

OPERATIONAL REVIEW

Franchised Public Bus Operations Division





The Kowloon Motor Bus Company (1933) Limited (“KMB”)

Long Win Bus Company Limited (“LWB”)

The Division provides franchised public bus services in Hong Kong through the Group’s wholly owned subsidiaries, KMB and LWB.

KMB, a company with 70 years of experience in operating franchised public bus services in Hong Kong, provides extensive bus services covering Kowloon, the New Territories and, via the cross-harbour tunnels, Hong Kong Island. LWB, which began operations in 1997, operates bus routes plying between the New Territories and Hong Kong International Airport and North Lantau.

Operational excellence

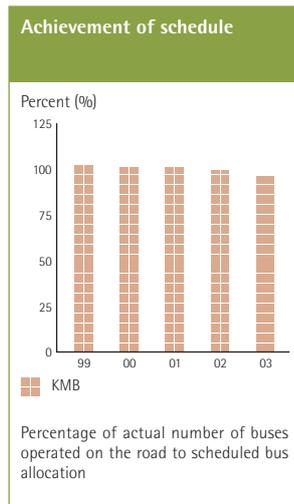
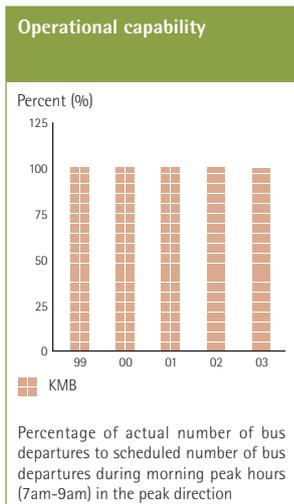
International Organisation for Standardisation (“ISO”) Certification

KMB has been ISO 9001 : 1994 certified throughout its entire organisation since 1999. In December 2002, new ISO 9001 : 2000 certificates were issued to KMB from the Hong Kong Quality Assurance Agency upon the completion of ISO 9001 : 2000 Quality Management System upgrading audits on KMB’s five certification areas: KMB Headquarters, Traffic Department and Depots, Overhaul Centre, Bus Body Construction Depot, and Kwai Chung Depot (Service Department). By the end of October 2003, each of the foregoing areas successfully completed the first Surveillance Visit in connection with ISO 9001 : 2000, reconfirming KMB’s commitment to excellence in quality management systems.

In August 2003, KMB’s Sha Tin Depot successfully completed the first Surveillance Visit in connection with the ISO 14001 : 1996 Environmental Management System. The new Lai Chi Kok Depot became the second KMB Depot to be ISO 14001 : 1996 certified in November 2003. This again demonstrated KMB’s high priority accorded to environmental protection.

In keeping with the spirit and intent of ISO 9001 : 2000 and ISO 14001 : 1996, KMB will continuously improve the efficiency, reliability and user-friendliness of our public bus services to meet and, where possible, exceed the needs and expectations of our customers.

KMB remains the only public bus company in Hong Kong accredited with ISO 9001 and ISO 14001 certifications.



Performance pledge

Throughout our 70-year history of operation, we have provided superior quality, safe and reliable bus services and we continually add enhancements to our services to benefit our customers. To demonstrate our dedication and to benchmark our achievements on a yearly basis, we abide by a Performance Pledge involving mechanical reliability and operational capability, the two core competencies in bus operations.

Mechanical reliability is defined as the average number of trips operated by a bus before it experiences one mechanical breakdown on the road with passengers on board. Operational capability is the ratio of actual to scheduled departures in the peak direction, during the peak hours of 7:00 am to 9:00 am throughout the entire bus network.

According to our Performance Pledge Report 2002/2003 for the 12 months ended 30 June 2003, KMB achieved 2,759:1 (2001/2002: 2,658:1) on mechanical reliability, against a target of 1,800:1. The performance in respect of operational capability was 99.5% (2001/2002: 100.3%), against a target of 100%, reflecting the impact of SARS during the first half of the year. LWB achieved 1,540:1 (2001/2002: 1,968:1) on mechanical reliability and 101.6% (2001/2002: 100.8%) on operational capability respectively.

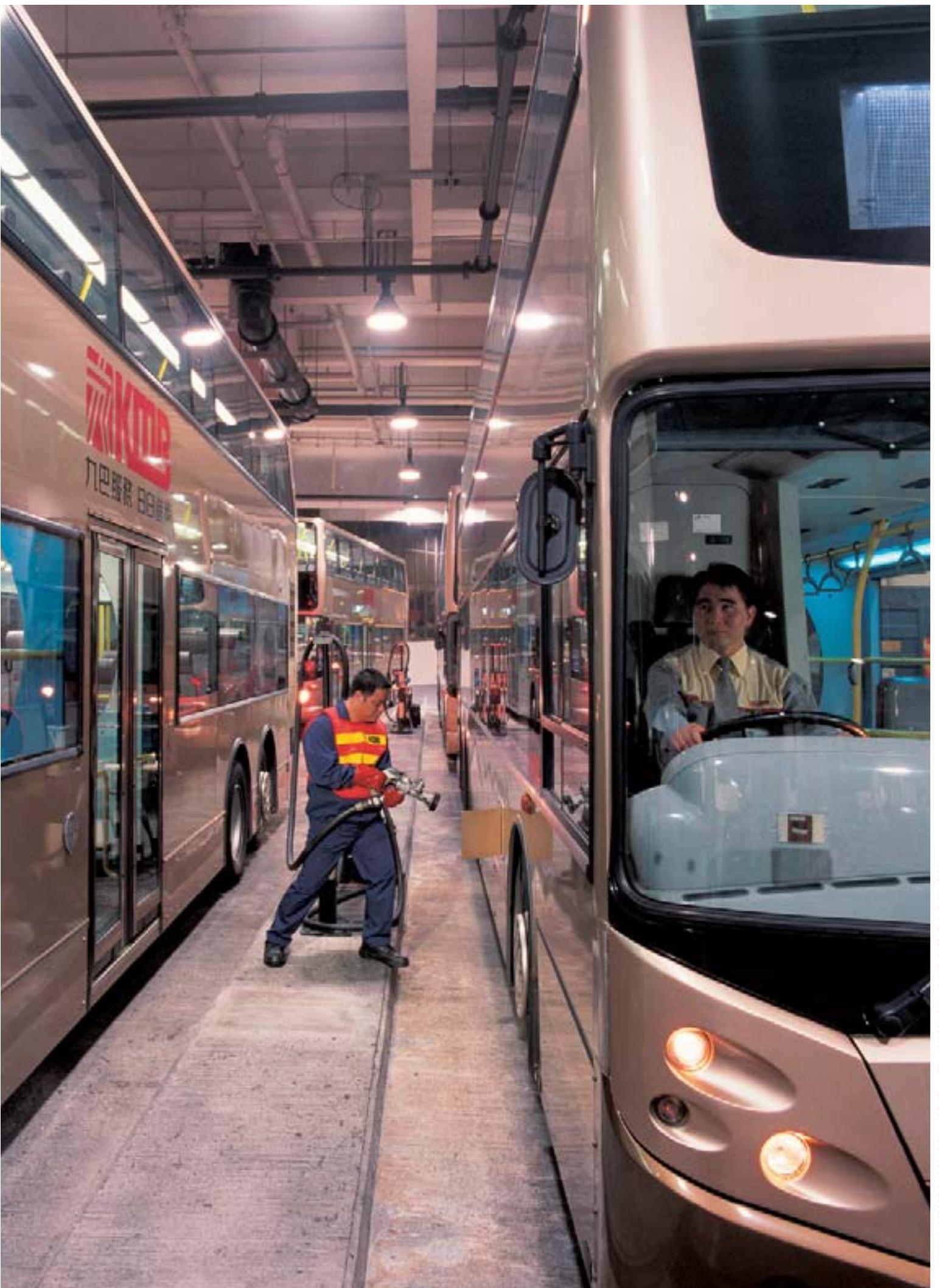
Depots

Maintaining our bus fleet in excellent condition is fundamental to providing the highest standard of bus services and our bus depots play a key role in bus maintenance. We continuously monitor and improve our depot facilities to ensure that they maintain a high level of productivity and quality service.

Currently, KMB operates six main permanent depots which provide routine maintenance and repair services for more than 4,200 buses, 13 satellite depots which provide bus parking spaces and minor maintenance services, one bus body construction depot for assembly of new buses and one overhaul centre for major overhaul of buses. LWB operates a depot in Siu Ho Wan for daily maintenance of its 145 buses. We will continue to enhance our bus depot facilities to ensure the utmost safety and reliability of our bus fleet.

During 2003, two new satellite depots became operational. One of them is situated at the former Kai Tak Airport site with an area of approximately 11,500 square metres serving some 126 buses. The other one is in Sha Tin (Fo Tan) with a capacity for 70 buses.





OUR DEPOT NETWORK SERVING



Areas served / purpose of Depot

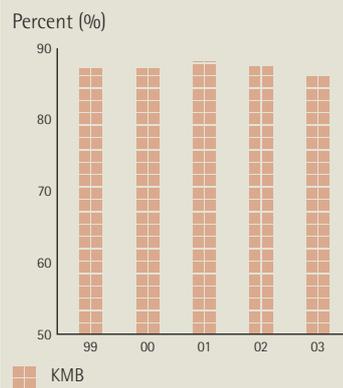
Depot

East Kowloon	Kowloon Bay Depot Kwun Tong Depot
East New Territories	Shatin Depot
South and West Kowloon	New Lai Chi Kok Depot
North and West New Territories	Tuen Mun Depot Tuen Mun Overhaul Centre
Lantau Island	Siu Ho Wan Depot
Bus body construction	Tuen Mun Bus Body Construction Depot
Bus engine maintenance	Kwai Chung Depot

Total

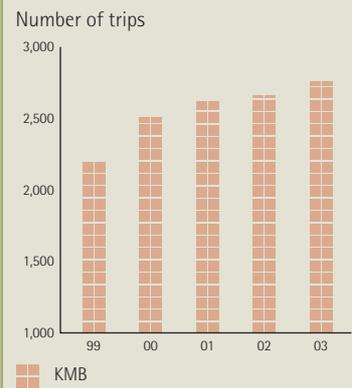
- Notes:
1. The Bus Body Construction Depot provides 32 bus body building bays for building new buses
 2. Kwai Chung Depot is a multi-storey building for maintenance of bus engines and gearboxes
 3. KMB also operates 13 temporary depots in various locations in Hong Kong at the end of 2003 for the purposes of parking buses and minor maintenance services

Fleet utilisation



Percentage of actual number of buses operated on the road to licensed bus fleet

Mechanical reliability



Average number of trips operated before a bus has one mechanical breakdown while passengers are on board

KMB AND LWB

Floor area (square metres)	Number of buses served at year-end 2003	Operations commenced
71,379	1,189	1990
26,152		1966
66,915	792	1988
60,311	950	2002
13,844	1,364	1979
35,401		1983
7,660	145	1998
9,843	(note 1)	1978
17,789	(note 2)	1976
309,294	4,440	



New Lai Chi Kok Depot

2,300

maintenance staff

serving some **4,400** KMB and LWB buses

Comprehensive bus maintenance programmes

Each bus undergoes the following maintenance and examination programmes in our depots to stay in the best working conditions:

- Daily maintenance including refuelling, basic check-up and bus body cleaning
- Monthly inspection on major mechanical components
- Half-yearly in-depth check and minor modifications
- Yearly thorough maintenance check and components replacement
- Yearly examination by the HKSAR Government for issuing Certificate of Roadworthiness
- Spot check by the HKSAR Government on a random basis



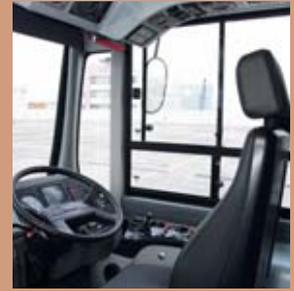
OUR ADVANCED BUS FLEET



Wider bus body with spacious saloon



New door design for enhanced safety



Comfortable and practical driving cab



Wright Bus

As at 31 December 2003, 3,510 buses (82%) of the entire fleet were air-conditioned and 1,474 buses (34%) were equipped with easy access facilities, compared to 3,327 (75%) and 1,275 (29%) respectively at the end of 2002. Also, KMB had 127 new buses on order and 92 buses under construction at the end of 2003. These buses will enter into service in the ensuing years.

Fleet upgrade

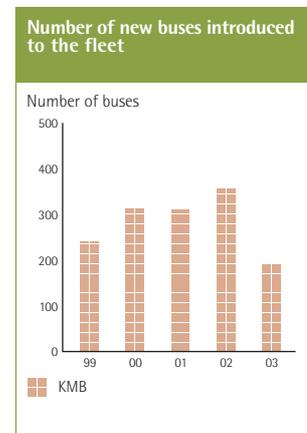
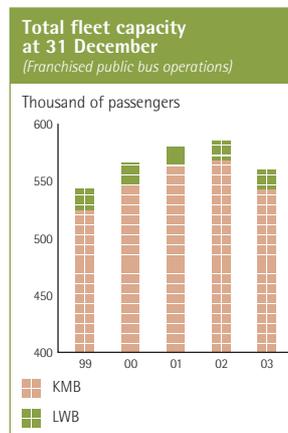
Over the years, we have made substantial investments in new buses with the latest designs and features. The fleet upgrade process is ongoing and one of KMB's major operational priorities.

In December 2003, KMB launched the newest type of double-deck bus which has a body made by Wright, a United Kingdom ("UK") manufacturer. This bus type was selected as the winner of the "Bus Stage Carriage – Double Deck" organised by the Institute of Vehicle Engineers and the Society of Automobile Engineers ("SAE") of UK and the "The Best Overseas Entry" in the Exclusive First Edition Showbus International 2003 exhibition held in the UK.

Bus fleet

During the year, KMB introduced 201 air-conditioned super-low floor easy access buses (including 10 used single-deck buses purchased from New World First Bus Services Limited) and disposed of 347 old non air-conditioned and air-conditioned buses, reducing the total number of buses from 4,441 at the beginning of the year to 4,295 at the year-end.

KMB's bus feet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Non Air-conditioned double-deck buses	Total number of buses
At 1 Jan 2003	3,084	243	1,114	4,441
Addition during the year	191	10	—	201
Disposal during the year	(2)	(16)	(329)	(347)
At 31 Dec 2003	3,273	237	785	4,295





Straight staircase for easy manoeuvre



Attractive pink coloured seats



Innovative compartment design



Spacious wheelchair area

The super-low floor easy access buses that KMB has introduced since 1998 provide improved accessibility to all passengers, particularly the disabled and elderly. To further enhance accessibility, KMB introduced two new models of buses in 2003. Of the 201 buses added to the fleet during the year, seven were Wright Buses and 135 were Super Buses. This new generation of buses are the first of their kind in Hong Kong that offer a wider bus saloon and entryway and a straight staircase providing easier access to and from the upper deck. These new buses are also equipped with air-conditioning systems enhanced with electrostatic air filters and refined temperature control mechanisms. These filters can remove 80% more dust particles, whilst the temperature control mechanisms provide a more comfortable interior environment. All buses under construction and on order at the end of 2003 are either Wright Buses or Super Buses.

Bus tracking capability

In 2003, KMB continued its development of a bus tracking system and a two-way messaging system that provide real-time connection between the buses and the control centre. The satellite global positioning technology which helps locate bus positions within the KMB network was continuously tested on 30 buses operating on route no. 1A during 2003. A further trial involving over 70 buses operating on route nos. 1, 1A, 6 and 6A is planned for the first half of 2004. The technology will enable KMB to provide passengers with an estimated arrival time of the next bus at en route bus stops and to respond quickly to incidents such as breakdowns, traffic accidents and congestion.

Electronic tachograph

The electronic tachograph is now included as standard equipment on all of KMB's new buses. This device helps KMB monitor its bus captains' performance by recording vehicle speed and associated information during bus operations. This will help to deter bus captains from over-speeding on highways. At the end of 2003, 1,262 KMB buses and 40 LWB buses, mostly operating on highways, were equipped with these devices.

LWB buses

LWB had 136 air-conditioned double-deck buses and nine air-conditioned single-deck buses at the year-end serving Tung Chung and Hong Kong International Airport. All its double-deck buses are of the super-low floor type and equipped with wheelchair access for the convenience of the elderly and disabled as well as commuters with luggage.



LWB's advanced fleet of easy access buses plying to and from Hong Kong International Airport



T6, a new recreational route for countryside enthusiasts

Bus routes and service network

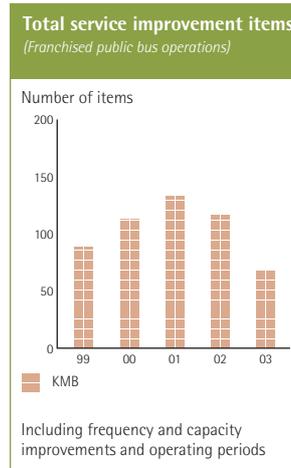
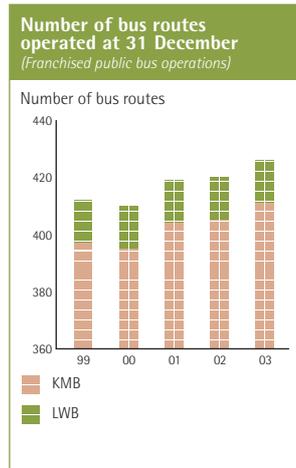
Bus routes

At the end of 2003, KMB operated a total of 411 bus routes. During the year, eight new KMB bus routes were launched. Five of these new routes serve the New Territories whilst two routes provide cross-harbour services to meet overnight and recreational demand respectively. The other one was a special service between Princess Margaret Hospital and Tin Yan that provided free transportation to hospital staff during the SARS period. The special service was discontinued at the end of May 2003 when the crisis was over.

LWB operated 15 bus routes serving Hong Kong International Airport and Tung Chung New Town at the end of 2003.

Bus network reorganisation

The Tseung Kwan O Line of the Mass Transit Railway ("MTR") and the West Rail of the Kowloon-Canton Railway ("KCR"), commenced operations in August 2002 and December 2003 respectively. To adapt to the changing market conditions, KMB reorganised its bus service network in the Tseung Kwan O, Tuen Mun, Tin Shui Wai and Yuen Long areas. The reorganisation involved the cancellation of certain bus routes and a reduction of frequencies on routes with diminished demand. Such adjustments will be an ongoing process to enhance operational efficiency. Rationalisation of the routes serving Tseung Kwan O was completed in mid-2003 while that for the Tuen Mun, Tin Shui Wai and Yuen Long areas will be implemented by phases starting from February 2004. A summary of the implemented or proposed reorganisation is tabulated on the next page.



	MTR Tseung Kwan O Line		KCR West Rail	
	Number of bus routes involved	Number of buses saved	Number of bus routes involved	Number of buses saved
Cancellation/rationalisation	9	37	8	67
Frequency adjustment	20	89	47	26
Total	29	126	55	93

Resources made available as a result of the rationalisation are either deployed to other areas with increasing demand or eliminated through natural attrition.

Frequency adjustments along busy corridors

In response to the HKSAR Government's initiative to improve traffic conditions along busy corridors such as Nathan Road in Kowloon, Des Voeux Road in Central, and Hennessy Road in Causeway Bay, we adjusted the frequency of certain bus routes while minimising any inconvenience to passengers. This enables improved traffic conditions, which helps reduce journey time, and allows us to deploy our resources in a more efficient manner.

Information technology

Information technology is used extensively by KMB in its daily operation for performance monitoring, forward planning and efficiency improvement purposes. There were 1,479 personal computers installed at KMB headquarters, six major depots, eight satellite depots and 14 bus termini at the year-end. These computers are inter-linked to 96 server computers located at headquarters. Forty-eight software applications, including in-house developed programmes and proprietary software, are used for our day-to-day operational and financial management. Continuous upgrading of our information technology systems enables us to improve cost control, human resources management, fleet and depot operations and customer service.

Advanced finance and administration systems

SAP e-Business Software (mySAP.com) is employed for our financial management. For our staff administration and planning processes, we are equipped with the SAP human resources management module. These advanced systems enable management to develop appropriate strategies in a timely manner. Our company-wide electronic document management system substantially cuts down the amount of paper used and the amount of time required for document distribution, filing and retrieval.

Migration of applications

By the end of 2003, all our computer application systems were successfully migrated from the mainframe computer system to a new PC-based system platform. This has upgraded our computer systems with strengthened capability, greater capacity and enhanced efficiency.

Traffic Operations Management System

In 2003, KMB and LWB implemented a Traffic Operations Management System ("TOMS") to replace the old manual sign-in procedure for employees reporting for duty at our bus depots. With TOMS, depot staff can use a Radio Frequency Identification handheld reader to identify the parking locations of our buses and upload the information to the system. This information, together with the route number, vehicle registration number, duty schedule and any ad-hoc operational arrangement, are available for the bus captains' reference when they place their Octopus cards on the system reader. This system has made the daily assignment and despatch process more efficient and allowed management to obtain the latest information on duty allocation and despatch as well as operational arrangements at different depots in a timely manner.

Non-Franchised Transport Operations Division



A catamaran of PITC at Ma Wan (Tung Wan) Pier

Sun Bus Holdings Limited and its subsidiaries (the "SBH Group")

Our first non-franchised bus company, Sun Bus Limited, commenced operations with a small fleet in 1998. Through expansion over the years, the SBH Group has become one of the leading operators in the non-franchised bus industry in Hong Kong. At present, the SBH Group comprises six business units, with Sun Bus Limited being the flagship, providing bus services to large residential estates, shopping malls, major employers and schools, as well as the general public through chartered hire service. The SBH Group operates two main categories of services: prestige premium services for customers seeking high quality and general services for customers wanting value for money.

The SBH Group increased its fleet size to 223 buses at the end of 2003 from 207 at the previous year-end. Although the operations of its different business units may differ, some major cost components such as fuel, spare parts and administration are pooled to take advantage of the economies of scale.

Park Island Transport Company Limited ("PITC")

PITC, a 65% owned subsidiary of the Group, has been operating shuttle bus and ferry services for Park Island, a prestigious residential development on Ma Wan Island, since mid-December 2002.

At the end of 2003, PITC served Park Island with a ferry fleet of four 38-metre 412-seat catamarans, two 28-metre 403-seat catamarans and one 26-metre 223-seat catamaran, as well as an air-conditioned bus fleet of six 10-metre and four 11.3-metre Dennis Dart super-low floor single-deck buses, three diesel-electric hybrid super-low floor single-deck buses and one 28-seat mini-bus.

Currently, PITC operates two ferry routes and two bus routes. One ferry route plies between Ma Wan and Central on a 24-hour basis, whilst the other operates between Ma Wan and the Tsuen Wan Public Pier from 6:40 am to 11:55 pm daily. The bus services run 24 hours a day between Ma Wan (Tung Wan Bus Terminus) and Tsing Yi Airport Railway Station, and between Ma Wan (Tung Wan Bus Terminus) and Kwai Fong.

PITC is well positioned to serve the growing travel demand of Park Island. We will continue to monitor the patronage level and cater for the extra demand by adding operational resources.



The SBH Group's broad customer base includes tertiary institutions



NHKB's "Huang Bus" fleet serves travellers round the clock

New Hong Kong Bus Company Limited ("NHKB")

NHKB jointly operates the cross-boundary shuttle bus service, commonly known as the "Huang Bus" service, with its Shenzhen counterpart serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.

NHKB has extended its shuttle bus operating hours to 24 hours a day since 27 January 2003 upon the commencement of the round-the-clock boundary crossing arrangements at the Lok Ma Chau and Huanggang checkpoints. The overnight service has been well received by night commuters. To cope with the increased demand, NHKB introduced three additional air-conditioned super-low floor single-deck buses to its fleet in 2003, bringing the total number of buses to 24 at the year-end.

Mainland Transport Operations Division



A taxi of BBKT in Beijing



New bus fleet of WKPT in Wuxi

Dalian

This co-operative PRC joint venture ("Dalian CJV") was established in 1997 between a 60% owned subsidiary of the Group and Dalian City No. 1 Bus Company in Dalian City, Liaoning Province. The Dalian CJV had 46 double-deck buses and 30 single-deck buses operating on three routes serving Dalian City.

Tianjin

This co-operative PRC joint venture ("Tianjin CJV") was established in January 2000 between a 50% owned associate of the Group and Tianjin City Public Transport Holding Company. During 2003, the Tianjin CJV operated seven bus routes with 110 single-deck buses in Tianjin City.

Beijing

Beijing Beiqi Kowloon Taxi Company Limited ("BBKT"), a Sino-foreign joint stock company in which the Group has a 31.38% interest, was established in Beijing in March 2003 and was the first of its kind in the taxi and car rental industry on the Mainland. BBKT's shareholders comprise KMB (Beijing) Taxi Investment Limited, which is a wholly owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited, Beijing Bashi Company Limited, CITIC Automobile Company Limited and Nanjing Zhongbei Group Company Limited. BBKT principally engages in the taxi and car rental businesses with a fleet of over 4,000 vehicles and about 4,200 employees. The Group's investment in BBKT was HK\$75.5 million.

Wuxi

Wuxi Kowloon Public Transport Company Limited ("WKPT"), a Sino-foreign joint stock company in which the Group has a 45% interest, was established in Wuxi City, Jiangsu Province in February 2004. WKPT currently operates some 1,600 buses on 106 routes serving Wuxi City.

Shenzhen

In December 2003, the Group entered into agreements to acquire a 35% stake of a Sino-foreign joint stock company, which would be formed from reorganisation of the existing Shenzhen Public Transportation Group Limited. This transaction is subject to the statutory approval by the relevant authorities on the Mainland. Upon approval, the reorganised company will principally operate public bus services in Shenzhen, Guangdong Province, with around 3,300 vehicles on 109 routes.

Media Sales Business Division



MMOB system provides infotainment on board every day

RoadShow Holdings Limited and its subsidiaries (the "RoadShow Group")

The RoadShow Group is a leading media sales group in the Greater China region. It markets advertising aimed at passengers of public transit vehicles through a proprietary Multi-media On-board ("MMOB") system and manages and markets advertising spaces on bus shelters, billboards, panel light boxes, bus bodies and telephone booths. Apart from operating in Hong Kong, the RoadShow Group also participates in a number of joint venture companies for developing media sales businesses in Macau and major cities on the Mainland.

Hong Kong

At the end of 2003, about 4,000 transit vehicles were installed with MMOB equipment and achieved a full territory wide coverage.

Beijing

Together with Daye Transmedia Co., Ltd., a company owned by the People's Daily, a joint venture has been set up to operate a 30-year full-service national advertising licence covering all media platforms throughout China. This joint venture strengthened the RoadShow Group's presence in the advertising market on the Mainland.

Shanghai

In Shanghai, the RoadShow Group successfully built its network by operating media sales business on "Lamplight Rainbow" at Huaihai Road and outdoor billboards.

Guangzhou and Shenzhen

The RoadShow Group engaged in various media sales business in Guangzhou and Shenzhen through bus shelter and bus body advertising. Furthermore, the RoadShow Group has a strong presence in Guangzhou by operating media sales on the Guangzhou Metro Line 2 as well as on certain billboards, telephone booths and signages.

Macau

A joint venture with Shun Tak Holdings Limited manages the MMOB systems and related advertising sales business for "TurboJET" high speed passenger ferries plying between Hong Kong and Macau.

The RoadShow Group will focus on taking advantage of the opportunities ahead, such as China's accession to World Trade Organisation, conclusion of Closer Economic Partnership Arrangement (CEPA) as well as hosting of the 2008 Olympic Games in Beijing, and seek other business opportunities on the Mainland.

The RoadShow Group was established by the Group to launch multi-media services in December 2000 and was separately listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2001. Currently, the Group holds a 73.0% interest in the RoadShow Group.

Property Holdings Division



Artist's impressions of the redevelopment on our former Lai Chi Kok Depot site

Lai Chi Kok Properties Investment Limited ("LCKPI")

LCKPI, a wholly owned subsidiary of the Group, is the owner of the old depot site at Po Lun Street, Lai Chi Kok. The depot ceased operations in 2002 and was demolished in the same year. The site is being redeveloped into a residential and commercial complex with a total gross floor area of about one million square feet and a retail podium area of about 50,000 square feet. The current plan is to construct four multi-storey prestigious residential blocks comprising some 1,300 residential units for sale. Piling and foundation work commenced in 2003 and was completed in January 2004, with construction of the sub-structure and super-structure followed immediately thereafter. The project is planned for completion in mid-2006. We shall closely monitor the local property market for formulating marketing strategies for the property in due course.

Quality assurance

As undertaking property development projects is not the Group's principal business, LCKPI has engaged members of Sun Hung Kai Properties Limited ("SHKP") to provide project management, building construction, marketing, letting and sales agency and property management services in respect of this project in order to leverage on SHKP's expertise and experience in these areas.

Environment-friendly design

LCKPI is committed to developing an environment-friendly property, providing the future residents with healthy living conditions and metropolitan convenience. An environmental design consultant has been engaged in the development process and a series of "Green and Innovative" facilities will be incorporated into the property.