

Employees and Remuneration Policies

Running a transport operation is a labour intensive business, and staff costs accounted for about 56% (2020: 60%) of the total operating expenses of the Group in 2021. The Group closely monitors its headcount and staff remuneration in line with productivity and the prevailing market trends. The Group's total remuneration excluding retirement costs and equity-settled share-based payment expenses for 2021 amounted to HK\$3,832.1 million (2020: HK\$4,119.9 million), representing a decrease of 7.0%. As at 31 December 2021, the Group employed over 13,000 staff (2020: over 13,000 staff).

Individual Business Units

Franchised Public Bus Operations

The Kowloon Motor Bus Company (1933) Limited ("KMB")

| | Unit | 2021 | 2020 |
|-----------------------------|-------------------------|------------------|-----------|
| Revenue | HK\$ million | 6,613.5 | 5,559.9 |
| Other income | HK\$ million | 132.0 | 1,033.1 |
| Total operating expenses | HK\$ million | (6,610.2) | (6,541.7) |
| Profit from operations | HK\$ million | 135.3 | 51.3 |
| Finance costs | HK\$ million | (12.7) | (26.8) |
| Profit before taxation | HK\$ million | 122.6 | 24.5 |
| Income tax (expense)/credit | HK\$ million | (21.2) | 178.8 |
| Profit after taxation | HK\$ million | 101.4 | 203.3 |
| Net profit margin | | 1.5% | 3.7% |
| Passenger volume | Million passenger trips | 891.3 | 777.5 |
| Kilometres operated | Million km | 268.1 | 258.6 |
| Staff number at year-end | Number of staff | 12,336 | 12,768 |
| Fleet size at year-end | Number of buses | 4,013 | 4,009 |
| Total assets | HK\$ million | 10,219.0 | 9,678.1 |

KMB recorded a profit after taxation of HK\$101.4 million for 2021, representing a decrease of HK\$101.9 million or 50.1% compared with HK\$203.3 million for 2020 (which included government subsidies of HK\$895.5 million). When excluding such subsidies, KMB would record a year-on-year improvement of HK\$793.6 million for 2021.

Fare revenue for 2021 was HK\$6,289.7 million, an increase of HK\$981.3 million or 18.5% compared with HK\$5,308.4 million for 2020. The increase was mainly attributable to the rebound in patronage along with the fare increase which took place on 4 April 2021. KMB's total ridership increased by 14.6% to 891.3 million passenger trips (a daily average of 2.44 million passenger trips) as compared with 777.5 million passenger trips (a daily average of 2.12 million passenger trips) for 2020.

Total operating expenses for 2021 amounted to HK\$6,610.2 million, an increase of HK\$68.5 million or 1.0% compared with HK\$6,541.7 million for 2020. The increase was mainly attributable to the increase in fuel costs as a result of the rise in international fuel prices.

FINANCIAL REVIEW

Long Win Bus Company Limited (“LWB”)

| | Unit | 2021 | 2020 |
|------------------------------|-------------------------|----------------|---------|
| Revenue | HK\$ million | 332.2 | 364.1 |
| Other income | HK\$ million | 53.8 | 90.6 |
| Total operating expenses | HK\$ million | (426.4) | (470.9) |
| Loss from operations | HK\$ million | (40.4) | (16.2) |
| Finance costs | HK\$ million | (1.7) | (0.1) |
| Loss before taxation | HK\$ million | (42.1) | (16.3) |
| Income tax credit | HK\$ million | 7.1 | 16.9 |
| (Loss)/profit after taxation | HK\$ million | (35.0) | 0.6 |
| Net (loss)/profit margin | | (10.5)% | 0.2% |
| Passenger volume | Million passenger trips | 28.9 | 28.2 |
| Kilometres operated | Million km | 26.4 | 28.2 |
| Staff number at year-end | Number of staff | 733 | 814 |
| Fleet size at year-end | Number of buses | 256 | 241 |
| Total assets | HK\$ million | 714.6 | 798.7 |

The loss after taxation of LWB for 2021 was HK\$35.0 million, representing an unfavourable variance of HK\$35.6 million compared with profit after taxation of HK\$0.6 million for 2020.

LWB’s fare revenue for 2021 was HK\$320.4 million, a decrease of HK\$25.7 million or 7.4% compared with HK\$346.1 million for 2020. The decline was mainly due to the decrease in average fare as the impact of COVID-19 leading to global travel restrictions began to take effect from February 2020 but was partly offset by the increase in ridership. LWB recorded a total ridership of 28.9 million passenger trips (a daily average of 79,000 passenger trips) for 2021, as compared with 28.2 million passenger trips (a daily average of 77,000 passenger trips) for 2020.

Total operating expenses for 2021 amounted to HK\$426.4 million, a decrease of HK\$44.5 million or 9.4% compared with HK\$470.9 million for 2020. The decrease in operating expenses was largely due to the decrease in toll charges as a result of the reduction in number of trips resulting from service reductions as well as bus route diversion arrangements following the commissioning of the Tuen Mun-Chek Lap Kok Tunnel with effect from 20 June 2021.

Non-franchised Transport Operations

The Group’s Non-franchised Transport Operations Division reported a profit after taxation of HK\$8.8 million for 2021, representing a decrease of HK\$32.7 million or 78.8% compared with HK\$41.5 million for 2020 (which included government subsidies of HK\$43.3 million). A review of the operations of the principal business units in this Division is set out as follows:

Sun Bus Holdings Limited and its Subsidiaries (the “SBH Group”)

The SBH Group is one of the leading non-franchised bus operators in Hong Kong, providing customised, premium, safe, reliable, and value-for-money transport services to a wide range of customers, including large residential estates, shopping malls, major employers, travel agents and schools, as well as the general public through chartered hire services.

The revenue of the SBH Group for 2021 was at par with 2020. Total operating expenses for 2021 decreased compared with 2020 as management continued to implement various cost control measures to streamline its business.

In 2021, SBH Group continued to modernise its bus fleet with the latest Euro VI buses. As at 31 December 2021, the SBH Group had a fleet of 397 buses (2020: 390 buses).

New Hong Kong Bus Company Limited (“NHKB”)

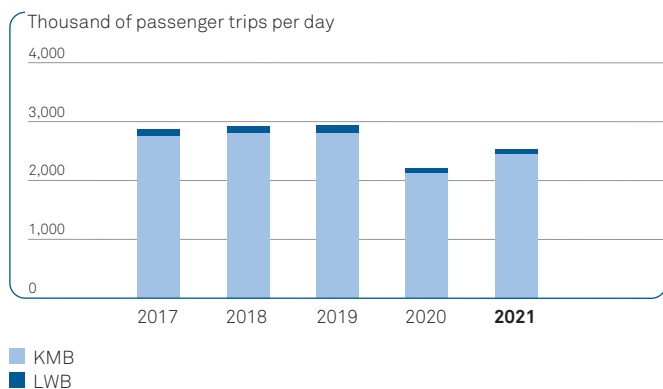
NHKB jointly operates with its Shenzhen counterpart a direct, economical, 24-hour cross-boundary shuttle bus service (commonly known as the “Huang Bus” service) serving regular commuters and leisure travellers between Lok Ma Chau in Hong Kong and Huanggang (皇崗) in Shenzhen.

The revenue of NHKB for 2021 decreased by 65.5% compared with 2020. The decrease was primarily attributable to the suspension of Huang Bus service with effect from 4 February 2020 as the immigration clearance service for passengers at Lok Ma Chau Control Point was suspended by the Government as part of its anti-epidemic measures.

As at 31 December 2021, NHKB had a fleet of 15 buses (2020: 15 buses).

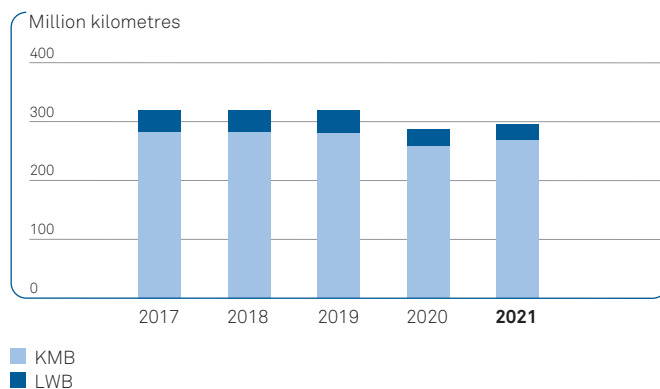
Average Number of Passenger Trips per Day

(Franchised public bus operations)

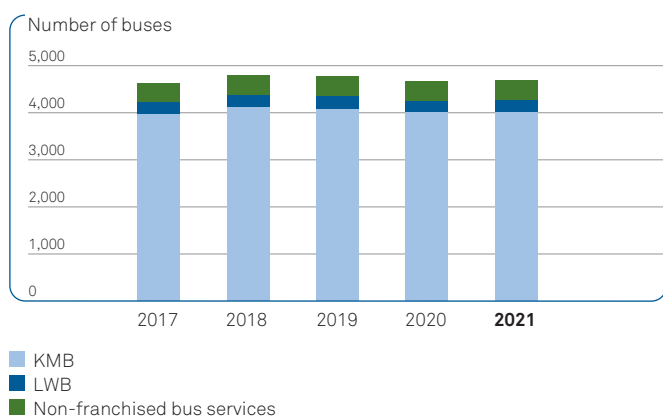


Bus Kilometres Operated

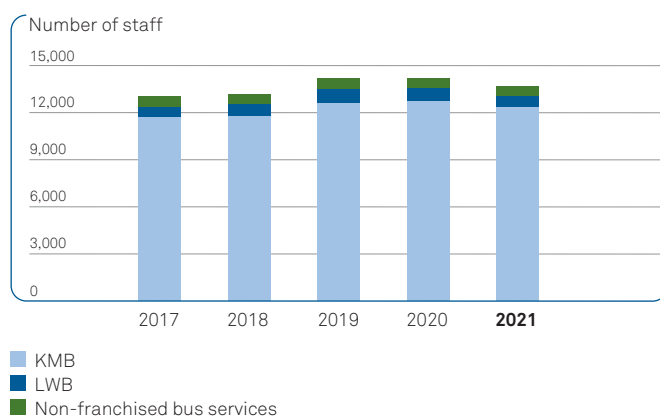
(Franchised public bus operations)



Number of Licensed Buses at 31 December



Number of Staff at 31 December



FINANCIAL REVIEW

Property Holdings and Development

The Group's Property Holdings and Development Division reported a profit after taxation of HK\$48.1 million for 2021, representing a decrease of HK\$4.7 million or 8.9% as compared with the profit after taxation (excluding a non-recurring net gain amounting to HK\$1,495.5 million arising from the revaluation and disposal of 50% equity interest in TM Properties Investment Limited) of HK\$52.8 million for 2020. A review of the Group's investment properties is set out as follows:

LCK Commercial Properties Limited ("LCKCP")

LCKCP, a wholly-owned subsidiary of the Group, is the owner of "Manhattan Mid-town", the commercial complex of Manhattan Hill. The 50,000 square feet shopping mall has provided Manhattan Hill residents and other shoppers with high quality retail facilities since its opening in March 2009. As at 31 December 2021, the entire lettable area of the shopping mall was leased out, generating a stream of recurring rental income for the Group.

As at 31 December 2021, the carrying value of the shopping mall (classified as investment property on the consolidated statement of financial position), stated at cost less accumulated depreciation, amounted to HK\$71.0 million (2020: HK\$73.5 million).

LCK Real Estate Limited ("LCKRE")

LCKRE, a wholly-owned subsidiary of the Group, is the owner of a 17-storey commercial office building at 9 Po Lun Street, Lai Chi Kok, Kowloon, which has a total gross floor area of about 156,700 square feet. A portion of the gross floor area is used by the Group as headquarters with the remaining gross floor area leased out to offices, shops and restaurants.

As at 31 December 2021, the carrying value of the building stated at cost less accumulated depreciation, amounted to HK\$23.1 million (2020: HK\$26.5 million).

KT Real Estate Limited ("KTRE")

KTRE, a wholly-owned subsidiary of the Group, together with Turbo Result Limited ("TRL"), a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), owns Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kowloon, Hong Kong (the "Kwun Tong Site") in equal shares as tenants in common.

On 11 December 2009, KTRE, TRL, the Company and SHKP entered into an agreement to jointly develop the Kwun Tong Site for non-residential (excluding hotel) purposes (the "Development"). Sun Hung Kai Real Estate Agency Limited, a wholly-owned subsidiary of SHKP, has been appointed as the project manager to oversee the Development. The Group intends to hold the Development for long-term investment purposes.

On 4 August 2016, KTRE and TRL accepted the offer from the Lands Department for the grant of lease modification for the Kwun Tong Site from industrial to non-residential use (excluding hotel, petrol filling station and residential care home) at a land premium of HK\$4,305.0 million. 50% of such land premium, which amounted to HK\$2,152.5 million, was borne by KTRE.

On 20 December 2018, KTRE and TRL engaged Yee Fai Construction Company Limited, a wholly-owned subsidiary of SHKP, to carry out and perform construction works for the Development at a contract sum of approximately HK\$4,436.0 million (i.e. approximately HK\$2,218.0 million by each of KTRE and TRL) (the "Building Contract"), subject to adjustments in accordance with the Building Contract. The Building Contract was approved by independent shareholders of the Group on 1 February 2019. The two office towers have been topped out and the occupation permit is expected to be obtained in 2022.

As at 31 December 2021, the carrying value of the Kwun Tong Site (classified as investment property under development on the consolidated statement of financial position) amounted to HK\$3,844.6 million (2020: HK\$3,005.4 million).

TM Properties Investment Limited (“TMPI”)

TMPI is jointly owned by TM Properties Holdings Limited (“TMPH”), an indirect wholly-owned subsidiary of the Group, and Mega Odyssey Limited (“MOL”), an indirect wholly-owned subsidiary of SHKP subsequent to the disposal of TMPH’s 50% equity interest in TMPI to MOL on 29 December 2020. TMPI, the owner of the property at Tuen Mun Town Lot No. 80 in the New Territories, has become a 50%-owned joint venture of the Group.

TMPI owns an industrial property which is currently designated for industrial use or godown purposes or both. TMPI has applied to the relevant authorities for approval for a change of use from the existing industrial use to office, shop and services uses. As at 31 December 2021, the entire lettable area of the property has been leased out to generate rental income for the Group.

China Mainland Transport Operations

The Group’s China Mainland Transport Operations Division reported a profit after taxation of HK\$19.6 million for 2021, representing an increase of HK\$13.1 million or 201.5% compared with HK\$6.5 million for 2020.

As at 31 December 2021, the Group’s total interests in associates within the China Mainland Transport Operations Division amounted to HK\$681.7 million (2020: HK\$656.6 million). Such investments are mainly related to the operation of public transport services in Shenzhen, and taxi and car rental services in Beijing.

Summary of Investments in China Mainland Transport Operations as at 31 December 2021

| | Shenzhen | Beijing |
|--|----------------------------------|----------------------------------|
| Nature of business | Bus and taxi hire services | Taxi and car rental services |
| Form of business structure | Sino-foreign joint stock company | Sino-foreign joint stock company |
| Operation commenced | January 2005 | April 2003 |
| The Group’s investment cost (RMB million) | 387 | 80 |
| The Group’s effective interest | 35% | 31.38% |
| Fleet size at year-end 2021 (Number of vehicles) | 11,170 | 5,056 |
| Bus passenger volume (Million trips) | 422 | N/A |
| Bus kilometres travelled (Million km) | 343 | N/A |
| Staff number at year-end 2021 | 25,615 | 2,933 |

FINANCIAL REVIEW

Shenzhen Bus Group Company Limited

(深圳巴士集團股份有限公司) (“SZBG”)

SZBG, which commenced operations in January 2005, is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four other China Mainland investors. The Group has invested RMB387.1 million (equivalent to HK\$363.9 million at the investment date) in SZBG, representing a stake of 35%. SZBG mainly provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province (廣東省深圳市), operating a fleet of over 5,500 buses running on around 320 routes and over 5,000 taxis. As a result of effective containment of the COVID-19 pandemic in China, the number of patronage of SZBG including its bus and taxi operation increased by 11.7% to 544.1 million in 2021 as compared to 487.0 million in 2020.

Beijing Beiqi Kowloon Taxi Company Limited

(北京北汽九龍出租汽車股份有限公司) (“BBKT”)

BBKT, a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT's shareholders include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, and four other China Mainland investors. The Group has invested RMB80.0 million (equivalent to HK\$75.5 million at the investment date) in BBKT, representing an equity interest of 31.38%. BBKT operated both taxi hire and car rental businesses in Beijing until April 2013, when, to sharpen its focus on the business opportunities provided by the booming but challenging car rental market, BBKT spun off its car rental business to another Sino-foreign joint stock company, namely Beijing Beiqi First Company Limited (北京北汽福斯特股份有限公司), which has the same shareholding structure as BBKT. As at 31 December 2021, BBKT had a fleet of over 3,700 taxis and 2,872 employees.

Beijing Beiqi First Company Limited

(北京北汽福斯特股份有限公司) (“BBF”)

Established in April 2013 as a Sino-foreign joint stock company with the same shareholding structure as BBKT, BBF operates the car rental business formerly undertaken by BBKT. With ISO 9001:2008 certification for management systems in car rental services, BBF is well placed to take advantage of the business opportunities afforded by business commuters as well as by the wide variety of events, conferences and exhibitions that are held in the capital. As at 31 December 2021, BBF had over 1,100 vehicles available for charter mainly in Beijing and Tianjin.