)	181,148,341	—	181,148,341	44.9%
Other person				
Kwong Tai Holdings Limited (Note 4)	21,000,609	—	21,000,609	5.2%

Notes:

- The interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 68,600,352 shares disclosed by Arklake Limited.
- In accordance with the Codes on Takeovers and Mergers and Share Repurchases (the "Codes"), a person becomes obliged to make a mandatory offer if the person's voting rights in a listed company exceeds a threshold. With effect from 19 October 2001, the threshold for triggering a mandatory offer obligation under the Codes has been reduced from 35% to 30%. However, transitional provisions will be applied where a person holds 30% or more of the voting rights of a listed company but less than 35% of such voting rights immediately prior to 19 October 2001. For so long as such holding remains in this range and until 10 years after that date, the Codes shall be interpreted and applied as if the 30% trigger was 35% for such person. For avoidance of doubt, where such person continues to hold 30% or more but less than 35% of the voting rights of the company at the end of the 10-year period, it will not be necessary for such person to sell his/her voting rights to take his/her holding below 30% in order not to trigger a mandatory offer obligation. In this regard, the transitional provisions are applicable to SHKP.
- HSBC International Trustee Limited is deemed to be interested in 181,148,341 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.
- The interest disclosed by Kwong Tai Holdings Limited includes 21,000,609 shares disclosed by Mr Ng Siu Chan and Ms Winnie Ng, both are Directors of the Company.



Purchase, Sale or Redemption of the Company's Shares

During the six months ended 30 June 2004, 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 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 policies 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 2004. 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 28 of this interim report.



CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Note	Six months ended 30 June	
		2004 HK\$ million (Unaudited)	2003 HK\$ million (Unaudited)
Turnover	2	3,236.7	3,155.3
Other net income		31.1	42.2
Staff costs		(1,530.2)	(1,587.4)
Depreciation and amortisation		(430.2)	(429.2)
Spare parts, stores and fuel oil consumed		(398.9)	(350.8)
Other operating expenses		(471.0)	(452.2)
Profit from operations		437.5	377.9
Finance costs		(5.6)	(21.4)
Share of profits/(losses) of associates		16.5	(1.2)
Share of profit of jointly controlled entity		0.6	0.6
Profit from ordinary activities before taxation	3	449.0	355.9
Income tax	4	(80.7)	(127.4)
Profit from ordinary activities after taxation		368.3	228.5
Minority interests		(7.9)	3.0
Profit attributable to shareholders		360.4	231.5
Dividend attributable to the interim period	5(a)	181.6	181.6
Earnings per share	6	HK\$0.89	HK\$0.57

The notes on pages 20 to 27 form part of this interim financial report.



CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2004

	Note	30 June 2004 HK\$ million (Unaudited)	31 December 2003 HK\$ million (Audited)
Non-current assets			
Fixed assets		6,432.9	6,527.4
Goodwill		48.4	49.8
Intangible asset		24.3	24.9
Non-current prepayments		111.6	104.6
Interest in associates		302.8	162.3
Interest in jointly controlled entity		1.1	1.1
Investment securities		15.4	15.4
Employee benefit assets		339.7	339.3
		7,276.2	7,224.8
Current assets			
Other investments		88.7	91.3
Property under development		217.9	112.0
Spare parts and stores		73.4	79.8
Accounts receivable	8	232.7	200.8
Deposits and prepayments		97.0	70.6
Pledged bank deposit		—	100.0
Bank balances and cash in hand	9	1,169.0	1,580.8
		1,878.7	2,235.3
Current liabilities			
Bank loans and overdrafts		481.8	415.4
Accounts payable and accruals	10	837.6	935.2
Third party claims payable		286.8	282.2
Current tax payable		121.1	54.9
		1,727.3	1,687.7
Net current assets		151.4	547.6
Total assets less current liabilities		7,427.6	7,772.4



CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2004 (continued)

	Note	30 June 2004 HK\$ million (Unaudited)	31 December 2003 HK\$ million (Audited)
Non-current liabilities			
Bank loans		2,143.2	2,217.6
Other unsecured loans		21.1	21.1
Contingency provision - insurance		106.5	106.5
Deferred taxation		772.8	776.3
Provision for long service payments		58.3	52.3
		<u>3,101.9</u>	<u>3,173.8</u>
Minority interests		<u>264.5</u>	<u>260.0</u>
NET ASSETS		<u>4,061.2</u>	<u>4,338.6</u>
CAPITAL AND RESERVES			
Share capital		403.6	403.6
Reserves	11	3,657.6	3,935.0
		<u>4,061.2</u>	<u>4,338.6</u>

Approved and authorised for issue by the Board of Directors on 16 September 2004

S.Y. CHUNG

Chairman

John CHAN Cho Chak

Managing Director

The notes on pages 20 to 27 form part of this interim financial report.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Note	2004 HK\$ million (Unaudited)	2003 HK\$ million (Unaudited)
Shareholders' equity at 1 January		4,338.6	4,560.9
Net profit for the period		360.4	231.5
Dividend approved and paid in respect of the previous financial year	5(b)	<u>(637.8)</u>	<u>(637.8)</u>
Shareholders' equity at 30 June		<u>4,061.2</u>	<u>4,154.6</u>

The notes on pages 20 to 27 form part of this interim financial report.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	2004 HK\$ million (Unaudited)	2003 HK\$ million (Unaudited)
Net cash generated from operating activities	596.9	524.7
Net cash used in investing activities	(364.7)	(584.7)
	232.2	(60.0)
Net cash used in financing activities	(656.6)	(384.8)
Net decrease in cash and cash equivalents	(424.4)	(444.8)
Cash and cash equivalents at 1 January	1,580.5	1,425.8
Effect of foreign exchange rates changes	2.0	(1.9)
Cash and cash equivalents at 30 June	1,158.1	979.1
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	92.9	51.7
Deposits with banks maturing within three months	1,076.1	934.7
Bank overdrafts	(10.9)	(7.3)
Cash and cash equivalents at 30 June	1,158.1	979.1



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 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 Institute of Certified Public Accountants (the “HKICPA”) (formerly the Hong Kong Society of Accountants). KPMG’s unmodified independent review report to the board of directors is included on page 28 of this interim financial report. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

This interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules (“Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2003 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 2003, on which auditors have expressed an unqualified opinion in their report dated 25 March 2004, are available from the Company’s registered office.

The notes to 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 financial statements for the year ended 31 December 2003.

This interim financial report is prepared on a basis consistent with the accounting policies adopted in the financial statements for the year ended 31 December 2003.

2 Turnover

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

	Six months ended 30 June	
	2004	2003
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
Fare revenue from franchised bus services	2,996.1	2,957.3
Revenue from non-franchised transport services	124.4	109.5
Media sales revenue	116.2	88.5
	<u>3,236.7</u>	<u>3,155.3</u>



3 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2004	2003
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
Interest on bank loans, overdrafts and other unsecured loans	5.6	21.4
Interest income from bank deposits and unlisted debt securities	(5.6)	(12.6)
Gain on disposal of fixed assets	(4.6)	(1.9)
	<u>5.6</u>	<u>(1.9)</u>

4 Income tax in the consolidated income statement

	Six months ended 30 June	
	2004	2003
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
<i>Current tax</i>		
Provision for Hong Kong Profits Tax for the period	79.4	54.9
Provision for PRC income tax for the period	1.2	0.9
	<u>80.6</u>	<u>55.8</u>
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(3.5)	10.2
Deferred tax expense resulting from increment in Hong Kong Profits Tax rate	—	61.4
	<u>(3.5)</u>	<u>71.6</u>
<i>Share of associates' taxation</i>		
	<u>3.6</u>	<u>—</u>
	<u>80.7</u>	<u>127.4</u>

The provision for Hong Kong Profits Tax is calculated at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Taxation for the People's Republic of China ("PRC") subsidiaries is charged at the appropriate current rates of taxation ruling in the PRC.



5 Dividends

(a) *Dividend attributable to the interim period:*

	Six months ended 30 June	
	2004	2003
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
Interim dividend declared after the interim period end of HK\$0.45 per share (2003: HK\$0.45 per share)	181.6	181.6

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

	Six months ended 30 June	
	2004	2003
	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK\$1.58 per share (2003: HK\$1.58 per share)	637.8	637.8

6 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$360.4 million (2003: HK\$231.5 million) and 403.6 million (2003: 403.6 million) shares in issue during the period.



7 Segmental information

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

	Turnover		Contribution to profit from operations	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operation of franchised public bus services and non-franchised transport services	3,120.5	3,066.8	394.2	369.8
Media sales business	116.2	88.5	37.9	2.5
	<u>3,236.7</u>	<u>3,155.3</u>	<u>432.1</u>	<u>372.3</u>
Unallocated net operating income and expenses			<u>5.4</u>	<u>5.6</u>
Profit from operations			<u>437.5</u>	<u>377.9</u>

The Group's turnover and profit from operations derived from activities outside Hong Kong were insignificant. Accordingly, no analysis by geographical segment is provided.



8 Accounts receivable

	30 June 2004 HK\$ million (Unaudited)	31 December 2003 HK\$ million (Audited)
Trade and other receivables	230.1	199.0
Interest receivable	2.6	1.8
	<u>232.7</u>	<u>200.8</u>

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

	30 June 2004 HK\$ million (Unaudited)	31 December 2003 HK\$ million (Audited)
Current	62.9	81.7
Less than 3 months overdue	7.1	15.0
More than 3 months overdue	31.0	9.9
	<u>101.0</u>	<u>106.6</u>

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

9 Bank balances and cash in hand

	30 June 2004 HK\$ million (Unaudited)	31 December 2003 HK\$ million (Audited)
Cash at bank and in hand	92.9	505.9
Deposits with banks maturing within three months	1,076.1	1,074.9
	<u>1,169.0</u>	<u>1,580.8</u>



10 Accounts payable and accruals

	30 June 2004 HK\$ million (Unaudited)	31 December 2003 HK\$ million (Audited)
Trade payables	95.2	123.6
Other payables and accruals	742.4	811.6
	<u>837.6</u>	<u>935.2</u>

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

	30 June 2004 HK\$ million (Unaudited)	31 December 2003 HK\$ million (Audited)
Due within 1 month or on demand	87.5	94.7
Due after 1 month but within 3 months	7.7	28.9
	<u>95.2</u>	<u>123.6</u>

11 Reserves

	HK\$ million (Unaudited)
<i>(a) Capital reserve</i>	
At 1 January and 30 June 2004	2.4
<i>(b) General reserve</i>	
At 1 January and 30 June 2004	17.8
<i>(c) Retained profits</i>	
At 1 January 2004	2,832.1
Profit for the period	360.4
Dividend approved and paid in respect of the previous financial year (note 5(b))	(637.8)
At 30 June 2004	<u>2,554.7</u>



11 Reserves (continued)

	HK\$ million (Unaudited)
(d) <i>Staff retirement fund reserve</i>	
At 1 January and 30 June 2004	1,082.6
(e) <i>Exchange reserve</i>	
At 1 January and 30 June 2004	0.1
Total reserves	
At 30 June 2004	3,657.6
At 31 December 2003	3,935.0

12 Commitments

Commitments outstanding at 30 June 2004 not provided for in the interim financial report were as follows:

	30 June 2004 HK\$ million (Unaudited)	31 December 2003 HK\$ million (Audited)
Contracted for	1,617.8	2,062.7
Authorised but not contracted for	283.7	236.5
	1,901.5	2,299.2

13 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\$92.0 million (2003: HK\$91.7 million) during the period ended 30 June 2004. The amount due to this company at 30 June 2004 amounted to HK\$0.7 million (31 December 2003: HK\$1.0 million). This transaction also constitutes an ongoing connected transaction under the Listing Rules.
- (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 service fees received by the Group amounted to HK\$14.2 million (2003: HK\$18.4 million) during the period ended 30 June 2004. The amounts due from these companies at 30 June 2004 amounted to HK\$8.0 million (31 December 2003: HK\$9.0 million).



13 Material related parties transactions *(continued)*

- (c) The Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to the 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 higher. During the period, the payment for these project management services made by the Group to this company amounted to HK\$3.0 million (2003: HK\$ Nil). There was no outstanding amount due to this company at 30 June 2004 and 31 December 2003. The Group's capital commitment outstanding at 30 June 2004 under this contract amounted to HK\$11.0 million (31 December 2003: HK\$11.0 million).
- (d) Lai Chi Kok Properties Investment Limited ("LCKPI"), an indirectly wholly owned subsidiary of the Company, entered into a prime cost contract (the "Prime Cost Contract") with a subsidiary of SHKP for the provision of management contractor services relating to the property under development of the Group. During the period, the payment for the Prime Cost Contract made by LCKPI to the subsidiary of SHKP amounted to HK\$90.4 million (2003: HK\$ Nil). The amount accrued under this contract at 30 June 2004 amounted to HK\$1.1 million (31 December 2003: HK\$ Nil). The Group's capital commitment outstanding at 30 June 2004 under this contract amounted to HK\$1,068.7 million (31 December 2003: HK\$1,160.2 million). This transaction constitutes a connected transaction under the Listing Rules.
- (e) A subsidiary of the Group, Park Island Transport Company Limited ("PITC"), entered into a contract with Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW"), a wholly owned subsidiary of SHKP, for the provision of transport services for Ma Wan Island in Hong Kong. Under the terms of the contract, PITC shall be entitled to a return lying within the range of 9% and 16% per annum of the simple arithmetic average of the opening balance and the closing balance of the net book value of PITC's fixed assets with respect to the accounting period concerned (the "Entitled Net Return"). The estimated Entitled Net Return for the period was HK\$6.2 million (2003: HK\$5.0 million). Furthermore, for a period of 26 calendar months commenced from January 2002, which was extended by another 10 calendar months during the period, SHKMW advances to PITC an unsecured loan in the sum of HK\$2.0 million per month at an interest rate of 1% per annum above HIBOR, which together with interest is to be repaid upon expiration or early termination of the contract or be charged against any shortfall between the minimum Entitled Net Return and operating profits or losses (the "Shortfall") incurred by PITC. The amount receivable from SHKMW at 30 June 2004 under this contract, after set-off by the Shortfall, was HK\$17.7 million (31 December 2003: HK\$16.4 million). This transaction also constitutes an ongoing connected transaction under the Listing Rules.

14 Approval of interim financial report

The interim financial report was approved by the Board of Directors on 16 September 2004.



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 15 to 27.

Respective responsibilities of directors and auditors

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 Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 Institute of Certified Public 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 2004.

KPMG

Certified Public Accountants

Hong Kong, 16 September 2004

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

KWOK Ping-uen, Raymond

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

KWOK Ping-sheung, Walter

JP, MSc(Lond), DIC, MICE

YU Shu Chuen

Honorary Executive Director

NG Siu Chan

William LOUEY Lai Kuen

BSc(Econ)

John CHAN Cho Chak

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

Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT
Executive Director

Winnie NG

BA, MBA(Chicago)
Executive Director

Dr KUNG Ziang Mien, James*

GBS, OBE

George CHIEN Yuan Hwei

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

Dr the Hon Eric LI Ka Cheung*

GBS, OBE, JP, LLD, DSocSc, BA,
FCPA(Practising), FCA, FCPA(Aust.), FCIS

LUI Pochiu

CMILT

Edmond HO Tat Man

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

Rafael HUI Si-yan

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

SHAM Yat Wah

BSc, MIMarE, CEng, MHKIE
(Alternate Director to
Mr KWOK Ping-uen, Raymond)

Susanna LAU Shung Oi

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

KUNG Lin Cheng, Leo

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

(*Independent Non-executive Director)

COMPANY SECRETARY

Lana WOO

BA, AAT, CGA, ACIS, MIFC, CFC

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL OFFICE

No. 1, Po Lun Street
Lai Chi Kok, Kowloon
Hong Kong

Telephone: (852) 2786 8888
Facsimile: (852) 2745 0300
Internet: www.kmb.hk
E-mail: kowloonbus@kmb.hk

AUDITORS

KPMG

8/F, Prince's Building
10 Chater Road
Central, Hong Kong

REGISTRARS

Hong Kong

**Computershare Hong Kong Investor
Services Limited**

46/F, Hopewell Centre
183 Queen's Road East
Hong Kong

Bermuda

Butterfield Corporate Services Limited

11 Rosebank Centre
Bermudiana Road
Hamilton, Bermuda

REGISTER OF MEMBERS

Book closed from 5 October 2004 to
7 October 2004, both dates inclusive

DIVIDEND

Interim

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

STOCK CODE

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Bloomberg: 62HK
Reuters: 0062.HK

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