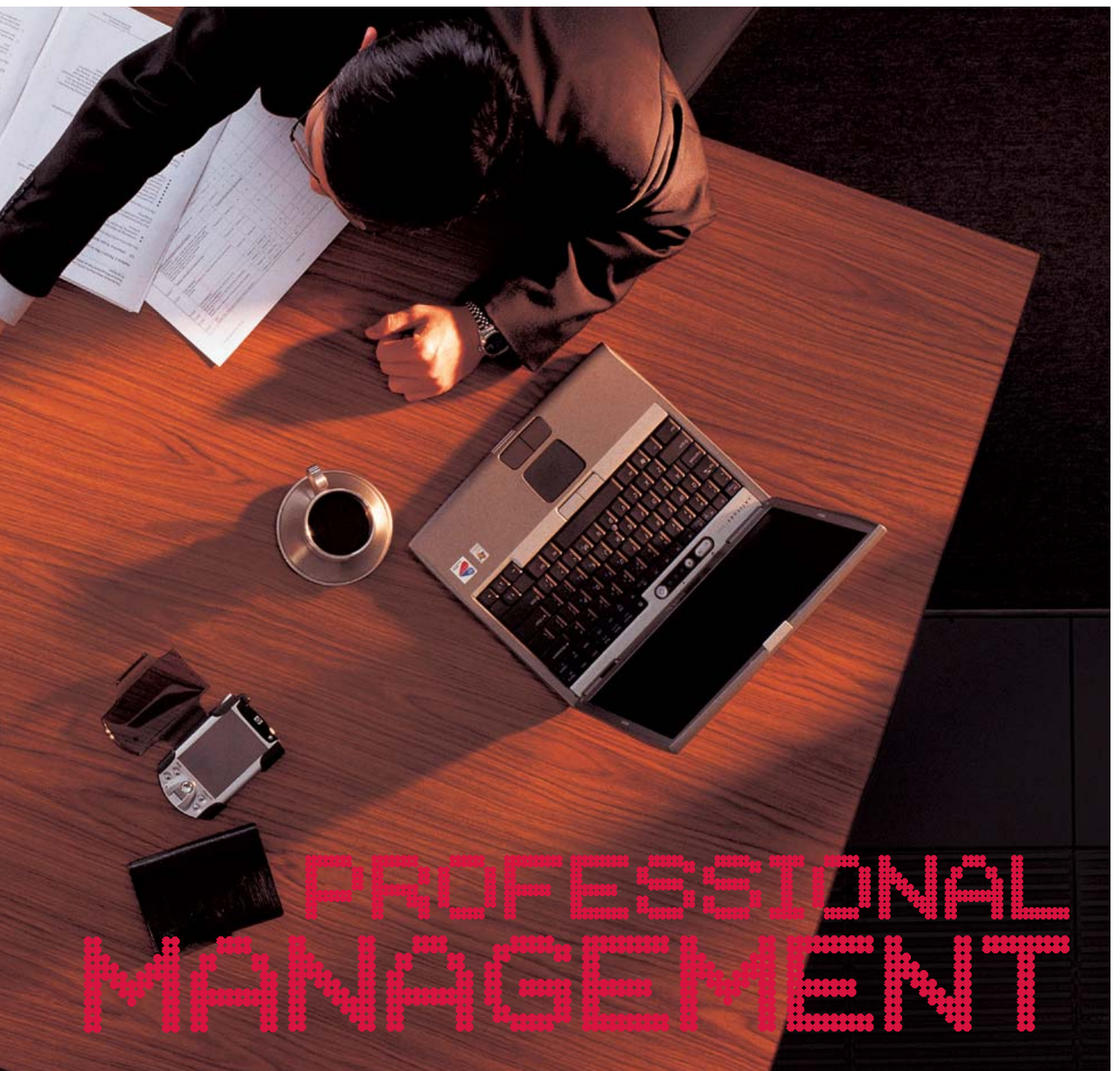


Our professional management team directs,  
governs and manages the Group's businesses  
with a clear vision for the future







# PROFESSIONAL MANAGEMENT

## CHAIRMAN'S STATEMENT

# CLEAR VISION



S.Y. CHUNG  
*Chairman*

The Group is committed to long-term sustainable business growth through our core businesses and by investing in new opportunities to enhance the Group's value to our shareholders

## REMAINING RESOLUTE DURING A TIME OF ADVERSITY

The year 2003 was a challenging year for the Group as well as the Hong Kong Special Administrative Region ("HKSAR" or "Hong Kong") in general. During the first half of the year, the local economy was devastated by the unprecedented outbreak of Severe Acute Respiratory Syndrome ("SARS") and the Group's business was heavily affected. However, when SARS subsided during the second half of the year, the local economy began to recover and the Group's performance steadily improved. The business climate, particularly in the tourism sector, was further enhanced by the introduction of the Individual Visit Scheme which commenced on 28 July 2003 to facilitate entry into Hong Kong by visitors from certain cities on the Mainland of China.

During the SARS crisis, the Group remained dedicated to serving the community and caring for our customers and staff. We are gratified that no single passenger or employee contracted SARS while patronising or operating the Group's bus services. This is credited to the Group's effort to upkeep hygiene to the highest possible standard in our operations.

During 2003, The Kowloon Motor Bus Company (1933) Limited ("KMB") recorded a loss of some 100,000 passenger trips a day to the Mass Transit Railway ("MTR") Tseung Kwan O Extension, which completed its first full year of operation. Long Win Bus Company Limited ("LWB") also saw a big decrease in ridership due to the substantial drop in the number of tourists during the SARS outbreak.

KMB, the flagship company of the Group, celebrated its 70th anniversary in 2003. Although at the age of 70, KMB continues to be young and energetic and adaptable to the continuously changing operating environment. As a result, KMB remains the industry leader in Hong Kong and one of the best bus companies in the world. Over the years, it has received a great deal of recognition for its professional and public service as well as environmental protection achievements. This has reinforced our commitment to providing world-class bus services to the Hong Kong community in the years ahead.

Despite increases in fuel prices, insurance premiums, tunnel charges and some other costs, KMB and LWB, being responsible corporate citizens, continued to support the community during times of economic difficulty. We expanded the coverage of our Bus-bus Interchange ("BBI") schemes and offered fare concessions for passengers travelling on relatively long distance routes. These concessions were made possible by productivity enhancements and stringent cost control measures.

In line with the Group's strategy to seek long-term business growth opportunities in China Mainland, we concluded three large-scale joint venture projects in Beijing, Shenzhen and Wuxi during 2003. Whilst the Shenzhen project is still awaiting statutory approval by the relevant government authorities, the Beijing and Wuxi projects commenced operations in March 2003 and February 2004 respectively.

The Group deeply regrets the two serious KMB bus incidents that occurred during the year resulting in a large number of deaths and injuries. The causes of these incidents are under investigation and are the subject of court proceedings. We have been co-operating fully with the authorities in determining the circumstances and causes of these incidents. Safety has always been our first priority and measures are in place to ensure the highest standards of safety in our bus services. We continuously monitor our operations, review safety measures and provide refresher training to our bus captains. We pledge to maintain these high standards to ensure safe bus services for our customers.

## **DIVIDEND LEVEL MAINTAINED DESPITE SARS IMPACT**

### **Results for the year**

The Group's profit attributable to shareholders for the year ended 31 December 2003 was HK\$597.0 million. This represents a decrease of 36.5% compared with HK\$939.6 million for the previous year. Earnings per share for the year were HK\$1.48 compared with HK\$2.33 for 2002.

The profit from KMB for 2003 was HK\$599.8 million, representing a decrease of 31.2% compared with HK\$872.3 million for 2002. LWB made a loss of HK\$3.3 million for 2003 compared with a profit of HK\$4.6 million for 2002. The profit from non-franchised transport operations amounted to HK\$19.0 million, representing an increase of 65.2% compared with 2002.

### **Dividends**

Despite the adverse impact of SARS on the Group's 2003 results, the Directors have proposed to maintain the dividend for 2003 at the same level as 2002. At the forthcoming Annual General Meeting, the Directors will recommend the payment of a final dividend of HK\$1.58 per share for the year ended 31 December 2003 (2002: HK\$1.58 per share). Together with the interim dividend of 45 cents per share paid on 15 October 2003 (2002: 45 cents per share), total dividends for the year will amount to HK\$2.03 per share (2002: HK\$2.03 per share). The total dividend payout for the year will amount to HK\$819.4 million (2002: HK\$819.4 million).

### **Outlook**

The commissioning of the Kowloon-Canton Railway West Rail in December 2003 and the Ma On Shan Extension in September 2004 are bound to have an adverse impact on our patronage. However, we anticipate that the improved economy and the surge of tourists from the Mainland will generate some passenger growth to partially offset the loss of patronage to those new railways. We will work closely with the HKSAR Government and the Kowloon-Canton Railway Corporation ("KCRC") to develop Bus-rail Interchange schemes and feeder bus services that will benefit both KMB's and KCRC's customers.

In addition, we will need to rationalise our bus network because of the impact of the new railways on our passenger numbers. This will entail re-deploying resources from those affected areas to other locations in need of bus service. Excess resources will be disposed of through natural attrition. Over the longer term, we anticipate our patronage will grow steadily when more new towns are developed to cope with the expected population growth.

We expect more pressure for fare concessions in the wake of the Legislative Council elections in September 2004. Also, the HKSAR Government had initiated discussions during 2003 to develop a new fare determination mechanism and these deliberations are expected to continue in 2004. The Group's overall goal is to develop a mechanism that would strike the right balance between the interests of our customers, our shareholders and the community at large. We are evaluating the HKSAR Government's proposals as well as developing alternatives to achieve the said goal. Until the new mechanism is finalised, our existing fare concessions and fare discounts tied to our expanded BBI schemes will play an important role in responding to community expectations.

### **Business strategy**

Our strategy is to diversify our business by continuing to explore new growth opportunities that can be leveraged on our core competencies. The Group is well positioned to take up investments on the Mainland because of our expertise and widely recognised brand name for service excellence. We anticipate that our current Mainland operations will make an increasing contribution to the Group's earnings in the years ahead.



## EXPLORING NEW GROWTH OPPORTUNITIES ON THE MAINLAND

The Group will continue to develop its non-franchised transport business in Hong Kong through meeting our customers' specific needs, whether for prestige premium services or value-for-money services. We anticipate that our media sales business will strengthen in 2004 in line with the economic recovery. Nevertheless, we will continue to explore further business opportunities both in Hong Kong and on the Mainland.

The redevelopment of the former Lai Chi Kok Depot site into a residential and commercial complex is scheduled for completion by 2006. This project will bring us a new source of income as well as a population centre that will be a potential source of new customers for KMB.

### Corporate governance

We recognise the importance of good corporate governance and transparency. We provide access to information to a variety of audiences including shareholders, financial analysts, financial institutions, customers, the media and our staff. We will continue to improve our channels of communication to accomplish and meet this important responsibility.

### Social responsibility

To earn the right to retain our franchise to serve the community, we are fully aware of our responsibility to continue to offer quality service at fair prices and take measures to protect the environment. The Group is deeply committed to doing our very best in improving our vehicles and our depot operations.

### Our people

Our employees continued to demonstrate their dedication and high level of performance during a difficult year in 2003. The Board thanks all the Group's employees for their invaluable contributions and we look forward to their continued support moving forward.

### Directors

Mr Rafael Hui Si-yan, GBS, JP was appointed as a Director of the Company, KMB and LWB with effect from 1 February 2004. I would like to welcome Mr Hui to the Board.

Under the Public Bus Services Ordinance (Cap. 230), the Commissioner for Transport and the Deputy Secretary for the Environment, Transport and Works are appointed by the Chief Executive of the HKSAR Government to sit on the Boards of KMB and LWB. During 2003, the incumbents were Mr Robert Footman, JP and Mr Arthur Ho, JP respectively. I appreciate their valuable contributions.

My appreciation also goes to the Group's Audit Committee, chaired by Mr George Chien Yuan Hwei with Dr James Kung Ziang Mien, GBS, OBE and Dr the Honourable Eric Li Ka Cheung, GBS, OBE, JP as members, for their excellent work during the year.

Lastly, I want to thank my fellow Directors, in particular our Managing Director, Mr John Chan Cho Chak, GBS, JP, for their efforts and contributions in 2003.



**S.Y. CHUNG**

*Chairman*

25 March 2004