

CONVERSATION WITH THE MANAGING DIRECTOR



Roger LEE Chak Cheong
Managing Director

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Moving forward
with the communities
we serve



Q **As the new Managing Director of one of Hong Kong's major public transport companies, what vision do you bring?**

A I am excited to be joining the Group at such an important time for the local transport industry and am looking to drawing on a wealth of experience in the field both locally and overseas to build on past successes and lead the Group into a new era of service excellence and sustained business growth. Although there are challenges, not least from the continuous expansion of the railway network, with the concerted efforts of our dedicated Board members, management team and frontline staff, I am confident that through deployment of our resources in the most effective manner we will be able to continue to meet the ever growing expectations of our customers for the highest levels of service quality.

Q **Do you consider the KMB route reorganisation programme to be successful?**

A We continuously review the viability of our bus network with reference to changes in the external operating environment, including railway expansion, population redistribution and the building of new highways. In 2014, route reorganisation programmes were rolled out in Yuen Long, Tai Po, Sha Tin and Kwai Tsing Districts with the aim of optimising resources in line with the transport demand. Extensive consultations with the relevant Districts Councils were carried out during the year and the route reorganisation programmes began implementation in the summer. These programmes were implemented by closely working with the Transport Department, district council members, as well as other relevant stakeholders. The outcome is an improved bus network via a much better utilisation of our bus fleet.

Q **What other service improvements measures have been introduced in 2014?**

A Key measures taken in 2014 included the launch of the Tate's Cairn Tunnel Bus-Bus Interchange in October 2014 and the upgrading of the facilities at the Tai Lam Tunnel Interchange, including the opening in December of a new KMB Customer Service Centre. The first of its kind in terms of premium service provision, the Centre offers high quality services including an outlet for the purchase of everyday items,

an Octopus Card add-value service and free Wi-Fi, as well as restroom facilities. The passenger waiting areas have also been upgraded with additional facilities such as large information boards and benches. In January 2015, the Tsing Sha Highway Interchange was commissioned, involving a total of nine routes. In 2014, KMB also introduced the "KMB and LWB Smartphone App" beta test, under which smartphone users are able to check in advance the Estimated Time of Arrival of 21 KMB and LWB bus routes serving different parts of the territory. This represents a major step forward in journey planning for passengers and we expect to continually rolling this out to all KMB and LWB routes.

Q **How did the Occupy Movement affect KMB's operations?**

A The road blockades in Central, Admiralty, Causeway Bay and Mong Kok in the last quarter of 2014 seriously affected public transport services, resulting in a significant decrease in KMB ridership during that period. Services on more than 140 KMB routes were affected, with many routes diverted or cancelled. During this period, KMB worked closely with the Transport Department to ensure that disruptions to our services was kept to a minimum. The round-the-clock efforts of both frontline and backroom staff during this challenging period meant that we were able to limit the impact on our service levels.

Q **What are the main factors that are expected to affect KMB's performance in the year ahead and how will they be addressed?**

A Staff costs, which represent about 50% of our total operating costs, continue to increase as a result of inflation and a labour shortage. Additional capital expenditure will be incurred in 2015 as we continue to upgrade our bus fleet and terminus and interchange facilities. Depreciation expenses, which constitute 11.1% of total operating costs, will increase accordingly. On the positive side, fuel price fell by 16.9% in the second half of 2014 compared with the same period in 2013. After a net increase in passenger numbers in 2014, despite the Occupy Movement which affected services in the final quarter, it is expected that passenger numbers will again increase in 2015, with natural growth, improved connectivity arising from the route reorganisation exercise and the Public Transport Fare Concession Scheme being major factors.

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Q The Chief Executive's Policy Address indicated that the Government will continue to develop a public transport system with railway as its backbone. Given that five new railway lines are scheduled to be completed in the next six years, what measures will KMB take to maintain a sustainable business platform?

A Continued route reorganisation has been an important means of achieving sustainable development in the long term. A holistic area-based approach to route management benefits the travelling public, the economy and the environment by bringing people to their workplace more speedily, while reducing the number of partially empty buses running on the roads. Introducing more express routes using highways, adding more popular services such as MTR relief routes, and launching of new routes that serve areas of growing demand, such as morning express and boundary services, are ways in which we can alleviate the impact of the railways on our patronage and increase our competitiveness. Other measures include making bus journeys more comfortable through the deployment of a modernised bus fleet with improved on-board facilities. It is noted that the Government also recognises the importance of buses in the public transport market, and it is to be hoped that it will back policies that promote greater overall public transport efficiency by, for example, introducing more bus priority measures.

Q What measures is KMB taking to improve its environmental performance?

A Over the years, KMB has put a great deal of effort into environmental protection by exploring different types of bus technologies and collaborating with its manufacturers to develop zero- and low-emission solutions for Hong Kong. After extensive testing, the trial deployment of supercapacitor buses ("gBuses") on two routes is expected to commence in 2015. Having been put on trial for a month in September 2013 travelling on Route 2, which includes the busy Nathan Road corridor, the battery-electric bus ("eBus") continues to undergo rigorous tests and trials with a view to further deployment on Hong Kong's busy streets. With funding from the HKSAR Government, in the fourth quarter of 2014, we introduced three hybrid diesel-electric air-conditioned double-deck buses ("hBuses") for two-year trial services on three routes. Besides achieving overall Euro VI emission standards, the hBus has

a zero-emission capability when stopping during boarding and alighting and can achieve fuel savings of up to 30%. Government funding for an engine repowering exercise will enable four KMB Euro III buses to be upgraded to Euro V emission standards by means of Euro V engine conversion together with electrification of the engine cooling fan drive. This project aims to achieve an improvement in fuel economy and an upgrade in emissions performance for existing buses.

Q What is the long term plan for the development of LWB's business?

A LWB's long term business plan is to provide expanded bus services to meet the expected increase in demand for public transport services arising from new developments at the Airport and in neighbouring Tung Chung, as well as from the commissioning of the Hong Kong-Zhuhai-Macao Bridge and the Tuen Mun-Chek Lap Kok Link. The increase of commercial activities at the Airport, the growth in air traffic, the progressive population intake in Tung Chung and the construction of infrastructural projects in North Lantau all point to a bright future for LWB. The scheduled opening of the Tuen Mun-Chek Lap Kok Link and its road connections in 2018 presents LWB with an opportunity for rerouting some of its routes along these highways, with savings in journey times for passengers. In the meantime, we will continue to upgrade and expand the LWB fleet.

Q How was the performance of the Group's non-franchised bus operations in 2014? What are your expectations regarding future development?

A With Sun Bus Limited as its flagship, the Group's non-franchised bus operations (the "Sun Bus Group") provide premium and tailor-made transport services to specific market segments in Hong Kong. These include large housing estates, shopping malls, major employers, theme parks, travel agents and schools, as well as the general public through chartered hire services. The Sun Bus Group continues to improve its services by adding the latest Euro standard buses to its fleet. It launched two Euro VI buses in 2014 and will continue to introduce Euro V/VI buses as part of its ongoing fleet upgrade programme. During 2014, our non-franchised bus operations performed well with a 14.1% growth in post-tax profit in spite of the challenges posed by keen market competition



and inflationary pressure. We will continue to leverage the opportunities provided by the demand from residents of newly developed housing estates in remote areas and by the growth in the number of Mainland visitors to further expand our non-franchised bus division's services.

Q How do you see the future development of the Group in other business sectors, for instance, the property investment business?

A The Group's portfolio of investment properties includes the upscale Manhattan Mid-town shopping mall with a gross floor area of 50,000 square feet, a 17-storey commercial office building in Lai Chi Kok with a total gross floor area of 156,700 square feet, and an industrial property in Tuen Mun with a total gross floor area of 105,900 square feet. These investment properties continue to generate a stream of recurring rental income for the Group. The Group also owns a 50% interest in an industrial site at 98 How Ming Street, East Kowloon, which is pending development. Sun Hung Kai Real Estate Agency Limited, a wholly-owned subsidiary of Sun Hung Kai Properties Limited, is the project manager for the How Ming Street development and is currently handling matters relating to the modification of the lease.

Q As one of Hong Kong's largest employers and transport service providers, how does the Group see its corporate social responsibility with regard to its employees and the wider community?

A We are committed to doing our best to care for our employees by maintaining a safe, respectful and harmonious workplace. Besides establishing a set of comprehensive human resources policies to safeguard employee rights, we ensure the maintenance of good communications channels between management and staff and the provision of effective training and development programmes. We organise competitions and awards to reward outstanding work, and promote good work-life balance by sponsoring various staff activities, such as long-distance runs, dragon boat races and inter-depot competitions. We are also dedicated to the care of the communities in which we operate. Our volunteer club, FRIENDS OF KMB, has amassed more than

170,000 hours of voluntary service carrying out environmental protection, civic education and other social service activities. We also sponsor and participate in a wide variety of sporting and cultural events. KMB's corporate social responsibility was again recognised in 2014 through the President's Award from The Community Chest of Hong Kong.

Q What measures has the Group taken to strengthen its performance in corporate governance?

A We believe that good corporate governance is central to the long term sustainable business development of our businesses. The Group has in place a well-structured corporate governance framework, which assists Directors and management in conducting the Group's business and then evaluating it according to planned strategic goals that meet the expectations of our stakeholders, including shareholders, customers, employees, creditors and suppliers. In June 2014, the Stock Exchange of Hong Kong Limited published a Consultation Paper on proposed changes to improve the Corporate Governance Code in relation to risk management and internal control. Although most of the recommendations proposed in the Consultation Paper have already been implemented in the Company's risk management and internal control systems, we will continue to review and upgrade the quality of our corporate governance policies and practices to ensure compliance with the latest local regulatory requirements, market changes, social expectations and international developments. We are delighted that the Company received the Gold Award in the Non-Hang Seng Index (Mid-to-small Market Capitalisation) Category of the 2014 Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants. The Judging Panel commended the Company for its commitment to sustainability, governance and stakeholder relations, noting that it was 'indicative of the Company's desire to be a good corporate citizen'.