

MANAGEMENT DISCUSSION AND ANALYSIS



Hong Kong Franchised Public Bus Operations

The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited are major franchised public bus operators in Hong Kong, providing safe, reliable, high-quality, environmentally friendly, value-for-money bus services across Kowloon, the New Territories, Hong Kong Island and Lantau Island.

Hong Kong Non-franchised Transport Operations

The Group's non-franchised transport operations cater to a wide range of customers, including business commuters, tourists, shoppers, students and residents of large residential estates, while also offering chartered hire services and cross-boundary shuttle bus services.

China Mainland Transport Operations

The Group has invested in transport service operators in Shenzhen and Beijing as part of its strategy to leverage transport-related business opportunities in China Mainland that offer reasonable returns.

Property Holdings and Development

The Group's portfolio of investment properties includes shopping malls, office buildings and an industrial property, which provides steady rental income, along with other property projects in the pipeline.

BUSINESS REVIEW

The Group's core business is the provision of franchised public bus services in Hong Kong by means of its flagship subsidiary, The Kowloon Motor Bus Company (1933) Limited ("KMB"), and Long Win Bus Company Limited ("LWB"). The Group also provides non-franchised tailor-made transport services for a wide range of customers in Hong Kong and a 24-hour cross-boundary shuttle bus service serving commuters and leisure travellers between Lok Ma Chau and Huanggang through Sun Bus Holdings Limited and its subsidiaries (the "SBH Group") and New Hong Kong Bus Company Limited ("NHKB"), respectively. Holding a 35% interest in a Shenzhen joint venture and a 31.38% interest in two Beijing joint ventures, the Group operates public bus, taxi and car rental services in Shenzhen and Beijing. The Group also holds a portfolio of properties for investment and development purposes.

The business review of each business operation is set out on pages 22 to 43 of this Annual Report. The prospects of the Group's businesses are discussed in the Chairman's Letter on pages 14 to 17 and in the Managing Director's Message on pages 18 to 19 of this Annual Report.



Key Risks and Uncertainties

The Group's businesses face a number of key risks and uncertainties, including those set out in the following paragraphs. It should be noted that the following is a non-exhaustive list and there may be other risks and uncertainties in addition to the key risk areas outlined below.

Regulatory Environment and Government Policies

A substantial part of the Group's revenue is generated from franchised public bus operations. As a result, any changes in the Hong Kong SAR Government's transport policy and regulations, such as the Public Bus Services Ordinance (Cap 230) and the Public Bus Services Regulations (Cap 230A), may have a significant impact on the Group's operating results and financial condition in either the short or the long term. Proposals for a fare increase are subject to the approval of the Government, taking into account a basket of factors including public acceptability and affordability, which may not align with the respective financial condition of the franchised bus companies. There is no guarantee that a fare increase of a sufficient magnitude will be granted in time to enable the franchised bus companies to offset rising overheads and

costs. The inflexibility inherent in this arrangement may have an adverse impact on the financial condition of the Group in an inflationary environment.

Fuel Prices and Other Financial Risks

Fuel represents a major component of the Group's cost structure. Volatility in fuel prices may affect the financial stability of the Group. In addition, the Group's activities are exposed to various financial risks, including foreign currency, interest rate, credit and liquidity risks, which are discussed in the Financial Review on pages 112 to 127 of this Annual Report.

Unexpected Events and Natural Disasters

The operations of the Group's businesses may be subject to the impact of unexpected events, such as prolonged electricity outages at depots or large-scale road blockages over an extended period of time. While the Group has implemented an effective Business Continuity Plan ("BCP") to deliver quality transport services in all circumstances, its operations may still be adversely affected by natural disasters, severe weather conditions and climate-related issues, including floods and typhoons.

