

Chairman's Statement

Throughout its history over the last seven decades, KMB and the Group have made positive contributions to Hong Kong's development.



Despite a difficult economic environment and increasing competition, the Group performed well in 2002. Overall, it was a year of consolidation in which we capitalised on our breakthroughs and achievements of the past several years.

The Kowloon Motor Bus Company (1933) Limited (“KMB”) marks its 70th anniversary in 2003. Although KMB is one of the oldest public transportation companies in Hong Kong, we have stood the test of time by thinking and acting young. This management philosophy has enabled us to stay ahead of the times and maintain our leadership position.

The Group remains flexible, sensitive to market conditions and expectations, and takes full advantage of our economies of scale. Our advanced management systems and practices stand us in good stead in both weak and strong economic climates.

Throughout its history, the Group has been a leading contributor to Hong Kong’s development. We have provided dependable public transportation at competitive prices. We are a major, caring employer and we have helped put Hong Kong on the world map in terms of bus industry performance and our inclusion in international financial indices. KMB has been recognised many times by various international bodies, who have lauded our efforts in many areas of our business. The Group is also a responsible corporate citizen in environmental protection and community betterment. The Hong Kong General Chamber of Commerce endorsed KMB as one of Hong Kong’s best name brands during the year.

We ensure that our customers are satisfied with our services. This strategy, coupled with stringent cost control and improvements in productivity, has enabled us to avoid fare increases for the past five years. This is, of course, in accord with the popular sentiment to economise during difficult economic conditions.

However, during this 5-year period, major operating cost items, such as fuel prices, tunnel tolls and insurance costs, have significantly increased and these are beyond our control. Salaries have also increased in line with our philosophy of attracting and retaining a first rate staff force. In addition, we have reinvested significant amounts of our income each year to purchase new and better buses, upgrade our termini and depot facilities, and incorporate the latest environmental protection measures. We will continue our very best efforts to improve our productivity and service quality so that our customers can enjoy comfortable and reliable bus journeys at reasonable fares.

Results for the Year

The Group’s profit attributable to shareholders for the year ended 31 December 2002 was HK\$939.6 million. This represents a decrease of 39.0% compared with HK\$1,539.4 million (restated) for the previous year, which included a non-recurrent deemed profit of HK\$349.6 million arising from the partial disposal of RoadShow Holdings Limited (“RoadShow”). Earnings per share for the year were HK\$2.33 compared with HK\$3.81 (restated) for 2001.

Excluding the non-recurrent deemed profits of HK\$2.7 million for 2002 and HK\$349.6 million for 2001 arising from the partial disposal of RoadShow shares for comparison purpose, the Group’s profit attributable to shareholders for the year ended 31 December 2002 represents a decrease of 21.3% compared with that for 2001.

The profit from KMB for 2002 was HK\$872.3 million, representing a decrease of 14.0% compared with HK\$1,014.8 million (restated) for 2001. The results of Long Win Bus Company Limited (“LWB”) improved to a profit of HK\$4.6 million for 2002 from a loss of HK\$0.4 million (restated) for the previous year. The profit from non-franchised businesses amounted to HK\$12.7 million, representing an increase of 54.9% compared with 2001.

Dividends

At the forthcoming Annual General Meeting, the Directors will recommend the payment of a final dividend of HK\$1.58 per share for the year ended 31 December 2002. This compares with HK\$1.46 per share for 2001. Together with the interim dividend of 45 cents per share paid on 10 October 2002 (2001 : 40 cents per share), total dividends for the year will amount to HK\$2.03 per share compared with HK\$1.86 for the previous year. The total dividend payout for the year will amount to HK\$819.4 million as compared with HK\$750.8 million for 2001.

Outlook

Looking ahead, in the short term, we anticipate bus service contraction rather than expansion because of the HKSAR Government's rail development strategy and the weak economic environment. The opening of the Mass Transit Railway ("MTR") Tseung Kwan O Extension in August 2002 has caused the Group to lose about 100,000 passenger trips daily. It is expected that the Kowloon-Canton Railway ("KCR") West Rail linking the west and northwest New Territories with Sham Shui Po, Kowloon will come into service in the third quarter of 2003. The following year will see the opening of the KCR Ma On Shan Rail and the extension of the KCR East Rail to Tsim Sha Tsui. All these railway developments will intensify competition for the bus transport industry as a whole and for KMB in particular. Over the long term, we nonetheless anticipate new demand and continued growth for bus transportation due to the increasing population in the New Territories, the flexibility of bus routes, and the development of new towns made possible by the new rail lines.

Our involvement in Government studies commissioned by the Transport Department to coordinate public transport services with new rail services enables us to redeploy our resources for the future in a smooth and efficient manner. When the new MTR Tseung Kwan O Extension service began, we made pre-arranged personnel adjustments and initiated changes in services to accommodate the new market conditions. Thus, we were able to mitigate some of the adverse impact on our customers and staff.

We will be enhancing our bus-bus interchange schemes to further develop a more integrated public transportation network by continuing to develop co-operative arrangements with other public bus transport operators and the rail operators. The development of these co-operative arrangements will help to ease traffic congestion and reduce pollution through deploying fewer buses along urban routes.

Business Strategy

Our strategy is to diversify our business by continuing to explore new growth opportunities that can be leveraged on our core competencies. Our new 65% owned subsidiary, Park Island Transport Company Limited ("PITC"), providing shuttle bus and ferry services to and from Park Island, a major residential development on Ma Wan Island, is a good example of this approach.

Another endeavour is the redevelopment of the obsolete Lai Chi Kok Depot into an upscale residential and commercial complex which is scheduled for completion by 2005. This project will bring us a new income generating asset as well as a population centre near one of our major bus termini that will be a potential source of new customers for KMB.

With a focus on quality service, the Group will continue to develop our non-franchised bus business in Hong Kong. We anticipate that our 'Multi-media On-board' ("MMOB") service will continue to generate advertising revenue and be further developed in Hong Kong and on the Mainland of China. In the light of the strong economic growth of the Mainland, we will explore more new opportunities in its public transport sector.

Throughout our long history, the Group has weathered periods of economic recession and flourished during periods of prosperity because of our dedication to quality service and our flexibility in adapting to changing market conditions. Our commitment to operational efficiency and productivity will enable us to maintain this record of achievement.

Corporate Governance

The Group recognises the importance of sound corporate governance and transparency. To this end, we provide access to information about the Group to a variety of audiences including financial analysts, investors, shareholders, financial institutions, customers, the media and our staff. We have improved our channels of communication by, for example, updating our website and maintaining and improving dialogues with our customers and the local community.

Our Audit Committee and internal audit team have continued their efforts in assuring the Group's good corporate governance practices and disclosure standards. With the assistance of our external auditors and Internal Audit Department, the Audit Committee reviews the Group's financial reporting process and management control systems regularly. In addition, our internal audit team conducts comprehensive audits and reviews on the Group's financial and operational procedures and practices on both a regular and an ad hoc basis.

Social Responsibility

We know that to earn the right to retain our franchise to serve the community, we must continue to offer quality service at reasonable fares and take measures to protect the environment. As a responsible corporate citizen, we are totally committed to doing our very best in improving our passenger transport services in every aspect for the benefit of the community.

Our People

Our people have been a winning team that delivers a high level of performance for the Group. Their achievements have been recognised both within the Company and by external observers. On behalf of the Board, I thank all employees of the Group for their invaluable contributions to our businesses during the year and we look forward to their dedicated and continued support in the years ahead.

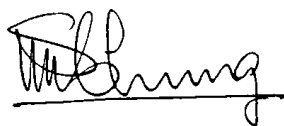
Directors

Under the Public Bus Services Ordinance (Cap. 230), the Commissioner for Transport and the Deputy Secretary for the Environment, Transport and Works are appointed by the Chief Executive of the HKSAR Government to sit on the Boards of KMB and LWB. During 2002, the incumbents in these posts were Mr. Robert Footman, JP and Mr. Arthur Ho, JP respectively. I sincerely appreciate the valuable contributions made by both Mr. Footman and Mr. Ho.

Miss Susanna Lau Shung Oi was appointed as Alternate Director to Mr. Walter Kwok Ping Sheung, JP in place of Mr. Patrick Chan Kai Lung on 13 May 2002. I would like to welcome Miss Lau to the Board and thank Mr. Chan for his past service as a Board member.

My sincere 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 professional and meticulous work during the year.

Lastly, I want to thank my fellow Directors, in particular our Managing Director, Mr. John Chan, GBS, JP, for their contributions towards the successful performance of the Group in 2002.



S.Y. CHUNG

Chairman

20 March 2003