

## Chairman's Statement



**S. Y. CHUNG** Chairman

“ We have met the challenges of the past 12 months with solutions that place the Group in a strong position for future growth. ”

Building  
for the Future

## To Our Shareholders and Partners

### Results for the Year

For the fiscal year ended 31 December 2004, the Group's profit attributable to shareholders was HK\$731.2 million (2003: HK\$597.0 million), representing an increase of 22.5% compared with last year. Earnings per share for the year were HK\$1.81 (2003: HK\$1.48).

### Dividends

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 2004 (2003: HK\$1.58 per share). Together with the interim dividend of 45 cents per share paid on 13 October 2004 (2003: 45 cents per share), total dividends for the year will amount to HK\$2.03 per share (2003: HK\$2.03 per share). The total dividend payout for the year will amount to HK\$819.4 million (2003: HK\$819.4 million).

### Moving Ahead

Public transport is integral to the lives of most people in Hong Kong and, increasingly, people living in major cities on the Mainland. The Group, through its franchised public bus services in Hong Kong and joint venture operations on the Mainland, has continued its leadership role over the past year, setting a track record of excellence in transport services. We have emerged from 2003's difficult business environment that was heavily influenced by Severe Acute Respiratory Syndrome (SARS) with refined and, where possible, expanded services and sustainable business growth.

### Meeting Customer Needs

The Group operates in specific niche markets. The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") are key transport providers, operating under franchises and within specific catchment areas in the Hong Kong Special Administrative Region ("Hong Kong" or "HKSAR"). It is the Group's responsibility to ensure that the communities within those catchments have a bus transport system that operates to the highest standards. We have continued to put considerable effort and resources into the design of our bus fleets ensuring ease of access for all passengers, including passengers who may have disabilities. Our vehicles, depots and bus termini operate with cutting-edge technology that ensures we can provide a safe, efficient, reliable and user-friendly bus service for the general public. It is this commitment to our passengers that makes KMB an industry leader in Hong Kong and one of the best bus companies in the world.

### Finding Solutions

Like most in our industry, we continue to face increased operating costs. Oil prices, insurance premiums and tunnel tolls have all risen. Yet, we have maintained our fares at 1997 levels, continued to expand the coverage of our Bus-bus interchange and Bus-rail interchange schemes and provided fare concessions on many travel sectors. I am pleased to report that this has been achieved through productivity enhancements and stringent cost control measures and not through any lowering of our standards of service. When it comes to challenges, we are a solution orientated group.

We have met the competition from new rail networks during the year, by reviewing bus routes and operations, primarily those affected by the commissioning of the West Rail, the Tsim Sha Tsui East Extension and the Ma On Shan rail network – all new Kowloon-Canton Railway Corporation ("KCRC") developments. As a result, KMB made changes to some existing routes and introduced new feeder bus routes to rail stations. We will continue to work closely with the HKSAR Government and KCRC to further develop interchange schemes and feeder bus services that will benefit all customers.

As a leading public transport provider, we recognise our responsibility to the community, not just in terms of the provision of bus services, but also the fares that we charge. We are continuing our discussions with the HKSAR Government on the development of a new fare determination mechanism that we hope will strike a balance between the interests of all stakeholders — our customers, shareholders, staff and the community.

## Diversifying Business

Our other business interests continued to move ahead during 2004. Our non-franchised transport services are meeting new market demands by providing customer specific services and charters within Hong Kong and across the boundary with the Mainland. The media sales business continues to grow particularly in the context of the Mainland.

The redevelopment of the Group's former Lai Chi Kok Depot site is scheduled for completion by the end of 2006. The development will contain high-end luxurious residential apartments, together with clubhouse facilities and a retail podium. We hope to begin marketing the development by the end of 2005 or early 2006.

We have continued our long-term strategy of identifying business opportunities on the Mainland. In addition to joint venture transportation projects in Dalian, Tianjin and Beijing, two new joint ventures were set up in Wuxi and Shenzhen and commenced operations in March 2004 and January 2005 respectively. These two projects are important milestones in the context of our presence on the Mainland and I am confident that the Group is now well positioned to expand further into other major population centres there.

## Corporate Governance

We have always recognised the importance of good corporate governance and the need to provide access to the Group's information by a variety of audiences including shareholders, creditors, financial analysts, customers, the media and our staff. To meet our stakeholders' increasing expectations on transparency, we will continue to improve our communication channels.

## Board of Directors

The Group continues to benefit from a wide range of expertise that our Board members bring to our business. During the last year, Mr Siu Kwing-chue, Gordon, GBS, CBE, JP was appointed as an Independent Non-executive Director of the Company, KMB and LWB with effect from 26 October 2004. I welcome Mr Siu to the Board. Dr the Hon Woo Pak Chuen, JP, LL.D(Hon), LLB, PhD resigned from the Boards of Directors of the Company, KMB and LWB with effect from 24 June 2004. I thank Dr Woo for his invaluable contributions over the past 35 years.

Under the Public Bus Services Ordinance (Chapter 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. The incumbents were Mr Robert Footman, JP and Ms Cathy Chu Man Ling (who replaced Mr Arthur Ho, JP with effect from 15 November 2004) respectively. I thank them for their invaluable contributions.

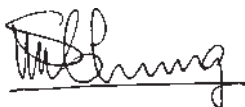
I would like to thank the Group's Audit Committee, chaired by Dr Eric Li Ka Cheung, GBS, OBE, JP with Dr Kung Ziang Mien, James, GBS, OBE and Mr George Chien Yuan Hwei as members, and the Remuneration Committee, chaired by Dr Norman Leung Nai Pang, GBS, JP with Dr Eric Li Ka Cheung and Dr Kung Ziang Mien, James as members for their hard work during the year.

I also thank my fellow board members, in particular our Managing Director, Mr John Chan Cho Chak, GBS, JP for their painstaking efforts towards achieving a number of milestones during 2004.

## Team Effort

Our achievements over the past year are attributable to the dedication and hard work of the staff members of the Group. On behalf of the Board, I thank our staff for their contributions.

The Group is a top performing business entity with a proud record that is sustained through changing economic conditions. There is growth potential – within our core Hong Kong business and particularly our diverse interests on the Mainland and we are prepared to maximise the opportunities that lie ahead in the interests of all stakeholders.



**S.Y. CHUNG**

Chairman

17 March 2005