

Chairman's Letter

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Norman LEUNG Nai Pang

Chairman



Dear Shareholders and Partners,

I am happy to announce, on behalf of the Board of Directors, that for the year ended 31 December 2017, the Group's profit attributable to equity shareholders was HK\$1,294.8 million, an increase of 55.8% compared to HK\$830.9 million for 2016.

Excluding the one off non-recurring capital gain earned by the sale of shares in RoadShow Holdings Limited ("RoadShow"), which was HK\$439.6 million, the profit attributable to shareholders was HK\$855.2 million. The profit for last year was HK\$830.9 million.

Dividends

The Board of Directors has proposed an ordinary final dividend of HK\$0.90 per share to be paid on 29 June 2018. Together with the ordinary interim dividend of HK\$0.35 per share paid on 17 October 2017, the total dividend for the year will be HK\$1.25 per share.

Financial Performance in 2017

KMB's profit after taxation was HK\$610.1 million, representing a decrease of HK\$7.6 million compared with HK\$617.7 million for 2016. A rise in international fuel prices caused an increase in fuel costs of HK\$126.8 million, or 20%, compared with 2016. Following the upgrade of the bus fleet, the enhancement of the efficiency and competitiveness of the bus network and the improvement in bus service reliability, the ridership of KMB increased by 1.6% compared with 2016.

As for Long Win Bus Company Limited ("LWB"), profit after taxation for 2017 was HK\$42.2 million, while the profit for last year was HK\$31.2 million. With LWB continuing to enhance bus services and offering concessionary fare discounts, the year-on-year passenger growth increased by 4.8%.

In order to enhance its customer service, KMB continued to make substantial investments in new buses with the latest safety, environmental and design features. In 2017, a total of 412 new super-low floor air-conditioned buses, comprising 400 Euro V double-deck buses, one Euro VI double-deck bus and 11 Euro V single-deck buses, were added to the KMB fleet.

The Group's Non-franchised Transport Division, with Sun Bus Limited as its flagship company, recorded a revenue increase of 4.8% compared with 2016. In respect of our China Mainland Transport Operations Division, our joint ventures in Beijing and Shenzhen continued to record positive results in 2017.

In 2017, the Group obtained a one-off gain of HK\$439.6 million from the sale of shares in RoadShow.

Design and Innovation

With a new ten-year franchise taking effect from July 2017, KMB launched a striking new red bus fleet, whose ergonomic design and spacious interior featuring USB chargers and a free Wi-Fi service are designed to create a warmer atmosphere for our passengers.

The Group continues to make innovations in terms of operations and customer service. The engineering team at KMB developed its own solar power system for a double-deck bus, which not only drives the air ventilation system and provides electricity supply to certain facilities but also reduces diesel consumption. KMB has put on trial a new facility, the "Upper Seat Availability Display System", which invites passengers to go to the upper deck and make full use of the capacity of each bus in comfort. I am proud of the various means by which the Group uses new technology to upgrade its operational efficiency and service level.

Expanded Network

In 2017, KMB and LWB made further developments in their overnight bus services by introducing new overnight bus routes for the convenience of passengers working late or enjoying an evening out. To make our bus services even more attractive to the public, KMB launched a number of innovative fare concession schemes, including partnering with HK Tramways and AMS to offer special inter-modal interchange discounts, enabling KMB's bus network to reach more people from different districts. For its part, LWB introduced a Pre-paid Group Ticket Scheme and a Fare Concession Scheme.

The Group implemented a new business promotion initiative by partnering with a well-known credit card company to offer to their cardholders a year-round 10% bus fare rebate for using the card, thereby enabling more passengers to experience the services of our two franchised bus companies.

Care for Employees

Quality staff play a crucial role in maintaining the vitality of the Group. In 2017, the Group continued to improve on staff welfare benefits such as extending the number of paid leave days for marriage leave and compassionate leave to all full-time employees as well as extending medical benefits to their families.

The Group made awards of scholarships to employees' children for the third consecutive year, nurturing talents for the future and fostering a sense of belonging among our staff. It is encouraging to see our young people performing well in academic, sporting, artistic and community service fields.

Social Responsibility

The Group cherishes its relationship with the community and lends full support to community service development. In 2017, KMB launched the "Donation of Used and Retired Bus Programme", which enables schools and non-governmental organisations to make use of our retired single-deck or double-deck buses to promote educational or other meaningful projects. Some schools have benefited from regenerating retired buses into learning centres and libraries.

2017 was a year of firsts for the Group, as we opened a stall at the Lunar New Year Fair and exhibited at the Hong Kong Book Fair. With the help of our volunteer club, FRIENDS OF KMB, the Group also shared festive greetings and seasonal gifts with senior citizens across Hong Kong Island, Kowloon and the New Territories at Lunar New Year, Dragon Boat Festival and Mid-Autumn Festival.

The Group contributed to environmental preservation by investing in a Euro VI diesel double-deck bus and twenty electric vehicles to reduce exhaust emissions. Our strong commitment to social responsibility was further evidenced by KMB's in-house developed double-decker with a solar power system and the installation at around 600 bus stops of solar panels to provide electric power for lights and mosquito repelling devices.

Challenges and Opportunities

The uncertainties of the local and global economy mean that the Group faces both challenges and opportunities. After an easing in price levels in 2016, fuel prices rose again in 2017, with concomitant constraints on the Group's operations. Traffic congestion in Hong Kong continues to get worse, potentially undermining the stability of road-based public transport services.

On the other hand, the planned development of new towns in the northern New Territories, including Hung Shui Kiu, and land reclamation off Tung Chung East are set to provide economic growth impetus for Hong Kong and business opportunities for the Group. A number of large-scale infrastructure projects also provide potential for growth, such as the Hong Kong-Zhuhai-Macao Bridge, linking Hong Kong with Macao and China Mainland. Increased commerce and trade is likely to bring opportunities for the Group, with potential benefits to shareholders.

Safety First

I am very sad to report that on 10 February 2018, a double-deck bus operated by KMB on Route 872 toppled over on Tai Po Road at the Tai Po Mei Village Access, causing the death of 19 passengers and injuries to another 65 people. The Group deeply regrets this very unfortunate incident and shares the grief of those who have suffered from it. We responded immediately with compassion and responsibility and spared no effort in offering assistance and comfort to the aggrieved families.

An internal three-member Special Committee was set up to investigate the incident and to come up with recommendations to provide greater assurance for passenger safety. The Special Committee had extensive discussions with KMB management, with representatives of staff unions and with major bus manufacturers. Recommendations were made in relation to the recruitment, training and performance management of Bus Captains, as well as their remuneration and working conditions and access to psychological support. Recommendations were also made for enhancement of safety features in buses. These recommendations have been submitted to the Commissioner for Transport and are being followed up by KMB management with a view to implementation as early as possible.

Acknowledgements

Our continued success depends on everyone in the Group working together as a team to serve our customers. I would therefore like to express my sincere thanks to every member of the Board, every staff member of the Group, our suppliers, and our passengers who patronise our services.

Norman LEUNG Nai Pang

Chairman

22 March 2018