載通國際
Transport International

Connecting a Thriving City

Transport International Holdings Limited
2018 Annual Report

Connecting a Thriving City

As the leading road-based public transport operator in Hong Kong, Transport International Holdings Limited connects the city day and night. With the introduction of the innovative Monthly Pass and the KMB Fare Saver, getting about is now more efficient, flexible and affordable than ever. As connections within Hong Kong and beyond reach new heights with the opening of cross-boundary infrastructure, Transport International Holdings Limited is leveraging these opportunities to keep the city thriving.

Contents

載通國際
Transport International

Transport International

Transport International Holdings Limited (“TIH”, SEHK: 62), a leading public transport operator in Hong Kong and China Mainland, is the holding company of The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited and a number of non-franchised transport providers. TIH also has business interests in property holdings and development in Hong Kong.

TIH aims to set the highest standards in the public transport industry through the provision of innovative and high quality services that take our customers safely and comfortably to their destination. With a dedication to sustainable business practices, enhanced shareholder value and the social and economic development of Greater China, TIH achieves its vision by tailoring its services to meet customer needs, improving the connectivity of its routes and providing real-time bus service information.

Vision

Our vision to be a global leader in our field is based on a thorough understanding of the needs of the people we serve, the introduction of innovative technological and environmental solutions, and the attainment of new standards for safety, service and efficiency.

Mission

Our mission to enhance shareholder value while contributing to the social and economic development of Greater China can be summarised as follows:

- **D** istinctive customer service
- **R** eliable performance
- **I** nnovation
- **V** alue for money
- **E** nvironmental responsibility
- **S** ustainable business practice

Through engagement with our stakeholders, we aim to meet or exceed their expectations through the provision of high quality services and solutions.

Values

Our corporate values are centred on the delivery of service standards that meet or exceed customer needs, a consistent record of operational profitability, and support for the communities we serve.

Business at a Glance

Transport International Holdings Limited

Hong Kong Franchised Public Bus Operations

The Kowloon Motor Bus Company (1933) Limited
the Group's flagship company, operates franchised public bus services with a fleet of about 4,100 buses operating on 409 routes covering Kowloon, the New Territories and Hong Kong Island.

Long Win Bus Company Limited
operates franchised public bus services with 262 buses operating on 33 routes linking the New Territories with Hong Kong International Airport, the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge and North Lantau.

Hong Kong Non-franchised Transport Operations

Sun Bus Holdings Limited and its subsidiaries
with Sun Bus Limited as the flagship company, operate 390 buses offering a variety of non-franchised bus services to the residential and commercial sectors through chartered hire services.

New Hong Kong Bus Company Limited
jointly operates with its Shenzhen counterpart the 24-hour cross-boundary shuttle bus service (or "Huang Bus" service) between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.

China Mainland Transport Operations

Shenzhen Bus Group Company Limited

is a Sino-foreign joint stock company providing public bus and taxi hire services in Shenzhen.

Beijing Beiqi Kowloon Taxi Company Limited

is a Sino-foreign joint stock company operating taxi services in Beijing.

Beijing Beiqi First Company Limited

is a Sino-foreign joint stock company offering car rental services in Beijing.

Property Holdings and Development

LCK Real Estate Limited

owns a 17-storey commercial building at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong, with a total gross floor area of 156,700 square feet.

KT Real Estate Limited

owns a 50% interest in the site at Kwun Tong Inland Lot No. 240 at 98 How Ming Street, Kwun Tong, Kowloon, Hong Kong.

LCK Commercial Properties Limited

owns the Manhattan Mid-town shopping mall, which is a two-level retail podium covering around 50,000 square feet at 1 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.

TM Properties Investment Limited

owns an industrial property at 1 Kin Fung Circuit, Tuen Mun, New Territories, Hong Kong, consisting of a single-storey high ceiling structure and a three-storey workshop building with a total gross floor area of 105,900 square feet.

Key Franchised Bus Network in Hong Kong

- Popular routes of The Kowloon Motor Bus Company (1933) Limited
- Popular routes of Long Win Bus Company Limited
- Group headquarters
- Railways
- Hong Kong International Airport
- High Speed Rail Hong Kong West Kowloon Station
- Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge


China Mainland
Huanggang
B1
Lok Ma Chau
Sheung Shui
673
276A
A43
277X
Fanling
Tai Po
73X
A47X
74X
New Territories
Sha Tin
48X
A41
49X
47X
Tsuen Wan
A31
48X
73X
47X
58M
42C
49X
Kwai Fong
Tsing Yi
6C
Kowloon
Wong Tai Sin
108
Sham Shui Po
68X
Yau Tsim Mong
6C
Kowloon City
613
1A
Kwun Tong
603
42C
74X
277X
1A
603
673
108
968
North Point
613
Central & Western
960
Wan Chai
Hong Kong Island

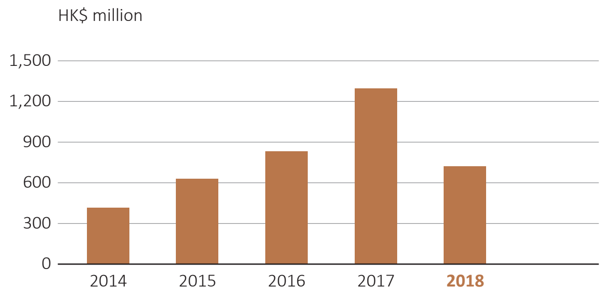
Financial and Operational Highlights

For the Year Ended 31 December 2018

	Unit	2018	2017	Increase/ (Decrease)
Financial Highlights				
Revenue (from continuing operations)	HK$ million	**8,009.3**	7,887.7	2%
– Fare revenue	HK$ million	**7,729.0**	7,631.9	1%
– Media sales revenue	HK$ million	**210.5**	181.7	16%
– Gross rentals from investment property	HK$ million	**69.8**	74.1	(6)%
Profit attributable to equity shareholders of the Company	HK$ million	**720.1**	1,294.8	(44%)
– from continuing operations	HK$ million	**720.1**	862.3	(16%)
– from discontinued operations	HK$ million	**–**	432.5	(100%)
Earnings per share	HK$	**1.68**	3.11	(46%)
– from continuing operations	HK$	**1.68**	2.07	(19%)
– from discontinued operations	HK$	**–**	1.04	(100%)
Ordinary dividends per share	HK$	**1.20**	1.25	(4)%
Total equity attributable to equity shareholders of the Company	HK$ million	**10,195.6**	9,542.9	7%
Total assets	HK$ million	**15,410.0**	14,656.0	5%
Net borrowings	HK$ million	**1,444.0**	1,120.5	29%
Net finance income	HK$ million	**57.9**	46.3	25%
Cash generated from operations	HK$ million	**1,709.4**	1,791.1	(5)%
Key Financial Ratios (for continuing operations)				
Profit margin		**9.0%**	10.9%	(18)%
EBITDA margin		**22.1%**	24.2%	(8)%
Return on equity attributable to equity shareholders of the Company		**7.1%**	9.0%	(22)%
Gearing ratio (ratio of net borrowings to total equity attributable to equity shareholders of the Company)	Times	**0.1**	0.1	21%
Total borrowings/EBITDA		**1.5**	1.2	25%
Current ratio		**1.6**	1.3	21%
Dividend cover (ratio of profit attributable to equity shareholders of the Company to total dividends paid and proposed for the year)	Times	**1.4**	1.7	(18)%
Share price per share at year-end	HK$	**21.60**	25.15	(14)%
Market capitalisation at year-end	HK$ million	**9,387.30**	10,624.80	(12)%
Operational Highlights				
Hong Kong Franchised Public Bus Operations:				
Average number of passenger trips per day	Million trips	**2.91**	2.86	2%
Number of licensed buses at year-end		**4,374**	4,217	4%
Number of staff at year-end		**12,257**	12,363	(1)%
Average number of staff per licensed bus at year-end		**2.80**	2.93	(4)%
Hong Kong Non-franchised Transport Operations:				
Number of licensed buses at year-end		**405**	401	1%
Number of staff at year-end		**479**	678	(29)%
China Mainland Transport Operations:				
Number of licensed buses at year-end		**6,403**	6,205	3%
Number of taxis and vehicles for rental at year-end		**10,305**	9,284	11%

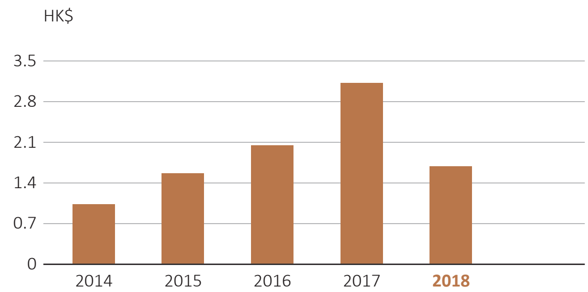
Profit attributable to equity shareholders of the Company

The profit attributable to equity shareholders for 2018 was HK$720.1 million



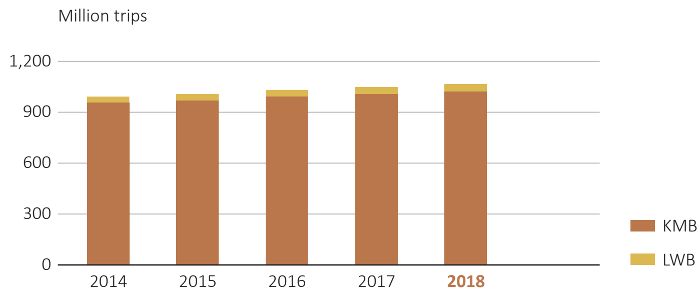
Earnings per share

Earnings per share for 2018 was HK$1.68



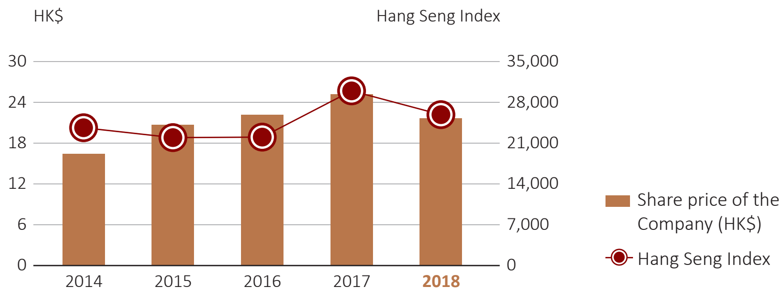
Number of passenger trips (Franchised public bus operations)

The number of passenger trips in 2018 was 1,063.8 million, up from 1,044.6 million in 2017



Share price of the Company and Hang Seng Index at year-end

The closing share price of the Company at 2018 year-end was HK$21.60 per share, down 14% compared with that of 2017 year-end



Corporate Milestones 2018

January

KMB donated the first retired bus to a village school

KMB donated a retired bus to a village school, Tung Tak School, to regenerate as a library under its Donation of Used and Retired Bus Programme.

February

KMB announced a Monthly Pass Scheme

KMB introduced a Monthly Pass Scheme, covering more than 400 KMB routes, offering a more convenient, flexible and comfortable bus service.

March

KMB was awarded the 15 Years Plus Caring Company Logo

KMB was awarded the 15 Years Plus Caring Company Logo by The Hong Kong Council of Social Service.

April

KMB introduced "Hospital" routes

KMB introduced new "Hospital" routes with two wheelchair spaces on some buses.

May

KMB received the Silver Award from HKAEE

KMB received the Silver Award in the Transport and Logistics category of the Hong Kong Awards for Environmental Excellence.

June

KMB and LWB partnered with CITIBANK to offer a year-round 15% bus fare rebate

KMB and LWB partnered with CITIBANK to enable Citi Octopus Platinum Cardholders to earn a year-round 15% bus fare rebate when they pay for KMB and LWB rides using the card.

July

KMB supported young entrepreneurs via App1933

KMB provided App1933 as a platform for young entrepreneurs to promote their business.

August

KMB announced a roll-over Monthly Pass Scheme

KMB revamped the Monthly Pass Scheme, modifying the validity period from a month to 30 days.

September

KMB introduced two new routes for High Speed Rail Hong Kong West Kowloon Station

KMB introduced Routes W2 and W3 linking Kwun Tong and Sheung Shui to High Speed Rail Hong Kong West Kowloon Station.

First Anniversary of the Donation of Used and Retired Bus Programme

To share educational inspiration among schools participating in KMB's Donation of Used and Retired Bus Programme, KMB hosted a reunion to mark the first anniversary of the programme.

October

LWB started operating bus services for the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge

LWB arranged four "A" Routes and eight "NA" Routes to travel direct to the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge.

KMB introduced its solar panel bus 2.0

KMB introduced the second generation of the in-house developed solar panel double-deck bus featuring speedy cooling and fuel saving.

KMB and LWB extended maternity leave for female staff

KMB and LWB extended the paid maternity leave of all full-time female employees from ten weeks to fourteen weeks.

November

KMB and LWB offered free rides for the elderly and disabled

KMB and LWB offered free rides on all its bus routes for all people aged 65 and over on "Senior Citizens Day" and for people with disabilities on "International Day of Disabled Persons".

KMB received the Gold Star Award from The Hong Kong Council of Social Service

KMB received the Gold Star Award in the 2018-2019 Age-Friendly Appreciation Scheme for caring for the elderly.

December

KMB launched a Fare Saver Scheme with tertiary education institutions

KMB partnered with tertiary institutions to provide a HK$2 fare rebate per ride by tapping their Octopus card at the designated fare saver kiosk on campus.

KMB received an award from the Labour and Welfare Bureau

KMB received the Social Capital Builder Logo Award from the Labour and Welfare Bureau and Community Investment and Inclusion Fund (CIIF) for its contribution to the development of social capital in Hong Kong.

Chairman's Letter

Dear Shareholders and Partners,

On behalf of the Board of Directors, I would like to report that the Group's profit attributable to equity shareholders for the year ended 31 December 2018 was HK$720.1 million, a decrease of 44.4% compared to HK$1,294.8 million for 2017. Excluding the one-off gain of HK$439.6 million in 2017, the Group's profit attributable to equity shareholders for the year decreased by 15.8% compared with 2017.

Dividends

The Board of Directors has proposed an ordinary final dividend of HK$0.90 per share to be paid on 27 June 2019. Together with the ordinary interim dividend of HK$0.30 per share paid on 16 October 2018, the total dividend for the year will be HK$1.20 per share.

Financial Performance in 2018

The Kowloon Motor Bus Company (1933) Limited ("KMB") recorded a profit after taxation of HK$434.3 million, representing a decrease of HK$175.8 million compared with HK$610.1 million for 2017. Fuel and oil costs increased by HK$135.7 million, an increase of 18.1% compared to 2017 as a result of the rise in international fuel prices. The enhancement of staff salaries and benefits led to a substantial increase in staff costs, which together with the depreciation from new bus purchases, contributed to an increase in operational costs. However, the upgrade of KMB's bus fleet and the enhancement of the efficiency of the bus network strengthened the company's competitiveness, which together with an improvement in bus services, resulted in a patronage growth of 1.7% compared with 2017.

As for Long Win Bus Company Limited ("LWB"), profit after taxation for 2018 was HK$36.8 million, representing a decrease of HK$5.4 million compared with HK$42.2 million for 2017. With LWB continuing to enhance bus services and offering concessionary fare discounts, the year-on-year passenger growth increased by 6.1% in 2018.

In order to enhance their customer service, KMB and LWB continued to make substantial investments in new buses with the latest safety, environmental and design features. In 2018, 480 Euro V double-deck buses, two Euro VI double-deck buses and three Euro V single-deck buses were added to the KMB and LWB fleet.

The Group's Non-franchised Transport Division, with Sun Bus Limited as its flagship company, recorded an increase in profit of 6.2% compared with 2017. Our China Mainland Transport Operations Division, which is comprised of our joint ventures in Beijing and Shenzhen, continued to record positive overall results in 2018.

Focus on Passengers' Needs and New Development Opportunities

The Group is customer-oriented and keeps pace with the times, providing safe and convenient public transport services. KMB pioneered the launch of the "KMB Monthly Pass" scheme in March, covering more than 400 KMB routes throughout Hong Kong. The scheme was revamped in September, with the validity period being changed from a calendar month to 30 consecutive days, offering passengers flexible and value-for-money bus services. KMB also launched the "KMB Fare Saver" scheme with tertiary education institutions, under which designated Fare Saver kiosks were set up on the campuses of ten major tertiary education institutions in Hong Kong. Passengers who tap their Octopus card at a Fare Saver kiosk within three hours of taking a KMB bus trip can enjoy a HK$2 fare rebate. The joint fare rebate scheme with Citibank cardholders has seen the rebate increased to 15%. Together with the government's public transport fare subsidy scheme, passengers can travel throughout the territory in a more convenient, flexible and affordable way, promoting effective public transport.

At the end of 2018, two major cross-border infrastructure projects commenced operations, namely, the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge. The comprehensive cross-border infrastructure will provide Hong Kong people with easier access to the Greater Bay Area, while bringing new development opportunities. The Group has been strategically leveraging its advantages, taking the opportunity to start new bus routes and enhance its services to increase the flow of passengers from the Greater Bay Area and beyond, contributing to the prosperity and development of Hong Kong by delivering more effective services.

Advanced Safety Enhancement Measures

The Group has always been committed to improving the safety of its bus services. A Special Committee was established in February 2018 under my chairmanship, with members including Dr. John Chan Cho Chak, Deputy Chairman of the Group, and Mr. Andy Tsang Wai Hung, Independent Non-executive Director. During the year, KMB and LWB developed an action plan to effectively implement the Special Committee's recommendations on improving safety. All buses ordered after March 2018 come equipped with seat belts, while seat belts are being installed in phases on the upper deck of buses that are currently in service and running on long-haul or expressway routes. Newly purchased Euro VI buses will be equipped with an Electronic Stability Programme, and we will strengthen black box data processing and optimise the driving feedback device. As part of our dedication to improving driving safety through advanced technology, we are testing a bus captain anti-drowsiness device. We are also committed to improving recruitment procedures and performance management, as well as the work environment and the training of bus captains.

In January 2019, the Special Committee and members of the senior management visited Singapore to exchange ideas on various topics, including effective management of franchised buses, applications of advanced technology and improvements to road safety. The report of the Independent Review Committee on Hong Kong's Franchised Bus Service released in early 2019 made a number of recommendations, which we will rigorously implement jointly with the HKSAR Government, bus manufacturers and other relevant stakeholders.

Care for Employees

We invest considerable resources to improve the remuneration and benefits of our staff. As a result of the optimisation of the basic salary of frontline employees in March and an annual salary adjustment that is higher than the market average, 80% of monthly-paid frontline staff received a 7% salary increase in 2018. In addition, a number of welfare measures were introduced for frontline staff, including a one-month basic salary bonus, 12 days of double overtime pay, an increase in salary increment of monthly-paid bus captains from 8 points to 20 points, and extension of the dependent free-ride bus pass scheme. Following the implementation of these measures, the average salary of monthly-paid bus captains increased by around 16% in 2018. We have taken the lead in increasing the paid maternity leave of full-time female employees to 14 weeks and will continue to improve the work environment and working hours of our staff.

Use of Environment-friendly Technology

KMB applies a range of innovative technologies to support environmental protection and has developed in-house several solar installations. In October, the second generation solar panel double-deck bus was introduced, which lowers the saloon air temperature and reduces energy consumption by around 3%. Solar panels are now fitted as standard on all newly purchased buses. Solar bus stop poles featuring solar-powered bulbs with an auto-sensor have been installed so that passengers may obtain bus route information day and night. Passengers can scan a two-dimensional QR code on the new layout of bus route information to obtain information, including bus frequency. The Solar-powered Bus Shelter Campaign provides installation of solar-powered equipment for lighting, mosquito repelling devices and ventilation fans at 600 bus stops without an electricity supply.

Connecting the Community

KMB's "Donation of Used and Retired Bus Programme" enables retired buses to be used for teaching purposes, while promoting resource sharing and enhancing our bond with the community. By the end of 2018, a total of 14 buses had been donated to schools across our operating area. To help underprivileged groups integrate into society, we work with social welfare organisations to hire suitable people, so that they may develop their strengths and become self-reliant. Our volunteer group, "FRIENDS OF KMB", takes part in a number of voluntary activities, caring for those in need and upholding the spirit of serving the community.

Challenges and Opportunities

The China-US trade conflicts bring uncertainty to the global economy, while expenditure on fuel and human resources increase our operating costs. In mid-2019, when KMB and LWB fully implement the "Guidelines on Bus Captain Working Hours, Rest Times and Meal Breaks" issued by the Transport Department, it is anticipated that manpower will be even tighter and additional bus captains will be required. We will continue to invest resources in enhancing driving safety and identifying and training talent. The continuous expansion of the railway network poses another challenge to our bus operations. It is against this background that we have submitted an application for a fare adjustment to the Government so as to increase our resources. We will explore business opportunities through innovative thinking and the potential commissioning of new routes and special routes. The superstructure work at the How Ming Street site in Kwun Tong will soon commence, and the project will include multi-storey Grade A office buildings and large shopping malls. This is expected to bring stable rental income to the Group upon completion. Meanwhile, the opening of the Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link ushers in an era of even closer connection between Hong Kong and Mainland cities, which should be further strengthened when the Liantang Boundary Control Point is opened. The Group will take every opportunity to develop its businesses in a sustainable way while delivering a return to its shareholders.

Acknowledgements

I would like to thank all staff for their effort and support in the past year, which has enabled the Group to continue providing safe and quality bus services in a professional manner. Finally, I would like to express my heartfelt gratitude to the Board of Directors, every staff member of the Group, our suppliers and all our passengers.

Norman LEUNG Nai Pang
Chairman
21 March 2019

Managing Director's Message

It has always been my vision to make our bus services the preferred choice of the public and to make serving the public the preferred choice of our staff, while developing ever more sustainable bus operations. To this end, the senior management team and I share a commitment to improving our operations and enhancing passengers' experience through safe, high quality and value-for-money services. These are foundations on which our business is built.

I truly believe that our success hinges on our people. We are proud to have an outstanding team of diverse talents. My responsibility is to build an environment that fosters respect and support, while nurturing talents, developing leadership and recognising high achievers, so that each individual will contribute to the team. I believe that through driving such high-level staff engagement, the Group will continue to scale new heights. In 2018, KMB and LWB enhanced their staff remuneration packages and optimised the promotion structure for frontline staff, adopting an even clearer career path. We also place great emphasis on professional training for the constant upgrade of our staff, who have taken advantage of such learning opportunities with very strong participation. Through the concerted efforts of the company and the HKSAR Government, most of our bus termini now have designated frontline staff facilities. To attract talents, we organised eight mega recruitment days that served as a one-stop shop to showcase our work environment and training facilities, while providing on-site recruitment. The events attracted hundreds of applicants with a dedication to public transport service.

To be the preferred choice of our passengers, safety is the key. The Group has made enhancing driving safety our top priority. We are diligently implementing the Special Committee's recommendations on passenger and driving safety and have made concrete improvements in areas including staff recruitment, bus captain training, performance management, the work environment and emotional support. We have enhanced bus facilities to improve driving and passenger safety, and we will continue to invest significantly in safety hardware and software, while trialling advanced technological devices to safeguard safety. Our public education programmes on road safety will also be strengthened.

Aware that our passengers prefer flexible and convenient bus services, we launched for the first time the KMB Monthly Pass in March 2018, giving our passengers' greater flexibility and value-for-money services. We will keep exploring a wide spectrum of service products that facilitate even better connections across the territory in an affordable way. Providing a comfortable bus journey is another key focus of our service. Following the launch of the new generation of "red buses", which are equipped with customer-oriented facilities, we have introduced the "Refurbished Bus Scheme". Mid-life buses with around eight years' service will be refurbished to increase passenger comfort.

I believe a people-oriented approach is the way to ensure that TIH brings sustainable benefits to our shareholders through profitable growth. We will whole-heartedly devote ourselves to raising our service quality, nurturing professional employees with high integrity and offering our shareholders reasonable returns. To capitalise on the business opportunities presented by the opening of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, KMB has launched two new bus routes, while four LWB "A" routes have adjusted their routes to cater for passengers at the Port of the Hong Kong-Zhuhai-Macao Bridge to accommodate the growth of passengers travelling between Hong Kong and the Mainland. Both KMB and LWB have introduced special routes for those attending mega events in the city. By increasing our market share, our ridership rose to close to 3.0 million passenger-trips a day by the end of 2018.

As the market leaders in local franchised bus operations, KMB and LWB connect almost all corners of the city. It is my firm belief that we should leverage our size, scale and resources to support community development, environmental protection and even education to make this city a better place.

KMB has grown with Hong Kong over the past 86 years, striving to be a socially responsible organisation that is sensitive and innovative in responding to customer changes and demands from the community, our passengers and shareholders. We will keep learning as we strive to deliver a quality, safe and timely service, operating ethically with integrity, honesty and fairness.

We will remain vigilant in respect of the challenges to bus operations that may be posed by the global economic uncertainty. Our collective responsibility is to ensure the sustainable growth of the Group and to provide a stable working environment for our staff. I am most thankful to all my staff who have been so devoted to riding out the challenges of 2018 with perseverance and courage. The Group will continue to thrive as we work diligently as a team.

Roger LEE Chak Cheong

Managing Director

21 March 2019

2018 Highlights

- Recorded close to 3.0 million passenger-trips daily;
- Pioneered the "KMB Monthly Pass", offering passengers flexible and value-for-money bus services;
- Launched the "KMB Fare Saver" Scheme, offering a HK$2 fare rebate on every ride;
- Implemented safety improvement measures:
  - All new Euro VI buses will be equipped with the Electronic Stability Programme;
  - All new buses will be equipped with safety belts on all seats;
  - Black box data processing is being optimised; and
  - An anti-drowsiness device is being trialled to monitor the drowsiness of bus captains.
- Introduced the second generation solar panel bus as a standard feature on newly purchased buses to lower the saloon temperature by 8-10°C and reduce energy consumption by around 3%; and
- Donated 14 retired buses to schools for educational purposes.

Management Discussion and Analysis

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, and Long Win Bus Company Limited. The Group 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 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, operating public bus, minibus and taxi and car rental services in Shenzhen and Beijing respectively. 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 20 to 37 of this Annual Report. The prospects of the Group's businesses are discussed in the Chairman's Letter on pages 12 to 15 and in the Managing Director's Message on pages 16 to 17 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 in either the short or the long term. 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 align 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 discussed in the Financial Review on pages 72 to 85 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.

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, environment-friendly, value-for-money bus services in Kowloon, the New Territories, Hong Kong Island and Lantau Island.

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

KMB, a wholly-owned subsidiary of Transport International Holdings Limited, is the largest franchised bus operator in Hong Kong, serving more than 2.8 million passenger-trips each day. A workforce of around 11,500 employees, including some 8,500 bus captains, ensures that customers enjoy high quality services on a fleet of over 4,100 buses operating on 409 routes.

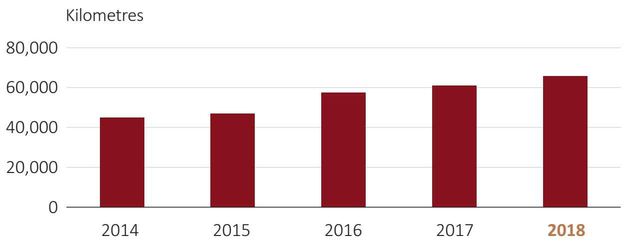
Operational Excellence

KMB has provided reliable franchised bus services in Hong Kong for eighty-five years, and is an industry leader in operational and service excellence. Reflecting the company's aim to achieve the highest operational and service standards, KMB has been ISO certified for Quality Management System (ISO9001) since 1999 and ISO certified for Environmental Management Systems (ISO14001) at its two largest depots since 2003. KMB has also been accredited with Occupational Health and Safety Assurance Series (OHSAS) 18001:2007 certification for all of its depots since 2012. KMB has adopted the latest version of ISO9001 since August 2018.

KMB introduced new buses with a number of new features, including advanced technological devices for driving safety

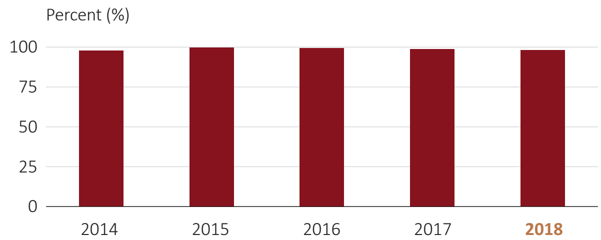
"Mechanical Reliability" and "Operational Capability" are the key benchmarks of efficient public bus services. Mechanical Reliability refers to the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. In 2018, the mechanical reliability of KMB's fleet was 65,928km:1. Operational Capability refers to the ratio of actual to scheduled departures in the peak direction during the peak hours of 7:00 a.m. to 9:00 a.m. across the entire bus network. In 2018, we achieved an operational capability of 97.96%.

Mechanical reliability – KMB



Average number of kilometres operated before one mechanical breakdown while passengers are on board

Operational capability – KMB



Percentage of actual number of bus departures to scheduled number of bus departures during morning peak hours (7am – 9am) in the peak direction

Bus Fleet and Fleet Upgrade

KMB is determined to innovate by introducing a bus fleet with technological advances and environment-friendly features for a more desirable passenger experience.

After introducing brand new red buses with the slogan "Heartbeat of the City" in 2017, KMB upgraded the red buses in 2018 with a number of new features. Four "Red Bus 2.0" double-deckers have been delivered to Hong Kong for providing service in 2019.

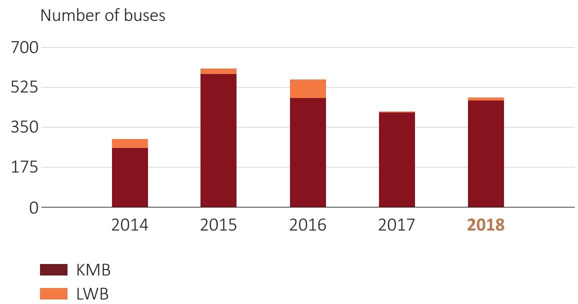
Innovation and support for the environment are two of the cornerstones of KMB's service. After developing the first double-deck bus installed with solar panel in 2017, KMB developed the second-generation solar panel on double-deck bus in 2018. It can reduce the temperature of the bus compartment by eight to ten degrees compared to a bus with no solar panel. The cooling time is 50% faster compared to the first generation of the solar panel bus, and fuel consumption can be reduced by about 3%. All new KMB buses will be equipped with solar panels from the second half of 2019.

KMB continues to invest in the latest environment-friendly buses. In 2009, it became the first public bus company in Asia to introduce Euro V double-deck buses. In 2017, it again led the industry by introducing the first diesel-powered double-deck bus with Euro VI emission standards in Hong Kong. With the last Euro V bus to be licensed in 2019, KMB steps into a new era of Euro VI buses, while Euro III and earlier model buses will be completely phased out within the next five years.

In 2018, KMB acquired a total of 465 new Euro V and two Euro VI super-low floor double-deck air-conditioned buses. As at 31 December 2018, KMB operated a total of 4,112 licensed air-conditioned buses, comprising 3,964 double-deck buses and 148 single-deck buses. The fleet currently features three hybrid double-deck buses, ten electric single-deck buses and seven supercapacitor single-deck buses. In addition, 340 air-conditioned double-deck Euro VI buses were on order for delivery in 2019.

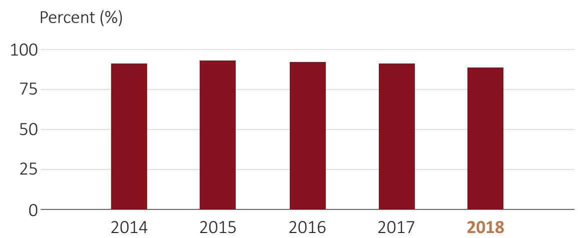
KMB's bus fleet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Total number of buses
As at 1 January 2018	3,827	145	**3,972**
Additions during year	467	3	**470**
Disposals during year	(330)	–	**(330)**
As at 31 December 2018	3,964	148	**4,112**

Number of new buses introduced to the fleet



Total fleet capacity at 31 December

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



Bus Service Network

At the end of 2018, KMB operated a total of 409 bus routes. In a changing operating environment marked by railway expansion, demographic changes and new highways, KMB reviews and arranges its resources to cater for the changing demand. KMB strives to operate an efficient, competitive and sustainable bus network, while seeking opportunities for new market growth.

In 2018, we implemented 76 routes reorganisation proposals that enhance the whole network with the following benefits to the public:

- Eliminating wasteful duplication of routes;
- Allowing resources to be released for redeployment in high demand areas;
- Straightening routes that are unduly circuitous;
- Introducing new express routes that utilise the new highway infrastructure; and
- Offering greater connectivity between routes by using Bus-Bus Interchanges ("BBI").

To better serve passengers visiting hospitals, two new "Hospital Routes", namely 14H and 32H, were introduced in March and April 2018 respectively. They operate daily and serve passengers who are going to United Christian Hospital, Kwai Chung Hospital, Princess Margaret Hospital and Yan Chai Hospital.

To tie in with the launch of the Guangzhou-Shenzhen-Hong Kong Express Rail Link in 23 September 2018, KMB introduced two new routes, W2 and W3, for passengers travelling between East Kowloon and East New Territories and Hong Kong West Kowloon Station. In addition, ten routes relocated their terminus to West Kowloon Station Bus Terminus.

KMB Monthly Pass

KMB continues to enhance its service by providing affordable and convenient journeys to passengers. As such, KMB launched the Monthly Pass Scheme in March 2018, whereby passengers can take ten rides per day on KMB buses for HK$780 (and two additional trips on Route B1). The monthly pass covers over 400 KMB routes, including regular routes, racecourse bus routes and overnight routes. Jointly operated cross-harbour bus routes operated by KMB are also included in the Scheme.

The KMB Monthly Pass Scheme has been well-received since its launch. KMB enhanced the Scheme by changing the validity period from a calendar month to 30 consecutive days to give passengers greater flexibility when using the monthly pass.

Expanding Services at Hong Kong Coliseum

Since 2004, KMB has operated four special routes from Hong Kong Coliseum serving passengers returning home after attending major events or concerts. In 2018, KMB expanded the service network for Hong Kong Coliseum by introducing new routes, so that 11 routes now serves passengers travelling from Hong Kong Coliseum to different parts of Kowloon and the New Territories.

KMB has been expanding its services for Hong Kong Coliseum

Multimodal Interchange

KMB introduced interchange concession schemes with Hong Kong Tramways and AMS Public Transport Holdings Limited in mid-2017 and these have proved popular. KMB therefore extended the schemes for one more year from 1 July 2018 to 30 June 2019. Octopus Card users commuting from the designated cross-harbour routes solely operated by KMB to tram lines, and vice versa, may save a single journey fare on the tram. Octopus Card users can enjoy a HK$1 discount when interchanging from the designated cross-harbour routes solely operated by KMB to designated Hong Kong Island Green Minibus routes operated by AMS, and vice versa.

Depots

Routine maintenance and repair services are provided in KMB's four major bus depots at Kowloon Bay, Sha Tin, Lai Chi Kok and Tuen Mun. Ten smaller depots supply minor maintenance services and parking. The KMB Overhaul Centre in Tuen Mun supports major overhaul services. Depot facilities are continually upgraded to ensure consistent service quality and a high level of productivity.

Major Depots Serving KMB and LWB Buses

Depot	Areas served/ main purpose of depot	Gross floor area (square feet)	Number of buses served as at 31 December 2018	Year in which operations commenced	Remarks
KMB depots:					
Kowloon Bay Depot	East Kowloon	768,038	1,124	1990	The depot land was acquired at market price from the Government in 1986 under a Private Treaty Grant
Sha Tin Depot	North and East New Territories	720,005	1,167	1988	The depot land was acquired at public auction in 1984
Lai Chi Kok Depot	South and West Kowloon	648,946	892	2002	The depot land has been leased from the Government on a short term tenancy#
Tuen Mun Depot	West New Territories	148,961	929	1979	The depot land was acquired at public auction in 1974
KMB Overhaul Centre	Bus overhaul	380,915	N/A	1983	The depot land was acquired at market price from the Government in 1979 under a Private Treaty Grant
LWB depot:					
Siu Ho Wan Depot	Lantau Island	82,422	262	1998	The depot land has been leased from the Government on a short term tenancy#
Total		**2,749,287**	**4,374**		

Under the short term tenancy agreements, rentals at market rates are payable to the HKSAR Government.

Comprehensively Upgraded Smartphone App

KMB launched a new version of the KMB and Long Win mobile app, "App1933", in September 2016. Passengers may check information about bus routes and estimated time of arrivals in a convenient fashion.

In 2018, the mobile app was further upgraded so that users can be informed of the occupancy level of arriving buses. To facilitate this, KMB is testing a real-time occupancy monitoring system on selected buses.

KMB has served Hong Kong for more than 80 years. There are many historical stories behind bus stops and streets worth digging into. In App1933, icons along selected bus stops named "Bus Stops in the Past" will take passengers back to historic Hong Kong with old photos.

Application of Information Technology

The use of information technology can benefit passengers by providing bus arrival information via Estimated Time of Arrival ("ETA") display panels at bus termini and bus stops, on App1933 and the KMB and LWB websites. In addition, information technology helps KMB manage and monitor its intricate operations with ease. Applications includes the Integrated Bus Service Information Display System (IBSID), the Electronic Bus Stop Announcement System (BSAS), the Terminus Management System (TER), the Traffic Operations Management System (TOM), the Bus On-board Monitoring System (BOM) and the Operations Communications Management System (OCM).

Passengers can enjoy a free Wi-Fi service on buses

We provide upgraded passenger facilities, including USB charging points

Hong Kong Franchised Public Bus Operations

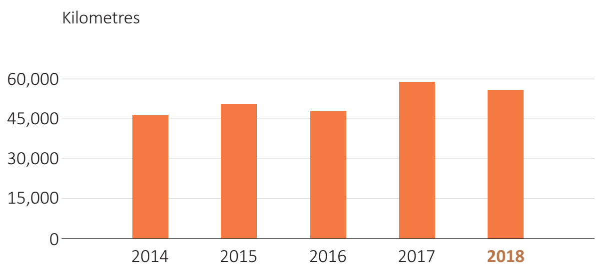
Long Win Bus Company Limited ("LWB")

LWB has been operating franchised public bus services to and from the New Territories, Hong Kong International Airport and North Lantau since 1 June 1997. LWB's network currently covers the Airport, Tung Chung, the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge, Hong Kong Disneyland, the Ngong Ping 360 cable car and AsiaWorld-Expo.

Performance Assurance

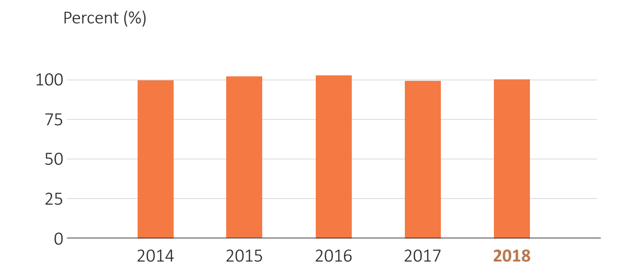
LWB constantly reviews its bus services and maintenance regime to ensure that safety and efficiency are maintained at the highest level across its bus fleet. LWB measures its operational performance by reference to two key performance indicators: mechanical reliability and operational capability. Mechanical reliability is the average number of kilometres a bus operates before it experiences a mechanical breakdown on the road with passengers on board. Operational capability is the ratio of actual to scheduled departures in the peak direction in the peak hours of 7:00 a.m. to 9:00 a.m. across the whole bus network. In 2018, LWB achieved 56,164km: 1 in mechanical reliability and 100% in operational capability. LWB obtained ISO 9001:2008 Quality Management Systems certification in November 2012. LWB has adopted the latest version of ISO9001 since August 2018.

Mechanical reliability – LWB



Average number of kilometres operated before one mechanical breakdown while passengers are on board

Operational capability – LWB



Percentage of actual number of bus departures to scheduled number of bus departures during morning peak hours (7am – 9am) in the peak direction

Bus Fleet and Fleet Upgrade

In 2018, LWB introduced 15 new Euro V super-low floor air-conditioned double-deck buses. As at 31 December 2018, LWB operated 258 super-low floor air-conditioned double-deck buses, and four air-conditioned electric single-deck buses, all wheelchair accessible and equipped with the On-board Electronic Bus Stop Announcement System. To meet growing passenger demand, 44 buses are 12.8 metres in length, offering a higher carrying capacity.

LWB's bus fleet	Air-conditioned double-deck buses	Air-conditioned electric single-deck buses	Total number of buses
As at 1 January 2018	241	4	**245**
Additions during year	17*	–	**17**
Disposals during year	–	–	**–**
As at 31 December 2018	258	4	**262**

* including two buses under repair as at 31 December 2017, and subsequently re-introduced into the bus fleet in 2018

LWB provides special services for mega events at Asia World-Expo

LWB provides transport services that connect the Hong Kong Port with the New Territories

LWB has ten Euro VI super-low floor air-conditioned double-deck buses of premium design scheduled to enter service in 2019 on Airbus routes.

Bus Service Network

At the end of 2018, LWB operated 33 routes. LWB arranged for some "A" Routes (A31, A33X/A33P, A36, A41) and "NA" Routes to travel direct to the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge upon the commissioning of the Hong Kong-Zhuhai-Macao Bridge. Octopus Interchange Discount Schemes with the direct "A" routes are provided for passengers travelling to and from the Port on other "A" routes, with interchange points at Airport Terminal 2 (Port-bound) and the Lantau Link Toll Plaza (New Territories-bound).

Depots

The depot at Siu Ho Wan provides daily bus maintenance, refuelling, bus washing and parking for the LWB fleet. The depot is equipped with a waste water treatment system to ensure that waste water quality complies with the statutory requirements before discharge into the public drainage system.

Safety and Customer Service

Regular and thorough inspections of LWB's buses are undertaken to make sure that they are maintained at the highest standards. Driving instructors monitor bus captains' driving performance and customer service delivery, while safety briefings are held from time to time and safety reminders circulated to bus captains. LWB runs various quality campaigns to recognise and reward good performance.

The professional team of LWB upholds a high standard of service

For the convenience of passengers travelling to and from the Airport in groups, LWB introduced a pre-paid group ticket scheme on "A" Routes with a fare discount of 15%-25%. As the scheme was welcomed by the community, the second round of the scheme was launched on 8 November 2017, to run until 15 May 2018, or until stocks last.

Environmental Protection

LWB is fully aware of the importance of environmental protection and continues to invest in environment-friendly buses that meet the stringent emission standards of the European Council of Environmental Ministers. In 2018, LWB introduced 15 new Euro V buses to its fleet, bringing the proportion of Euro V or electric buses up to 80%. In addition, it has retrofitted Diesel Particulate Filters on all its Euro III buses to reduce the emission of particulates.

The electrostatic air filtration function in the air-conditioning system of LWB buses significantly improves the air quality in the bus compartment, while the Eco-driveline system reduces both fuel consumption and exhaust emissions.

LWB launched concession schemes that are welcomed by the public


LWB provides comprehensive training for bus captains

Hong Kong Non-franchised Transport Operations

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

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

As a leading non-franchised bus operator in Hong Kong, the SBH Group provides premium, safe, reliable and economical transport services to different customers.

Led by its flagship subsidiary, Sun Bus Limited ("SBL"), the SBH Group offers a range of bus services designed for specific market segments, including large residential estates, shopping malls, corporations, travel agents and schools, as well as catering for the general public through chartered hire services.

During the year, the SBH Group continued to strengthen its services by upgrading its fleet with the latest environment-friendly buses. In 2018, the SBH Group

SBL provides services for business commuters

purchased 84 Euro V/VI buses for fleet replacement purposes. At the end of 2018, the SBH Group had a fleet of 390 buses. The SBH Group will continue its fleet upgrade programme through the introduction of more Euro VI buses and the wider application of technology.

The SBH Group has ten Euro VI buses scheduled for licensing in 2019 to cater for the potential growth in demand for cross-boundary bus services following the opening of the Hong Kong-Zhuhai-Macao Bridge in late 2018. The SBH Group is committed to continuously strengthening all aspects of its management and operations.

Quality Services

Hong Kong Non-franchised Transport Operations

New Hong Kong Bus Company Limited ("NHKB")

NHKB jointly operates with its Shenzhen counterpart a direct, value-for-money, 24-hour cross-boundary shuttle bus service, known as the "Huang Bus", catering to regular commuters and those travelling for leisure between Lok Ma Chau in Hong Kong and Huanggang in Shenzhen.

NHKB provides a service between Lok Ma Chau and Huanggang

NHKB takes the strain out of cross-boundary travel

In 2018, NHKB operated a fleet of 15 air-conditioned super-low floor single-deck buses on its shuttle bus service between Lok Ma Chau and Huanggang. NHKB's terminus at the San Tin Public Transport Interchange boasts four comfortable air-conditioned boarding lounges and an integrated information display system.

During the year, the demand for NHKB's cross-boundary bus service declined, with a fall in patronage from 4.86 million passenger-trips in 2017 to 4.81 million passenger-trips in 2018. The decrease in demand was mainly attributable to an increase in choices for cross-boundary travellers.

Notwithstanding the decline in patronage, the demand for cross-boundary bus services is expected to grow in line with the stronger social and economic ties between Hong Kong and China Mainland, as the demand for cross-boundary bus services remains strong. NHKB will continue to maintain its shuttle bus service as a preferred means of transport for cross-boundary travellers seeking convenient and quality services.

China Mainland Transport Operations

The Group has investments in transport service operators in Shenzhen and Beijing as part of its strategy of leveraging transport-related business opportunities in China Mainland that offer a reasonable return.

Shenzhen Bus Group Company Limited (深圳巴士集團股份有限公司) ("SZBG")

SZBG 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 Mainland investors. The Group has a 35% interest in SZBG.

SZBG has been operating public bus, minibus and taxi services in Shenzhen since 2005. SZBG has a fleet of over 6,000 buses, operating on more than 300 routes, and more than 5,000 taxis. By continuously improving services, patronage of SZBG's bus operations increased by 2.4% to 607.5 million in 2018 as compared to 593.1 million in 2017.

The holder of ISO 9001:2008 certification for the provision of bus transport services in Shenzhen, and one of the largest electric vehicle operators in China, SZBG is dedicated to upgrading its services and maintaining its business edge.

BBKT operates in the capital with a fleet of more than 3,600 taxis

Beijing Beiqi Kowloon Taxi Company Limited (北京北汽九龍出租汽車股份有限公司) ("BBKT")

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, holds an equity interest of 31.38% in BBKT – the first Sino-foreign joint stock company to enter China Mainland's taxi hire and car rental sector when it was established in 2003.

BBKT operated both taxi hire and car rental businesses until April 2013, when, to sharpen its focus on the business opportunities provided by the booming but challenging car rental market, it 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).

With a fleet of more than 3,600 taxis, BBKT continues to put service quality first as it explores sustainable new business opportunities.

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.

BBF has more than 1,100 vehicles available for charter, mainly serving Beijing (北京) and Tianjin (天津). With ISO9001:2008 certification for Quality 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.

SZBG is dedicated to upgrading its services and maintaining its business edge

Property Holdings and Development

The Group has a portfolio of investment properties which provides steady rental income for the Group.

LCK Real Estate Limited (“LCKRE”)

LCKRE, a wholly-owned subsidiary of TIH, is the owner of the Group’s headquarters building in Lai Chi Kok.

LCKRE owns the 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. The building is situated next to Manhattan Hill. Approximately 12% 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.

LCK Commercial Properties Limited ("LCKCP")

LCKCP, a wholly-owned subsidiary of TIH, is the owner of Manhattan Mid-town, the commercial complex of Manhattan Hill.

LCKCP owns Manhattan Mid-town shopping mall, the two-level high-end retail podium at Manhattan Hill, centrally located in Kowloon within easy reach of Hong Kong Island and Hong Kong International Airport by road or rail. 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. At the end of 2018, the entire lettable area of the shopping mall was leased out, generating a stream of recurring rental income for the Group.

KT Real Estate Limited ("KTRE")

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

Sun Hung Kai Real Estate Agency Limited, a subsidiary of SHKP, has been appointed as the project manager to oversee the development of the Kwun Tong Site. In August 2016, KTRE and TRL accepted the offer from the Lands Department for the grant of lease modification from industrial to non-residential use (excluding hotel, petrol filling station and residential care home).

In December 2018, KTRE, TRL and Yee Fai Construction Company Limited, a subsidiary of SHKP (the "Contractor") entered into a building contract (the "Building Contract") under which KTRE and TRL have engaged the Contractor to carry out and complete the construction works for the Kwun Tong Site at a contract sum of HK$4,436,056,954.36 (to be borne by KTRE and TRL in equal shares), subject to adjustments, in accordance with the Building Contract, which was approved by independent shareholders in February 2019.

Demolition work has been completed on the Kwun Tong Site and the foundation laying work is underway. The construction works are expected to commence upon the completion of foundation work and are expected to be completed within 1,250 days of the commencement of construction works.

TM Properties Investment Limited ("TMPI")

TMPI, a wholly-owned subsidiary of TIH, is the owner of the property at Tuen Mun Town Lot No. 80 in the New Territories.

TMPI owns an industrial property comprising a single-storey high ceiling structure and a three-storey workshop building with a total gross floor area of about 105,900 square feet. Since March 2011, the entire lettable area of the property has been leased out to generate rental income for the Group.

The Group's Property Holdings and Development

Property	Usage	Total Gross Floor Area (square feet)	Group's Interest %	Remarks
TIH Headquarters Building, 9 Po Lun Street, Lai Chi Kok, Kowloon	Office/Shops	156,700	100	The site was acquired at market price through private purchase in 1955
Manhattan Mid-town, 1 Po Lun Street, Lai Chi Kok, Kowloon	Shopping Centre	50,000	100	The site was acquired at market price through private purchase in 1955
Kwun Tong Inland Lot No. 240, 98 How Ming Street, Kwun Tong, Kowloon	Retail/Office (Note)	1,150,000	50	The site was acquired at public auction in 1967
Tuen Mun Town Lot No. 80, 1 Kin Fung Circuit, Tuen Mun, New Territories	Industrial/ Godown	105,900	100	The site was acquired at public auction in 1974

Note: Kwun Tong Inland Lot No. 240 is under development.

Reporting Approach

This is the Sustainability Report of Transport International Holdings Limited, in which we highlight our major sustainability initiatives and achievements. The TIH 2018 Sustainability Report mainly presents the environmental and corporate social responsibility performance and achievements of the Hong Kong franchised public bus operations provided by two of TIH's wholly-owned subsidiaries, namely The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited operating in Hong Kong. This Report covers the period from 1 January to 31 December 2018.

During the reporting period, the Group had no leased facilities and no outsourced operation of significant importance that requires reporting. Data and statistics in this Report are presented as absolute figures and are normalised into comparable terms as far as possible. Unless otherwise stated, data and statistics in this Report cover the performance of KMB and LWB, covering the whole reporting period of one year. There is no specific limitation on the scope and boundary of this Report in respect of KMB and LWB's operations.

Reporting Guidelines

The TIH 2018 Sustainability Report was prepared in accordance with the Core Option of the Global Reporting Initiative Sustainability Reporting Standards ("GRI Standards") and the Environmental, Social and Governance Reporting Guide ("ESG Guide") issued by the Hong Kong Exchanges and Clearing Limited ("HKEx"). In addition, we have taken into account the concerns of stakeholders as identified through engagement exercises such as the annual passenger liaison group meetings and interviews with representatives of different groups. The latest Annual Report of TIH contains more information about the Group including corporate governance and the financial performance of KMB and LWB.

Stakeholder Engagement and Materiality Assessment

Stakeholder engagement exercises and materiality assessments are crucial when developing the annual sustainability report, as they are vital to identifying the sustainability topics that are most relevant to our operations and the shared interests of our stakeholders. In 2018, we engaged an external consultant to carry out a series of stakeholder engagement activities to define the scope of the Report and identify the relevant economic, environmental and social impacts to be reported on, with reference to the principles and the requirements stipulated in the GRI Standards and the ESG Guide of HKEx.

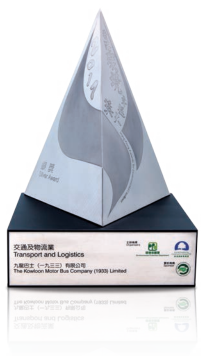
The key stakeholder groups relevant to the public transport operations of KMB and LWB include passengers, staff, FRIENDS OF KMB, suppliers and non-governmental organisations. In 2018, we invited internal stakeholders like employees and external stakeholders like passengers, suppliers, non-governmental organisations and green group to participate in a number of stakeholder engagement activities. Their valuable feedback was collected through an online questionnaire, face-to-face interviews and focus group meetings.

Based on the opinions collected from these engagement activities and the results of the previous years' materiality assessments, the following material aspects have been prioritised for disclosure in the TIH 2018 Sustainability Report while the corresponding boundaries were identified:

Material Aspects	Reporting Boundaries	
	KMB & LWB's Operations	KMB & LWB's Suppliers
Environment		
Energy and Efficiency Measures	✓	
Emissions	✓	✓
Effluents and Waste	✓	
Employees		
Employment	✓	✓
Training and Education	✓	
Staff Communication	✓	
Community		
Customer Health and Safety	✓	
Community Engagement	✓	

Major Recognition and Awards

We aim to deliver excellent public transport services in a sustainable manner and are pleased to receive due acknowledgement. TIH or KMB received the following awards in 2018:



Brand

- Manpower Developer from the Employees Retraining Board
- Silver Award for Chairman's Letter and Bronze Award for Written Text for the TIH 2017 Annual Report in the Transportation and Leasing category of the International ARC Awards
- Gold in the Public Transport category of the Reader's Digest Trusted Brands Awards

Sustainability Report

Corporate Social Responsibility

- Silver Award in the Transport and Logistics category of the Hong Kong Awards for Environmental Excellence from the Environmental Campaign Committee
- Hong Kong Green Organisation Certificate from the Environmental Campaign Committee
- 15 Years Plus Caring Company Logo from The Hong Kong Council of Social Service
- Award of 10,000 Hours for Volunteer Service from the Social Welfare Department
- Award of Distinction from The Community Chest of Hong Kong
- Certificate of Appreciation in the Age-friendly Community Kwai Tsing Award from the Kwai Tsing District Council Safe and Healthy Community Working Group and HKSKH Lady MacLehose Centre
- Tai Po District Civic Education Outstanding Enterprise Award from the Tai Po District Civic Education Campaign
- Gold Star Award in the 2018-2019 Age-friendly Appreciation Scheme from The Hong Kong Council of Social Service
- Social Capital Builder Logo Award from the Labour and Welfare Bureau and Community Investment and Inclusion Fund

Corporate Governance

With a commitment to conducting our businesses in line with the best corporate governance practices, we aim to achieve sustainable business development by taking into account the interests of all our stakeholders while ensuring compliance with legal and regulatory requirements. Our stakeholders include passengers, employees, suppliers, Legislative Councillors, District Councillors, transport advisory bodies, interest groups and the government. We have established a number of engagement programmes to obtain their views on our operations and services. Our dialogue with stakeholders is conducted through a number of channels, including the LiveChat enquiry channel on the KMB and LWB websites and on App1933, the KMB Facebook page, the KMB Instagram account, corporate publications such as KMB Today, face-to-face meetings and media networking.

For details of our corporate governance, please refer to the TIH 2018 Annual Report on pages 86 to 103.

Working with Suppliers

We believe in upstream integrated supply chain management with the emphasis on quality and logistics control. We work closely with our business partners to develop new buses and services that are well adapted to the local climatic and operational environment. We encourage fair and open competition with the aim of developing long term relationships with suppliers based on mutual trust. Our supply chain activities are guided by policies and procedures that are geared to ensuring the ethical procurement of supplies and services, as well as high quality end products in which our customers can be confident.

To ensure compliance by our suppliers with our guidelines on social and environmental requirements, we require suppliers to declare their compliance with our guidelines upon supplier registration:

- Environmental care;
- Health and safety;
- The prohibition of forced and child labour; and
- Anti-corruption.

Environmental Care, Health and Safety of Suppliers

Our suppliers are expected to show their commitment to environmental protection and a healthy and safe workplace by adopting these measures:

- Promoting employee awareness of environmental issues;
- Encouraging energy conservation;
- Reducing waste in appropriate ways and finding alternative uses for waste;
- Providing and maintaining a safe and risk-free operating environment by adopting good systems and equipment;
- Enforcing appropriate procedures for the use, handling, storage and transport of materials; and
- Complying with all relevant statutes.

Forced Labour and Child Labour

Suppliers undertake that they will not use forced labour in any form or child labour (persons below the local minimum age or below the age of 16).

Legal and Regulatory Compliance

Our suppliers are expected to fulfill all their contracts with us in a proper and lawful manner and in no way violate the laws of the HKSAR. Suppliers are asked to declare any close personal or business relationships they may have with any of our directors, staff or handling agents. They are also requested to make a report to the Independent Commission Against Corruption if an employee has committed any offence of corruption under the Prevention of Bribery Ordinance (Chapter 201, Laws of Hong Kong). Should a supplier be found to have committed any offence of corruption under this Ordinance, we reserve the right to immediately terminate all outstanding contract(s) without allowing the supplier recourse to any compensation or claim for loss.

Prevention of Bribery and of Corrupt Practices in Procurement

We make efforts to ensure that the procurement of supplies and services is conducted to the highest ethical standards so as to ensure a high quality end product and the sustained confidence of customers, suppliers and the public. We ensure that all suppliers, whether local or overseas, are managed equally without prejudice and that staff involved in the selection of and purchase from suppliers avoid misuse of authority and do not engage in actions which could interfere with their ability to make free and independent decisions in respect of purchase and procurement.

Procurement and Tendering Procedures

The criteria for the procurement and tendering of services or goods are based solely upon price, quality, requirement and other relevant factors, including environmental and social responsibility standards. Our procurement and tendering measures are implemented on the following principles:

- Impartial selection of capable and responsible suppliers;
- Fair competition;
- Selection of appropriate contract types according to need;
- Compliance with laws, relevant regulations and contractual obligations; and
- Adoption of an effective monitoring system, management controls and practices:
  - to prevent bribery, fraud or other malpractices; and
  - to ensure declaration of conflicts of interests by staff involved in the system.

Safety First

We continue to invest heavily in improving the safety of our bus operations.

Safety Policy

KMB and LWB's Safety Policy is predicated on a commitment made by all staff members to provide a safe and healthy environment for all persons who may be affected by our work activities with the objective of minimising the risk of injury and ill health.

Safety is an absolute pre-requisite in everything we do and is an integral part of our business strategy. It is the duty of all staff members at all levels to ensure that all legal requirements and other requirements applicable to our work activities are complied with. We consult our workers and encourage their participation in our safety management system. We shall continue to maintain our safety risks at as low a level as reasonably practicable and strive for continual improvement in safety performance.

Bus Safety Management

A Special Committee was set up in February 2018 to come up with recommendations for enhancing bus safety. It was chaired by Dr. Norman Leung Nai Pang, Chairman of the TIH Board, with members including Deputy Chairman of the Board, Dr. John Chan Cho Chak, and Independent Non-Executive Director, Mr. Andy Tsang Wai Hung. Implementation of the recommendations has been ongoing to keep enhancing bus safety. The Special Committee visited Singapore to hold comprehensive exchanges on issues including bus safety, the use of innovative technology, management models, bus captain training and public education.

A Safety Director, who has extensive experience in bus operations, is leading the Safety Department to oversee bus and occupational safety. The Safety Department, comprising the Safety Section and the Accident Investigation & Prevention Section, is responsible for enhancing safety standards and performance together with the Departmental Safety Committees, the Maintenance Safety Committees and the Operations Safety Committees.

KMB and LWB adopt a safety management system in accordance with the international standards of Occupational Health and Safety Assessment Series ("OHSAS") 18001. We are migrating to ISO45001:2018 (Occupational Health and Safety Management Systems) in order to promote further improvement of the safety performance of all aspects of our business, including bus maintenance and design upgrades.

Operational Management

The key benchmarks of our operational performance are mechanical reliability and operational capability. Mechanical reliability refers to the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. In 2018, the mechanical reliability of KMB's bus fleet was 65,928km: 1, while LWB's bus fleet was 56,164km: 1. Operational capability refers to the ratio of actual to scheduled departures during the peak hours of 7:00 a.m. to 9:00 a.m. across the bus network. In 2018, KMB and LWB attained an operational capability of 97.96% and 100% against a target of 100% respectively.

Operational Excellence

KMB and LWB are ISO9001 certified for their Quality Management Systems. In 2018, both companies were accredited with the latest version of ISO9001, reflecting our commitment to achieving up-to-date operational and service standards.

Bus Safety Facilities and Maintenance

A number of technological devices have been incorporated on buses to improve safety and record operational data, including speed limiting devices and the telematics system. All KMB and LWB buses undergo an ISO-certified maintenance regime, comprising daily and monthly servicing, a semi-annual minor dock and an annual road-worthiness inspection, in addition to random checks from the Transport Department of the HKSAR Government.

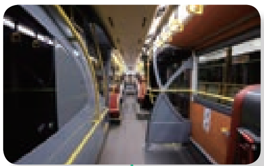
The high maintenance standards keep the fleets in tip-top shape

Bus Safety Measures

Protective Pads

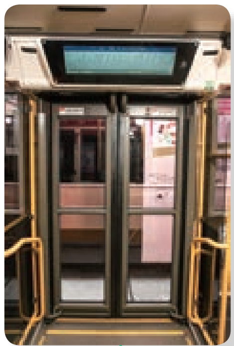
Driver Protective Shield

Continuous Handrails



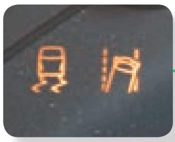
Wheelchair Area

Door Sensor



CCTV System

Electronic Stability Programme



Non-slip Flooring

Driver Feedback Device

Telematics System

Seat Belts

Safety Belts

KMB and LWB have requested bus manufacturers to install 3-point safety belts on all seats as a standard feature for new buses ordered after March 2018. Currently, close to 200 new buses are fully equipped with seat belts on both decks. As for buses that are currently in service and running on long-haul or expressway routes, safety belts will be installed on all upper-deck seats in phases. The retrofitting programme is underway with the support of the Transport Department.

Electronic Stability Programme ("ESP")

ESP is an important safety feature to reduce the risk of buses skidding or overturning when cornering or operating on slippery road surfaces. To safeguard road safety, all new Euro VI buses will be equipped with ESP and the first batch of such buses will be deployed in 2019.

Driver Feedback Device

If the speed of the bus exceeds 70km/hr, an alarm will sound and a warning light will be activated to alert the bus captain to speeding. The alarm system is being upgraded on a trial basis to function also when the road speed limit is 50km/hr.

Anti-drowsiness Device

An anti-drowsiness device is being trialled to monitor the drowsiness of bus captains when they are driving. The device detects the level of alertness of a driver through advanced facial recognition and gives early warning of any "microsleep". If the trial results are satisfactory, such a system will be installed on buses.

Geo-fencing

Geo-fencing uses global positioning system (GPS) technology or radio frequency identification (RFID) to define geographical boundaries, allowing speed limits to be set for buses running through specific areas. Arrangements are being made to test geo-fencing on all KMB buses. After satisfactory testing, consideration will be given to implementing geo-fencing technology on the fleet. Bus routes with steep slopes or sharp bends will be given higher priority.

Surveillance Cameras and Data Protection

Surveillance cameras have been standard features on all new buses since 2015. At the end of 2018, surveillance cameras had been installed on 3,991 KMB buses and 262 LWB buses. The cameras protect the interests of bus captains in the event of Police investigations or legal proceedings.

Through coaching and guidance, KMB aims to ensure that bus captains' performance meets professional standards

An anti-drowsiness device is being trialled

The Bus Captain Training School offers professional training for all new and in-service bus captains

The Group is concerned about personal data protection and has established working instruction guidelines to prevent personal data from being disclosed inappropriately. Stickers are posted on all buses equipped with a CCTV system to inform bus passengers and bus captains of their presence and purpose. Recordings from CCTV cameras will be accessed by authorised persons only for the purposes of security and incident investigation. The recorded data is controlled by management and will only be accessed, copied or viewed following management approval in accordance with the governing procedures.

Public Safety Awareness Programme

KMB and LWB make use of different channels to boost public awareness of safety matters. A series of safety messages, broadcast on the Bus Stop Announcement System in Cantonese, English and Putonghua, remind passengers to hold the handrail at all times. In addition, this message is periodically conveyed via App1933 and on KMB's Facebook page. Also, KMB has cooperated with the Police to promote road safety in some primary school zones as well as within the community at large.

Bus Captain Training

In addition to providing comprehensive basic training to all new bus captains to equip them with a safe driving mind-set, bus manoeuvring skills and bus route knowledge, the Bus Captain Training School offers a series of training courses for in-service bus captains. These include route training, remedial training, bus type training, driving enhancement training as well as refresher training, so that bus captains may upgrade their driving skills and enhance their safety awareness. Practical defensive driving training and target-based remedial training, including awareness of speeding and passing through bus washing machines, have been introduced to address areas identified improvement in 2018.

To meet customers' needs and expectations, our bus captain performance management system helps keep our bus captains at a high standard in terms of driving safety, driving manner and quality customer service. Through coaching and guidance, we aim to ensure that bus captains' performance continues to meet the expectations of the general public.

To support the Group's business growth and rising training needs, the number of Driving Instructors has been increased in order to enhance the service quality of our bus captains. The total training hours of KMB and LWB staff has increased by 270% compared with 2017.

Occupational Safety and Health

KMB and LWB staff members are encouraged to suggest improvement measures to enhance health and safety conditions. After reviewing staff suggestions at regular meetings of the Working Committee for Safety, a series of safety control measures are being introduced. We are studying the feasibility of using parking sensors to facilitate bus reversing and ball joint/electrical rear-view mirrors to enable rear-view mirror adjustment. To further raise the safety awareness of our frontline staff, 21 safety forums were conducted in 2018 at different bus termini, at which Driving Instructors discussed accidents and incidents with bus captains and shared suggestions on safety measures with frontline staff. An occupational health talk on the prevention of musculoskeletal disorders and frozen shoulder was hosted by a registered occupational therapist.

Safety forums were conducted to share suggestions on safety measures with frontline staff

An occupational health talk was held to help prevent musculoskeletal disorders

Interview with Regular Commuter

Mr Gary Chan
KMB Passenger

As a frequent KMB passenger who travels by bus at least four times a week, I am pleased to see KMB making continuous efforts to improve its bus services. These improvements include introducing priority seats for the needy and adding protective pads on staircases. What I appreciate most is having the estimated bus arrival time on App1933 as well as on screens installed at bus termini and at en-route bus stops, as this helps me plan my commute. As a passenger, bus safety is my utmost concern, and I look forward to learning more about KMB's bus captain safety training initiatives and the control mechanisms being put in place to prevent dangerous driving and fatigue-related accidents.

Care for Customers

Safety, efficiency, value-for-money and comfort underpin our customer service philosophy.

New Bus Fleet and Facilities

After the introduction of KMB's new red bus fleet, four "Red Buses 2.0" will be deployed in 2019 with even more innovative bus facilities, including an LCD bus route display monitor and dynamic passenger information panel.

KMB and LWB's double-deck buses have upgraded passenger facilities, including a free Wi-Fi service and USB charging points on both upper and lower decks, a straight staircase for easy access to the upper deck, more spacious 2+2 seating, priority seats for passengers in need, space near the entrance/exit for wheelchair users, colour contrasted handrails and easy-reach bell-pushes. In addition, the provision of continuous railing and hand poles on the lower deck ensures a smooth passenger flow in the space between the entrance and exit doors. All seats on the upper deck of LWB's Airbuses are equipped with an armrest to provide a more comfortable bus journey. At the end of 2018, 2,860 buses at Euro V standard or above were licensed in the KMB fleet, while 212 buses at Euro V standard or above were licensed in the LWB fleet. The majority of these buses are deployed on routes passing through low-emission zones to help improve the air quality in busy districts.

The entire KMB and LWB fleet deploys super-low floor buses for easy boarding and alighting, as well as wide entrance and exit doors for better passenger access, which means that all KMB and LWB buses are accessible to the elderly and wheelchair users. In addition, KMB has retrofitted over 180 buses to accommodate two wheelchair passengers, to run mainly on routes travelling to hospitals.

Upgraded Compartments

The air quality in bus compartments benefits from the electrostatic air filtration function installed on all air-conditioned bus models purchased after 2002, which is able to remove up to 80% of fine particles. At the end of 2018, electrostatic filters had been installed on 3,790 KMB buses and 262 LWB buses. In addition, all KMB and LWB buses ordered after 2008 are equipped with power-saving variable capacity air-conditioning compressors, which provide more adaptive and refined thermal control in the most fuel-efficient manner in all weather conditions.

Fare Concession Schemes

KMB and LWB are committed to providing efficient bus services. A number of fare concession schemes were introduced in 2018, including:

KMB

- A Monthly Pass Scheme with a validity period of consecutive 30 days applicable on nearly 400 routes operated by KMB, sold at Monthly Pass Kiosks;
- A Fare Saver Scheme offering a HK$2 rebate on each ride;
- A fare rebate scheme with Citibank earning cardholders a year-round 15% bus fare rebate;
- Partnership with Hong Kong Tramways Limited providing inter-modal interchange fare concessions; and
- A KMB-AMS interchange discount when interchanging from designated cross-harbour routes solely operated by KMB to designated Hong Kong Island Green Minibus routes operated by AMS Public Transport Holdings Limited, and vice versa.

LWB

- A pre-paid group ticket scheme on "A" Routes with fare discounts of 15-25%;
- A 20% same-day fare discount on "A" Routes for those taking the first leg on "E" Routes;
- A fare rebate scheme with Citibank earning cardholders a year-round 15% bus fare rebate; and
- Two new Bus-Bus Interchange concessions on 12 routes.

Interview with Young Passenger

Mr Tony Leung
Hong Kong Baptist University Student

As a KMB customer from an early age, I have always enjoyed taking buses around the city. These days, I often take the airport route and routes that run between North District and Hong Kong Island. These routes shorten my commuting time and enhance connectivity to the urban areas for all North District residents. KMB's App1933 displays the estimated arrival times of buses on selected routes. This app is particularly useful, as it allows passengers to check the arrival time of buses, which reduces waiting time at bus stops. KMB also offers special discounts to passengers, including students, and has installed fare saver kiosks at some universities. KMB's "50% Same-day Return Discount Concession Scheme for Full-time Students" is attractive to students and eases the burden of transport costs. I hope KMB will consider installing toilets at bus stations with a high passenger flow and introducing more electronic payment options for passengers.

Octopus Bus-Bus Interchange ("BBI") Schemes

KMB and LWB's Octopus BBI Schemes offer fare discounts to passengers on the second leg of journeys and broaden the network coverage. The schemes contribute to a greener environment by improving bus use and reducing congestion on busy roads. At the end of 2018, KMB operated a total of 153 Octopus BBI Schemes covering 409 routes, while LWB operated 27 Octopus BBI Schemes covering 26 routes. The BBI interface on the KMB and LWB websites provides more detailed and comprehensive route-to-route BBI information for passengers.

Special Service Arrangements

KMB and LWB provide special bus services during festive periods, such as Lunar New Year, Christmas, New Year and Ching Ming, and for people participating in mega events, including the Hong Kong Marathon, concerts at the Hong Kong Coliseum and, UNICEF Charity Run and concerts at Hong Kong Disneyland. In 2018, KMB and LWB introduced 75 and 12 special bus routes respectively.

Upgrade of Depots, Termini and Bus Stops

The four major KMB depots at Lai Chi Kok, Kowloon Bay, Sha Tin and Tuen Mun, as well as the LWB depot at Siu Ho Wan, provide the KMB and LWB fleets with maintenance and repair services. The KMB Overhaul Centre in Tuen Mun provides major overhaul services, while ten smaller depots offer parking and minor maintenance services.

KMB and LWB's commitment to upgrading the facilities at their termini and bus stops is reflected in the following:

- A solar bus stop pole featuring solar-powered bulbs with an auto-sensor has been installed so passengers may obtain bus route information day and night;
- Seats for the elderly, disabled and people with young children are being introduced at bus shelters, bus termini and interchanges. At the end of 2018, 769 seats had been installed;
- The Solar-powered Bus Shelter Campaign provides installation of solar power equipment for lighting, mosquito repelling devices and ventilation fans. 100 bus stops have been equipped with solar power equipment;
- A designated passenger resting kiosk at the bus terminus of the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge had been installed;
- Bus stop railings with cement bases are being phased out to ease the passage of wheelchair passengers;
- 711 KMB and LWB bus termini and bus shelters in total are equipped with the Integrated Bus Service Information Display System; and
- In 2018, 22 bus shelters were constructed, bringing the total to 2,572.

A solar bus stop pole has been installed

100 bus stops have been equipped with solar power equipment

KMB has retrofitted over 180 buses to accommodate two wheelchair passengers

App1933 helps young entrepreneurs explore business opportunities

Smartphone App

The KMB and LWB mobile app, "App1933", receives more than 800,000 hits each day from over 4,500,000 users, allowing passengers to check information on bus routes and the estimated time of bus arrivals more conveniently. App1933 not only offers the Live Chat function to communicate with customer service representatives, but also provides the estimated arrival time at the destination.

KMB and LWB provide special bus services for mega events in Hong Kong

Care for the Environment

Our environment-friendly bus fleets are entering a new era.

Environmental Policy

KMB and LWB recognise the potential environmental impacts of their services and are committed to mitigating and minimising these impacts in the following ways:

- Preventing pollution and continually improving our environmental performance by establishing and achieving objectives and targets;
- Conserving resources by reducing waste at source, and recycling and reusing resources;
- Minimising and controlling emissions from buses by adopting control measures and providing professional bus repair and maintenance engineering services;
- Enhancing staff environmental awareness by providing training in line with our environmental policy and environmental objectives and targets, as well as in relation to the potential environmental impacts arising from our operations;
- Communicating our environmental policy and environmental requirements to our suppliers, and making the policy available to the public;
- Responding to environmental inquiries from stakeholders promptly and ensuring effective communication on environmental issues internally; and
- Ensuring compliance with all applicable local environmental legislation and other relevant requirements.

Environmental Management

KMB has been ISO certified for Environmental Management System (ISO14001) at its two largest depots. KMB's four major depots and LWB's depot are subject to quarterly surveillance audits to ensure compliance with stringent environmental management standards. Environmental working groups were set up to handle environmental issues and ensure the implementation of the ISO systems. Under the guidance of Senior Management, the Engineering team is introducing new and innovative technologies on the bus fleet and in bus operations.

Environmental Bus Fleet

We are committed to creating a better environment by investing in environment-friendly buses that meet the strict exhaust emission standards of the European Council of Environmental Ministers. At the end of 2018, there were 2,837 air-conditioned Euro V buses, six Euro VI buses (including three Euro VI diesel electric hybrid buses), ten battery-electric buses and seven supercapacitor buses in the KMB fleet, and 208 air-conditioned Euro V buses and four battery-electric buses in the LWB fleet. In collaboration with our suppliers, we have been replacing older bus models with the latest, more energy-efficient bus models to enhance the environmental performance of our bus fleets. The average age of the KMB bus fleet has decreased to around seven years, while that of LWB has decreased to around four years.

Upgraded Double-deck Bus with Solar Panels as Standard Feature

KMB introduced the second generation in-house developed solar panel double-deck bus in 2018. The "Solar Panel Bus 2.0" reduces the saloon air temperature by around 8-10°C compared to a bus with no solar panel. The cooling time will be 50% faster compared to the first generation the solar panel bus, and it is estimated that the bus will save up to 3% in fuel consumption. The bus passed the Transport Department's Vehicle Type Approval, and the solar power system will become a standard feature on all newly purchased buses delivered from the second half of 2019.

When the engine is turned off, the solar energy captured will enable the two extraction blowers in the air ventilation system to extract hot air from the bus compartment through a specially designed duct for enhancing air circulation. When the engine is turned on, the system supplies electricity to the USB chargers and also drives the ventilation fans of the air-conditioning system and engine compartment.

Compared to the first generation solar panel bus, the efficiency of total solar panel is increased by 10% and the coverage area on the rooftop is increased by 40%. The airflow in the air ventilation system can be improved by 250% to help reduce the saloon air temperature.

Exploring New Zero-emission Bus Technologies

KMB and LWB strive to improve environmental protection by exploring various kinds of zero-emission technologies.

- KMB and LWB have further explored the use of an electric bus ("eBus") with a 324 KWh Lithium Iron Phosphate battery power pack capable of delivering 200km of zero-emission bus transport; and
- KMB has introduced the latest version of the "gBus", the supercapacitor-powered 12-metre air-conditioned single-deck bus, which testifies to KMB's vision for green public transport in the future. The gBus is characterised by long working hours and frequent start-stop duty cycles, as the supercapacitor can be recharged more quickly and undertake many more charging/discharging cycles. The gBus is powered up by an overhead pantograph or a plug-type charging port.

KMB's engineering team developed the second generation solar panel double-deck bus

KMB and LWB have introduced electric patrol cars for back-up support

Fuel Consumption

KMB and LWB consumed 8,400,000 gigajoules (GJ) of diesel oil in the reporting period, including the bus fleets and vehicles other than buses. To reduce oil consumption, a number of measures have been adopted on the KMB and LWB bus fleets and across its operations:

- The aircraft-style "Posilock" fuel filling system is used to refuel buses;
- Ambient sensors are installed on air-conditioned buses to save energy by reducing unnecessary cooling;
- The use of synthetic gearbox oil extends the oil drain interval from 30,000 to 150,000 km, reducing waste oil by 80%; and
- The mileage-based oil change scheme brings about a 40% reduction in engine oil consumption and waste oil.

Total Tonnage of Greenhouse Gas Emissions

The greenhouse gas emissions (Scope I and II) of KMB and LWB are around 139 tonnes of CO_2 equivalent per bus.

Emissions Reduction

KMB and LWB adopt the latest technologies to reduce roadside emissions and maintain good air quality in its bus compartments.

To meet the stringent exhaust emission standards laid down by the European Council of Environmental Ministers, we use Near Zero Sulphur Diesel, renew the bus fleet with the latest low-emission models and upgrade older buses by retrofitting exhaust treatment devices, including Diesel Oxidation Catalysts, Diesel Particulate Filters and Selective Catalytic Reduction units.

In 2018, KMB and LWB emitted around 133 tonnes of particulate matter (PM) and 1,850 tonnes of nitrogen oxides (NOx). In 2018, KMB and LWB had improved emissions of particulate matter and nitrogen oxides by 77% and 56% respectively compared to 2013.

The final batch of KMB and LWB buses have been retrofitted with a Selective Catalytic Reduction device, which can reduce the emission of nitrogen oxides, as the ammonia formed from the urea solution converts nitrogen oxides into nitrogen gas and water vapour.

As part of its commitment to conserving the environment, KMB and LWB are not only investing in and upgrading the technologies of their bus fleets, but also its patrol cars. KMB and LWB have introduced 20 electric patrol cars for back-up support and have set up electricity-recharging facilities at their main depots.

Checks on CO_2 Concentration

Each year, 80 KMB buses and 15 LWB buses from passenger-intensive bus routes are selected for a data-logger measurement of indoor CO_2 concentration, with the buses generally demonstrating compliance.

Tyres

In 2018, 32,100 used KMB and LWB tyres (equivalent to a saving of 1,920 tonnes in solid waste disposal at landfills) were retreaded at KMB's appointed contractors. More than 18,600 scrapped KMB and LWB tyres, which would otherwise have been disposed of at landfills, were collected by an agent for recycling into various products.

Fluorescent Tubes

In 2018, KMB and LWB sent a total of around 8,810 used fluorescent tubes to the Government's Chemical Waste Treatment Centre for recycling.

Oil and Chemicals

In 2018, around 190,000 litres of solid chemical waste were treated and stored according to type in designated areas at bus depots before being disposed of by a registered chemical waste collector at the Government's Chemical Waste Treatment Centre. Around 247,200 litres of waste oil were recycled or disposed of in accordance with the statutory standards.

Around 135,000 kilograms of waste lead-acid batteries were disposed of by a licensed contractor in compliance with Environmental Protection Department ("EPD") instructions, including some which were exported to overseas facilities approved by the EPD under the Basel Convention.

Metals

In 2018, KMB and LWB sent a total of around 750 tonnes of metal to recycling companies.

Water Consumption and Waste Water Treatment

KMB and LWB are committed as responsible corporate citizens to reduce their water consumption and properly treat their effluents before discharge. KMB and LWB have consumed around 322,000 cubic metres in the reporting period that is the average water consumption per bus is 0.2 cubic metres per day, decreased by 2% compared with 2017. Our depots are equipped with 11 automatic waste water treatment systems handling 610 cubic metres per day.

Green Measures in the Office

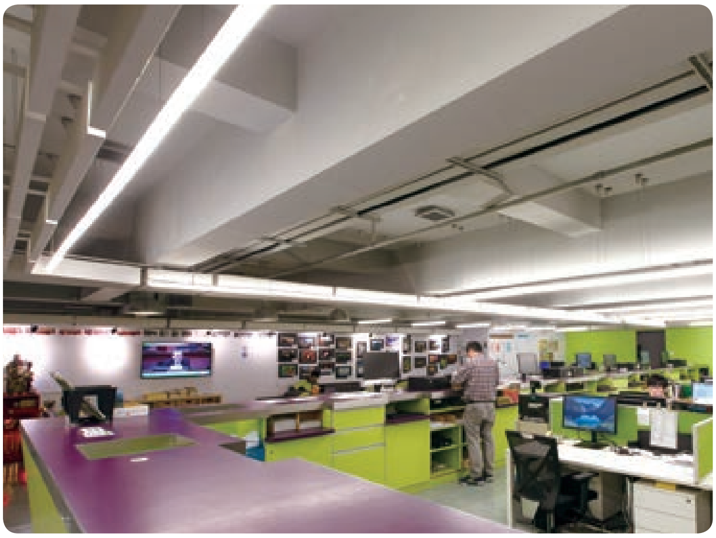
The Green Office concept drives both the design and the renovation of our premises. The air-conditioning thermostats are set to 25.5°C to conserve energy and protect air quality in line with the Government's Action Blue Sky Campaign. Lower-energy LED lighting is used in all newly renovated office spaces, on the ceilings of depots and in the common areas of our headquarters building, including the main lobby, to reduce electricity consumption and the demand for air-conditioning.

In 2018, KMB and LWB installed a default setting on all computers to revert to a screensaver after a designated period of time. It is a good practice to raise the awareness of staff to the need to save electricity and conserve the environment.

Electricity Consumption

KMB and LWB consumed around 118,000 GJ of electricity in 2018, a reduction of 8.5% compared with 2017. During the reporting period, we continued to explore environment-friendly initiatives and invested in the latest technologies to minimise energy use and reduce greenhouse gas emissions. Over 13,500 fluorescent tubes were changed to LED lights on the ceilings of KMB's four main depots and LWB's Siu Ho Wan Depot. After the implementation of these saving measures, the use of energy-saving LED tubes helped the Group reduce its total electricity consumption by around 10%.

Our depots are equipped with automatic waste water treatment systems



The use of energy-saving LED tubes helps reduce electricity consumption

Care for Employees

We cherish our staff as our greatest asset.

Human Resources Policy

We take care of our employees by maintaining a safe, respectful and harmonious workplace. We adopt a set of comprehensive human resources policies promoting gender equality, offering protection against sexual harassment, preventing bribery and protecting personal privacy. These and other policies are published on the staff website. We observe Hong Kong's labour and anti-discrimination laws and ensure that all our suppliers respect labour rights with regard to employment and freedom of association, and prohibit child labour and forced labour in all aspects relating to our business.

As an equal employment opportunity employer, we are committed to ensuring that no job applicant or employee is discriminated against on the grounds of race, sex, marital status, family status, pregnancy or disability. In collecting personal data from job applicants and existing staff members, we comply with the requirements of the Personal Data (Privacy) Ordinance, respecting the privacy of personal data while taking all reasonable steps to ensure that the personal data of job applicants and staff members is securely held and used only for the purposes stated in our personal data collection statement. As public bodies included in the Schedule of the Prevention of Bribery Ordinance, KMB and LWB remind staff members that they should not make use of their position to solicit or receive any advantage from the public.

Staff Benefits

To help attract and retain talented staff, competitive benefit packages are offered, including annual leave, medical benefits, hospitalisation insurance, accident insurance and free bus travel for staff and dependents. In the reporting period, KMB and LWB strengthened the benefit package of full-time employees by:

- Shifting the monthly bonuses of Operations and Maintenance staff to their basic salary;
- Extending the eligibility to a one-month basic salary bonus to monthly-paid Operations and Maintenance staff, and to administrative staff at officer grade or below;
- Increasing the entitlement of monthly-paid Operations and Maintenance staff to 12 days of double overtime pay every year;
- Enhancing the salary scale of monthly-paid bus captains from 8 increment points to 20 increment points;
- Enhancing the dependent free-ride bus pass benefit;
- Providing an allowance for an annual medical check-up for full-time bus captains aged over 50 and re-employed bus captains; and
- Extending maternity leave from 10 weeks to 14 weeks.

As a result of these measures, the cumulative take-home pay of monthly-paid bus captains increased by around 16%.

We extend our care for employees to their families. We provide a scholarship programme for the children of staff with satisfactory academic performance to support their tertiary education. At 31 December 2018, 206 children of KMB and LWB staff members had received scholarships. We brought festive joy to our staff at traditional festivals. At Lunar New Year, we distributed Chinese New Year gifts to our staff, while, at Dragon Boat Festival and Mid-Autumn Festival, we distributed rice dumplings and mooncakes respectively.

Staff Communication

To strengthen bilateral communications, meetings of each of the five KMB and one LWB Joint Consultative Committees, which represent around 90% of KMB and LWB's total workforce, were held on a monthly and bi-monthly basis respectively between management and staff representatives to review issues including safety, operations, the work environment and staff welfare. At the meetings, employee representatives generally accounted for 90% of attendees to ensure that the views of staff were well reflected.

Staff members are kept informed through the staff website of useful information, including KMB and LWB announcements, safe driving tips, snapshots of KMB and LWB activities and notices of forthcoming events. Staff can check duty roster information and make annual leave arrangements online, as well as using the e-learning training platform. The bi-monthly corporate magazine KMB Today provides another means of keeping employees up to date on KMB and LWB news and industry developments.

Interview with Bus Captain

Ms Leung Lai Shan
KMB Bus Captain

Around two years ago, I was delighted to join the KMB family, where I was immediately welcomed into the warm and vibrant bus captain community. As one of the few female bus captains in the fleet, I enjoy the friendly attitude of both colleagues and passengers, and receive encouraging feedback from time to time. Upon graduating from the Bus Captain Training School, I was assigned an experienced mentor, who provided me with valuable tips and shared his bus driving experience. The mentor helped me adapt to the job and build up my network. The Company values our opinions and maintains regular communication through a number of channels including associations, committees and meetings. During the year, the Company worked to improve our working environment in a number of ways, including building or upgrading toilets and rest stations at a number of bus stops in response to our needs.

Senior Management Visits

Members of the senior management from KMB and LWB made visits to bus termini, depots and offices during the year. These visits provided a good opportunity for staff to share their views about operational matters and workplace-related issues with members of the management team. Town hall meetings were held to communicate with all staff and listen to their feedback in the reporting period.

Technical and Apprentice Training

The Technical Training School has been responsible for training our bus maintenance staff in the latest bus technologies since 1973. In 2018, 199 in-house training sessions were run for 1,145 skilled workers, while six training sessions were organised in collaboration with our manufacturers for 81 engineers, supervisors and foremen.

The quality of our frontline staff has been recognised by passengers and through award schemes

Board members attended the Long Service Award Presentation Ceremony to recognise the loyal service of staff

To ensure a continuous stream of skilled workers to provide maintenance for the KMB and LWB bus fleets, the school runs a four-year apprenticeship training programme for youngsters who are interested in bus maintenance. The total of graduates since the school's establishment is 2,429. At the end of 2018, 152 apprentices were enrolled in the School's programme. The quality of our apprentice training was once again recognised in 2018 when a KMB apprentice was First Runner-up in the Vocational Training Council's Best Apprentice in the Automobile Trade Competition. He was invited to visit a motor plant in Germany. Two KMB apprentices were invited to visit Japan and Korea under the International Exposure Programme for Apprentices organised by the Vocational Training Council and to study in electrical and mechanical related companies.

Recognition for Service Excellence

202 Star Bus Captains were recognised for their outstanding performance in safe driving and customer care. The Long Service Award Presentation Ceremony was held once again to recognise the loyal service of our staff. 98 KMB and LWB staff received the 35-year award and a gold medal, 90 employees received the 30-year award and a plaque and a pin, 599 employees received the 20-year award and a plaque and a pin, and 259 employees with 10 years' service received a certificate of appreciation.

KMB and LWB provide a pleasant working environment and a competitive remuneration benefit package to attract and retain talented staff

Psychological Support

KMB and LWB have engaged the Christian Family Service Centre to provide a counselling hotline service to staff members who need assistance. To further enhance the psychological well-being of frontline staff, a professional consultancy team from The Chinese University of Hong Kong was engaged to review current provisions and make recommendations for further improvement. The Group is committed to enhancing key areas of its organisation culture, recruitment, performance management, operational support and psychological support.

Sports and Leisure Activities

To promote effective work-life balance, KMB and LWB staff members are encouraged to participate in sports and leisure activities as well as undertake voluntary work. As at the end of 2018, nine interest clubs were available, focusing on singing, photography, basketball, table tennis, badminton, football, running, chess and dragon boat racing. The groups arranged different activities or competitions. Singing Club encourages employees who are keen on singing and instrumental performance to join a twice-monthly gathering. The band “K All Star” was formed by club members to represent KMB in external singing competitions, as well as performer at internal events. A staff concert organised with the Singing Club in 2018 drew a large audience of staff and their family members and friends.

TIH Retiree Association

The TIH Retiree Association was formed so that close contacts could be maintained with retired colleagues through various activities. In 2018, the Association held two dinners to celebrate the Mid-Autumn Festival, attended by around 500 retirees. To share festive joy with retirees, we distributed red packets, Chinese sausages, rice dumplings, and mooncakes during the traditional festivals.

KMB and LWB organised interest clubs, staff concerts and gatherings, and distributed festive gifts to all staff, including retirees

Workforce (as at 31 December 2018)

		KMB, LWB and SB
Total		13,189
By Gender	Female	1,049
	Male	12,140
By Age Group	Below 40 years old	2,967
	40-50 years old	3,936
	Over 50 years old	6,286
By Employment Category	Senior level	25
	Middle level	266
	Entry level	12,898
By Employment Type by Gender	Full Time Female	933
	Full Time Male	11,414
	Non Full Time Female	116
	Non Full Time Male	726

Training Hours (1 January – 31 December 2018)

		KMB, LWB and SB	Average
Total		377,978hrs	
By Gender	Female	27,301hrs	26
	Male	350,677hrs	29
By Employment Category	Senior level	77hrs	3
	Middle level	2,271hrs	9
	Entry level	375,630hrs	29

Note: Sun Bus Limited ("SB") is not included in the scope of the TIH 2018 Sustainability Report, but its data has been included in the table as it provides an overview of the Group's employee information.

KMB and LWB provide a scholarship programme for children of staff

Engaging Stakeholders

We are committed to supporting various initiatives to enhance the well-being of the community and to engaging our stakeholders through effective communication channels.

Engaging the Public

In 2018, a number of events were organised to interact with the public we serve:

- From 10 to 15 February, KMB operated four stalls at Lunar New Year Fairs in Victoria Park, Fa Hui Park, Tsuen Wan and Yuen Long;
- From April to December, KMB ran pop-up stores at different shopping malls in Hong Kong, including Yuen Long YOHO Mall (April), Kwun Tong apm (May), Tsuen Wan Plaza (June), Tuen Mun V city (August), Sheung Shui Landmark North (November), Yuen Long Plaza (November) and Tseung Kwan O East Point City (December). The stores allowed the public to understand more about the KMB's services, showcasing bus models and providing various games and activities related to bus services;
- Between 18 and 24 July, KMB organised a booth at the Hong Kong Book Fair at the Hong Kong Convention and Exhibition Centre in Wan Chai; and
- KMB and LWB held a total of 12 Passenger Liaison Group meetings at bus terminus across their operating areas to collect customer views on a variety of issues, including interchange scheme, environmental friendly buses, passenger facilities and network connectivity.

Media and Online Communication

In 2018, we invited the media to events to strengthen communications and made increasing use of social media platforms such as Facebook and Instagram to publicise

KMB and LWB-related information. Our interaction with netizens included a number of cross-media activities that have been well received, as the number of fans of our Facebook page grew from over 64,000 in January to over 80,000 in December. Likewise, the number of followers of our Instagram account had reached more than 100,000 in 2018 and the Stories on Instagram had gained more than 40,000 followers by year end.

Firm in the belief that social media platforms constitute a major communication means between the public and the company, we will continue to make good use of online communication platforms to strengthen its ties with the public.

The following activities were organised via online social media platforms in 2018:

- KMB Facebook has promoted different recruitment events with images, GIFs and videos. Recruitment posts always have a huge impact on recruitment days;
- In June, KMB Facebook introduced the brand new online shop "KMB Shop" to facilitate online purchase with different offers and discounts;
- From July to September, KMB used its Facebook page to organise a paper bus design competition, which attracted more than 300 submissions. A showcase of products was held in December, and many were selected to decorate the lobby of Manhattan Mid-Town;
- In July, KMB Facebook conducted a live interview with the DSE top scorer Thomas Wong, who shared his learning experience;
- In August, KMB Facebook cooperated with singer Alfred Hui to share memories of vintage buses; and
- In September, KMB and LWB announced special bus services arrangements during and after the Typhoon Mangkhut via Facebook page.

App1933

To respond to the needs of our community, we have used App1933 to help find missing persons, especially the elderly who may have dementia. A number of such passengers were found after appeals on App1933.

App1933 helps young entrepreneurs promote their start-ups by providing 20 locations from which they can link to their company website. Also, to share the memorable history of Hong Kong, some old street-view photos were inserted on App1933 to be displayed next to the relevant bus stops.

Websites

The KMB and LWB websites (www.kmb.hk and www.lwb.hk) not only serve as a corporate informative portal, providing corporate news, promotional schemes and customer enquiries; they also serve our passengers by providing a map-based point-to-point bus route search function with 360-degree photo "Street View", LiveChat and "Octopus Refund Enquiry" functions.

KMB hosted pop-up stores at different shopping malls to interact with the public

The DSE top scorer was invited to share his learning experience which was broadcast via KMB Facebook


KMB and LWB Customer Service Hotline handles passenger enquiries


KMB and LWB distributed festive gifts to the elderly

Customer Service Centres

Our Customer Service Centres provide passengers with a one-stop service offering KMB and LWB souvenirs, Octopus Card add-value services and the provision of bus route information, while the Tai Lam Interchange customer service kiosk similarly provides a wide range of services. The kiosk provides cash withdrawal and free Wi-Fi services, as well as a range of convenience goods, providing a handy one-stop service. The customer service kiosk at Hong Kong International Airport's Ground Transportation Centre and the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge provide a passenger enquiry service and Airbus ticket sales.

Customer Service Hotline

The KMB customer service hotline (2745 4466) handled about 1.5 million calls in 2018, an average of 124,000 calls a month, with a hotline operator service available daily from 7:00 a.m. to 11:00 p.m. being complemented by a 24-hour hotline system. The LWB customer service hotline (2261 2791) handled about 48,700 calls in 2018, an average of 4,050 calls a month, with a hotline operator service available daily from 7:00 a.m. to 11:00 p.m. being complemented by a 24-hour hotline system.

LiveChat for Enquiries

To provide more channels for passenger enquiries, KMB and LWB have set up a LiveChat channel on their websites and App 1933 for instant response to customer enquiries, providing a daily service from 7:00 a.m. to 11:00 p.m.

Hosting Visits

To increase our stakeholders' understanding of the daily operations at our bus depots, we received visitors from 24 organisations in the reporting period, including social service organisations government organisations, professional and academic institutions and overseas delegations. Schools and non-government organisations participated in the Summer Visit Programme to visit KMB depots. We hosted around 40 such delegations in 2018.

Membership of Associations and Advocacy

During the reporting period, we further strengthened the connection with stakeholders via participation in the following organisations:

- Business Environment Council
- Employers' Federation of Hong Kong
- Federation of Hong Kong Industries
- The Chartered Institute of Logistics and Transport in Hong Kong
- The Hong Kong General Chamber of Commerce

Serving the Community

To support the elderly and passengers in need, each year KMB and LWB participate in the International Day of Disabled Persons event organised by The Hong Kong Council of Social Service offering free rides on all its bus routes to people with disabilities and one accompanying carer. KMB and LWB also supported the annual Senior Citizens Day, by offering free rides to people aged 65 and over. To share festive joy with the elderly, we distributed red packets, Chinese sausages, rice dumplings, and mooncakes during the traditional festivals.

We sponsor and participate in a variety of local community programmes, including the Dress Casual Day and the Corporate Challenge Half Marathon, all organised by The Community Chest of Hong Kong, as well as taking part in The Hong Kong Council of Social Service Caring Company Patron's Club. In 2018, KMB provided bus-body advertisements for 17 non-governmental organisations ("NGOs") on 21 buses.

Donation of Used and Retired Bus Programme

To nurture the next generation and show our support for sustainability and recycling, KMB launched the Donation of Used and Retired Bus Programme since 2016 to donate used and retired buses to schools or non-profit organisations. The buses can be regenerated specifically to meet the creative learning needs of the schools or non-profit organisations.

At the end of 2018, fourteen retired buses had been donated. The list of beneficiary schools/non-profit organisations is as follows:

- Buddhist Lim Kim Tian Memorial Primary School
- Hong Chi Morninghope School, Tuen Mun
- Buddhist Chung Wah Kornhill Primary School
- Tung Tak School
- Buddhist Chi King Primary School
- Po Leung Kuk Riverain Primary School
- Sam Shui Natives Association Huen King Wing School
- Kowloon Tong School (Secondary Section)
- Yan Oi Tong Chan Wong Suk Fong Memorial Secondary School
- Po Leung Kuk Choi Kai Yau School
- CNEC Lui Ming Choi Primary School
- Lok Sin Tong Leung Kau Kui Primary School (Branch)
- S.K.H. Fung Kei Primary School
- G.C.E. Past Students' Association Whampoa Primary School

Interview with School Principal

Mr. YUEN Hok Sum
Hong Chi Morninghope School, Tuen Mun Principal

Hong Chi Morninghope School, Tuen Mun, a special school for children with intellectual disabilities, was one of the beneficiary schools in KMB's "Donation of Used and Retired Bus Programme". We received the donation of a retired double-deck bus which was then revamped into a recreational area for our students. KMB's engineering and maintenance staff provided technical support during the revamp. They also provided used bus parts to help us decorate the bus and taught our students how to clean the bus. The donation was not just a one-off; we have since developed an ongoing partnership with KMB. KMB has created a communication platform for the schools that received retired buses to share and update their experience. KMB's representatives have also paid visits to the schools and provided additional support. We are grateful for KMB's contributions that are tailor-made to our needs and hope that KMB can continue their good deeds and promote social inclusion.

KMB and LWB engaged with and served the community in various initiatives

FRIENDS OF KMB

KMB's volunteer club FRIENDS OF KMB ("FRN") has promoted environmental protection, civic education and social service activities since it was formed in 1995. In the reporting period, FRN comprised 5,600 volunteers, including KMB and LWB staff and their dependents, and passengers.

During the reporting period, FRN volunteers partnered with a number of NGOs, including Tung Wah Group of Hospitals, Prince of Wales Hospital, Suicide Prevention Services, Po Leung Kuk, Agency For Volunteer Service, The Neighbourhood Advice-Action Council, Hope Worldwide, and Lok Sin Tong, to visit the elderly and underprivileged people living in Central and Western District, Eastern District, Kowloon City, Kwai Tsing, Kwun Tong, Sha Tin, Sham Shui Po, Tsuen Wan, Tuen Mun, and Yuen Long. FRN received the Award of 10,000 Hours for Volunteer Service from the Social Welfare Department.

Interview with FRN

Ms Maggie Ho
FRIENDS OF KMB

As a long-term member of FRIENDS OF KMB ("FRN"), I help plan and organise volunteer activities for FRN members. During the reporting year, we organised a variety of volunteer activities as we reached out to different community groups such as the elderly, low-income families and people with disabilities.

For my part, I joined an eight-month volunteer programme, organised in collaboration with Suicide Prevention Services, which offers help to secondary students who are in need of social and emotional support. I was happy to engage with those students closely and help raise their awareness of mental health issues.

We are looking forward to participating in more volunteer activities in the coming year to collaborate with different non-governmental organisations and continue making positive contributions to the community. I hope that the management of both KMB and LWB will continue to provide support to our FRN programmes and promote a culture of volunteering among the company's staff and the public.

Comprising 5,600 members, FRN is dedicated to serving the community

Reporting Content Index Tables

TIH has developed this report in accordance with the Core Option of the Global Reporting Initiative Standards ("GRI") Sustainability Reporting Guidelines and the Environmental, Social and Governance Reporting Guide ("ESG" Guide) issued by the Hong Kong Exchanges and Clearing Limited ("HKEx"). The following content index table presents the associated disclosures either by cross-referring relevant section(s) in this Report or by providing direct remarks.

GRI Standards Disclosure 2016	HKEx ESG Reporting Guide (General Disclosures and KPIs)	GRI General Disclosure Description	Reference	Page(s)
Organisation Profile				
102-1		Name of the organisation	Group Profile	2
102-2		Activities, brands, products, and services	Group Profile Business at a Glance Key Franchised Bus Network in Hong Kong	2-3 4-5 6-7
102-3		Location of headquarters	Property Holdings and Development	37
102-4		Location of operations	Business at a Glance	4-5
102-5		Ownership and legal form	Business at a Glance	4-5
102-6		Markets served	Business at a Glance	4-5
102-7		Scale of the organisation	Business at a Glance Key Franchised Bus Network in Hong Kong Financial and Operational Highlights Care for Employees	4-5 6-7 8-9 61
102-8	B1.1	Information on employees and other workers	Care for Employees	61
102-9	B4.1 B5 General Disclosure B5.2	Supply Chain	Working with Suppliers	40-41
102-10		Significant changes to the organisation and its supply chain	There were no significant changes during the reporting period.	–
102-11		Precautionary principle or approach	Safety First Corporate Governance Report	42-47 86-103
102-12		External initiatives	Group Profile Management Discussion and Analysis Working with Suppliers Safety First	2-3 19 40-41 43
102-13		Membership of associations	Engaging Stakeholders	64
Strategy				
102-14		Statement from senior decision-maker	Chairman's Letter Managing Director's Message	12-15 16-17
102-15		Key impacts, risks, and opportunities	Chairman's Letter Managing Director's Message	12-15 16-17

Ethics and Integrity				
102-16		Values, principles, standards, and norms of behavior	Group Profile Working with Suppliers Safety First Care for the Environment Care for Employees Engaging Stakeholders Corporate Governance Report	2-3 40-41 42-47 52-55 56-61 62-67 86-103
Governance				
102-18		Governance structure	Corporate Governance Safety First Corporate Governance Report	40 42-43 86-103
Stakeholder Engagement				
102-40		List of stakeholder groups	Stakeholders Engagement and Materiality Assessment	38-39
102-41		Collective bargaining agreements	Care for Employees	56-57
102-42		Identifying and selecting stakeholders	Stakeholders Engagement and Materiality Assessment	38-39
102-43		Approach to stakeholder engagement	Stakeholders Engagement and Materiality Assessment Engaging Stakeholders	38-39 62-67
102-44		Key topics and concerns raised	Stakeholders Engagement and Materiality Assessment	38-39
Reporting Practice				
102-45		Entities included in the consolidated financial statements	Financial and Operational Highlights	8-9
102-46		Defining report content and topic Boundaries	Reporting Approach	38
102-47		List of material topics	Stakeholders Engagement and Materiality Assessment	38-39
102-48		Restatements of information	There were no restatement of information provided in the previous report	–
102-49		Changes in reporting	There were no significant changes in the report	–
102-50		Reporting period	Reporting Approach	38
102-51		Date of most recent report	July 2018	–
102-52		Reporting cycle	Annual	38
102-53		Contact point for questions regarding the report	For enquiry, please contact (refer to the back cover of the TIH 2018 Annual Report).	–
102-54		Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option.	38-39
102-55		GRI content index	Reporting Content Index Tables	68-71
102-56		External assurance	This report was not externally assured.	–

Energy				
103-1,2,3	A2, 3 General Disclosure A3.1	Management Approach	Working with Suppliers Care for the Environment	40-41 52-55
302-1	A2.1	Energy consumption within the organisation	Care for the Environment	53-55
302-4	A2.3	Reduction of energy consumption	Care for the Environment	53-55
302-5	A2.3	Reductions in energy requirements of products and services	Care for the Environment	53-55
Water				
103-1,2,3	A2, 3 General Disclosure A3.1	Management Approach	Working with Suppliers Care for the Environment	40-41 52-55
303-1	A2.2	Water withdrawal by source	Care for the Environment All water was sourced from municipal water supplies.	55
303-3	A2.4	Water recycled and reused	Care for the Environment Fresh water used in KMB and LWB's offices and depots is provided by the Water Supplies Department in Hong Kong. No major issue concerning sourcing water has been encountered.	55
Emissions				
103-1,2,3	A1, 3 General Disclosure A3.1	Management Approach	Working with Suppliers Care for the Environment	40-41 52-55
305-1	A1.2	Direct (Scope 1) GHG emissions	Care for the Environment Remark: Greenhouse gas emissions are calculated according to the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purpose) in Hong Kong", published by the Environmental Protection Department and the Electrical and Mechanical Services Department.	54
305-2	A1.2	Energy indirect (Scope 2) GHG emissions	Care for the Environment	54
305-4	A1.2	GHG emissions intensity	Care for the Environment	54
305-5	A1.5	Reduction of GHG emissions	Care for the Environment	54
305-7	A1.1	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	Care for the Environment	54
Waste				
103-1,2,3	A1, 3 General Disclosure A3.1	Management Approach	Working with Suppliers Care for the Environment	40-41 52-55
306-2	A1.3 A1.4 A1.6	Waste by type and disposal method	Care for the Environment Hazardous Waste: Tyres Fluorescent Tubes Oil and Chemicals Non-hazardous Waste: Metals	54-55
	A2.5	Total Packaging material used for finished products	Not Applicable to KMB & LWB's business.	–

Environmental Compliance				
103-1,2,3	A1, 2, 3 General Disclosure A3.1	Management Approach	Working with Suppliers Care for the Environment	40-41 52-55
307-1		Non-compliance with environmental laws and regulations	There was no incompliance with local environmental laws and regulations in 2018.	–
Employment				
103-1,2,3	B1, 4, 7 General Disclosure	Management Approach	Working with Suppliers Care for Employees	40-41 56-61
401-2		Benefits provided to full-time employees that are not provided to temporary or part-time employees	Care for Employees	57
Occupational Health and Safety				
103-1,2,3	B2 General Disclosure	Management Approach	Safety First Care for Employees	42-47 56-61
403-1	B2.3	Workers representation in formal joint management-worker health and safety committees	Safety First Care for Employees	47 56-57
403-4		Health and safety topics covered in formal agreements with trade unions	Safety First	47
Training and Education				
103-1,2,3	B3 General Disclosure	Management Approach	Safety First Care for Employees	46-47 56-61
404-1	B3.1 B3.2	Average hours of training per year per employee	Safety First Care for Employees	46-47 61
Local Communities				
103-1,2,3	B8 General Disclosure	Management Approach	Engaging Stakeholders	62-67
413-1	B8.1 B8.2	Operations with local community engagement, impact assessments, and development programs	Engaging Stakeholders	62-67
Customer Health and Safety				
103-1,2,3	B6 General Disclosure	Management Approach	Safety First	42-47
416-1		Assessment of the health and safety impacts of product and service categories	Safety First Care for the Environment	42-47 53-55
Personal Data Privacy				
103-1,2,3	B6.5	Management Approach	Safety First	45-46

Financial Review

The Group

Summary of Financial Performance

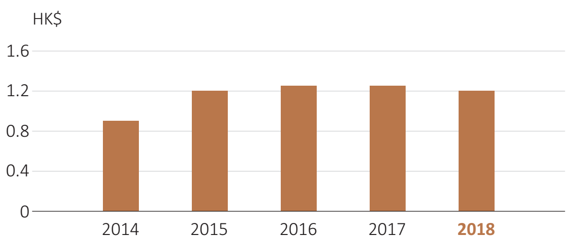
	2018	2017	Favourable/(Unfavourable) Change	
	HK$ million	HK$ million	HK$ million	%
Revenue	**8,009.3**	7,887.7	121.6	1.5
Other income	**217.6**	208.2	9.4	4.5
Operating expenses	**(7,389.7)**	(7,073.6)	(316.1)	(4.5)
Finance costs	**(23.7)**	(21.5)	(2.2)	(10.2)
Share of profits of associates	**23.8**	7.1	16.7	235.2
Profit before taxation	**837.3**	1,007.9	(170.6)	(16.9)
Income tax	**(117.2)**	(148.2)	31.0	20.9
Profit for the year from continuing operations	**720.1**	859.7	(139.6)	(16.2)
Profit for the year from discontinued operations	**–**	429.0	(429.0)	(100.0)
Non-controlling interests	**–**	6.1	(6.1)	(100.0)
Profit attributable to equity shareholders of the Company	**720.1**	1,294.8	(574.7)	(44.4)
Earnings per share (HK$)	**1.68**	3.11	(1.43)	(46.0)

Review of 2018 Financial Performance

The Group's Results for the Year

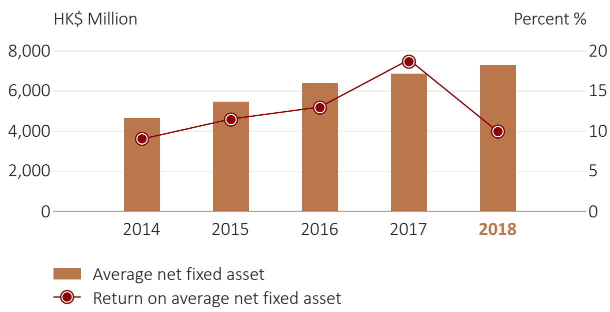
The Group's profit attributable to equity shareholders for the year ended 31 December 2018 was HK$$720.1 million, a decrease of HK$574.7 million or 44.4% compared to HK$1,294.8 million for 2017. Earnings per share decreased correspondingly from HK$3.11 for 2017 to HK$1.68 for 2018. The Group's profit for 2017 included a one-off gain of HK$439.6 million arising from the disposal of the entire 73% equity interest in RoadShow Holdings Limited. When excluding such one-off gain, the Group's profit attributable to equity shareholders for the year decreased by HK$135.1 million or 15.8% compared with 2017.

Dividends per share



Return on average net fixed asset employed

(exclude property development)



The revenue and underlying profit generated by the Group's five Divisions for the year ended 31 December 2018 are shown below:

	Revenue		Profit before taxation	
HK$ million	**2018**	**2017**	**2018**	**2017**
Franchised Public Bus Operations Division	**7,593.1**	7,464.6	**588.6**	803.3
Non-franchised Transport Operations Division	**346.4**	349.2	**58.2**	53.6
Property Holdings and Development Division	**69.8**	73.9	**64.6**	65.7
Financial Services Division	**–**	–	**84.7**	79.4
China Mainland Transport Operations Division	**–**	–	**23.8**	7.1
	8,009.3	7,887.7	**819.9**	1,009.1
Finance costs			**(23.7)**	(21.5)
Unallocated net operating income			**41.1**	20.3
Profit before taxation and non-controlling interests from continuing operations			**837.3**	1,007.9
Income tax			**(117.2)**	(148.2)
Profit for the year from continuing operations			**720.1**	859.7
Profit for the year from discontinued operations			**–**	429.0
Non-controlling interests			**–**	6.1
Profit attributable to equity shareholders of the Company			**720.1**	1,294.8

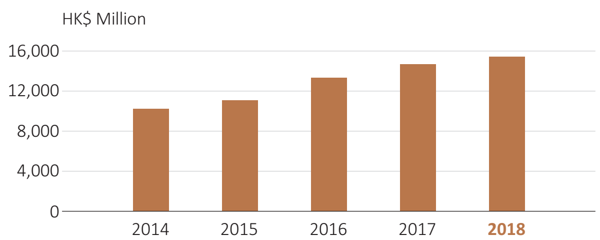
Segment information on the Group's main businesses is set out in note 12 to the financial statements on pages 174 to 178 of this Annual Report.

Key Changes to the Group's Revenue, Other Income and Operating Expenses

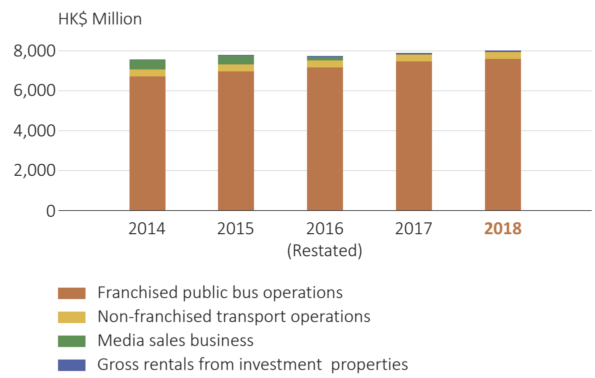
Revenue for 2018 amounted to HK$8,009.3 million, an increase of HK$121.6 million or 1.5% compared with HK$7,887.7 million for 2017. The increase was mainly due to the increase in revenue from the Group's franchised public bus operations of HK$128.5 million, primarily as a result of patronage growth. However, such positive factor was partly offset by the decrease in the revenue from the Group's non-franchised transport operations division by HK$2.8 million and rental income arising from the Group's investment properties by HK$4.1 million.

Other income increased by HK$9.4 million from HK$208.2 million in 2017 to HK$217.6 million in 2018. The increase was mainly due to the increase in interest income from bank deposits. The breakdown of other income is set out in note 4 to the financial statements on page 165 of this Annual Report.

Total assets at 31 December



Group revenue



Total operating expenses for 2018 amounted to HK$7,389.7 million, an increase of HK$316.1 million or 4.5% compared to HK$7,073.6 million for 2017. The increase was mainly due to the increase in staff costs of HK$228.5 million and increase in fuel and oil costs of HK$154.4 million as a result of annual pay rise and rising of international fuel prices respectively.

The Group's share of profits of associates for 2018 amounted to HK$23.8 million, an increase of HK$16.7 million or 235.2% compared to HK$7.1 million for 2017.

Income tax expense for the year amounted to HK$117.2 million (2017: HK$148.2 million). The breakdown of the income tax expense is set out in note 6 to the financial statements on page 168 of this Annual Report.

More detailed information in respect of the Group's individual business units is set out on pages 79 to 83 of this Annual Report.

Dividend

The Board has recommended an ordinary final dividend of HK$0.90 per share (2017: HK$0.90 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 16 May 2019 or at any adjournment thereof, the proposed final dividend, together with the interim dividend of HK$0.30 per share (2017: HK$0.35 per share) paid in October 2018, would result in a total dividend of HK$1.20 per share for 2018 (2017: HK$1.25 per share).

Key Changes to Financial Position

Capital Expenditure

As at 31 December 2018, the Group's investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (comprising buildings, buses and other motor vehicles, buses under construction, tools and others) amounted to HK$9,840.5 million (2017: HK$9,261.4 million). The increase was mainly due to more new buses being purchased by KMB and LWB for fleet replacement as well as service enhancements made during the year. None of the assets was pledged or charged as at 31 December 2018. The breakdown of the capital expenditure is shown in note 13 to the financial statements on pages 179 to 184 of this Annual Report.

Intangible Assets and Goodwill

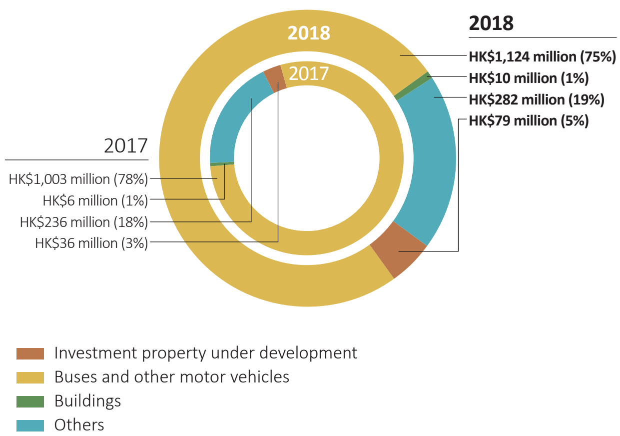
As at 31 December 2018, the Group's intangible assets and goodwill amounted to HK$360.6 million (2017: HK$132.1 million) and HK$84.1 million (2017: HK$84.1 million) respectively. The intangible assets mainly represent passenger service licences and transport operating rights of the Group's non-franchised transport operations.

Current Assets and Current Liabilities

The Group's total current assets as at 31 December 2018 amounted to HK$1,891.1 million (2017: HK$1,773.0 million), mainly comprising liquid funds of HK$1,181.0 million (2017: HK$1,232.8 million) and accounts receivable of HK$371.1 million (2017: HK$459.6 million). The Group's liquid funds as at 31 December 2018 were mainly denominated in Hong Kong dollars.

Total current liabilities as at 31 December 2018 amounted to HK$1,179.8 million (2017: HK$1,334.6 million), which mainly included accounts payable and accruals.

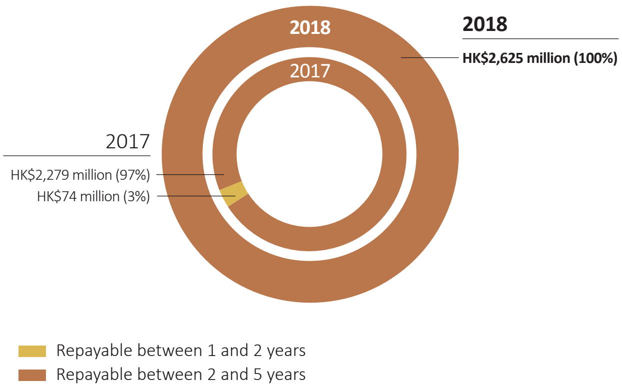
Capital expenditure



Bank Loans

As at 31 December 2018, bank loans, all unsecured, amounted to HK$2,625.0 million (2017: HK$2,353.3 million). The maturity profile of the bank loans of the Group as at 31 December 2018 and 31 December 2017 is shown in the chart below:

Debt maturity profile at 31 December



As at 31 December 2018, the Group had undrawn committed banking facilities totalling HK$2,455.0 million (2017: HK$2,800.0 million).

Capital Commitments

The Group's capital commitments as at 31 December 2018 amounted to HK$677.9 million (2017: HK$1,188.6 million). These commitments are to be financed by borrowings and from the Group's working capital. A summary of the capital commitments is set out below:

HK$ million	2018	2017
Development of the Kwun Tong Site	**144.7**	74.0
Purchase of buses and other motor vehicles	**444.3**	1,045.7
Purchase of other properties, plant and equipment	**88.9**	68.9
Total	**677.9**	1,188.6

As at 31 December 2018, the Group had 225 (2017: 562) new buses on order for delivery in 2019.

Funding and Financing

Financial Liquidity and Resources

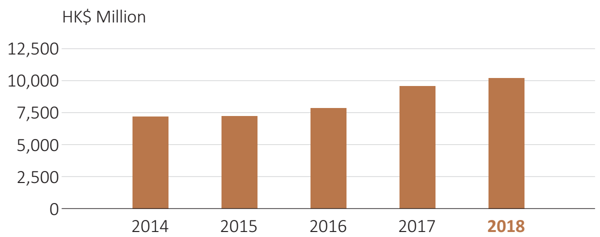
The Group closely monitors its liquidity requirement and financial resources to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with the Group's reserves of cash and liquid assets and undrawn committed banking facilities are sufficient to meet the requirements for loan repayments, daily operational needs and capital expenditure as well as potential business expansion and development. The Group's operations are mainly financed by shareholders' funds and bank loans. In general, major operating companies of the Group arrange their own financing to meet their operational and specific needs. The Group's other subsidiaries are mainly financed by the Company's capital base. The Group reviews its funding policy from time to time to ensure that cost-efficient and flexible funding is available to cater for the unique operating environment of each subsidiary.

Net Cash/Net Borrowing and Liquidity Ratio

As at 31 December 2018, the Group's net borrowing (i.e. total borrowings less cash and deposits at banks) amounted to HK$1,444.0 million (2017: HK$1,120.5 million) with a liquidity ratio (the ratio of current assets to current liabilities) of 1.6 (2017: 1.3). The details of the Group's net cash/net borrowing position by currency are set out as follows:

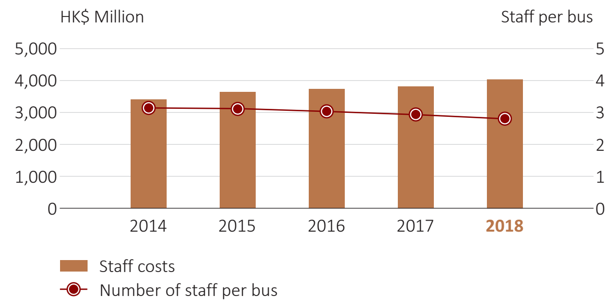
Currency	Cash and deposits at bank in foreign currency million	Cash and deposits at bank HK$ million	Bank loans HK$ million	Net cash/(Net borrowing) HK$ million
At 31 December 2018				
Hong Kong dollars		**905.6**	**(2,625.0)**	**(1,719.4)**
Renminbi	**1.8**	**2.0**	**–**	**2.0**
United States dollars	**25.4**	**198.7**	**–**	**198.7**
British Pounds Sterling	**7.3**	**73.1**	**–**	**73.1**
Other currencies		**1.6**	**–**	**1.6**
Total		**1,181.0**	**(2,625.0)**	**(1,444.0)**
At 31 December 2017				
Hong Kong dollars		856.6	(2,353.3)	(1,496.7)
Renminbi	8.3	10.0	–	10.0
United States dollars	35.0	273.6	–	273.6
British Pounds Sterling	7.9	83.8	–	83.8
Other currencies		8.8	–	8.8
Total		1,232.8	(2,353.3)	(1,120.5)

Shareholders' fund at 31 December



Staff costs and staff per bus

(Franchised public bus operations)



Finance Costs and Interest Cover

The finance costs incurred by the Group for the year ended 31 December 2018 were HK$23.7 million, an increase of HK$2.2 million compared with HK$21.5 million for 2017. The increase was mainly due to the increase in average bank borrowings of the Group as well as the rise in the average interest rate from 2.05% per annum for 2017 to 2.19% per annum for 2018.

For the year ended 31 December 2018, the Group's interest income exceeded the total finance costs by HK$57.9 million (2017: HK$46.3 million).

Net Cash Flow

For 2018, there was a net decrease of HK$975.8 million (2017: a net increase of HK$496.8 million) in cash and cash equivalents. The sources are set out below:

	2018 HK$ million	2017 HK$ million
Net cash generated from/(used in):		
• Operating activities	**1,726.6**	1,768.2
• Investing activities	**(2,736.0)**	(652.7)
• Financing activities	**33.6**	(618.7)
Net cash (outflow)/inflow	**(975.8)**	496.8

The main components of the net cash outflow of HK$975.8 million (2017: net cash inflow of HK$496.8 million) included: (i) net cash generated from operating activities of the franchised public bus operations of HK$1,472.5 million (2017: HK$1,604.5 million); (ii) payment of capital expenditure of HK$1,874.6 million (2017: HK$1,152.8 million); (iii) increase of HK$949.6 million (2017: decrease of HK$233.0 million) in bank deposits with original maturities of over three months; (iv) increase of HK$270.0 million in bank loans (2017: decrease of HK$375.0 million); (v) proceeds received from disposal of subsidiaries of HK$40.0 million (2017: HK$408.4 million) and (vi) payment of dividends of HK$236.4 million (2017: HK$244.9 million). Net cash inflow in 2017 included purchase of debt securities of HK$515.2 million and proceeds received on the maturity of available-for-sale debt securities of HK$316.5 million.

Details of the Group's cash flow movement for the year ended 31 December 2018 are set out in the consolidated cash flow statement on page 138 of this Annual Report.

Treasury Risk Management

The Group's activities are exposed to various financial risks, including foreign currency, interest rate, fuel price, credit and liquidity risks. The Group's exposure to these risks as well as its risk management policies and practices are described below:

Foreign Currency Risk

The Group is exposed to foreign currency risk primarily through purchases of new buses and motor vehicle components from overseas, investments in debt securities and deposits placed at banks that are denominated in a foreign currency. The currencies giving rise to this risk are primarily British Pounds Sterling (GBP), United States dollars (USD) and Renminbi (RMB). In respect of its exposure in British Pounds Sterling used for bus purchases, the Group's treasury team will enter into forward foreign exchange contracts in a strategic manner when appropriate.

In 2018, the Group hedged approximately 96% (2017: 29%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. As at 31 December 2018, the Group had outstanding GBP forward contracts totalling GBP10.1 million (2017: GBP11.0 million), which had maturities of less than one year after the end of the reporting period.

Interest Rate Risk

The Group closely monitors the market conditions and devises suitable strategies to manage its exposure to interest rate risk. Different techniques and instruments, including natural hedges achieved by spreading loans over different rollover periods and maturity dates, and derivative financial instruments such as interest rate swaps will be considered as and when appropriate. As at 31 December 2018, all of the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. The Group regularly reviews its strategy on interest rate risk management in the light of the prevailing market condition.

The Group's major subsidiary, KMB, has been assigned an "A" credit rating with stable outlook by Standard & Poor's since 14 January 2002. The credit rating agency viewed KMB as an integrated economic entity of Transport International Holdings Limited. Accordingly, the rating of KMB also reflects the Group's credit profile.

Fuel Price Risk

The impact of fuel price movements on the results of the Group's core franchised public bus operations can be significant. Although exposure to fluctuations in the fuel price might be managed by the use of fuel derivatives, the Group has carefully evaluated and considered the pros and cons of entering into fuel price hedging arrangements and concluded that fuel price hedging would be equally as risky as not hedging, and would not necessarily result in a better financial position for the Group in the long term. Alternatively, the Group has entered into contracts with two diesel suppliers for the supply of diesel for a term of three years commencing from 1 January 2016. A price cap arrangement, which enables the Group to benefit from the fall in international fuel oil prices while limiting risk exposure in the event that oil prices rise above the cap level, has been introduced in these contracts. During 2017, the Group entered into further contracts with a similar arrangement with two diesel suppliers for the supply of diesel until the end of 2019. Management will continue to closely monitor fuel price movements and constantly review its strategy in respect of fuel price risk management in the light of prevailing market condition.

Credit Risk

The Group's credit risk is primarily attributable to trade and other receivables and debt investments. Management has a credit policy in place under which exposure to credit risks is monitored on an ongoing basis. In respect of trade and other receivables, credit evaluations are performed on major customers requiring credit over a certain amount. Regular reviews and any necessary follow-up action are carried out on overdue amounts to minimise the Group's exposure to credit risk. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables. The Group has established treasury management guidelines for investment of surplus cash reserves in debt securities for yield enhancement purposes. Limits are set for the total portfolio size and individual debt security to minimise the overall risk as well as the concentration risk. The credit ratings of the debt issuers and market news relating to them, as available, are closely monitored over the life of the transactions. Cash at bank and bank deposits are placed with licensed financial institutions with high credit ratings and the Group monitors the exposure to each financial institution. The Group does not provide guarantees to third parties which would expose the Group to credit risk.

Cash Flow and Liquidity Risk

The Group closely monitors its liquidity and financial resources to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the requirements for loan repayments, daily operational needs, capital expenditure and dividend payments as well as potential business expansion and development. Major operating companies of the Group arrange for their own financing to meet specific requirements. The Group's other subsidiaries are mainly financed by the Company's capital base. The Group reviews its strategy from time to time to ensure that cost-efficient funding is available to cater for the unique operating environment of each subsidiary.

Employees and Remuneration Policies

Running a transport operation is a labour intensive business, and staff costs accounted for about 57% (2017: 56%) of the total operating expenses of the Group in 2018. 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 2018 amounted to HK$3,962.7 million (2017: HK$3,776.3 million), representing an increase of HK$186.4 million. As at 31 December 2018, the Group employed over 12,500 staff (2017: over 13,000 staff).

Individual Business Units

Franchised Public Bus Operations

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

	Unit	2018	2017
Revenue	HK$ million	**7,032.4**	6,942.1
Other income	HK$ million	**106.1**	111.4
Total operating expenses	HK$ million	**(6,595.1)**	(6,302.3)
Profit from operations	HK$ million	**543.4**	751.2
Finance costs	HK$ million	**(22.5)**	(19.9)
Profit before taxation	HK$ million	**520.9**	731.3
Income tax	HK$ million	**(86.6)**	(121.2)
Profit after taxation	HK$ million	**434.3**	610.1
Net profit margin		**6.2%**	8.8%
Passenger volume	Million passenger trips	**1,022.3**	1,005.5
Kilometres operated	Million km	**281.3**	282.0
Staff number at year-end	Number of staff	**11,544**	11,703
Fleet size at year-end	Number of buses	**4,112**	3,972
Total assets	HK$ million	**8,035.8**	7,928.6

KMB recorded a profit after taxation of HK$434.3 million for 2018, representing a decrease of HK$175.8 million or 28.8% compared with HK$610.1 million for 2017.

KMB's fare revenue for 2018 was HK$6,825.3 million, an increase of HK$65.2 million or 1.0% compared with HK$6,760.1 million for 2017. The increase was mainly attributable to patronage growth resulting from the enhancement of service on existing routes as well as the introduction of new services. During the year, KMB's total ridership increased by 1.7% to 1,022.3 million passenger trips (a daily average of 2.80 million passenger trips) as compared with 1,005.5 million passenger trips (a daily average of 2.75 million passenger trips) for 2017.

Total operating expenses for 2018 amounted to HK$6,595.1 million, an increase of HK$292.8 million or 4.6% compared with HK$6,302.3 million for 2017. The increase was mainly attributable to the increase in staff costs of HK$199.0 million as various salary adjustment measures were implemented during the year to attract new recruits, and the increase in fuel and oil costs of HK$135.7 million as a result of the rise in international fuel prices.

Long Win Bus Company Limited ("LWB")

	Unit	2018	2017
Revenue	HK$ million	**563.1**	524.9
Other income	HK$ million	**2.4**	2.1
Total operating expenses	HK$ million	**(520.4)**	(475.0)
Profit from operations	HK$ million	**45.1**	52.0
Finance costs	HK$ million	**(1.2)**	(1.6)
Profit before taxation	HK$ million	**43.9**	50.4
Income tax	HK$ million	**(7.1)**	(8.2)
Profit after taxation	HK$ million	**36.8**	42.2
Net profit margin		**6.5%**	8.0%
Passenger volume	Million passenger trips	**41.5**	39.1
Kilometres operated	Million km	**37.5**	36.5
Staff number at year-end	Number of staff	**713**	660
Fleet size at year-end	Number of buses	**262**	245
Total assets	HK$ million	**552.2**	611.5

The profit after taxation of LWB for 2018 was HK$36.8 million, representing a decrease of HK$5.4 million or 12.8% compared with HK$42.2 million for 2017.

LWB's fare revenue for 2018 was HK$559.8 million, an increase of HK$38.9 million or 7.5% compared with HK$520.9 million for 2017. The increase was mainly due to the continuous growth of A-route passengers as a result of the increase in transport demand within the A-route network as well as the additional inflow of visitors following the opening of the Hong Kong-Zhuhai-Macao Bridge in late October 2018. LWB recorded a total ridership of 41.5 million passenger trips (a daily average of 113,700 passenger trips) for 2018, as compared with 39.1 million passenger trips (a daily average of 107,100 passenger trips) for 2017.

Total operating expenses for 2018 amounted to HK$520.4 million, an increase of HK$45.4 million or 9.6% compared with HK$475.0 million for 2017. The increase in operating expenses was mainly due to the increase in staff costs as various salary adjustment measures were implemented during the year, and the increase in fuel costs as a result of the rise in international fuel prices along with the increase in service level.

Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK$48.3 million for 2018, representing an increase of HK$2.8 million or 6.2% compared with HK$45.5 million for 2017. 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 a leading non-franchised bus operator in Hong Kong. With Sun Bus Limited as its flagship company, the SBH Group provides customised transport services to a wide range of customers, including large residential estates, shopping malls, corporations, travel agents and schools, as well as the general public through chartered hire services.

The revenue of the SBH Group for 2018 decreased by 3.2% compared with 2017 due mainly to the decline in local business as certain contracts with low margin were not renewed during the year so as to spare resources to focus on customers with high margin. Meanwhile, the cross-boundary services had business growth during the year. Total operating expenses for 2018 decreased by 5.1% compared with 2017 mainly due to the decline in local business.

In 2018, SBH Group purchased 84 (2017: 60) Euro V/VI buses for fleet replacement purposes. As at 31 December 2018, the SBH Group had a fleet of 390 buses (2017: 386 buses).

New Hong Kong Bus Company Limited ("NHKB")

NHKB jointly operates with its Shenzhen (深圳) counterpart a direct, economical, 24-hour cross-boundary shuttle bus service (commonly known as the "Huang Bus" service) serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang (皇崗) in Shenzhen. The revenue of NHKB slightly increased by HK$0.1 million or 0.2% from HK$47.9 million in 2017 to HK$48.0 million in 2018. As at 31 December 2018, NHKB had a fleet of 15 buses (2017: 15 buses).

Property Holdings and Development

The Group's Property Holdings and Development Division reported a profit after taxation of HK$53.9 million for 2018, representing a decrease of HK$0.7 million or 1.3% compared with HK$54.6 million for 2017. 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 2018, 100% of the lettable area of the shopping mall was leased out, generating a stream of recurring rental income for the Group.

As at 31 December 2018, the carrying value of the shopping mall (classified as investment property on the consolidated statement of financial position), stated at cost less accumulated depreciation and impairment losses, amounted to HK$78.3 million (2017: HK$80.5 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. Approximately 12% 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 2018, the carrying value of the building stated at cost less accumulated depreciation and impairment losses, amounted to HK$31.0 million (2017: HK$29.6 million).

TM Properties Investment Limited ("TMPI")

TMPI, a wholly-owned subsidiary of the Group, is the owner of an industrial property at 1 Kin Fung Circuit, Tuen Mun. The property, comprising a single-storey high ceiling structure and a three-storey workshop building with a total gross floor area of about 105,900 square feet, has been leased out to generate rental income for the Group since March 2011.

As at 31 December 2018, the carrying value of the industrial property (classified as investment property on the consolidated statement of financial position), stated at cost less accumulated depreciation and impairment losses, amounted to HK$2.0 million (2017: HK$2.2 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 ("SHKRE"), 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.

As at 31 December 2018, the carrying value of the Kwun Tong Site (classified as investment property under development on the consolidated statement of financial position) amounted to HK$2,301.1 million (2017: HK$2,222.2 million).

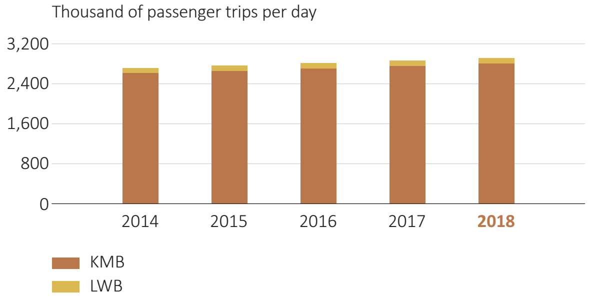
China Mainland Transport Operations

The Group's China Mainland Transport Operations Division reported a profit after taxation of HK$23.8 million for 2018, representing an increase of HK$16.7 million or 235.2% compared with HK$7.1 million for 2017.

As at 31 December 2018, the Group's total interests in associates within the China Mainland Transport Operations Division amounted to HK$610.9 million (2017: HK$624.8 million). Such investments are mainly related to the operation of public transport services in Shenzhen (深圳), and taxi and car rental services in Beijing (北京).

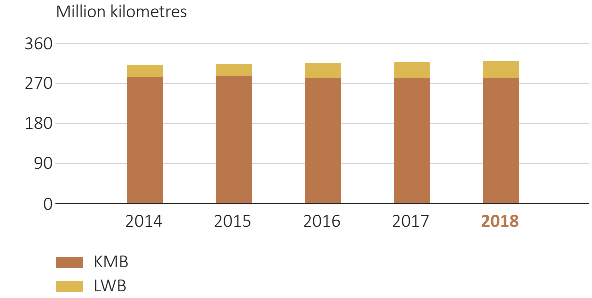
Average number of passenger trips per day

(Franchised public bus operations)

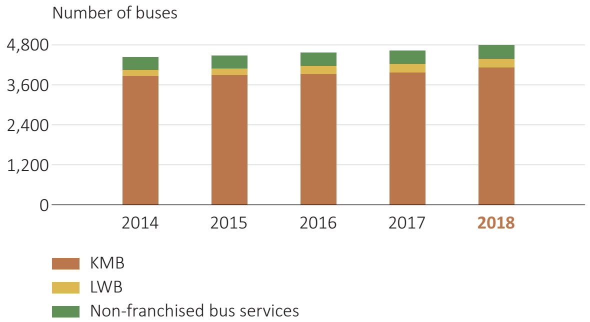


Bus kilometres operated

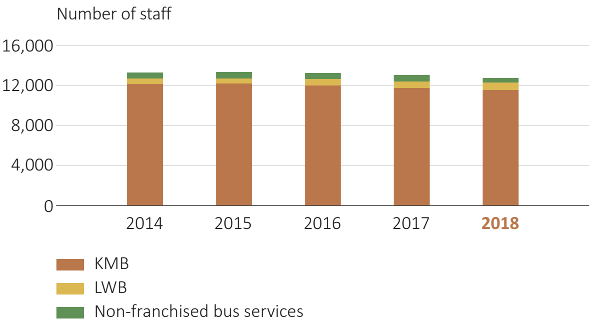
(Franchised public bus operations)



Number of licensed buses at 31 December



Number of staff at 31 December



Summary of Investments in China Mainland Transport Operations as at 31 December 2018

	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 2018 (Number of vehicles)	11,913	4,795
Bus passenger volume (Million trips)	608	N/A
Bus kilometres travelled (Million km)	397	N/A
Staff number at year-end 2018	28,272	4,571

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 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 6,400 buses running on around 350 routes and over 5,500 taxis. By continuously improving services, patronage of SZBG's bus operations increased by 2.4% to 607.5 million in 2018 as compared to 593.1 million in 2017. To improve its competitiveness in the public transport field, SZBG has taken measures to enhance its operational efficiency and productivity.

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 2018, BBKT had a fleet of over 3,600 taxis and 4,500 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 2018, BBF had over 1,100 vehicles available for charter mainly in Beijing and Tianjin.

Connected Transactions and Continuing Connected Transactions

The particulars of the following connected transactions and continuing connected transactions of the Group are set out below in compliance with the reporting requirements of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

(a) THE GROUP

Transactions with Sun Hung Kai Properties Insurance Limited ("SHKPI")

As described in note 32(a) to the financial statements on pages 220 and 221 of this Annual Report, on 2 November 2016, the Group entered into various insurance arrangements with SHKPI, a wholly-owned subsidiary of SHKP, which is a substantial shareholder of the Company, pursuant to which SHKPI agreed to provide to the Group (i) a motor vehicle third party and passengers' liability insurance and an employees' compensation insurance from 1 January 2017 to 31 December 2018; and (ii) a directors and officers liability and company reimbursement insurance from 1 January 2017 to 30 June 2018 (collectively, the "**2017/18 Insurance Arrangements**"). On 1 November 2017, the Group also entered into an insurance policy with SHKPI, pursuant to which the Group will maintain medical and dental insurance coverage with SHKPI from 1 January 2018 to 31 December 2019 (the "**2018/19 Medical and Dental Insurance Arrangements**"). On 1 November 2018, the Group entered into various insurance policies with SHKPI, pursuant to which SHKPI agreed to provide to the Group a motor vehicle third party and passengers' liability insurance and an employees' compensation insurance from 1 January 2019 to 31 December 2020 (the "**2019/20 Insurance Arrangements**"). The transactions contemplated under the 2017/18 Insurance Arrangements, 2018/19 Medical and Dental Insurance Arrangements and 2019/20 Insurance Arrangements constitute continuing connected transactions of the Company, particulars of which were disclosed in the announcements of the Company dated 2 November 2016, 1 November 2017 and 1 November 2018 respectively.

The cap amounts of the insurance premium payable by the Group to SHKPI under the 2017/18 Insurance Arrangements for the two years ended 31 December 2017 and 2018 as disclosed in the announcement dated 2 November 2016 were HK$77,000,000 and HK$80,000,000 respectively. Such cap amounts were determined mainly with reference to the historical transaction amounts, the estimated business requirements of the Group, including the estimated vehicles, staffing and fixed assets requirements, and the insurance premium rates as specified under the 2017/18 Insurance Arrangements. For the year ended 31 December 2018, the insurance premium paid and payable to SHKPI was HK$68,912,000 (2017: HK$69,163,000).

The cap amounts of the insurance premium payable by the Group to SHKPI under the 2018/19 Medical and Dental Insurance Arrangements for the year ended 31 December 2018 and the year ending 31 December 2019 as disclosed in the announcement dated 1 November 2017 were HK$22,944,545 and HK$22,944,545 respectively. Such annual cap amounts were determined with reference to the estimated medical and dental needs of the Group's employees for such periods, the insurance premium rates as specified under the 2018/19 Medical and Dental Insurance Arrangements and the historical transaction with another insurer in respect of similar medical and dental insurance coverage provided to the Group. For the year ended 31 December 2018, the insurance premium paid and payable to SHKPI was HK$21,206,000.

The cap amounts of the insurance premium payable by the Group to SHKPI under the 2019/20 Insurance Arrangements for the two years ending 31 December 2019 and 2020 as disclosed in the announcement dated 1 November 2018 were HK$90,000,000 and HK$93,000,000 respectively. Such annual cap amounts are determined mainly with reference to the historical transaction amounts, the estimated business requirements of the Group, including the estimated vehicles, staffing and fixed assets requirements, and the insurance premium rates as specified under the 2019/20 Insurance Arrangements.

The insurance premium paid and payable by the Group under the 2017/18 Insurance Arrangements, 2018/19 Medical and Dental Insurance Arrangements and 2019/20 Insurance Arrangements was and will be satisfied by internal resources of the Group. The transactions under the 2017/18 Insurance Arrangements, 2018/19 Dental and Medical Insurance Arrangements and 2019/20 Insurance Arrangements are only subject to the reporting, announcement and annual review requirements of the Listing Rules and are exempt from the independent shareholders' approval requirement.

(b) SUN BUS LIMITED ("Sun Bus") and EAGLE WIN LIMITED ("Eagle Win")

Shuttle Bus Services Agreements with certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP")

As described in note 32(a) to the financial statements on pages 220 and 221 of this Annual Report, Sun Bus Limited (an indirect wholly-owned subsidiary of the Company) and Eagle Win Limited (an indirect wholly-owned subsidiary of the Company) have entered into various shuttle bus service contracts ("Shuttle Bus Service Agreements") with certain subsidiaries of SHKP, pursuant to which Sun Bus and Eagle Win agreed to provide and operate various shuttle bus services for the period from 1 July 2016 to 14 July 2019. The service fees for the provision of the shuttle bus services were charged in accordance with the rates specified in the relevant contracts, ranging from HK$232 to HK$540 per hour per bus, while a guaranteed monthly fee of HK$125,000 was set for certain shuttle bus contracts, which were determined after taking into account factors such as the number and model of buses requested, the days and hours of services requested, the relevant costs and expected loads and routes, using the prevailing market rates as a price indicator, namely, the service fees charged for similar bus operations in the market. The transactions contemplated under the Shuttle Bus Service Agreements constitute continuing connected transactions of the Company, particulars of which were disclosed in the announcement of the Company dated 29 June 2018. The cap amounts estimated to be receivable by Sun Bus and Eagle Win under the Shuttle Bus Service Agreements for the year ended 31 December 2018 and the year ending 31 December 2019 as disclosed in the announcement dated 29 June 2018 were HK$8,524,535 and HK$905,771 respectively. Such cap amounts were determined with reference to (i) the rates specified in the relevant contracts; and (ii) the expected demand for the services. For the year ended 31 December 2018, the service fees received or receivable by Sun Bus and Eagle Win (inclusive of the fees for basic services, overtime services, on-demand additional services, and toll charges) under the Shuttle Bus Service Agreements amounted to HK$8,379,000. The transactions contemplated under the Shuttle Bus Service Agreements are only subject to the reporting, announcement and annual review requirements of the Listing Rules and are exempt from the independent shareholders' approval requirement.

(c) KT REAL ESTATE LIMITED ("KTRE")

Building Contract

As described in note 32(a) to the financial statements on pages 220 and 221 of this Annual Report, on 20 December 2018, KTRE (a wholly-owned subsidiary of the Company), Turbo Result Limited ("TRL")(a wholly-owned subsidiary of SHKP) and Yee Fai Construction Company Limited ("Yee Fai")(a wholly-owned subsidiary of SHKP) entered into the building contract in which KTRE and TRL engaged Yee Fai to carry out and complete the building works involving the construction of a commercial building at Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kwun Tong, Kowloon, Hong Kong (the "Building Contract"). KTRE and TRL shall pay to Yee Fai, in equal shares, the contract sum of HK$4,436,056,954.36 (i.e. HK$2,218,028,477.18 each), subject to adjustments in accordance with the Building Contract. The transactions contemplated under the Building Contract constitute both a major transaction and connected transaction of the Company under the Listing Rules which are subject to reporting, announcement and independent shareholders' approval requirements. Particulars of the transactions contemplated under the Building Contract were disclosed in the announcement and circular of the Company dated 20 December 2018 and 15 January 2019 respectively and such transactions were approved by independent shareholders at the special general meeting of the Company held on 1 February 2019.

In compliance with the Listing Rules, the Directors, including the Independent Non-executive Directors, have reviewed and confirmed the following:

1. The foregoing continuing connected transactions conducted during the year ended 31 December 2018 with SHKPI and certain subsidiaries of SHKP were entered into:

   (i) in the ordinary and usual course of the business of the Group;

   (ii) either on normal commercial terms or better; and

   (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole;

2. the annual insurance premium paid and payable by the Group to SHKPI under the 2017/18 Insurance Arrangements and 2018/19 Medical and Dental Insurance Arrangements for the year ended 31 December 2018 did not exceed the cap amounts of HK$80,000,000 and HK$22,944,545 respectively as disclosed in the announcement dated 2 November 2016 and 1 November 2017 respectively; and

3. the service fees received and receivable by Sun Bus and Eagle Win (inclusive of the fees for basic services, overtime services, on-demand additional services, and toll charges) from certain subsidiaries of SHKP under the Shuttle Bus Services Agreements for the year ended 31 December 2018 did not exceed the cap amount of HK$8,524,535 as disclosed in the announcement dated 29 June 2018.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions conducted during the year ended 31 December 2018 as set out above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Good corporate governance is the foundation for business success as it provides the basis for stakeholders' confidence and shareholders' sustainable returns. To achieve such goal, the Board members and staff observe a set of sound policies, procedures and rules. The Group also takes into account the interests of the stakeholders when setting long term business goals.

Corporate Governance Framework

The Group's Corporate Governance Framework (the "Framework") is built on principles of accountability, transparency and integrity, with the aim of identifying all the key participants in good governance, their correlation and their contribution to the application of effective governance policies and processes.

The Board and senior management use the Framework as a performance-oriented benchmark in evaluating the achievement of the Group's business goals. In response to changes in regulatory requirements, environmental needs, social expectations and international relations, the Group regularly reviews the Framework, updates its management policies and practices and ensures the same are closely followed at all levels throughout the Group.

The corporate governance objectives are achieved primarily through implementation of the following measures:

- Maintenance of a diverse and optimal board composition, establishment of efficient management reporting systems and retention of a professional management team to ensure that the Directors are sufficiently informed prior to making decisions in the best interests of the stakeholders;

- Establishment of thorough internal audit and control systems to safeguard against risks, protect the assets of the Group and ensure that its policies and management practices are executed as planned, and any irregularities, deviations, material mis-statements and instances of malpractice are swiftly identified and rectified; and

- Establishment of transparent and effective communication channels to ensure that the Group's affairs are brought to the attention of shareholders, customers and other stakeholders.

Corporate Governance Code Compliance

The Company abides by the corporate governance principles contained in the Corporate Governance Code (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The CG Code sets out the principles of good corporate governance with two levels of recommendations: (a) "Code Provisions" and (b) "Recommended Best Practices".

The Company complied with all applicable Code Provisions throughout the year ended 31 December 2018, except that four Directors of the Company were unable to attend the Annual General Meeting of the Company held on 17 May 2018 (the "2018 AGM") as provided for in Code Provision A.6.7 owing to other engagement.

The Board of Directors

Board Composition

The composition of the Board represents a balance of high calibre executive and non-executive directors possessing relevant skills, industry knowledge, first-hand experience and a diversity of perspectives which are essential to the businesses of the Group. Mr Edmond HO Tat Man retired as a Non-executive Director with effect from the conclusion of the 2018 AGM. Mr TSANG Wai Hung, *GBS, PDSM, JP* was appointed as an Independent Non-executive Director, Dr CHEUNG Wing Yui, *BBS* and Mr LEE Luen Fai, *JP* were appointed as Non-executive Directors with effect from 1 January 2018 respectively and Mr LUNG Po Kwan was appointed as a Non-executive Director with effect from 1 July 2018. Subsequent to the retirement of Mr HO and the appointments of Mr TSANG, Dr CHEUNG, Mr LEE and Mr LUNG, as at 31 December 2018, the Board comprised 15 members, including 5 Independent Non-executive Directors, 9 Non-executive Directors and 1 Executive Director. Day-to-day management of the Group's businesses is delegated to the senior management under the supervision of four designated Board Committees: the Standing Committee, the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee. The Board of Directors and the Board Committees are chaired by Independent Non-executive Directors. The compositions of the Board and Board Committees at 31 December 2018 are stated below:

	Independent Non-executive Directors	Non-executive Directors	Executive Director	Total
Board of Directors	5	9	1*	15
Board Committees:				
Standing Committee	3	4	1*	8
Audit and Risk Management Committee	3	1	–	4
Remuneration Committee	3	1	–	4
Nomination Committee	2	1	–	3

* The Managing Director

While the Non-executive Directors are not involved in day-to-day management of the Group's businesses, they serve as custodians of the governance process by scrutinising the management's performance in meeting agreed corporate goals and objectives. Their contribution is made, among other ways, by attending Board meetings at which they provide independent views on various matters relating to the Group's strategy, policy, performance, accountability, resources, key appointments and standards of conduct. The term of appointment of Non-executive Directors is for a period of three years.

Independent Non-executive Directors review issues that come before the Board critically and objectively. In particular, they ensure that the general interests of shareholders are fully considered by the Board. They also see that connected transactions and other issues are subject to impartial and thorough contemplation by the Board.

Independent Non-executive Directors are identified in all corporate communications. Pursuant to Rule 3.13 of the Listing Rules, the Company considers all Independent Non-executive Directors to be independent, as all of them have confirmed their independence in writing to both the Stock Exchange and the Company. The Company complies with the requirement in the Listing Rules that at least one-third of the Board members should be Independent Non-executive Directors.

In accordance with Code Provision I(h) of Appendix 14 of the Listing Rules, the relationship between members of the Board is disclosed in Directors' Profiles in the Annual Report.

Board Diversity

Diverse board composition ensures a wide range of business and professional experience on the Board, so that the decision-making process includes different perspectives and supports the achievement of the Company's strategic objectives. All Board appointments are merit-based. The Company has adopted a Board Diversity Policy that takes into account, among other aspects, each candidate's gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All candidates are considered against these criteria.

The Executive and Non-executive Directors have a diverse background. Each of them possesses the depth of relevant experience and expertise to oversee the businesses of the Group. The current mix of the Board members represents a balance of business, academia and the professions, which helps to deliver sustainable value and safeguard shareholders' interests.

The age group and gender diversity of the Board of Directors as at 31 December 2018 are set out below:

Age Group	Male	Female
41-50	1	0
51-60	3	1
61-70	5	0
Over 70	5	0
Total	14	1

The Role of the Board

The Board promotes the success of the Group by directing and supervising its affairs in a responsible and effective manner. The primary responsibilities of the Board are as follows:

- setting the Group's values and standards;
- giving the management objectives and directions;
- monitoring management performance;
- managing relationships with stakeholders, including shareholders, the HKSAR Government, employees and the community;
- establishing appropriate policies to manage risks in pursuit of the Group's strategic objectives;
- reviewing the effectiveness of internal controls and risk management procedures;
- reviewing and approving the accounts of the Group;
- ensuring the integrity of the Group's financial reporting system and public announcements;
- approving major financing arrangements;
- evaluating major acquisitions, disposals and material contracts; and
- setting dividend policy.

The Roles of Chairman and Managing Director

The Chairman and the Managing Director are two distinct posts, separately held by Dr Norman LEUNG Nai Pang, *GBS, JP*, an Independent Non-executive Director, and Mr Roger LEE Chak Cheong, an Executive Director, and neither of whom have any financial, business, family or other relationship with each other.

There is a clear distinction between the roles of the Chairman and the Managing Director. The responsibilities of the Chairman and the Managing Director are defined in writing and summarised below:

Responsibilities of the Chairman:

- chairing the Board and shareholders' meetings (ensuring that the views and concerns of Board members and shareholders are expressed at these meetings);
- ensuring that the operations of the Board are managed effectively by discussing all principal and appropriate issues in a timely manner;
- ensuring that all Directors receive adequate, accurate, clear, complete and reliable information in a timely manner;
- facilitating effective communication with shareholders and ensuring that shareholders' views are adequately reflected to the Board; and
- ensuring that all corporate governance practices adopted by the Board are implemented.

Responsibilities of the Managing Director:

- reflecting the long-term objectives and priorities set by the Board by developing and implementing the Group's policies and strategies;
- providing salient, accurate, timely and succinct information for the Board to monitor the performance of the management;
- leading an effective and professional executive team in the management of the Group's day-to-day businesses;
- closely monitoring operational and financial results in accordance with plans and budgets;
- maintaining regular dialogue with the Chairman on important and strategic issues faced by the Group, and bringing the same to the Board's attention;
- putting adequate operational, planning, legal and financial-control systems in place; and
- managing the Company's relationships with its diverse stakeholders.

The Chairman also meets once a year with the Non-executive Directors (including Independent Non-executive Directors), in the absence of the Executive Director, to discuss the Group's business affairs. For 2018, the meeting was held on 20 December 2018.

Board Proceedings

Board Meetings

A Board meeting is generally held every other month, where Board members meet to discuss major corporate, strategic and operational matters and evaluate investment opportunities. All Board meetings are conducted according to the procedures laid down in the Company's Bye-laws and the Code Provisions contained in the CG Code. At the beginning of every year, all Board members will be provided with the schedule of regular Board meetings. They will be duly informed of any amendments to the schedule at least 14 days before the relevant meeting.

The agenda for regular Board meetings is consolidated by the Company Secretary for approval by the Chairman. All Directors are entitled to put forward items for inclusion in the agenda of Board meetings. A Notice of Board meeting is delivered to each Director one month in advance of the scheduled meeting date together with the agenda. Detailed discussion papers for the Board meeting are circulated 7 days prior to the meeting to ensure that the Directors have sufficient time to consider the items for discussion and make decisions in the best interests of the Company.

At the Board meetings, senior management together with the relevant corporate executives report to the Board on the operations and financial performance of the Group's various business areas. The Company Secretary prepares draft minutes of Board meetings which record the matters considered by the Board and the decisions reached as well as any concerns raised or dissenting views expressed by the Directors. The draft minutes are circulated to the Directors for their comments. The final version of the draft minutes is submitted to the Board at the ensuing meeting for formal adoption. The adopted minutes are kept by the Company Secretary, and are available for inspection by the Directors.

Voting on Connected Transactions

The Company's Bye-laws provide that all Directors are required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be discussed at a Board meeting and to abstain from voting on relevant resolutions if they have a conflict of interest or a material interest in the proposed transaction. Any such declaration of interest will be recorded by the Company Secretary in the minutes. A Director is not included in the quorum for such part of a meeting that relates to a resolution he/she is not allowed to vote on but he/she shall be included in the quorum for all other parts of that meeting. This reduces the potential for conflict which might otherwise arise between the Company's business and an individual Director's other interests or appointments.

Independent Non-executive Directors, together with the other Board members, ensure that connected transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the agreement governing them on terms that are fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole. The Company Secretary is responsible to make sure that all connected transactions entered into are in compliance with the Listing Rules. In 2018, the Company entered into three continuing connected transactions, details of which are given on pages 83 to 85 of this Annual Report.

Obligations of Directors

Code of Conduct

All Directors and staff of the Company are subject to a written Code of Conduct, which is available on the staff website. It provides guidance on matters relating to personal conduct, relations with suppliers and contractors, responsibilities to shareholders, relations with customers, employment practices and responsibilities to the community, as well as procedures for monitoring compliance and means of enforcement. The Code of Conduct promulgates ethical values in business activities which the Directors and employees are required to adhere to when discharging their delegated duties. The Code of Conduct is reviewed and updated periodically to be kept up to date with regulatory changes. The Company has a whistleblowing policy to encourage employees and related third parties (such as customers and suppliers) who deal with the Company to raise concerns in confidence about misconduct, malpractice or irregularity in any matters related to the Company. The whistleblowing policy is published on the Company website and staff website.

Securities Transactions by Directors

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct to regulate Directors' securities transactions in respect of the Company's shares. Senior managers, other nominated managers and staff who, because of their positions in the Company, are likely to be in possession of Inside Information (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), are requested to comply with the provisions of the Model Code.

After the making of specific enquiries, all Directors confirmed that they had complied with the standard of dealings set out in the Model Code throughout 2018. Details of the shareholding interests held by the Directors in the Company as at 31 December 2018 are set out on pages 119 and 120 of this Annual Report.

Induction and Continuous Professional Development

All Directors attended training programmes in the year to keep themselves abreast of the latest developments in the fields relevant to their respective expertise and professions. The Company Secretary is responsible for providing tailored induction programmes for new Directors and appropriate training programmes for the ongoing development of all Directors to ensure that they have proper understanding of the Company's business operations and practices and are fully aware of their responsibilities under the Listing Rules and other regulatory requirements. Information on the latest developments regarding the Listing Rules and other applicable governance matters is provided to the Directors as and when required. The Directors are provided with detailed monthly management reports, as well as monthly media reports, including press articles relevant to the Company's businesses. On 11 October 2018, a seminar was run by a professional services firm to update the Directors on the latest development in corporate governance. The Directors are encouraged to participate in continuous professional development programmes organised by qualified institutions. The costs for such programmes are borne by the Company. Formal procedure is in place for reporting the training and continuous professional development received by Directors.

Time Commitment of Directors

For the year ended 31 December 2018, the Company has received confirmation from each Director that he/she committed sufficient time and attention to the Company's affairs. The Board reviews their contribution annually.

Re-election, Retirement and Appointment of Directors

The Company has in place a formal and transparent procedure for the appointment of new Directors. A person may be appointed as a member of the Board at any time either by the shareholders in general meeting or by the Board on the recommendation of the Nomination Committee when it is necessary to fill a casual vacancy. A Director appointed by the Board to fill a casual vacancy shall hold office until the first annual general meeting after such appointment but is eligible for election at the same meeting. All Directors are appointed for a specific term and are subject to retirement by rotation and re-election at the Company's annual general meeting at least once every three years. All Directors have a current term of office not longer than three years. Shareholders may remove a Director before the expiration of his/her period of office by passing a special resolution giving detailed reasons at a general meeting properly convened in accordance with the Bye-laws of the Company for such a purpose.

The election of individual Directors is subject to separate resolutions to be approved by the shareholders. In respect of the re-appointment of an Independent Non-executive Director who has served on the Board for more than nine years, the Company is required to explain in a circular containing the notice of the annual general meeting why it considers that the Director continues to be independent and why it recommends his/her re-election to the shareholders.

Re-election of Directors

At the 2018 AGM, five Directors, namely, Mr Raymond KWOK Ping Luen, *JP*, Mr Charles LUI Chung Yuen, *M.H.*, Ms Winnie NG, *JP*, Dr Eric LI Ka Cheung, *GBS*, *OBE*, *JP*, and Professor LIU Pak Wai, *SBS*, *JP*, retired by rotation and were re-elected as Directors of the Company.

Retirement of Director

Mr Edmond HO Tat Man retired as a Non-executive Director with effect from the conclusion of the 2018 AGM and did not offer himself for re-election.

Appointment of Directors

Mr TSANG Wai Hung, *GBS, PDSM, JP*, was appointed by the Board as an Independent Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 January 2018 to fill the casual vacancy occasioned by the retirement of Mr Gordon SIU Kwing Chue, *GBS, CBE, JP*, on 18 May 2017.

Dr CHEUNG Wing Yui, *BBS* was appointed by the Board as a Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 January 2018 to fill the casual vacancy occasioned by the resignation of Mr Evan AU YANG Chi Chun on 1 March 2016.

Mr LEE Luen Fai, *JP* was appointed by the Board as a Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 January 2018 to fill the casual vacancy occasioned by the retirement of Mr John Anthony MILLER, *SBS, OBE*, on 18 May 2017.

Mr TSANG, Dr CHEUNG and Mr LEE were elected as Directors at the 2018 AGM.

Mr LUNG Po Kwan was appointed by the Board as a Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 July 2018 to fill the casual vacancy occasioned by the retirement of Mr Edmond HO Tat Man on 17 May 2018. Mr LUNG will hold office as Director until the next annual general meeting of the Company to be held on 16 May 2019 (the "2019 AGM"), when he shall be eligible for election, and will then be subject to re-election at subsequent annual general meetings of the Company pursuant to the Company's Bye-laws.

Appropriate announcements of the re-election, retirement and appointment of Directors were published in accordance with the Listing Rules.

Dr Norman LEUNG Nai Pang, *GBS, JP* and Mr William LOUEY Lai Kuen will retire as Directors of the Company and offer themselves for re-election at the 2019 AGM. All these retiring Directors and Mr LUNG Po Kwan, being eligible, have been nominated by the Nomination Committee and recommended by the Board to stand for re-election at the 2019 AGM. The election of each Director will be subject to the vote of shareholders in a separate resolution.

Procedures for Making Proposals to Nominate a Person for Election as a Director

The shareholders are entitled to nominate a person for election as a Director at a general meeting of the Company. The procedures for making proposals to nominate a person for election as a Director are available on the websites of the Company and of the Stock Exchange.

Directors' Indemnities and Protections

The Company has taken out an appropriate insurance policy covering any legal action against the Directors of the Company, which indemnifies the Directors for liability incurred in connection with the Company's activities. These indemnities were in force during 2018 and remain in force.

Delegation by the Board of Directors

The Board maintains four designated Board Committees to oversee various aspects of the Group's affairs: the Standing Committee, the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee. The Committees are governed by their respective terms of reference and are provided with adequate authority and resources to discharge their duties. The terms of reference are regularly reviewed and are available on the websites of the Company and the Stock Exchange respectively.

The membership of each Committee (as at 1 January 2019) is shown below:

Name of Directors	Standing Committee	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee
Independent Non-executive Directors				
Dr Norman LEUNG Nai Pang, GBS, JP	Chairman			
Dr John CHAN Cho Chak, GBS, JP	Member		Chairman	Chairman
Dr Eric LI Ka Cheung, GBS, OBE, JP		Chairman	Member	Member
Professor LIU Pak Wai, SBS, JP		Member	Member	
Mr TSANG Wai Hung, GBS, PDSM, JP	Member	Member		
Non-executive Directors				
Mr Raymond KWOK Ping Luen, JP	Member			
Mr Charles LUI Chung Yuen, M.H.	Member			
Ms Winnie NG, JP	Member		Member	
Mr Allen FUNG Yuk Lun		Member		Member
Mr William LOUEY Lai Kuen	Member			
Executive Director				
Mr Roger LEE Chak Cheong	Member			

Standing Committee

The role of the Standing Committee is to advise and assist the Board in devising business strategies, making significant investment proposals and monitoring their implementation. The Standing Committee's findings and recommendations are submitted directly to the Board. In 2018, the Standing Committee held six meetings with senior management to review and discuss financial, operational and strategic planning, as well as potential investment opportunities for the Group.

Audit and Risk Management Committee

On 1 January 2018, the Board appointed Mr TSANG Wai Hung, an Independent Non-executive Director as member of the Audit and Risk Management Committee. The Chairman of the Audit and Risk Management Committee is Dr Eric LI Ka Cheung, an Independent Non-executive Director of the Company. He is a Certified Public Accountant who possesses the professional qualifications and accounting expertise prescribed by the Listing Rules.

Dr LI and the other members of the Audit and Risk Management Committee have diverse experience in various business and professional fields as set down in the Directors' biographies on pages 108 to 114 of this Annual Report. None of the members of the Audit and Risk Management Committee is a former or existing partner of the external auditors of the Company. The Audit and Risk Management Committee is responsible for establishing and maintaining an adequate internal control structure, ensuring the quality and integrity of financial statements, nominating independent external auditors, reviewing the adequacy of external audits in respect of cost, scope and performance, and ensuring that an effective system of internal control and risk management is established within the Company. The Audit and Risk Management Committee's terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and are regularly updated with reference to the recommendations of the CG Code of the Listing Rules.

In 2018, the Audit and Risk Management Committee and senior management held two meetings with the Company's external auditors, KPMG – at which the Company's financial reports, internal control systems and other relevant matters were reviewed and discussed. At the end of these meetings, the external auditors were invited to discuss in private with members of the Audit and Risk Management Committee issues noted during the course of the audit and any other matters they might wish to bring to the attention of the Audit and Risk Management Committee without the presence of senior management. Following each of the two meetings, the Chairman of the Audit and Risk Management Committee submitted a report to the Board of Directors and gave a briefing on all significant issues identified.

The major work undertaken by the Audit and Risk Management Committee in the financial year ended 31 December 2018 included:

(a) Supervision of the Company's Financial Reporting Process, Internal Control and Risk Management Systems

- Reviewed with senior management the accounting principles and practices adopted by the Group, the financial results of the Company and of its major subsidiaries, the accuracy and fairness of the financial statements, and the scope of internal and external audit work;
- Reviewed the revised accounting standards and any prospective changes thereto, and considered their impact on the financial reporting of the Company and the Group;
- Reviewed with external auditors the effectiveness of the audit procedures and their findings concerning the interim and annual financial statements and results announcements, as well as management's response to such findings;
- Discussed and reviewed the internal audit reports prepared by the Head of the Internal Audit Department covering among other things audit objectives, audit approach, audit work done and the findings arising therefrom;
- Examined the qualifications and experience of staff carrying out accounting and financial reporting, as well as the adequacy of resources and training programmes;
- Conducted reviews with the external auditors and senior management to ensure that connected transactions were properly disclosed in accordance with the requirements of the Listing Rules; and
- Monitored the operation of the whistleblowing policy.

Following these reviews and discussions, the Audit and Risk Management Committee recommended to the Board that the unaudited interim financial report of the Company for the six months ended 30 June 2018 and the audited annual financial statements for the year ended 31 December 2018 be approved.

(b) Maintenance of Relationship with External Auditors

- Reviewed the independence of the external auditors and considered their terms of engagement and audit fee proposal to ensure that there was no impediment to their independence; and
- Ensured that the external auditors conducted their audit and non-audit services effectively.

Based on the conclusions drawn from these reviews, the Audit and Risk Management Committee recommended to the Board that KPMG, the existing external auditors, be re-appointed as auditors of the financial statements of the Company for the year ending 31 December 2019.

Remuneration Committee

The Board has devolved upon the Remuneration Committee the authority to formulate remuneration policies, including the establishment of guidelines to determine the terms and conditions of employment and the remuneration and retirement benefits of Directors and employees of the Group. The Remuneration Committee also draws up criteria for performance-based bonuses and makes recommendations to the Board on human resources related policies based on the Group's goals and objectives. Details of the terms of reference, remuneration policies and work performed by the Remuneration Committee in 2018 are set out in the Remuneration Report on pages 104 to 107 of this Annual Report.

Nomination Committee

The Board has appointed the Nomination Committee to identify suitable candidates of a high calibre and with sufficient experience for its consideration, taking into account the Board Diversity Policy. The Nomination Committee ensures that the appointment of Directors undergoes formal, stringent and transparent procedures. The majority of members of the Nomination Committee, including its chairman, are Independent Non-executive Directors of the Company. The principal terms of reference of the Nomination Committee include:

- Formulating nomination policy for consideration by the Board and implementing the nomination policy established by the Board;
- Identifying and nominating for the approval of the Board appropriately qualified candidates for appointment as Directors;
- Making recommendations to the Board for the appointment or re-appointment of Directors and making recommendations regarding succession planning for Directors, in particular, the Chairman and the Managing Director;
- Reviewing and monitoring the structure, size and composition (including evaluating the balance and blend of skills, knowledge, professional experience, gender, age, cultural and educational background and length of service) of the Board and making recommendations to the Board regarding any proposed changes; and
- Evaluating the independence of Independent Non-executive Directors.

Attendance Records

The Directors' attendance at the Annual General Meeting, Board Meetings and Committee Meetings in 2018 is given below:

Members of the Board of Directors	2018 AGM	Board	Standing Committee	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee
Independent Non-executive Directors						
Dr Norman LEUNG Nai Pang, GBS, JP (Chairman)	1/1	6/6	6/6			
Dr John CHAN Cho Chak, GBS, JP (Deputy Chairman)	1/1	6/6	6/6		3/3	2/2
Dr Eric LI Ka Cheung, GBS, OBE, JP	1/1	6/6		2/2	3/3	2/2
Professor LIU Pak Wai, SBS, JP	0/1	6/6		2/2	3/3	
Mr TSANG Wai Hung, GBS, PDSM, JP	1/1			2/2		
Non-executive Directors						
Mr Raymond KWOK Ping Luen, JP (with Ms Susanna WONG Sze Lai, as alternate)	0/1	0/6	6/6			
Mr NG Siu Chan (with Ms Winnie NG, JP as alternate)	0/1	5/6				
Mr Charles LUI Chung Yuen, M.H.	1/1	5/6	6/6			
Mr William LOUEY Lai Kuen (with Mr GAO Feng, as alternate)	1/1	5/6	6/6			
Ms Winnie NG, JP	1/1	6/6	6/6		3/3	
Mr Allen FUNG Yuk Lun	1/1	5/6		2/2		2/2
Mr Edmond HO Tat Man (retired on 17 May 2018)	0/1	1/6				
Dr CHEUNG Wing Yui, BBS	1/1	6/6				
Mr LEE Luen Fai, JP	1/1	6/6				
Mr LUNG Po Kwan (appointed on 1 July 2018)	0/1	3/6				
Executive Director						
Mr Roger LEE Chak Cheong (Managing Director)	1/1	6/6	6/6			
Alternate Directors						
Mr GAO Feng (Alternate Director to Mr William LOUEY Lai Kuen)	0/1	1/6				
Ms Winnie NG, JP (Director and Alternate Director to Mr NG Siu Chan)	1/1	1/6				
Ms Susanna WONG Sze Lai (Alternate Director to Mr Raymond KWOK Ping Luen, JP)	0/1	3/6				
In attendance						
External Auditors	1/1			2/2		

Notes:

1. Particulars of the 2018 AGM are set out on page 102 of this Annual Report.

The Board held six meetings in 2018, which exceeded the minimum of four board meetings a year required by the CG Code. On average, regular Board meetings and Board Committee meetings lasted at least two hours.

Delegation of Responsibilities to Senior Management

Senior management is responsible for implementing the strategies and day-to-day management of the Group's businesses. It is under the continual supervision of the Board and the corresponding Board Committees. Drawing upon their extensive experience and expertise in different areas, senior management provides accurate, adequate and detailed financial and operational information in a timely manner to the Board to keep them informed of the latest developments of the Group, enabling them to make informed decisions and discharge their responsibilities effectively.

The Role of the Company Secretary

The post of Company Secretary is held by Miss Lana WOO, who is a fellow member of The Hong Kong Institute of Chartered Secretaries. She is responsible for ensuring that the correct Board procedures are followed, advising the Board on all corporate governance matters and facilitating the induction and continuous professional development of Directors. She reports to the Managing Director of the Company, and all Directors may call upon her for advice and assistance at any time in respect of their duties and the effective operation of the Board and Board Committees. In 2018, the Company Secretary took more than 15 hours of professional training to update her skills and knowledge.

Accountability And Audit

Financial Reporting

The Board is responsible for the preparation of the Group's financial statements. It ensures that a true and fair view of the financial status of the Group is given in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong). This responsibility extends to the accuracy and sufficiency of the content of interim and annual reports, as well as "price-sensitive" announcements and other financial disclosures required by the Listing Rules, reports to regulators, and any information that needs to be disclosed under statutory requirements.

The financial statements of the Company and the Group for the year ended 31 December 2018 given on pages 132 to 227 of this Annual Report represent a true and fair view of the state of affairs of the Company and the Group, and the results and cash flow for the year. The Audit and Risk Management Committee of the Company, together with senior management and the Company's external auditors, has reviewed the accounting principles and policies adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the financial results for the year ended 31 December 2018.

Internal Control and Risk Management Systems

The Board has the overall responsibility for establishing, maintaining and reviewing the effectiveness of the Group's internal control and risk management systems. It is duty bound to safeguard the Group's assets and stakeholders' interests, manage the Group's existing and anticipated risks, and provide reasonable assurance against material mis-statement of information (whether financial or non-financial). Stringent internal control measures are implemented at all levels of the Group in order to ensure effective monitoring of its day-to-day operations.

The Audit and Risk Management Committee is delegated by the Board with the responsibility of maintaining and reviewing the effectiveness of the internal control and risk management systems and determining the nature and extent of any significant risks. With the assistance of the external auditors and the Internal Audit Department, the Audit and Risk Management Committee provides sound assurance regarding the quality and effectiveness of our control practices.

Internal Control Framework

The Group's Internal Control Framework is monitored, managed and reviewed by the following bodies:

The Board

- Has the ultimate responsibility for the Group's risk management and internal control systems
- Reviews the effectiveness of the Group's risk management and internal control systems in achieving the Group's objectives

- Provides direction on the risk management and internal control culture

The Audit and Risk Management Committee

- Assists the Board in monitoring the performance of the Group's risk management and internal control systems
- Reviews the Group's internal control and risk management reports prior to endorsement by the Board
- Reviews the effectiveness of the Company's external and internal audit functions
- Ensures staff are appropriately trained for their relevant positions to ensure that they carry out their duties in accordance with the requirements of good internal control practices

Management

- Designs, implements and maintains an effective internal control system including the Group's Quality Management System
- Ensures a proper reporting channel so that emerging risks are reported to the Audit and Risk Management Committee in a timely manner

The Internal Audit Department

- Supports the Audit and Risk Management Committee in reviewing the effectiveness of the Group's risk management and internal control systems
- Works with business units to ensure sound internal controls and compliance functions are in place
- Conducts independent reviews and other special investigations requested by the Board, the Audit and Risk Management Committee and the Management

The Group's internal control and risk management framework, based on the Committee of Sponsoring Organisations of the Treadway Commission's Internal Control – Integrated Framework issued in May 2013, consists of the following components:

Control Environments

The Group complies with the Listing Rules requirement that at least one-third of the Board members should be Independent Non-executive Directors to demonstrate independence from management and exercises oversight of the development and performance of internal control. The Board of Directors and the Board Committees are chaired by Independent Non-executive Directors.

There are four designated Board Committees which meet on a regular basis for day-to-day management of the Group's business.

The Group has a well-defined organisational structure with succinct lines of authority and control responsibilities, which are clearly set out in writing and documented in the form of organisation charts and job manuals for the corresponding operating and business units.

Integrity and honourable business ethics are foundational to the continued success of the Group. The Code of Conduct and the Staff Handbook, which are accessible to all Directors and employees, define the rules and policies which all Directors and staff are bound to follow. The Code of Conduct emphasises transparency, objectivity, integrity and reliability in the handling of financial information and in respect of disclosure in financial reports. In addition, the Staff Handbook reminds all staff members that they must not make use of their position to solicit or receive any advantage from any third parties.

A whistleblowing policy has been established by the Audit and Risk Management Committee to deal with concerns related to fraudulent or unethical acts or instances of non-compliance with the law or with the Group's policies that have or could have a significant adverse financial, legal or reputational impact on the Group. The Group will respond to all such concerns expressed fairly and properly. The Group's whistleblowing policy and procedures, which are published on the Company's website, apply to employees at all levels and in all divisions as well as to business partners, suppliers and any third parties that deal with the Group. The Audit and Risk Management Committee has overall responsibility for the whistleblowing policy, notwithstanding that it has delegated day-to-day responsibility for overseeing and implementing the same to the Company Secretary.

Risk Assessment

TIH Enterprise Risk Management System

The Group's Enterprise Risk Management System ("ERM System") has the following objectives:

- To provide a systematic approach to the early identification and management of risks
- To provide consistent risk assessment criteria
- To make available accurate and concise risk information that informs decision making including business directions
- To adopt risk treatments that are cost effective and efficient in reducing risk to an acceptable level
- To monitor and review risk levels to ensure that risk exposure remains within an acceptable level

The Group's ERM System was designed with reference to the COSO ERM framework.

The Group's risk management structure is as follows:

Risk Rating is determined by Impact and Vulnerability. A dynamic risk rating matrix, using both quantitative and qualitative factors, is used to assess risk.

A Risk Key Performance Indicator Report ("Risk KPI Report") summarising the Group's top ten risks as identified by management, is submitted to the Audit and Risk Management Committee every six months. The Risk KPI Report provides a comprehensive profile of these top ten risks and the monitoring mechanism for these risks as established by management.

TIH Risk Management Framework

Internal Audit

Board of Directors

- Evaluates and provides direction to the Group on the nature and extent of the risks that shall be taken in achieving its strategic objectives (i.e. setting the Risk Appetite).
- Ensures review of the effectiveness of the risk management and internal control systems.

Audit and Risk Management Committee

- Ensures that the Risk Management Taskforce ("RMTF") and Business Lines have fulfilled their duties in establishing and maintaining an effective risk management programme.
- Reviews the Risk KPI Reports semi-annually.

Risk Management Taskforce ("RMTF")

- RMTF comprises the Finance Director and General Manager, Corporate Planning and Business Development ("GM – CP&BD"), it is chaired by GM – CP&BD.
- Maintains an oversight of the Group's risk management system, framework and programme.
- Proposes to the Board for approval at least annually enhancements as needed, including those to fulfil regulators or governance bodies' statutory requirements.
- Reviews and/or approves the Risk Inventory in the risk management programme and monitors the Risk KPI Reports.
- Ensures Business Lines of the Group commit sufficient resources to carrying out the risk management exercise.

Individual Department Head/Director (collectively referred as "Business Lines")

- Develops policies and controls to effectively embed the Group's risk management directions into day-to-day operations.
- Promotes the risk-management culture to those working under the Business Lines so they comply with the risk management policies and procedures when conducting day-to-day operations.
- Identifies the risks associated with business activities (including new business) within his/her own Business Lines, and implements appropriate action plans to manage the identified risks and opportunities.

Control Activities

The Group's franchised and non-franchised businesses involve well-established business processes. Control activities are built on top-level reviews, segregation of duties and physical controls. Written policies and procedures with defined limits of delegated authority are in place. These policies and procedures include but are not limited to:

- Annual budgeting and planning processes
- Financial and payment authorisation guidelines
- Procurement and tendering policies
- IT security policy

Quality Management System

The Group's franchised operations, KMB and LWB, have implemented a quality management system ("QMS") based on the benchmarks prescribed by the International Organisation for Standardisation ("ISO"). Under ISO requirements, major financial and operational procedures and instructions, including illustrative flow charts, are clearly documented and followed by operations.

The Hong Kong Quality Assurance Agency ("HKQAA") conducts an annual independent audit of QMS to assess its effectiveness, efficiency and conformity. During 2018, there was no non-conformity in QMS noted during the ISO audit of the operations of both KMB and LWB.

As of December 2018, both KMB and LWB possessed ISO 9001:2015 quality management system certification. In addition, two of KMB's major bus depots are ISO 14001-certified for their environmental management systems.

Business Continuity Plan

The Group's flagship subsidiary, KMB, has formulated and documented a Business Continuity Plan ("BCP") in respect of key business and IT operations. The BCP is reviewed and updated from time to time according to changes in circumstances. BCP, which is an integral part of the risk management process, provides a systematic approach for building an effective response that enables management to safeguard shareholder value in a crisis by responding promptly and by resuming KMB's critical business functions at acceptable pre-defined levels. KMB performs walk-through tests and drills periodically to ensure that the BCP will be able to adequately ensure minimal disruption to key businesses if an unforeseeable event occurs.

Information and Communication/Monitoring Activities

The Group's IT systems generate timely data to allow management to monitor business operations and thus achieve business objectives.

Regular and ad-hoc management and operational meetings are held to facilitate the proper monitoring of internal control and risk management items.

Internal Audit Function

The Internal Audit Department plays an important role in the assessment of the effectiveness of the risk management and internal control systems. It is responsible for providing the Audit and Risk Management Committee and senior management with independent and objective assurance that the internal control systems of the Group are effective in achieving their objectives, and that any risks and internal control weaknesses have been adequately addressed. The Internal Audit Department holds a group-wide function and covers both franchised and non-franchised operations of the Group. The Head of the Internal Audit Department reports directly to the Audit and Risk Management Committee and the Managing Director.

The Internal Audit Department conducts risk-based internal audit reviews in accordance with the International Standards for the Professional Practice of Internal Auditing. All staff in the Internal Audit Department, including the Head of Internal Audit, are required to declare their independence every year.

In 2018, the Internal Audit Department performed the following functions, among others:

- Conducted compliance reviews of relevant laws and regulations applicable to the Group's business;
- Carried out operational reviews and surprise checks of major internal control processes in respect of both franchised and non-franchised businesses;

- Performed special reviews and investigations at the request of the Group's management;
- Conducted follow up reviews on the recommendations of the Special Committee of the Tai Po Accident; and
- Assisted operations in carrying out Internal Quality Audits ("IQA") in accordance with ISO requirements.

Based on the report of the Internal Audit Department and the report of the Company Secretary on the Group's whistleblowing policy, the Audit and Risk Management Committee has concluded that the Group continues to operate in an effective control environment with a control system that adequately monitors and corrects non-compliance in significant areas. Following the Audit and Risk Management Committee's annual review of the Group's internal control systems, the Board is satisfied that the Group complied with the Code Provisions on internal controls in 2018.

Control Practices for Handling and Disseminating Price-sensitive and/or Inside Information

The Company is fully aware of its obligations under the Listing Rules and the Securities and Futures Ordinance. It has a suite of procedures and internal control measures in place to preserve the confidentiality of price-sensitive and/or inside information relating to the Group. All members of the Board, senior management and nominated executives, who are likely to have access to price-sensitive and/or inside information because of their office or employment in the Company or a subsidiary, are bound by the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules. In addition, every employee is required to follow the guidelines of the Code of Conduct and the Staff Handbook to keep unpublished price-sensitive and/or inside information strictly confidential.

External Audit

The external auditors play a crucial role in ensuring the integrity of the disclosure of financial information. If during the course of their review of the Company's interim financial report and their audit of the Company's annual financial statements, the external auditors discover any major irregularities, they will report their findings directly to the Audit and Risk Management Committee and the Board. The external auditors are invited to attend meetings of the Audit and Risk Management Committee, as well as the Annual General Meeting.

The Audit and Risk Management Committee is responsible for monitoring the audit and non-audit services rendered to the Group by its external auditors. A formal policy is in place to ensure that the engagement of the external auditors in non-audit services will not impair their independence in providing the audit services. The external auditors are also required to review annually their relationship with the Group and to give written confirmation to the Audit and Risk Management Committee of their independent status.

The Company engaged KPMG as its external auditors to audit the financial statements of the Company for the year ended 31 December 2018. KPMG has formally confirmed in writing to the Audit and Risk Management Committee that for the year ended 31 December 2018 and up to the date of this Annual Report, it remains independent of the Group in accordance with the independence requirements of the HKICPA.

The fees for services rendered by KPMG to the Group for the year ended 31 December 2018 are set out below:

	HK$ million
Audit related services	4.1
Non-audit related services (Note)	1.2
Total	5.3

Note: Non-audit related services mainly consist of other review and reporting services.

Engagement With Stakeholders

Shareholders

The Company had 3,912 registered shareholders as at 31 December 2018. The shareholders comprise individual shareholders, institutional investors plus people and organisations holding shares via financial intermediaries such as nominees, investment funds and the Central Clearing and Settlement System ("CCASS") of Hong Kong.

The names of the shareholders holding 5% or more of the shares of the Company as at 31 December 2018, other than those who are also Directors of the Company, are disclosed in the Directors' Report on page 122 of this Annual Report. The largest single shareholder of the Company is Sun Hung Kai Properties Limited, which retains an equity interest of about 37.10% in the Company.

As at 31 December 2018, the shareholding distribution of the Company was as follows:

Size of registered shareholding	Number of shareholders	% of shareholders	Number of shares (Note)	% of issued share capital
0-1,000	1,407	35.97	445,608	0.10
1,001-5,000	1,474	37.68	3,454,726	0.80
5,001-10,000	424	10.84	3,223,022	0.74
10,001-100,000	499	12.75	14,705,586	3.38
Above 100,000	108	2.76	412,768,385	94.98
	3,912	**100.00**	**434,597,327**	**100.00**

Note: 46.03% of all TIH's issued shares were held through CCASS.

Based on information that is publicly available to the Company and the Directors, the Company has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2018.

Shareholder Communications Policy

Transparency is vital to good corporate governance. The Board has formulated the Shareholder Communications Policy to provide shareholders with information about the Company, allowing them to engage with the Company and obtain information about the Company for exercising their rights as shareholders. The Shareholder Communications Policy is posted on the Company's website and is reviewed regularly to ensure its effectiveness. The Company adopts various communication channels, including press releases, announcements, circulars and interim and annual reports, to convey messages to the shareholders. Interim and annual reports, notices of general meetings, announcements and circulars in English and Chinese are posted on the Company's website (www.tih.hk) and the website of the Stock Exchange. They are also delivered to shareholders within the respective deadlines stipulated by the Listing Rules. Other information of interest to shareholders and the public is also available on the Company's website.

Annual Reports

The annual report is a unique source of information for shareholders and other stakeholders who wish to understand the business of the Group. Senior management endeavours to make the annual report informative, comprehensible and transparent, with a sufficient level of disclosure. There are both English and Chinese versions of the annual report and both printed and electronic copies are available to shareholders. In the interests of environmental preservation and economy, the Company encourages its shareholders to choose the electronic version of all the Company's corporate communications such as the annual and interim reports, notices of meetings, listing documents, circulars and forms of proxy. Shareholders are at liberty to change their choice of language or means of receiving the Company's corporate communications by giving written notice of not less than seven days to the Company's share registrar, Computershare Hong Kong Investor Services Limited, or by emailing tih.ecom@computershare.com.hk.

Over the years, the Company's annual reports have won widespread recognition in local and international award programmes. In 2018, the Company won the Silver Award for Chairman's Letter and Bronze Award for Written Text in the Transportation & Leasing category of the 2018 International ARC Awards.

The Company's General Meetings

The Directors consider the Company's general meetings an important way of communication with shareholders. The annual general meetings and other general meetings are normally attended by all Directors and senior management as well as the Company's external auditors so that any comments or questions raised by shareholders can be addressed.

Shareholders have control over the Company primarily through exercising their voting rights at general meetings. All voting is conducted by poll at general meetings with each shareholder being entitled to one vote. A separate resolution is proposed for each matter, including the election of individual Directors. The circular containing the notice of the annual general meeting, proposed resolutions, biographies of Directors standing for election and information on poll voting procedures is sent to shareholders with the annual report at least 20 clear business days before the annual general meeting.

Annual General Meeting

The 2018 AGM was held on 17 May 2018 and the matters resolved are summarised below:

As ordinary business:

- Approval of the audited financial statements and reports of the Directors and Auditors for the year ended 31 December 2017;
- Approval of an ordinary final dividend of HK$0.90 per share for the year ended 31 December 2017;
- Re-election of Mr Raymond KWOK Ping Luen, JP, Mr Charles LUI Chung Yuen, M.H., Ms Winnie NG, JP, Dr Eric LI Ka Cheung, GBS, OBE, JP, Professor LIU Pak Wai, SBS, JP, Mr TSANG Wai Hung, GBS, PDSM, JP, Dr CHEUNG Wing Yui, BBS and Mr LEE Luen Fai, JP as Directors of the Company;
- Re-appointment of KPMG as auditors of the Company, and authorisation of the Directors to fix their remuneration;
- Fixing the remuneration of the Directors of the Company;
- Granting of a general mandate to the Directors to issue shares;
- Granting of a general mandate to the Directors to exercise the powers of the Company to purchase its own shares; and
- Extending the share issue mandate granted to the Board of Directors.

The details and poll voting results of the 2018 AGM were published on the websites of the Company and the Stock Exchange on 17 May 2018.

The 2019 Financial Calendar of the Company is set out as follows:

Announcement of 2018 final results	21 March 2019
Dispatch of 2018 Annual Report and accompanying circular to shareholders	11 April 2019
Last day to register transfer to qualify to attend and vote at the 2019 AGM	9 May 2019
Book closure for 2019 AGM (both dates inclusive)	10 May 2019 – 16 May 2019
Date of 2019 AGM	16 May 2019
Last day to register transfer to qualify for 2018 final dividend	21 May 2019
Book closure for 2018 final dividend	22 May 2019
Payment of 2018 final dividend	27 June 2019
Announcement of 2019 interim results	mid-August 2019
Payment of 2019 interim dividend	mid-October 2019
Financial year end date	31 December 2019

Shareholders' Right

Under the Company's Bye-laws, shareholders holding at least 10% of the paid-up capital of the Company and carrying the right of voting at general meetings of the Company may ask the Board to convene a special general meeting ("SGM") for the transaction of business specified in the request. The request must be in written form with the purpose of the meeting stated therein and deposited at the head office of the Company at 15/F, 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong. The request must be signed by the shareholders concerned and may consist of two or more documents in like form, each signed by one or more of those shareholders. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will arrange to convene a SGM by serving sufficient notice to all the registered shareholders in accordance with the Company's Bye-laws and the statutory requirements.

Procedures for Making Proposals at General Meetings

Shareholders holding not less than one-twentieth of the total voting rights of those shareholders having the right to vote at the general meetings or not less than 100 shareholders holding shares in the Company are entitled to submit a written request to move a resolution at general meetings. The procedures for making proposals at general meetings are laid down in the Company's Shareholder Communications Policy, which is available on the Company's website.

Procedure for Sending Enquiries to the Board

Enquiries from shareholders can be sent to the attention of the Board. All enquiries should be addressed to the Board or the Company Secretary and sent to the Company's head office at 15/F, 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong. Shareholders may also email their enquiries to the Directors at director@tih.hk. The Company Secretary will respond to such enquiries within a reasonable time.

Constitutional Documents

An up-to-date and consolidated version of the Bye-laws of the Company is published on the websites of the Company and the Stock Exchange. No changes were made to the Company's constitutional documents in 2018.

General Public

The Group uses the following communication channels to keep the general public informed of its developments:

Website – The Company's website (www.tih.hk) offers a wide range of company, financial and corporate social responsibility information about the Group and its various businesses for shareholders and other interested parties.

Media and Online Communication – To keep the public informed about the bus services of KMB and LWB, the two major subsidiaries of the Group, press sessions are held to introduce the media to the latest developments in respect of services, facilities, safety and efforts in environmental protection. Social media such as Facebook and Instagram are also used to publicise KMB's initiatives and achievements, as well as to gather useful feedback from the public.

Publications – KMB and LWB publish a number of leaflets which keep the travelling public updated on their services and operations. These publications can be accessed on the companies' websites (www.kmb.hk and www.lwb.hk).

Employees

Effective communication between the management and staff is a key means to boost efficiency and morale. The staff website is an effective way for employees to access relevant management announcements and information on issues that concern them, such as payroll and staff events and activities. Orientation training courses, e-learning programmes and a staff forum are also available online. The corporate magazine KMB Today keeps employees, especially frontline staff, informed of news and events relating to the Group and the industry.

The Staff Handbook, which is accessible on the staff website, allows the staff to know more about the Company's human resources policies and employment guidelines.

Remuneration Report

The Board delegates authority to the Remuneration Committee to ensure that the Company adopts remuneration policies which are fair, properly structured and in line with the interests of Directors, staff and other stakeholders of the Company. The Committee has four members, three of whom are Independent Non-executive Directors and the other one is a Non-executive Director. The Committee is chaired by Independent Non-executive Director Dr John CHAN Cho Chak, *GBS, JP*, who is also the Deputy Chairman of the Company. The other members are Independent Non-executive Director Dr Eric LI Ka Cheung, *GBS, OBE, JP*, Independent Non-executive Director Professor LIU Pak Wai, *SBS, JP* and Non-executive Director Ms Winnie NG, *JP*.

The Remuneration Committee makes recommendations to the Board on the remuneration packages of the Directors and employees of the Company and its subsidiaries. The level of remuneration is determined in accordance with the principles of performance, fairness, transparency and market competitiveness. The Group's remuneration packages are designed to attract, retain and incentivise high calibre individuals who will make significant contributions to the Group. The Remuneration Committee is authorised to obtain independent professional advice on relevant issues if required.

The main remuneration policies adopted by the Group are as follows:

- Remuneration policy and practice, including those relating to the Directors, should be fair, transparent and compliant with relevant legislation;
- No Director or member of senior management should be involved in deciding his/her own remuneration; and
- Directors and employees should be rewarded on a fair basis according to their merits, job responsibilities, qualifications and experience, with reference to the market practices and packages for similar posts offered by comparable companies.

The Remuneration Committee's written terms of reference, which are published on the Company's website, comply with the Code Provisions set out in Appendix 14 of the Listing Rules. The main duties of the Committee are:

- Determining the policies on remuneration of the Directors and employees of the Group for approval by the Board;
- Setting appropriate criteria for performance-related bonuses for employees, having regard to their achievement against the assessment criteria and with reference to market norms and the Group's business objectives and targets;
- Establishing guidelines for determining the remuneration of Directors, including the terms and conditions of employment, remuneration and retirement benefits of the Executive Director(s);
- Reviewing and making recommendations to the Board on the remuneration packages of individual Executive Director(s), senior management and Non-executive Directors; and
- Reviewing and considering proposals submitted by the Managing Director on human resources and related policies and making appropriate recommendations to the Board.

In 2018, the work conducted by the Remuneration Committee included:

- Reviewing the remuneration policy for 2018;
- Reviewing the annual performance-related bonuses for Group's employees, with reference to the performance of the Group, individual achievement, assessment criteria and market norms;
- Examining employees' wage and salary increments on a merit basis with reference to relevant factors including market pay trends and inflation forecasts; and
- Reviewing the remuneration of Executive and Non-executive Directors, benchmarked against the remuneration level of comparable listed companies in respect of workload, scale and complexity of business.

Criteria for Determining the Remuneration of Directors

In line with good corporate governance practice, assessment of the remuneration of Directors is based on formal principles, which take into account both the market practices and a tried and tested methodology. As in previous years, Directors' fees for 2018 were determined based on the methodology developed in the "Higgs Report" on the "Review of the Role and Effectiveness of Non-executive Directors" in the United Kingdom, in view of the likely workload, the scale and complexity of the business and the responsibility involved. Reference was also made to the results of a desk-top survey conducted by the Company on the remuneration of the directors of 20 major companies listed on The Stock Exchange of Hong Kong Limited. The fee structure for Directors in 2018 is set out as follows:

	Fee per annum HK$
Board Members	
– Chairman	520,800
– Other Directors	372,000
Audit and Risk Management Committee Members	
– Chairman	200,000
– Other members	180,000
Remuneration Committee Members	
– Chairman	70,000
– Other members	60,000
Nomination Committee Members	
– Chairman	70,000
– Other members	60,000
Standing Committee Members (except Executive Director)	
– Chairman	1,352,800
– Other members	252,000

Except as disclosed above, no Independent Non-executive Director or Non-executive Director received any pension benefits or bonuses from the Group in 2018.

The remuneration package of each Director, on a named basis, for the year ended 31 December 2018, together with 2017 comparisons, are given in note 7 to the consolidated financial statements on pages 169 and 170 of this Annual Report.

Criteria for Determining the Remuneration of Corporate Executives and Other Employees

The remuneration of the corporate executives of the Company as well as those of other employees are benchmarked against the remuneration for similar positions in comparable local companies. This is consistent with the Group's remuneration policy of aligning remuneration packages with market practices. Depending on the financial performance of the Group, discretionary bonuses may also be granted to individuals on a merit basis. The level of any such discretionary bonus is subject to review and approval by the Remuneration Committee and the Board after consideration of the financial results of the Group.

The main components of remuneration for corporate executives and other employees are as follows:

Base Compensation

The Remuneration Committee reviews employees' base compensation, including salaries, allowances and fringe benefits, with reference to the Group's financial performance, the scope and complexity of the individuals' responsibilities, performance and market pay levels.

Discretionary Bonus

A discretionary bonus may be granted to individuals in recognition of their outstanding performance. Individuals are subject to a comprehensive annual performance appraisal by their immediate supervisors. Only those who obtain at least a satisfactory performance rating are considered for the award of an incentive bonus.

Share Option Scheme

Under the Share Option Scheme approved and adopted by the shareholders at the 2016 Annual General Meeting held on 26 May 2016, the Board may grant options to eligible employees, including Executive Director(s) of the Company and its subsidiaries, to subscribe for shares in the Company. The Share Option Scheme is intended to provide employees of the Company and its subsidiaries with the opportunity to participate in the growth and success of the Company. The Board may exercise its discretion to grant options to eligible employees as proposed by the Remuneration Committee.

Details of the Share Option Scheme and options granted to eligible employees under the Share Option Scheme are set out on pages 120 and 121 of this Annual Report.

Staff Retirement Schemes

The KMB Monthly Rated Employees Provident Fund Scheme (the "Monthly Scheme") and the KMB Daily Rated Employees Retirement Fund Scheme (the "Daily Scheme") are two non-contributory defined benefit retirement schemes operated by the Group. The Group also participates in a defined contribution retirement scheme, the SHKP MPF Employer Sponsored Scheme, which was established and registered under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) (the "MPF Ordinance") in 2000.

i) The Monthly Scheme

Formally established under trust and registered under the Occupational Retirement Schemes Ordinance (Cap. 426 of the Laws of Hong Kong) (the "ORSO"), the Monthly Scheme is administered by an independent trustee and the assets are held separately from those of the Group. Under the current scheme rules, an eligible member's benefit is equivalent to the final monthly salary multiplied by the service period and the benefit factor applicable to the member's completed years of service. Contributions to the Monthly Scheme are made in accordance with the recommendations of an independent actuary firm which values the retirement scheme at regular intervals. The scheme is closed to employees first employed or re-employed by KMB (including any subsidiary(ies) and associated company(ies) which participate in the Monthly Scheme) on or after 1 December 2000.

ii) The Daily Scheme

Formally established under trust and registered under the ORSO, the Daily Scheme is administered by an independent trustee and the assets are held separately from those of the Group. Under the current scheme rules, an eligible member's benefit is equivalent to the final daily basic emolument multiplied by the number of completed years of service as a daily rated employee and further multiplied by a benefit factor applicable to the member's completed years of service. Contributions to the Daily Scheme are made in accordance with the actuary's recommendations. The Scheme is closed to employees first employed or re-employed by KMB (including any subsidiary(ies) and associated company(ies) which participate in the Daily Scheme) on or after 1 December 2000.

iii) SHKP MPF Employer Sponsored Scheme

The Group is a participating member of the SHKP MPF Employer Sponsored Scheme ("SHKP Scheme"), which is a defined contribution retirement scheme. Employees who do not participate in the aforesaid defined benefit retirement schemes are covered by the SHKP Scheme, which is administered by an independent trustee. The assets of the SHKP Scheme are held separately from those of the Group in independently administered funds. The Group is required to make contributions to the SHKP Scheme at rates ranging from 5% to 12% of relevant employees' salaries, depending on their employment terms and length of service with the Group. Employees are required to make contributions to the SHKP Scheme at 5% of their relevant income as defined by the MPF Ordinance, subject to a cap of monthly relevant income of HK$30,000.

Directors' Profiles

Dr Norman LEUNG Nai Pang

GBS, JP, LLD, BA

Chairman and Independent Non-executive Director, aged 78. Dr Leung has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 18 March 2000 and Deputy Chairman of the Company, KMB and LWB since 14 June 2001. Dr Leung became an Independent Non-executive Director of the Company with effect from 1 February 2006. He has been appointed as the Chairman of the Company with effect from the conclusion of the Annual General Meeting of the Company held on 17 May 2012. Dr Leung is the Chairman of the Standing Committee of the Company. He is an Independent Non-executive Director of Sun Hung Kai Properties Limited (A company listed on the Hong Kong Stock Exchange). Dr Leung has been active in public service for 40 years and he served as Commissioner of the Civil Aid Service from 1993 to 2007, Chairman of the Broadcasting Authority from 1997 to 2002, a member of the Advisory Committee on Post-office Employment for former Chief Executives and Politically Appointed Officials from 2007 to 2013, Council Chairman of the City University of Hong Kong from 1997 to 2003 and Pro-Chancellor of such University from 2005 to June 2016. Dr. Leung has been appointed as the Council Chairman of The Chinese University of Hong Kong since May 2016.

Dr John CHAN Cho Chak

GBS, JP, DBA(Hon), DSocSc(Hon), BA, DipMS,CCMI, FCILT, FHKIoD

Deputy Chairman and Independent Non-executive Director, aged 75. Dr Chan was the Managing Director of Transport International Holdings Limited (the "Company") from 4 September 1997 to 7 April 2008; the Managing Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") from 1 November 1993 to 31 December 2006 and from 8 May 1997 to 31 December 2006 respectively; and the Senior Executive Director of KMB and LWB from 1 January 2007 to 7 April 2008. He has been a Non-executive Director of the Company, KMB and LWB since 8 April 2008, and was re-designated as Independent Non-executive Director of the Company with effect from 4 January 2012. He was appointed as the Deputy Chairman of the Company with effect from the conclusion of the Annual General Meeting of the Company held on 17 May 2012. He is the Chairman of the Remuneration Committee and the Nomination Committee as well as a member of the Standing Committee of the Company. He is an Independent Non-executive Director of Hang Seng Bank Limited and Guangdong Investment Limited. He was the Chairman and Non-executive Director of RoadShow Holdings Limited from 15 January 2001 to 12 December 2017. He was formerly an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited, 2000-03 and a member of the Hong Kong Civil Service, 1964-78 and 1980-93. Key posts held in Government included Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. Dr Chan was formerly also the Executive Director and General Manager of Sun Hung Kai Finance Company Limited, 1978-80. He was a Director of Swire Properties Limited from April 2010 to March 2017 during which he acted as an Independent Non-Executive Director from December 2011 to March 2017. He is currently Chairman of the Court of The Hong Kong University of Science and Technology and a member of the Board of Directors and Executive Committee of the Community Chest of Hong Kong. In December 2000, Dr Chan won the Executive Award in the DHL/SCMP HK Business Awards 2000 and received an Honorary University Fellowship from The University of Hong Kong. He was awarded the degrees of Doctor of Business Administration (honoris causa) by the International Management Centres in 1997 and Doctor of Social Sciences (honoris causa) by The Hong Kong University of Science and Technology in 2009, The University of Hong Kong in 2011 and Lingnan University in 2012. He is a Companion of the Chartered Management Institute, a Fellow of the Chartered Institute of Logistics and Transport and a Fellow of the Hong Kong Institute of Directors.

Raymond KWOK Ping Luen

JP, MA(Cantab), MBA, Hon DBA, Hon LLD

Non-executive Director, aged 65. Mr Kwok has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He is also a member of the Standing Committee of the Company. He has been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 September 1981 and 8 May 1997 respectively. Mr Kwok holds a Master of Arts degree in Law from Cambridge University, a Master's degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong. He is the Chairman and Managing Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is also the Chairman and an Executive Director of SUNeVision Holdings Ltd., the Chairman and a Non-executive Director of SmarTone Telecommunications Holdings Limited and a Non-executive Director of Wing Tai Properties Limited.

In civic activities, Mr Kwok is a member of the 13th National Committee of the Chinese People's Political Consultative Conference. He is also a Director of The Real Estate Developers Association of Hong Kong and a Member of the Council of The Chinese University of Hong Kong.

NG Siu Chan

Non-executive Director, aged 88. Mr Ng has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He is also a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 3 March 1983 and 8 May 1997 respectively. Mr Ng was an Independent Non-executive Director of Century City International Holdings Limited from 2 December 1994 to 31 December 2017, Paliburg Holdings Limited from 18 August 1995 to 31 December 2017 and Regal Hotels International Holdings Limited from 22 March 2005 to 31 December 2017.

Mr Ng is the father of Ms Winnie Ng, who is a Director of the Company, KMB and LWB.

William LOUEY Lai Kuen

BSc(Econ)

Non-executive Director, aged 59. Mr Louey has been a Director of Transport International Holdings Limited since 4 September 1997 and of its subsidiaries, The Kowloon Motor Bus Company (1933) Limited since 14 January 1993 and Long Win Bus Company Limited since 8 May 1997. He was appointed as a member of the Standing Committee of the Company with effect from 1 January 2018. Formerly, Mr Louey had a successful career in the United Kingdom, with an international merchant bank for five years and an international accounting firm for three years afterwards.

In memory of his grandfather, Mr William S D Louey, William S D Louey Educational Foundation was set up in 1995 to offer scholarship and bursaries to students with academic excellence from Hong Kong and Greater China to pursue their studies abroad. The Foundation has extended its financial support to promising candidates from other countries in recent years. In 1999, Mr Louey was invited to join the committee of the China Oxford Scholarship Fund, and subsequently in 2011, appointed as Member of Vice-Chancellor's Circle, University of Oxford.

Between 2003 and 2012, he also served as Executive Committee Member of The Friends of Cambridge University in Hong Kong, the sponsor of Prince Philip Scholarship.

In recognition of his exceptional contribution to education, Mr Louey was presented with Elizabeth Wordsworth Fellowship by St Hugh's College in February 2013, the very first recipient of this top accolade bestowed by University of Oxford.

Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT

Non-executive Director, aged 84. Mr Lui has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively, and has been re-designated as a Non-executive Director of the Company with effect from 20 October 2016. He is also a member of the Standing Committee of the Company. Joined KMB in 1960 as Accountant and promoted to Chief Accountant, Assistant General Manager and appointed as General Manager on 1 March 1989. Retired as General Manager on 21 July 1999 on reaching the retirement age of 65 years. Mr Lui was appointed the Deputy Managing Director of KMB (China) Holdings Limited ("KMB (China)") on 1 September 1999. Relinquished the post of Deputy Managing Director to assume the post of Chairman of KMB (China) on 13 August 2003 until 20 October 2016.

Winnie NG

JP, BA, MBA(Chicago), MPA(Harvard), FCIM, CMILT, MHKIoD

Non-executive Director, aged 55, has been Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") since 1995 and Director of Transport International Holdings Limited (the "Company") and Long Win Bus Company Limited since 1997, and was Founder and Deputy Chairman of RoadShow Holdings Limited ("RoadShow") until 12 December 2017. Ms Ng is also an Independent Non-executive Director of Century City International Holdings Limited, Paliburg Holdings Limited and Regal Hotels International Holdings Limited which are all listed companies. Ms Ng has received numerous awards and recognition. In 2017, Ms Ng was appointed a Justice of the Peace. In 2016, she won Nobel Laureate Series: Asian Chinese Leadership Award, and China Top Ten Outstanding Women Entrepreneurs. In 2010, she was named a Woman of Excellence and was also selected as one of 60 Meritorious Chinese Entrepreneurs with Achievement and National Contribution. In previous years, she won the Yazhou Zhoukan Young Chinese Entrepreneur Award, was named one of China's 100 Outstanding Women Entrepreneurs, was Mason Fellow of Harvard University, and was the Caring Heart Award recipient.

Ms Ng has been appointed member of Standing Committee of the Company since 23 October 2008 to assist and advise the Board in formulating policy, and to monitor the implementation by management. She is also a member of the Remuneration Committee of the Company since 19 May 2017. She was Executive Director of the Company from 1995 until 13 October 2008 and looked after business development, procurement, insurance, facilities management, marketing and sales, and corporate relations. She successfully positioned KMB as a powerful out-of-home media sales tool by raising the profiles and sales of bus body exterior and on street bus shelter advertising, and created the multi-media RoadShow, unlocking the huge potential of the travelling passengers. The operations model has been adopted by many companies in Hong Kong, China, and over the world. The spinoff and listing of RoadShow on the main board (HK stock code 888) was a business breakthrough in the public transportation industry, creating an independently listed and financially strong subsidiary for the Group. To further capitalize on this substantial value asset, it was sold and contributed significantly to the 2017 earnings of the Group.

Active in public service, she is Chairman of Hospital Governing Committee of Prince of Wales Hospital, Member of Town Planning Board, Director of Po Leung Kuk for the year 2019-2020, Advisor of Our Hong Kong Foundation, Court member of The Hong Kong Polytechnic University, Council Member of The Better Hong Kong Foundation. She was Member of Hong Kong Tourism Board and its Marketing & Business Development Committee Chairman, and Member of the Hospital Authority and its Supporting Services Development Committee Chairman from 2010 to 2016. She was member of Employees Retraining Board and its Course Vetting Committee Convenor, and Member of Vocational Training Council from 2011 to 2017. She acted as the judge for Miss Hong Kong Pageant 2014, and also acted as the judge for the biannual Hong Kong Volunteer Award consecutively from 2005 to 2017.

Ms Ng is daughter of Director Mr Ng Siu Chan and also acts as his alternate director. Ms Ng holds an MBA degree from University of Chicago and an MPA degree from Harvard University. She is a Fellow of the Chartered Institute of Marketing.

Dr Eric LI Ka Cheung

GBS, OBE, JP, LLD, DSocSc, Hon DSocSc(EdUHK), BA, FCPA(Practising), FCA, FCPA(Aust.), FCIS

Independent Non-executive Director, aged 65. Dr Li has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. Dr Li was an Independent Non-executive Director of RoadShow Holdings Limited from 16 September 2004 to 12 December 2017. He is the Senior Partner of Li, Tang, Chen & Co., Certified Public Accountants. Dr Li is an Independent Non-executive Director of SmarTone Telecommunications Holdings Limited, Wong's International Holdings Limited, Hang Seng Bank Limited, China Resources Beer (Holdings) Company Limited (formerly China Resources Enterprises, Limited) and Bank of Communications Co. Ltd. (until 25 June 2013), all of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was formerly an Independent Non-executive Director of China Vanke Co., Ltd., Sinofert Holdings Limited, CATIC International Holdings Limited and Meadville Holdings Limited (a company listed on the Stock Exchange until its withdrawal of its listing status on 19 April 2010). He is also an Independent Non-executive Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is a member of the 13th National Committee of the Chinese People's Political Consultative Conference, Chairman of Independent Commission on Remuneration for Members of the District Council of the HKSAR and the Chairman of the Legal Aid Services Council. He was also a former member of the Legislative Council of Hong Kong and a past president of the Hong Kong Institute of Certified Public Accountants. Dr Li is the Chairman of the Audit and Risk Management Committee of the Company, and a member of the Nomination Committee and Remuneration Committee of the Company.

Professor LIU Pak Wai

SBS, JP

Independent Non-executive Director, aged 71. Professor Liu was appointed Independent Non-executive Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 1 September 2011. He was appointed as a member of the Remuneration Committee and the Audit and Risk Management Committee of the Company with effect from the conclusion of the Annual General Meeting of the Company held on 17 May 2012 and on 19 May 2017 respectively. He received his AB degree from Princeton University and PhD degree from Stanford University in the United States of America. He is the Research Professor and formerly Pro-Vice-Chancellor of The Chinese University of Hong Kong and holds a number of positions related to his field of study, including Executive Committee Chairman of the Lau Chor Tak Institute of Global Economics and Finance. Professor Liu is an Independent Non-executive Director of Hang Lung Group Limited and China Zheshang Bank Co., Ltd., both companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. He was an Independent Non-executive Director of Hang Lung Properties Limited. He is also a director of the Hong Kong Institute for Monetary Research of the Hong Kong Monetary Authority, a board member of the Shenzhen Finance Institute and was a Non-executive Director of the Securities and Futures Commission and the Chairman of its Remuneration Committee. In public service, he serves as Chairman of the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials and a member of the Judicial Officers Recommendation Commission. He was a past member of the Commission on Strategic Development, the Working Group on Long Term Fiscal Planning, the Independent Review Committee for the Prevention and Handling of Potential Conflicts of Interests, and the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR.

Allen FUNG Yuk Lun

BA, Ph.D.

Non-executive Director, aged 50. Mr Fung has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 January 2014. He was appointed as a member of the Audit and Risk Management Committee and Nomination Committee of the Company with effect from 19 May 2017. He is an Executive Director of Sun Hung Kai Properties Limited ("SHKP"), a Deputy Chairman of SmarTone Telecommunications Holdings Limited and a Vice Chairman of SUNeVision Holdings Limited. He is also a member of the Executive Committee of SHKP and the Chief Executive Officer of the SHKP Group's non-property related portfolio investments. He is also a director of certain SHKP subsidiaries. He was a Non-executive Director of RoadShow Holdings Limited from 8 July 2014 to 12 December 2017. Mr Fung obtained an undergraduate degree (Modern History) from Oxford University and holds a doctoral degree in History and East Asian Languages from Harvard University. He was a recipient of a Guggenheim Fellowship in 1996. Mr Fung was a Teaching Fellow at Harvard University from 1993 to 1994 and a visiting Assistant Professor of History at Brown University from 1996 to 1997. Mr Fung joined McKinsey & Company ("McKinsey"), a global management consulting company, in 1997. During his time in McKinsey, he primarily served clients in China and Hong Kong, and also served institutions in Europe and Southeast Asia. Mr Fung was the co-leader of the infrastructure practice for McKinsey. He was the Managing Partner of McKinsey Hong Kong from 2004 to 2010. In 2011, he became a Director of McKinsey globally, being the first Hong Kong Chinese to become a Director in McKinsey's history. He was also the head of recruiting for the Asia region in McKinsey.

Mr Fung is the President of the Hong Kong Society for the Protection of Children, a member of the General Committee of the Hong Kong General Chamber of Commerce, an Honorary Treasurer of The Hong Kong Federation of Youth Groups and an Executive Committee Member of The Hong Kong Management Association, a Council Member of Sir Edward Youde Memorial Fund, a member of the Board of the Asian Youth Orchestra, and a member of the Advisory Committee on Gifted Education of Education Bureau, The Government of the Hong Kong Special Administration Region, and a member of the Board of the Hong Kong Philharmonic Society Limited.

Roger LEE Chak Cheong

BSc, MSc, MICE, CEng

Managing Director, aged 56. Mr Lee has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 3 March 2014. He has been appointed as Managing Director of the Company, KMB and LWB since 1 January 2015. He is a member of the Standing Committee of the Company. He is also a director of certain subsidiaries of the Company. Mr Lee also served as an Alternate Director to Mr Raymond Kwok Ping Luen of the Company, KMB and LWB for the period from 1 April 2013 to 2 March 2014. Prior to joining Sun Hung Kai Properties Limited in 2006, he was a Director with MVA Hong Kong Limited, a leading traffic and transport consultancy in Hong Kong. Before returning to Hong Kong, Mr Lee has worked for the West Sussex County Council, the London Borough of Bexley and the East Sussex County Council in England between 1986 and 1994. Mr Lee obtained a Bachelor Degree in Civil Engineering from University of Westminster, England in 1985 and a Master Degree in Transportation Planning & Engineering from University of Southampton, England in 1986. Mr Lee is a Chartered Engineer and is a member of the Institution of Civil Engineers.

TSANG Wai Hung

GBS, PDSM, JP, MBA

Independent Non-executive Director, aged 60. Mr Tsang has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 January 2018. He is a member of the Audit and Risk Management Committee and Standing Committee of the Company.

Mr Tsang is a retired civil servant. Currently, he works as a management consultant and strategist for Chen Hsong Holdings Limited, a leading plastic injection moulding machine manufacturer in Hong Kong and listed on the Main Board of The Stock Exchange of Hong Kong Limited. He was the Commissioner of Police prior to his retirement in May 2015.

Mr Tsang started his police career as an Inspector in January 1978. He worked on secondment overseas as a Detective Superintendent of the Metropolitan Police in London from 1993 to 1995. He became a directorate officer in 1998 and worked in succession as District Commander, Wanchai; Chief Superintendent, Organised Crime and Triad Bureau; Assistant Commissioner, Information Systems; Director of Personnel and Training, Director of Operations; Deputy Commissioner, Management; Deputy Commissioner, Operations; and finally the Commissioner of Police from January 2011.

Mr Tsang holds an MBA degree from Leicester University, UK. He had also undertaken various courses at Tsinghua University; the Chinese Academy of Governance; Harvard Business School, and the Royal College of Defense Studies, UK.

Dr CHEUNG Wing Yui

BBS, BCom, Hon DBA, CPA(Aust.)

Non-executive Director, aged 69. Dr Cheung has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 January 2018. He is a deputy chairman and a non-executive director of SmarTone Telecommunications Holdings Limited, a vice chairman and a non-executive director of SUNeVision Holdings Limited, a non-executive director of Tai Sang Land Development Limited and Tianjin Development Holdings Limited. He is also a non-executive director of Sun Hung Kai Properties Insurance Limited, which is a wholly-owned subsidiary of Sun Hung Kai Properties Limited. He is a director of The Community Chest of Hong Kong.

Dr Cheung received a Bachelor of Commerce degree in accountancy from The University of New South Wales, Australia and is a member of the CPA Australia. He has been a practising solicitor in Hong Kong since 1979 and is a consultant of the law firm Woo Kwan Lee & Lo. Dr Cheung was also admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore. Dr Cheung was awarded the Bronze Bauhinia Star (BBS) in 2013. He was awarded an honorary degree of Doctor of Business Administration from The Open University of Hong Kong in 2016.

Dr Cheung held the positions of deputy chairman of the council of The Open University of Hong Kong, the deputy chairman of The Hong Kong Institute of Directors Limited, a director of Po Leung Kuk, the vice chairman of the Mainland Legal Affairs Committee of The Law Society of Hong Kong and a member of the Board of Review (Inland Revenue Ordinance). He was a non-executive director of SRE Group Limited (November 1999 – December 2015), an independent non-executive director of Hop Hing Group Holdings Limited (November 1989 – August 2017) and an independent non-executive director of Agile Group Holdings Limited (October 2005 – February 2018).

LEE Luen Fai

JP, BA

Non-executive Director, aged 65. Mr Lee has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 January 2018. He is the Director of Public Affairs of Sun Hung Kai Properties Limited ("SHKP"). He joined SHKP in May 2005. He is a veteran of the broadcasting industry, with more than 20 years of experience in the field. He joined Radio Television Hong Kong ("RTHK") in the 70's and has hosted a number of popular programmes including "Talkabout" and "City Forum". Mr Lee has also been the Head of Public Affairs for RTHK radio division. In 1993, he was promoted as the Head of Public and Current Affairs of the television division overseeing all public and current affairs programmes. He became Controller of Educational Television in 1996 and was responsible for all educational TV and school programmes. Mr Lee graduated from Grantham College of Education (now known as The Education University of Hong Kong) and holds a bachelor of arts degree in Chinese History from University of East Asia (now known as University of Macau).

Mr Lee has an extensive record of public and community service and is currently a Member of the Standing Commission on Civil Service Salaries and Conditions of Service and Election Committee (Transport Sub-sector). He was a non-official Member of Family Council (1 September 2016 – 31 March 2019) and he was also a non-executive director of RoadShow Holdings Limited (18 June 2015 – 12 December 2017).

LUNG Po Kwan

BSocSc, MSocSc(Economics), MBA, CFA

Non-executive Director, aged 53. Mr Lung has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 July 2018. He is the Chief Financial Officer of the China region for Sun Hung Kai Properties Limited ("SHKP"). He has over 27 years of experience in financial markets, including investment research, fund management, private equity investments and risk management in both corporate and financial institutions.

Mr. Lung joined SHKP in 1992 and was responsible for investor relations and investment in infrastructure project until 1996. During 1996-2003, Mr. Lung was a portfolio manager with BNP Paribas Asset Management, specialising in Asian equity investments. In 2004, Mr. Lung was seconded to a fund management company jointly set up by BNP Paribas and Shenyin Wanguo Securities in Shanghai, China to head the risk management of the joint-venture. In 2007, Mr. Lung joined as one of the founding partners in a private equity firm funded by seed capital from BNP Paribas and Shinhan Financial Group. Mr. Lung rejoined SHKP in 2013 and took up the current position since then.

Mr. Lung holds a Bachelor of Social Sciences degree and a Master of Social Sciences degree in Economics from the University of Hong Kong, and a Master of Business Administration degree from China Europe International Business School in Shanghai. Mr. Lung is a CFA charterholder of the CFA Institute.

Key Corporate Executives

Company/Position	Name
Transport International Holdings Limited	
Managing Director	Roger LEE Chak Cheong, BSc, MSc, MICE, CEng
General Manager (Corporate Planning and Business Development)	Godwin SO Wai Kei, BA, MBA, FCPA, FCCA, FCIS, FCS
Finance Director	William HO Sai Kei, BBA, MBA, CA(Canada), FCPA
Company Secretary	Lana WOO, BA, MBA, FCIS, FCS(PE), CPA(Canada), CGA
Head of Internal Audit Department	Louisa LEUNG Chik Yee, AICPA, CIA, CISA, CFE, CRMA
Head of Legal Department	Henry LEUNG Ho Yin, BA, MBA, LLB
The Kowloon Motor Bus Company (1933) Limited/ Long Win Bus Company Limited	
Operations Director	LEUNG Kin Wang, BSc
Commercial Director	Thomas TONG Tung Ming, MSc, MBA, CEng, MIStructE, MHKIE, AP, RSE
Safety Director	Andrew KWAN Chi Wai, CMILT
Deputy Operations Director (Bus Operations)	Patrick PANG Shu Hung, MSc
Deputy Operations Director (Bus Servicing & Engineering)	Jones WONG Kin Fai, BEng(Hons)
Head of Commercial Department	Emily CHEUNG Yee Hang, MA, MCILT
Head of Corporate Communications Department	Emily HUI Wan Han, MA
Head of Financial Accounting & Treasury Department	Kathy CHEUNG Mei Lam, BBA, CPA
Head of Financial Planning and Control Department	Joseph LEUNG Cho Tak, BA, CPA, AICPA
Head of Procurement Department	Anita LAM Chiu Lin, BCom, MSc, MCIPS
Head of Training & Quality Assurance Department	James WONG Cheung Ming, PMSM
Head of Transport Planning & Public Affairs Department	Addie LAM Tsz Ho, BA, MSc
Sun Bus Holdings Limited	
Executive Director	Steve HUI Chun Tak, PDSM, MMgt

Financial Reports

Contents

Directors' Report

The Directors have pleasure in submitting their Annual Report together with the audited financial statements for Transport International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2018.

Principal place of business

The Company was incorporated in Bermuda and is domiciled in Hong Kong and has its registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and principal place of business at 15/F, 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.

Principal activities and business review

The principal activity of the Company is investment holding and the principal activities of the Group are the operation of both franchised and non-franchised public transportation and property holdings and development.

Particulars of the Company's principal subsidiaries are set out in note 16 to the financial statements.

The Group's revenue and profit are mainly attributable to franchised bus operations.

The analysis of the principal activities of the Group during the financial year is set out in note 12 to the financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business, a discussion of the Group's environmental policies and performance, and its compliance with the relevant laws and regulations that have a significant impact on the Group and an account of the Group's key relationships with its employees, customers and suppliers that have a significant impact on the Group can be found in the Management Discussion and Analysis set out on pages 18 to 107 of this Annual Report. This discussion forms part of this Directors' Report.

Recommended dividend

An interim dividend of HK$0.30 per share (2017: HK$0.35 per share) was paid to the shareholders on 16 October 2018. This included a scrip dividend alternative to allow shareholders to elect to receive the dividend wholly or partly in the form of new fully paid shares in lieu of cash. The Directors now recommend that a final dividend of HK$0.90 per share (2017: HK$0.90 per share) in respect of the year ended 31 December 2018 be paid to shareholders on 27 June 2019.

Charitable donations

Charitable donations made by the Group during the year amounted to HK$12,000,500 (2017: HK$2,100,000).

Share capital

Details of the movements in share capital of the Company during the year are set out in note 28(b)(i) to the financial statements. Shares were issued during the year due to the launch of scrip dividend scheme. Details about the issue of shares are also set out in note 28(b)(i) to the financial statements.

Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$2,308,376,000 (2017: HK$2,300,670,000). After the end of the reporting period, the Directors proposed a final dividend of HK$0.90 per share (2017: HK$0.90 per share), amounting to HK$391,138,000 (2017: HK$380,210,000) (note 11(a)). This dividend has not been recognised as a liability at the end of the reporting period.

Directors

The Directors during the financial year and up to the date of this report were:

Dr Norman LEUNG Nai Pang*, GBS, JP	(Chairman)
Dr John CHAN Cho Chak*, GBS, JP	(Deputy Chairman)
Raymond KWOK Ping Luen, JP	
NG Siu Chan	
William LOUEY Lai Kuen	
Charles LUI Chung Yuen, M.H.	
Winnie NG, JP	(Director and Alternate Director to Mr NG Siu Chan)
Dr Eric LI Ka Cheung*, GBS, OBE, JP	
Professor LIU Pak Wai*, SBS, JP	
Allen FUNG Yuk Lun	
Roger LEE Chak Cheong	(Managing Director)
TSANG Wai Hung*, GBS, PDSM, JP	(Appointed on 1 January 2018)
Dr CHEUNG Wing Yui, BBS	(Appointed on 1 January 2018)
LEE Luen Fai, JP	(Appointed on 1 January 2018)
LUNG Po Kwan	(Appointed on 1 July 2018)
Susanna WONG Sze Lai	(Alternate Director to Mr Raymond KWOK Ping Luen, JP)
GAO Feng	(Alternate Director to Mr William LOUEY Lai Kuen)
Edmond HO Tat Man	(Retired on 17 May 2018)

* Independent Non-executive Director

In accordance with the Company's Bye-laws 86(2) and Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), Mr Lung Po Kwan, whom was appointed as Director with effect from 1 July 2018, will hold office only until the forthcoming Annual General Meeting ("AGM") and being eligible, has offered himself for re-election.

In accordance with the Company's Bye-laws 87(1) and Appendix 14 of the Listing Rules, Dr Norman Leung Nai Pang, Mr William Louey Lai Kuen and Mr Lung Po Kwan will retire from the Board at the forthcoming AGM of the Company and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 108 to 114 of this Annual Report.

Indemnity provision

The Bye-laws of the Company provides that every Director shall be indemnified out of the assets and profits of the Company from and against actions and liability which he/she may incur or sustain in or about the execution of the duties of his/her office.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors of the Group.

Directors' interests and short positions in shares, underlying shares and debentures

The Directors of the Company who held office at 31 December 2018 had the following interests in the shares of the Company, subsidiaries and other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under Section 352 of the SFO.

(i) Interests in issued shares of the Company

	Ordinary shares of HK$1 each						
	Personal interests	Family interests	Corporate interests	Trustee interests	Other interests	Total number of shares held	Percentage of total issued shares
Dr Norman LEUNG Nai Pang*	–	–	–	–	–	–	–
Dr John CHAN Cho Chak*	2,000	–	–	–	–	2,000	–
Raymond KWOK Ping Luen	461,423 (note 1)	–	–	–	–	461,423	0.11%
NG Siu Chan	–	24,107,256	–	–	–	24,107,256	5.55%
William LOUEY Lai Kuen	7,039,219	–	–	–	24,493,045	31,532,264 (note 2)	7.26%
Charles LUI Chung Yuen	13,829	–	–	2,911,146 (note 3)	–	2,924,975	0.67%
Winnie NG (Director and Alternate Director to Mr NG Siu Chan)	181,416	–	–	24,107,256 (note 4)	–	24,288,672	5.59%
Dr Eric LI Ka Cheung*	–	–	–	–	–	–	–
Professor LIU Pak Wai*	–	–	–	–	–	–	–
Allen FUNG Yuk Lun	–	–	–	–	–	–	–
Roger LEE Chak Cheong (Managing Director)	115,943	–	–	–	–	115,943	0.03%
TSANG Wai Hung*	–	–	–	–	–	–	–
Dr CHEUNG Wing Yui	–	–	–	–	–	–	–
LEE Luen Fai	–	30,000	–	–	–	30,000	0.01%
Lung Po Kwan	–	–	–	–	–	–	–
Susanna WONG Sze Lai (Alternate Director to Mr Raymond KWOK Ping Luen)	–	–	–	–	–	–	–
GAO Feng (Alternate Director to Mr William LOUEY Lai Kuen)	–	–	–	–	–	–	–

* Independent Non-executive Director

Notes:

(1) Of these shares in the Company, Mr Raymond Kwok Ping Luen held 457,759 shares jointly with his spouse.

(2) Mr William Louey Lai Kuen, Ms Phyllis Louey and Ms Carol Wilma Louey entered into a shareholders voting agreement and together have interests in 31,532,264 shares of the Company.

(3) Mr Charles Lui Chung Yuen and members of his family together have interests in certain private trusts which beneficially held 2,911,146 shares in the Company.

(4) Ms Winnie Ng has interest in 24,107,256 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

Directors' interests and short positions in shares, underlying shares and debentures (continued)

(ii) Interests in underlying shares

A Director of the Company has been granted options under the Company's share option scheme, details of which are set out in the section "Equity-linked agreement – Share option scheme" below.

As at 31 December 2018, none of the Directors had any non-beneficial interest in the share capital of the Company.

Apart from the foregoing, none of the Directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company or any of its subsidiaries or other associated corporations, as recorded in the register of directors' interests and short positions required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Equity-linked agreement

Share option scheme

The Company has a share option scheme which was adopted on 26 May 2016 whereby the Directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at a consideration of HK$1 to subscribe for ordinary shares of the Company. The purpose of the scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The share option scheme shall be valid and effective for a period of ten years ending on 25 May 2026, after which no further options will be granted.

The exercise price of options is the highest of (i) the nominal value of the shares on the date of grant, (ii) the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant and (iii) the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant.

The total number of securities available for issue under the share option scheme as at 31 December 2018 was 40,363,941 shares (including options for 3,580,000 shares that have been granted but not yet lapsed or exercised) which represented 9.3% of the ordinary shares of the Company in issue at 31 December 2018. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

Equity-linked agreement (continued)

Share option scheme (continued)

At 31 December 2018, a Director of the Company and certain employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2018 was HK$21.60) granted for a consideration of HK$1 under the share option scheme of the Company. As at 31 December 2018, the total grant date fair value of unexercised vested and unvested options, measured in accordance with the accounting policy set out in note 1(x)(iv) to the financial statements, amounted to HK$3,909,000 and HK$2,606,000, respectively. The options are unlisted. Once vested, each option gives the holder the right to subscribe for one ordinary share of the Company. Assuming that all the options outstanding as at 31 December 2018 are exercised, the Company will receive proceeds of HK$83,951,000.

	No. of options outstanding at 1 January 2018	No. of options forfeited during the year	No. of options outstanding at 31 December 2018	Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant of options*
Director							
Roger LEE Chak Cheong	860,000	–	860,000	31 October 2016	31 October 2017 to 30 October 2021 (note)	HK$23.45	HK$23.45
Employees	3,440,000	(720,000)	2,720,000	31 October 2016	31 October 2017 to 30 October 2021 (note)	HK$23.45	HK$23.45

* being the closing price of the Company's ordinary shares on the date of grant.

Note: All the options are vested and exercisable progressively and the maximum percentage of the options which may be exercised is determined in stages as follows:

	Percentage of options granted
On or after 31 October 2017	30%
On or after 31 October 2018	60%
On or after 31 October 2019	100%

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(x)(iv) and note 20 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' service contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' interests in transactions, arrangements or contracts

As disclosed in note 32(a) to the financial statements, certain subsidiaries of the Group entered into transactions with certain subsidiaries of a shareholder, Sun Hung Kai Properties Limited ("SHKP"). Certain Directors, namely Dr Norman Leung Nai Pang, Dr Eric Li Ka Cheung, Mr Raymond Kwok Ping Luen, Mr Allen Fung Yuk Lun and Dr Cheung Wing Yui are also directors of SHKP and/or Sun Hung Kai Properties Insurance Limited, and Mr Lee Luen Fai and Mr Lung Po Kwan are employees of SHKP. Among them, Mr Raymond Kwok Ping Luen is a director of SHKP and is materially interested in these transactions by virtue of his interest and deemed interest under Part XV of the SFO in more than 5% of the issued shares of SHKP.

Save as disclosed above, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Discloseable interests of shareholders in shares and short positions in shares, underlying shares and debentures

At 31 December 2018, the interests or short positions of the persons, other than Directors and the chief executive of the Company, being 5% or more in the interest in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

	Ordinary shares of HK$1 each				
	Registered shareholders	Corporate interests	Trustee Interests	Total number of shares held	Percentage of total issued shares
HSBC Trustee (C.I.) Limited	–	–	161,248,227	161,248,227	37.10%
Sun Hung Kai Properties Limited (Notes 1 and 2)	–	161,248,227	–	161,248,227	37.10%
Arklake Limited (Note 1)	88,321,018	–	–	88,321,018	20.32%
Hung Fat (Hop Kee) General Contractors Limited (Note 1)	26,771,544	–	–	26,771,544	6.16%
Wister Investment Limited (Note 1)	23,749,114	–	–	23,749,114	5.46%
HSBC International Trustee Limited	37,805,269	–	–	37,805,269	8.70%
Kwong Tai Holdings (PTC) Limited (Note 3)	24,107,256	–	–	24,107,256	5.55%

Notes:

1 The interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 138,841,676 shares disclosed by Arklake Limited, Hung Fat (Hop Kee) General Contractors Limited and Wister Investment Limited.

2 Under The Code on Takeovers and Mergers (the "Takeovers Code"), a person will be subject to mandatory offer obligations if such person acquires, whether by a series of transactions over a period of time or not 30% or more of the voting rights of a company. Such threshold was reduced from 35% to 30% with effect from 19 October 2001. However, transitional provisions apply where a person, or two or more persons acting in concert, holds 30% or more of the voting rights of a company but less than 35% of such voting rights immediately prior to 19 October 2001. For so long as such holding remains in this range and until 10 years after that date, the Takeovers Code shall be interpreted and applied as if the 30% trigger in Rules 26.1(a) and (b) of the Takeovers Code was 35% for such person or persons and such person or persons are not subject to the 2% creeper under Rules 26.1(c) and (d) of the Takeovers Code. In this regard, SHKP held 30% or more of the voting rights of the Company but less than 35% of such voting rights immediately prior to 19 October 2001, and the above transitional provisions apply to SHKP for so long as its holding remains within the range of 30% and 35% for a period of 10 years after 19 October 2001. With effect from 19 October 2011, the above transitional provisions expired and SHKP is subject to the 2% creeper under Rules 26.1(c) and (d) of the Takeovers Code.

3 The interest disclosed by Kwong Tai Holdings (PTC) Limited includes 24,107,256 shares disclosed by Mr Ng Siu Chan and Ms Winnie Ng, both of whom are Directors of the Company.

Purchase, sale or redemption of the Company's shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

Pre-emptive rights

There is no provision for pre-emptive rights under either the Company's Bye-laws or the laws in Bermuda.

Senior management

The Executive Director of the Company, Mr Roger Lee Chak Cheong, is a member of the senior management of the Group whose brief particulars are set out on page 112 of this Annual Report.

Staff retirement schemes

The Group operates two separate non-contributory defined benefit retirement schemes, The Kowloon Motor Bus Company (1933) Limited Monthly Rated Employees Provident Fund Scheme ("The KMB Monthly Rated Employees Scheme") and The Kowloon Motor Bus Company (1933) Limited Daily Rated Employees Retirement Fund Scheme ("The KMB Daily Rated Employees Scheme"), and participates in a defined contribution retirement scheme, SHKP MPF Employer Sponsored Scheme.

(a) Defined benefit retirement schemes

The Group makes contributions to two defined benefit retirement schemes that provide pension benefits for employees upon retirement. The schemes are administered by an independent trustee and the assets are held separately from those of the Group. Both schemes are formally established under trust and are registered under the Occupational Retirement Schemes Ordinance. The members' benefits are determined based on the employees' final remuneration and length of service. Contributions to the defined benefit retirement schemes are made in accordance with the recommendations of independent actuaries who value the retirement schemes at regular intervals.

The most recent actuarial valuations of the two schemes were at 1 January 2019 which showed that there were sufficient assets in the schemes to cover both the solvency and ongoing liabilities of the schemes. Other relevant information extracted from the valuation pertaining to the two schemes is set out below:

The KMB Monthly Rated Employees Scheme

(i) The scheme was established with effect from 15 February 1978.

(ii) The actuary of the scheme is Ms Wing Lui, Fellow of the Society of Actuaries of the United States of America. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: salary escalation at 4.5% per annum; mortality rates 2017 Hong Kong Life Tables; and normal retirement age of 65.

(iii) The market value of the scheme assets at 31 December 2018 was HK$848,080,000 (2017: HK$1,049,471,000).

(iv) On the basis of the assumptions made as to the future economic and demographic experience of the scheme, and assuming the past service surplus is to be utilised faster to offset the Group's contribution requirement, the Group took a contribution holiday for the years ended 31 December 2018 and 2017.

(v) The ongoing funding surplus in the scheme was HK$328,046,000 (2017: HK$459,837,000) and the solvency surplus was HK$329,215,000 (2017: HK$460,339,000) at 31 December 2018.

Staff retirement schemes (continued)

(a) Defined benefit retirement schemes (continued)

The KMB Daily Rated Employees Scheme

(i) The scheme was established with effect from 1 July 1983.

(ii) The actuary of the scheme is Ms Wing Lui, Fellow of the Society of Actuaries of the United States of America. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: salary escalation at 4.5% per annum; mortality rates 2017 Hong Kong Life Tables; and normal retirement age of 60.

(iii) The market value of the scheme assets at 31 December 2018 was HK$2,059,699,000 (2017: HK$2,494,601,000).

(iv) On the basis of the assumptions made as to the future economic and demographic experience of the scheme, and assuming the past service surplus is to be utilised faster to offset the Group's contribution requirement, the Group took a contribution holiday for the years ended 31 December 2018 and 2017.

(v) The ongoing funding surplus in the scheme was HK$921,001,000 (2017: HK$1,230,259,000) and the solvency surplus was HK$953,512,000 (2017: HK$1,280,788,000) at 31 December 2018.

Note: The obligations in respect of defined benefit retirement schemes included in the financial statements are calculated using the projected unit credit method under different actuarial assumptions (see notes 1(x)(ii) and 19 to the financial statements).

(b) Defined contribution retirement scheme

SHKP MPF Employer Sponsored Scheme ("the SHKP Scheme")

The Group is also a participating member of the SHKP Scheme, which is a defined contribution retirement scheme. A majority of those employees who do not participate in the defined benefit retirement schemes are covered by the SHKP Scheme which is administered by an independent trustee. The assets of the SHKP Scheme are held separately from those of the Group in independently administered funds. The Group is required to make contributions to the SHKP Scheme at rates ranging from 5% to 12% of the relevant employees' salaries, depending on their length of service with the Group. The employees are required to make contributions to the SHKP Scheme at 5% of the employees' relevant income as defined by the Hong Kong Mandatory Provident Fund Schemes Ordinance, subject to a cap of monthly relevant income of HK$30,000 (HK$25,000 prior to 1 June 2014). Contributions to the SHKP Scheme during the year are charged to profit or loss as incurred. Forfeited amounts due to resignation prior to the vesting of the benefits will be used to reduce the Group's contributions made in that corresponding financial year. The amount of forfeited contributions utilised during the year and the amount available for use as at 31 December 2018 were insignificant to the Group.

Bank loans

Particulars of bank loans of the Group as at 31 December 2018 are set out in note 23 to the financial statements.

Major customers and suppliers

Income attributable to the five largest customers of the Group accounted for less than 30% of the total income of the Group for the year.

Purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the value of the Group's total purchases for the year.

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on page 228 of this Annual Report.

Model code for securities transactions by Directors

The Company has adopted the code of conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules and all Directors have complied with the required standard of dealings set out therein throughout the year.

Corporate governance

The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018, except that four Directors of the Company were unable to attend the Annual General Meeting of the Company held on 17 May 2018 as provided for in code provision A.6.7 due to another engagement. A report on the principal corporate governance practices adopted by the Company is set out on pages 86 to 103 of this Annual Report.

Properties

Particulars of the investment properties of the Group are shown on pages 80 and 81 of this Annual Report.

Audit and Risk Management Committee

The Audit and Risk Management Committee of the Company, together with management, has reviewed the accounting principles and policies adopted by the Group, discussed auditing, internal control, risk management and financial reporting matters, and also reviewed the financial statements for the year ended 31 December 2018.

Confirmation of independence

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Norman LEUNG Nai Pang
Chairman
Hong Kong, 21 March 2019

Independent auditor's report to the shareholders of Transport International Holdings Limited

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Transport International Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 132 to 227, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Assessing the carrying value of buses and other motor vehicles

Refer to note 13 to the consolidated financial statements and the accounting policies on pages 148 and 155 to 156.

The Key Audit Matter	How the matter was addressed in our audit
The carrying value of the Group's buses and other motor vehicles as at 31 December 2018 totalled HK$6,431 million which accounted for 42% of the Group's total assets as at that date. Buses and other motor vehicles mainly represent the bus fleet employed in the Group's franchised bus operations. The estimated useful lives and residual values of buses and other motor vehicles are reviewed annually by management taking into consideration factors which include bus deployment and scrapping plans and technological changes which may affect the useful life expectancy of the assets and, therefore, could have a material impact on any impairment charge or the depreciation charge for the year. Internal and external information is reviewed by management annually to determine whether there are any indicators that the buses and other motor vehicles may be impaired. We identified assessing the carrying value of buses and other motor vehicles as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves the exercise of judgement by management, in particular in considering the nature, timing and likelihood of changes to factors such as bus deployment and scrapping plans and technological developments which may affect the carrying value of buses and other motor vehicles.	Our audit procedures to assess the carrying value of buses and other motor vehicles included the following: – assessing the design, implementation and operating effectiveness of key internal controls over the preparation and monitoring of bus deployment and scrapping plans; – assessing the estimated useful lives and residual values of buses and other motor vehicles with reference to the Group's historical experience, laws and regulations relating to the deployment of buses and bus deployment and scrapping plans; – discussing with management their assessment of whether any indicators of potential impairment of buses and other motor vehicles existed at the reporting date; – challenging management's assertion that no indicators of potential impairment of buses and other motor vehicles existed at the reporting date by comparing management's assessment of the indicators of potential impairment in the prior year with actual results for the current year and by comparing the bases of management's current year's assertions with our understanding of the latest developments in the franchised bus industry and market conditions.

Key audit matters (continued)

Assessing the contingency provision for insurance

Refer to note 25 to the consolidated financial statements and the accounting policies on page 157.

The Key Audit Matter	How the matter was addressed in our audit
The Group is involved from time to time in litigation and claims in connection with its bus operations. The contingency provision for insurance in connection with the Group's franchised bus operations, which accounted for 98% of the total balance of HK$386 million as at 31 December 2018, has been set aside by management to meet the liabilities which are expected to arise from third party claims for incidents which have occurred. Management assessed the provision based on an independent valuation performed by a qualified external actuary. The assessment of the provision involves estimates based on past claims experience and recent claims developments. The ultimate claim amount is dependent on future external events which are inherently uncertain and actual claims may therefore deviate from management estimations. We identified the assessment of the contingency provision for insurance as a key audit matter because of the level of management judgement required in assessing the variable factors and assumptions in order to estimate the potential costs of settlement of claims.	Our audit procedures to assess the contingency provision for insurance included the following: – assessing the design, implementation and operating effectiveness of key internal controls over management's maintenance of claims records and the assessment of related provision; – assessing the independence, qualifications and expertise of the external actuary engaged by management and evaluating whether a consistent methodology had been applied in determining the amount of the provision; – with the assistance of our internal actuarial specialists, assessing the valuation methodology adopted by the external actuary and comparing the key estimates and assumptions adopted in the actuarial valuation with past claims experience; – comparing the claims details provided by management to the external actuary with the claims records maintained by management, on a sample basis.

Information other than the consolidated financial statements and auditor's report thereon

The Directors are responsible for the other information. The other information comprises all the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit and Risk Management Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Management Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit and Risk Management Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Felix Kwo Hang LEE.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 March 2019

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 (Note) $'000
Continuing operations			
Revenue	3 & 12	**8,009,275**	7,887,683
Other income	4	**217,555**	208,178
Staff costs	5(a)	**(4,179,168)**	(3,950,695)
Depreciation and amortisation		**(912,920)**	(878,262)
Fuel and oil		**(988,965)**	(834,554)
Spare parts and stores		**(223,836)**	(218,185)
Toll charges		**(460,364)**	(457,902)
Other operating expenses		**(624,404)**	(733,914)
Profit from operations		**837,173**	1,022,349
Finance costs	5(b)	**(23,677)**	(21,497)
Share of profits of associates		**23,769**	7,052
Profit before taxation	5	**837,265**	1,007,904
Income tax	6(a)	**(117,193)**	(148,159)
Profit for the year from continuing operations		**720,072**	859,745
Discontinued operations			
Profit for the year from discontinued operations	33	**–**	428,970
Profit for the year		**720,072**	1,288,715
Attributable to:			
Equity shareholders of the Company		**720,072**	1,294,834
Non-controlling interests		**–**	(6,119)
Profit for the year		**720,072**	1,288,715
Profit attributable to equity shareholders of the Company arises from:			
– Continuing operations		**720,072**	862,271
– Discontinued operations		**–**	432,563
		720,072	1,294,834
Earnings per share from continuing and discontinued operations attributable to equity shareholders of the Company for the year			
Basic earnings per share	10(a)		
From continuing operations		**$1.68**	$2.07
From discontinued operations		**–**	1.04
From profit for the year		**$1.68**	$3.11
Diluted earnings per share	10(b)		
From continuing operations		**$1.68**	$2.07
From discontinued operations		**–**	1.04
From profit for the year		**$1.68**	$3.11

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

The notes on pages 139 to 227 form part of these financial statements. Details of dividends paid and payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 (Note) $'000
Profit for the year		**720,072**	1,288,715
Other comprehensive income for the year (after tax and reclassification adjustments):			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liability/asset, net of tax credit of $52,190,000 (2017: tax expense of $124,219,000)		**(264,115)**	628,624
Equity investment at fair value through other comprehensive income: net movement in fair value reserve (non-recycling), net of nil tax	30(f)(iii)	**20,508**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside Hong Kong, net of nil tax		**(31,189)**	49,529
Cash flow hedge: net movement in hedging reserve, net of tax credit of $222,000 (2017: $Nil)	30(d)	**(1,124)**	–
Investments in/available-for-sale debt securities: net movement in fair value reserve (recycling), net of nil tax	9	**(39,453)**	(6,705)
Other comprehensive income for the year		**(315,373)**	671,448
Total comprehensive income for the year		**404,699**	1,960,163
Attributable to:			
Equity shareholders of the Company		**404,699**	1,966,282
Non-controlling interests		**–**	(6,119)
Total comprehensive income for the year		**404,699**	1,960,163
Total comprehensive income attributable to equity shareholders of the Company arises from:			
– Continuing operations		**404,699**	1,533,291
– Discontinued operations		**–**	432,991
		404,699	1,966,282

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

The notes on pages 139 to 227 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 (Note) $'000
Non-current assets			
Investment properties	13(a)	**108,705**	109,427
Investment property under development	13(a)	**2,301,060**	2,222,174
Interest in leasehold land	13(a)	**57,342**	59,354
Other property, plant and equipment	13(a)	**7,373,397**	6,870,489
		9,840,504	9,261,444
Intangible assets	14	**360,619**	132,122
Goodwill	15	**84,051**	84,051
Interest in associates	17	**610,948**	624,805
Other financial assets	18	**1,708,863**	1,493,302
Employee benefit assets	19(a)	**913,234**	1,286,657
Deferred tax assets	26(b)	**656**	656
		13,518,875	12,883,037
Current assets			
Spare parts and stores		**82,493**	55,999
Accounts receivable	21	**371,123**	459,633
Other financial assets	18	**231,223**	–
Deposits and prepayments		**14,927**	21,980
Current tax recoverable	26(a)	**10,270**	2,556
Pledged and restricted bank deposits	22(a)	**6,803**	27,996
Bank deposits and cash	22(a)	**1,174,249**	1,204,805
		1,891,088	1,772,969
Current liabilities			
Accounts payable and accruals	24	**1,033,758**	1,138,771
Contingency provision – insurance	25	**145,040**	187,970
Current tax payable	26(a)	**1,018**	7,814
		1,179,816	1,334,555
Net current assets		**711,272**	438,414
Total assets less current liabilities		**14,230,147**	13,321,451

Consolidated Statement of Financial Position

at 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 (Note) $'000
Non-current liabilities			
Bank loans	23	**2,625,039**	2,353,265
Deferred tax liabilities	26(b)	**1,161,577**	1,135,806
Contingency provision – insurance	25	**241,357**	285,384
Employee benefit liabilities	19(a)	**2,591**	–
Provision for long service payments	27	**4,019**	4,065
		4,034,583	3,778,520
NET ASSETS		**10,195,564**	9,542,931
CAPITAL AND RESERVES			
Share capital	28(b)(i)	**434,597**	422,456
Reserves		**9,760,967**	9,120,475
TOTAL EQUITY		**10,195,564**	9,542,931

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

Approved and authorised for issue by the Board of Directors on 21 March 2019

Norman LEUNG Nai Pang
Chairman

Roger LEE Chak Cheong
Managing Director

The notes on pages 139 to 227 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	Share capital $'000	Share premium $'000 (note 28(c)(i))	Capital reserve $'000 (note 28(c)(ii))	Other reserves $'000	Exchange reserve $'000 (note 28(c)(iii))	Hedging reserve $'000 (note 28(c)(iv))	Fair value reserve (recycling) $'000 (note 28(c)(v))	Fair value reserve (non-recycling) $'000 (note 28(c)(vi))	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
		Attributable to equity shareholders of the Company											
Balance at 1 January 2017		411,680	162,804	990	1,102,614	93,026	–	8,594	–	6,046,073	7,825,781	145,749	7,971,530
Changes in equity for 2017:													
Profit for the year		–	–	–	–	–	–	–	–	1,294,834	1,294,834	(6,119)	1,288,715
Other comprehensive income for the year		–	–	–	–	49,529	–	(6,705)	–	628,624	671,448	–	671,448
Total comprehensive income for the year		–	–	–	–	49,529	–	(6,705)	–	1,923,458	1,966,282	(6,119)	1,960,163
Shares issued in respect of scrip dividend – 2016 final dividend	28(b)(i)	7,923	193,697	–	–	–	–	–	–	–	201,620	–	201,620
Shares issued in respect of scrip dividend – 2017 interim dividend	28(b)(i)	2,799	68,019	–	–	–	–	–	–	–	70,818	–	70,818
Issuance of shares upon exercise of share options	28(b)(ii)	54	1,311	(99)	–	–	–	–	–	–	1,266	–	1,266
Equity-settled share-based transactions	5(a)	–	–	4,078	–	–	–	–	–	–	4,078	–	4,078
Dividends approved in respect of the previous year	11(b)	–	–	–	–	–	–	–	–	(370,512)	(370,512)	–	(370,512)
Dividends declared in respect of the current year	11(a)	–	–	–	–	–	–	–	–	(146,861)	(146,861)	–	(146,861)
Release of exchange reserve upon disposal of subsidiaries	33	–	–	–	–	(9,541)	–	–	–	–	(9,541)	–	(9,541)
Disposal of interest in subsidiaries to non-controlling interest		–	–	–	–	–	–	–	–	–	–	(139,630)	(139,630)
		10,776	263,027	3,979	–	(9,541)	–	–	–	(517,373)	(249,132)	(139,630)	(388,762)
Balance at 31 December 2017		422,456	425,831	4,969	1,102,614	133,014	–	1,889	–	7,452,158	9,542,931	–	9,542,931

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company											
		Share capital $'000	Share premium $'000 (note 28(c)(i))	Capital reserve $'000 (note 28(c)(ii))	Other reserves $'000	Exchange reserve $'000 (note 28(c)(iii))	Hedging reserve $'000 (note 28(c)(iv))	Fair value reserve (recycling) $'000 (note 28(c)(v))	Fair value reserve (non-recycling) $'000 (note 28(c)(vi))	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 31 December 2017 (note)		422,456	425,831	4,969	1,102,614	133,014	–	1,889	–	7,452,158	9,542,931	–	9,542,931
Impact on initial application of HKFRS 9		–	–	–	–	–	–	–	476,155	–	476,155	–	476,155
Adjusted balance at 1 January 2018		422,456	425,831	4,969	1,102,614	133,014	–	1,889	476,155	7,452,158	10,019,086	–	10,019,086
Changes in equity for 2018:													
Profit for the year		–	–	–	–	–	–	–	–	720,072	720,072	–	720,072
Other comprehensive income for the year		–	–	–	–	(31,189)	(1,124)	(39,453)	20,508	(264,115)	(315,373)	–	(315,373)
Total comprehensive income for the year		–	–	–	–	(31,189)	(1,124)	(39,453)	20,508	455,957	404,699	–	404,699
Shares issued in respect of scrip dividend – 2017 final dividend	28(b)(i)	9,172	201,318	–	–	–	–	–	–	–	210,490	–	210,490
Shares issued in respect of scrip dividend – 2018 interim dividend	28(b)(i)	2,969	59,813	–	–	–	–	–	–	–	62,782	–	62,782
Equity-settled share-based transactions	5(a)	–	–	853	–	–	–	–	–	–	853	–	853
Unclaimed dividends forfeited		–	–	–	–	–	–	–	–	7,352	7,352	–	7,352
Dividends approved in respect of the previous year	11(b)	–	–	–	–	–	–	–	–	(380,210)	(380,210)	–	(380,210)
Dividends declared in respect of the current year	11(a)	–	–	–	–	–	–	–	–	(129,488)	(129,488)	–	(129,488)
		12,141	261,131	853	–	–	–	–	–	(502,346)	(228,221)	–	(228,221)
Balance at 31 December 2018		434,597	686,962	5,822	1,102,614	101,825	(1,124)	(37,564)	496,663	7,405,769	10,195,564	–	10,195,564

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

The notes on pages 139 to 227 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	**2018** **$'000**	2017 (Note) $'000
Operating activities			
Cash generated from operations	22(c)	**1,709,432**	1,791,056
Interest received		**86,512**	84,296
Interest paid		**(15,784)**	(19,630)
Tax paid			
– Hong Kong Profits Tax		**(51,876)**	(86,155)
– The People's Republic of China ("PRC") withholding tax		**(1,644)**	(1,411)
Net cash generated from operating activities		**1,726,640**	1,768,156
Investing activities			
Decrease in pledged and restricted bank deposits		**21,193**	5,470
(Increase)/decrease in bank deposits with original maturities of over three months		**(949,647)**	232,992
Payment for the purchase of other property, plant and equipment		**(1,599,769)**	(1,190,239)
Payment for other additions of investment property under development		**(51,492)**	(15,514)
Payment for the purchase of intangible assets		**(228,497)**	–
Payment for the purchase of available-for-sale debt securities		**–**	(515,183)
Receipt of government grant for the purchase of other property, plant and equipment		**5,128**	52,383
Receipt of government grant for the disposal of other property, plant and equipment		**–**	1,004
Proceeds from the disposal of other property, plant and equipment		**14,040**	8,590
Proceeds on the maturity of available-for-sale debt securities		**–**	316,542
Dividends received from associates		**6,435**	32,745
Dividends received from unlisted equity securities		**33,480**	28,580
Proceeds from the disposal of subsidiaries, net of cash disposal		**40,000**	408,404
Finance costs paid and capitalised into investment property under development		**(26,894)**	(18,455)
Net cash used in investing activities		**(2,736,023)**	(652,681)
Financing activities			
Proceeds from new bank loans	22(d)	**1,605,000**	1,640,000
Repayments of bank loans	22(d)	**(1,335,000)**	(2,015,000)
Issuance of shares upon exercise of share options		**–**	1,266
Dividends paid to equity shareholders of the Company		**(236,426)**	(244,935)
Net cash generated from/(used in) financing activities		**33,574**	(618,669)
Net (decrease)/increase in cash and cash equivalents		**(975,809)**	496,806
Cash and cash equivalents at 1 January		**1,204,805**	700,938
Effect of foreign exchange rate changes		**(4,394)**	7,061
Cash and cash equivalents at 31 December		**224,602**	1,204,805
Analysis of cash and cash equivalents:			
Bank deposits and cash in the consolidated statement of financial position	22(a)	**1,174,249**	1,204,805
Less: bank deposits with original maturities of over three months	22(a)	**(949,647)**	–
Cash and cash equivalents in the consolidated cash flow statement		**224,602**	1,204,805

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

The notes on pages 139 to 227 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments in securities (see note 1(g)), derivative financial instruments (see note 1(h)) and employee benefit assets/liabilities (see note 1(x)(ii)) are stated at their fair value, as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 Significant accounting policies (continued)

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following development is relevant to the Group's financial statements:

– HKFRS 9, *Financial instruments*

Except for the above, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on reserves at 1 January 2018.

	$'000
Fair value reserve (non-recycling)	
Recognition of fair value reserve relating to equity securities (previously measured at cost less impairment losses now measured at FVOCI (non-recycling) at 1 January 2018)	**476,155**

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

a. Classification of financial assets and financial liabilities (continued)

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 $'000	Reclassification $'000	Remeasurement $'000	HKFRS 9 carrying amount at 1 January 2018 $'000
Financial assets carried at cost				
Other financial assets – unlisted equity securities (note (i))	15,356	(15,356)	–	–
Financial assets measured at FVOCI (non-recycling)				
Other financial assets – unlisted equity securities (note (i))	–	15,356	476,155	491,511
Financial assets classified as available-for-sale under HKAS 39 (note (ii))	1,477,946	(1,477,946)	–	–
Financial assets measured at FVOCI (recycling)				
Other financial assets – investments in debt securities listed outside Hong Kong (note (ii))	–	1,477,946	–	1,477,946
Financial assets carried at FVPL				
Other derivative financial assets (note (iii))	310	–	–	310

Notes:

(i) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated these unlisted equity securities at FVOCI (non-recycling), as the investments are held for strategic purposes.

(ii) Under HKAS 39, debt securities were classified as available-for-sale financial assets. They are classified as FVOCI (recycling) under HKFRS 9.

(iii) Derivative financial assets were classified as financial assets at FVPL under HKAS 39. These assets continue to be measured at FVPL under HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 1(g), (h), (n)(i), (p) and (s).

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts (see note 1(n)(ii)). The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including bank deposits and cash and trade and other receivables);

– investments in debt securities measured at FVOCI (recycling); and

– financial guarantee contracts issued (see note 1(n)(ii)).

For further details on the Group's accounting policy for accounting for credit losses, see notes 1(n)(i) and (ii).

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

1 Significant accounting policies (continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less accumulated impairment losses (see note 1(n)(iii)).

1 Significant accounting policies (continued)

(e) Associates and joint operations

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and 1(n)(iii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture, retained interest is not measured. Instead, the investment continues to be accounted for under equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).

The Group recognises in the financial statements its share of a joint operation's assets and any liabilities incurred jointly with other operators according to their nature. Liabilities and expenses incurred directly in respect of its interest in the joint operation are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the joint operation, together with its share of any expenses incurred by the joint operation, are recognised in profit or loss when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

1 Significant accounting policies (continued)

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(n)(iii)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's and the Company's accounting policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 30(f). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(u)(iv)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

1 Significant accounting policies (continued)

(g) Other investments in debt and equity securities (continued)

(A) Policy applicable from 1 January 2018 (continued)

Equity investments

– An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(u)(v).

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost.

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(n)(i) – policy applicable prior to 1 January 2018). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 1(u)(v) and 1(u)(iv), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 1(n)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(h) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(i)).

1 Significant accounting policies (continued)

(i) Cash flow hedges

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates (cash flow hedges). The hedge accounting policy applied from 1 January 2018 is similar to that applicable prior to 1 January 2018. However, under the new hedge accounting policy, depending on the complexity of the hedge, the Group applies a more qualitative approach to assessing hedge effectiveness, and the assessment is always forward-looking.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

(j) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(n)(iii)). Depreciation is calculated to write off the cost of investment properties using the straight-line method over the shorter of their estimated useful lives of 40 years and the unexpired terms of the leases. No depreciation is provided for property that is being constructed or developed for future use as investment property.

Rental income from investment properties is accounted for as described in the accounting policies set out in note 1(u)(vi).

1 Significant accounting policies (continued)

(k) Other property, plant and equipment

Properties held for own use and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(n)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

Government grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense. Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Buildings situated on leasehold land	The shorter of 40 years and the unexpired terms of the leases
–	Leasehold land classified as being held under finance leases	The unexpired terms of the leases
–	Buses	14 years
–	Other motor vehicles	5 to 14 years
–	Others	2 to 7 years

No depreciation is provided for buses under construction.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 Significant accounting policies (continued)

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Assets acquired under finance leases

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as interest in leasehold land and property, plant and equipment. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, in accordance with the accounting policies as set out in note 1(k). Impairment losses are accounted for in accordance with the accounting policies as set out in note 1(n)(iii). All of the Group's leasehold land classified as held under finance lease has been fully paid.

(ii) Operating leases

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

(m) Intangible assets (other than goodwill)

Intangible assets (other than goodwill) are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(n)(iii)).

(i) Passenger service licences and transport operating rights

Passenger service licences and transport operating rights are assessed and regarded by the Group to have indefinite useful lives and are not amortised. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and amortisation is charged to profit or loss on a straight-line basis over the asset's estimated remaining useful life.

(ii) Website and mobile apps

Amortisation of these intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives, which are 5 years. Both the period and method of amortisation are reviewed annually.

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including bank deposits and cash and trade and other receivables); and

– investments in debt securities measured at FVOCI (recycling).

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk
In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;

- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

- an actual or expected significant deterioration in the operating results of the debtor; and

- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income
Interest income recognised in accordance with note 1(u)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and unlisted equity securities carried at cost). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(B) Policy applicable prior to 1 January 2018 (continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

– For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(n)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "trade and other payables" in respect of the guarantee.

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill and intangible assets that have indefinite useful lives, an impairment loss previously recognised no longer exists or may have decreased:

- investment properties and investment property under development;
- other property, plant and equipment;
- interest in leasehold land;
- intangible assets;
- goodwill;
- investments in associates and joint operations; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, their recoverable amounts are estimated annually whether or not there is indication of impairment.

- Calculation of the recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(n)(i) and 1(n)(ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(o) Spare parts and stores

Spare parts and stores are included within current assets and stated at cost, using the first-in-first-out method. Provision is made for obsolescence where appropriate.

(p) Accounts receivable

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Accounts receivable are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for credit losses (see note 1(n)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for credit losses.

(q) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(v)).

(r) Accounts payable and accruals

Accounts payable and accruals are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(n)(ii), accounts payable and accruals are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 Significant accounting policies (continued)

(s) Bank deposits and cash

Bank deposits and cash comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank deposits and cash are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(n)(i).

(t) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promise consideration to which the Group is expected to be entitled, excluding those amount collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Fare revenue from franchised public bus services and revenue from non-franchised transport services are recognised when the related services are provided.

(ii) Income from media sales is recognised when the related advertisements are telecast or commercials appear before the public.

(iii) Income from media sales management and administrative services, production of advertisements, and advertising agency services is recognised when the related services are rendered.

1 Significant accounting policies (continued)

(u) Revenue and other income (continued)

(iv) Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(n)(i)).

(v) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(vi) Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(vii) Government grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that assets. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(w) Translation of foreign currencies

The functional currency of the Company and subsidiaries which operate in Hong Kong is Hong Kong dollars while that for subsidiaries which operate in The People's Republic of China is Renminbi. The presentation currency of the Group is Hong Kong dollars.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

1 Significant accounting policies (continued)

(w) Translation of foreign currencies (continued)

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of operations outside Hong Kong acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of an operation outside Hong Kong acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the operation outside Hong Kong.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds (where there is no deep market in such corporate bonds, government bonds) that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

1 Significant accounting policies (continued)

(x) Employee benefits (continued)

(iii) Lump sum long service amounts payable on cessation of employment

The Group's net obligation in respect of lump sum long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at the end of the reporting period on high quality corporate bonds (where there is no deep market in such corporate bonds, government bonds) that have maturity dates approximating the terms of the Group's obligations.

(iv) Equity-settled share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(v) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(y) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 Significant accounting policies (continued)

(y) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies (continued)

(z) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(aa) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:
   (1) has control or joint control over the Group;
   (2) has significant influence over the Group; or
   (3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:
   (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   (3) Both entities are joint ventures of the same third party.
   (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
   (6) The entity is controlled or jointly controlled by a person identified in (i).
   (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
   (8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant accounting policies (continued)

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Accounting judgements and estimates

Notes 15, 19(f), 20(c) and 30(f) contain information about the assumptions and their risk factors relating to impairment of goodwill and intangible assets with indefinite useful lives, employee benefit assets/liabilities, fair value of share options and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation/amortisation

Investment properties, interest in leasehold land and other property, plant and equipment are depreciated/amortised on a straight-line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation/amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation/amortisation expense for future periods is adjusted if there are material changes from previous estimates.

(b) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the asset. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition.

(B) Policy prior to 1 January 2018

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that accounts receivable may be impaired. If any such indication exists, the recoverable amount of the asset to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

2 Accounting judgements and estimates (continued)

(b) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually even if there is no indication of impairment.

(c) Contingency provision – insurance

Estimation of the contingency provision – insurance, as disclosed in note 25, is based on past claims experience and recent claims developments. The provision is assessed based on an independent valuation performed by a qualified external actuary. As the ultimate claim amount will be affected by future external events, for example, the amount of court awards, changes in standards of liability and the attitude of claimants towards settlement of their claims, actual claims may deviate from these estimations. Any increase or decrease in the provision would affect the Group's results in future years.

3 Revenue

The principal activities of the Group are the operation of both franchised and non-franchised public transportation and property holdings and development.

The amount of each significant category of revenue is as follows:

	2018	2017	
		Continuing operations	Discontinued operations
	$'000	$'000	$'000
Fare revenue from franchised public bus services	**7,385,055**	7,280,930	–
Revenue from non-franchised transport services	**343,897**	351,009	–
Licence fee income	**180,986**	171,188	–
Media sales revenue	**29,507**	10,504	285,705
Gross rentals from investment properties	**69,830**	74,052	–
	8,009,275	7,887,683	285,705

All revenue, except gross rentals from investment properties which are subject to HKAS 17, *Leases*, fall within the scope of HKFRS 15, *Revenue from contracts with customers*. The Group's customer base is diversified and there was no customer with whom transactions have exceeded 10% of the Group's revenues. Further details regarding the Group's principal activities are disclosed in note 12 to the financial statements.

4 Other income

	2018	2017	
		Continuing operations	Discontinued operations
	$'000	$'000	$'000
Interest income on financial assets measured at FVOCI (recycling)	**57,189**	58,108	–
Interest income on financial assets measured at amortised cost	**24,352**	4,985	4,742
Dividend income from unlisted equity securities	**33,480**	28,580	–
Claims received	**34,495**	38,948	–
Net miscellaneous business receipts	**12,476**	10,147	–
Net gain on disposal of other property, plant and equipment	**11,139**	5,931	1,987
Net gain on disposal of subsidiaries (note 33)	**–**	–	439,585
Gain on disposal of available-for-sale debt securities	**–**	5,752	–
Available-for-sale debt securities: reclassified from equity on maturity (note 9)	**–**	2	–
Government subsidies (note)	**–**	1,004	–
Net foreign exchange gain	**3,537**	10,789	5,165
Sundry income	**40,887**	43,932	738
	217,555	208,178	452,217

Note: In 2017, subsidies totalling $1,004,000 were received or receivable under the HKSAR Government's ex-gratia payment scheme for the disposal of aged diesel commercial vehicles included in other property, plant and equipment. Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2018	2017	
		Continuing operations	Discontinued operations
	$'000	$'000	$'000
(a) Staff costs			
Defined benefit retirement plan expense (note 19(e))	**59,709**	83,495	–
Contributions to defined contribution retirement plans	**148,001**	130,284	1,271
Movements in provision for long service payments (note 27)	**7,953**	8,094	–
Total retirement cost	**215,663**	221,873	1,271
Equity-settled share-based payment expenses	**853**	4,078	–
Salaries, wages and other benefits	**3,962,652**	3,724,744	51,528
	4,179,168	3,950,695	52,799
(b) Finance costs			
Total interest expense on bank loans not at fair value through profit or loss	**50,571**	39,952	–
Less: interest expense capitalised into investment property under development *	**(26,894)**	(18,455)	–
	23,677	21,497	–

* The borrowing costs have been capitalised at the average interest rate of 1.69% per annum (2017: 1.25% per annum).

	2018	2017	
		Continuing operations	Discontinued operations
	$'000	$'000	$'000
(c) Rentals received and receivable from investment properties			
Gross rentals (note)	**(69,830)**	(73,852)	–
Less: direct outgoings	**9,680**	10,514	–
	(60,150)	(63,338)	–

Note: Included contingent rental income of $Nil (2017: $17,000).

5 Profit before taxation (continued)

	2018	2017	
		Continuing operations	Discontinued operations
	$'000	$'000	$'000
(d) Other items			
Amortisation of land lease premium	**2,012**	2,012	–
Depreciation	**910,908**	876,250	3,909
Impairment loss on trade and other receivables (note 21(b))	**–**	167	1,812
Reversal of provision for onerous contracts	**–**	–	(13,259)
(Write-back)/write-down of spare parts and stores	**(8,093)**	7,147	–
Provision for passenger reward (note)	**–**	85	–
Operating lease charges: minimum lease payments	**32,185**	39,001	2,792
Auditors' remuneration			
– audit services	**4,111**	4,253	2,118
– other services	**1,210**	1,230	773

Note: Under the revised Modified Basket of Factors ("MBOF") approach, which is the existing basis for the assessment of bus fare adjustment applications, 50% of any return on a franchised bus operator in a given year in excess of a prescribed triggering point of return on its average net interest in leasehold land and other property, plant and equipment is required to be set aside and accumulated in a balance of passenger reward, which would be available to relieve the pressure for future fare increases and to facilitate the offer of bus fare concessions. The prescribed triggering point of return for 2018 and 2017 was 9.7% per annum. The balance of passenger reward of the Group as at 31 December 2018, included in accounts payable and accruals (note 24), was $6,052,000 (2017: $6,843,000).

6 Income tax in the consolidated statement of profit or loss

(a) Taxation in the consolidated statement of profit or loss represents:

	2018	2017	
		Continuing operations	Discontinued operations
	$'000	$'000	$'000
Current tax – Hong Kong Profits Tax			
Provision for the year	**38,374**	86,498	1,116
(Over)/under-provision in respect of prior years	**(926)**	(298)	153
	37,448	86,200	1,269
Current tax – PRC Income Tax			
Provision for the year	**–**	–	423
PRC withholding tax	**1,562**	1,466	–
	39,010	87,666	1,692
Deferred tax			
Origination and reversal of temporary differences	**78,183**	60,493	2,627
	117,193	148,159	4,319

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries in the PRC is charged at the appropriate current rates of taxation ruling in the PRC.

(b) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2018	2017	
		Continuing operations	Discontinued operations
	$'000	$'000	$'000
Profit before taxation	**837,265**	1,007,904	433,289
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**139,296**	166,673	71,637
Tax effect of non-deductible expenses	**8,166**	6,732	380
Tax effect of non-taxable income	**(28,968)**	(24,137)	(73,880)
Tax effect of unused tax losses not recognised	**67**	667	6,032
Tax effect of utilisation of unused tax losses not recognised in prior years	**(57)**	(32)	(3)
(Over)/under-provision in prior years	**(926)**	(298)	153
Others	**(385)**	(1,446)	–
Actual tax expense	**117,193**	148,159	4,319

7 Directors' emoluments

Directors' emoluments disclosed pursuant to Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

		2018						
	Note	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payment (note (j)) $'000	Total $'000
Executive Director								
Roger Lee Chak Cheong	(a)	372	5,791	1,250	352	7,765	398	8,163
Non-executive Directors								
Raymond Kwok Ping Luen		624	–	–	–	624	–	624
Ng Siu Chan		372	–	–	–	372	–	372
Charles Lui Chung Yuen		624	–	–	–	624	–	624
William Louey Lai Kuen		624	–	–	–	624	–	624
Winnie Ng		684	–	–	–	684	–	684
Edmond Ho Tat Man	(i)	140	–	–	–	140	–	140
Allen Fung Yuk Lun		612	–	–	–	612	–	612
Susanna Wong Sze Lai		–	–	–	–	–	–	–
Gao Feng	(d)	–	–	–	–	–	–	–
Dr Cheung Wing Yui	(f)	372	–	–	–	372	–	372
Lee Luen Fai	(g)	372	–	–	–	372	–	372
Lung Po Kwan	(h)	188	–	–	–	188	–	188
Independent non-executive Directors								
Dr Norman Leung Nai Pang		1,874	–	–	–	1,874	–	1,874
Dr John Chan Cho Chak		764	–	–	–	764	–	764
Dr Eric Li Ka Cheung		692	–	–	–	692	–	692
Professor Liu Pak Wai		612	–	–	–	612	–	612
Tsang Wai Hung	(e)	552	–	–	–	552	–	552
		9,478	5,791	1,250	352	16,871	398	17,269

7 Directors' emoluments (continued)

		2017						
	Note	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payment (note (j)) $'000	Total $'000
Executive Director								
Roger Lee Chak Cheong	(a)	324	5,557	1,140	335	7,356	822	8,178
Non-executive Directors								
Raymond Kwok Ping Luen		576	–	–	–	576	–	576
Ng Siu Chan		324	–	–	–	324	–	324
Charles Lui Chung Yuen		576	–	–	–	576	–	576
William Louey Lai Kuen		324	–	–	–	324	–	324
Winnie Ng	(a)	839	–	–	–	839	–	839
Edmond Ho Tat Man		324	–	–	–	324	–	324
John Anthony Miller	(a) & (c)	340	–	–	–	340	–	340
Allen Fung Yuk Lun	(a)	600	–	–	–	600	–	600
Susanna Wong Sze Lai		–	–	–	–	–	–	–
Gao Feng	(d)	–	–	–	–	–	–	–
Independent non-executive Directors								
Dr Norman Leung Nai Pang		1,806	–	–	–	1,806	–	1,806
Dr John Chan Cho Chak	(a)	862	–	–	–	862	–	862
Dr Eric Li Ka Cheung	(a)	918	–	–	–	918	–	918
Gordon Siu Kwing Chue	(b)	213	–	–	–	213	–	213
Professor Liu Pak Wai		496	–	–	–	496	–	496
		8,522	5,557	1,140	335	15,554	822	16,376

Notes:

(a) The amounts included emoluments from the Company and certain of its subsidiaries.

(b) Mr Gordon Siu Kwing Chue retired on 18 May 2017.

(c) Mr John Anthony Miller retired on 18 May 2017.

(d) Mr Gao Feng was appointed as Alternate Director to Mr William Louey Lai Kuen with effect from 1 January 2017.

(e) Mr Tsang Wai Hung was appointed as Independent Non-executive Director with effect from 1 January 2018.

(f) Dr Cheung Wing Yui was appointed as Non-executive Director with effect from 1 January 2018.

(g) Mr Lee Luen Fai was appointed as Non-executive Director with effect from 1 January 2018.

(h) Mr Lung Po Kwan was appointed as Non-executive Director with effect from 1 July 2018.

(i) Mr Edmond Ho Tat Man retired on 17 May 2018.

(j) These represent the estimated value of share options granted to a Director under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for equity-settled share-based payment transactions as set out in note 1(x)(iv).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the Directors' report and note 20.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2017: one) is a Director whose emolument is disclosed in note 7. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Director) are as follows:

	2018 **$'000**	2017 $'000
Fees	**372**	324
Salaries, allowances and benefits in kind	**19,797**	18,969
Discretionary bonuses	**4,242**	3,788
Equity-settled share-based payment expenses	**1,177**	2,427
Retirement scheme contributions	**853**	791
	26,441	26,299

The emoluments of the five individuals with the highest emoluments are within the following bands:

	Number of individuals **2018**	2017
$3,000,001 – $3,500,000	**1**	–
$3,500,001 – $4,000,000	**–**	1
$4,000,001 – $4,500,000	**1**	1
$4,500,001 – $5,000,000	**–**	1
$5,000,001 – $5,500,000	**1**	–
$5,500,001 – $6,000,000	**1**	1
$8,000,001 – $8,500,000	**1**	1

9 Other comprehensive income

	2018	2017	
		Continuing operations	Discontinued operations
	$'000	$'000	$'000
Investments in/available-for-sale debt securities:			
Change in fair value recognised during the year	**39,453**	6,703	–
Reclassification adjustment for amount transferred to profit or loss on maturity (note 4)	**–**	2	–
	39,453	6,705	–

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $720,072,000 (2017: $1,294,834,000) and the weighted average number of ordinary shares in issue during the year, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company

	2018 $'000	2017 $'000
Profit attributable to ordinary equity shareholders of the Company arises from		
– Continuing operations	**720,072**	862,271
– Discontinued operations	**–**	432,563
	720,072	1,294,834

(ii) Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares at 1 January	**422,455,810**	411,680,499
Effect of shares issued in respect of scrip dividend	**5,300,304**	4,598,187
Effect of shares issued in respect of share option	**–**	5,030
Weighted average number of ordinary shares at 31 December	**427,756,114**	416,283,716

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $720,072,000 (2017: $1,294,834,000) and the weighted average number of ordinary shares (diluted), calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company

	2018 $'000	2017 $'000
Profit attributable to ordinary equity shareholders of the Company arises from		
– Continuing operations	**720,072**	862,271
– Discontinued operations	**–**	432,563
	720,072	1,294,834

10 Earnings per share (continued)

(b) Diluted earnings per share (continued)

(ii) Weighted average number of ordinary shares (diluted)

	2018	2017
Weighted average number of ordinary shares at 31 December	**427,756,114**	416,283,716
Effect of deemed issue of shares under the Company's share option scheme	**–**	79,045
Weighted average number of ordinary shares (diluted) at 31 December	**427,756,114**	416,362,761

The diluted earnings per share for the year ended 31 December 2018 is the same as basic earnings per share as the effect of deemed issue of shares under the Company's share option scheme is anti-dilutive.

11 Dividends

(a) Dividends paid/payable to equity shareholders of the Company attributable to the year

	2018		2017	
	Per share $	**Total $'000**	Per share $	Total $'000
Interim dividend declared and paid	**0.30**	**129,488**	0.35	146,861
Final dividend proposed after the end of the reporting period	**0.90**	**391,138**	0.90	380,210
	1.20	**520,626**	1.25	527,071

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

The interim dividend with a scrip dividend alternative in respect of the six months ended 30 June 2018 was paid on 16 October 2018, of which $62,782,000 was settled by the issuance of 2,969,828 shares at an issue price of $21.14 per share under the scrip dividend scheme.

The interim dividend with a scrip dividend alternative in respect of the six months ended 30 June 2017 was paid on 17 October 2017, of which $70,818,000 was settled by the issuance of 2,799,123 shares at an issue price of $25.30 per share under the scrip dividend scheme.

11 Dividends (continued)

(b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2018		2017	
	Per share	**Total**	Per share	Total
	$	**$'000**	$	$'000
Final dividend in respect of the previous financial year, approved and paid during the year	**0.90**	**380,210**	0.90	370,512

The final dividend with a scrip dividend alternative in respect of the year ended 31 December 2017 was paid on 29 June 2018, of which $210,490,000 was settled by the issuance of 9,171,689 shares at an issue price of $22.95 per share under the scrip dividend scheme.

The final dividend with a scrip dividend alternative in respect of the year ended 31 December 2016 was paid on 30 June 2017, of which $201,620,000 was settled by the issuance of 7,922,188 shares at an issue price of $25.45 per share under the scrip dividend scheme.

12 Segment reporting

The Group manages its business by business lines. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments:

Franchised bus operation:	The provision of franchised public transport services in Hong Kong.
Property holdings and development:	The holding and development of non-residential properties for the use as investment properties.
All other segments:	The provision of non-franchised transport services, provision of cross-boundary shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen) and investment holding.
Discontinued operations:	The provision of audio-video programming through a multi-media on-board system and marketing of advertising spaces on transit vehicles, shelters and outdoor signages.

Other operating segments which do not meet the quantitative thresholds prescribed by HKFRS 8, *Operating segments*, for determining reportable segments are combined as "all other segments". Such operating segments generate profits mainly from the provision of non-franchised transport services and interest in associates.

12 Segment reporting (continued)

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to the revenue generated and expenses incurred by those segments. The measure used for reporting segment profit is net profit after taxation, adjusted for head office or corporate administration costs which are not specifically attributable to individual segments. Inter-segment revenue is priced with reference to the price charged to external parties for similar transactions.

Segment assets and segment liabilities include all current and non-current assets and liabilities, respectively, which are directly managed by the segments.

As discussed in note 33, subsequent to the disposal of RoadShow Holdings Limited ("RoadShow"), the Group no longer carried on the business of media sales services. The results of this business have been classified as discontinued operation of the Group for the year ended 31 December 2017.

12 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments for the years ended 31 December 2018 and 2017 is set out below.

	Franchised bus operation		Property holdings and development		All other segments		Continuing operations sub-total		Discontinued operations		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revenue from external customers	7,593,067	7,323,012	69,830	73,852	346,378	349,278	8,009,275	7,746,142	–	285,705	8,009,275	8,031,847
Revenue from discontinued operations	–	141,541	–	–	–	–	–	141,541	–	–	–	141,541
Inter-segment revenue	491	532	5,298	5,816	11,569	10,790	17,358	17,138	–	–	17,358	17,138
Reportable segment revenue	7,593,558	7,465,085	75,128	79,668	357,947	360,068	8,026,633	7,904,821	–	285,705	8,026,633	8,190,526
Reportable segment profit	471,151	652,306	53,904	54,617	68,858	48,762	593,913	755,685	–	428,970	593,913	1,184,655
Interest income	416	326	–	–	–	1	416	327	–	4,742	416	5,069
Interest expense	(23,677)	(21,497)	–	–	–	–	(23,677)	(21,497)	–	–	(23,677)	(21,497)
Depreciation and amortisation for the year	(868,332)	(831,304)	(6,238)	(7,069)	(38,350)	(39,889)	(912,920)	(878,262)	–	(3,909)	(912,920)	(882,171)
Impairment loss on trade and other receivables	–	–	–	–	–	(167)	–	(167)	–	(1,812)	–	(1,979)
Reversal of provision for onerous contracts	–	–	–	–	–	–	–	–	–	13,259	–	13,259
Staff costs	(4,034,164)	(3,804,897)	–	–	(135,311)	(136,635)	(4,169,475)	(3,941,532)	–	(52,799)	(4,169,475)	(3,994,331)
Share of profits of associates	–	–	–	–	23,769	7,052	23,769	7,052	–	–	23,769	7,052
Income tax expense	(93,728)	(129,454)	(10,650)	(11,051)	(12,815)	(7,654)	(117,193)	(148,159)	–	(4,319)	(117,193)	(152,478)
Reportable segment assets	8,587,994	8,539,963	2,421,744	2,350,834	1,806,705	1,339,366	12,816,443	12,230,163	–	–	12,816,443	12,230,163
– including interest in associates	–	–	–	–	610,948	624,805	610,948	624,805	–	–	610,948	624,805
Additions to non-current segment assets during the year	1,319,159	1,148,541	83,889	37,235	91,833	93,110	1,494,881	1,278,886	–	2,233	1,494,881	1,281,119
Reportable segment liabilities	3,541,108	3,443,333	1,538,586	1,527,925	103,554	108,236	5,183,248	5,079,494	–	–	5,183,248	5,079,494

12 Segment reporting (continued)

(b) Reconciliation of reportable segment revenue, profit, assets and liabilities

	2018 $'000	2017 $'000
Revenue		
Reportable segment revenue		
– Continuing operations	**7,668,686**	7,544,753
– Discontinued operations	**–**	285,705
Revenue from all other segments		
– Continuing operations	**357,947**	360,068
Elimination of inter-segment revenue		
– Continuing operations	**(17,358)**	(17,138)
Consolidated revenue	**8,009,275**	8,173,388
Profit		
Reportable segment profit		
– Continuing operations	**525,055**	706,923
– Discontinued operations	**–**	428,970
Profit from all other segments		
– Continuing operations	**68,858**	48,762
Unallocated profits		
– Continuing operations	**126,159**	104,060
Consolidated profit after taxation	**720,072**	1,288,715
Assets		
Reportable segment assets	**11,009,738**	10,890,797
Assets from all other segments	**1,806,705**	1,339,366
Unallocated assets	**2,593,520**	2,425,843
Consolidated total assets	**15,409,963**	14,656,006
Liabilities		
Reportable segment liabilities	**5,079,694**	4,971,258
Liabilities from all other segments	**103,554**	108,236
Unallocated liabilities	**31,151**	33,581
Consolidated total liabilities	**5,214,399**	5,113,075

12 Segment reporting (continued)

(c) Geographic information

Substantially all of the Group's revenue from external customers, based on the location at which the services were provided, is generated in Hong Kong. The following table sets out information about the geographical location of the Group's investment properties, investment property under development, interest in leasehold land and other property, plant and equipment, intangible assets, goodwill and interest in associates ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset in the case of investment properties, investment property under development, interest in leasehold land and other property, plant and equipment, the location of the operation to which they are allocated in the case of intangible assets and goodwill, and the location of operations in the case of interest in associates.

	Specified non-current assets	
	2018	2017
	$'000	$'000
Hong Kong	**10,112,030**	9,387,521
The PRC	**784,092**	714,901
	10,896,122	10,102,422

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment

(a) Reconciliation of carrying amount

	Buildings $'000	Buses and other motor vehicles $'000	Buses under construction $'000	Tools and others $'000	Sub-total $'000	Investment property under development $'000	Investment properties $'000	Interest in leasehold land $'000	Total $'000
Cost:									
At 1 January 2017	1,528,939	11,409,445	184,514	3,204,039	16,326,937	2,188,225	202,423	115,513	18,833,098
Additions	5,690	62,463	854,446	234,634	1,157,233	35,969	1,256	–	1,194,458
Disposals	(3,145)	(773,117)	–	(279,280)	(1,055,542)	–	–	–	(1,055,542)
Discontinued operations	(10,594)	–	–	(95,659)	(106,253)	–	–	–	(106,253)
Exchange adjustments	–	–	–	27	27	–	–	–	27
Transfers	(1,614)	904,073	(904,073)	–	(1,614)	–	1,614	–	–
At 31 December 2017	1,519,276	11,602,864	134,887	3,063,761	16,320,788	2,224,194	205,293	115,513	18,865,788
Accumulated depreciation and amortisation:									
At 1 January 2017	1,051,920	5,944,844	–	2,866,793	9,863,557	2,020	88,623	54,147	10,008,347
Charge for the year	39,020	612,398	–	221,498	872,916	–	7,243	2,012	882,171
Written back on disposals	(3,112)	(771,029)	–	(280,728)	(1,054,869)	–	–	–	(1,054,869)
Discontinued operations	(3,633)	–	–	(90,709)	(94,342)	–	–	–	(94,342)
Exchange adjustments	–	–	–	27	27	–	–	–	27
At 31 December 2017	1,084,195	5,786,213	–	2,716,881	9,587,289	2,020	95,866	56,159	9,741,334
Net book value:									
At 31 December 2017	435,081	5,816,651	134,887	346,880	6,733,499	2,222,174	109,427	59,354	9,124,454
Add: Deposits paid in respect of buses on order					136,990	–	–	–	136,990
					6,870,489	2,222,174	109,427	59,354	9,261,444

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(a) Reconciliation of carrying amount (continued)

	Buildings $'000	Buses and other motor vehicles $'000	Buses under construction $'000	Tools and others $'000	Sub-total $'000	Investment property under development $'000	Investment properties $'000	Interest in leasehold land $'000	Total $'000
Cost:									
At 1 January 2018	1,519,276	11,602,864	134,887	3,063,761	16,320,788	2,224,194	205,293	115,513	18,865,788
Additions	9,950	143,452	1,067,816	277,516	1,498,734	78,886	4,974	–	1,582,594
Disposals	(1,350)	(935,895)	–	(277,932)	(1,215,177)	–	–	–	(1,215,177)
Transfers	–	1,135,035	(1,135,035)	–	–	–	–	–	–
At 31 December 2018	1,527,876	11,945,456	67,668	3,063,345	16,604,345	2,303,080	210,267	115,513	19,233,205
Accumulated depreciation and amortisation:									
At 1 January 2018	1,084,195	5,786,213	–	2,716,881	9,587,289	2,020	95,866	56,159	9,741,334
Charge for the year	36,562	661,825	–	206,825	905,212	–	5,696	2,012	912,920
Written back on disposals	(1,350)	(933,395)	–	(277,531)	(1,212,276)	–	–	–	(1,212,276)
At 31 December 2018	1,119,407	5,514,643	–	2,646,175	9,280,225	2,020	101,562	58,171	9,441,978
Net book value:									
At 31 December 2018	408,469	6,430,813	67,668	417,170	7,324,120	2,301,060	108,705	57,342	9,791,227
Add: Deposits paid in respect of buses on order					49,277	–	–	–	49,277
					7,373,397	2,301,060	108,705	57,342	9,840,504

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(b) All the Group's buildings, investment properties, investment property under development and interest in leasehold land are held in Hong Kong. The analysis of the net book value of properties is as follows:

	2018 $'000	2017 $'000
Medium-term leases	**2,598,541**	2,536,792
Short-term leases	**277,035**	289,244
	2,875,576	2,826,036
Representing:		
Buildings	**408,469**	435,081
Investment property under development	**2,301,060**	2,222,174
Investment properties	**108,705**	109,427
Interest in leasehold land	**57,342**	59,354
	2,875,576	2,826,036

(c) Investment properties and investment property under development are stated at cost less accumulated depreciation and impairment loss. The fair values of the investment properties and investment property under development were $5,027,470,000 and $4,825,000,000 respectively (2017: $4,486,780,000 and $3,810,000,000 respectively) as at 31 December 2018. The valuations were carried out by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff members of the Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The Group's management have had discussions with the surveyors on the valuation assumptions and valuation results when the valuation was performed at each annual reporting date. As at 31 December 2018, investment property under development of $2,301,060,000 (2017: $2,222,174,000) related to the Group's interests in a joint operation.

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(d) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties and investment property under development disclosed at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	2018			
		Fair value measurements categorised into		
	Fair value $'000	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Recurring fair value disclosures				
Investment properties in Hong Kong				
– commercial properties	**3,530,470**	**–**	**–**	**3,530,470**
– industrial property	**1,497,000**	**–**	**–**	**1,497,000**
Investment property under development in Hong Kong	**4,825,000**	**–**	**–**	**4,825,000**

	2017			
		Fair value measurements categorised into		
	Fair value $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value disclosures				
Investment properties in Hong Kong				
– commercial properties	3,214,780	–	–	3,214,780
– industrial property	1,272,000	–	–	1,272,000
Investment property under development in Hong Kong	3,810,000	–	–	3,810,000

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(d) Fair value measurement of properties (continued)

(ii) Information about Level 3 fair value disclosures

	Valuation techniques	Unobservable inputs	Range
Investment properties in Hong Kong – commercial properties	Market comparison approach	Discount/premium on quality of shops	-50% to 15% (2017: -40% to 15%)
Investment property in Hong Kong – industrial property	Market comparison and residual valuation approaches	Discount/premium on quality of redevelopment	-30% to 75% (2017: -10% to 65%)
Investment property under development in Hong Kong	Market comparison and residual valuation approaches	Discount/premium on quality of redevelopment	-30% to 10% (2017: -30% to 40%)

The Group has adopted market comparison approach for all its commercial properties in Hong Kong for the years ended 31 December 2018 and 2017. The fair value of commercial properties using market comparison approach is determined by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's commercial properties compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

The fair value of the industrial property in Hong Kong, taken into account its future redevelopment value, is determined using market comparison and residual valuation approaches. The market comparison approach determined the fair value of the gross development value with reference to recent transaction data of nearby projects, adjusted for a premium or a discount specific to the quality of the Group's industrial property compared to the recent transactions. While the residual valuation approach is a modification of income approach based on discounted cash flows, by making reference to the development potential of the Group's industrial property after deduction of costs for completion of the development. The valuation relies upon a series of assumptions which produce an estimation of the expected current market value of the industrial property held for development or redevelopment. These assumptions include the statutory and non-statutory restrictions associated with development that may be imposed by the government. Comparable transactions of similar development in the locality were gathered for gross development value assessment. Higher premium for higher quality redevelopment will result in a higher gross development value. The redevelopment of the industrial property is considered as its highest and best use under HKFRS 13.

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(d) Fair value measurement of properties (continued)

(ii) Information about Level 3 fair value disclosures (continued)

The fair value of investment property under development located in Hong Kong is determined using market comparison and residual valuation approaches by reference to recent transaction data of nearby projects, recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's investment property under development compared to the recent transactions. Higher premium for higher quality redevelopment will result in a higher gross development value.

(e) The Group leased out investment properties under operating leases. The leases typically run for an initial period from two to three years, with an option to renew the leases after that date at which time all terms are renegotiated. Certain leases include contingent rentals being the excess of a percentage of the monthly revenue generated by the lessees over the monthly minimum lease rentals.

The total future minimum lease payments from investment properties under non-cancellable operating leases are receivable as follows:

	2018 **$'000**	2017 $'000
Within 1 year	**44,545**	52,445
After 1 year but within 5 years	**52,759**	14,028
	97,304	66,473

(f) In 2018, subsidies totalling $5,128,000 (2017: $52,383,000) were received or receivable from the HKSAR Government for purchase of diesel-electric hybrid buses and electric buses ("the Buses") and for installation of facilities at bus stops and terminus. The purposes of the subsidies are to encourage the use of the Buses by granting financial assistance to franchised public bus operators to purchase the Buses for trial and to expedite the installation of facilities for the convenience of passengers respectively. The Group has to use the Buses for trial on certain routes agreed with the HKSAR Government for two years. The subsidies received or receivable have been deducted from the carrying amount of the assets directly in accordance with the accounting policy set out in note 1(k).

14 Intangible assets

	Passenger service licences and transport operating rights $'000	Websites and mobile apps $'000	Total $'000
Cost:			
At 1 January 2017	132,122	4,438	136,560
Discontinued operations	–	(4,438)	(4,438)
At 31 December 2017 and 1 January 2018	**132,122**	**–**	**132,122**
Additions	**228,497**	**–**	**228,497**
At 31 December 2018	**360,619**	**–**	**360,619**
Accumulated amortisation:			
At 1 January 2017	–	4,438	4,438
Discontinued operations	–	(4,438)	(4,438)
At 31 December 2017, 1 January 2018 and 31 December 2018	–	–	–
Net book value:			
At 31 December 2018	**360,619**	**–**	**360,619**
At 31 December 2017	132,122	–	132,122

For those passenger service licences and transport operating rights of the Group that are regarded to have indefinite useful lives, there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

Intangible assets that are regarded to have indefinite useful lives have been allocated to the cash-generating unit of non-franchised transport operations for the purpose of impairment testing. Details of impairment testing are set out in note 15 to the financial statements.

15 Goodwill

	2018 **$'000**	2017 $'000
Cost and carrying amount:		
At 1 January and 31 December	**84,051**	84,051

Impairment tests for cash-generating units containing goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives belong to the Group's non-franchised transport operations as a cash-generating unit.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below.

Key assumptions used for value-in-use calculations are as follows:

	2018 **%**	2017 %
Growth rate	**2.4**	1.5
Discount rate	**4.7 – 5.9**	4.2 – 5.4

The growth rate used does not exceed the long-term average growth rate for the business in which the cash-generating unit operates. The discount rate used is pre-tax and reflects specific risks relating to the segment.

The recoverable amount of the cash-generating unit based on the value-in-use calculations is higher than its carrying amount. Accordingly, no impairment loss on goodwill or intangible assets with indefinite useful lives has been recognised in profit or loss.

16 Interest in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Percentage of ownership interest: Group's effective interest	Percentage of ownership interest: Held by the Company	Percentage of ownership interest: Held by subsidiaries	Principal activity
KMB Resources Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	100	–	Investment holding
The Kowloon Motor Bus Company (1933) Limited	Hong Kong	403,639,413 shares	100	–	100	Provision of franchised public bus services in Hong Kong
Long Win Bus Company Limited	Hong Kong	100,000,000 shares	100	–	100	Provision of franchised public bus services in Hong Kong
Sun Bus Limited	Hong Kong	2 shares	100	–	100	Provision of non-franchised bus services
Chomang Travel Transport Company Limited	Hong Kong	10,000 shares	100	–	100	Provision of non-franchised bus services in Hong Kong
Bun Tang Bus Service Company Limited	Hong Kong	120,000 shares	100	–	100	Provision of non-franchised bus services in Hong Kong
Sau Luen P.L.B. Co., Limited	Hong Kong	10,000 shares	100	–	100	Provision of non-franchised bus services in Hong Kong
New Hong Kong Bus Company Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	1,000 shares	100	–	100	Provision of cross-boundary shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen)

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Interest in subsidiaries (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Percentage of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
Hoi Tai Tours Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	20,000 shares	100	–	100	Provision of non-franchised bus services
GD Bonwell Champion Tours Co. Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	10,000 shares	100	–	100	Provision of non-franchised bus services
GD Bonwell Yip Wai Tours Co. Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	10,000 shares	100	–	100	Provision of non-franchised bus services
Zhan Gang Tourist Transportation Company Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	500,000 shares	100	–	100	Provision of non-franchised bus services
Right Concept Transportation Limited	Incorporated in Hong Kong and operates in Hong Kong and the PRC	5 shares	100	–	100	Provision of non-franchised bus services
Power Crown Limited	Hong Kong	1 share	100	–	100	Provision of non-franchised bus services in Hong Kong
Eagle Win Limited	Hong Kong	1 share	100	–	100	Provision of non-franchised bus services in Hong Kong
Lai Chi Kok Properties Investment Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	–	100	Property Investment
LCK Real Estate Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	–	100	Property investment
LCK Commercial Properties Limited	Hong Kong	1 share	100	–	100	Property investment
KT Real Estate Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	–	100	Property investment

16 Interest in subsidiaries (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Percentage of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
TM Properties Investment Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	–	100	Property investment
KMB Financial Services Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	–	100	Group treasury management
KMB (Beijing) Taxi Investment Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	–	100	Investment holding
KMB (Shenzhen) Transport Investment Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	–	100	Investment holding
KMB Design Company Limited	Hong Kong	10,000 shares	100	–	100	Trading of bus souvenirs

17 Interest in associates

	2018 $'000	2017 $'000
Share of net assets	**527,619**	563,048
Goodwill	**61,704**	64,930
Amount due from an associate	**26,547**	1,749
Amount due to an associate	**(4,922)**	(4,922)
	610,948	624,805

Amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment/settlement. The amount due from an associate is neither past due nor impaired.

The following list contains the particulars of the material associate, which is an unlisted corporate entity whose quoted market price is not available:

				Percentage of ownership interest		
Name of associate	Form of business structure	Place of establishment and business	Particulars of registered and paid-up capital	Group's effective interest	Held by subsidiaries	Principal activity
Shenzhen Bus Group Company Limited	Sino-foreign joint stock company	The PRC	RMB951,430,306	35	35	Provision of bus and taxi hire services (note)

Note: Shenzhen Bus Group Company Limited, a transportation operator in the PRC, enables the Group to have exposure to this market through local expertise.

17 Interest in associates (continued)

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Shenzhen Bus Group Company Limited 2018 $'000	2017 $'000
Gross amounts of the associate		
Current assets	**2,733,913**	2,258,509
Non-current assets	**6,306,728**	7,233,684
Current liabilities	**2,978,416**	3,758,740
Non-current liabilities	**4,817,401**	4,387,140
Total equity	**1,244,824**	1,346,313
Non-controlling interest	**(13,169)**	(17,878)
Revenue	**2,182,641**	1,661,629
Profit for the year	**74,852**	16,222
Total comprehensive income	**74,852**	16,222
Dividend from the associate	**30,045**	24,308
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate attributable to equity shareholders	**1,231,655**	1,328,435
Group's effective interest	**35%**	35%
Group's share of net assets of the associate	**431,079**	464,952
Amount due from an associate	**24,810**	–
Goodwill	**61,704**	64,930
Carrying amount in the consolidated financial statements	**517,593**	529,882

Aggregate information of associates that are not individually material:

	2018 $'000	2017 $'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**93,355**	94,923
Aggregate amounts of the Group's share of those associates		
(Loss)/profit for the year	**(2,429)**	1,374
Total comprehensive income	**(2,429)**	1,374

18 Other financial assets

	Note	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Equity securities designated at FVOCI (non-recycling)				
– Unlisted equity securities	(i)	**512,019**	491,511	–
Financial assets measured at FVOCI (recycling)				
– Debt securities listed outside Hong Kong	(ii),(iii)	**1,428,067**	1,477,946	–
Financial assets measured at cost				
– Unlisted equity securities	(i)	**–**	–	15,356
Available-for-sale financial assets				
– Debt securities listed outside Hong Kong	(ii),(iii)	**–**	–	1,477,946
		1,940,086	1,969,457	1,493,302
Less: debt securities listed outside Hong Kong classified as current assets		**(231,223)**	–	–
Other financial assets classified as non-current assets		**1,708,863**	1,969,457	1,493,302

Notes:

(i) The unlisted equity securities mainly represented shares in a company incorporated in Hong Kong and engaged primarily in the business of managing a common ticketing and payment system. The Group designated its investments in unlisted equity securities at FVOCI (non-recycling), as the investments are held for strategic purposes. Dividends of $33,480,000 (2017: $28,580,000) were received on these investments during the year.

(ii) Available-for-sale financial assets were reclassified to financial assets measured at FVOCI (recycling) upon the initial application of HKFRS 9 at 1 January 2018 (see note 1(c)).

(iii) Debt securities are issued by corporate entities with credit rating ranging from BB- to A. As at 31 December 2018 and 2017, the Group's investments in debt securities were neither past due nor impaired. Debt securities that will mature within one year are classified as current assets.

19 Employee retirement benefits

The Group makes contributions to two defined benefit retirement schemes which provide pension benefits for employees upon retirement. Both schemes are formally established under trust and are registered under the Occupational Retirement Schemes Ordinance. The schemes are administered by an independent trustee and the assets are held separately from those of the Group. The trustees are required by the Trust Deed to act in the best interest of the plan participants and are responsible for setting investment policies of the plans. The members' benefits are determined based on the employees' final remuneration and length of service.

The plans are funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuations of the plans at 31 December 2018 were prepared by Towers Watson Hong Kong Limited which has among its staff fellow members of the Society of Actuaries of the United States of America using the projected unit credit method, and were carried out by the appointed actuary, represented by Ms Wing Lui. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement schemes are 146% (2017: 157%) covered by the plan assets held by the trustee.

The plans expose the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk. Since the two retirement schemes have similar risks and features, information about the two plans is aggregated and disclosed below:

(a) The amount recognised in the consolidated statement of financial position is as follows:

	2018 $'000	2017 $'000
Present value of funded obligations (note 19(c))	**(1,997,136)**	(2,257,415)
Fair value of plan assets (notes 19(b) and 19(d))	**2,907,779**	3,544,072
	910,643	1,286,657
Represented by:		
Employee benefit assets	**913,234**	1,286,657
Employee benefit liabilities	**(2,591)**	–
	910,643	1,286,657

A portion of the above asset/liability is expected to be recovered/paid after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable/payable in the next twelve months, as future refund/contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The expected annual contribution to defined benefit retirement schemes for the year ending 31 December 2019 is $Nil (2018: $Nil).

19 Employee retirement benefits (continued)

(b) Plan assets consist of the following:

	2018 $'000	2017 $'000
Equity securities:		
– Hong Kong and Mainland China	**682,115**	896,513
– Europe	**319,856**	475,181
– North America	**497,958**	567,051
– Other Asia Pacific	**543,997**	740,299
	2,043,926	2,679,044
Bonds	**785,100**	773,158
Cash and others	**78,753**	91,870
	2,907,779	3,544,072

All of the equity securities and bonds have quoted prices in active markets.

(c) Movements in the present value of the defined benefit obligations:

	2018 $'000	2017 $'000
At 1 January	**2,257,415**	2,541,954
Remeasurements:		
– Actuarial gains arising from changes in demographic assumptions	**(8,318)**	(11)
– Actuarial (gains)/losses arising from changes in financial assumptions	**(27,301)**	7,253
– Actuarial gains arising from liability experience	**(13,022)**	(53,625)
	(48,641)	(46,383)
Benefits paid by the plans	**(330,873)**	(375,570)
Current service cost	**81,290**	93,610
Interest cost	**37,945**	43,804
	(211,638)	(238,156)
At 31 December	**1,997,136**	2,257,415

The weighted average duration of the Monthly Rated and Daily Rated defined benefit obligations are 8.8 and 5.7 years respectively (2017: 9.8 and 5.8 years respectively).

19 Employee retirement benefits (continued)

(d) Movements in plan assets:

	2018 $'000	2017 $'000
At 1 January	3,544,072	3,159,263
Administrative expenses paid	(592)	(570)
Benefits paid by the plans	(330,873)	(375,570)
Interest income	60,118	54,489
(Loss)/return on plan assets, excluding interest income	(364,946)	706,460
At 31 December	2,907,779	3,544,072

(e) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2018 $'000	2017 $'000
Current service cost	81,290	93,610
Net income on net defined benefit asset	(22,173)	(10,685)
Administrative expenses paid	592	570
Total amounts recognised in profit or loss	59,709	83,495
Actuarial gains	(48,641)	(46,383)
Loss/(return) on plan assets, excluding interest income	364,946	(706,460)
Amounts recognised in other comprehensive income	316,305	(752,843)
Total defined benefit costs/(income)	376,014	(669,348)

19 Employee retirement benefits (continued)

(f) Significant actuarial assumptions and sensitivity analysis are as follows:

	2018	2017
Discount rate		
– Monthly Rated Employees Scheme	2.0%	1.8%
– Daily Rated Employees Scheme	1.9%	1.7%
Future salary increases	4.5%	4.5%

The below analysis shows how the defined benefit obligation would have increased/(decreased) as a result of a 0.25 percentage point change in the significant actuarial assumptions:

	2018		2017	
	Increase in 0.25 percentage point $'000	Decrease in 0.25 percentage point $'000	Increase in 0.25 percentage point $'000	Decrease in 0.25 percentage point $'000
Discount rate	(33,212)	34,230	(39,482)	40,759
Future salary increases	30,499	(29,769)	36,342	(35,419)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

20 Equity-settled share-based transactions

The Company has a share option scheme which was adopted on 26 May 2016 whereby the Directors of the Company are authorised, at their discretion, to invite employees of the Group, including Directors of any company in the Group, to take up options at a consideration of $1 to subscribe for shares of the Company. The period within which the options must be exercised will be specified by the Company at the date of grant. This period must expire no later than 10 years from the relevant date of grant. The Directors of the Company may also provide restrictions on the exercise of an option during the period an option may be exercised. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

	Number of instruments '000	Contractual life of options
Options granted to a Director:		
– on 31 October 2016	**860**	five years from the date of grant
Options granted to employees:		
– on 31 October 2016	**4,700**	five years from the date of grant
Total share options granted	**5,560**	

All the options are vested and exercisable progressively and the maximum percentage of the options which may be exercised is determined in stages as follows:

	Percentage of options granted
On or after 31 October 2017	**30%**
On or after 31 October 2018	**60%**
On or after 31 October 2019	**100%**

20 Equity-settled share-based transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2018		2017	
	Weighted average exercise price	**Number of share options ‘000**	Weighted average exercise price	Number of share options ‘000
Outstanding at the beginning of the year	**$23.45**	**4,300**	$23.45	5,020
Exercised during the year	**$23.45**	**–**	$23.45	(54)
Forfeited during the year	**$23.45**	**(720)**	$23.45	(666)
Outstanding at the end of the year	**$23.45**	**3,580**	$23.45	4,300
Exercisable at the end of the year	**$23.45**	**2,148**	$23.45	1,290

The weighted average share price at the date of exercise for shares exercised during the year was $23.45 (2017: $23.45).

The options outstanding at 31 December 2018 had an exercise price of $23.45 (2017: $23.45) and a weighted average remaining contractual life of 2.83 years (2017: 3.83 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

Fair value of share options and assumptions for share options granted on 31 October 2016	
Fair value at measurement date	**$1.7937-$1.8457**
Share price at the date of grant	**$23.45**
Exercise price	**$23.45**
Expected volatility	**18%**
Option life (expressed as weighted average life used in the modelling under binomial model)	**5 years**
Expected dividends	**4.18%**
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	**0.709%**

The expected volatility is based on the historic volatility and is assumed to remain unchanged during the weighted average remaining life of the share options (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

21 Accounts receivable

	2018 $'000	2017 $'000
Trade and other receivables	**338,895**	437,620
Interest receivable	**32,588**	23,716
Less: loss allowance (note 21(b))	**(360)**	(1,703)
	371,123	459,633

All of the accounts receivable are expected to be recovered within one year.

(a) Ageing analysis

Included in accounts receivable are trade receivables (net of loss allowance) with the following ageing analysis, based on the due date, as of the end of the reporting period:

	2018 $'000	2017 $'000
Current	**49,661**	48,342
Less than 1 month past due	**45,964**	47,353
1 to 3 months past due	**7,963**	6,615
More than 3 months past due	**6,610**	4,971
	110,198	107,281

According to the Group's credit policy set out in note 30(a) to the financial statements, credit period granted to customers is generally between 30 days and 90 days. Therefore, all the balances which are not past due as disclosed above are within three months from the invoice date.

21 Accounts receivable (continued)

(b) Loss allowance of trade receivables

Loss allowance in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the loss allowance is written off against trade receivables directly (see note 1(n)(i)).

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 $'000	2017 $'000
Balance at 31 December 2017 under HKAS 39	**1,703**	
Impact on initial application of HKFRS 9	**–**	
Balance at 1 January	**1,703**	7,870
Amounts written off during the year	**(1,343)**	(6,334)
Impairment losses recognised during the year		
– From continuing operations (note 5(d))	**–**	167
– From discontinued operations (note 5(d))	**–**	1,812
Reversal of impairment losses recognised upon disposal of subsidiaries	**–**	(1,812)
Balance at 31 December	**360**	1,703

At 31 December 2018, the Group's trade receivables of $360,000 (2017: $1,703,000) were individually determined to be impaired. The individual impaired receivables related to customers that have defaulted on repayment and management's assessed that the receivables are not expected to be recovered. Consequently, specific allowance for credit losses of $360,000 (2017: $1,703,000) were recognised as at 31 December 2018.

(c) Accounts receivable that are not impaired

The ageing analysis of accounts receivable that are neither individually not collectively considered to be impaired is as follows:

	2018 $'000	2017 $'000
Neither past due nor impaired	**310,586**	400,694
Past due but not impaired		
– Less than 1 month past due	**45,964**	47,353
– 1 to 3 months past due	**7,963**	6,615
– More than 3 months past due	**6,610**	4,971
	60,537	58,939
	371,123	459,633

21 Accounts receivable (continued)

(c) Accounts receivable that are not impaired (continued)

Loss allowance of receivables are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive) (see note 1(n)(i) – policy applicable from 1 January 2018). Normally, the Group does not hold any collateral over these balances.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(n)(i) – policy applicable prior to 1 January 2018).

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

The remaining receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no loss allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral over these balances.

22 Bank deposits and cash

(a) Bank deposits and cash comprise:

	2018 $'000	2017 $'000
Cash at bank and on hand	**156,405**	190,114
Bank deposits	**1,024,647**	1,042,687
	1,181,052	1,232,801
Less: pledged and restricted bank deposits (note 22(b))	**(6,803)**	(27,996)
Bank deposits and cash in the consolidated statement of financial position	**1,174,249**	1,204,805
Less: bank deposits with original maturities of over three months	**(949,647)**	–
Cash and cash equivalents in the consolidated cash flow statement	**224,602**	1,204,805

(b) The Group is required to maintain the balance of passenger reward (note 5(d)) in designated bank accounts under the revised MBOF approach. As at 31 December 2018, the related restricted bank deposits amounted to $6,803,000 (2017: $27,996,000).

22 Bank deposits and cash (continued)

(c) Reconciliation of profit before taxation to cash generated from operations:

	Note	2018 $'000	2017 (Note) $'000
Profit before taxation		**837,265**	1,441,193
Adjustments for:			
Depreciation and amortisation		**912,920**	882,171
Finance costs	5(b)	**23,677**	21,497
Dividend income from unlisted equity securities	4	**(33,480)**	(28,580)
Interest income		**(81,541)**	(67,835)
Reclassification from equity on disposal of available-for-sale debt securities		**–**	(2,824)
Share of profits of associates		**(23,769)**	(7,052)
Net gain on disposal of other property, plant and equipment	4	**(11,139)**	(7,918)
Net gain on disposal of subsidiaries	4	**–**	(439,585)
Government subsidies	4	**–**	(1,004)
Equity-settled share-based payment expenses	5(a)	**853**	4,078
Effect of foreign exchange rate		**980**	(17,074)
Operating profit before changes in working capital		**1,625,766**	1,777,067
Changes in working capital:			
Decrease in non-current prepayments		**–**	438
Decrease in employee benefit assets		**59,709**	83,495
(Increase)/decrease in spare parts and stores		**(26,494)**	429
Decrease in accounts receivable		**57,381**	6,184
Decrease/(increase) in deposits and prepayments		**7,053**	(8,010)
Increase/(decrease) in accounts payable and accruals		**73,020**	(103,374)
(Decrease)/increase in contingency provision – insurance		**(86,957)**	37,125
Decrease in provision for long service payments		**(46)**	(2,298)
Cash generated from operations		**1,709,432**	1,791,056

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

22 Bank deposits and cash (continued)

(d) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans (note 23)	
	2018	2017
	$'000	$'000
At 1 January	**2,353,265**	2,724,366
Changes from financing cash flows:		
Proceeds from new bank loans	**1,605,000**	1,640,000
Repayment of bank loans	**(1,335,000)**	(2,015,000)
Total changes from financing cash flows	**270,000**	(375,000)
Other change:		
Amortisation of bank loans arrangement fee	**1,774**	3,899
At 31 December	**2,625,039**	2,353,265

23 Bank loans

At 31 December 2018, the bank loans were repayable as follows:

	2018	2017
	$'000	$'000
After 1 year but within 2 years	**–**	74,509
After 2 years but within 5 years	**2,625,039**	2,278,756
	2,625,039	2,353,265

All of the bank loans were unsecured.

24 Accounts payable and accruals

	2018 $'000	2017 $'000
Trade payables	**159,914**	143,759
Balance of passenger reward (note 5(d))	**6,052**	6,843
Other payables and accruals	**867,792**	988,169
	1,033,758	1,138,771

All of the accounts payable and accruals are expected to be settled within one year.

Included in accounts payable and accruals are trade payables with the following ageing analysis, based on the due date, as of the end of the reporting period:

	2018 $'000	2017 $'000
Due within 1 month or on demand	**154,114**	135,543
Due after 1 month but within 3 months	**3,138**	5,721
Due after more than 3 months	**2,662**	2,495
	159,914	143,759

Credit period granted to the Group is generally between 30 days and 90 days. Therefore, all the balances which are due within one month or on demand as disclosed above are within three months from the invoice date.

25 Contingency provision – insurance

	2018 $'000	2017 $'000
At 1 January	**473,354**	436,229
Provision charged to profit or loss	**11,122**	82,414
Payments made during the year	**(98,079)**	(45,289)
At 31 December	**386,397**	473,354
Representing:		
Current portion	**145,040**	187,970
Non-current portion	**241,357**	285,384
	386,397	473,354

The Group is involved from time to time in litigation and claims in connection with its bus operations. Contingency provision – insurance represents amounts set aside annually by the Group to meet liabilities which are expected to arise from third party claims for incidents which have occurred prior to the end of the reporting period in connection with the Group's bus operations. During the year, more cases were settled or closed, leading to the decrease in the amount of provision.

26 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	2018 $'000	2017 $'000
Provision for Hong Kong Profits Tax for the year	**38,374**	86,498
Provisional Profits Tax paid	**(47,626)**	(81,240)
Net current tax (recoverable)/payable	**(9,252)**	5,258
Representing:		
Current tax recoverable	**(10,270)**	(2,556)
Current tax payable	**1,018**	7,814
Net current tax (recoverable)/payable	**(9,252)**	5,258

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax (assets)/liabilities arising from:	Depreciation allowances in excess of the related depreciation $'000	Intangible assets $'000	Provisions $'000	Tax losses $'000	Defined benefit assets $'000	Cash flow hedge $'000	Others $'000	Total $'000
At 1 January 2017	877,762	14,511	(2,564)	(47,175)	101,857	–	(4,208)	940,183
Charged/(credited) to profit or loss	59,925	–	(3,103)	21,172	(13,776)	–	(1,098)	63,120
Charged to other comprehensive income	–	–	–	–	124,219	–	–	124,219
Discontinued operations	586	–	–	7,042	–	–	–	7,628
At 31 December 2017 and 1 January 2018	**938,273**	**14,511**	**(5,667)**	**(18,961)**	**212,300**	**–**	**(5,306)**	**1,135,150**
Charged/(credited) to profit or loss	**72,027**	**–**	**5,027**	**11,446**	**(9,853)**	**–**	**(464)**	**78,183**
Credited to other comprehensive income	**–**	**–**	**–**	**–**	**(52,190)**	**(222)**	**–**	**(52,412)**
At 31 December 2018	**1,010,300**	**14,511**	**(640)**	**(7,515)**	**150,257**	**(222)**	**(5,770)**	**1,160,921**

(ii) Amounts recognised in the consolidated statement of financial position:

	2018 $'000	2017 $'000
Net deferred tax assets	**(656)**	(656)
Net deferred tax liabilities	**1,161,577**	1,135,806
	1,160,921	1,135,150

26 Income tax in the consolidated statement of financial position (continued)

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(y), the Group has not recognised deferred tax assets of $18,150,000 (2017: $18,083,000) in respect of cumulative tax losses of $110,003,000 (2017: $109,592,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. At 31 December 2018 and 2017, the tax losses do not expire under the current tax legislation.

27 Provision for long service payments

Details of the provision for long service payments of the Group are as follows:

	2018 **$'000**	2017 $'000
At 1 January	**4,065**	6,363
Movements charged to profit or loss (note 5(a))	**7,953**	8,094
Payments made during the year	**(7,999)**	(10,392)
At 31 December	**4,019**	4,065

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement schemes that are attributable to contributions made by the Group. The Group does not set aside any assets to fund the above remaining obligations.

28 Capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Contributed surplus $'000	Retained profits $'000	Total equity $'000
Balance at 1 January 2017		411,680	162,804	990	1,300,000	546,413	2,421,887
Changes in equity for 2017							
Shares issued in respect of scrip dividend							
– 2016 final dividend	28(b)(i)	7,923	193,697	–	–	–	201,620
Shares issued in respect of scrip dividend							
– 2017 interim dividend	28(b)(i)	2,799	68,019	–	–	–	70,818
Equity-settled share-based transaction	5(a)	–	–	4,078	–	–	4,078
Issuance of shares upon exercise of share options	28(b)(ii)	54	1,311	(99)	–	–	1,266
Dividends approved in respect of the previous year	11(b)	–	–	–	–	(370,512)	(370,512)
Profit and total comprehensive income for the year		–	–	–	–	971,630	971,630
Dividends declared in respect of the current year	11(a)	–	–	–	–	(146,861)	(146,861)
Balance at 31 December 2017 and 1 January 2018		**422,456**	**425,831**	**4,969**	**1,300,000**	**1,000,670**	**3,153,926**
Changes in equity for 2018							
Shares issued in respect of scrip dividend							
– 2017 final dividend	28(b)(i)	**9,172**	**201,318**	**–**	**–**	**–**	**210,490**
Shares issued in respect of scrip dividend							
– 2018 interim dividend	28(b)(i)	**2,969**	**59,813**	**–**	**–**	**–**	**62,782**
Equity-settled share-based transaction	5(a)	**–**	**–**	**853**	**–**	**–**	**853**
Unclaimed dividends forfeited		**–**	**–**	**–**	**–**	**7,352**	**7,352**
Dividends approved in respect of the previous year	11(b)	**–**	**–**	**–**	**–**	**(380,210)**	**(380,210)**
Profit and total comprehensive income for the year		**–**	**–**	**–**	**–**	**510,052**	**510,052**
Dividends declared in respect of the current year	11(a)	**–**	**–**	**–**	**–**	**(129,488)**	**(129,488)**
Balance at 31 December 2018		**434,597**	**686,962**	**5,822**	**1,300,000**	**1,008,376**	**3,435,757**

The Company's reserves available for distribution to shareholders at 31 December 2018 amounted to $2,308,376,000 (2017: $2,300,670,000). After the end of the reporting period, the Directors proposed a final dividend of $0.90 (2017: $0.90) per share, amounting to $391,138,000 (2017: $380,210,000). The final dividend proposed has not been recognised as a liability at the end of the reporting period.

28 Capital and reserves (continued)

(b) Share capital

(i) Authorised and issued share capital

	2018 No. of shares	2018 $'000	2017 No. of shares	2017 $'000
Authorised:				
Ordinary shares of $1 each	**600,000,000**	**600,000**	600,000,000	600,000
Ordinary shares of $1 each, issued and fully paid:				
At 1 January	**422,455,810**	**422,456**	411,680,499	411,680
Shares issued in respect of scrip dividend – 2016 final dividend	**–**	**–**	7,922,188	7,923
Shares issued in respect of scrip dividend – 2017 interim dividend	**–**	**–**	2,799,123	2,799
Shares issued in respect of scrip dividend – 2017 final dividend	**9,171,689**	**9,172**	–	–
Shares issued in respect of scrip dividend – 2018 interim dividend	**2,969,828**	**2,969**	–	–
Shares issued under the share option scheme	**–**	**–**	54,000	54
At 31 December	**434,597,327**	**434,597**	422,455,810	422,456

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under the share option scheme

During the year ended 31 December 2017, options were exercised to subscribe for 54,000 ordinary shares in the Company at a consideration of $1,266,000, of which $54,000 was credited to the share capital account and the balance of $1,212,000 was credited to the share premium account. $99,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(x)(iv).

28 Capital and reserves (continued)

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Company's Bye-laws and the Companies Act 1981 of Bermuda.

(ii) Capital reserve

The capital reserve comprises the portion of the grant date fair value of unexercised share options granted to a Director of the Company and certain employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(x)(iv).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of entities outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

(iv) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(i).

(v) Fair value reserve (recycling)

The fair value reserve (recycling) comprises the cumulative net change in the fair value of debt securities measured at FVOCI under HKFRS 9 held at the end of the reporting period (see note 1(g)). Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with HKAS 39.

(vi) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 1(g)).

28 Capital and reserves (continued)

(d) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital structure on the basis of the level of net debt compared to the amount of capital. For this purpose, the Group defines net debt as bank deposits and cash and pledged and restricted bank deposits less interest-bearing loans and borrowings in the consolidated statement of financial position. Capital comprises all components of equity. Net debt and equity at 31 December 2018 and 2017 were as follows:

	2018 **$'000**	2017 $'000
Bank deposits and cash (note 22(a))	**1,174,249**	1,204,805
Pledged and restricted bank deposits (note 22(a))	**6,803**	27,996
Less: bank loans (note 23)	**(2,625,039)**	(2,353,265)
Net debt	**(1,443,987)**	(1,120,464)
Total equity	**10,195,564**	9,542,931

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

29 Commitments

(a) Capital commitments

(i) At 31 December 2018, the Group had the following capital commitments in relation to the purchase of other property, plant and equipment not provided for in the financial statements:

	2018 **$'000**	2017 $'000
Contracted for	**533,234**	1,114,546

(ii) At 31 December 2018, the Group's share of capital commitments of the joint operation in respect of investment property under development not provided for in the financial statements is as follows:

	2018 **$'000**	2017 $'000
Contracted for	**144,675**	74,021

(b) Operating leases commitments

At 31 December 2018, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	2018 **$'000**	2017 $'000
Within 1 year	**4,342**	3,895
After 1 year but within 5 years	**4,286**	2,200
	8,628	6,095

The Group leases a number of properties under operating leases. The leases typically run for a period of one to three years. The leases do not include contingent rentals.

30 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate, currency and fuel price risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables and investments in debt securities.

In respect of trade and other receivables, credit evaluations are performed on all major customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and their ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. A credit period of between 30 days and 90 days is normally granted to customers of the Group's non-franchised transport operations and media sales business. All the trade and other receivables included in current assets are expected to be recoverable within one year. Due to the financial strength of these customers and the short duration of the trade and other receivables, the ECL allowance is considered insignificant.

Investments in debt securities are only made with counterparties of a high credit rating. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations. No loss allowance for investments in debt securities was recognised as at 31 December 2018.

The Group's exposure to credit risk arising from bank deposits and cash is limited because the counterparties are banks, for which the Group considers to have low credit risk.

Regular review and follow up actions are carried out on overdue amounts to minimise the Group's exposure to credit risk. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables.

The Group has no significant concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any loss allowance. The Group does not provide any guarantee to third parties which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from investments in debt securities and trade and other receivables are set out in notes 18 and 21 respectively.

(b) Liquidity risk

The Group closely monitors its liquidity and financial resources to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the requirements for loan repayments, daily operational needs, capital expenditure, as well as potential business expansion and development. Major operating companies of the Group arrange for their own financing to meet specific requirements. The Group's other subsidiaries are mainly financed by the Company's capital base. The Group reviews its strategy from time to time to ensure that cost-efficient funding is available to cater for the unique operating environment of each subsidiary.

30 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk (continued)

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using interest rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

Non-derivative financial liabilities

	2018					2017				
	Contractual undiscounted cash flow					Contractual undiscounted cash flow				
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000
Bank loans	81,246	81,246	2,737,395	2,899,887	2,625,039	49,795	123,577	2,384,870	2,558,242	2,353,265
Accounts payable and accruals	1,032,412	–	–	1,032,412	1,032,412	1,138,771	–	–	1,138,771	1,138,771
	1,113,658	81,246	2,737,395	3,932,299	3,657,451	1,188,566	123,577	2,384,870	3,697,013	3,492,036

Derivative financial liabilities

	2018 Contractual undiscounted cash flow		2017 Contractual undiscounted cash flow	
	Within 1 year or on demand $'000	Total $'000	Within 1 year or on demand $'000	Total $'000
Derivatives settled gross:				
Forward foreign exchange contracts held as cash flow hedging instruments:				
– outflow	(101,887)	(101,887)	–	–
– inflow	100,541	100,541	–	–
Other forward foreign exchange contracts:				
– outflow	(11,898)	(11,898)	(116,107)	(116,107)
– inflow	11,986	11,986	116,417	116,417

30 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is the Group's policy to closely monitor the market conditions and devise suitable strategies against interest rate risk. As at 31 December 2018 and 2017, all the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. The Group regularly reviews its strategy on interest rate risk management in the light of the prevailing market condition.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing assets and liabilities at the end of the reporting period.

	2018		2017	
	Effective interest rate p.a. %	**Amount $'000**	Effective interest rate p.a. %	Amount $'000
Fixed rate assets:				
Bank deposits	**3.0**	**1,024,647**	1.6	1,042,687
Investments in/available-for-sale debt securities	**3.9**	**1,428,067**	3.9	1,477,946
		2,452,714		2,520,633
Variable rate liabilities:				
Bank loans	**3.3**	**(2,625,039)**	2.0	(2,353,265)

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately $9,475,000 (2017: $7,187,000). Other components of consolidated equity would have decreased/increased by approximately $23,961,000 (2017: $38,156,000) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2017.

30 Financial risk management and fair values of financial instruments (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through purchases of new buses and motor vehicle components from overseas, investments in debt securities and deposits placed at banks that are denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily British Pounds Sterling, United States dollars and Renminbi.

The Group hedges approximately 96% (2017: 29%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. The Group uses forward foreign exchange contracts to manage its currency risk. For the year ended 31 December 2018, the Group designates those forward foreign exchange contracts as hedging instruments in cash flow hedges and does not separate the forward and spot elements of a forward foreign exchange contract but instead designates the forward foreign exchange contract in its entirety in a hedging relationship. Correspondingly, the hedged item is measured based on the forward exchange rate.

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the forward foreign exchange contracts and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows. The main sources of ineffectiveness in these hedging relationships are:

(i) the effect of the counterparty's and the Group's own credit risk on the fair value of the forward foreign exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

(ii) changes in the timing of the hedged transactions.

At 31 December 2018, the Group had liabilities arising from forward foreign exchange contracts outstanding of $1,346,000 (2017: assets of $310,000), which were recognised as derivative financial liabilities/assets and included in "Accounts payable and accruals" (note 24)/"Accounts receivable" (note 21) line items in the consolidated statement of financial position. These forward foreign exchange contracts were for the purchases of British Pounds Sterling totalling 10,100,000 (2017: 11,028,000). They had maturities of less than one year after the end of the reporting date and have an average exchange rate of 10.10 between British Pounds Sterling and Hong Kong dollars (2017: 10.51).

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2018 $'000
Balance at 1 January	–
Effective portion of the cash flow hedge recognised in other comprehensive income	(1,346)
Related tax	222
Balance at 31 December (note)	(1,124)
Change in fair value of the forward foreign exchange contracts during the year	(1,346)
Hedge ineffectiveness recognised in profit or loss	–
Effective portion of the cash flow hedge recognised in other comprehensive income	(1,346)

Note: The entire balance in the hedging reserve relates to continuing hedges.

30 Financial risk management and fair values of financial instruments (continued)

(d) Currency risk (continued)

(i) Exposure to currency risk

The table below details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Hong Kong dollars)					
	2018			2017		
	Renminbi $'000	**British Pounds Sterling $'000**	**United States dollars $'000**	Renminbi $'000	British Pounds Sterling $'000	United States dollars $'000
Bank deposits and cash	**2,032**	**73,113**	**198,664**	2,770	83,819	–
Accounts payable and accruals	**–**	**(35,877)**	**(3,141)**	–	(196,690)	(2,415)
Investments in/available-for-sale debt securities	**–**	**–**	**1,428,069**	–	–	1,477,946
Gross exposure arising from recognised assets and liabilities	**2,032**	**37,236**	**1,623,592**	2,770	(112,871)	1,475,531
Notional amount of forward foreign exchange contracts used as economic hedge	**–**	**–**	**–**	–	116,417	–
Net exposure arising from recognised assets and liabilities	**2,032**	**37,236**	**1,623,592**	2,770	3,546	1,475,531
Highly probable future purchases	**–**	**(101,887)**	**–**	–	–	–
Notional amount of forward foreign exchange contracts used as cash flow hedge	**–**	**100,541**	**–**	–	–	–
Net exposure arising from committed future purchases	**–**	**(1,346)**	**–**	–	–	–
Overall net exposure	**2,032**	**35,890**	**1,623,592**	2,770	3,546	1,475,531

30 Financial risk management and fair values of financial instruments (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The table below indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies.

	2018			2017		
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits $'000	Increase/ (decrease) in other components of equity $'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits $'000	Increase/ (decrease) in other components of equity $'000
Renminbi	3%	61	–	3%	83	–
	(3)%	(61)	–	(3)%	(83)	–
British Pounds Sterling	6%	2,522	–	6%	1,007	–
	(6)%	(2,522)	–	(6)%	(1,007)	–
United States dollars	1%	1,960	14,281	1%	(20)	14,779
	(1)%	(1,960)	(14,281)	(1)%	20	(14,779)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2017.

Renminbi is not a fully convertible currency. All foreign exchange transactions involving Renminbi must take place either through the People's Bank of China or other institutions authorised to buy and sell foreign exchange.

30 Financial risk management and fair values of financial instruments (continued)

(e) Fuel price risk

It is the Group's policy to closely monitor the fuel price movements. Certain subsidiaries of the Group have entered into price cap arrangements to limit the risk exposure in the event that oil prices rise above the cap level during the years ended 31 December 2018 and 2017. The Group had not entered into any fuel oil swap contract during the years ended 31 December 2018 and 2017.

(f) Fair values measurement

(i) Financial instruments measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	2018				2017			
		Fair value measurements categorised into				Fair value measurements categorised into		
	Fair value $'000	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	Fair value $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurements								
Assets:								
Investments in/available-for-sale debt securities – listed	**1,428,067**	**1,428,067**	**–**	**–**	1,477,946	1,477,946	–	–
Unlisted equity securities (note)	**512,019**	**–**	**–**	**512,019**	–	–	–	–
Derivative financial instruments – other forward foreign exchange contracts	**88**	**–**	**88**	**–**	310	–	310	–
Liability:								
Derivative financial instruments – forward foreign exchange contracts held as cash flow hedge	**(1,346)**	**–**	**(1,346)**	**–**	–	–	–	–

Note: Unlisted equity securities were reclassified to financial assets designated at FVOCI (non-recycling) upon the initial adoption of HKFRS 9 at 1 January 2018 (see note 1(c)). They were stated at cost less accumulated impairment losses at 31 December 2017.

30 Financial risk management and fair values of financial instruments (continued)

(f) Fair values measurement (continued)

(i) Financial instruments measured at fair value (continued)

Fair value hierarchy (continued)

During the years ended 31 December 2018 and 2017, there were no transfers between instruments in Level 1 and Level 2. The unlisted equity securities were reclassified to financial assets designated at FVOCI (non-recycling) and their fair values are measured under Level 3 upon the adoption of HKFRS 9 at 1 January 2018.

(ii) Valuation techniques and inputs used in Level 2 fair value measurement

The fair values of forward foreign exchange contracts as at 31 December 2018 and 2017 in Level 2 were marked to market using quoted market price from financial institutions.

(iii) Information about Level 3 fair value measurement

	Valuation technique	Significant unobservable inputs	Percentage
Unlisted equity instruments	Market comparable companies	Discount for lack of marketability	35% (2017: N/A)

The fair value of unlisted equity instruments is determined using market approach of comparable companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2018, it is estimated that with all other variables held constant, a decrease/increase in the discount for lack of marketability by 5% would have increased/decreased the Group's other comprehensive income by $39,386,000.

The movement during the year in the balance of Level 3 fair value measurement is as follows:

	2018 $'000
Unlisted equity securities	
At 1 January	**–**
Transfer to Level 3 upon the initial adoption of HKFRS 9	**491,511**
Net unrealised gains recognised in other comprehensive income during the year	**20,508**
At 31 December	**512,019**

From 1 January 2018, any gains or losses arising from the remeasurement of the Group's unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings. Prior to 1 January 2018, any gains arising from the disposal of the unlisted equity securities were presented in the "Other income" line item in the consolidated statement of profit or loss.

30 Financial risk management and fair values of financial instruments (continued)

(f) Fair values measurement (continued)

(iv) Fair values of financial instruments carried at other than fair value

All financial instruments carried at cost or amortised cost are carried at amounts not materially different from their fair values as at 31 December 2018 and 2017 except as follows:

Amounts due from/to associates of the Group are unsecured, interest-free and have no fixed terms of repayment/settlement. Given these terms, it is not meaningful to disclose their fair values.

31 Contingent liabilities

At 31 December 2018 and 2017, guarantees are given to banks by the Company in respect of bank loans extended to certain wholly-owned subsidiaries.

As at the end of the reporting period, the Directors do not consider it probable that a claim will be made against the Company under these guarantee arrangements. The maximum liability of the Company at the end of the reporting period under the guarantees is the amount of the facilities drawn down by the subsidiaries that are covered by the guarantees, being $1,500,000,000 (2017: $1,575,000,000).

The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured and there is no transaction price.

32 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group has entered into the following material related party transactions:

(a) Transactions with related companies

Nature of transactions	Note	Income/(expense) 2018 $'000	2017 $'000
Service fees for provision of coach services	(i) & (ii)	**52,371**	42,132
Insurance premium paid	(iii)	**(90,118)**	(69,163)
Amount paid and accrued for building management services	(iv)	**(818)**	(786)
Amount paid and accrued for project management service and lease modification	(v)	**–**	–
Amount paid and accrued for a building contract	(vi)	**–**	–
Advertising income	(vii)	**5,849**	556

32 Material related party transactions (continued)

(a) Transactions with related companies (continued)

Notes:

(i) During the year, the Group provided coach services ("Shuttle Bus Service Agreements") to certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP"), a substantial shareholder of the Company, details of which were disclosed in the announcement of the Company dated 29 June 2018. The amounts received and receivable under the Shuttle Bus Service Agreements amounted to $8,379,000 (2017: $2,340,000). Subsequently during the year, the Group also provided coach services to certain subsidiaries of SHKP and the amounts received and receivable thereunder amounted to $4,463,000 (2017: $6,666,000). Outstanding balances due from these companies at 31 December 2018 amounted to $3,312,000 (2017: $3,092,000).

(ii) The Group also provided coach services to residents of certain residential property developments managed by certain members of SHKP and its subsidiaries ("SHKP Group") where the SHKP Group acts as agent for collection of the service fees ("Coach Service Arrangement"). The amounts received and receivable for these Coach Service Arrangements amounted to $39,529,000 (2017: $33,126,000). Outstanding balances due from these companies at 31 December 2018 amounted to $10,619,000 (2017: $8,370,000).

(iii) In 2016, the Group entered into contracts with a subsidiary of SHKP, Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of various kind of insurance services to the Group for the period from 1 January 2017 to 31 December 2018 (the "2017/18 Insurance Arrangements"). In 2017, the Group entered into contracts with SHKPI for the provision of medical and dental insurance services to the Group for the period from 1 January 2018 to 31 December 2019 (the "2018/19 Medical and Dental Insurance Arrangements"). The amount paid and payable under the 2017/18 Insurance Arrangements and 2018/19 Medical and Dental Insurance Arrangements during the year amounted to $90,118,000 (2017: $69,163,000). Outstanding balance receivable for these contracts at 31 December 2018 amounted to $437,000 (2017: $92,000).

(iv) On 3 July 2007, Lai Chi Kok Properties Investment Limited, Royal Elite Service Company Limited ("Royal Elite"), a subsidiary of SHKP, and the first assignee of a residential unit of Manhattan Hill entered into a deed of mutual covenant (the "Deed") pursuant to which the parties agreed that Royal Elite would act as the manager of Manhattan Hill. The amount paid and payable under the Deed during the year amounted to $818,000 (2017: $786,000). Outstanding balance payable for this contract at 31 December 2018 amounted to $201,000 (2017: $Nil).

(v) On 26 April 2010, KT Real Estate Limited ("KTRE"), a wholly-owned subsidiary of the Company, and Turbo Result Limited ("TRL"), a subsidiary of SHKP, entered into an agreement with Sun Hung Kai Real Estate Agency Limited ("SHKRE"), pursuant to which KTRE and TRL agreed to appoint SHKRE as the project manager for the management, supervision and control of the application for planning permission, the surrender and regrant of an industrial site at Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kwun Tong, Kowloon, Hong Kong (the "Kwun Tong Site") and the construction of the Kwun Tong Site.

The amount payable for project management services shall be a sum equivalent to whichever is the higher of (1) $20,000,000; and (2) the lower of (a) 1% of the project cost and (b) $25,000,000. The amount payable for lease modification services shall be in the sum of the lower of (1) $3.2 for each square foot of the permitted maximum gross floor area as approved under the lease modification; and (2) $3,840,000. Outstanding balance payable for this contract as at 31 December 2018 amounted to $2,000,000 (2017: $2,000,000).

(vi) On 20 December 2018, KTRE, TRL and Yee Fai Construction Company Limited ("Yee Fai") (a wholly-owned subsidiary of SHKP) entered into a building contract in which KTRE and TRL have engaged Yee Fai to carry out and complete the building works involving the construction of a commercial building at the Kwun Tong Site (the "Building Contract"). KTRE and TRL shall pay to Yee Fai, in equal shares, the contract sum of HK$4,436,057,000 (i.e. HK$2,218,028,500 each), subject to adjustments in accordance with the Building Contract. No outstanding balance payable for this contract as at 31 December 2018.

(vii) During the year, the Group provided advertising services to certain subsidiaries of SHKP, a substantial shareholder of the Company. The amounts received and receivable for these advertising services amounted to $5,849,000 (2017: $556,000). Outstanding balances due from these companies at 31 December 2018 amounted to $48,000 (2017: $Nil).

(b) Key management personnel remuneration

Remuneration for key management personnel represents amounts paid to the Company's Directors as disclosed in note 7.

32 Material related party transactions (continued)

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions as described in notes 32(a)(i) and 32(a)(iii) above constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company has complied with the reporting requirements under Chapter 14A of the Listing Rules by including the relevant disclosures in the section headed "Connected Transactions and Continuing Connected Transactions" under "Financial Review" on pages 83 to 85 of this Annual Report.

The related party transactions as described in note 32(a)(ii) above, in which the relevant SHKP Group companies acted as agents for collection of the coach service fees, did not fall within the definition of connected transactions of the Company under Chapter 14A of the Listing Rules.

The related party transactions as described in notes 32(a)(iv) and 32(a)(vii) above constitute continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules. However, they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules pursuant to Rule 14A.76.

The related party transaction as described in note 32(a)(v) above constitutes connected transaction of the Company as defined in Chapter 14A of the Listing Rules. The relevant reporting requirements pursuant to Chapter 14A of the Listing Rules have been complied with by including disclosures in the Company's annual report published immediately following the entering into of such transaction. No transaction amount in respect of that transaction has been incurred during the year ended 31 December 2018.

The related party transaction as described in note 32(a)(vi) above constitutes connected transaction of the Company as defined in Chapter 14A of the Listing Rules. The Company has complied with the reporting requirements under Chapter 14A of the Listing Rules by including the relevant disclosures in the section headed "Connected Transactions and Continuing Connected Transactions" under "Financial Review" on pages 83 to 85 of this Annual Report. No transaction amount in respect of that transaction has been incurred during the year ended 31 December 2018.

33 Discontinued operations

On 26 October 2017, the Group entered into a Sale and Purchase Agreement with an independent third party, Bliss Chance Global Limited, to dispose of its entire 73% equity interest in RoadShow and its subsidiaries at a total consideration of $795,809,000. As such, a net gain on disposal of $439,585,000 was recognised in profit or loss for the year ended 31 December 2017. The transaction was completed on 27 October 2017.

The disposed businesses related to the provision of media sales services. Upon completion of the disposal, the principal business of the Group has become the operation of both franchised and non-franchised public transportation and property holdings and development. As the disposed businesses are considered as separate major lines of businesses, the corresponding operations have been classified as discontinued operations as a result of the completion of such disposal.

The carrying amounts of assets and liabilities as at 27 October 2017, the disposal date, were as follows:

	$'000
Other property, plant and equipment	**11,911**
Non-current prepayments	**1,085**
Deferred tax assets	**7,733**
Accounts receivable	**88,597**
Deposits and prepayments	**11,599**
Current tax recoverable	**1,914**
Pledged and restricted bank deposits	**98,248**
Bank deposits and cash	**344,267**
Accounts payable and accruals	**(74,153)**
Current tax payable	**(290)**
Deferred tax liabilities	**(105)**
Net assets disposed of	**490,806**
Less: non-controlling interests	**(138,520)**
Net assets disposed of attributable to the equity shareholders of the Company	**352,286**
Less: consideration	**(795,809)**
Other costs directly attributable to the disposal	**13,479**
	(430,044)
Release of exchange reserve upon disposal of subsidiaries	**(9,541)**
Net gain on disposal of subsidiaries	**(439,585)**

33 Discontinued operations (continued)

The result of these discontinued operations for the period from 1 January 2017 to 27 October 2017 is set out below:

	Period from 1 January 2017 to 27 October 2017 $'000
Revenue	285,705
Other income	12,632
Staff costs	(52,799)
Depreciation and amortisation	(3,909)
Other operating expenses	(259,372)
Loss from operations	(17,743)
Impairment loss on trade and other receivables	(1,812)
Reversal of provision for onerous contracts	13,259
Loss before taxation	(6,296)
Income tax	(4,319)
Loss after tax from discontinued operations	(10,615)
Net gain on disposal of subsidiaries	439,585
Profit for the period from discontinued operations	428,970
Attributable to:	
Equity shareholders of the Company	432,563
Non-controlling interests	(3,593)
Profit for the period from discontinued operations	428,970
Cash flow	
Operating cash outflows	(44,241)
Investing cash inflows	172,711
Net cash inflows	128,470

34 Company-level statement of financial position

	Note	2018 $'000	2017 $'000
Non-current assets			
Investments in subsidiaries		**1,194,345**	1,193,491
Deferred tax assets		**535**	598
		1,194,880	1,194,089
Current assets			
Deposits and prepayments		**188**	398
Amounts due from subsidiaries		**8,567,384**	7,936,914
Other receivables		**–**	1,032
Bank deposits and cash		**3,668**	6,817
		8,571,240	7,945,161
Current liabilities			
Accounts payable and accruals		**11,207**	18,400
Amounts due to subsidiaries		**6,319,156**	5,966,924
		6,330,363	5,985,324
Net current assets		**2,240,877**	1,959,837
NET ASSETS		**3,435,757**	3,153,926
CAPITAL AND RESERVES	28(a)		
Share capital		**434,597**	422,456
Reserves		**3,001,160**	2,731,470
TOTAL EQUITY		**3,435,757**	3,153,926

Approved and authorised for issue by the Board of Directors on 21 March 2019

Norman LEUNG Nai Pang
Chairman

Roger LEE Chak Cheong
Managing Director

(Expressed in Hong Kong dollars unless otherwise indicated)

35 Non-adjusting event after the reporting period

(a) Proposal of a final dividend

After the end of the reporting period, the Directors proposed a final dividend for the year. Further details are disclosed in note 11(a) to the financial statements.

(b) Approval of the Building Contract of Kwun Tong Site

On 20 December 2018, KTRE (a wholly-owned subsidiary of the Company), TRL (a wholly-owned subsidiary of SHKP) and Yee Fai (a wholly-owned subsidiary of SHKP) entered into the Building Contract in which KTRE and TRL have engaged Yee Fai to carry out and complete the building works involving the construction of a commercial building at Kwun Tong Site. KTRE and TRL shall pay to Yee Fai, in equal shares, the contract sum of $4,436,057,000 (i.e. $2,218,028,500 each), subject to adjustments in accordance with the Building Contract. The Building Contract was approved by independent shareholders at the special general meeting of the Company held on 1 February 2019.

36 Comparative figures

The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

Certain comparative figures have been reclassified to conform with the presentation of the current year, which management consider would better facilitate analysis of the financial information and better reflect the Group's financial performance. Such reclassification has no impact on the Group's prior year overall results and net assets.

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (continued)

HKFRS 16, *Leases*

As disclosed in note 1(l), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group has decided to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group has decided to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group has decided to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 29(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to $4,286,000 for properties, which are payable after 1 year but within 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the recognition of interest expense on the lease liability and depreciation charge for the right-of-use asset is not expected to have material impact on the Group's consolidated statement of profit or loss.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

Financial Summary

for the year ended 31 December
(Expressed in Hong Kong dollars)

	2018 $'M Note (c)	2017 $'M	2016 $'M (Restated) Note (b)	2015 $'M	2014 $'M	2013 $'M	2012 $'M (Restated) Note (a)	2011 $'M (Restated) Note (a)	2010 $'M	2009 $'M
Statement of profit or loss										
Continuing operations										
Revenue	**8,009**	7,888	7,744	7,780	7,557	7,420	7,181	6,948	6,687	6,842
Profit before taxation	**837**	1,008	1,016	747	508	458	197	275	931	800
Income tax (expense)/credit	**(117)**	(148)	(150)	(128)	(69)	(55)	(6)	48	(75)	(118)
Profit for the year from continuing operations	**720**	860	866	–	–	–	–	–	–	–
Discontinued operations										
Profit/(loss) for the year from discontinued operations	**–**	429	(42)	–	–	–	–	–	–	–
Profit for the year	**720**	1,289	824	619	439	403	191	323	856	682
Non-controlling interests	**–**	6	7	10	(24)	(32)	(25)	8	11	(9)
Profit attributable to equity shareholders of the Company	**720**	1,295	831	629	415	371	166	331	867	673
Statement of financial position										
Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment	**9,841**	9,261	8,875	6,133	4,817	4,487	3,852	4,121	4,276	4,100
Intangible assets	**361**	132	132	132	135	132	132	44	23	22
Goodwill	**84**	84	84	84	84	84	84	63	63	63
Non-current prepayments	**–**	–	2	15	7	12	4	2	44	19
Interest in associates	**611**	625	602	634	740	724	672	668	640	612
Other financial assets	**1,709**	1,493	1,207	112	183	229	591	472	636	334
Employee benefit assets	**913**	1,287	626	577	861	1,018	326	263	790	716
Net current assets	**711**	438	377	1,321	2,112	2,009	2,226	2,280	1,763	2,455
Employment of funds	**14,230**	13,320	11,905	9,008	8,939	8,695	7,887	7,913	8,235	8,321
Financed by:										
Share capital	**435**	422	412	404	404	404	404	404	404	404
Reserves	**9,761**	9,120	7,414	6,804	6,793	6,704	5,832	5,668	6,334	6,385
Total equity attributable to equity shareholders of the Company	**10,196**	9,542	7,826	7,208	7,197	7,108	6,236	6,072	6,738	6,789
Non-controlling interests	**–**	–	146	154	190	192	185	182	205	229
Total equity	**10,196**	9,542	7,972	7,362	7,387	7,300	6,421	6,254	6,943	7,018
Contingency provision – insurance	**241**	285	253	251	274	298	311	310	300	305
Long-term bank loans	**2,625**	2,353	2,724	589	545	399	598	798	470	470
Employee benefit liabilities	**3**	–	9	9	6	–	–	–	–	–
Other liabilities	**1,165**	1,140	947	797	727	698	557	551	522	528
Funds employed	**14,230**	13,320	11,905	9,008	8,939	8,695	7,887	7,913	8,235	8,321
Earnings/(loss) per share ($)	**1.68**	3.11	2.04	1.56	1.03	0.92	0.41	0.82	2.15	1.67
– From continuing operations	**1.68**	2.07	2.12	–	–	–	–	–	–	–
– From discontinued operations	**–**	1.04	(0.08)	–	–	–	–	–	–	–
Dividends per share ($)	**1.20**	1.25	1.25	1.20	0.90	0.60	0.60	0.60	1.35	2.35
Total assets per share ($)	**35.46**	34.69	32.34	27.42	25.28	25.36	23.19	22.78	24.01	24.71
Net assets per share ($)	**23.46**	22.59	19.36	18.24	18.30	18.09	15.91	15.49	17.20	17.39

Notes:

(a) In order to comply with Revised Hong Kong Accounting Standards 19, *Employee benefits*, that is effective for accounting period beginning on 1 January 2013, the Group adopted new accounting policies for defined benefit plans. Figures for the years 2011 and 2012 have been adjusted and it is not practicable to restate earlier years for comparison purposes.

(b) The disposal of RoadShow in 2017 constituted a discontinued operation. In accordance with HKFRS 5, *Non-current assets held for sale and discontinued operations*, the Group has re-presented the comparative information in 2016 in this regard.

(c) The Group has initially applied HKFRS 9, *Financial instruments*, at 1 January 2018. Under the transition method chosen, comparative information is not restated.

Corporate Directory

BOARD OF DIRECTORS

Dr Norman LEUNG Nai Pang*
GBS, JP, LLD, BA
Chairman

Dr John CHAN Cho Chak*
GBS, JP, DBA(Hon), DSocSc(Hon), BA, DipMS, CCMI, FCILT, FHKIoD
Deputy Chairman

Raymond KWOK Ping Luen^
JP, MA(Cantab), MBA, Hon DBA, Hon LLD

NG Siu Chan^

William LOUEY Lai Kuen^
BSc(Econ)

Charles LUI Chung Yuen^
M.H., BEc, AASA, FCILT

Winnie NG^
JP, BA, MBA(Chicago), MPA(Harvard), FCIM, CMILT, MHKIoD
(Non-executive Director and Alternate Director to Mr NG Siu Chan^)

Dr Eric LI Ka Cheung*
GBS, OBE, JP, LLD, DSocSc, Hon DSocSc(EdUHK), BA, FCPA(Practising), FCA, FCPA(Aust.), FCIS

Professor LIU Pak Wai*
SBS, JP

Allen FUNG Yuk Lun^
BA, Ph.D.

Roger LEE Chak Cheong
BSc, MSc, MICE, CEng
Managing Director

TSANG Wai Hung*
GBS, PDSM, JP, MBA

Dr CHEUNG Wing Yui^
BBS, BCom, Hon DBA, CPA (Aust.)

LEE Luen Fai^
JP, BA

LUNG Po Kwan^
BSocSc, MSocSc(Economics), MBA, CFA

Susanna WONG Sze Lai
(Alternate Director to Mr Raymond KWOK Ping Luen, JP^)

GAO Feng
(Alternate Director to Mr William LOUEY Lai Kuen^)

BOARD COMMITTEES

Audit and Risk Management Committee

Dr Eric LI Ka Cheung#
Professor LIU Pak Wai
Allen FUNG Yuk Lun
TSANG Wai Hung

Nomination Committee

Dr John CHAN Cho Chak#
Dr Eric LI Ka Cheung
Allen FUNG Yuk Lun

Remuneration Committee

Dr John CHAN Cho Chak#
Dr Eric LI Ka Cheung
Professor LIU Pak Wai
Winnie NG

Standing Committee

Dr Norman LEUNG Nai Pang#
Dr John CHAN Cho Chak
Raymond KWOK Ping Luen
Charles LUI Chung Yuen
Winnie NG
Roger LEE Chak Cheong
William LOUEY Lai Kuen
TSANG Wai Hung

COMPANY SECRETARY

Lana WOO
BA, MBA, FCIS, FCS (PE), CPA (Canada), CGA

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

PRINCIPAL OFFICE

15/F, 9 Po Lun Street, Lai Chi Kok
Kowloon, Hong Kong
Telephone: (852) 2786 8888
Facsimile: (852) 2745 0300
Website: www.tih.hk
E-mail: director@tih.hk

AUDITOR

KPMG
8/F, Prince's Building, 10 Chater Road
Central, Hong Kong

REGISTRARS

Hong Kong

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

Bermuda

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

REGISTER OF MEMBERS

Book closure for 2019 AGM:
10 May 2019 to 16 May 2019
(both dates inclusive)

Book closure for 2018 final dividend:
22 May 2019

DIVIDENDS

Interim

HK$0.30 per share,
paid on 16 October 2018

Final (proposed)

HK$0.90 per share,
payable on 27 June 2019

STOCK CODE

The Stock Exchange of Hong Kong: 62
Bloomberg: 62HK
Reuters: 0062.HK

CUSTOMER SERVICE HOTLINES

The Kowloon Motor Bus Company (1933) Limited
Telephone: (852) 2745 4466
Facsimile: (852) 2745 0600

Long Win Bus Company Limited
Telephone: (852) 2261 2791

Sun Bus Limited
Telephone: (852) 2371 2666

(* Independent Non-executive Director of the Company)
(^ Non-executive Director of the Company)
(# Committee Chairman)

This Annual Report is also available on our corporate website: www.tih.hk

載通國際
Transport International

Transport International Holdings Limited

15/F, 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong
Telephone : (852) 2786 8888
Facsimile : (852) 2745 0300
www.tih.hk

Stock Code: 62

MIX
Paper from responsible sources
FSC™ C021898
www.fsc.org

Design and Production by: Toppan Merrill Limited
Website: www.toppanmerrill.com