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Interim Review

Interim Financial Report

INTERIM RESULTS

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2005 was HK$273.7 million. This represents a decrease of 24.1% compared with HK$360.4 million for the corresponding period of 2004. Earnings per share for the period under review amounted to HK$0.68 compared with HK$0.89 for the corresponding period of 2004.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK$0.45 per share (2004: HK$0.45 per share), totalling HK$181.6 million (2004: HK$181.6 million), for the six months ended 30 June 2005. This interim dividend will be paid on 13 October 2005 to the shareholders who are on the Register of Members at the close of business on 6 October 2005. The Register will be closed from 4 October 2005 to 6 October 2005, 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 3 October 2005.

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 2005 amounted to HK$210.3 million (2004: HK$338.6 million), representing a decrease of 37.9% compared with the corresponding period of 2004.

- In the first half of 2005, fare revenue and ridership amounted to HK$2,766.5 million (2004: HK$2,878.4 million) and 498.0 million passenger trips (2004: 528.3 million passenger trips) respectively. These represent decreases of HK$111.9 million (3.9%) and 30.3 million passenger trips (5.7%) respectively compared with the corresponding period of 2004. Such decreases were primarily due to the loss of patronage to the Kowloon-Canton Railway Corporation ("KCRC")'s Ma On Shan Rail, Tsim Sha Tsui Extension and West Rail, which commenced operations in December 2004, October 2004 and December 2003 respectively.

- Advertising revenue for the first half of 2005 amounted to HK$32.0 million. This represents a decrease of 16.2% compared to HK$38.2 million recorded in the corresponding period of 2004.

- For the six months ended 30 June 2005, expenditure on fuel oil amounted to HK$365.7 million, an increase of approximately HK$112.3 million or 44.3% compared with the corresponding period of 2004. This increase was due mainly to the worldwide drastic escalation of fuel prices which was totally beyond KMB's control and which has had a major adverse impact on the cost of KMB's operations. Faced with this situation, KMB has made further strenuous effort to reduce costs in other areas through bus service rationalisation and stringent cost controls on other expenses wherever possible. As a result, the bus operating cost (excluding the cost of fuel oil) was reduced by HK$88.6 million or 3.9% compared with the corresponding period of 2004.

- KMB operated a total of 404 routes at the end of June 2005, compared with 405 at the end of 2004. During the period under review, three new routes were introduced whilst four routes were cancelled in the Ma On Shan and Shatin areas as part of a rationalisation exercise following the opening of KCRC's Ma On Shan Rail.

- At the end of June 2005, there were 49 Octopus Bus-bus Interchange ("BBI") schemes covering over 207 bus routes. In addition, KMB has also introduced an Octopus Bus-rail Interchange ("BRI") scheme with KCRC 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.

- 23 new air-conditioned double-deck buses were licensed during the first half of 2005. At 30 June 2005, KMB had a fleet of 4,081 (end of 2004: 4,150) licensed buses, comprising 3,925 double-deckers and 156 single-deckers, of which a total of 3,629 or 89% was air-conditioned. In addition, KMB will take delivery of 50 buses during the second half of 2005 and early 2006.

Long Win Bus Company Limited ("LWB")

- LWB recorded a profit after taxation of HK$9.7 million (2004: HK$3.3 million) for the first half of 2005. This represents an increase of HK$6.4 million or 193.9% compared with that for the same period in 2004.

- LWB's fare revenue for the first six months of 2005 amounted to HK$126.9 million, representing an increase of 9.1% compared with HK$116.3 million for the corresponding period in 2004. During the period, LWB recorded a total ridership of 11.4 million (or a daily average of 63,206) passenger trips, an increase of 7.5% compared with 10.6 million (or a daily average of 58,407) passenger trips for the corresponding period of the previous year. These increases were due mainly to the new population intake at Tung Chung New Town and the continuous growth of road transport demand to and from the Hong Kong International Airport.

- At 30 June 2005, 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 2004.

Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a turnover of HK$137.5 million (2004: HK$124.4 million) and a profit after taxation of HK$13.9 million (2004: HK$13.6 million) for the first half of 2005. The increase in turnover and profit was mainly attributable to the continuous improvement 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 for the first half of 2005 increased by 0.5% compared with the corresponding period of the previous year. The increase was due mainly to the growth in patronage as a result of the improved economy. However, the surge in fuel prices resulted in an increase in fuel costs by 24% in the period under review compared with the first half of 2004.

- 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, 28 new coaches were added to its fleet bringing the total number to 238 buses at 30 June 2005.

- 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 explore opportunities to penetrate further into different market sectors and by providing quality and value-for-money bus services.

New Hong Kong Bus Company Limited ("NHKB")

- NHKB, together with its Shenzhen counterpart, jointly operates a direct, economical, 24-hour cross-boundary shuttle bus service serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen. Due mainly to the increase in economic activities between Hong Kong and the Mainland as a result of the Closer Economic Partnership Arrangement ("CEPA") and the increase in the number of visitors from the Mainland following the extension of the Individual Visit Scheme to more Mainland cities, the average monthly ridership for the first six months grew to 1,444,300 passenger trips (2004: 1,171,600 passenger trips), an increase of 23.3% compared with the corresponding period of the previous year. NHKB operated a total of 15 buses as at 30 June 2005, same as at the end of 2004.

Park Island Transport Company Limited ("PITC")

- PITC, a 65% owned subsidiary of the Group, provides quality shuttle bus and ferry services for the residents of and visitors to Park Island, a prestigious development on Ma Wan Island. With further population intake and the sales campaign of residential flats of Park Island Phase III, PITC's total patronage for the first half of 2005 increased to 2,654,800 passenger trips, 5.1% higher than that for the corresponding period of 2004. At the end of June 2005, PITC operated a fleet of 14 air-conditioned buses and seven high-speed catamarans, same as at the end of 2004.

Media Sales Business

RoadShow Holdings Limited and its subsidiaries (the "RoadShow Group")

- The RoadShow Group is a leading media sales group in Hong Kong and other parts of Greater China. It is engaged in marketing advertising aimed at passengers riding public transit vehicles in Hong Kong through a proprietary Multi-media On-board ("MMOB") system, and outdoor advertising in Hong Kong and major cities on the Mainland such as Beijing, Shanghai, Guangzhou and Shenzhen. The RoadShow Group also provides tailor made advertising services for all phases and placements on an advertising network that extends across the mainland of China.
- For the first half of 2005, the RoadShow Group reported a total operating revenue of HK$93.6 million (2004: HK$98.1 million) and a profit attributable to shareholders of HK$6.0 million (2004: HK$10.3 million).
- Further information relating to the RoadShow Group is available in its 2005 interim report.

Mainland China Transport Operations

As at 30 June 2005, the Group's total interest in associates and jointly controlled entity in respect of Mainland transport operations amounted to HK$613.0 million (31 December 2004: HK$224.3 million). Such investments are related to the provision of passenger bus services and taxi and car rental services in Beijing, Dalian, Shenzhen, Tianjin and Wuxi. During the period under review, these businesses contributed a profit before taxation of HK$23.8 million to the Group's results for the first half of 2005 (2004: HK$12.2 million). The increase was due mainly to the profit contributed by our new associate in Shenzhen, which commenced operation on 1 January 2005. The surge in fuel prices in the first half of 2005 suppressed the performance of these businesses on the Mainland.

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 56 double-deck and 25 single-deck buses at the period end.

Tianjin

The CJV in Tianjin was formed in January 2001 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 in which the Group has 31.38% equity interest, principally engages in taxi hire and car rental businesses in Beijing City with a fleet of over 4,100 vehicles. BBKT's shareholders include KMB (Beijing) Taxi Investment Limited, a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited, Beijing Bashi Company Ltd. and two other Mainland investors. The Group's investment in BBKT was RMB80.0 million (HK$75.5 million).

Wuxi

Wuxi Kowloon Public Transport Company Limited ("WKPT") is a Sino-foreign joint stock company established in Wuxi City, Jiangsu Province in February 2004. It is the only franchised bus operator in Wuxi City and has about 1,800 buses operating on over 110 routes. The Group has invested RMB135.4 million (HK$127.2 million), representing 45% equity interest, in WKPT.

Shenzhen

In December 2004, the relevant authorities of the Mainland approved the establishment of Shenzhen Bus Group Company Limited ("SBG"), a Sino-foreign joint stock company. SBG was formed by KMB (Shenzhen) Transport Investment Limited, a wholly-owned subsidiary of the Group, with four other Mainland investors. The Group has invested RMB387.1 million (HK$364.1 million), representing a 35% stake, in SBG. SBG operates public bus services in Shenzhen City, Guangdong Province, with about 3,400 vehicles serving some 120 routes.

Property Development

- The redevelopment of the former Lai Chi Kok Depot site continued smoothly in the first half of 2005. The site is being redeveloped into a residential and commercial complex known as "Manhattan Hill", comprising about 1,100 residential units in five multi-storey prestigious residential blocks with a total gross floor area of about one million square feet and a retail podium area of about 50,000 square feet.

- At 30 June 2005, 80% of the podium structure was completed and the residential towers were standing at over half of their final height. The project is planned for completion in late 2006. Our sales and marketing strategies will be formulated by reference to the prevailing property market conditions.

- At 30 June 2005, the total construction cost incurred for the project amounted to HK$460.4 million (31 December 2004: HK$323.2 million). The project will be financed by the Group's working capital and unsecured bank loans.

Financial position

Capital expenditure

The Group's fixed assets mainly comprise buses, vessels, other motor vehicles and buildings. None of the Group's assets was pledged or charged at 30 June 2005. During the period under review, capital expenditure incurred by the Group amounted to HK$165.3 million (2004: HK$334.3 million). The decrease was mainly attributable to a reduction in the number of new buses purchased by KMB in the light of redeployment of existing buses following the commissioning of new railways.

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 attributable to equity holders of the Company, was 55% as at 30 June 2005 (31 December 2004: 38%).
- At 30 June 2005, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK$2,148.4 million, representing an increase of HK$526.6 million as compared with the net borrowings of HK$1,621.8 million at 31 December 2004. An analysis of the Group's net borrowings by currency at 30 June 2005 is shown below:

	At 30 June 2005		At 31 December 2004	
Currency	**Net borrowings / (cash) in foreign currency million**	**Net borrowings / (cash) HK$ million (Unaudited)**	Net borrowings / (cash) in foreign currency million	Net borrowings / (cash) HK$ million (Audited)
Hong Kong Dollars		**2,441.6**		1,736.9
United States Dollars	**(33.7)**	**(262.8)**	(10.6)	(83.0)
British Pound Sterling	**(1.5)**	**(20.4)**	(1.5)	(22.1)
Renminbi	**(10.6)**	**(10.0)**	(10.6)	(10.0)
Total		**2,148.4**		1,621.8

- Bank loans and overdrafts at 30 June 2005 amounted to HK$3,315.0 million (31 December 2004: HK$2,792.0 million). The maturity profile of the bank loans and overdrafts of the Group is as follows:

	At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 HK$ million (Audited)
Within 1 year or on demand	**589.0**	494.3
After 1 year but within 2 years	**673.2**	458.4
After 2 years but within 5 years	**1,852.8**	1,639.3
After 5 years	**200.0**	200.0
	2,726.0	2,297.7
Total	**3,315.0**	2,792.0

- At 30 June 2005, the Group had stand-by banking facilities totalling HK$1,307.1 million (31 December 2004: HK$1,945.7 million).

- The finance costs for the period under review amounted to HK$24.4 million (2004: HK$5.6 million). This represents an average interest rate of 1.96% per annum for the first half of 2005, increased from 0.46% per annum for the corresponding period of the previous year.

- At 30 June 2005, the Group's cash and deposits at banks (mainly denominated in Hong Kong Dollars, US Dollars, British Pound Sterling and Renminbi) amounted to HK$1,166.6 million (31 December 2004: HK$1,170.2 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 sources are fare receipts 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 2005, the Group's total borrowings were mainly denominated in Hong Kong Dollars and on a floating interest rate basis. This provided flexibility for the Group to take full advantage of the relatively low interest rates during the first half of 2005. 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.

Capital commitments

Capital commitments outstanding and not provided for in the interim financial report of the Group as at 30 June 2005 amounted to HK$1,798.3 million (31 December 2004: HK$1,841.4 million). The commitments are mainly in respect of the redevelopment of the former Lai Chi Kok Depot site, the construction of depots facilities as well as 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 2005, the Company had undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK$1,355.0 million (31 December 2004: HK$820.0 million). Additionally, together with a third 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$165.0 million (31 December 2004: HK$135.0 million), of which HK$100.0 million will be repayable in 2010 and the remaining balance of HK$65.0 million was revolving bank loans.

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 2005, the Group had 13,498 employees (2004: 13,620 employees). Total remuneration for the six months ended 30 June 2005 amounted to approximately HK$1,495.1 million (2004: HK$1,530.2 million), representing 51% (2004: 52%) of the total operating cost for the period.

Outlook

2005 will be an extremely challenging year for the Group's franchised public bus business. We are facing tremendous pressure from cost escalation as a result of historically high oil prices, substantial increases in tunnel toll rates and rising interest rates, all of which are beyond our control. At the same time, we are suffering from a substantial decline in ridership and fare revenue due to the successive opening of new railways that has created an over-supply situation in public transport services. However, as there will not be any large scale new railways scheduled to commence operations in our operating areas in the ensuing few years, we expect that our patronage will stabilise and may increase slightly with the population growth and the shifting of population to the rural areas due to the extension of railway lines. Our ridership will also be moderately benefited from the expansion of the Individual Visitor Scheme to different provinces on the Mainland and the opening of Hong Kong Disneyland which will attract more visitors to travel to Hong Kong.

Meanwhile, we will continue to monitor our existing services and our patronage trends, and re-deploy and rationalise our franchised bus network and resources as necessary to cope with the changes in our patronage patterns. We will also step up our cost control measures on all controllable areas as far as practicable. Nevertheless, it is expected that the profit margin of our franchised public bus business will be further eroded by the adverse financial impact of high oil prices and substantial tunnel toll increases in the second half of 2005.

With the continuous improvement in the local economy and the opening of Hong Kong Disneyland, 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 2005.

The former Lai Chi Kok Depot site, which is owned by the Group's property arm, is being redeveloped into an upscale residential and commercial complex. The project is scheduled for completion by the end of 2006. We hope to begin pre-sale by the end of 2005 or early 2006. In the light of the current buoyant local property market, it is expected that this project will generate considerable income for the Group in the near future.

In addition to joint venture transportation projects in Dalian, Tianjin, Beijing and Wuxi, our new joint venture in Shenzhen commenced operations in January 2005 and it has been making a satisfactory contribution to the Group's profit. In accordance with the Group's business diversification strategy, we shall continue to explore opportunities to expand further into other major population centres for sustainable business growth on the Mainland.

By Order of the Board

S.Y. CHUNG
Chairman

Hong Kong, 12 September 2005

SUPPLEMENTARY INFORMATION

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

At 30 June 2005, 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					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen CHUNG*, GBM, GBE, PhD, FREng, JP	18,821	—	—	—	18,821	0.005%
Dr Norman LEUNG Nai Pang, GBS, JP	—	—	—	—	—	—
KWOK Ping-luen, Raymond, JP	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 (Note 1)	6,983,227	1.730%
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 (Note 2)	2,664,177	0.660%
Winnie NG	41,416	—	—	21,000,609 (Note 3)	21,042,025	5.213%
Dr KUNG Ziang Mien, James*, GBS, OBE	—	—	172,000	—	172,000	0.043%
George CHIEN Yuan Hwei	2,000	—	—	—	2,000	—
Dr Eric LI Ka Cheung*, GBS, OBE, JP	—	—	—	—	—	—
LUI Pochiu	452,113	—	—	—	452,113	0.112%
Edmond HO Tat Man	—	—	—	—	—	—
SIU Kwing-chue, Gordon*, GBS, CBE, JP	—	—	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter, JP)	—	—	—	—	—	—
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond, JP)	—	—	—	—	—	—
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*, GBS, OBE)	—	—	—	—	—	—

* *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$0.10 each					
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen CHUNG*, GBM, GBE, PhD, FREng, JP	4,000	—	—	—	4,000	—
Dr Norman LEUNG Nai Pang, GBS, JP	—	—	—	—	—	—
KWOK Ping-luen, Raymond, JP	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 (Note 1)	575,401	0.058%
NG Siu Chan	—	123,743	—	—	123,743	0.012%
William LOUEY Lai Kuen	412,371	—	—	—	412,371	0.041%
John CHAN Cho Chak, GBS, JP	—	—	—	—	—	—
Charles LUI Chung Yuen, M.H.	—	—	—	209,131 (Note 2)	209,131	0.021%
Winnie NG	1,000,000	—	—	123,743 (Note 3)	1,123,743	0.113%
Dr KUNG Ziang Mien, James*, GBS, OBE	—	—	346,000	—	346,000	0.035%
George CHIEN Yuan Hwei	—	—	—	—	—	—
Dr Eric LI Ka Cheung*, GBS, OBE, JP	—	—	—	—	—	—
LUI Pochiu	24,863	—	—	—	24,863	0.002%
Edmond HO Tat Man	—	—	—	—	—	—
SIU Kwing-chue, Gordon*, GBS, CBE, JP	—	—	—	—	—	—
Susanna LAU Shung Oi (Alternate Director to Mr KWOK Ping-sheung, Walter, JP)	—	—	—	—	—	—
YUNG Wing Chung (Alternate Director to Mr KWOK Ping-luen, Raymond, JP)	—	—	—	—	—	—
KUNG Lin Cheng, Leo (Alternate Director to Dr KUNG Ziang Mien, James*, GBS, OBE)	—	—	—	—	—	—

* *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 2005, 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, as follows:

	Number of options outstanding at 1 January 2005	Number of options outstanding at 30 June 2005	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
Director of the Company					
Winnie NG	3,800,000	Nil	Nil	HK$2.25	HK$2.25
Employees	10,470,000	Nil	Nil	HK$2.25	HK$2.25

The above options were granted on 11 March 2002 and were exercisable during the period from 12 March 2002 to 11 March 2005. During the period under review, no options under the Share Option Scheme were exercised and all the options expired on 11 March 2005.

Directors' Interests in Contracts

Save for the Prime Cost Contract and the Supplementary Agreement as disclosed in note 16(c) 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 2005 or at any time during the six months ended 30 June 2005.

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

At 30 June 2005, 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)	191,587,266	—	191,587,266	47.5%
Other person				
Kwong Tai Holdings Limited (Note 4)	21,000,609	—	21,000,609	5.2%

Notes:

1. The interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 68,600,352 shares disclosed by Arklake Limited.

2. Under The Code on Takeovers and Mergers (the "Takeovers Code"), a person will be subject to mandatory offer obligations if such person acquires, whether by a series of transactions over a period of time or not, 30% or more of the voting rights of a company. Such threshold was reduced from 35% to 30% with effect from 19 October 2001. However, transitional provisions apply where a person, or two or more persons acting in concert, holds 30% or more of the voting rights of a 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 Takeovers Code shall be interpreted and applied as if the 30% trigger in Rule 26.1(a) and (b) of the Takeovers Code was 35% for such person or persons and such person or persons are not subject to the 2% creeper under Rule 26.1(c) and (d) of the Takeovers Code. In this regard, SHKP has been holding 30% or more of the voting rights of the Company but less than 35% of such voting rights immediately prior to 19 October 2001, the above transitional provisions apply to SHKP for so long as its holding remains within the range of 30% and 35% for a period of 10 years after 19 October 2001.

3. HSBC International Trustee Limited is deemed to be interested in 191,587,266 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.

4. The interest disclosed by Kwong Tai Holdings Limited includes 21,000,609 shares disclosed by Mr Ng Siu Chan and Ms Winnie Ng, both are Directors of the Company.

Purchase, Sale or Redemption of the Company's Shares

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

Corporate Governance

The Company has complied throughout the six months ended 30 June 2005 with the code provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except that, with respect to code provision A.4.1, the Non-executive and Independent Non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Listing Rules and its Bye-laws.

Model Code for Securities Transactions by Directors

The Company has adopted the Code of Conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules during the relevant accounting period and all Directors have complied with the required standard of dealings set out therein.

Audit Committee

The Audit Committee of the Company 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 2005. 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 36 of this interim report.

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

		Six months ended 30 June	
	Note	**2005**	2004
		HK$ million	HK$ million
		(Unaudited)	(Unaudited)
Turnover	3, 8	**3,143.5**	3,236.7
Other net income		**55.5**	31.1
Staff costs		**(1,495.1)**	(1,530.2)
Depreciation and amortisation		**(438.0)**	(430.2)
Spare parts, stores and fuel oil consumed		**(516.3)**	(398.9)
Other operating expenses		**(419.8)**	(471.0)
Profit from operations	8	**329.8**	437.5
Finance costs	4	**(24.4)**	(5.6)
Share of profits less losses of associates		**30.3**	16.5
Share of profit of jointly controlled entity		**0.6**	0.6
Profit before taxation	4	**336.3**	449.0
Income tax	5	**(57.2)**	(80.7)
Profit after taxation		**279.1**	368.3
Attributable to:			
Equity holders of the parent	14	**273.7**	360.4
Minority interests	14	**5.4**	7.9
Profit after taxation	14	**279.1**	368.3
Dividend attributable to the interim period	6(a)	**181.6**	181.6
Earnings per share	7	**HK$0.68**	HK$0.89

The notes on pages 21 to 35 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2005

	Note	**At 30 June 2005 HK$ million (Unaudited)**	At 31 December 2004 (restated) HK$ million (Audited)
Non-current assets			
Fixed assets	9	**5,762.5**	6,029.9
Interest in leasehold land held for own use under operating leases		**87.7**	88.7
Goodwill		**50.3**	47.0
Media assets		**100.8**	114.7
Non-current prepayments	10	**98.4**	470.4
Interest in associates		**720.1**	312.8
Interest in jointly controlled entity		**11.8**	5.4
Other financial assets		**15.4**	15.4
Employee benefit assets		**429.2**	413.8
Deferred tax assets		**10.0**	12.0
		7,286.2	7,510.1
Current assets			
Other investments		**75.9**	93.4
Property under development		**460.4**	323.2
Spare parts and stores		**70.4**	74.7
Accounts receivable	11	**260.8**	203.7
Current taxation recoverable		**2.4**	3.7
Deposits and prepayments		**93.6**	49.0
Cash and cash equivalents	12	**1,166.6**	1,170.2
		2,130.1	1,917.9
Current liabilities			
Bank loans and overdrafts		**589.0**	494.3
Accounts payable and accruals	13	**656.9**	821.1
Third party claims payable		**307.1**	298.6
Current taxation payable		**77.5**	50.6
		1,630.5	1,664.6
Net current assets		**499.6**	253.3
Total assets less current liabilities		**7,785.8**	7,763.4

CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2005 *(continued)*

	Note	At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 (restated) HK$ million (Audited)
Non-current liabilities			
Bank loans		**2,726.0**	2,297.7
Contingency provision - insurance		**38.8**	58.5
Deferred tax liabilities		**801.8**	819.5
Provision for long service payments		**48.2**	48.3
		3,614.8	3,224.0
Net assets		**4,171.0**	4,539.4
Capital and reserves			
Share capital	14	**403.6**	403.6
Reserves		**3,482.6**	3,846.8
Total equity attributable to equity holders of the parent	14	**3,886.2**	4,250.4
Minority interests	14	**284.8**	289.0
Total equity	14	**4,171.0**	4,539.4

Approved and authorised for issue by the Board of Directors on 12 September 2005

S.Y. CHUNG
Chairman

John CHAN Cho Chak
Managing Director

The notes on pages 21 to 35 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Note	**Six months ended 30 June 2005**		Six months ended 30 June 2004	
				(restated)	(restated)
		HK$ million (Unaudited)	**HK$ million (Unaudited)**	HK$ million (Unaudited)	HK$ million (Unaudited)
Total equity at 1 January:					
Attributable to equity holders of the parent (as previously reported at 31 December)	14	**4,250.4**		4,338.6	
Minority interests (as previously presented separately from liabilities and equity at 31 December)	14	**289.0**		281.1	
			4,539.4		4,619.7
Net loss for the period recognised directly in equity:					
Exchange difference on translation of financial statements of foreign entities	14	**(0.1)**		—	
Net loss for the period recognised directly in equity			**(0.1)**		—
Net profit for the period:					
Attributable to equity holders of the parent (as previously reported)				360.4	
Attributable to minority interests (as previously presented separately in the income statement)				7.9	
Net profit for the period	14		**279.1**		368.3
Total recognised income and expense for the period			**279.0**		368.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2005 *(continued)*

	Note	**Six months ended 30 June 2005**		Six months ended 30 June 2004	
				(restated)	(restated)
		HK$ million (Unaudited)	**HK$ million (Unaudited)**	HK$ million (Unaudited)	HK$ million (Unaudited)
Attributable to:					
- Equity holders of the parent		**273.6**		360.4	
- Minority interests		**5.4**		7.9	
		279.0		368.3	
Dividend approved and paid in respect of the previous financial year	6(b)		**(637.8)**		(637.8)
Dividends paid to minority shareholders	14		**(6.6)**		(3.4)
Repayment to minority shareholders	14		**(3.0)**		—
Total equity at 30 June	14		**4,171.0**		4,346.8

The notes on pages 21 to 35 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Note	Six months ended 30 June **2005** **HK$ million** **(Unaudited)**	 2004 HK$ million (Unaudited)
Cash generated from operations		**354.1**	610.9
Tax paid		**(37.4)**	(14.0)
Net cash from operating activities		**316.7**	596.9
Net cash used in investing activities		**(194.7)**	(364.7)
Net cash used in financing activities		**(127.0)**	(656.6)
Net decrease in cash and cash equivalents		**(5.0)**	(424.4)
Cash and cash equivalents at 1 January	12	**1,168.9**	1,580.5
Effect of foreign exchange rates changes		**(1.2)**	2.0
Cash and cash equivalents at 30 June	12	**1,162.7**	1,158.1

The notes on pages 21 to 35 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 12 September 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes 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 2004 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by the Audit Committee of The Kowloon Motor Bus Holdings Limited and by the auditors, KPMG, in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 36.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information 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 year ended 31 December 2004 are available from the Company's principal office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 March 2005.

2 Changes in accounting policies

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretations or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(a) Summary of the effect of changes in accounting policies

In respect of the six month period ended 30 June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

		Six months ended 30 June 2005		
Effect of new policy (increase/(decrease))	Note	Equity holders of the parent HK$ million (Unaudited)	Minority interests HK$ million (Unaudited)	Total HK$ million (Unaudited)
HKFRS 3				
Amortisation of goodwill	2(e)	2.7	—	2.7
Total effect for the period		2.7	—	2.7
Effect on earnings per share:				
Basic		HK$0.01		

The new accounting policies have no significant impact on profit after taxation for the six month period ended 30 June 2004. As retrospective adjustments have not been made for all changes in policies, as explained in note 2(e), the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

Other than the impact on profit after taxation for the period ended 30 June 2005 and the impact on the presentation of the consolidated balance sheet as noted below, the changes in accounting policies do not have impact on this interim financial report.

2 Changes in accounting policies *(continued)*

(b) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in a subsidiary. If the employees chose to exercise the options, the nominal amount of share capital and share premium of the subsidiary were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group is required to recognise the fair value of such options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise the options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained profits.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(i) all options granted to employees on or before 7 November 2002; and

(ii) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

All the options granted by the subsidiary fall within the above two categories. This change in accounting policy has no impact on the results of the Group for the six months ended 30 June 2005. Details of the share option schemes can be found in the Company's annual report for the year ended 31 December 2004 and page 12 of this interim report.

(c) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With the adoption of HKAS 17 as from 1 January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the cost of the interest in any buildings situated on the leasehold land could be separately identified from the cost of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. If the property is in the course of development or re-development, the amortisation charge is included as part of the costs of the property under development. In all other cases the amortisation charge for the period is recognised in the income statement immediately.

2 Changes in accounting policies *(continued)*

(c) ***Leasehold land and buildings held for own use (HKAS 17, Leases)*** *(continued)*

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The new accounting policy has been adopted retrospectively, with comparative information adjusted for the amounts relating to prior periods.

(d) ***Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)***

Changes in accounting policies relating to measurement of financial instruments are as follows:

In prior years, the accounting policies for certain financial instruments were as follows:

- equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision;
- other investments were stated at fair value with changes in fair value recognised in the income statement; and
- derivative financial instruments entered into by management to hedge the foreign currency risk and interest rate risk of fixed interest foreign currency borrowings were recognised on a cash basis.

With effect from 1 January 2005, and in accordance with HKAS 39, the following new accounting policies are adopted for the financial instruments mentioned above:

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment losses; all other investments are classified as at fair value through profit and loss and carried at fair value. Changes in fair value are recognised in the income statement.

  This new accounting policy has no impact on the financial statements for the six months ended 30 June 2005 and the comparative information.

- all derivative financial instruments entered into by the Group are stated at fair value. Fixed interest foreign currency borrowings that are designated as hedged items for fair value hedges have been revalued at their fair values. Subsequent changes in fair value of the derivatives and hedged items are charged to the income statement.

  This new policy has no significant impact on opening balances of equity at 1 January 2005 and 2004 and profit after taxation for the six months ended 30 June 2005 and 2004.

2 Changes in accounting policies *(continued)*

(e) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years:

- positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

- positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

- negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the consolidated income statement for the six months ended 30 June 2005. This has increased the Group's profit after taxation for the six months ended 30 June 2005 by HK$2.7 million.

The change in policy relating to negative goodwill had no effect on the interim financial report as there was no negative goodwill deferred as at 31 December 2004.

2 Changes in accounting policies *(continued)*

(f) Re-translation of goodwill relating to a net investment in a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)

In prior years, goodwill was recognised directly in equity or carried at cost less amortisation and impairment as described in note 2(e).

With effect from 1 January 2005, in order to comply with HKAS 21, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation. Thus it is expressed in the functional currency of that foreign operation and is retranslated at the closing rate at each balance sheet date. Any resulting exchange difference is taken directly to the exchange reserves, together with any other differences arising from the re-translation of the net assets of the foreign operation.

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and will only be applied to acquisitions occurring on or after 1 January 2005. The change in policy has had no significant impact on the interim financial report for the six months ended 30 June 2005.

(g) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

3 Turnover

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

	Six months ended 30 June	
	2005	2004
	HK$ million	HK$ million
	(Unaudited)	(Unaudited)
Fare revenue from franchised public bus services	**2,893.5**	2,996.1
Revenue from non-franchised transport services	**137.5**	124.4
Media sales revenue	**112.5**	116.2
	3,143.5	3,236.7

4 Profit before taxation

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

	Six months ended 30 June	
	2005	2004
	HK$ million	HK$ million
	(Unaudited)	(Unaudited)
Interest on bank loans, overdrafts and other unsecured loans	**26.2**	5.6
Less: borrowing costs capitalised into property under development	**(1.8)**	—
	24.4	5.6
Amortisation of land lease premium	**1.0**	1.0
Amortisation of goodwill	**—**	1.4
Amortisation of media assets	**5.2**	0.7
Depreciation	**431.8**	427.1
Dividend income from listed securities	**(0.6)**	(0.5)
Dividend income from unlisted investments	**(18.6)**	—
Interest income from bank deposits and unlisted debt securities	**(8.5)**	(5.6)
Gain on disposal of fixed assets	**(3.2)**	(4.6)
Net loss on disposal of other investments or remeasurement to fair value	**1.0**	2.5

5 Income tax

	Six months ended 30 June	
	2005	2004
	HK$ million	HK$ million
	(Unaudited)	(Unaudited)
Current tax		
Provision for Hong Kong Profits Tax for the period	**65.0**	79.4
Provision for the People's Republic of China Income Tax for the period	**0.5**	1.2
	65.5	80.6
Deferred tax		
Origination and reversal of temporary differences	**(15.7)**	(3.5)
	49.8	77.1
Share of associates' taxation	**7.2**	3.6
Share of jointly controlled entity's taxation	**0.2**	—
	57.2	80.7

The provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months ended 30 June 2005. Taxation for subsidiaries, associates and jointly controlled entity in the People's Republic of China ("PRC") is charged at the appropriate current rates of taxation ruling in the PRC.

6 Dividends

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

	Six months ended 30 June	
	2005	2004
	HK$ million	HK$ million
	(Unaudited)	(Unaudited)
Interim dividend declared after the interim period end of HK$0.45 per share (2004: HK$0.45 per share)	**181.6**	181.6

The interim dividend has not been recognised as a liability at the balance sheet date.

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

	Six months ended 30 June	
	2005	2004
	HK$ million	HK$ million
	(Unaudited)	(Unaudited)
Final dividend in respect of the financial year ended 31 December 2004, approved and paid during the following interim period, of HK$1.58 per share (year ended 31 December 2003: HK$1.58 per share)	**637.8**	637.8

7 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent of HK$273.7 million (six months ended 30 June 2004: HK$360.4 million) and 403.6 million (2004: 403.6 million) shares in issue during the period.

(b) *Diluted earnings per share*

Diluted earnings per share for the six months ended 30 June 2005 and 2004 are not presented as there are no dilutive potential ordinary shares as at the period ends.

8 Segment reporting

The Group's primary format for reporting segment information is business segments. Revenue from external customers (turnover) represents fare revenue from the operation of franchised public bus and non-franchised transport services and media sales revenue.

	Operation of franchised public bus services and non-franchised transport services		Media sales business		Inter-segment elimination		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$ million	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue from external customers (turnover)	**3,031.0**	3,120.5	**112.5**	116.2	**—**	—	**3,143.5**	3,236.7
Inter-segment revenue	**—**	—	**3.9**	12.8	**(3.9)**	(12.8)	**—**	—
Other revenue from external customers	**16.9**	18.6	**1.2**	1.0	**—**	—	**18.1**	19.6
Total	**3,047.9**	3,139.1	**117.6**	130.0	**(3.9)**	(12.8)	**3,161.6**	3,256.3
Segment result	**273.3**	394.2	**29.8**	37.9	**—**	—	**303.1**	432.1
Unallocated net operating income							**26.7**	5.4
Profit from operations							**329.8**	437.5

9 Fixed assets

Acquisitions and disposals

During the six months ended 30 June 2005, the Group acquired fixed assets with a cost of HK$165.3 million (six months ended 30 June 2004: HK$334.3 million). Items of fixed assets with a net book value of HK$0.5 million were disposed of during the six months ended 30 June 2005 (six months ended 30 June 2004: HK$0.1 million), resulting in a gain on disposal of HK$3.2 million (six months ended 30 June 2004: HK$4.6 million).

10 Non-current prepayments

Non-current prepayments at 30 June 2005 represent mainly advance payments for concession and rights for advertising and media programme placement on transit vehicles and transit network furniture. Deposits for investments of HK$364.1 million at 31 December 2004 have been transferred to interest in associates upon completion of the acquisition in January 2005.

11 Accounts receivable

	At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 HK$ million (Audited)
Trade and other receivables	**258.0**	202.1
Interest receivable	**2.8**	1.6
	260.8	203.7

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

	At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 HK$ million (Audited)
Current	**135.8**	106.7
Less than 3 months overdue	**19.9**	10.1
More than 3 months overdue	**24.5**	31.1
	180.2	147.9

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.

12 Cash and cash equivalents

	At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 HK$ million (Audited)
Cash at bank and in hand	**78.7**	67.2
Deposits with banks maturing within three months	**1,087.9**	1,103.0
Cash and cash equivalents in the balance sheet	**1,166.6**	1,170.2
Bank overdrafts	**(3.9)**	(1.3)
Cash and cash equivalents in the cash flow statement	**1,162.7**	1,168.9

13 Accounts payable and accruals

	At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 HK$ million (Audited)
Trade payables	**79.1**	134.0
Other payables and accruals	**577.8**	687.1
	656.9	821.1

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

	At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 HK$ million (Audited)
Due within 1 month or on demand	**58.7**	92.5
Due after 1 month but within 3 months	**13.2**	41.5
Due after more than 3 months	**7.2**	—
	79.1	134.0

14 Capital and reserves

		(Unaudited) Attributable to equity holders of the parent								
	Note	Share capital HK$ million	Capital reserve HK$ million	General reserve HK$ million	Staff retirement fund reserve HK$ million	Exchange reserves HK$ million	Retained profits HK$ million	Total HK$ million	Minority interests HK$ million	Total equity HK$ million
At 1 January 2004		403.6	2.4	17.8	1,082.6	0.1	2,832.1	4,338.6	281.1	4,619.7
Dividends approved in respect of the previous year	6(b)	—	—	—	—	—	(637.8)	(637.8)	—	(637.8)
Dividends paid to minority shareholders		—	—	—	—	—	—	—	(3.4)	(3.4)
Profit for the period		—	—	—	—	—	360.4	360.4	7.9	368.3
At 30 June 2004		403.6	2.4	17.8	1,082.6	0.1	2,554.7	4,061.2	285.6	4,346.8
At 1 July 2004		403.6	2.4	17.8	1,082.6	0.1	2,554.7	4,061.2	285.6	4,346.8
Dividends paid to minority shareholders		—	—	—	—	—	—	—	(2.3)	(2.3)
Exchange difference on translation of financial statements of foreign entities		—	—	—	—	0.1	—	0.1	—	0.1
Contribution by minority shareholders		—	—	—	—	—	—	—	1.0	1.0
Profit for the period		—	—	—	—	—	370.7	370.7	4.7	375.4
Dividends declared in respect of the current year	6(a)	—	—	—	—	—	(181.6)	(181.6)	—	(181.6)
At 31 December 2004		403.6	2.4	17.8	1,082.6	0.2	2,743.8	4,250.4	289.0	4,539.4
At 1 January 2005		403.6	2.4	17.8	1,082.6	0.2	2,743.8	4,250.4	289.0	4,539.4
Dividends approved in respect of the previous year	6(b)	—	—	—	—	—	(637.8)	(637.8)	—	(637.8)
Dividends paid to minority shareholders		—	—	—	—	—	—	—	(6.6)	(6.6)
Exchange difference on translation of financial statements of foreign entities		—	—	—	—	(0.1)	—	(0.1)	—	(0.1)
Repayment to minority shareholders		—	—	—	—	—	—	—	(3.0)	(3.0)
Profit for the period		—	—	—	—	—	273.7	273.7	5.4	279.1
At 30 June 2005		403.6	2.4	17.8	1,082.6	0.1	2,379.7	3,886.2	284.8	4,171.0

15 Capital commitments

Capital commitments outstanding at 30 June 2005 but not provided for in the interim financial report were as follows:

	At 30 June 2005 HK$ million (Unaudited)	At 31 December 2004 HK$ million (Audited)
Contracted for	**1,526.3**	1,548.8
Authorised but not contracted for	**272.0**	292.6
	1,798.3	1,841.4

16 Material related party transactions

		Six months ended 30 June	
	Note	**2005**	2004
Nature of transaction		**HK$ million**	HK$ million
		(Unaudited)	(Unaudited)
Insurance premium paid	(a)	**(81.1)**	(92.0)
Income for providing coach services	(b)	**11.8**	14.2
Amount paid and accrued for management contractor services for property under development	(c)	**(127.6)**	(91.5)
Payment for project management services for property under development	(d)	**—**	(3.0)
Estimated Entitled Net Return for provision of transport services	(e)	**6.0**	6.2

Notes:

(a) During the period, the Group entered into a contract with a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of insurance services to the Group. There was no outstanding balance payable to SHKPI at 30 June 2005 (31 December 2004: HK$7,000).

(b) During the period, the Group provided coach services to certain subsidiaries of SHKP. The amounts due from these companies at 30 June 2005 amounted to HK$9.3 million (31 December 2004: HK$8.7 million).

(c) Lai Chi Kok Properties Investment Limited ("LCKPI"), an indirectly wholly owned subsidiary of the Company, entered into a prime cost contract (the "Prime Cost Contract") with Chun Fai Construction Co. Ltd. ("Chun Fai"), a subsidiary of SHKP, for the provision of management contractor services relating to the property under development of the Group (the "Development") in 2003. A supplementary agreement to the Prime Cost Contract (the "Supplementary Agreement") was entered into between LCKPI and Chun Fai in 2004 for the purposes of upgrading the design, materials and quality of the workmanship of the Development. Pursuant to the Supplementary Agreement, the maximum aggregate consideration payable by LCKPI to Chun Fai is HK$1,617.7 million. The Group's capital commitment outstanding under the Prime Cost Contract and the Supplementary Agreement at 30 June 2005 amounted to HK$1,309.3 million (31 December 2004: HK$1,436.9 million).

16 Material related party transactions *(continued)*

(d) The Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to the Development of the Group. The contract sum of the project management services is HK$15.0 million, or the lower of 1% of the project costs and HK$20.0 million, whichever is higher. There was no outstanding balance payable for this contract at 30 June 2005 and 31 December 2004. The Group's capital commitment outstanding at 30 June 2005 under this contract amounted to HK$11.0 million (31 December 2004: HK$11.0 million).

(e) A subsidiary of the Group, Park Island Transport Company Limited ("PITC"), entered into a contract with Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW"), a wholly owned subsidiary of SHKP, for the provision of transport services for Ma Wan Island in Hong Kong. Under the terms of the contract, PITC shall be entitled to a return lying within the range of 9% and 16% per annum of the simple arithmetic average of the opening balance and the closing balance of the net book value of PITC's fixed assets with respect to the accounting year concerned (the "Entitled Net Return"). The amount receivable from SHKMW at 30 June 2005 under this contract was HK$84.9 million (31 December 2004: HK$49.9 million).

17 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2005

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standard and interpretation which are not yet effective for the accounting period ending 31 December 2005:

	Effective for accounting periods beginning on or after
HK(IFRIC) 4, Determining whether an arrangement contains a lease	1 January 2006
Amendments to HKAS 19, Employee benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006

The above amendments, new standard and interpretation, where applicable, were not applied in this interim financial report because the Directors expect that the Group will not early apply them when preparing the Group's annual financial statements for the year ending 31 December 2005.

The Group is in the process of making an assessment of the impact of these amendments, new standard and new interpretation in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

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 35.

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 Hong Kong Accounting Standard 34 "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 2005.

KPMG
Certified Public Accountants

Hong Kong, 12 September 2005

CORPORATE DIRECTORY

BOARD OF DIRECTORS

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

Dr Norman LEUNG Nai Pang
GBS, JP, LLD, BA
Deputy Chairman

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

YU Shu Chuen
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YUNG Wing Chung
(Alternate Director to
Mr KWOK Ping-luen, Raymond, JP)

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

(*Independent Non-executive Directors of the Company)

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REGISTER OF MEMBERS

Book closed from 4 October 2005 to
6 October 2005, both dates inclusive

DIVIDEND

Interim
HK$0.45 per share, payable on 13 October 2005

STOCK CODE

The Stock Exchange of Hong Kong: 062
Bloomberg: 62HK
Reuters: 0062.HK

This Interim Report is also available on our corporate website: www.kmb.hk