

# Financial Review

## Performance of the Group

### Consolidated Results for the Year

The Group's profit attributable to shareholders for the year ended 31 December 2002 was HK\$939.6 million (2001: restated HK\$1,539.4 million), representing a decrease of 39.0% compared with the previous year. Earnings per share for the year amounted to HK\$2.33 per share (2001: restated HK\$3.81 per share).

Excluding the non-recurrent deemed profit of HK\$2.7 million for 2002 and HK\$349.6 million for 2001 arising from the partial disposal of RoadShow Holdings Limited ("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.

### Dividends

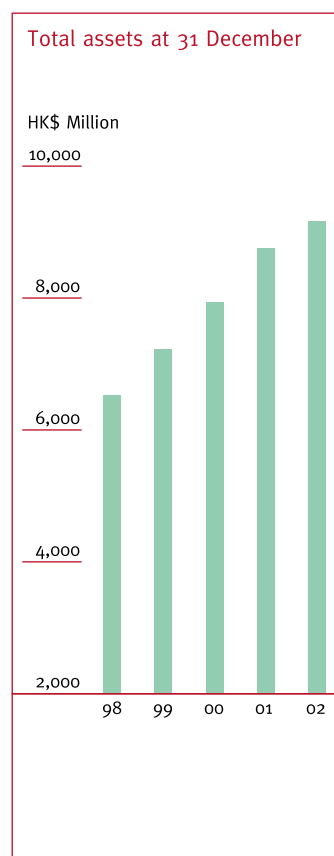
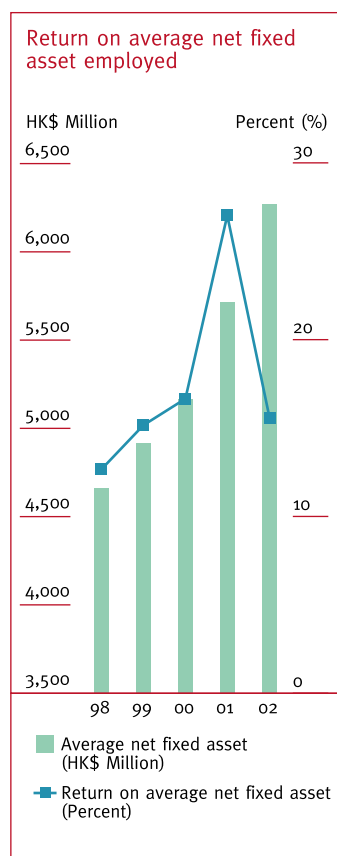
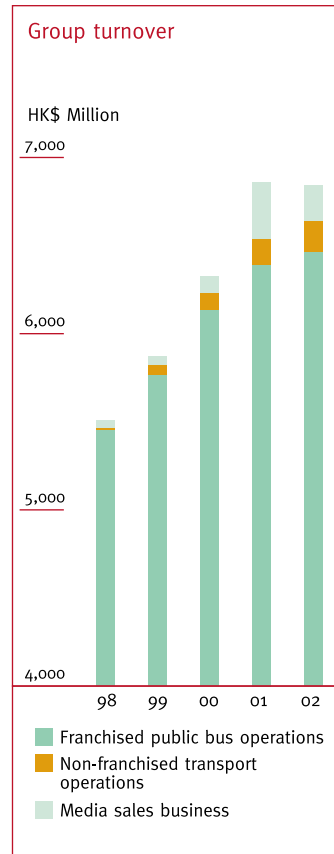
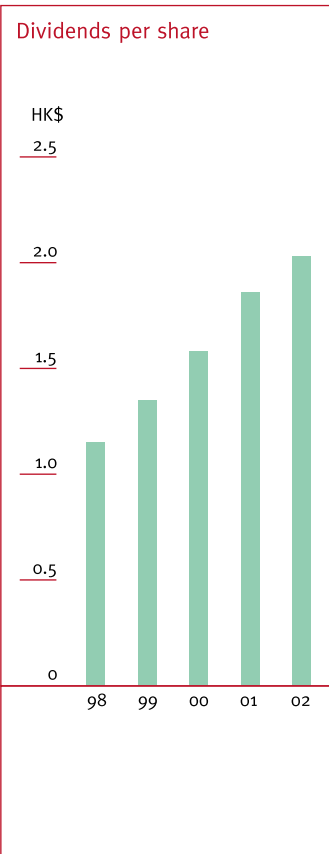
The proposed final dividend for the year is HK\$1.58 (2001: HK\$1.46) per share. Together with the interim dividend of HK\$0.45 per share (2001: HK\$0.40 per share), total dividends for the year increased by 9.1% over 2001. This represents dividend cover of 1.15 times (2001: restated 2.05 times).

### Summary of the Group's Performance by Division

A summary of the turnover and profit generated from the Group's six Divisions is set out below.

HK\$ Million	Turnover		Profit from ordinary activities before tax	
	2002	2001	2002	2001 restated
Franchised Public Bus Operations Division	<b>6,532.1</b>	6,457.8	<b>1,091.0</b>	1,329.3
Non-franchised Transport Operations Division	<b>173.6</b>	143.0	<b>12.7</b>	8.2
Media Sales Business Division	<b>137.7</b>	261.0	<b>53.1</b>	171.9
Mainland Operations Division	—	—	<b>0.3</b>	(0.7)
Property Holdings Division	—	—	<b>3.5</b>	0.4
Internal Financial Services Division	—	—	<b>34.7</b>	32.1
	<b>6,843.4</b>	6,861.8	<b>1,195.3</b>	1,541.2
Deemed profit on partial disposal of a subsidiary			<b>2.7</b>	349.6
Finance costs			<b>(49.9)</b>	(114.0)
Unallocated net operating income and expenses			<b>(5.9)</b>	32.9
Profit from ordinary activities before tax			<b>1,142.2</b>	1,809.7

Segment information on the main businesses of the Group is shown in note 13 on the financial statements on pages 100 and 101 of this Annual Report.



## Taxation

Taxation for the year was HK\$174.9 million (2001: restated HK\$236.7 million). Deferred taxation of HK\$70.2 million (2001: restated HK\$86.0 million) was provided for using the balance sheet method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes according to the new accounting policy recommended by the re-issued Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA") in 2002.

## Cash Flow

The net cash inflow from operating activities of the Group in 2002 was HK\$1,648.3 million (2001: restated HK\$2,100.8 million). Net cash used in investing activities during the year amounted to HK\$1,461.1 million (2001: restated HK\$1,197.5 million), of which payment for capital expenditure amounted to HK\$1,265.8 million (2001: HK\$1,268.5 million). Net cash used in financing activities during the year amounted to HK\$866.4 million (2001: restated HK\$886.5 million), of which total dividend payments to the shareholders amounted to HK\$771.0 million (2001: HK\$666.0 million). The consolidated cash flow statement of the Group for the year ended 31 December 2002 is set out on pages 88 and 89 of this Annual Report.

## Liquidity and Financial Resources

The Group's policy is to maintain a healthy financial position such that net cash inflow from operating activities together with undrawn committed and uncommitted banking facilities should meet the requirements for loan repayments and capital expenditure. Furthermore, sufficient cash balances are maintained to meet potential business expansion and development from time to time. The Group's operations were mainly financed by shareholders' funds, bank loans and overdrafts in 2002.

The gearing ratio and the liquidity ratio of the Group are shown below:

	2002	2001 restated
Gearing ratio at year-end (the ratio of net borrowings to the total share capital and reserves)	<b>0.15</b>	0.05
Liquidity ratio at year-end (the ratio of current assets to current liabilities)	<b>1.27</b>	1.47

**Net borrowings** ▶ At 31 December 2002, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK\$689.5 million (2001: HK\$225.8 million), representing an increase of HK\$463.7 million as compared with 2001. An analysis of the Group's net borrowings by currency at 31 December 2002 is shown below:

Currency	2002		2001	
	Net borrowings/ (cash) in foreign currency Million	Net borrowings/ (cash) in HK\$ Million	Net borrowings/ (cash) in foreign currency Million	Net borrowings/ (cash) in HK\$ Million
Hong Kong Dollar		<b>993.9</b>		739.1
United States Dollar	<b>(28.3)</b>	<b>(221.2)</b>	(43.1)	(336.1)
British Pound Sterling	<b>(6.7)</b>	<b>(83.2)</b>	(15.7)	(177.2)
Total		<b>689.5</b>		225.8

**Bank loans and overdrafts** ▶ Bank loans and overdrafts at 31 December 2002 amounted to HK\$2,268.0 million (2001: HK\$2,345.7 million).

Except for a bank loan of HK\$100 million (2001: HK\$ Nil) which was secured by a pledged bank deposit of the same amount (2001: HK\$ Nil), all bank loans and overdrafts were unsecured as at 31 December 2002 and 31 December 2001.

The maturity profile of the bank loans and overdrafts of the Group is set out in note 25 on the financial statements on page 109 of this Annual Report.



**Banking facilities** › At 31 December 2002, the Group had stand-by banking facilities totalling HK\$549.5 million (2001: HK\$381.5 million).

**Finance costs and interest cover** › Due mainly to the reduction in interest rates and in the average amount of borrowings during 2002, the total finance cost incurred by the Group reduced from HK\$114.0 million in 2001 to HK\$49.9 million in 2002. The average interest rate in respect of the Group's borrowings for 2002 was 2.6%, representing a decrease of 190 basis points compared with 4.5% for 2001.

Interest cover, representing the ratio of profit from ordinary activities before tax to net finance charges (i.e. total finance costs less interest income), increased from 75.9 times in 2001 to 87.2 times in 2002.

**Funding and treasury policies** › The major operating companies of the Group (i.e. The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, RoadShow Holdings Limited and Park Island Transport Company Limited) arrange their own financing to meet specific requirements. The main sources of financing for these companies are proceeds from operations and unsecured long-term bank loans. Uncommitted stand-by banking facilities and overdrafts are also maintained to facilitate routine treasury operations. Financing for the other subsidiaries of the Group is mainly provided by the holding company from its capital base. The Group reviews its strategy from time to time with a view to selecting the financing methods that provide the lowest finance costs with the required maturity and flexibility.

The Group's major revenue sources are fare receipts from the franchised bus services and revenue from non-franchised transport operations and the media-sales business, all denominated in Hong Kong dollars. Financing in Hong Kong dollars provides a natural currency hedge for the Group. As at 31 December 2002,

the Group's total borrowings were substantially denominated in Hong Kong dollars and on a floating rate basis. This has enabled the Group to take full advantage of the interest rate cuts in 2002. 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. Certain expenditures such as purchase of new buses and motor vehicle components require payments in foreign currencies. It has been the Group's policy to closely monitor its exposure to foreign exchange movements in formulating its hedging strategy on an ongoing basis.

**Cash and deposits at bank** ▶ At 31 December 2002, the Group's cash and deposits at banks amounted to HK\$1,595.2 million (2001: HK\$2,119.8 million), and they were mainly denominated in Hong Kong Dollars, US Dollars and British Pound Sterling.

### Capital Expenditure and Commitment

Capital expenditure incurred by the Group during 2002 amounted to HK\$1,340.1 million (2001: HK\$1,337.5 million). The breakdown of the capital expenditure incurred is shown in note 14(a) on the financial statements on page 102 of this Annual Report.

Commitments outstanding and not provided for in the financial statements of the Group as at 31 December 2002 amounted to HK\$890.6 million (2001: HK\$790.6 million). A summary of the nature of the commitments is set out below:

HK\$ Million	2002	2001
Purchase of buses and other motor vehicles	255.4	296.8
Construction of depots and other depot facilities	5.1	221.6
Re-development of the old Lai Chi Kok Depot site	127.7	—
Purchase of other fixed assets	502.4	272.2
Total	890.6	790.6

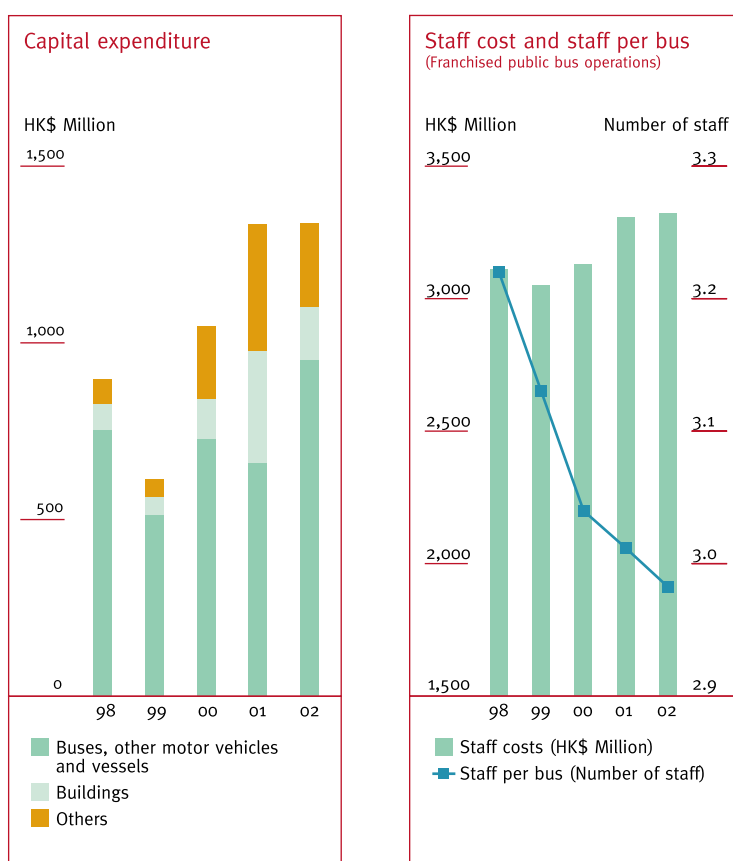
The commitments are to be financed by borrowings and the working capital of the Group.

At 31 December 2002, the Group had 134 (2001: 138) air-conditioned double-deck buses on order for delivery in 2003 and 60 (2001: 70) buses under various stages of construction.

### Accounting Standards and Policies

The financial statements set out on page 83 to 116 have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). Certain new or revised SSAPs, which affect the Group, are highlighted below.

SSAP 12 "Income taxes" – In prior years, deferred taxation was provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure that were expected with reasonable probability to crystallise in the foreseeable future. The Group has elected to adopt the re-issued SSAP 12 "Income taxes" in place of SSAP 12 "Accounting for deferred tax" issued in 1987, for the preparation of its financial statements for the year ended 31 December 2002. The Directors



considered that the new accounting policy would be able to fully and fairly recognise the tax consequences of transactions and other events effected by the Group. The effect of adopting this new accounting policy is set out in note 2(d) on the financial statements on page 96 of this Annual Report.

SSAP 34 “Employee benefits” – With the adoption of SSAP 34 “Employee benefits”, the Group’s defined benefit retirement assets, short term employee benefits and lump sum long service payments payable on cessation of the employees’ services were recognised by the Group. The effect of adopting the new accounting policy is set out in note 2(a), (b) and (c) on the financial statements on pages 95 and 96 of this Annual Report.

## 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 two years are tabulated below:

	2002	2001 restated
Number of employees at year-end	<b>14,208</b>	14,144
Total remuneration (in HK\$ Million)	<b>3,320</b>	3,305
Remuneration as percentage of total operating costs	<b>56%</b>	57%

## Analysis of Performance of Individual Business Units

### Franchised Public Bus Operations Division

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

	Unit	2002	2001 restated
Total revenue, including advertising revenue	HK\$ Million	<b>6,352.6</b>	6,367.4
Total operating and finance costs	HK\$ Million	<b>(5,316.8)</b>	(5,151.9)
Profit from franchised bus operations before tax	HK\$ Million	<b>1,035.8</b>	1,215.5
Income tax expense	HK\$ Million	<b>(163.5)</b>	(200.7)
Profit from franchised bus operations after tax	HK\$ Million	<b>872.3</b>	1,014.8
Net profit margin		<b>13.7%</b>	15.9%
Passenger volume	Million passenger trips	<b>1,134.4</b>	1,111.2
Kilometres travelled	Million km	<b>349.9</b>	349.1
Staff number at year-end	No. of staff	<b>13,247</b>	13,281
Fleet size at year-end	No. of buses	<b>4,441</b>	4,384
Total assets value	HK\$ Million	<b>6,518.0</b>	5,961.0

Profit from franchised bus operations after tax of KMB for 2002 amounted to HK\$872.3 million (2001: restated HK\$1,014.8 million), representing a decrease of 14.0% compared with that of the previous year.

KMB recorded 1,134.4 million passenger trips during the year (2001: 1,111.2 million). The average daily number of passenger trips in 2002 was 3.11 million (2001: 3.04 million). This represents an increase of 2.1% compared with the previous year.

KMB's fare revenue for 2002 increased slightly by 1.1% to HK\$6,234.0 million from HK\$6,169.5 million for 2001. Such increase was mainly due to the extra travel demand generated by population growth and the shift of population from the traditional urban areas to the new towns in the New Territories, as well as the introduction of more buses and new bus routes by KMB during the year. However, such growth in demand was suppressed by a loss of about 100,000 passenger trips a day after the opening of the new MTR Tseung Kwan O Line since August 2002.

The actual distance travelled by KMB's buses totalled 349.9 million kilometres during the year (2001 : 349.1 million kilometres). The slight increase in distance travelled was primarily due to the launch of new bus routes and improved frequencies on certain bus routes but offset by the rationalisation of some routes.

KMB's advertising revenue amounted to HK\$71.4 million (2001: HK\$71.2 million) in 2002, a slight increase of 0.3% compared with that in 2001.

The increase in operating costs was due mainly to increase in depreciation charge as a result of the capital investment made in 2002. Tunnel tolls, insurance, fuel and other operating costs also increased both in themselves and in line with the enhanced activity level.

KMB has been assigned a single "A" corporate rating (outlook: stable) by Standard & Poor's since 14 January 2002. The credit rating reflects KMB's strong and stable financial position.

## Long Win Bus Company Limited (“LWB”) ›

	Unit	2002	2001 restated
Total revenue, including advertising revenue	HK\$ Million	<b>246.4</b>	239.3
Total operating and finance costs	HK\$ Million	<b>(240.9)</b>	(239.9)
Profit/(loss) from franchised bus operations before tax	HK\$ Million	<b>5.5</b>	(0.6)
Income tax (expense)/income	HK\$ Million	<b>(0.9)</b>	0.2
Profit/(loss) from franchised bus operations after tax	HK\$ Million	<b>4.6</b>	(0.4)
Net profit margin		<b>1.9%</b>	—
Passenger volume	Million passenger trips	<b>20.3</b>	19.0
Kilometres travelled	Million km	<b>23.1</b>	22.8
Staff number at year-end	No. of staff	<b>402</b>	408
Fleet size at year-end	No. of buses	<b>145</b>	160
Total assets value	HK\$ Million	<b>303.4</b>	354.8

The profit from franchised bus operations after tax of LWB for 2002 was HK\$4.6 million (2001: restated loss of HK\$0.4 million).

The total ridership of LWB for 2002 was 20.3 million (2001: 19.0 million) passenger trips or an average daily of 55,616 (2001: 52,052) passenger trips. This represents an increase of 6.9% over 2001. 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.

LWB's fare revenue increased by 5.4% to HK\$232.1 million for 2002 from HK\$220.3 million for the previous year. Such increase was due primarily to the new travel demand generated by the increase in population in the North Lantau areas.

Total mileage operated for the year was 23.1 million (2001: 22.8 million) kilometres.

The advertising revenue of LWB decreased from HK\$2.3 million in 2001 to HK\$1.3 million in 2002, which was attributable to the weak local economy during the year.

## Non-Franchised Transport Operations Division

The Group's Non-Franchised Transport Operations Division reported a profit after tax of HK\$12.7 million for 2002 (2001: restated HK\$8.2 million), representing an increase of 54.9% compared with that for the previous year. Turnover increased by 21.4% from HK\$143.0 million in 2001 to HK\$173.6 million in 2002. This was primarily due to the growth in residential, commercial and contract hiring businesses.

With Sun Bus Limited as the flagship, Sun Bus Holdings Limited and its subsidiaries had a fleet of 207 buses at the end of 2002 (2001: 205 buses) with net book value totalling HK\$62.1 million (2001: HK\$69.2 million). They provide various types of non-franchised bus services mainly for residential estates, commercial clients, employees, tourists, students and contract-hire customers. During the year, an additional 15 buses (2001: 31 buses) were purchased for enhancement of service quality.

New Hong Kong Bus Company Limited (“NHKB”) jointly operates a cross-boundary shuttle bus service between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen, together with its Shenzhen counterpart. During the year, five new air-conditioned single-deck buses were purchased by NHKB to meet the rising demand. At year-end 2002, this shuttle operation deployed a total of 20 buses.

Park Island Transport Company Limited (“PITC”), a 65% owned subsidiary of the Group, has been engaged by Sun Hung Kai (Ma Wan) Transport Company Limited (“SHKMW”) for the provision of bus and ferry services to and from Ma Wan Island. The services commenced on 14 December 2002. Four new catamarans and six single-deck super-



low floor buses were purchased at a total cost of HK\$101.2 million for the services. Another two catamarans and three new diesel-electric hybrid-powered buses will come into service in 2003. At 31 December 2002, the total commitment for these additional buses and ferries amounted to HK\$31.0 million.

## Media Sales Business Division

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

HK\$ Million	2002	2001 restated
Total revenue	<b>173.4</b>	301.3
Total operating and finance costs	<b>(102.2)</b>	(99.5)
Profit from ordinary activities before tax	<b>71.2</b>	201.8
Income tax expense	<b>(7.7)</b>	(34.6)
Profit from ordinary activities after tax	<b>63.5</b>	167.2
Minority interest	<b>(8.5)</b>	(8.9)
Profit from ordinary activities after tax and minority interests	<b>55.0</b>	158.3

The RoadShow Group reported a total operating revenue of HK\$173.4 million (2001: HK\$301.3 million) and a profit attributable to shareholders of HK\$55.0 million (2001: restated HK\$158.3 million) for the year ended 31 December 2002, representing a decrease of 42.4% and 65.3% respectively compared with the previous year. The RoadShow Group's revenue was derived principally from its media sales services, and media sales management and administrative services.

Further information relating to the RoadShow Group is available in its 2002 annual report.

## Mainland Operations Division

At 31 December 2002, the Group's total interest in associate and jointly controlled entities amounted to HK\$5.7 million (2001: HK\$6.3 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 by a 60% owned subsidiary of the Group and Dalian City No.1 Bus Company in Liaoning Province, continued to make steady progress during 2002. 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 and recorded a small profit in 2002.

## Property Holdings Division

Lai Chi Kok Properties Investment Limited ("LCKPI"), a wholly-owned subsidiary of the Group, is the owner of the old Lai Chi Kok Depot site located at Po Lun Street, Lai Chi Kok, Kowloon. LCKPI has completed the demolition of the old depot building and proceeded to construct four residential blocks comprising about 1,300 flat units with a total residential gross floor area of about one million square feet and a retail podium area of about 50,000 square feet according to its current plan. During the year, HK\$39.1 million was paid for the demolition and consultancy services. This amount was capitalised as property under development. As at 31 December 2002, the commitment of the project was HK\$127.7 million.

## Connected Transaction

As detailed in note 37(e) on the financial statements on page 115 of this Annual Report, the continuing transaction during the year between PITC, a 65% owned subsidiary of the Group, and Sun Hung Kai (Ma Wan) Transport Company Limited ("SHKMW"), a subsidiary of Sun Hung Kai Properties Limited, for the provision of transportation services for Ma Wan Island constitutes a connected transaction under the Listing Rules. Particulars of the connected transaction were disclosed in the announcement of the Company dated 25 May 2001.

In compliance with the conditional waiver granted to the Company by The Stock Exchange of Hong Kong Limited from the requirement of disclosure of the aforesaid continuing connected transaction by press notice, the Directors including the Independent Non-executive Directors of the Company have reviewed and confirmed that the connected transaction was entered into (a) in the ordinary and usual course of business of the Group, (b) on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned, and (c) in accordance with the terms of the agreement entered into between PITC and SHKMW; and further that the annual permitted return for 2002 entitled by PITC under the said agreement does not exceed 3% of the audited consolidated net tangible asset of the Company at 31 December 2001.

## Corporate Governance

Over the years, the Group has placed strong emphasis on maintaining high standards of corporate governance. This policy and culture ensure that the Group's corporate decision-making process, internal audit and control, disclosure of information and communication with shareholders are conducted in accordance with sound management practices and in full compliance with the regulatory standards. Further, adoption of internationally recognised quality standards through ISO certification since 1999 has cultivated a strong sense of quality management across every aspect of our day-to-day operations and eventually enhanced the performance and value of the Group.

### 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 monthly 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. Meetings are held 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 2002. 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 Head of Internal Audit Department, who reports directly to the Managing Director and the Audit Committee, supervises the Internal Audit Department to carry out comprehensive audits and review on the financial and operational procedures and practices of the Group on both a regular and an ad-hoc basis. The Head of Internal Audit Department is also responsible for reviewing and monitoring the procedures and practices to ensure that they comply with the requirements of ISO 9001 : 2000.

### Enhanced Shareholder Value

The Group conducts its businesses based on high standards of corporate governance. Corporate decision-making process is carried out in a decent, open and systematic manner. Through maintaining and inspiring investors' votes of confidence in the Group's management and internal controls, we work to further enhance the value of the Group for our shareholders.