

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 2003.

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 transportation as well as the provision of media sales services. Particulars of the Company's subsidiaries are set out in note 16 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 11 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 2003 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 92 to 126 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 62 to 71 of this Annual Report.

Dividends

An interim dividend of 45 cents per share (2002: 45 cents per share) was paid to the shareholders on 15 October 2003. The Directors now recommend that a final dividend of HK\$1.58 per share (2002: HK\$1.58 per share) in respect of the year ended 31 December 2003 be paid to the shareholders on 21 May 2004.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$1,898,000 (2002: HK\$2,287,000).

Fixed Assets

During the year, major additions to the fixed assets of the Group were buses and vessels under construction with a total cost of HK\$583,805,000 (2002: HK\$915,738,000). Buses and vessels with a total cost of HK\$519,260,000 (2002: HK\$887,279,000) were licensed and put into service during the year following the completion of construction.

Details of other movements in fixed assets during the year are set out in note 12 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 , <i>GBM, GBE, PhD, FREng, JP*</i>	(Chairman)
Norman Leung Nai Pang , <i>GBS, JP</i>	(Deputy Chairman)
Dr the Hon Woo Pak Chuen , <i>JP*</i>	
Kwok Ping-luen , <i>Raymond</i>	
Kwok Ping-sheung , <i>Walter, JP</i>	
Yu Shu Chuen	
Ng Siu Chan	
William Louey Lai Kuen	
John Chan Cho Chak , <i>GBS, JP</i>	(Managing Director)
Charles Lui Chung Yuen , <i>M.H.</i>	
Winnie Ng	
Dr Kung Ziang Mien , <i>James, GBS, OBE*</i>	
George Chien Yuan Hwei	
Dr the Hon Eric Li Ka Cheung , <i>GBS, OBE, JP*</i>	
Lui Pochiu	
Edmond Ho Tat Man	
Rafael Hui Si-yan , <i>GBS, JP</i>	(appointed on 1 February 2004)
Lana Woo	(Alternate Director to Dr the Hon Woo Pak Chuen, JP)
Sham Yat Wah	(Alternate Director to Mr Kwok Ping-luen, Raymond)
Susanna Lau Shung Oi	(Alternate Director to Mr Kwok Ping-sheung, Walter, JP)

* Independent Non-executive Director

In accordance with Bye-Law 87, Mr Yu Shu Chuen, Mr George Chien Yuan Hwei, Dr the Hon Eric Li Ka Cheung, Mr Lui Pochiu and Mr Edmond Ho Tat Man 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 74 to 79 of this Annual Report.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

The Directors of the Company who held office at 31 December 2003 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' interests and short positions required to be kept under Section 352 of the SFO:

(i) Interests in Issued Shares

(a) The Company

Ordinary shares of HK\$1 each						
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen Chung, <i>GBM, GBE, PhD, FREng, JP</i>	18,821	—	—	—	18,821	0.005%
Norman Leung Nai Pang, <i>GBS, JP</i>	—	—	—	—	—	—
Dr the Hon Woo Pak Chuen, JP	210,047	—	—	—	210,047	0.052%
Kwok Ping-luen, Raymond	393,350	—	—	—	393,350	0.097%
Kwok Ping-sheung, Walter, JP	61,522	—	—	—	61,522	0.015%
Yu Shu Chuen	2,943	70,803	—	6,909,481 (Note 1)	6,983,227	1.730%
Ng Siu Chan	—	21,000,609	—	—	21,000,609	5.203%
William Louey Lai Kuen	6,222,926	4,475	—	—	6,227,401	1.543%
John Chan Cho Chak, GBS, JP	2,000	—	—	—	2,000	—
Charles Lui Chung Yuen, M.H.	12,427	—	—	2,651,750 (Note 2)	2,664,177	0.660%
Winnie Ng	41,416	—	—	21,000,609 (Note 3)	21,042,025	5.213%
Dr Kung Ziang Mien, James <i>GBS, OBE</i>	—	—	172,000	—	172,000	0.043%
George Chien Yuan Hwei	2,000	—	—	—	2,000	—
Dr the Hon Eric Li Ka Cheung, <i>GBS, OBE, JP</i>	—	—	—	—	—	—
Lui Pochiu	452,113	—	—	—	452,113	0.112%
Edmond Ho Tat Man	—	—	—	—	—	—
Lana Woo (Alternate Director to Dr the Hon Woo Pak Chuen, JP)	9,475	—	—	—	9,475	0.002%
Sham Yat Wah (Alternate Director to Mr Kwok Ping-luen, Raymond)	—	—	—	—	—	—
Susanna Lau Shung Oi (Alternate Director to Mr Kwok Ping-sheung, Walter, JP)	—	—	—	—	—	—

Notes:

- 1 HSBC International Trustee Limited held 6,909,481 shares in the Company as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of 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 shares in the Company.
- 3 Ms Winnie Ng has interest in 21,000,609 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (continued)

(i) Interests in Issued Shares (continued)

(b) RoadShow Holdings Limited ("RoadShow"), a subsidiary of the Company

Ordinary shares of HK\$0.1 each						
	Personal interests	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
The Hon Sir Sze-yuen Chung, <i>GBM, GBE, PhD, FREng, JP</i>	4,000	—	—	—	4,000	—
Norman Leung Nai Pang, <i>GBS, JP</i>	—	—	—	—	—	—
Dr the Hon Woo Pak Chuen, JP	19,253	—	—	—	19,253	0.002%
Kwok Ping-luen, Raymond	37,400	—	—	—	37,400	0.004%
Kwok Ping-sheung, Walter, JP	6,600	—	—	—	6,600	0.001%
Yu Shu Chuen	33,000	6,576	—	535,825 (Note 1)	575,401	0.058%
Ng Siu Chan	—	123,743	—	—	123,743	0.012%
William Louey Lai Kuen	412,371	—	—	—	412,371	0.041%
John Chan Cho Chak, GBS, JP	—	—	—	—	—	—
Charles Lui Chung Yuen, M.H.	—	—	—	209,131 (Note 2)	209,131	0.021%
Winnie Ng	1,000,000	—	—	123,743 (Note 3)	1,123,743	0.113%
Dr Kung Ziang Mien, James <i>GBS, OBE</i>	—	—	164,000	—	164,000	0.016%
George Chien Yuan Hwei	—	—	—	—	—	—
Dr the Hon Eric Li Ka Cheung, <i>GBS, OBE, JP</i>	—	—	—	—	—	—
Lui Pochiu	24,863	—	—	—	24,863	0.002%
Edmond Ho Tat Man	—	—	—	—	—	—
Lana Woo (Alternate Director to Dr the Hon Woo Pak Chuen, JP)	2,000	—	—	—	2,000	—
Sham Yat Wah (Alternate Director to Mr Kwok Ping-luen, Raymond)	—	—	—	—	—	—
Susanna Lau Shung Oi (Alternate Director to Mr Kwok Ping-sheung, Walter, JP)	—	—	—	—	—	—

Notes:

- 1 HSBC International Trustee Limited held 535,825 shares in RoadShow as trustee of a discretionary trust. Mr Yu Shu Chuen was deemed to have interests in the aforesaid block of shares.
- 2 Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 209,131 shares in RoadShow.
- 3 Ms Winnie Ng has interest in 123,743 shares in RoadShow as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

As at 31 December 2003, none of the Directors had any non-beneficial interest in the share capital of the Company.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (continued)

(ii) Interests in Underlying Shares

Certain Directors of the Company have been granted options under RoadShow's share option schemes, details of which are set out in the section "Share option schemes" below.

Apart from the foregoing, none of the Directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, its subsidiaries or fellow subsidiaries, as recorded in the register of directors' interests and short positions required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Share Option Schemes

Options were granted to certain Directors and employees of the Group to subscribe for shares in RoadShow under the following two RoadShow share option schemes: Pre-Listing Share Option Scheme and Share Option Scheme, subject to the terms and conditions stipulated in the schemes.

(a) Pre-Listing Share Option Scheme

The scheme expired on 27 December 2003.

	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 options during the year	Exercise price per share	Market value per share at date of grant of options
Directors of the Company					
Norman Leung Nai Pang, <i>GBS, JP</i>	2,380,000	Nil	Nil	HK\$1.80	Note 2
Kwok Ping-luen, Raymond	338,000	Nil	Nil	HK\$1.80	Note 2
Ng Siu Chan	338,000	Nil	Nil	HK\$1.80	Note 2
John Chan Cho Chak, <i>GBS, JP</i>	2,380,000	Nil	Nil	HK\$1.80	Note 2
Charles Lui Chung Yuen, <i>M.H.</i>	338,000	Nil	Nil	HK\$1.80	Note 2
Winnie Ng	3,380,000	Nil	Nil	HK\$1.80	Note 2
George Chien Yuan Hwei	168,000	Nil	Nil	HK\$1.80	Note 2
Lui Pochiu	188,000	Nil	Nil	HK\$1.80	Note 2
Edmond Ho Tat Man	188,000	Nil	Nil	HK\$1.80	Note 2
Lana Woo (<i>Alternate Director to Dr the Hon Woo Pak Chuen, JP</i>)	168,000	Nil	Nil	HK\$1.80	Note 2
Employees	11,995,000	Nil	Nil	HK\$1.80	Note 2

The above options were granted on 26 June 2001 and were exercisable during the period from 28 December 2001 to 27 December 2003 (Note 1). No options were exercised during the year and all of them expired on 27 December 2003.

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) exercise 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

The total number of securities available for issue as at 31 December 2003 was 16,660,000 shares which represented approximately 1.7% of the issued share capital of RoadShow at 31 December 2003. In respect of the maximum entitlement of each participant under the scheme, 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 2003, a director and employees of the Group had the following interests in options to subscribe for shares of RoadShow (market value per share at 31 December 2003 was HK\$0.98) granted for a consideration of HK\$1 under RoadShow's Share Option Scheme. The options are unlisted and 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.

	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 options during the year	Exercise price per share	Market value per share at date of grant of options
Director of the Company					
Winnie Ng	3,800,000	3,800,000	Nil	HK\$2.25	HK\$2.25
Employees	14,440,000	12,860,000	Nil	HK\$2.25	HK\$2.25

The above options were granted on 11 March 2002 and are exercisable during the period from 12 March 2002 to 11 March 2005. During the year, 1,580,000 options lapsed because the grantees ceased their employment with the RoadShow Group.

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

Save for the Prime Cost Contract as disclosed in note 35(e) on the financial statements, in which Messrs. Kwok Ping-luen, Raymond and Kwok Ping-sheung, Walter, who had beneficial interests in Sun Hung Kai Properties Limited, were interested, no other contract of significance to which the Company and 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 Shareholders' and Other Person's Interests in Shares and Short Positions in Shares, Underlying Shares and Debentures

The Company has been notified of the following interests in the Company's issued shares at 31 December 2003 amounting to 5% or more of the ordinary shares in issue:

Ordinary shares of HK\$1 each				
	Registered shareholders	Corporate interests	Total number of shares held	Percentage of total issued shares
Substantial shareholders				
Sun Hung Kai Properties Limited (Notes 1 and 2)	—	133,271,012	133,271,012	33.0%
Arklake Limited (Note 1)	68,600,352	—	68,600,352	17.0%
HSBC International Trustee Limited (Note 3)	175,216,949	—	175,216,949	43.4%
Other person				
Kwong Tai Holdings Limited (Note 4)	21,000,609	—	21,000,609	5.2%

Notes:

- The interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 68,600,352 shares disclosed by Arklake Limited.
- 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.
- HSBC International Trustee Limited is deemed to be interested in 175,216,949 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.
- The interest disclosed by Kwong Tai Holdings Limited includes 21,000,609 shares disclosed by Mr Ng Siu Chan and Ms Winnie Ng, both are Directors of 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 pages 80 to 81 of this Annual Report.

Staff Retirement Schemes

The Group operates mainly two separate non-contributory defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme ("The KMB Monthly Rated Employees Scheme") and The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme ("The KMB Daily Rated Employees 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 retirement schemes that provide pension benefits for employees upon retirement. The schemes are administered by an independent trustee and the assets are 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 2004 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 on the next page.

Staff Retirement Schemes (continued)

Defined Benefit Retirement Schemes (continued)

The KMB Monthly Rated Employees 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 at 6.5% and Salary Escalation at 5.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 65.
- iii) The market value of the scheme assets at 31 December 2003 was HK\$759.5 million.
- iv) The minimum level of funding commencing from 1 January 2004 recommended by the actuary is 7.1% of pay.
- v) The ongoing funding surplus in the scheme was HK\$151.4 million and the solvency surplus was HK\$147.8 million at 31 December 2003.

The KMB Daily Rated Employees 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 at 6.5% and Salary Escalation at 5.5% per annum; Mortality Rates 2001 Hong Kong Life Tables; Nil Withdrawal Rate; and Normal Retirement Age 60.
- iii) The market value of the scheme assets at 31 December 2003 was HK\$1,970.9 million.
- iv) The minimum level of funding commencing from 1 January 2004 recommended by the actuary is 4.5% of pay.
- v) The ongoing funding surplus in the scheme was HK\$400.7 million and the solvency surplus was HK\$585.3 million at 31 December 2003.

Note:

The obligations in respect of defined benefit retirement schemes included in the financial statements are calculated using the projected unit credit method under different actuarial assumptions (see note 1(q)(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 a 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 contributions 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 contributions made in that corresponding financial year. The amount of forfeited contributions utilised during the year and the amount available for use as at 31 December 2003 were insignificant to the Group.

Bank Loans and Overdrafts

Particulars of bank loans and overdrafts of the Group as at 31 December 2003 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 72 and 73 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 the 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 re-appointment. A resolution for the re-appointment 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, 25 March 2004