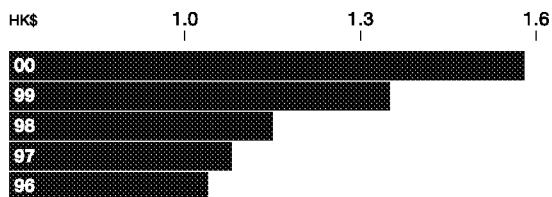
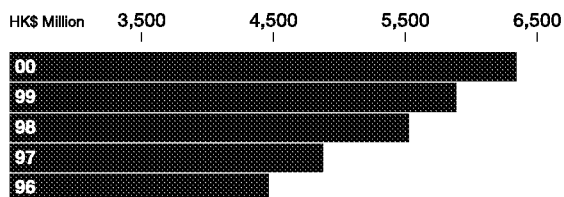


Financial Review

Dividends Per Share



Turnover



Fare revenue from franchised bus services	6,129.7	5,762.4
Revenue from non-franchised bus services	102.7	58.0
Media sales revenue	91.0	50.8
Total turnover	6,323.4	5,871.2

Results for the Year

The Group's profit attributable to the shareholders for the year ended 31 December 2000 was HK\$854.7 million (1999: HK\$738.6 million), representing an increase of 15.7% over the previous year. Earnings per share for the year amounted to HK\$2.12 (1999: HK\$1.83 per share).

Dividends

The total dividend for the year was HK\$1.58 (1999: HK\$1.35) per share, an increase of 17% over 1999. This represents dividend cover of 1.34 times (1999: 1.36 times).

Turnover

The Group's turnover for the year was HK\$6,323.4 million (1999: HK\$5,871.2 million), comprising the following:

	2000 HK\$ Million	1999 HK\$ Million
Fare revenue from franchised bus services	6,129.7	5,762.4
Revenue from non-franchised bus services	102.7	58.0
Media sales revenue	91.0	50.8
Total turnover	6,323.4	5,871.2

Cash Flow

In 2000, the net cash inflow from operating activities of the Group was HK\$1,816.5 million (1999: HK\$1,499.6 million). Cash outflow in respect of the total dividend

payments to the shareholders during the year amounted to HK\$565.1 million (1999: HK\$468.2 million). Payment for capital expenditure and repayment of bank loans amounted to HK\$970.8 million (1999: HK\$545.3 million) and HK\$771.0 million (1999: HK\$889.4 million) respectively.

The consolidated cash flow statement of the Group for the year ended 31 December 2000 is set out on page 79 of this annual report.

Liquidity and Financial Resources

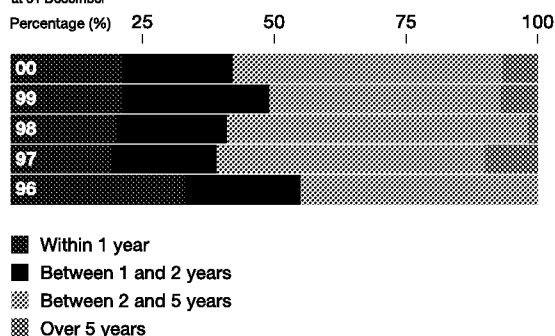
The Group policy is to maintain a healthy financial position that net cash inflow from operating activities together with undrawn committed banking facilities should meet the requirements of loan repayments and capital expenditure. Further, a sufficient amount of cash are maintained to meet potential business expansion and development. The Group is mainly financed by shareholders' funds, bank loans and overdrafts.

The gearing ratio, representing the ratio of net borrowings to the total share capital and reserves of the Group; and the liquidity ratio, given by the ratio of the current assets to the current liabilities, are shown below:

	2000	1999
Gearing ratio at year-end	0.23	0.35
Liquidity ratio at year-end	1.20	1.25

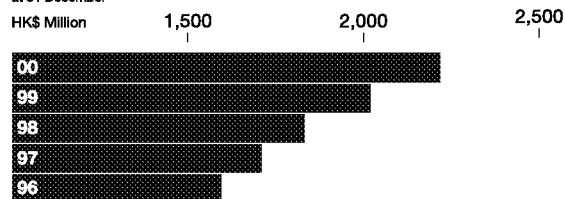
Debt Maturity Profile

at 31 December



Shareholders' Fund

at 31 December



Shareholders' funds

Shareholders' funds increased from HK\$2,019.7 million at the end of 1999 to HK\$2,218.2 million at the end of the year, mainly as a result of the increase in the retained profits. This represents HK\$5.50 per share (1999: HK\$5.00 per share).

Net borrowings

At 31 December 2000, the Group's net borrowing (i.e. total borrowings less cash and deposits at banks) amounted to HK\$502.4 million (1999: HK\$698.4 million), representing a decrease of HK\$196.0 million as compared with 1999. An analysis of the Group's net borrowings by currency at 31 December 2000 is shown as below:

Currency	2000		1999	
	Net borrowings /(cash) in foreign currency	Net borrowings /(cash)	Net borrowings /(cash) in foreign currency	Net borrowings /(cash)
	Million	HK\$ Million	Million	HK\$ Million
Hong Kong Dollar		499.6		998.0
United States Dollar	22.7	176.6	(35.4)	(274.9)
British Pound Sterling	(14.9)	(173.8)	(2.0)	(24.7)
Total		502.4		698.4

Bank loans and overdrafts

Bank loans and overdrafts at year-end amounted to HK\$2,744.1 million (1999: HK\$2,481.6 million).

The finance cost for the year amounted to HK\$180.2 million (1999: HK\$147.6 million).

All bank loans and overdrafts were unsecured at 31 December 1999 and 31 December 2000.

The maturity profile of the bank loans and overdrafts of the Group is set out in note 20 on the accounts on page 94 of this annual report.

Banking facilities

At 31 December 2000, the Group had stand-by banking facilities

totalling HK\$15.0 million (1999: HK\$10.0 million).

Interest cover

Interest cover, representing the ratio of profit from ordinary activities before taxation to net finance charges (total finance costs less interest income), including the amount being capitalised, has increased from 19.3 times in 1999 to 22.5 times in 2000.

Funding and Treasury Policies

The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited, the two major operating companies of the Group, arrange their own financing to meet specific requirements. Financing for the other subsidiaries of the Group is mainly provided by the holding company from its capital base. Small stand-by banking facilities and overdrafts are maintained to facilitate routine treasury operations.

As far revenue from the franchised bus and non-franchised transport operations denominated in Hong Kong Dollars is the Group's major revenue source, financing in Hong Kong Dollars provides a natural currency hedge. At 31 December 2000, the Group's total borrowings were substantially denominated in Hong Kong Dollars and on a floating rate basis.

With respect to foreign exchange exposure, this does not pose significant risk for the Group as the levels of US Dollar and British Pound Sterling assets and liabilities are low when compared to its total asset base.

Cash and deposits at bank

At 31 December 2000, the Group's cash and deposits at banks amounted to HK\$2,241.7 million (1999: HK\$1,783.3 million), and they were mainly denominated in Hong Kong Dollars, US Dollars and British Pound Sterling.

Taxation

Taxation for the year was HK\$81.4 million, representing an effective tax rate of 8.7% of profits (1999: 17.2%). The tax charge will always be sensitive to the number of new buses purchased as deferred taxation may need to be provided for when the buses to be purchased in the next few years are expected to be reduced. At 31

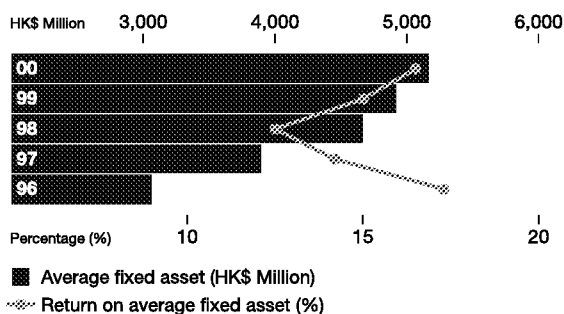
December 2000, the Directors considered that certain potential deferred tax liabilities might crystallise in the foreseeable future. The deferred tax provision of HK\$35.0 million brought forward from 1999 was retained in the accounts accordingly. Major components of the deferred taxation are set out in note 23 on the accounts on page 95 of this annual report.

Capital Expenditure and Capital Commitment

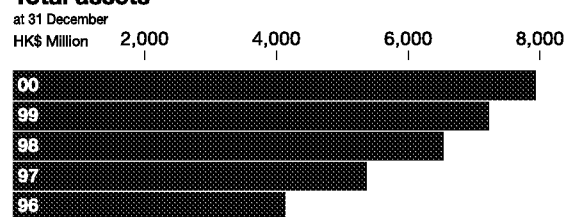
Capital expenditure incurred by the Group during 2000 amounted to HK\$1,042.7 million (1999: HK\$613.8 million). The breakdown of the capital expenditure incurred is shown in note 11 on the accounts on page 88 of this annual report.

Capital commitments outstanding and not provided for in the accounts of the Group as at 31 December 2000 amounted to HK\$1,163.0 million (1999: HK\$541.4 million). Of these, HK\$670.2 million (1999: HK\$388.6 million) was for the purchase of buses and other motor vehicles, HK\$376.3 million (1999: HK\$95.8 million) was for the construction of new depots, project management and the improvement of depot facilities and HK\$116.5 million (1999: HK\$57.0 million) was for the purchase of other fixed assets. The commitments are to be financed by bank loans and the working capital of the Group.

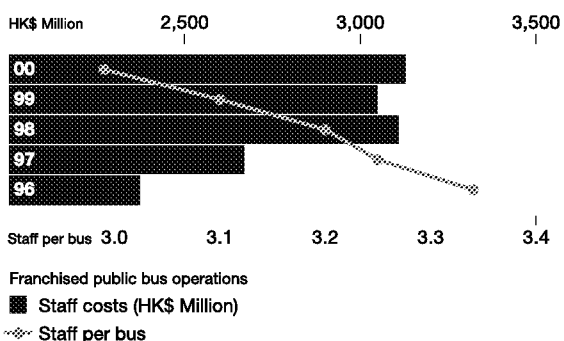
Return on average fixed asset employed



Total assets



Staff cost and staff per bus



At 31 December 2000, the Group had 260 (1999: 274) air-conditioned double-deck buses on order for delivery in 2001, of which 89 (1999: 46) were in various stages of construction.

Accounting Standards and Policies

The accounts set out in pages 74 to 100 have been prepared in accordance with all applicable Statement of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), the accounting principles generally accepted in Hong Kong.

Employees

The provision of both franchised and non-franchised bus services is a labour intensive business. Staff costs represent a substantial portion of the Group's bus operating costs. The Group closely monitors the number and remuneration of its employees against productivity and market trends to ensure employees are rewarded on a performance related basis. The Group does not have any share option scheme for employees. The number and remuneration of employees of the Group over the past five years are tabulated below:

	2000	1999	1998	1997	1996
Number of employees	13,773	13,421	13,437	12,599	12,009
Total remuneration (in HK\$ million)	3,129	3,049	3,108	2,670	2,373
Remuneration as a percentage of total operating costs	58	61	65	62	60

Performance of Individual Business Units

Franchised Public Bus Division

The Kowloon Motor Bus

Company (1933) Limited ("KMB")

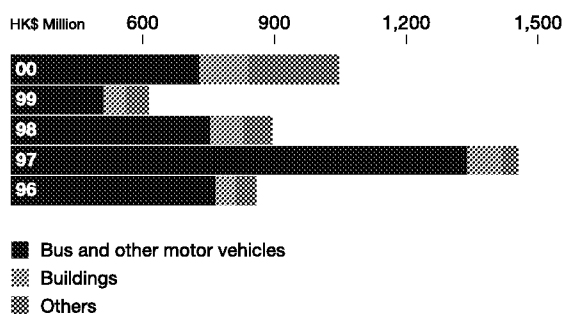
The profit from the franchised bus operations of KMB for the year amounted to HK\$849.3 million (1999: HK\$743.0 million), representing an increase of 14.3% over the previous year.

KMB recorded 1,089.2 million (1999: 1,060.0 million) passenger trips during the year. The average daily number of passenger trips in 2000 was 2.98 million (1999: 2.90 million).

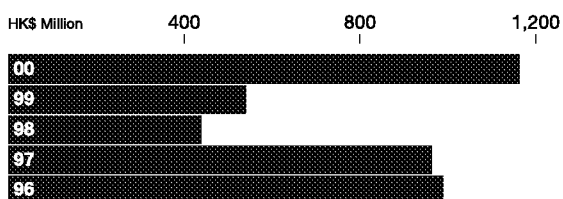
This represents an increase of 2.8% in the total number of passenger trips as compared with the previous year. The actual distance travelled by KMB's buses totalled 329.6 million kilometres during 2000 (1999: 315.4 million kilometres). The increase was primarily due to the launch of new bus routes and improved frequencies on certain bus routes.

Revenue and operating costs related to KMB's franchised bus operations for the year 2000 have increased by 6.8% and 5.7%, respectively, as compared with the previous year. The increase in

Capital expenditure



Capital commitment



Results for KMB

	Units	2000	1999
Total revenue, including media sales revenue	HK\$ million	6,144.4	5,754.6
Total operating and finance costs	HK\$ million	(5,217.2)	(4,862.5)
Profit from franchised bus operations before taxation	HK\$ million	927.2	892.1
Taxation	HK\$ million	(77.9)	(149.1)
Profit from franchised bus operations after taxation	HK\$ million	849.3	743.0
Net profit margin		13.8%	12.9%
Patronage	Million passenger trips	1,089.2	1,060.0
Kilometres travelled	Million km	329.6	315.4
Staff number at year-end		12,999	12,866
Fleet size (number of buses) at year-end		4,247	4,078

revenue was mainly due to the increase in passenger volume, the introduction of more air-conditioned buses and new bus routes. The increase in operating costs was mainly due to the increased fuel costs as a result of the surge in oil prices during the year, increased level of bus operating activities and additional costs incurred for service quality enhancement.

KMB's media sales revenue amounted to HK\$70.1 million in 2000 (1999: 48.1 million), an increase of 45.8% over the previous year. The growth in advertising revenue was

attributed to the marketing effort in promoting the effectiveness of bus body advertising and the refurbishment of advertising panels of bus waiting shelters.

Long Win Bus Company Limited ("LWB")

The total ridership of LWB for the year under review was 17.3 million (1999: 16.9 million) passenger trips or an average daily of 47,135 (1999: 46,300).

This represents an increase of 2.1% over the previous year. The increase was primarily due to the growth in population intake of Tung Chung New Town and the increased number of holiday

makers. Total mileage operated for the year was 23.1 million (1999: 23.3 million) kilometres.

LWB recorded a loss of HK\$22.3 million in 2000 (1999: a loss of HK\$38.7 million). Capital expenditure incurred by LWB during 2000 amounted to HK\$7.0 million (1999: HK\$11.0 million).

The media sales revenue of LWB for 2000 amounted to HK\$2.4 million (1999: HK\$2.4 million), an increase of 0.9% over the previous year. Such increase was mainly due to the long-term clients using LWB's bus bodies as an advertising medium to target air travellers.

Results for LWB

	Units	2000	1999
Total revenue, including media sales revenue	HK\$ million	218.3	195.0
Total operating and finance costs	HK\$ million	(240.6)	(233.7)
Loss from franchised bus operations before taxation	HK\$ million	(22.3)	(38.7)
Taxation	HK\$ million	-	-
Loss from franchised bus operations after taxation	HK\$ million	(22.3)	(38.7)
Patronage	Million passenger trips	17.3	16.9
Kilometres travelled	Million km	23.1	23.3
Staff number at year-end		405	409
Fleet size (number of buses) at year-end		159	159

Non-franchised Transportation Operations Division

The Group's Non-Franchised Transport Operations Division reported a profit of HK\$8.6 million for the year 2000 (1999: HK\$4.9 million), representing an increase of 76.9% compared to that for the previous year. Overall average monthly turnover of the Division reached a record high of HK\$9 million compared with 1999's average monthly turnover of HK\$5 million.

The improved results were mainly attributable to the further expansion of the non-franchised bus fleet resulting in better economies of scale during 2000. With Sun Bus Limited as the flagship, the Division had a fleet of 177 buses at the end of 2000 (1999: 87 buses) with a total net asset value of HK\$82.3 million (1999: HK\$34.8 million), which provides various types of non-franchised bus services such as residential, commercial, employee, tour, student and contract hiring. During the year, 90 buses (1999: 37 buses) were purchased, including the 70 (1999: 23) added to the fleet through the acquisition of two (1999: one) new subsidiary companies.

Through New Hong Kong Bus Company Limited. ("NHKB"), the Division jointly operates a cross-

boundary shuttle bus service between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen, together with its Shenzhen counterpart. This bus service has been well received by both regular cross-boundary commuters and holiday travellers. At present, the Division has 5 air-conditioned single-deck buses operating this service.

Media Sales Business Division

The Group's Media Sales Business Division comprises RoadShow Holdings Limited and its subsidiaries. At the end of 2000, the Division launched and fitted 100 buses with a Multi-media On-board ("MMOB") infotainment system. The Division also manages and markets advertising on the exterior of the Group's transit vehicles and advertising displays at transit vehicle shelters, as well as engaging in a merchandising business of selling commemorative items.

Associates and Jointly Controlled Entity

At 31 December 2000, the Group's total interest in associates and jointly controlled entity amounted to HK\$9.9 million (1999: HK\$8.2 million). The investments were in respect of the operation of passenger bus services in Dalian and Tianjin, China. The co-operative

joint venture ("CJV") in Dalian, established in 1997, between a 60% owned subsidiary of the Company and Dalian City No.1 Bus Company in Liaoning Province, China continued to make steady progress during 2000 yielding a satisfactory return on our investment. The CJV operates three bus routes in Dalian City deploying 46 double-deck and 40 single-deck buses. At the end of 2000, a new CJV contract was entered into between a 50% owned associate of the Company and Tianjin City Public Transport Holding Company Limited in Tianjin, China. For the initial phase of the project commencing operation in January 2001, this CJV operates seven bus routes in Tianjin deploying some 120 single-deck buses. The Group will continue to explore opportunities to expand the operation in Tianjin and other cities in Mainland China.

	2000 HK\$m	1999 HK\$m	1998 HK\$m
Profit and loss account			
Turnover	<u>6,323</u>	<u>5,871</u>	<u>5,510</u>
Profit before exceptional item	936	893	679
Exceptional item	-	-	-
Profit from ordinary activities before taxation	936	893	679
Taxation	<u>81</u>	<u>154</u>	<u>93</u>
Profit from ordinary activities after taxation	855	739	586
Transfer from/(to) development fund	-	-	-
Profit attributable to shareholders	<u>855</u>	<u>739</u>	<u>586</u>
Balance sheet			
Fixed assets	5,381	4,952	4,882
Investment securities	1	-	-
Interest in subsidiaries	-	-	-
Interest in associates	-	(5)	(5)
Interest in jointly controlled entity	10	13	17
Net current assets / (liabilities)	<u>422</u>	<u>449</u>	<u>19</u>
Employment of funds	<u>5,814</u>	<u>5,409</u>	<u>4,913</u>
<i>Financed by:</i>			
Share capital	404	404	404
Reserves	<u>1,815</u>	<u>1,616</u>	<u>1,427</u>
Shareholders' funds	2,219	2,020	1,831
Contingency provision - insurance	298	305	299
Development fund	-	-	-
Minority interests	4	6	6
Long term bank loans	2,176	1,961	1,694
Other liabilities	<u>1,117</u>	<u>1,117</u>	<u>1,083</u>
Funds employed	<u>5,814</u>	<u>5,409</u>	<u>4,913</u>
Earnings per share	<u>\$2.12</u>	<u>\$1.83</u>	<u>\$1.45</u>
Dividends per share	<u>\$1.58</u>	<u>\$1.35</u>	<u>\$1.15</u>
Special cash bonuses per share	-	-	-

1997 HK\$m	1996 HK\$m	1995 HK\$m	1994 HK\$m	1993 HK\$m	1992 HK\$m	1991 HK\$m
<u>4,863</u>	<u>4,451</u>	<u>3,973</u>	<u>3,500</u>	<u>2,998</u>	<u>2,775</u>	<u>2,579</u>
555	588	540	490	384	389	372
-	-	-	1,711	-	-	-
555	588	540	2,201	384	389	372
<u>4</u>	<u>62</u>	<u>77</u>	<u>84</u>	<u>62</u>	<u>60</u>	<u>43</u>
551	526	463	2,117	322	329	329
-	2	(2)	-	30	1	(31)
<u>551</u>	<u>528</u>	<u>461</u>	<u>2,117</u>	<u>352</u>	<u>330</u>	<u>298</u>
4,441	3,342	2,777	2,479	2,241	2,049	1,903
-	-	-	-	-	-	-
-	-	24	-	-	-	-
(2)	-	-	-	-	-	-
20	-	-	-	-	-	-
<u>(487)</u>	<u>(383)</u>	<u>(239)</u>	<u>(206)</u>	<u>(317)</u>	<u>(243)</u>	<u>(303)</u>
<u>3,972</u>	<u>2,959</u>	<u>2,562</u>	<u>2,273</u>	<u>1,924</u>	<u>1,806</u>	<u>1,600</u>
404	404	404	404	404	404	404
<u>1,306</u>	<u>1,191</u>	<u>1,083</u>	<u>989</u>	<u>733</u>	<u>656</u>	<u>584</u>
1,710	1,595	1,487	1,393	1,137	1,060	988
273	288	175	175	146	140	128
-	-	2	-	-	30	31
6	-	-	-	-	-	-
1,116	346	303	229	358	370	316
<u>867</u>	<u>730</u>	<u>595</u>	<u>476</u>	<u>283</u>	<u>206</u>	<u>137</u>
<u>3,972</u>	<u>2,959</u>	<u>2,562</u>	<u>2,273</u>	<u>1,924</u>	<u>1,806</u>	<u>1,600</u>
<u>\$1.36</u>	<u>\$1.31</u>	<u>\$ 1.14</u>	<u>\$ 5.24</u>	<u>\$ 0.87</u>	<u>\$ 0.82</u>	<u>\$ 0.74</u>
<u>\$1.08</u>	<u>\$1.04</u>	<u>\$ 0.91</u>	<u>\$ 0.80</u>	<u>\$ 0.68</u>	<u>\$ 0.64</u>	<u>\$ 0.58</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 3.81</u>	<u>-</u>	<u>-</u>	<u>-</u>