

The Directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2001.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the principal subsidiaries are the operation of both franchised and non-franchised public buses as well as the provision of media sales services in Hong Kong. Particulars of the Company's subsidiaries are set out in note 16 on the financial statements.

The Group's turnover and profit are almost entirely attributable to bus operations and media sales business. The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 on the financial statements. Turnover and contribution to the Group's profit from non-Hong Kong activities are insignificant.

### FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 88 to 112 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 54 to 65 of this Annual Report.

### DIVIDENDS

An interim dividend of 40 cents per share was paid to the shareholders on 9 October 2001. The Directors now recommend that a final dividend of HK\$1.46 per share in respect of the year ended 31 December 2001 be paid to the shareholders on 17 May 2002.

### CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$14,921,850 (2000: HK\$2,597,000).

### FIXED ASSETS

During the year, major additions of the Group were buses and vessels under construction with a total cost of HK\$647,520,000 (2000: HK\$698,678,000). During the year, buses under construction with a total cost of HK\$665,211,000 (2000: HK\$698,189,000) were licensed and transferred to buses.

Details of other movements in fixed assets during the year are set out in note 14 on the financial statements.

### DIRECTORS

The Directors during the financial year and up to the date of this report were:

<b>The Hon Sir Sze-yuen Chung</b> , GBM, GBE, PhD, FREng, JP*	(Chairman)
<b>Norman Leung Nai Pang</b> , GBS, JP	(Deputy Chairman)
<b>Dr the Hon Woo Pak Chuen</b> , JP*	
<b>Raymond Kwok Ping Luen</b>	
<b>Walter Kwok Ping Sheung</b> , JP	
<b>Yu Shu Chuen</b>	
<b>Ng Siu Chan</b>	
<b>William Louey Lai Kuen</b>	
<b>John Chan Cho Chak</b> , GBS, JP	(Managing Director)
<b>Charles Lui Chung Yuen</b> , M.H.	
<b>Winnie J Ng</b>	
<b>Dr James Kung Ziang Mien</b> , OBE*	
<b>George Chien Yuan Hwei</b>	
<b>The Hon Eric Li Ka Cheung</b> , OBE, JP*	
<b>Lui Pochiu</b>	(appointed on 1 January 2001)
<b>Edmond Ho Tat Man</b>	(appointed on 1 January 2001)
<b>Lana Woo</b>	(Alternate Director to Dr the Hon Woo Pak Chuen, JP)
<b>Patrick Chan Kai Lung</b>	(Alternate Director to Mr Walter Kwok Ping Sheung, JP)
<b>Sham Yat Wah</b>	(Alternate Director to Mr Raymond Kwok Ping Luen and appointed on 9 August 2001)
<b>Tsim Tak Po</b>	(Alternate Director to Mr Raymond Kwok Ping Luen and resigned on 9 August 2001)

(\* Independent Non-executive Director)

### DIRECTORS (continued)

In accordance with Bye-Law 87, Messrs. Norman Leung Nai Pang, Walter Kwok Ping Sheung, Ng Siu Chan and William Louey Lai Kuen retire from the Board by rotation and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 66 to 71 of this Annual Report.

### DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the Directors had the following interests in the issued share capital of the Company and its subsidiary company, RoadShow Holdings Limited ("RoadShow"), as recorded in the register of Directors' interests in shares:

(a) The Company

	SHARES OF HK\$1 EACH			
	PERSONAL INTERESTS	FAMILY INTERESTS	CORPORATE INTERESTS	OTHER INTERESTS
<b>The Hon Sir Sze-yuen Chung</b> , GBM, GBE, PhD, FREng, JP	18,821	-	-	-
<b>Norman Leung Nai Pang</b> , GBS, JP	-	-	-	-
<b>Dr the Hon Woo Pak Chuen</b> , JP	210,047	-	-	-
<b>Raymond Kwok Ping Luen</b>	393,350	-	-	-
<b>Walter Kwok Ping Sheung</b> , JP	61,522	-	-	-
<b>Yu Shu Chuen</b>	2,943	70,803	-	6,909,481 (Note 1)
<b>Ng Siu Chan</b>	-	19,226,233	-	-
<b>William Louey Lai Kuen</b>	1,463,826	4,475	-	-
<b>John Chan Cho Chak</b> , GBS, JP	2,000	-	-	-
<b>Charles Lui Chung Yuen</b> , M.H.	12,427	-	-	2,651,750 (Note 2)
<b>Winnie J Ng</b>	25,200	-	-	19,226,233 (Note 3)
<b>Dr James Kung Ziang Mien</b> , OBE	-	-	-	-
<b>George Chien Yuan Hwei</b>	2,000	-	-	-
<b>The Hon Eric Li Ka Cheung</b> , OBE, JP	-	-	-	-
<b>Lui Pochiu</b>	452,113	-	-	-
<b>Edmond Ho Tat Man</b>	-	-	-	-
<b>Lana Woo</b> (Alternate Director to Dr the Hon Woo Pak Chuen, JP)	9,475	-	-	-
<b>Patrick Chan Kai Lung</b> (Alternate Director to Mr Walter Kwok Ping Sheung, JP)	-	-	-	-
<b>Sham Yat Wah</b> (Alternate Director to Mr Raymond Kwok Ping Luen)	-	-	-	-

**DIRECTORS' INTERESTS IN SHARES (continued)**

(b) RoadShow

SHARES OF HK\$0.10 EACH				
	PERSONAL INTERESTS	FAMILY INTERESTS	CORPORATE INTERESTS	OTHER INTERESTS
<b>The Hon Sir Sze-yuen Chung</b> , GBM, GBE, PhD, FEng, JP	4,000	-	-	-
<b>Norman Leung Nai Pang</b> , GBS, JP	-	-	-	-
<b>Dr the Hon Woo Pak Chuen</b> , JP	17,503	-	-	-
<b>Raymond Kwok Ping Luen</b>	34,000	-	-	-
<b>Walter Kwok Ping Sheung</b> , JP	6,000	-	-	-
<b>Yu Shu Chuen</b>	30,000	5,900	-	480,690 (Note 1)
<b>Ng Siu Chan</b>	-	-	-	-
<b>William Louey Lai Kuen</b>	89,371	-	-	-
<b>John Chan Cho Chak</b> , GBS, JP	-	-	-	-
<b>Charles Lui Chung Yuen</b> , M.H.	-	-	-	198,298 (Note 2)
<b>Winnie J Ng</b>	-	-	-	-
<b>Dr James Kung Ziang Mien</b> , OBE	-	-	-	-
<b>George Chien Yuan Hwei</b>	167	-	-	-
<b>The Hon Eric Li Ka Cheung</b> , OBE, JP	-	-	-	-
<b>Lui Pochiu</b>	22,552	-	-	-
<b>Edmond Ho Tat Man</b>	-	-	-	-
<b>Lana Woo</b> (Alternate Director to Dr the Hon Woo Pak Chuen, JP)	2,000	-	-	-
<b>Patrick Chan Kai Lung</b> (Alternate Director to Mr Walter Kwok Ping Sheung, JP)	-	-	-	-
<b>Sham Yat Wah</b> (Alternate Director to Mr Raymond Kwok Ping Luen)	-	-	-	-

Notes:

- 1 HSBC International Trustee Ltd held 6,909,481 and 480,690 shares in the Company and RoadShow respectively as trustee of a discretionary trust. Mr Yu Shu Chuen is deemed to have an interest in the discretionary trust.
- 2 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 2,651,750 and 198,298 shares in the Company and RoadShow respectively.
- 3 Miss Winnie J Ng has interest in certain private trusts which beneficially held 19,226,233 shares in the Company.

As at 31 December 2001, none of the Directors had any non-beneficial interest in the share capital of the Company.

Except as stated herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Under a Pre-Listing Share Option Scheme (the "Option Scheme") of RoadShow, options have been granted to certain Directors and employees of the Company and/or RoadShow or its subsidiary companies to subscribe for shares in RoadShow. The following Directors of the Company have personal interests in share options to subscribe for shares in RoadShow as follows:

	NUMBER OF SHARE OPTIONS OUTSTANDING AT 31 DECEMBER 2001
<b>Norman Leung Nai Pang</b> , GBS, JP	2,380,000
<b>Raymond Kwok Ping Luen</b>	338,000
<b>Ng Siu Chan</b>	338,000
<b>John Chan Cho Chak</b> , GBS, JP	2,380,000
<b>Charles Lui Chung Yuen</b> , M.H.	338,000
<b>Winnie J Ng</b>	3,380,000
<b>George Chien Yuan Hwei</b>	168,000
<b>Lui Pochiu</b>	188,000
<b>Edmond Ho Tat Man</b>	188,000
<b>Lana Woo</b> (Alternate Director to Dr the Hon Woo Pak Chuen, JP)	168,000
<b>Patrick Chan Kai Lung</b> (Alternate Director to Mr Walter Kwok Ping Sheung, JP)	168,000

As at 31 December 2001, the above options were conditionally granted to the above Directors to subscribe for shares of RoadShow at an exercise price of HK\$1.80 per share. The exercise period for the above Directors who have been granted options under the Option Scheme shall be two years commencing six months from 28 June 2001 except that for Directors who shall be granted 1,000,000 or more options to subscribe for the shares of RoadShow under the Option Scheme, they could

- (a) during the period from the beginning of the seventh month up to the end of the twelfth month from 28 June 2001 exercise up to 50% of the number of options that they have been granted under the Option Scheme; and
- (b) exercise the remaining unexercised options after the end of the twelfth month from 28 June 2001 up to the end of the exercise period.

No options were exercised, cancelled or lapsed during the year from the date of grant to 31 December 2001.

The option granted are not recognised in the financial statements until they are exercised. According to the Black-Scholes model (Note), the total value of the options granted to the above Directors under the Option Scheme was estimated at approximately HK\$6,972,000 with the following variables and assumptions:

- (i) Risk free rate : 4.98%, being the approximate yield of 5-year Exchange Fund Note traded on 31 December 2001.
- (ii) Expected volatility: 50.67%, being the annualised volatility of the closing price of the shares of RoadShow from 28 June 2001 to 31 December 2001.
- (iii) Expected dividend yield: 1.85%, being 2001 prospective dividend yield of the shares of RoadShow.
- (iv) Expected life of the share options: 2 years
- (v) Number of outstanding options under the Option Scheme: 10,034,000

Note: The Black-Scholes model ("Model") is developed to estimate the fair value of publicly trade options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option, the Model does not necessarily provide a reliable measure of the fair value of the options.

## DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## DIRECTORS' INTERESTS IN CONTRACTS

No 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 the end of the year or at any time during the year.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 31 December 2001 amounting to 10% or more of the shares in issue:

	SHARES HELD	PERCENTAGE OF TOTAL ISSUED SHARES
Sun Hung Kai Properties Limited (Note 1)	133,271,012	33.02%
Arklake Limited (Note 1)	68,600,352	17.00%
Austral International Limited	46,899,015	11.62%
HSBC Holdings plc (Note 2)	169,721,854	42.05%

Notes:

- 1 The register of substantial shareholders indicates that the interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 68,600,352 shares disclosed by Arklake Limited.
- 2 For the purposes of the Securities (Disclosure of Interests) Ordinance, HSBC Holdings plc and certain of its subsidiaries ("HSBC Holdings plc Group") are deemed to be interested in the 133,271,012 shares held by SHKP in the Company. In addition, certain subsidiaries of HSBC Holdings plc are the trustees of various trusts which have interest amounting to 36,450,842 shares in the Company. Accordingly, HSBC Holdings plc Group has a deemed interest in a total of 169,721,854 shares in the Company.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

## SENIOR EXECUTIVES

Brief particulars of the senior executives of the Group are set out on pages 72 to 73 of this Annual Report.

## STAFF RETIREMENT SCHEMES

The Group operates two separate non-contributory defined benefit retirement schemes, namely "The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme" and "The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme", and participates in a defined contribution retirement scheme, namely "SHKP MPF Employer Sponsored Scheme".

### *Defined benefit retirement schemes*

The assets of the defined benefit retirement schemes are held separately from those of the Group. Both schemes are formally established under trust and are registered under the Occupational Retirement Schemes Ordinance. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the retirement schemes at regular intervals, usually triennially, and are charged to the profit and loss account.

The most recent actuarial valuations of the two schemes were at 31 December 2000 which showed that there were sufficient assets in the schemes to cover both the solvency and ongoing liabilities of the schemes. Other relevant information extracted from the valuation pertaining to the two schemes is set out below:

## **STAFF RETIREMENT SCHEMES (continued)**

### *Defined benefit retirement schemes (continued)*

The KMB Monthly Rated Employees Provident Fund Scheme

- i) The scheme was established with effect from 15 February 1978.
- ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used. Other major assumptions used in the valuation were: Investment Return and Salary Escalation at 8% per annum; Mortality Rates 1991 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 65.
- iii) The market value of the scheme assets at 31 December 2000 was HK\$764.8 million.
- iv) The minimum level of funding commencing from 1 January 2001 recommended by the actuary is 10.1% of pay.
- v) The ongoing funding surplus in the scheme was HK\$157.0 million and the solvency surplus was HK\$218.1 million at 31 December 2000.

The KMB Daily Rated Employees Retirement Fund Scheme

- i) The scheme was established with effect from 1 July 1983.
- ii) The actuary of the scheme is Mr Aaron Wong, Fellow of the Canadian Institute of Actuaries and Fellow of the Society of Actuaries. In the actuarial valuation, the attained age valuation method was used. Other major assumptions used in the valuation were: Investment Return and Salary Escalation at 8% per annum; Mortality Rates 1991 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 60.
- iii) The market value of the scheme assets at 31 December 2000 was HK\$1,947.9 million.
- iv) The minimum level of funding commencing from 1 January 2001 recommended by the actuary is 6.8% of pay.
- v) The ongoing funding surplus in the scheme was HK\$280.2 million and the solvency surplus was HK\$770.3 million at 31 December 2000.

### *Defined contribution retirement scheme*

SHKP MPF Employer Sponsored Scheme (the "SHKP Scheme")

The Group is also a participating member of the defined contribution retirement scheme. For those employees who do not participate in the defined benefit retirement schemes, they are covered by the SHKP Scheme which is administered by an independent trustee. The assets of the SHKP Scheme are held separately from those of the Group in independently administered funds. The Group is required to make contributions to the SHKP Scheme at rates ranging from 5% to 12% of the relevant employees' salaries, depending on their length of service with the Group. The employees are required to make contribution to the SHKP Scheme at 5% of the employees' relevant income as defined by the Hong Kong Mandatory Provident Fund Scheme Ordinance, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the SHKP Scheme during the year are charged to the profit and loss account. For forfeited amount due to resignation prior to the vesting of the benefits, the amount will be used to reduce the Group's contribution made in that corresponding financial year.

## **BANK LOANS AND OVERDRAFTS**

Particulars of bank loans and overdrafts of the Company and the Group as at 31 December 2001 are set out in note 24 on the financial statements.

## **MAJOR CUSTOMERS AND SUPPLIERS**

Income attributable to the five largest customers of the Group accounted for less than 30% of the total income of the Group for the year.

Purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the value of the Group's total purchases for the year.

**FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on pages 64 and 65 of this Annual Report.

**COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules, except that the independent Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Bye-Laws of the Company.

**AUDIT COMMITTEE**

The audit committee comprises one Non-executive Director and two Independent Non-executive Directors and reports to the Board of Directors. The audit committee meets with Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group.

**AUDITORS**

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**S.Y. CHUNG**

Chairman

Hong Kong, 11 March 2002