

BUSINESS REVIEW

The Group's core business is the provision of franchised public bus service in Hong Kong under The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. It also offers 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 the subsidiary companies, Sun Bus Holdings Limited and its subsidiaries (the "Sun Bus Group") and New Hong Kong Bus Company Limited ("NHKB") respectively. The Group has a 35% interest in a Shenzhen joint venture and a 31.38% interest in two Beijing joint ventures, which are related to the operation of public bus, minibus and taxi services in Shenzhen and taxi and car rental services in Beijing. In addition, the Group holds a portfolio of properties for investment and development purposes, and owns a 73% interest in RoadShow Holdings Limited, a media sales service provider which is listed on the main board of The Stock Exchange of Hong Kong Limited.

The business review of each individual business operations is set out on pages 26 to 51 of this Annual Report. The prospects of the Group's businesses are also discussed in the Chairman's Letter on pages 16 to 19 and the Conversation with the Managing Director on pages 20 to 23 of this Annual Report.

KEY RISKS AND UNCERTAINTIES

The Group's businesses face a number of key risks and uncertainties, including those set out below. 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 transport operations. As a result, changes in government transport policy and regulations, such as Public Bus Services Ordinance (Cap 230) and Public Bus Services Regulations (Cap 230A), may have a significant impact on the Group's operating results and financial conditions either in the short term or in the long run. Proposals for a fare increase are subject to the approval of the HKSAR Government, who need to take into account a basket of factors, including public acceptability and affordability, which may not accord with the financial conditions 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 atmosphere.

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 elaborated in the Financial Review on pages 70 to 83 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 and severe weather conditions, including floods and typhoons.