

Report of the Directors

The Directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2002.

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. Particulars of the Company's subsidiaries are set out in note 17 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 2002 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 83 to 116 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 45 cents per share (2001: 40 cents per share) was paid to the shareholders on 10 October 2002. The Directors now recommend that a final dividend of HK\$1.58 per share (2001: HK\$1.46 per share) in respect of the year ended 31 December 2002 be paid to the shareholders on 16 May 2003.

Charitable donations

Charitable donations made by the Group during the year amounted to HK\$2,287,280 (2001: HK\$14,921,850).

Fixed assets

During the year, major additions of the Group were buses and vessels under construction with a total cost of HK\$915,738,000 (2001: HK\$647,520,000). During the year, buses and vessels under construction with a total cost of HK\$887,279,000 (2001: HK\$665,211,000) were licensed and transferred to buses or vessels.

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:

The Hon Sir Sze-yuen Chung , GBM, GBE, PhD, FREng, JP*	(Chairman)
Norman Leung Nai Pang , GBS, JP	(Deputy Chairman)
Dr the Hon Woo Pak Chuen , JP*	
Raymond Kwok Ping Luen	
Walter Kwok Ping Sheung , JP	
Yu Shu Chuen	
Ng Siu Chan	
William Louey Lai Kuen	
John Chan Cho Chak , GBS, JP	(Managing Director)
Charles Lui Chung Yuen , M.H.	
Winnie J Ng	
Dr James Kung Ziang Mien , OBE*	
George Chien Yuan Hwei	
The Hon Eric Li Ka Cheung , OBE, JP*	
Lui Pochiu	
Edmond Ho Tat Man	
Lana Woo	(Alternate Director to Dr the Hon Woo Pak Chuen, JP)
Sham Yat Wah	(Alternate Director to Mr Raymond Kwok Ping Luen)
Susanna Lau Shung Oi	(Alternate Director to Mr Walter Kwok Ping Sheung, JP and appointed on 13 May 2002)
Patrick Chan Kai Lung	(Alternate Director to Mr Walter Kwok Ping Sheung, JP and resigned on 13 May 2002)

(* Independent Non-executive Director)

Directors (continued)

In accordance with Bye-Law 87, Dr the Hon Woo Pak Chuen, Mr Raymond Kwok Ping Luen, Mr Charles Lui Chung Yuen and Miss Winnie J Ng 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 2002, 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
The Hon Sir Sze-yuen Chung , GBM, GBE, PhD, FREng, JP	18,821	—	—	—
Norman Leung Nai Pang , GBS, JP	—	—	—	—
Dr the Hon Woo Pak Chuen , JP	210,047	—	—	—
Raymond Kwok Ping Luen	393,350	—	—	—
Walter Kwok Ping Sheung , JP	61,522	—	—	—
Yu Shu Chuen	2,943	70,803	—	6,909,481 (Note 1)
Ng Siu Chan	—	19,226,233	—	—
William Louey Lai Kuen	6,222,926	4,475	—	—
John Chan Cho Chak , GBS, JP	2,000	—	—	—
Charles Lui Chung Yuen , M.H.	12,427	—	—	2,651,750 (Note 2)
Winnie J Ng	41,416	—	—	19,226,233 (Note 3)
Dr James Kung Ziang Mien , OBE	—	—	—	—
George Chien Yuan Hwei	2,000	—	—	—
The Hon Eric Li Ka Cheung , OBE, JP	—	—	—	—
Lui Pochiu	452,113	—	—	—
Edmond Ho Tat Man	—	—	—	—
Lana Woo	9,475	—	—	—
(Alternate Director to Dr the Hon Woo Pak Chuen, JP)				
Sham Yat Wah	—	—	—	—
(Alternate Director to Mr Raymond Kwok Ping Luen)				
Susanna Lau Shung Oi	—	—	—	—
(Alternate Director to Mr Walter Kwok Ping Sheung, JP)				

Directors' interests in shares (continued)

(b) RoadShow

	Shares of HK\$0.10 each			
	Personal interests	Family interests	Corporate interests	Other interests
The Hon Sir Sze-yuen Chung , GBM, GBE, PhD, FREng, JP	4,000	—	—	—
Norman Leung Nai Pang , GBS, JP	—	—	—	—
Dr the Hon Woo Pak Chuen , JP	19,253	—	—	—
Raymond Kwok Ping Luen	37,400	—	—	—
Walter Kwok Ping Sheung , JP	6,600	—	—	—
Yu Shu Chuen	33,000	6,576	—	535,825 (Note 1)
Ng Siu Chan	—	—	—	—
William Louey Lai Kuen	412,371	—	—	—
John Chan Cho Chak , GBS, JP	—	—	—	—
Charles Lui Chung Yuen , M.H.	—	—	—	209,131 (Note 2)
Winnie J Ng	—	—	—	—
Dr James Kung Ziang Mien , OBE	—	—	—	—
George Chien Yuan Hwei	—	—	—	—
The Hon Eric Li Ka Cheung , OBE, JP	—	—	—	—
Lui Pochiu	24,863	—	—	—
Edmond Ho Tat Man	—	—	—	—
Lana Woo	2,000	—	—	—
(Alternate Director to Dr the Hon Woo Pak Chuen, JP)				
Sham Yat Wah	—	—	—	—
(Alternate Director to Mr Raymond Kwok Ping Luen)				
Susanna Lau Shung Oi	—	—	—	—
(Alternate Director to Mr Walter Kwok Ping Sheung, JP)				

Notes:

- 1 HSBC International Trustee Ltd held 6,909,481 and 535,825 shares in the Company and RoadShow respectively as trustee of a discretionary trust. By virtue of Section 31 of the Securities (Disclosure of Interests) Ordinance, Mr Yu Shu Chuen was deemed to have interests in the aforesaid shares.
- 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 209,131 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 2002, none of the Directors had any non-beneficial interest in the share capital of the Company.

Share option schemes

Under two share option schemes of RoadShow, Pre-Listing Share Option Scheme and Share Option Scheme, options were granted to certain directors and employees of the Group to subscribe for shares in RoadShow.

The total number of securities available for issue under the Pre-Listing Share Option Scheme and the Share Option Scheme as at 31 December 2002 was 21,861,000 shares and 18,240,000 shares respectively which represented 4% of the issued share capital of RoadShow at 31 December 2002. In respect of the maximum entitlement of each participant under the schemes, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12 month period is limited to 1% of RoadShow's ordinary shares in issue.

At 31 December 2002, the directors and employees of the Group had the following interests in options to subscribe for shares of RoadShow (market value per share at 31 December 2002 was HK\$1.23) granted for nil consideration under RoadShow's share option schemes. Each option gives the holder the right to subscribe for one share. The options granted are not recognised in the financial statements until they are exercised.

(a) Pre-Listing Share Option Scheme

	Number of options outstanding at the beginning of the year	Number of options outstanding at the end of the year	Number of shares acquired on exercise of option during the year	Exercise price per share	Market value per share at date of grant of options	Market value per share on exercise of options
Directors of the Company						
Norman Leung Nai Pang, GBS, JP	2,380,000	2,380,000	Nil	HK\$1.80	Note 2	—
Raymond Kwok Ping Luen	338,000	338,000	Nil	HK\$1.80	Note 2	—
Ng Siu Chan	338,000	338,000	Nil	HK\$1.80	Note 2	—
John Chan Cho Chak, GBS, JP	2,380,000	2,380,000	Nil	HK\$1.80	Note 2	—
Charles Lui Chung Yuen, M.H.	338,000	338,000	Nil	HK\$1.80	Note 2	—
Winnie J Ng	3,380,000	3,380,000	Nil	HK\$1.80	Note 2	—
George Chien Yuan Hwei	168,000	168,000	Nil	HK\$1.80	Note 2	—
Lui Pochiu	188,000	188,000	Nil	HK\$1.80	Note 2	—
Edmond Ho Tat Man	188,000	188,000	Nil	HK\$1.80	Note 2	—
Lana Woo	168,000	168,000	Nil	HK\$1.80	Note 2	—
(Alternate Director to Dr the Hon Woo Pak Chuen, JP)						
Employees	18,192,000	11,995,000	4,349,000	HK\$1.80	Note 2	HK\$2.39

The above options were granted on 26 June 2001 and are exercisable during the period from 28 December 2001 to 27 December 2003 (Note 1). 1,848,000 options have lapsed during the year because the grantees ceased their employment with RoadShow. 4,349,000 options have been exercised during the year.

Notes:

- The exercise period of these options is two years commencing six months from 28 June 2001, except that for grantees who were granted 1,000,000 or more options, 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 Pre-Listing Share Option Scheme, and (b) exercises the remaining unexercised options after the end of the twelfth month from 28 June 2001 up to the end of the exercise period.
- The exercise price is HK\$1.80 per share representing 80% of the issue price of HK\$2.25 per share pursuant to the Hong Kong Offering and the International Placing of RoadShow's shares.

Share option schemes (continued)

(b) Share Option Scheme

	Number of options outstanding at the beginning of the year	Number of options outstanding at the end of the year	Number of shares acquired on exercise of option during the year	Exercise price per share	Market value per share at date of grant of options	Market value per share on exercise of options
Director of the Company						
Winnie J Ng	–	3,800,000	Nil	HK\$2.25	HK\$2.25	–
Employees	–	14,440,000	Nil	HK\$2.25	HK\$2.25	–

A total of 23,340,000 options was granted on 11 March 2002 and they are exercisable during the period from 12 March 2002 to 11 March 2005. 5,100,000 options have lapsed during the period from the date of grant to 31 December 2002 because the grantees ceased their employment with RoadShow Group.

According to the Black-Scholes model (Note), the total value of the options granted under the Share Option Scheme during the year was estimated at HK\$23,510,620 as at 11 March 2002 with the following variables and assumptions:

- (1) Risk free rate : 5.903%
- (2) Expected volatility : 66.49%
- (3) Expected dividend yield : 1.7%
- (4) Expected life of the share option : 3 years

Note:

The Black-Scholes model (The "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.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company 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' 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 and recorded in the register of substantial shareholders the following interests in the Company's issued shares at 31 December 2002 amounting to 10% or more of the shares in issue:

	Shares held	Percentage of total issued shares
Sun Hung Kai Properties Limited (Notes 1 and 2)	133,271,012	33.02%
Arklake Limited (Note 1)	68,600,352	17.00%
HSBC Holdings plc Group (Note 3)	175,064,372	43.37%

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 In accordance with the Codes on Takeovers and Mergers and Share Repurchases (the "Codes"), a person becomes obliged to make a mandatory offer if the person's voting rights in a listed company exceeds a threshold. With effect from 19 October 2001, the threshold for triggering a mandatory offer obligation under the Codes has been reduced from 35% to 30%. However, transitional provisions will be applied where a person holds 30% or more of the voting rights of a listed company but less than 35% of such voting rights immediately prior to 19 October 2001. For so long as such holding remains in this range and until 10 years after that date, the Codes shall be interpreted and applied as if the 30% trigger was 35% for such person. For avoidance of doubt, where such person continues to hold 30% or more but less than 35% of the voting rights of the company at the end of the 10-year period, it will not be necessary for such person to sell his/her voting rights to take his/her holding below 30% in order not to trigger a mandatory offer obligation. In this regard, the transitional provisions are applicable to SHKP.
- 3 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 Group are the trustees of various trusts which have interest amounting to 41,793,360 shares in the Company. Accordingly, HSBC Holdings plc Group has a deemed interest in a total of 175,064,372 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 page 72 of this Annual Report.

Staff retirement schemes

The Group operates two separate non-contributory defined benefit retirement schemes, 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, SHKP MPF Employer Sponsored Scheme.

Defined benefit retirement schemes

The Group makes contributions to two defined benefit plans that provide pension benefits for employees upon retirement. The schemes are administered by trustees, the majority of which are independent, with their assets 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.

The most recent actuarial valuations of the two schemes were at 1 January 2002 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:

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 (see note below). Other major assumptions used in the valuation were: Investment Return and Salary Escalation at 5.5% per annum; Mortality Rates 1991 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 65.

Staff retirement schemes (continued)

- (iii) The market value of the scheme assets at 1 January 2002 was HK\$675.7 million.
- (iv) The minimum level of funding commencing from 1 January 2002 recommended by the actuary is 9.1% of pay.
- (v) The ongoing funding surplus in the scheme was HK\$74.5 million and the solvency surplus was HK\$111.2 million at 1 January 2002.

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 (see note below). Other major assumptions used in the valuation were: Investment Return and Salary Escalation at 5.5% 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 1 January 2002 was HK\$1,725.1 million.
- (iv) The minimum level of funding commencing from 1 January 2002 recommended by the actuary is 6.9% of pay.
- (v) The ongoing funding surplus in the scheme was HK\$93.0 million and the solvency surplus was HK\$335.5 million at 1 January 2002.

Note:

The obligations in respect of defined benefit plans included in the financial statements are calculated using the projected unit credit method (see note 1(p)(iii) to the financial statements).

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. Those employees who do not participate in the defined benefit retirement schemes 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 Schemes 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 income statement as incurred. 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. The amount of forfeited contribution utilised during the year and the amount available for use as at 31 December 2002 were insignificant to the Group.

Bank loans and overdrafts

Particulars of bank loans and overdrafts of the Group as at 31 December 2002 are set out in note 25 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, 20 March 2003