

FINANCIAL REVIEW

PERFORMANCE OF THE GROUP

CONSOLIDATED RESULTS FOR THE YEAR

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

DIVIDENDS

The total dividend for the year was HK\$1.86 (2000: HK\$1.58) per share, an increase of 17.7% over 2000. This represents dividend cover of 2.13 times (2000: 1.34 times).

TURNOVER

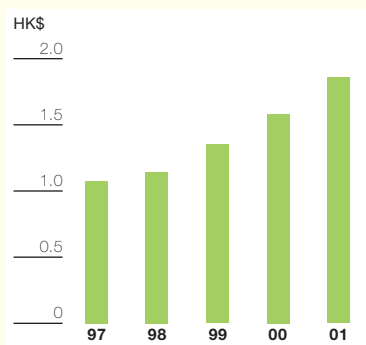
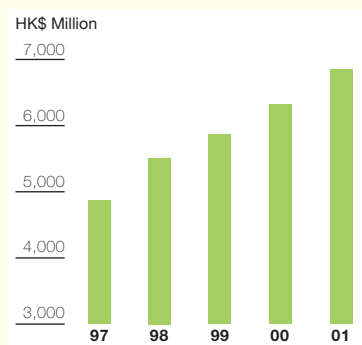
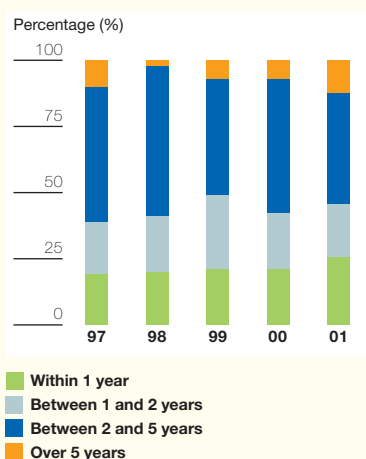
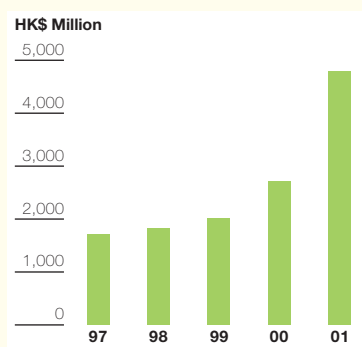
The Group's turnover for the year was HK\$6,861.8 million (2000: HK\$6,323.4 million), comprising the following:

	2001	2000
	HK\$ MILLION	HK\$ MILLION
Fare revenue from franchised bus services	6,389.8	6,129.7
Revenue from non-franchised bus services	143.3	102.7
Media sales revenue	328.7	91.0
Total turnover	6,861.8	6,323.4

Segment information on the main businesses of the Group is shown in note 13 on the financial statements on pages 97 to 98 of this Annual Report.

TAXATION

Taxation for the year was HK\$180.7 million (2000: HK\$81.4 million), representing an effective tax rate of 10.0% of profits (2000: 8.7%). The Group's tax charge will always be sensitive to its bus purchase programme as deferred taxation may need to be provided for when the numbers of new buses to be purchased are expected to decrease in the following few years. At 31 December 2001, the Directors considered that certain potential deferred tax liabilities might crystallise in the foreseeable future. As a result, an additional provision of HK\$30 million was made, bringing the total deferred tax provision to HK\$65 million (2000: HK\$35 million). The major components of the deferred taxation are set out in note 26 on the financial statements on page 107 of this Annual Report.

Dividends per share**Group Turnover****Debt maturity profile at 31 December****Shareholders' fund at 31 December**

CASH FLOW

In 2001, the net cash inflow from operating activities of the Group was HK\$2,194.2 million (2000: HK\$1,816.5 million). Cash outflow in respect of the total dividend payments to the shareholders during the year amounted to HK\$666.0 million (2000: HK\$565.1 million). Payment for capital expenditure and repayment of bank loans amounted to HK\$1,268.5 million (2000: HK\$970.8 million) and HK\$723.9 million (2000: HK\$771.0 million) respectively. The consolidated cash flow statement of the Group for the year ended 31 December 2001 is set out on page 87 of this Annual Report.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's 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 is maintained to meet potential business expansion and development. The Group was mainly financed by shareholders' funds, bank loans and overdrafts in 2001.

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:

	2001	2000
Gearing ratio at year-end	0.05	0.18
Liquidity ratio at year-end	1.56	1.57

Net borrowings> At 31 December 2001, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$225.8 million (2000: HK\$502.4 million), representing a decrease of HK\$276.6 million as compared with 2000. An analysis of the Group's net borrowings by currency at 31 December 2001 is shown below:

	2001		2000	
	NET BORROWINGS / (CASH)		NET BORROWINGS / (CASH)	
	IN FOREIGN CURRENCY	NET BORROWINGS / (CASH)	IN FOREIGN CURRENCY	NET BORROWINGS / (CASH)
CURRENCY	MILLION	HK\$ MILLION	MILLION	HK\$ MILLION
Hong Kong Dollar		739.1		499.6
United States Dollar	(43.1)	(336.1)	22.7	176.6
British Pound Sterling	(15.7)	(177.2)	(14.9)	(173.8)
Total		225.8		502.4

Bank loans and overdrafts> Bank loans and overdrafts at year-end amounted to HK\$2,345.7 million (2000: HK\$2,744.1 million).

All bank loans and overdrafts were unsecured at 31 December 2001 and 31 December 2000.

The maturity profile of the bank loans and overdrafts of the Group is set out in note 24 on the financial statements on page 106 of this Annual Report.

Banking facilities> At 31 December 2001, the Group had stand-by banking facilities totalling HK\$381.5 million (2000: HK\$15.0 million).

Finance costs and interest cover> Due mainly to the reduction in interest rates and the average amount of borrowings during 2001, the total finance cost incurred by the Group reduced from HK\$180.2 million in 2000 to HK\$114.0 million in 2001. Interest cover, representing the ratio of profit from ordinary activities before taxation to net finance charges (total finance costs including amount being capitalised less interest income) increased from 22.5 times in 2000 to 76.1 times in 2001.

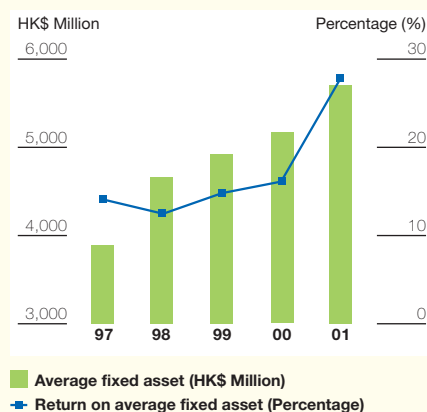
Funding and Treasury Policies> The major operating companies of the Group, The Kowloon Motor Bus Company (1933) Limited ("KMB"), Long Win Bus Company Limited ("LWB") and RoadShow Holdings Limited ("RoadShow"), arrange their own financing to meet specific requirements. Financing for the other subsidiaries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

The Group's major revenue sources are fare receipts from the franchised bus services, revenue from non-franchised transport operations and the media sales business, all denominated in Hong Kong Dollar. Financing in Hong Kong Dollar provides a natural currency hedge for the Group. At 31 December 2001, the Group's total borrowings were substantially denominated in Hong Kong Dollar and on a floating rate basis. This had enabled the Group to take full advantage of the interest rate cuts in 2001. 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.

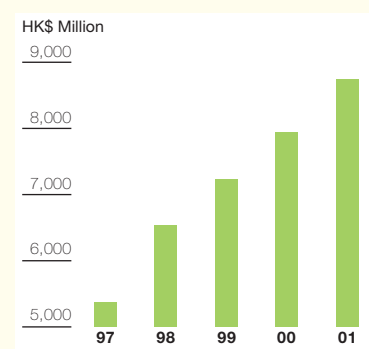
Foreign currency exposure did not pose significant risk for the Group as the levels of foreign currency assets and liabilities at the end of the year were relatively low when compared to its total asset base. The Group's bus purchases made up a substantial portion of its capital expenditure and capital commitments in 2001 and were mainly paid in British Pound Sterling and Euro. As these two foreign currencies have generally weakened against the Hong Kong Dollar since early 2001, the Group has not entered into any hedging arrangements. However, the Group continues to closely monitor foreign exchange movements in formulating its hedging strategy on an ongoing basis.

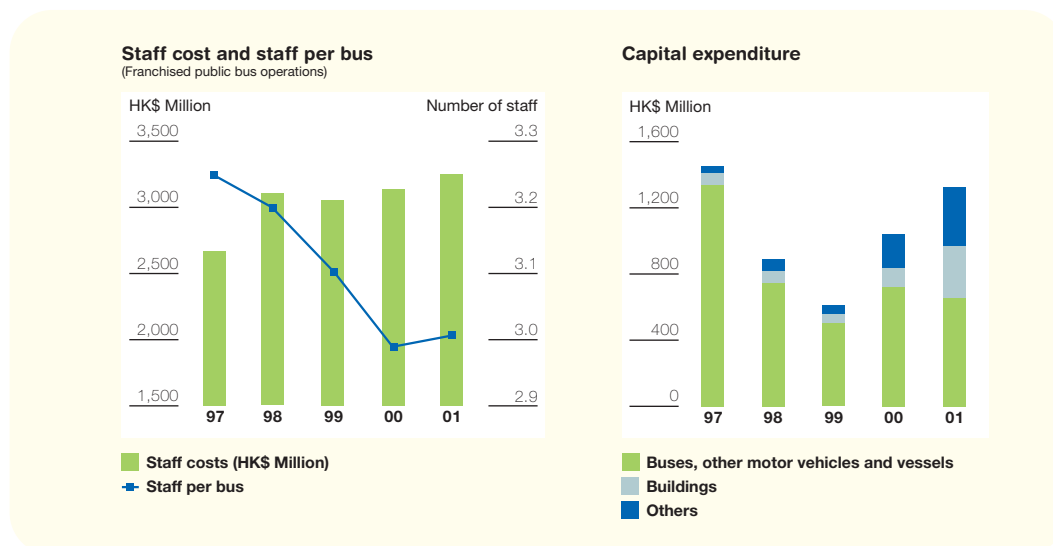
Cash and deposits at banks> At 31 December 2001, the Group's cash and deposits at banks amounted to HK\$2,119.8 million (2000: HK\$2,241.7 million), and they were mainly denominated in Hong Kong Dollar, US Dollar and British Pound Sterling.

Return on average fixed asset employed



Total assets at 31 December





SPIN-OFF OF ROADSHOW

RoadShow was separately listed on the Main Board of The Stock Exchange of Hong Kong Limited on 28 June 2001. During 2001, a deemed profit of HK\$349.6 million resulting from the spin-off of about 26.7% of the shares of RoadShow was recorded by the Group. The initial public offering in Hong Kong and the international placing in June 2001, together with the over-allotment option exercised by the underwriters in July 2001, raised approximately HK\$588.8 million (before issuing expenses) for RoadShow. At 31 December 2001, the Company had an equity interest of 73.3% in RoadShow.

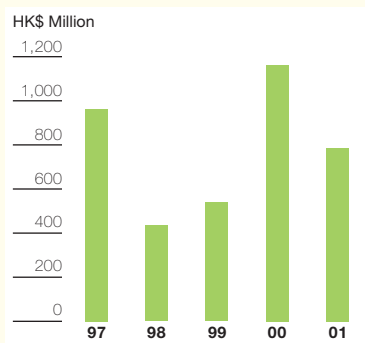
CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure incurred by the Group during 2001 amounted to HK\$1,337.5 million (2000: HK\$1,047.2 million). The breakdown of the capital expenditure incurred is shown in note 14 on the financial statements on pages 99 to 100 of this Annual Report.

Capital commitments outstanding and not provided for in the financial statements of the Group at 31 December 2001 amounted to HK\$790.6 million (2000: HK\$1,163.0 million). Of these, HK\$296.8 million (2000: HK\$670.2 million) was for the purchase of buses and other motor vehicles, HK\$221.6 million (2000: HK\$376.3 million) was for the construction of new depots, project management and the improvement of depot facilities and HK\$272.2 million (2000: HK\$116.5 million) was for the purchase of other fixed assets. The commitments are to be financed by borrowings and the working capital of the Group.

At 31 December 2001, the Group had 208 (2000: 260) air-conditioned double-deck buses on order for delivery in 2002, of which 70 (2000: 89) were in various stages of construction.

Capital commitment



ACCOUNTING STANDARDS AND POLICIES

The financial statements set out on pages 82 to 112 have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants ("HKSA") and the accounting principles generally accepted in Hong Kong. Certain new SSAPs became effective during the year and those affecting the Group are highlighted below. The details of their impact on the Group have been set out in note 12 on the financial statements on pages 96 to 97 of this Annual Report.

SSAP 9 (revised): Events after the balance sheet date

SSAP 28: Provisions, contingent liabilities and contingent assets

SSAP 30: Business combinations

SSAP 32: Consolidated financial statements and accounting for investment in subsidiaries

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. The number and remuneration of employees of the Group over the past five years are tabulated below:

	2001	2000	1999	1998	1997
Number of employees	14,144	13,773	13,421	13,437	12,599
Total remuneration (in HK\$ Million)	3,301	3,129	3,049	3,108	2,670
Remuneration as percentage of total operating costs (%)	61	58	61	65	62

PERFORMANCE OF INDIVIDUAL BUSINESS UNITS

FRANCHISED PUBLIC BUS DIVISION

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

RESULTS	UNITS IN	2001	2000
Total revenue, including media sales revenue	HK\$ Million	6,367.4	6,142.5
Total operating and finance costs	HK\$ Million	(5,147.8)	(5,215.3)
Profit from franchised bus operations before taxation	HK\$ Million	1,219.6	927.2
Taxation	HK\$ Million	(163.3)	(77.9)
Profit from franchised bus operations after taxation	HK\$ Million	1,056.3	849.3
Net profit margin		16.6%	13.8%
Passenger volume	Million passenger trips	1,111.2	1,089.2
Kilometres travelled	Million km	349.1	329.6
Staff number at year-end	No. of staff	13,281	12,999
Fleet size at year-end	No. of buses	4,384	4,249

The profit from the franchised bus operations after taxation of KMB for the year amounted to HK\$1,056.3 million (2000: HK\$849.3 million), representing an increase of 24.4% over the previous year.

KMB recorded 1,111.2 million passenger trips during 2001 (2000: 1,089.2 million). The average daily number of passenger trips in 2001 was 3.04 million (2000: 2.98 million). This represents an increase of 2.0% in the total number of passenger trips as compared with the previous year. The actual distance travelled by KMB's buses totalled 349.1 million kilometres during the year (2000: 329.6 million kilometres). The increase was primarily due to the launch of new bus routes and improved frequencies on certain bus routes.

Revenue related to KMB's franchised bus operations for 2001 have increased by 3.6% while operating costs have been decreased by 1.3% as compared with the previous year. The increase in revenue was mainly due to the increase in passenger volume, the introduction of more air-conditioned buses and new bus routes. The decrease in operating costs was mainly due to the strengthening of cost control over the year.

KMB's media sales revenue amounted to HK\$71.2 million (2000: HK\$70.1 million) in 2001, an increase of 1.6% over 2000. The growth in media sales revenue was mainly attributed to the marketing effort in promoting the effectiveness of bus body advertising and the installation of additional advertising panels at bus waiting shelters.

KMB was assigned a single "A" corporate rating by Standard & Poor's on 14 January 2002. The rating reflects KMB's stable business, efficient operations, flexible capital expenditure and very strong financial operations. The rating also reflects the capacity of KMB's business to withstand recession, a supportive regulatory environment and a market base dependent on public transport.

Long Win Bus Company Limited ("LWB")

RESULTS	UNITS IN	2001	2000
Total revenue, including media sales revenue	HK\$ Million	239.3	218.3
Total operating and finance costs	HK\$ Million	(239.8)	(240.6)
Loss from franchised bus operations before taxation	HK\$ Million	(0.5)	(22.3)
Taxation	HK\$ Million	-	-
Loss from franchised bus operations after taxation	HK\$ Million	(0.5)	(22.3)
Passenger volume	Million passenger trips	19.0	17.3
Kilometres travelled	Million km	22.8	22.6
Staff number at year-end	No. of staff	408	405
Fleet size at year-end	No. of buses	160	159

The total ridership of LWB for 2001 was 19.0 million (2000: 17.3 million) passenger trips or an average daily of 52,052 (2000: 47,135) passenger trips. This represents an increase of 10.1% over 2000. The increase was primarily due to the growth in the population in Tung Chung New Town and the number of tourists visiting Hong Kong during the year. Total mileage operated for the year was 22.8 million (2000: 22.6 million) kilometres.

LWB's loss substantially reduced from HK\$22.3 million in 2000 to HK\$0.5 million in 2001. Capital expenditure incurred by LWB during 2001 amounted to HK\$7.4 million (2000: HK\$7.0 million).

The advertising revenue of LWB for 2001 slightly decreased from HK\$2.4 million in 2000 to HK\$2.3 million in 2001, due mainly to the slowdown in the air travel related businesses in the last quarter of 2001.

NON-FRANCHISED TRANSPORT OPERATIONS DIVISION

The Group's Non-Franchised Transport Operations Division reported a profit of HK\$9.3 million (2000: HK\$8.6 million) for the year 2001, representing an increase of 8.1% compared to that for the previous year. Turnover saw significant growth to HK\$143.0 million in 2001 from HK\$103.0 million in 2000 due primarily to the increase in fleet size. On the other hand, the total operating costs in 2001 also increased considerably over the previous year due mainly to the costs incurred to upgrade service to meet keen market competition.

With Sun Bus Limited as the flagship, Sun Bus Holdings Limited and its subsidiaries had a fleet of 205 buses at the end of 2001 (2000: 177 buses) with a total net book value of HK\$69.2 million (2000: HK\$82.3 million), which provides various types of non-franchised bus services mainly for residential estates, commercial clients, employees, tourists, students and contract-hire customers. During the year, 31 buses (2000: 90 buses) were purchased.

Through New Hong Kong Bus Company Limited, 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 service deploys 17 air-conditioned single-deck buses.

In May 2001, Park Island Transport Company Limited, a 65% owned subsidiary of the Group, entered into an agreement with Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW") for the provision of bus and ferry services to and from Ma Wan Island. SHKMW is a subsidiary of Sun Hung Kai Properties Limited, a substantial shareholder of the Company. The bus and ferry services are expected to begin in the last quarter of 2002.

MEDIA SALES BUSINESS DIVISION

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

RESULTS	UNITS IN	2001	2000
Total revenue	HK\$ Million	301.3	53.3
Total operating and finance costs	HK\$ Million	(99.5)	(16.8)
Profit from ordinary activities before taxation	HK\$ Million	201.8	36.5
Taxation	HK\$ Million	(16.8)	(5.5)
Profit from ordinary activities after taxation	HK\$ Million	185.0	31.0
Minority interests	HK\$ Million	(9.9)	(0.3)
Profit from ordinary activities after taxation and minority interests	HK\$ Million	175.1	30.7
Net profit margin		58.1%	57.6%

The RoadShow Group reported total operating revenue of HK\$301.3 million (2000: HK\$53.3 million) and profit attributable to shareholders of HK\$175.1 million (2000: HK\$30.7 million) for the year ended 31 December 2001, both representing increases of approximately 4.7 times over 2000. The RoadShow Group's revenue was derived principally from its media sales services, media sales management and administrative services and merchandising businesses, with each accounting for approximately 86.8% (2000: 49.8%), 6.6% (2000: 33.7%) and 2.6% (2000: 15.4%) respectively of the RoadShow Group's total operating revenue for 2001.

The RoadShow Group's strong performance during 2001 was due mainly to the expansion of the multi-media on-board system installation on bus fleet from 100 franchised buses at the end of 2000 to 2,400 franchised buses and 200 public light buses at the end of 2001 and the installation of additional advertising spaces in bus waiting shelters. Its merchandising business of selling commemorative items also performed well during 2001.

Further information relating to the RoadShow Group is available in its 2001 annual report.

Mainland Operations Division> At 31 December 2001, the Group's total interest in associates and jointly controlled entity amounted to HK\$6.3 million (2000: HK\$9.9 million). The investments were in respect of the operation of passenger bus services in Dalian and Tianjin. The co-operative joint venture ("CJV") in Dalian, established in 1997 between a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company in Liaoning Province continued to make steady progress during 2001. The other CJV in Tianjin formed between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company Limited in Tianjin began operation in January 2001. This CJV made satisfactory progress during its initial year of operation. The contributions from these bus operations on the Mainland to the Group were insignificant in 2001.

CORPORATE GOVERNANCE

The Group continued to maintain high standards of corporate governance to ensure that its corporate decision-making process, internal audit and control, disclosure of information and communication with shareholders are conducted according to sound management practices and in full compliance with the regulatory standards.

BOARD OF DIRECTORS

The Company's Board of Directors comprises 16 Directors, four of whom are Independent Non-executive Directors, including the Chairman. Board meetings are normally held on a monthly basis to discuss and decide major corporate and strategic issues.

AUDIT COMMITTEE

The Group's Audit Committee (the "Committee") comprises three Non-executive Directors, two of whom are Independent Non-executive Directors. It meets every six months to review with senior management the accounting principles and practices adopted by the Group; the accuracy and fairness of the financial statements; and the scope of both internal and external audit work. The Committee also ensures that effective internal control procedures and practices are in place. Two Committee meetings were held during 2001. After each meeting, the Chairman of the Committee submitted a report to the Board of Directors and briefed them on significant issues.

INTERNAL AUDIT

The Internal Audit Department of the Group is under the supervision of the Head of Internal Audit Department, who reports directly to the Managing Director and the Audit Committee. Its key responsibilities include carrying 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.

ENHANCED SHAREHOLDER VALUE

The Group firmly believes that high standards of corporate governance enhance the corporate decision-making process in a decent, open and systematic manner. By securing investors' votes of confidence in the Group's management and internal controls, the value of the Group to the shareholders should be enhanced.

FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER

	2001 HK\$'M	2000 HK\$'M (RESTATED)	1999 HK\$'M (RESTATED)
Profit and loss account			
Turnover	6,862	6,323	5,871
Profit before exceptional item	1,814	936	893
Exceptional item	-	-	-
Profit from ordinary activities before taxation	1,814	936	893
Taxation	181	81	154
Profit from ordinary activities after taxation	1,633	855	739
Transfer from/(to) development fund	-	-	-
Profit attributable to shareholders	1,633	855	739
Balance sheet			
Fixed assets	6,047	5,381	4,952
Goodwill	21	22	4
Investment securities	15	1	-
Interest in subsidiaries	-	-	-
Interest in associates	1	-	(5)
Interest in jointly controlled entity	6	10	13
Net current assets/(liabilities)	951	926	881
Employment of funds	7,041	6,340	5,845
<i>Financed by:</i>			
Share capital	404	404	404
Reserves	4,395	2,341	2,052
Shareholders' funds	4,799	2,745	2,456
Contingency provision - insurance	202	298	305
Development fund	-	-	-
Minority interests	232	4	6
Long term bank loans	1,743	2,176	1,961
Other liabilities	65	1,117	1,117
Funds employed	7,041	6,340	5,845
Earnings per share	\$3.95	\$2.12	\$1.83
Dividends per share	\$1.86	\$1.58	\$1.35
Special cash bonuses per share	-	-	-

1998 HK\$'M (RESTATED)	1997 HK\$'M (RESTATED)	1996 HK\$'M (RESTATED)	1995 HK\$'M (RESTATED)	1994 HK\$'M (RESTATED)	1993 HK\$'M (RESTATED)	1992 HK\$'M (RESTATED)
5,510	4,863	4,451	3,973	3,500	2,998	2,775
679	555	588	540	490	384	389
-	-	-	-	1,711	-	-
679	555	588	540	2,201	384	389
93	4	62	77	84	62	60
586	551	526	463	2,117	322	329
-	-	2	(2)	-	30	1
586	551	528	461	2,117	352	330
4,882	4,441	3,342	2,777	2,479	2,241	2,049
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	24	-	-	-
(5)	(2)	-	-	-	-	-
17	20	-	-	-	-	-
374	(156)	(60)	40	36	(115)	(53)
5,268	4,303	3,282	2,841	2,515	2,126	1,996
404	404	404	404	404	404	404
1,782	1,637	1,514	1,362	1,231	935	846
2,186	2,041	1,918	1,766	1,635	1,339	1,250
299	273	288	175	175	146	140
-	-	-	2	-	-	30
6	6	-	-	-	-	-
1,694	1,116	346	303	229	358	370
1,083	867	730	595	476	283	206
5,268	4,303	3,282	2,841	2,515	2,126	1,996
\$1.45	\$1.36	\$1.31	\$ 1.14	\$ 5.24	\$ 0.87	\$ 0.82
\$1.15	\$1.08	\$1.04	\$ 0.91	\$ 0.80	\$ 0.68	\$ 0.64
-	-	-	-	\$ 3.81	-	-