

Notes on the Financial Statements

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have opted to adopt SSAP 12 "Incomes taxes", which is mandatory for accounting periods beginning on or after 1 January 2003, in place of SSAP 12 "Accounting for deferred tax" issued in 1987. These 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 "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Investments in subsidiaries

A subsidiary is an enterprise controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Interests in associates and jointly controlled entity

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entity for the year, including any amortisation of positive goodwill charged during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entity are eliminated to the extent of the Group's interest in the associates or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

1 Significant accounting policies (continued)

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

(f) Investments in securities

The Group's policies for investments in securities other than interest in subsidiaries, associates and jointly controlled entity are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as "investment securities". Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(g) Fixed assets

Fixed assets are stated in the balance sheet at cost or valuation less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)).

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(h) Depreciation

Depreciation is calculated to write off the cost of tools at a rate of 50% per annum on a reducing balance basis, and the cost or valuation of other fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold land	– Over the remaining terms of the leases
Buildings	– Over the shorter of 40 years and the unexpired terms of the leases including extensions or renewal periods
New buses	– 14 years
Vessels	– 20 years
Light duty coaches and other motor vehicles	– 5 to 6 years
Others	– 2 to 7 years

No depreciation is provided for buses and vessels under construction.

1 Significant accounting policies (continued)

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than properties carried at revalued amount);
- investments in subsidiaries, associates and jointly controlled entity (except for those accounted for at fair value under notes 1(c) and (d)); and
- positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Property development

Property under development is stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the directors.

(k) Spare parts and stores

Spare parts and stores are included within current assets and stated at cost, using the first-in-first-out method. Provision is made for obsolescence where appropriate.

(l) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

1 Significant accounting policies (continued)

(m) Provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

- (i) Fare revenue and bus hiring income are recognised when the related bus services are provided.
- (ii) Income from media sales revenue is recognised when the related advertisements or commercials appear before the public.
- (iii) Interest income from bank deposits and debt securities is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.
- (iv) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- (v) When goods or services are exchanged or swapped for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. Such revenue, together with the relevant expenses are measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, such revenue and expenses are measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

When goods or services are exchanged or swapped for similar goods or services, the exchange is not regarded as a transaction which generates revenue. No revenue or expenses are recognised in the income statement.

(o) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing cost as part of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(p) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.

1 Significant accounting policies (continued)

(p) Employee benefits (continued)

- (iii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

- (iv) The Group's net obligation in respect of lump sum long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.
- (v) When the Group grants employees options to acquire shares of the Company or its subsidiary companies at nil consideration, no employee benefit cost or obligation is recognised at the date of grant.

(q) Operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rate ruling at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. When the initial recognition of assets or liabilities which affect neither accounting profit nor taxable profit or loss, no deferred tax is provided for.

1 Significant accounting policies (continued)

(r) Income tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include spare parts and stores, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2 Changes in accounting policies

(a) Defined benefit plans

In prior years, annual contributions to the two 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, were charged to the income statement as incurred. With effect from 1 January 2002, in order to comply with SSAP 34 "Employee benefits" issued by the HKSA, the Group adopted a new policy for defined benefit plans as set out in note 1(p)(iii).

As a result of the new accounting policy, the profit for the year has been increased by HK\$25,205,000 and the net assets as at the year-end have been increased by HK\$277,705,000. The effect of adopting the new accounting policy has been adjusted to the opening balance of retained profits. No restatement of other comparative information has been made.

2 Changes in accounting policies (continued)

(b) Short-term employee benefits

In prior years, the Group did not make provision for paid annual leave of their employees in return of services rendered to the Group. With effect from 1 January 2002, in order to comply with SSAP 34 "Employee benefits" issued by the HKSA, the Group adopted a new policy for short-term employee benefits as set out in note 1(p)(i) above.

As a result of the new accounting policy, the profit for the year has been decreased by HK\$1,000,000 (2001: HK\$4,553,000) and the net assets as at the year-end have been decreased by HK\$98,404,000 (2001: HK\$97,404,000). The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

(c) Long service payments

In prior years, long service payments to employees under the Hong Kong Employment Ordinance in return for services rendered to the Group were charged to the income statement as incurred. With effect from 1 January 2002, in order to comply with SSAP 34 "Employee benefits" issued by the HKSA, the Group adopted a new policy for long service payments as set out in note 1(p)(iv) above.

As a result of the adoption of this accounting policy, the profit for the year has been decreased by HK\$1,380,000 and the net assets as at the year-end have been decreased by HK\$41,325,000. The effect of adopting the new accounting policy has been adjusted to the opening balance of retained profits. No restatement of other comparative information has been made.

(d) Deferred tax assets and liabilities

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, which are expected with reasonable probability to crystallise in the foreseeable future. With effect from 1 January 2002, the Group has adopted SSAP 12 "Income taxes" issued by the HKSA. The new accounting policy for deferred tax has been set out in note 1(r).

As a result of the adoption of this accounting policy, the profit for the year has been decreased by HK\$70,374,000 (2001: HK\$51,548,000) and the net assets of the Group as at the year-end have been decreased by HK\$592,374,000 (2001: HK\$522,000,000). The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

3 Turnover

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 17 on the financial statements.

Turnover comprises fare revenue from the operation of franchised and non-franchised bus services and media sales revenue during the year analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Fare revenue from franchised bus services	6,466,333	6,389,853
Revenue from non-franchised bus services	173,600	143,290
Media sales revenue	203,461	328,666
	<u>6,843,394</u>	<u>6,861,809</u>

4 Other revenue and net income

	2002 HK\$'000	2001 HK\$'000
Other revenue		
Interest income from bank deposits	33,240	89,990
Claims received	29,106	34,995
Interest income from unlisted debt securities	3,521	154
Dividend income from listed securities	1,008	1,047
Sundry revenue	9,462	15,631
	<u>76,337</u>	<u>141,817</u>
Other net income		
Gain on disposal of fixed assets	2,519	10,735
Realised and unrealised loss on investments in securities carried at fair value	(4,283)	(6,082)
Net miscellaneous business receipts	3,655	5,406
	<u>1,891</u>	<u>10,059</u>

5 Deemed profit on partial disposal of a subsidiary

Deemed profit on partial disposal of a subsidiary during the year represents the profit arising from the reduction of the Group's shareholding in RoadShow Holdings Limited ("RoadShow") from 73.3% at the preceding financial year-end to 73.0% at 31 December 2002, as a result of the transfer of RoadShow shares by the Group to the loyal shareholders under RoadShow's Loyalty Share Bonus Scheme (as described in note 37(f) below) and the exercise of RoadShow share options by the option grantees in 2002. The comparative figure represents the deemed profit arising from the spin-off and over-allotment of 26.7% of the issued shares of RoadShow from the Group pursuant to RoadShow's listing on the Stock Exchange and International Placing in 2001.

6 Profit from ordinary activities before tax

Profit from ordinary activities before tax is arrived at after charging:

	2002 HK\$'000	2001 HK\$'000 restated
(a) Staff costs:		
Contributions to defined contribution plan	46,675	41,320
Defined benefit plans expense (note 21(b) and (c))	91,264	—
Contributions to defined benefit plans	—	137,369
	<u>137,939</u>	<u>178,689</u>
Retirement costs	137,939	178,689
Salaries, wages and other benefits	3,181,813	3,126,655
	<u>3,319,752</u>	<u>3,305,344</u>
(b) Finance costs:		
Interest on bank loans and overdrafts, and other unsecured loans	49,858	113,984
(c) Other items:		
Auditors' remuneration	3,337	3,594
Operating lease charges on properties, temporary bus depots and terminal shelters	2,384	2,240
Amortisation of positive goodwill	1,744	1,159

7 Income tax expenses

(a) Recognised in the consolidated income statement:

	2002 HK\$'000	2001 HK\$'000 restated
<i>Current tax expense</i>		
Provision for Hong Kong Profits Tax for the year	107,582	146,445
(Over)/under provision in respect of prior years	(5,286)	4,213
	<u>102,296</u>	<u>150,658</u>
People's Republic of China ("PRC") income tax	2,318	–
	<u>104,614</u>	<u>150,658</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	71,415	84,081
Benefit of tax losses recognised	(1,170)	1,946
	<u>70,245</u>	<u>86,027</u>
Total income tax expense in income statement	<u>174,859</u>	<u>236,685</u>
The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year. Taxation for PRC subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the PRC.		
<i>Reconciliation of effective tax rate</i>		
Profit from ordinary activities before tax	1,142,188	1,809,710
Income tax using the Hong Kong Profits Tax rate of 16%	182,750	289,554
Effect of PRC tax rates	1,377	–
Non-deductible expenses	3,458	4,836
Tax exempt revenues	(12,220)	(74,549)
Unrecognised tax losses	5,329	4,521
(Over)/under provision of tax in prior years	(5,286)	4,213
Others	(549)	8,110
	<u>174,859</u>	<u>236,685</u>

(b) Recognised in the balance sheets:

	2002 HK\$'000	The Group 2001 HK\$'000	2002 HK\$'000	The Company 2001 HK\$'000
Provision for Hong Kong Profits Tax for the year	107,582	146,445	–	198
Provisional Profits Tax (paid)/refunded	(136,958)	(65,084)	199	2,295
	<u>(29,376)</u>	<u>81,361</u>	<u>199</u>	<u>2,493</u>
Balance of Profits Tax recoverable relating to prior year	(405)	(1,711)	(199)	(2,692)
	<u>(29,781)</u>	<u>79,650</u>	<u>–</u>	<u>(199)</u>
PRC income tax payable	1,264	–	–	–
Tax (recoverable)/payable	<u>(28,517)</u>	<u>79,650</u>	<u>–</u>	<u>(199)</u>

8 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	1,080	1,080
Salaries and other allowances	13,715	13,327
Discretionary and performance related bonuses	15,706	24,106
Retirement scheme contributions	1,818	1,839
	<u>32,319</u>	<u>40,352</u>

Included in the directors' remuneration were fees and other emoluments of HK\$1,309,200 (2001: HK\$1,309,200) paid to the Independent Non-executive Directors during the year.

In addition to the above remuneration, certain Directors were granted share options under RoadShow's Share Option Schemes. The details of these benefits in kind are disclosed under the paragraph "Share option schemes" in the Report of the Directors and note 34.

The remuneration of the Directors is within the following bands:

	2002	Number of Directors 2001
HK\$Nil – HK\$1,000,000	13	13
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$3,500,001 – HK\$4,000,000	3	3
HK\$15,000,001 – HK\$15,500,000	1	–
HK\$23,000,001 – HK\$23,500,000	–	1

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2001: four) are Directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Directors) is as follows:

	2002 HK\$'000	2001 HK\$'000
Fee	377	356
Salaries and other allowances	14,365	13,759
Discretionary and performance related bonuses	12,622	21,009
Retirement scheme contributions	1,891	1,926
	<u>29,255</u>	<u>37,050</u>

The emoluments of the five (2001: five) individuals with the highest emoluments are within the following bands:

	2002	Number of individuals 2001
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,500,001 – HK\$4,000,000	3	3
HK\$15,000,001 – HK\$15,500,000	1	–
HK\$23,000,001 – HK\$23,500,000	–	1

10 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of HK\$710,383,000 (2001: HK\$869,649,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2002 HK\$'000	2001 HK\$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	710,383	869,649
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	136,343	435,931
Company's profit for the year (note 32(c))	<u>846,726</u>	<u>1,305,580</u>

11 Dividends

(a) Dividends attributable to current year

	2002 HK\$'000	2001 HK\$'000
Interim dividend declared and paid of HK\$0.45 per share (2001: HK\$0.4 per share)	181,638	161,456
Final dividend proposed after the balance sheet date of HK\$1.58 per share (2001: HK\$1.46 per share)	637,750	589,314
	<u>819,388</u>	<u>750,770</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividend attributable to previous financial year, approved and paid during the current year

	2002 HK\$'000	2001 HK\$'000
Final dividend in respect of previous financial year, approved and paid during the year, of HK\$1.46 per share (2001: HK\$1.25 per share)	<u>589,314</u>	<u>504,549</u>

12 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$939,603,000 (2001: restated HK\$1,539,441,000) and 403,639,413 shares in issue during the two years.

13 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Bus operations : The provision of franchised and non-franchised public buses services.

Media sales services : The provision of audio-video programming through a multi-media on-board system and marketing of exterior advertising spaces on transit vehicles and transit vehicle shelters.

13 Segment reporting (continued)

Business segments (continued)

	Bus operations		Media sales business		Inter-segment elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000 restated	HK\$'000	HK\$'000 restated	HK\$'000	HK\$'000	HK\$'000	HK\$'000 restated
Revenue from external customers	6,639,933	6,533,143	203,461	328,666	–	–	6,843,394	6,861,809
Inter-segment revenue	–	–	24,235	25,736	(24,235)	(25,736)	–	–
Other revenue from external customers	37,128	50,626	597	–	–	–	37,725	50,626
Total	6,677,061	6,583,769	228,293	354,402	(24,235)	(25,736)	6,881,119	6,912,435
Segment result	1,056,314	1,280,180	117,810	239,643	–	–	1,174,124	1,519,823
Unallocated net operating income and expenses							13,775	54,984
Profit from operations							1,187,899	1,574,807
Deemed profit on partial disposal of a subsidiary							2,724	349,569
Finance costs							(49,858)	(113,984)
Share of profits less losses of associates and jointly controlled entity	342	(682)	1,081	–	–	–	1,423	(682)
Income tax expense							(174,859)	(236,685)
Minority interests							(27,726)	(33,584)
Profit attributable to shareholders							939,603	1,539,441
Depreciation for the year	830,616	646,966	18,634	18,621	–	–		
Significant non-cash expenses (other than depreciation and amortisation)	–	–	2,261	7,581	–	–		
Segment assets	6,893,211	6,189,754	292,235	316,110	–	–	7,185,446	6,505,864
Interests in associates and jointly controlled entity	5,672	6,283	57,765	–	–	–	63,437	6,283
Unallocated assets							1,914,266	2,239,852
Total assets							9,163,149	8,751,999
Segment liabilities	1,375,374	1,311,849	20,260	14,574	–	–	1,395,634	1,326,423
Unallocated liabilities							2,962,364	3,017,979
Total liabilities							4,357,998	4,344,402
Capital expenditure incurred during the year	1,313,881	1,177,038	460	133,765	–	–		

Geographical segments

The Group's turnover and operating profit are almost entirely derived from Hong Kong. Accordingly, no analysis by geographical segment is provided.

14 Fixed assets

(a) The Group:

	Leasehold land HK\$'000	Buildings HK\$'000	Buses and other motor vehicles HK\$'000	Vessels HK\$'000	Buses and vessels under construction HK\$'000	Others HK\$'000	Total HK\$'000
<i>Cost or valuation:</i>							
At 1 January 2002	130,011	1,298,495	7,697,184	–	180,034	1,040,364	10,346,088
Additions							
– through acquisition of subsidiaries	–	–	705	–	–	267	972
– others	–	149,769	30,432	–	915,738	239,530	1,335,469
Disposals	–	(10,471)	(237,565)	–	–	(9,707)	(257,743)
Transfer of buses/vessels	–	–	788,930	98,349	(887,279)	–	–
Transfer to property under development	–	(39,066)	–	–	–	–	(39,066)
At 31 December 2002	<u>130,011</u>	<u>1,398,727</u>	<u>8,279,686</u>	<u>98,349</u>	<u>208,493</u>	<u>1,270,454</u>	<u>11,385,720</u>
<i>Accumulated depreciation:</i>							
At 1 January 2002	35,033	486,913	3,255,919	–	–	549,304	4,327,169
Through acquisition of subsidiaries	–	–	104	–	–	189	293
Charge for the year	2,087	91,878	528,215	411	–	226,659	849,250
Written back on disposal	–	(10,471)	(237,449)	–	–	(7,777)	(255,697)
At 31 December 2002	<u>37,120</u>	<u>568,320</u>	<u>3,546,789</u>	<u>411</u>	<u>–</u>	<u>768,375</u>	<u>4,921,015</u>
<i>Net book value:</i>							
At 31 December 2002	<u>92,891</u>	<u>830,407</u>	<u>4,732,897</u>	<u>97,938</u>	<u>208,493</u>	<u>502,079</u>	<u>6,464,705</u>
<i>Add:</i>							
Deposits paid in respect of buses on order							32,036
							<u>6,496,741</u>
<i>Net book value:</i>							
At 31 December 2001	<u>94,978</u>	<u>811,582</u>	<u>4,441,265</u>	<u>–</u>	<u>180,034</u>	<u>491,060</u>	6,018,919
<i>Add:</i>							
Deposits paid in respect of buses on order							28,341
							<u>6,047,260</u>

(b) The Company:

	Others HK\$'000
<i>Cost:</i>	
At 1 January 2002 and 31 December 2002	<u>201</u>
<i>Accumulated depreciation:</i>	
At 1 January 2002	68
Charge for the year	34
At 31 December 2002	<u>102</u>
<i>Net book value:</i>	
At 31 December 2002	<u>99</u>
At 31 December 2001	<u>133</u>

14 Fixed assets (continued)

(c) All the Group's leasehold land and buildings are held in Hong Kong and on medium-term leases.

(d) Valuation

Included in the cost or valuation of fixed assets of the Group of HK\$130,011,000 at 31 December 2002 is the following asset shown at valuation:

	Date of valuation	Valuation HK\$'000	Net book value HK\$'000
Leasehold land	15 July 1959	<u>3,284</u>	<u>–</u>

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80 of SSAP 17 (revised) "Property, Plant and Equipment" issued by the HKSA, with the effect that leasehold land has not been revalued to fair value at the balance sheet date.

15 Goodwill

	HK\$'000
<i>Cost:</i>	
At 1 January 2002	23,172
Additions through acquisition of subsidiaries	33,903
At 31 December 2002	57,075
<i>Accumulated amortisation:</i>	
At 1 January 2002	2,557
Amortisation for the year	1,744
At 31 December 2002	4,301
<i>Carrying amount:</i>	
At 31 December 2002	52,774
At 31 December 2001	20,615

16 Non-current prepayments

Non-current prepayments consisted of deposit for long-term investment, advance payments for concession and rights for advertising and media programme placement on transit vehicles and transit network furniture.

17 Interest in subsidiaries

	2002 HK\$'000	The Company 2001 HK\$'000
Unlisted shares, at cost	1,036,507	1,036,507
Amounts due from subsidiaries	1,660,377	1,564,534
Amounts due to subsidiaries	(40,977)	(16,664)
	<u>2,655,907</u>	<u>2,584,377</u>

17 Interest in subsidiaries (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiaries	
The Kowloon Motor Bus Company (1933) Limited	Hong Kong	403,639,413 shares of HK\$1 each	100	—	100	Provision of franchised public bus services in Hong Kong
Long Win Bus Company Limited	Hong Kong	100,000,000 shares of HK\$1 each	100	—	100	Provision of franchised public bus services for North Lantau and the airport at Chek Lap Kok
Sun Bus Limited	Hong Kong	2 shares of HK\$1 each	100	—	100	Provision of non-franchised bus services in Hong Kong
Chomang Travel Transport Company Limited	Hong Kong	10,000 shares of HK\$1 each	100	—	100	Provision of non-franchised bus services in Hong Kong
Bun Tang Bus Service Company Limited	Hong Kong	120,000 shares of HK\$1 each	100	—	100	Provision of non-franchised bus services in Hong Kong
Sau Luen P.L.B. Co., Limited	Hong Kong	10,000 shares of HK\$1 each	100	—	100	Provision of non-franchised bus services in Hong Kong
New Hong Kong Bus Company Limited	Hong Kong	1,000 shares of HK\$1 each	100	—	100	Provision of cross border shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen)
Park Island Transport Company Limited	Hong Kong	10,000 shares of HK\$1 each	65	—	65	Provision of non-franchised bus and ferry services in Hong Kong
RoadShow Holdings Limited	Bermuda	997,365,332 shares of HK\$0.1 each	73	—	73	Investment holding

17 Interest in subsidiaries (continued)

Details of the principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiaries	
CityVision Limited	Hong Kong	10,000 shares of HK\$1 each	65.7	—	90	Operation of multi-media on-board business on transit vehicles
KM-Vision Limited	Hong Kong	10,000 shares of HK\$1 each	74.4	—	100	Operation of multi-media on-board business on transit vehicles
LW-Vision Limited	Hong Kong	10,000 shares of HK\$1 each	74.4	—	100	Operation of multi-media on-board business on transit vehicles
RoadShow Creations Limited	Hong Kong	2 shares of HK\$1 each	73	—	100	Trading of souvenir
RoadShow Media Limited	Hong Kong	2 shares of HK\$1 each	73	—	100	Provision of media sales and management services for advertising on transit vehicle exteriors and shelters, and for the multi-media on-board business
RoadShow Productions Limited	Hong Kong	2 shares of HK\$1 each	73	—	100	Production of content for multi-media on-board systems
Lai Chi Kok Properties Investment Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	—	100	Property holding
KMB Financial Services Limited	British Virgin Islands	1 share of US\$1	100	—	100	Investment holding
HK Macau Ltd	British Virgin Islands	1,200 shares of US\$1 each	60	—	60	Investment holding

18 Interest in associates

	2002 HK\$'000	2001 HK\$'000
Share of net assets	45,518	59
Loans to associates	20,807	5,500
Amount due to associates	(4,922)	(4,922)
	<u>61,403</u>	<u>637</u>

Details of the associates are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	held by the Company	held by subsidiary	
Art East Limited	Incorporated	Hong Kong	200,000 shares of HK\$1 each	50	–	50	Dormant
HK Macau Investment (Tianjin) Limited	Incorporated	British Virgin Islands	2 shares of US\$1 each	50	–	50	Investment holding
AdSociety Daye Advertising Company Limited	Sino-foreign joint equity enterprise	PRC	RMB74,380,984	35.8	–	49	Provision of full range of advertising services

19 Interest in jointly controlled entity

	2002 HK\$'000	2001 HK\$'000
Share of net assets	333	2,906
Amount due from jointly controlled entity	1,701	2,740
	<u>2,034</u>	<u>5,646</u>

Details of the Group's interest in the jointly controlled entity are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	held by the Company	held by subsidiary	
Dalian HK Macau Motor Bus Services Limited	Co-operative joint venture	PRC	Registered capital of RMB22,000,000	(Note)	–	(Note)	Provision of bus services in Dalian, PRC

Note:

A co-operative joint venture, Dalian HK Macau Motor Bus Services Limited ("Dalian HK Macau"), was formed between HK Macau Ltd ("HK Macau"), a 60% owned subsidiary of the Group, and 大連市第一公共汽車公司, a PRC entity. The principal activity of Dalian HK Macau is the operation of bus services in Dalian, the PRC.

Pursuant to the joint venture agreement, HK Macau contributed the whole of the registered capital of RMB22 million. The joint venture is for a period of 15 years commencing from 31 July 1997. The capital contribution is repayable by Dalian HK Macau in equal annual instalments over 5 years. The profits and losses of Dalian HK Macau are shared equally by HK Macau and 大連市第一公共汽車公司.

According to the joint venture agreement, HK Macau has the right to appoint five out of a total of nine directors of Dalian HK Macau with each director carrying one vote. Although this represents a majority of the board of directors, a board resolution can only be passed with a minimum of six votes in accordance with the articles of association of the joint venture. Accordingly, HK Macau has no effective control over the board of directors and Dalian HK Macau has been excluded from consolidation and dealt with in the consolidated financial statements under the equity method of accounting and classified as a jointly controlled entity.

20 Investment securities

	2002 HK\$'000	2001 HK\$'000
Unlisted equity securities	<u>15,355</u>	<u>15,355</u>

21 Employee benefit assets

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

(a) The amount recognised in the consolidated balance sheet is as follows:

	2002 HK\$'000
Present value of funded obligations	(2,020,295)
Fair value of plan assets	2,179,910
Net unrecognised actuarial losses	<u>118,090</u>
	<u>277,705</u>

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future refund or reduction of contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(b) Movements in the net asset recognised in the consolidated balance sheet are as follows:

	2002 HK\$'000
At 1 January	—
Adjustment for change in accounting policy	252,500
Contributions paid to schemes	116,469
Expense recognised in the income statement (note 6(a))	<u>(91,264)</u>
At 31 December	<u>277,705</u>

(c) Expense recognised in the consolidated income statement is as follows:

	2002 HK\$'000
Current service cost	136,434
Interest cost	135,735
Expected return on plan assets	<u>(180,905)</u>
	<u>91,264</u>

The above expense is included in the staff costs in the consolidated income statement.

	2002 HK\$'000
Actual return on plan assets – loss	<u>235,176</u>

(d) The principal actuarial assumptions used as at 31 December 2002 are as follows:

	2002
Discount rate at 31 December	5%
Expected rate of return on plan assets	7.5%
Future salary increases	<u>0–4%</u>

22 Other investments

	2002 HK\$'000	2001 HK\$'000
Trading securities (at market value)		
Listed equity securities in Hong Kong	29,610	36,068
Other securities		
Unlisted debt securities	52,344	50,169
	<u>81,954</u>	<u>86,237</u>

23 Accounts receivable

	2002 HK\$'000	2001 HK\$'000
Trade and other receivables	262,978	346,326
Interest receivable	2,455	3,083
	<u>265,433</u>	<u>349,409</u>

Included in accounts receivable are trade receivables (net of provisions for doubtful debts) with the following ageing analysis:

	2002 HK\$'000	2001 HK\$'000
Current	46,905	182,933
Less than 3 months overdue	12,054	31,013
More than 3 months overdue	82,019	1,883
	<u>140,978</u>	<u>215,829</u>

Debts are normally due within 30 – 90 days from the date of billing. All the accounts receivable are expected to be recoverable within one year.

24 Cash and cash equivalents

	2002 HK\$'000	The Group 2001 HK\$'000	2002 HK\$'000	The Company 2001 HK\$'000
Cash at bank and in hand	59,778	29,727	8,103	6,076
Deposits with banks maturing within three months	1,422,581	2,090,118	–	–
Cash and cash equivalents in the balance sheet	1,482,359	2,119,845	8,103	6,076
Bank overdrafts	(56,571)	(33,495)		
Cash and cash equivalents in the consolidated cash flow statement	<u>1,425,788</u>	<u>2,086,350</u>		

25 Bank loans and overdrafts

At 31 December 2002, the interest-bearing bank loans and overdrafts were repayable as follows:

	2002 HK\$'000	2001 HK\$'000
Within 1 year or on demand	<u>438,311</u>	<u>602,919</u>
After 1 year but within 2 years	277,083	475,037
After 2 years but within 5 years	1,140,121	985,916
After 5 years	<u>412,500</u>	<u>281,788</u>
	<u>1,829,704</u>	<u>1,742,741</u>
	<u>2,268,015</u>	<u>2,345,660</u>

At 31 December 2002, the bank loans and overdrafts were secured as follows:

	2002 HK\$'000	2001 HK\$'000
Unsecured bank overdrafts	56,571	33,495
Bank loans		
– secured	100,000	–
– unsecured	<u>2,111,444</u>	<u>2,312,165</u>
	<u>2,268,015</u>	<u>2,345,660</u>

At 31 December 2002 the banking facilities of a subsidiary of the Group amounted to HK\$200,000,000 (2001: HK\$Nil), of which HK\$100,000,000 was utilised and secured by a pledged bank deposit.

26 Accounts payable and accruals

	2002 HK\$'000	The Group 2001 HK\$'000 restated	2002 HK\$'000	The Company 2001 HK\$'000
Trade payables	107,894	142,417	–	–
Other payables and accruals	<u>873,608</u>	<u>759,921</u>	<u>10,620</u>	<u>12,582</u>
	<u>981,502</u>	<u>902,338</u>	<u>10,620</u>	<u>12,582</u>

Included in accounts payable and accruals are trade payables with the following ageing analysis:

	2002 HK\$'000	2001 HK\$'000
Due within 1 month or on demand	96,334	138,882
Due after 1 month but within 3 months	11,560	1,461
Due after 3 months but within 12 months	<u>–</u>	<u>2,074</u>
	<u>107,894</u>	<u>142,417</u>

27 Other unsecured loans

As at 31 December 2002, the interest-bearing other unsecured loans were repayable after two years but within five years.

28 Contingency provision – insurance

	2002 HK\$'000
At 1 January	201,980
Provision written back during the year	(84,735)
At 31 December	117,245

This provision represents amounts set aside annually by the Group to meet liabilities which are expected to arise from third party claims in connection with the Group's bus operations.

29 Deferred tax

(a) The deferred tax assets and liabilities are attributable to the following items:

	2002 HK\$'000	Assets 2001 HK\$'000	2002 HK\$'000	Liabilities 2001 HK\$'000	2002 HK\$'000	Net 2001 HK\$'000 restated
Fixed assets	–	–	762,107	704,893	762,107	704,893
Spare parts and stores	(3,743)	(4,603)	–	–	(3,743)	(4,603)
Accounts receivable	(285)	(285)	–	–	(285)	(285)
Accounts payable and accruals	(15,408)	(15,321)	–	–	(15,408)	(15,321)
Contingency provision – insurance	(18,759)	(32,316)	–	–	(18,759)	(32,316)
Provision for long service payments	(6,859)	–	–	–	(6,859)	–
Tax losses carried forward recognised	(62,059)	(60,889)	–	–	(62,059)	(60,889)
Net tax liabilities	(107,113)	(113,414)	762,107	704,893	654,994	591,479

(b) Movements in temporary differences multiplied by the applicable tax rate comprise:

	At 1 January 2002 HK\$'000	Opening balance adjustment HK\$'000	Recognised in consolidated income statement HK\$'000	At 31 December 2002 HK\$'000
Fixed assets	704,893	–	57,214	762,107
Spare parts and stores	(4,603)	–	860	(3,743)
Accounts receivable	(285)	–	–	(285)
Accounts payable and accruals	(15,321)	–	(87)	(15,408)
Contingency provision – insurance	(32,316)	–	13,557	(18,759)
Provision for long service payments	–	(6,730)	(129)	(6,859)
Tax losses carried forward recognised	(60,889)	–	(1,170)	(62,059)
	591,479	(6,730)	70,245	654,994

30 Provision for long service payments

Details of the provision for long service payments of the Group are as follows:

	2002 HK\$'000
At 1 January	—
Adjustment for change in accounting policy	46,675
Expense recognised in the income statement	6,419
Payments made during the year	(4,910)
At 31 December	48,184

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement schemes that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

31 Share capital

	2002 HK\$'000	2001 HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$1 each	600,000	600,000
Issued and fully paid:		
403,639,413 ordinary shares of HK\$1 each	403,639	403,639

32 Reserves

	2002 HK\$'000	The Group 2001 HK\$'000 restated	2002 HK\$'000	The Company 2001 HK\$'000
(a) <i>Capital reserve</i>				
At 1 January and 31 December	2,412	2,412	—	—
(b) <i>General reserve</i>				
At 1 January	17,601	17,601	—	—
Transfer from retained profits	238	—	—	—
At 31 December	17,839	17,601	—	—

32 Reserves (continued)

	2002 HK\$'000	The Group 2001 HK\$'000 restated	2002 HK\$'000	The Company 2001 HK\$'000
<i>(c) Retained profits</i>				
At 1 January				
– as previously reported	3,292,894	2,320,887	874,850	235,275
– prior period adjustments in respect of:				
– short-term employee benefits (note 2(b))	(97,404)	(92,851)	–	–
– deferred tax assets and liabilities (note 2(d))	(522,000)	(470,452)	–	–
As restated	2,673,490	1,757,584	874,850	235,275
Adjustments in respect of changes in accounting policies for:				
– defined benefit plans (note 2(a))	252,500	–	–	–
– long service payments (note 2(c))	(39,945)	–	–	–
– provisions	–	1,125,070	–	–
Profit for the year (2001 Group: as restated) (note 10)	939,603	1,539,441	846,726	1,305,580
Dividends approved in respect of the previous financial year (note 11(b))	(589,314)	(504,549)	(589,314)	(504,549)
Dividends declared in respect of the current year	(181,638)	(161,456)	(181,638)	(161,456)
Transfer to staff retirement fund reserve	–	(1,082,600)	–	–
Transfer to general reserve	(238)	–	–	–
At 31 December	3,054,458	2,673,490	950,624	874,850
<i>(d) Contributed surplus</i>				
At 1 January and 31 December	–	–	1,300,000	1,300,000
<i>(e) Staff retirement fund reserve</i>				
At 1 January	1,082,600	–	–	–
Transferred from retained profits	–	1,082,600	–	–
At 31 December	1,082,600	1,082,600	–	–
Total reserves	4,157,309	3,776,103	2,250,624	2,174,850

Included in the figure for the retained profits of the Group is a profit of HK\$965,000 (2001: a loss of HK\$116,000) attributable to associates; and a profit of HK\$60,000 (2001: a loss of HK\$282,000) attributable to a jointly controlled entity.

The distributable reserves of the Company as at 31 December 2002 amounted to HK\$2,250,624,000 (2001: HK\$2,174,850,000).

Retained earnings arising from the adjustment in respect of provision for staff retirement funds have been transferred to a staff retirement fund reserve in 2001 for future utilisation.

33 Acquisition of subsidiaries

	2002 HK\$'000
<i>Net assets acquired</i>	
Fixed assets	679
Interest in associates	2,143
Spare parts and stores	92
Deposits and prepayments	187
Tax recoverable	673
Cash and cash equivalents	2,933
Accounts payable and accruals	(4,256)
Minority interests	(38)
Net identifiable assets and liabilities	2,413
Positive goodwill arising on consolidation	33,903
Total purchase price paid, satisfied in cash	36,316
Less: Cash of the subsidiaries acquired	(2,933)
Net cash outflow in respect of the purchase of subsidiaries	33,383

34 Equity compensation benefits

Under two share option schemes of RoadShow, options were granted to certain directors and employees of the Group to subscribe for shares of RoadShow.

For options granted before 1 September 2001, the exercise price of the options was determined by RoadShow's board of directors and was the higher of the nominal value of the shares and will not be less than 80% of the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. For options granted after 1 September 2001, the exercise price of the options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of the grant and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant.

Each option gives the holder the right to subscribe for one RoadShow's share.

(a) Movements in share options of RoadShow

	2002 Number '000	2001 Number '000
At 1 January	28,058	—
Granted	23,340	28,579
Exercised	(4,349)	—
Lapsed on grantee ceasing employment with the Group	(6,948)	(521)
	<u>40,101</u>	<u>28,058</u>
Options vested at 31 December	<u>40,101</u>	<u>28,058</u>

34 Equity compensation benefits (continued)

(b) Terms of unexpired and unexercised RoadShow's share options at balance sheet date

Date granted	Exercise period	Exercise price	2002 Number '000	2001 Number '000
26 June 2001	28 December 2001 to 27 December 2003	HK\$1.80	21,861	28,058
11 March 2002	12 March 2002 to 11 March 2005	HK\$2.25	18,240	—
			<u>40,101</u>	<u>28,058</u>

(c) Details of RoadShow's share options granted during the year, all of which were granted for nil consideration

Exercise period	Exercise price	2002 Number '000	2001 Number '000
28 December 2001 to 27 December 2003	HK\$1.80	—	28,579
12 March 2002 to 11 March 2005	HK\$2.25	23,340	—

(d) Details of RoadShow's share options exercised during the year

Exercise dates	Exercise price	Weighted average closing market price per share	Proceeds received HK\$'000	Number '000
Various	HK\$1.80	HK\$2.39	7,828	4,349

35 Commitments

(a) Commitments outstanding at 31 December 2002 not provided for in the financial statements were as follows:

	2002 HK\$'000	The Group 2001 HK\$'000	2002 HK\$'000	The Company 2001 HK\$'000
Contracted for	579,089	590,367	—	—
Authorised but not contracted for	311,560	200,280	75,560	—
	<u>890,649</u>	<u>790,647</u>	<u>75,560</u>	<u>—</u>

(b) At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2002 HK\$'000	2001 HK\$'000
Within 1 year	2,714	4,801
After 1 year but within 5 years	640	2,523
	<u>3,354</u>	<u>7,324</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease when all the terms are renegotiated. The leases do not include contingent rentals.

36 Contingent liabilities

At 31 December 2002, the Company has undertaken to guarantee certain bank loans granted to certain wholly-owned subsidiaries to the extent of HK\$275,000,000 (2001: HK\$582,330,000). Additionally, together with an external party, the Company had undertaken to guarantee jointly and severally a bank loan granted to a subsidiary to the extent of HK\$75,000,000 (2001: HK\$5,000,000).

37 Material related parties transactions

- (a) During the year, the Group entered into a contract with a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), its substantial shareholder, for the provision of insurance services to the Group. This company entered into the contract with the Group under the same terms as those available to other customers in the ordinary course of business. The insurance premium paid by the Group amounted to HK\$74,582,000 (2001: HK\$46,112,000) during the year ended 31 December 2002. The amount due from this company at the year end amounted to HK\$5,000 (2001: HK\$258,000).
- (b) During the year, the Group provided coach services to certain subsidiaries of SHKP under the same terms as those available to other customers in the ordinary course of business. The service fees received by the Group amounted to HK\$55,856,000 (2001: HK\$46,235,000) during the year ended 31 December 2002. The amounts due from these companies at the year end amounted to HK\$13,756,000 (2001: HK\$17,409,000).
- (c) The Group entered into a contract with a subsidiary of SHKP for the provision of project consultancy services relating to the construction of a new bus depot of the Group. The contract sum of the project consultancy services is HK\$15,800,000 or 3.2% of the total construction cost of the new bus depot, whichever is higher. During the year, the payment for these project consultancy services made by the Group to this company amounted to HK\$2,370,000 (2001: HK\$1,580,000). The remaining balance amounted to HK\$790,000 was accrued in the financial statements at the year end (2001: HK\$Nil). No capital commitment was outstanding at the year end (2001: HK\$3,160,000) under this contract.
- (d) The Group entered into a contract with a subsidiary of SHKP for the provision of project management services relating to the property development of the Group. The contract sum of the project management services is HK\$15,000,000, or the lower of 1% of the project costs and HK\$20,000,000, whichever is higher. During the year, the payment for these project management services made by the Group to this company amounted to HK\$3,000,000 (2001: HK\$Nil). There was no outstanding amount (2001: HK\$Nil) due to this company at the year end. The Group's capital commitment outstanding at 31 December 2002 under this contract amounted to HK\$14,000,000 (2001: HK\$17,000,000) as disclosed in note 35(a).
- (e) A subsidiary of the Group, Park Island Transport Company Limited ("PITC"), entered into a contract with a subsidiary of SHKP for the provision of transportation services for Ma Wan Island in Hong Kong. The subsidiary commenced operations on 14 December 2002. PITC shall be entitled to a return lying within the range of 9% and 16% per annum of the simple arithmetic average of the opening balance and the closing balance of the net book value of PITC's fixed assets with respect to the accounting period concerned (the "Entitled Net Return"). The Entitled Net Return for the year was HK\$477,000 (2001: HK\$Nil).

Further, from January 2002 Sun Hung Kai (Ma Wan) Transport Company Limited, a wholly-owned subsidiary of SHKP, advances to PITC an unsecured loan (the "Loan") in the sum of HK\$2,000,000 per month for a period of 26 calendar months and at an interest rate of 1% per annum above HIBOR, which together with interest is to be repaid upon expiration or early termination of the contract or be charged against by any shortfall between the minimum Entitled Net Return and operating profits or losses (the "Shortfall") incurred by PITC. The total amount of principal and interest of the Loan outstanding at the year end, after set-off by the Shortfall, was HK\$16,684,000 (2001: HK\$Nil).

This transaction also constitutes a connected transaction under the Listing Rules.

37 Material related parties transactions (continued)

- (f) Under a Loyalty Share Bonus Scheme of RoadShow, the loyal shareholders of RoadShow who acquired and held its shares continuously for one year since the date of RoadShow's listing on 28 June 2001 under a Preferential Offer, were entitled to receive one bonus share ("Bonus Shares") for every 10 shares acquired and held on 28 June 2002. The Bonus Shares would be transferred by KMB Resources Limited, one of the Group's subsidiaries and the immediate holding company of RoadShow, to the loyal shareholders at nil consideration. On 28 June 2002, a total number of 2,456,729 RoadShow's shares were transferred to the loyal shareholders, out of which the following substantial shareholders and Directors of the Company were entitled to:

	Number of shares transferred
Substantial shareholders	
Sun Hung Kai Properties Limited ("SHKP") (note 1)	956,800
Arklake Limited (note 1)	547,800
HSBC Holdings plc Group (note 2)	1,005,459
Directors	78,864

Notes:

- 1 The Bonus Shares transferred to and disclosed by SHKP includes the 547,800 shares transferred to 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 956,800 Bonus Shares transferred to SHKP. In addition, certain subsidiaries of HSBC Holdings plc Group are the trustees of various trusts which have been transferred with 48,659 Bonus Shares. Accordingly, HSBC Holdings plc Group is deemed to be transferred with a total of 1,005,459 Bonus Shares.

The Directors of the Company are of the opinion that the above related parties transactions were conducted on normal commercial terms and in the ordinary course of business.

38 Post balance sheet event

After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in note 11.

39 Comparative figures

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements".

Certain comparative figures have also been adjusted as a result of changes in accounting policies for short-term employee benefits and deferred taxation, details of which are set out in note 2.