

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 2004.

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, property holdings and development and the provision of media sales services. Particulars of the Company's principal subsidiaries are set out in note 16 to 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 to 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 2004 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 95 to 126 of this Annual Report.

An analysis of the results and financial position of the Group is set out on pages 64 to 75 of this Annual Report.

Dividends

An interim dividend of 45 cents per share (2003: 45 cents per share) was paid to the shareholders on 13 October 2004. The Directors now recommend that a final dividend of HK\$1.58 per share (2003: HK\$1.58 per share) in respect of the year ended 31 December 2004 be paid to the shareholders on 20 May 2005.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$4,634,924 (2003: HK\$1,898,000).

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\$329,647,000 (2003: HK\$583,805,000). Buses and vessels with a total cost of HK\$499,326,000 (2003: HK\$519,260,000) 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 to 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) |
| Dr Norman Leung Nai Pang , <i>GBS, JP</i> | (Deputy Chairman) |
| Dr the Hon Woo Pak Chuen* , <i>JP</i> | (resigned on 24 June 2004) |
| Kwok Ping-luen, Raymond | |
| Kwok Ping-sheung, Walter , <i>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, James* , <i>GBS, OBE</i> | |
| George Chien Yuan Hwei | |
| Dr Eric Li Ka Cheung* , <i>GBS, OBE, JP</i> | |
| Lui Pochiu | |
| Edmond Ho Tat Man | (Deputy Managing Director) |
| Rafael Hui , <i>GBS, JP</i> | (appointed on 1 February 2004) |
| Siu Kwing-chue, Gordon* , <i>GBS, CBE, JP</i> | (appointed on 26 October 2004) |
| Lana Woo | (Alternate Director to Dr the Hon Woo Pak Chuen*, <i>JP</i> , resigned on 24 June 2004) |
| Sham Yat Wah | (Alternate Director to Mr Kwok Ping-luen, Raymond) |
| Susanna Lau Shung Oi | (Alternate Director to Mr Kwok Ping-sheung, Walter, <i>JP</i>) |
| Kung Lin Cheng, Leo | (Alternate Director to Dr Kung Ziang Mien, James*, <i>GBS, OBE</i> , appointed on 1 July 2004) |

* Independent Non-executive Director

In accordance with Bye-law 87 of the Company and Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, The Hon Sir Sze-yuen Chung, Dr Norman Leung Nai Pang, Mr Kwok Ping-sheung, Walter, Mr Ng Siu Chan, Mr William Louey Lai Kuen, Mr John Chan Cho Chak, Dr Kung Ziang Mien, James, Mr Rafael Hui and Mr Siu Kwing-chue, Gordon retire from the Board by rotation and, being eligible, offer themselves for re-election.

Brief biography of the Directors of the Company are set out on pages 78 to 83 of this Annual Report.

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

At 31 December 2004, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they are taken or deemed to have under such provisions of the SFO or were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or were to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows: –

(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* | 18,821 | – | – | – | 18,821 | 0.005% |
| Dr Norman Leung Nai Pang | – | – | – | – | – | – |
| Kwok Ping-luen, Raymond | 393,350 | – | – | – | 393,350 | 0.097% |
| Kwok Ping-sheung, Walter | 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 | 2,000 | – | – | – | 2,000 | – |
| Charles Lui Chung Yuen | 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* | – | – | 172,000 | – | 172,000 | 0.043% |
| George Chien Yuan Hwei | 2,000 | – | – | – | 2,000 | – |
| Dr Eric Li Ka Cheung* | – | – | – | – | – | – |
| Lui Pochiu | 452,113 | – | – | – | 452,113 | 0.112% |
| Edmond Ho Tat Man | – | – | – | – | – | – |
| Rafael Hui | – | – | – | – | – | – |
| Siu Kwing-chue, Gordon* | – | – | – | – | – | – |
| Sham Yat Wah (Alternate Director to Mr Kwok Ping-luen, Raymond) | – | – | – | – | – | – |
| Susanna Lau Shung Oi (Alternate Director to Mr Kwok Ping-sheung, Walter) | – | – | – | – | – | – |
| Kung Lin Cheng, Leo (Alternate Director to Dr Kung Ziang Mien, James*) | – | – | – | – | – | – |

* Independent Non-executive Director

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* | 4,000 | – | – | – | 4,000 | – |
| Dr Norman Leung Nai Pang | – | – | – | – | – | – |
| Kwok Ping-luen, Raymond | 37,400 | – | – | – | 37,400 | 0.004% |
| Kwok Ping-sheung, Walter | 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 | – | – | – | – | – | – |
| Charles Lui Chung Yuen | – | – | – | 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* | – | – | 268,000 | – | 268,000 | 0.027% |
| George Chien Yuan Hwei | – | – | – | – | – | – |
| Dr Eric Li Ka Cheung* | – | – | – | – | – | – |
| Lui Pochiu | 24,863 | – | – | – | 24,863 | 0.002% |
| Edmond Ho Tat Man | – | – | – | – | – | – |
| Rafael Hui | – | – | – | – | – | – |
| Siu Kwing-chue, Gordon* | – | – | – | – | – | – |
| Sham Yat Wah (Alternate Director to Mr Kwok Ping-luen, Raymond) | – | – | – | – | – | – |
| Susanna Lau Shung Oi (Alternate Director to Mr Kwok Ping-sheung, Walter) | – | – | – | – | – | – |
| Kung Lin Cheng, Leo (Alternate Director to Dr Kung Ziang Mien, James*) | – | – | – | – | – | – |

* Independent Non-executive Director

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 2004, 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

Under a share option scheme of RoadShow ("Share Option Scheme"), options were granted to a Director and certain employees of the Group to subscribe for shares in RoadShow, subject to the terms and conditions stipulated in the Share Option Scheme.

The total number of securities available for issue under the Share Option Scheme as at 31 December 2004 was 14,270,000 shares which represented 1.4% of the issued share capital of RoadShow at 31 December 2004. In respect of the maximum entitlement of each participant under the Share Option 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 2004, a Director and certain employees of the Group had the following interests in options to subscribe for shares in RoadShow under the Share Option Scheme. The market value per share of RoadShow at 31 December 2004 was HK\$0.79. Each grantee had paid a consideration of HK\$1 to RoadShow for the granting of the options. 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 | 12,860,000 | 10,470,000 | 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, 2,390,000 options lapsed because the grantees ceased their employment with the Group.

Apart from the above, 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 Issuers.

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 and the Supplementary Agreement as disclosed in note 35(c) to 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 or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Substantial Shareholders' and Other Person's Interests in Shares and Short Positions in Shares, Underlying Shares and Debentures

At 31 December 2004, the interests or short positions of the persons (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows: –

| 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) | 191,131,736 | – | 191,131,736 | 47.4% |
| Other person | | | | |
| Kwong Tai Holdings Limited (Note 4) | 21,000,609 | – | 21,000,609 | 5.2% |

Notes:

- 1 The interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 68,600,352 shares disclosed by Arklake Limited.
- 2 In accordance with the Codes on Takeovers and Mergers and Share Repurchases (the "Codes"), a person becomes obliged to make a mandatory offer if the person's voting rights in a listed company exceeds a threshold. With effect from 19 October 2001, the threshold for triggering a mandatory offer obligation under the Codes has been reduced from 35% to 30%. However, transitional provisions will be applied where a person holds 30% or more of the voting rights of a listed company but less than 35% of such voting rights immediately prior to 19 October 2001. For so long as such holding remains in this range and until 10 years after that date, the Codes shall be interpreted and applied as if the 30% trigger was 35% for such person. For avoidance of doubt, where such person continues to hold 30% or more but less than 35% of the voting rights of the company at the end of the 10-year period, it will not be necessary for such person to sell his/her voting rights to take his/her holding below 30% in order not to trigger a mandatory offer obligation. In this regard, the transitional provisions are applicable to SHKP.
- 3 HSBC International Trustee Limited is deemed to be interested in 191,131,736 shares in the Company held on trust for its clients, of which 133,271,012 shares are held for SHKP.
- 4 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 Management

Brief particulars of the senior management of the Group are set out on page 84 of this Annual Report.

Staff Retirement Schemes

The Group operates two separate non-contributory defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme ("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 mainly 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.

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 below:

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) for calculation of contributions paid to the scheme. 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) for calculation of contributions paid to the scheme. 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 notes 1(r)(iii) and 20 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 2004 were insignificant to the Group.

Bank Loans and Overdrafts

Particulars of bank loans and overdrafts of the Group as at 31 December 2004 are set out in note 26 to 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 76 and 77 of this Annual Report.

Model Code for Securities Transactions by Directors

The Company has adopted the code of conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules during the year and all Directors have complied with the required standard of dealings set out therein.

Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules, except that 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 reviewed with management the accounting principles and policies adopted by the Group and discussed auditing, internal control and financial reporting matters, and also reviewed the financial statements for the year ended 31 December 2004. The review of the financial statements was conducted with the Group's external auditors, KPMG. The Auditors' Report of the external auditors is set out on page 94 of this Annual Report.

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.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

By Order of the Board

S.Y. CHUNG

Chairman

Hong Kong, 17 March 2005