

# CHAIRMAN'S STATEMENT

**The Group's core competence and past achievements place us in a very good position to further enhance the quality of our service and explore new growth opportunities**



**The Hon Sir S. Y. CHUNG**

The Group achieved strong growth during 2001 despite poor economic conditions. This performance can be attributed to the flexibility of The Kowloon Motor Bus Company (1933) Limited ("KMB"), where we can redeploy our resources quickly and efficiently to adjust to market conditions, and the benefits we realise from our economies of scale. The driving forces to these advantages are our quality management systems and practices which enable us to perform well in both strong and weak economic environments.

We know that many people turn to bus transportation when the economy slows down primarily because of cost considerations. We work hard to retain these new customers, as well as our existing ones, by ensuring that they are totally satisfied with our services. When people change modes of transport by force of circumstances, they must like what they experience if they are to remain loyal to KMB. We are very sensitive to this fact.

By retaining and attracting customers, we avoid the need for fare increases. This is the philosophy that underpins our entire strategy and one that is in accord with the popular sentiment to economise in all sectors during difficult market conditions.

Because of our stringent cost control measures, we have been successful in avoiding fare increases for the past four years. However, over the four years since 1998, oil prices and the salaries of our staff have increased by some 98% and 8%, respectively, and tunnel tolls have also increased by about 20%. In addition, the continual upgrade of our bus fleet and environmental protection measures represents significant capital investments. Hence, KMB will continue to emphasise increased productivity and improved bus services so that our customers can enjoy safe, comfortable and reliable bus journeys at a reasonable cost.

## RESULTS FOR THE YEAR

The Group's profit attributable to shareholders for the year ended 31 December 2001 was HK\$1,595.5 million, representing an increase of 86.7% over the HK\$854.7 million for the previous year. Earnings per share for the year were HK\$3.95 compared with HK\$2.12 for 2000.

The significant increase in the Group's profit after taxation before minority interests for 2001 was due mainly to the deemed profit of HK\$349.6 million arising from the spin-off of the shares of Roadshow Holdings Limited ("RoadShow") which is of a non-recurrent nature and the profit contribution before minority interests of HK\$175.1 million from Roadshow to the Group during the year.

The profit from KMB for 2001 was HK\$1,056.4 million, an increase of 24.4% over the HK\$849.3 million for 2000. The loss of Long Win Bus Company Limited ("LWB") for the year decreased to HK\$0.5 million from HK\$22.3 million for the previous year.

## DIVIDENDS

At the forthcoming Annual General Meeting, the Directors will recommend the payment of a final dividend of HK\$1.46 per share for the year ended 31 December 2001. This compares with HK\$1.25 per share for 2000. Together with the interim dividend of 40 cents per share paid on 9 October 2001 (2000: 33 cents per share), dividends for the year will amount to HK\$1.86 per share as compared with HK\$1.58 for the previous year, an increase of 17.7%. The total dividend payout for the year will amount to HK\$750.8 million as compared with HK\$637.8 million for 2000.

## OUTLOOK

There will be both challenges and opportunities over the next decade, but much room for business and profit growth. The future of the Group is very promising, as is the future of the public bus industry in general, although there certainly will be increasing competition as the Government's rail development strategy is implemented. The Mass Transit Railway ("MTR") Tseung Kwan O Extension is scheduled to begin operation in the second half of 2002. The Kowloon-Canton Railway ("KCR") West Rail is expected to come into service at the end of 2003. And, in 2004, there will be the KCR Ma On Shan Rail and the eventual extension of the KCR East Rail to Tsim Sha Tsui.

Whilst these developments will mean intensified competition for KMB and the bus transport industry in general, we are also presented with new opportunities. Over the long term, the development of new towns made possible by the new rail lines will create new demand for bus services. History has shown that any diversion of passengers from buses to rail will have relatively short-term consequences.

An important factor in helping us plan for the future is our involvement in Government studies commissioned by the Transport Department to co-ordinate public transport services with new rail services. KMB is one of the active participants with the Transport Department, other government bodies and the railway corporations in various working committees of these planning projects.

By being a part of this process, and because of KMB's operational flexibility, we can adjust our own strategy for the future in a smooth and efficient manner. We have ample time to plan any redeployment of resources that is required, such as personnel adjustments, and initiate changes in services where necessary, such as re-routing buses, with minimum impact on passengers and staff. We will know well in advance, for example, if we need fewer human resources in a particular area of our operations and thus can attend to this through natural attrition.

We will remain an integral part of the planning process to ensure that the interests of KMB coincide with those of the public.

Our planning work with the Government and other transport operators and our bus-bus interchange schemes, where we develop co-operative arrangements, result in a more integrated public transportation network. Our passengers can transfer between KMB buses, between KMB buses and buses of other companies, and between these buses and the railways. In developing these co-operative arrangements, we are also making improvements to the environment as these measures ease congestion and reduce pollution along urban routes because fewer buses are required.

### LONG TERM STRATEGY

Our past achievements place us in a very good position to further enhance the quality of our service. We are also able to explore new growth opportunities in the market to diversify our business while adhering to our corporate strategy that requires any new activities to be anchored in our core competencies. Any diversification in products and markets is mostly related to the transportation business.

The creation of RoadShow is a fine example of this approach and illustrates the type of activity that we will be exploring. The Group established RoadShow in December 2000 to diversify into the out-of-home media sales business. A major accomplishment during 2001 was the successful listing of RoadShow on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Another example of bringing new activities into the Group's core business is our move into the property business through the redevelopment of our Lai Chi Kok Depot site. After relocating our existing depot operations to our new West Kowloon Depot in May 2002, we will be redeveloping our Lai Chi Kok Depot site into a residential complex with a total gross floor area of over one million square feet. Scheduled for completion by 2005, this redevelopment project is expected to generate further income for the Group and create a new population centre close to our major terminus at Mei Foo as a source of new customers for KMB.



**KMB's fleet of over 4,300 buses serves more than three million passengers daily**

Our non-franchised bus operations under Sun Bus Holdings Limited and its subsidiaries are expected to grow in meeting the increasing demand for residential, commercial, employee and school bus services in areas with no public transport service. We will further strengthen and develop our non-franchised bus business in Hong Kong.

Through our two co-operative joint ventures, we have been providing public bus services in Dalian and Tianjin since August 1997 and January 2001 respectively. The Group continues to explore business opportunities on the Mainland.

The Group has maintained a very good record in profit growth and dividend payouts to shareholders over the past years. As our business results demonstrate, we are a recession resistant business much less subject to the vicissitudes of the economic climate. We can benefit from both up and down periods of growth in the business cycle.

A very satisfactory development during 2001 was the independent affirmation and endorsement of our management systems and practices by external parties who bestowed various awards on KMB in recognition of our excellent performance in a number of areas. These included our efforts in quality management, our high level of productivity, good human resources management practices and effective and creative marketing and advertising programmes. The Group's strategy to remain the leader in the public transport sector in Hong Kong is based on our eagerness to set high industry standards and to respond quickly to change.

### CORPORATE GOVERNANCE

The Group places a high priority on corporate governance and transparency. We are sensitive to the fact that we must provide ready access to information about the Group to a host of audiences while adhering to the rules and regulations of the Stock Exchange regarding the release of such information. We have established numerous channels of communications to achieve these ends. We are very pleased to see that these efforts were recognised in 2001 in the form of awards for the KMB website and the Group's 2000 Annual Report.

The Audit Committee and the Internal Audit Department of the Group play vital roles in assuring sound corporate governance. The Audit Committee, with the assistance of the Group's external auditor and Internal Audit Department, reviews the Group's financial reporting process and internal control systems. Our Internal Audit Department carries out comprehensive audits and reviews on the financial and operational procedures and practices of the Group on both a regular and an as-needed basis. The Head of Internal Audit Department is responsible to the Audit Committee and the Managing Director.

### SOCIAL RESPONSIBILITY

We know that we must continue to offer the best quality service possible at reasonable fares and take measures to protect the environment in order to continue to earn the right to retain our franchise to serve the community. In this regard, major events during the year included the complete changeover to ultra low sulphur diesel (with a sulphur content of only 0.005%) and the introduction of Hong Kong's first Euro III air-conditioned double-deck bus. As a responsible corporate citizen, we are committed to doing our very best to improve our vehicles and depot operations for the protection of our environment.

### OUR PEOPLE

The skills, dedication, discipline and service culture of our employees have created a winning team, second to none in the bus transportation industry. It is our people who are responsible for the high level of performance and achievements of the Group. The Board sincerely thanks all our employees for their invaluable contributions to the business during the year and we look forward to their dedicated and continued support in the future.

## DIRECTORS

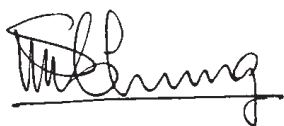
Under the Public Bus Services Ordinance (Cap. 230), the Commissioner for Transport and the Deputy Secretary for Transport are appointed by the Chief Executive of the HKSAR Government to sit on the Boards of KMB and LWB. During 2001, the incumbents of the Commissioner for Transport and the Deputy Secretary for Transport posts were Mr Robert Footman, JP and Mr Arthur Ho, JP respectively. I would like to express my sincere appreciation for the valuable contributions made by both Mr Footman and Mr Ho as Board members.

Mr Lui Pochiu and Mr Edmond Ho Tat Man were appointed Directors of the Company, KMB and LWB with effect from 1 January 2001.

Mr Sham Yat Wah was appointed as Alternate Director to Mr Raymond Kwok Ping Luen in place of Mr Tsim Tak Po on 9 August 2001. I would like to welcome Mr Sham to the Board and thank Mr Tsim for his past service as a Board member.

My thanks also go to the Group's Audit Committee, chaired by Mr George Chien Yuan Hwei with Dr James Kung Ziang Mien, OBE and the Honourable Eric Li Ka Cheung, JP as members, for their painstaking and professional work during the year.

Lastly, I want to thank all my fellow Directors, in particular our Managing Director, Mr John Chan, GBS, JP, and our dedicated staff, for their contributions towards the outstanding performance of the Group in 2001.



**S.Y. CHUNG**

**Chairman**

11 March 2002