

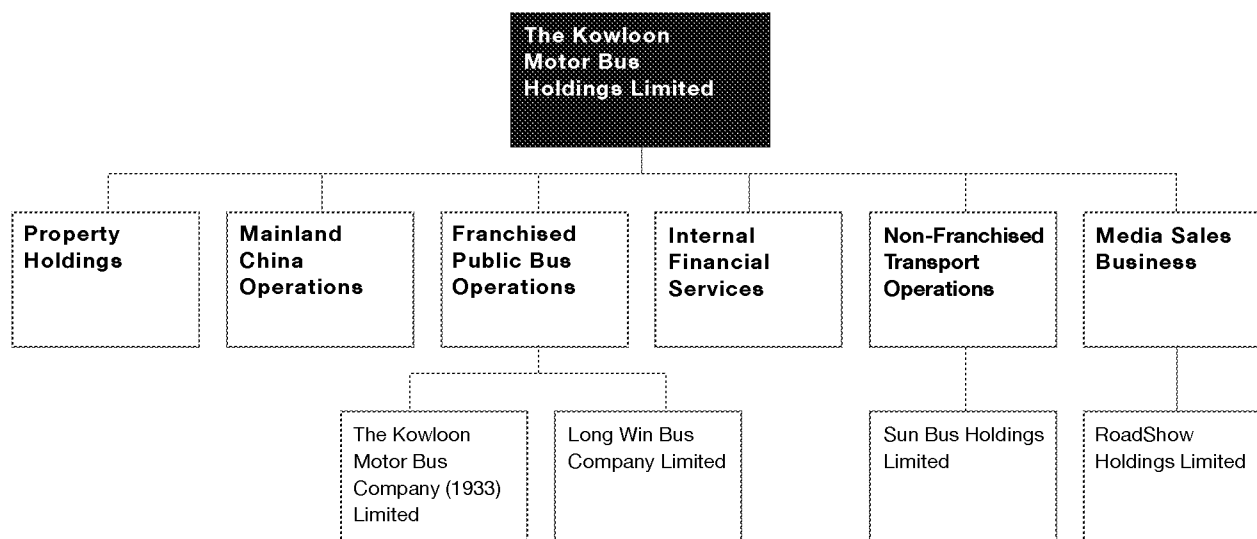


Managing Director's Report

Dedication

to world class quality operations

is fundamental to everything we do to provide the best service to our customers



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

KMB saw an increase in daily ridership of 2.8% during the year 2000 compared with 1999. A total of 1,089.2 million passenger trips were made on KMB buses in 2000 compared with 1,060.0 million passenger trips in 1999. The average daily ridership of KMB for 2000 was 2.98 million compared with 2.90 million for 1999. We attribute this passenger growth to several factors: the aggressive implementation of our strategy to retain our current customers and attract new patrons by providing total customer satisfaction, the population growth of new towns

and the recovery of the Hong Kong economy.

Long Win Bus Company Limited ("LWB")

Market conditions improved with the recovery of the tourism industry and the Government's commitment to the continued development of Tung Chung New Town and North Lantau. The total ridership of LWB for 2000 was 17.3 million passenger trips (a daily average of 47,135). This represents an increase of 2.1% over that of 1999. Total mileage operated in 2000 was 23.1 million km, down 1% from 1999.

With the population expected to grow at Tung Chung Area 30 / 31

in early 2001, ridership will continue to increase. LWB's bus network will remain the preferred means of public transport between the New Territories and North Lantau because of its competitive pricing and direct routing. It is well placed to cater to the increased demand for service because of its continued commitment to providing safe, efficient, comfortable and high quality service.

Non-Franchised Bus Service

The overall average monthly turnover of non-franchised bus business reached a record high of HK\$9 million compared with 1999's average monthly turnover of HK\$5 million.

Our non-franchised business under Sun Bus Holdings Limited and its subsidiaries, launched in early 1998 to provide bus services to large residential estates in the New Territories, quickly became one of the leading operators in this market, with the customer base now expanded to include urban and suburban areas where the service caters to large residential estates, shopping malls, major employers and schools. We expect our non-franchised business to grow as it meets the

growing demand for residential, commercial, employee and school bus services in areas with no direct mass transit link.

The Company's wholly owned subsidiary, New Hong Kong Bus Company Limited ("NHKB"), has a 50% interest in a joint venture which operates the cross-boundary shuttle bus service between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen. This service has been well received by customers.

Mainland China Operations

The co-operative joint venture between another subsidiary of the Company and Dalian City No.1 Bus Company in Liaoning Province, PRC yielded a satisfactory return on our investment. At the end of 2000, a new co-operative joint venture was established between a 50% owned associate of the Company and the Tianjin City Public Transport Holding Company Limited in Tianjin, PRC. Initially, this joint venture company has a fleet of some 120 vehicles serving seven public bus routes.

A Culture of Customer Service

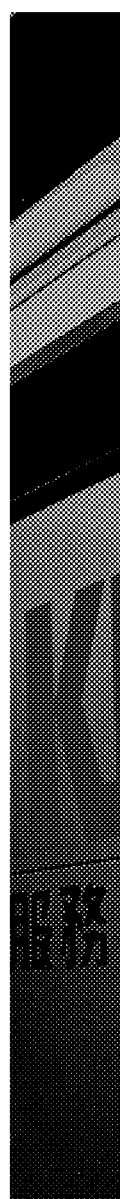
A major achievement during the year was the consolidation of our

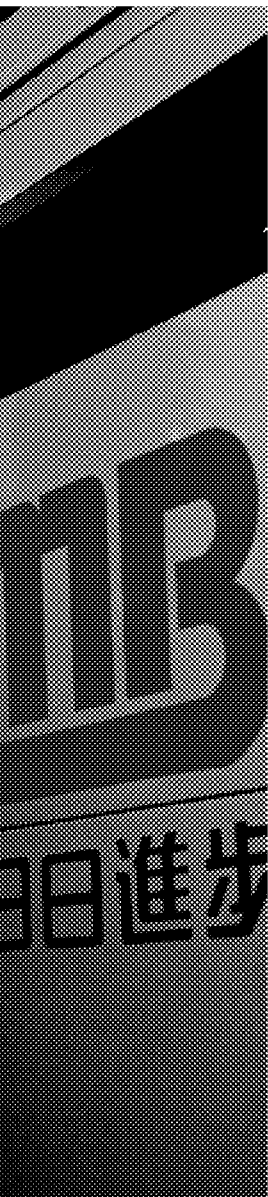
quality management system that represents the Group's commitment to total customer satisfaction and quality service.

Another significant development was the implementation of a major Service Enhancement Project to train all our frontline staff and instill a customer service culture throughout the organisation. This was launched when we achieved ISO 9001 certification on a corporate-wide basis in November 1999, and represents our commitment to constantly improve and reaffirm our adherence to the highest possible, world class standards of service excellence.

The Service Enhancement Project inculcated customer service attitudes into all frontline and support staff and honed their public contact skills. Involving some 9,000 employees, the results have been most gratifying. For one, there was a marked increase in the number of commendations received from the public on the service attitude of our frontline staff.

The training project complemented the new management system that devolved decision-making to our four Depot General Managers who deal with day-to-day





operational issues and respond quickly and decisively to customer needs. This structure, along with the shortened communication channels between management and staff, has greatly enhanced our ability to provide the highest quality service.

Infotainment for Bus Passengers

As a natural evolution in our use of information technology to provide information and news to passengers, we introduced Hong Kong's first 'Multi-media On-board' ("MMOB") bus infotainment system in December 2000.

At year-end 2000, 100 buses equipped with the new system began serving passengers and by April 2001 the number of buses so equipped will increase to about 2000. We believe that we are possibly the first public bus company in the world to provide this service on such a major scale.

The MMOB buses are equipped with liquid crystal display ("LCD") monitors that broadcast bus service information and infotainment. The programmes will be expanded to include traffic information, news and weather reports, English and

Putonghua language lessons, government announcements, film reviews and tourist information.

Over the years, KMB has developed many advanced information technology features including cyber bus stops where passengers can browse KMB's website and search for or listen to bus service information. We also installed an electronic bus stop announcement system aboard our buses and introduced electronic fare displays.

Eventually, we plan to apply bus tracking technology, e.g. Global Positioning System ("GPS"), to MMOB buses and the cyber bus stops to keep track of the movement of buses and their arrival times. Combining the GPS with the cyber bus stops will make it possible for passengers to know the exact arrival time of the next bus through the displayed and announced information.

In December 2000, RoadShow Holdings Limited ("RoadShow") was established as a wholly owned subsidiary of the Company to manage the MMOB business, the transit network media sales and the merchandising business. In February 2001, the Board of the

Company applied to the Stock Exchange of Hong Kong Limited ("the Stock Exchange") to spin off RoadShow and list its shares on the main board of the Stock Exchange. The Board believes that the separate listing will provide RoadShow with a more diversified funding source to finance the existing operations and future expansion.

Multi-Purpose Technology

MMOB not only offers value added services at no additional cost to customers, but also provides a significant commercial opportunity to generate advertising revenue. This complements our bus body and shelter advertising programmes, which are growing satisfactorily.

Octopus Smart Card

At the end of 2000, the entire KMB and LWB fleet was equipped with Octopus Card readers. In addition to making travel easier and more user-friendly, the Octopus Card has enabled the introduction of bus-bus interchange schemes that offer discounts to passengers who transfer between buses on different routes.

KMB was one of the founders of the consortium that started the Octopus Smart Card System, the world's largest and most

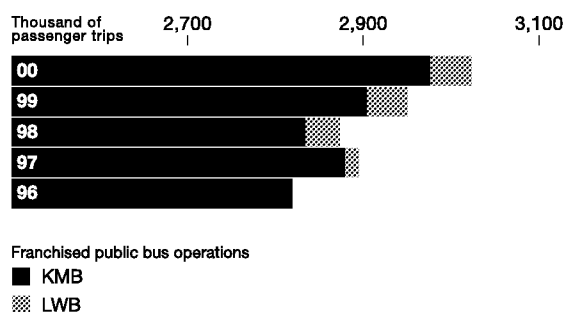
sophisticated fare payments system of its kind. Today, we have the largest number of Octopus card readers amongst Hong Kong's public transport operators.

The Group holds shares in Creative Star Limited ("CS") which operates the Octopus system. In January 2001, the Group entered into a new Shareholders' Agreement with the other shareholders of CS, namely, MTR Corporation Limited ("MTR"), Kowloon-Canton Railway Corporation ("KCRC"), Citybus Limited and New World First Holdings Limited. Under the new arrangement, the Group acquired some shares in CS from MTR and KCRC, thus increasing the Group's shareholding in CS from 3% to 12.4%. The status of CS has been changed from non-profit making to profit making.

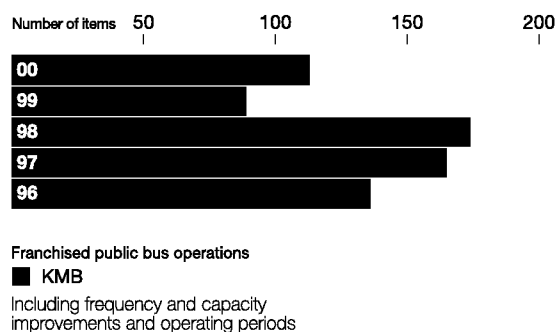
Bus-bus Interchange

We continued to take advantage of the efficiencies made possible by our bus-bus interchange concept, which represents the wave of the future in public bus transportation. Until recently, the bus-bus interchange concept was mainly applied within KMB's route network but we are now moving ahead with mutual interchanges with other operators. When fully developed, bus-bus interchange will enable passengers of KMB to

Number of passenger trips per day

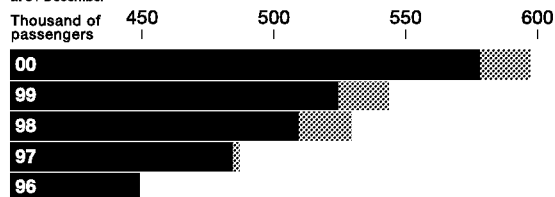


Total service improvement items



Total fleet capacity

at 31 December
Thousand of passengers



Franchised public bus operations

■ KMB
▨ LWB

Number of new buses introduced to the fleet

Number of buses 200 400 600 800



■ KMB
▨ LWB
▩ Non-franchised bus services

transfer not only within the KMB route network but also between it and the networks of other franchised bus companies as well as the railways.

The obvious benefit from this will be more efficient deployment of our bus assets and minimisation of the requirements for new routes. By utilising our current services, we can take advantage of the economies available to us within the existing route network. The ultimate result will be less traffic congestion and a reduction in noise and air pollution. The number of daily interchanging passengers continued to grow considerably during 2000 indicating a high level of customer acceptance of the system.

Environmental Protection

The entire Hong Kong community is increasingly concerned about deteriorating air quality and all of us at KMB are highly conscious of our environmental responsibilities. We continued to work diligently during 2000 to develop a variety of positive measures to ensure that our buses and support operations are environmentally sound.

One significant accomplishment was the successful testing of ultra low sulphur diesel ("ULSD")

enabling us to commit to converting the entire bus fleet to "green fuel" that will result in a significant decrease in particulate emissions. Tests indicate that particulate matter is substantially reduced, and smoke emissions virtually eliminated, when the newest engines are powered by ULSD and used in conjunction with diesel oxidisation catalysts and particulate traps. From January 2001 onwards, the entire bus fleet has been using ULSD with a sulphur content of only 0.005%. This is substantially better than the statutory tolerance limit stipulating ULSD with a sulphur content of 0.035% as the minimum standard.

During 2000, we introduced a total of 313 buses with Euro 2 standard engines that comply with the European Union's strict exhaust emission standards, bringing the number of buses so equipped to 1,318. We have also placed orders for buses with Euro 3 standard engines in early 2001 which comply with even more stringent measurements and these will be brought into service during 2001. We will have completed the installation of exhaust catalytic converters on all pre-Euro 1 engine vehicles by the first quarter of 2001 and on

all 968 Euro 1 engine vehicles by the first quarter of 2002 to bring them up to Euro 1 and Euro 2 standards respectively.

To further improve exhaust emission quality, we began testing a sophisticated device that results in exhaust emissions being comparable to those of natural gas propelled vehicles. Other measures include equipping our depots with modern water and chemical waste treatment systems and a diesel refuelling system that stops fuel spillage.

We will continue to monitor technological breakthroughs in the environmental protection field and their application to bus operations so that we can continue to take steps to ensure that we operate one of the largest environment friendly bus fleets in the world.

Customer Feedback

We place a high priority on listening to our customers and identifying their needs and expectations to ensure that we are providing the best service, the key to retaining passenger loyalty and attracting new business. We have a variety of processes to meet those needs, including our website which was

enhanced in 2000 to provide additional information including a search mechanism that shows customers how to reach their destinations by bus.

We also work at being more accessible. We host community meetings to discuss public transport issues, organise passenger liaison groups and maintain other communication channels. We upgraded our award winning hotline service and extended the hours of our operator assistance service to include Sundays and public holidays.

Our attitude is one of openness and transparency in providing information to customers and the general community, both through our press information programmes and face to face contact. This open attitude is an important component of the KMB customer service culture.

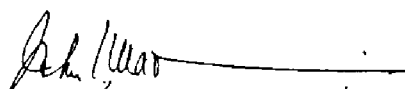
Y2K Transition

The transition to the Year 2000 and during 2000 was smooth and totally incident free as our Year 2000 compliance programme was successful in addressing all critical areas. The aggregate costs for the programme did not have a significant effect on the Group's operating results.

Professionalism and Teamwork

Our success in providing total customer satisfaction is due to our people who are an invaluable asset of the Group. Our dedicated, professional workforce and loyal management team possess a culture of customer service. They enthusiastically participate in training and development programmes and their high quality performance demonstrates that they have reaped the benefits of these activities.

Our team looks forward to the Group's continued success as we adhere to the highest quality standards and commitment to public service and persist in our avid pursuit of new ideas for continuous improvement. I want to thank all the staff for their contribution to the Group's success.



John CHAN Cho Chak
Managing Director