

# Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 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 2016 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 certain 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.

### (c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

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

## 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 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)(ii)).

## 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). 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)). 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 the Group's 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)(ii)).

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 initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities which are not held for trading are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. 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)).

Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the accounting policies set out in notes 1(u)(v) and 1(u)(iv) respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When these investments are derecognised or impaired (see note 1(n)(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

## 1 Significant accounting policies (continued)

### (h) Derivative financial instruments

Derivative financial instruments are recognised initially 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)).

### (i) Cash flow hedges

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 gains or losses on remeasurement of the derivative financial instrument to fair value are 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 of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two accounting policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above accounting policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss 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)(ii)). 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)(ii)).

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.

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 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)(ii). All of the Group's leasehold land classified as held under finance lease has been fully paid.

#### (ii) Operating lease charges

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)(ii)).

#### (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) Impairment of assets

#### (i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty 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 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.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates accounted for under equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with the accounting policies set out in note 1(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with the accounting policies set out in note 1(n)(ii).
- 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) Impairment of assets (continued)

#### (i) Impairment of investments in debt and equity securities and other receivables (continued)

- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are 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 decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the financial asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale debt securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is 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 in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of accounts receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against accounts receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 1 Significant accounting policies (continued)

### (n) Impairment of assets (continued)

#### (ii) Impairment of other 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; 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).

#### – 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.

## 1 Significant accounting policies (continued)

### (n) Impairment of assets (continued)

#### (iii) Interim financial reporting and impairment

Under the Listing Rules, 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 and unquoted equity securities carried at cost 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) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (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 impairment of doubtful debts.

### (q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (s) Cash and cash equivalents

Cash and cash equivalents 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.

## 1 Significant accounting policies (continued)

### (t) Financial guarantees issued, provisions and contingent liabilities

#### (i) 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.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference 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 on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(t)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

#### (ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with the accounting policies set out in note 1(t)(iii).

Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with the accounting policies set out in note 1(t)(iii).

#### (iii) Other 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.

## 1 Significant accounting policies (continued)

### (u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss 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.
- (iv) Interest income is recognised as it accrues using the effective interest method.
- (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.

## 1 Significant accounting policies (continued)

### (w) Translation of foreign currencies (continued)

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. 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.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the average foreign exchange rates for the year. 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 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) 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.

### (aa) 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 estimates and judgements

Notes 15, 20(f), 21(c) and 31(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) Impairment of 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 26, 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, property holdings and development and the provision of media sales services.

The amount of each significant category of revenue is as follows:

	2016 \$'000	2015 \$'000
Fare revenue from franchised public bus services	7,109,812	6,972,748
Revenue from non-franchised transport services	346,350	349,628
Media sales revenue	417,335	418,675
Gross rentals from investment properties	62,984	38,879
	<b>7,936,481</b>	<b>7,779,930</b>

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

	2016 \$'000	2015 \$'000
Interest income on other financial assets not at fair value through profit or loss	60,195	55,133
Dividend income from equity securities	34,720	31,000
Net movement in balance of passenger rewards (note (a))	(32,792)	(66,901)
Claims received	35,911	52,029
Net miscellaneous business receipts	5,141	9,226
Net gain on disposal of property, plant and equipment	8,469	1,745
Available-for-sale debt securities: reclassified from equity on maturity (note 9)	(9)	11
Government subsidies (note (b))	6,334	29,351
Net foreign exchange loss	(14,054)	(49,643)
Sundry revenue	24,530	16,987
	<b>128,445</b>	<b>78,938</b>

Notes:

- 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 rewards, 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 2016 and 2015 was 9.7% per annum. The balance of passenger rewards of the Group as at 31 December 2016, included in accounts payable and accruals (note 25), was \$109,134,000 (2015: \$76,150,000).
- In 2016, subsidies totalling \$6,334,000 (2015: \$29,351,000) 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):

	2016 \$'000	2015 \$'000
<b>(a) Staff costs</b>		
Defined benefit retirement plan expense (note 20(e))	99,484	96,243
Contributions to defined contribution retirement plans	123,144	114,874
Movements in provision for long service payments (note 28)	4,636	2,222
Total retirement cost	227,264	213,339
Equity-settled share-based payment expenses (note 21)	990	–
Salaries, wages and other benefits	3,726,162	3,633,582
	3,954,416	3,846,921
<b>(b) Finance costs</b>		
Total interest on bank loans not at fair value through profit or loss	22,538	9,674
Less: Interest expense capitalised into investment property under development*	(4,750)	–
	17,788	9,674
* The borrowing costs have been capitalised at the average interest rate of 1.50% per annum (2015: Nil).		
<b>(c) Rentals received and receivable from investment properties</b>		
Gross rentals (note)	(62,984)	(38,879)
Less: direct outgoings	16,571	10,896
	(46,413)	(27,983)
Note: Included contingent rental income of \$7,000 (2015: \$60,000).		
<b>(d) Other items</b>		
Amortisation of intangible assets	62	775
Amortisation of land lease premium	2,012	2,012
Depreciation	879,354	832,210
Impairment loss on trade and other receivables (note 22(b))		
– recognised	3,690	13,164
– written-back	–	(19)
Impairment loss on other property, plant and equipment (note 13(g))	22,910	–
Impairment loss on intangible assets (note 14)	217	2,895
Write-back of spare parts and stores	(3,228)	(1,452)
Operating lease charges: minimum lease payments	34,031	42,795
Auditors' remuneration		
– audit services	6,335	6,208
– other services	1,640	1,909

## 6 Income tax in the consolidated statement of profit or loss

### (a) Taxation in the consolidated statement of profit or loss represents:

	2016 \$'000	2015 \$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	20,841	19,981
Under-provision in respect of prior years	360	137
	21,201	20,118
<b>Current tax – The People's Republic of China ("PRC") Income Tax</b>		
Provision for the year	621	406
Under-provision in respect of prior years	26	57
	647	463
<b>PRC withholding tax</b>	1,452	1,776
	23,300	22,357
<b>Deferred tax</b>		
Origination and reversal of temporary differences	126,790	105,718
	150,090	128,075

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 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:

	2016 \$'000	2015 \$'000
Profit before taxation	974,406	746,943
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	162,353	120,555
Tax effect of non-deductible expenses	10,231	20,009
Tax effect of non-taxable income	(25,115)	(23,374)
Tax effect of unused tax losses not recognised	3,169	9,938
Under-provision in prior years	386	194
Tax effect of utilisation of unused tax losses not recognised in prior years	(58)	–
Tax effect of recognition of unused tax losses not recognised in prior years	–	(608)
Others	(876)	1,361
Actual tax expense	150,090	128,075

## 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:

		2016						Total \$'000	
		Note	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total		Share-based payment (note (h))
			\$'000	\$'000	\$'000	\$'000	\$'000		\$'000
Executive Directors									
Roger Lee Chak Cheong	(a) & (c)	324	5,344	800	307	6,775	170	6,945	
Evan Au Yang Chi Chun	(a) & (g)	53	1,069	–	53	1,175	–	1,175	
Non-executive Directors									
Raymond Kwok Ping Luen	(a) & (b)	576	–	–	–	576	–	576	
Ng Siu Chan		324	–	–	–	324	–	324	
Charles Lui Chung Yuen		374	673	–	–	1,047	–	1,047	
William Louey Lai Kuen		324	–	–	–	324	–	324	
Winnie Ng		(a)	807	–	–	–	807	–	807
Edmond Ho Tat Man		(d)	324	–	–	–	324	–	324
John Anthony Miller		(a)	679	–	–	–	679	–	679
Allen Fung Yuk Lun		(a)	456	–	–	–	456	–	456
Susanna Wong Sze Lai		(f)	–	–	–	–	–	–	–
Independent Non-executive Directors									
Dr Norman Leung Nai Pang	(a)	1,806	–	–	–	1,806	–	1,806	
Dr John Chan Cho Chak		870	–	–	–	870	–	870	
Dr Eric Li Ka Cheung		(a)	924	–	–	–	924	–	924
Gordon Siu Kwing Chue		564	–	–	–	564	–	564	
Professor Liu Pak Wai		384	–	–	–	384	–	384	
		8,789	7,086	800	360	17,035	170	17,205	

## 7 Directors' emoluments (continued)

		2015				
	Note	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	Total \$'000
<b>Executive Directors</b>						
Charles Lui Chung Yuen	(a) & (b)	288	840	—	—	1,128
Roger Lee Chak Cheong	(a) & (c)	288	5,117	700	256	6,361
Evan Au Yang Chi Chun	(a) & (g)	288	4,691	600	235	5,814
<b>Non-executive Directors</b>						
Raymond Kwok Ping Luen		540	—	—	—	540
Ng Siu Chan		288	—	—	—	288
William Louey Lai Kuen		288	—	—	—	288
Winnie Ng	(a)	771	—	—	—	771
Edmond Ho Tat Man	(d)	288	—	—	—	288
John Anthony Miller	(a)	570	—	—	—	570
Allen Fung Yuk Lun	(a)	420	—	—	—	420
Godwin So Wai Kei	(e)	—	—	—	—	—
Susanna Wong Sze Lai	(f)	—	—	—	—	—
<b>Independent Non-executive Directors</b>						
Dr Norman Leung Nai Pang		756	—	—	—	756
Dr John Chan Cho Chak	(a)	834	—	—	—	834
Dr Eric Li Ka Cheung	(a)	857	—	—	—	857
Gordon Siu Kwing Chue		498	—	—	—	498
Professor Liu Pak Wai		348	—	—	—	348
		7,322	10,648	1,300	491	19,761

Notes:

- (a) The amounts included emoluments from the Company and certain of its subsidiaries.
- (b) Mr Charles Lui Chung Yuen retired from the position of Executive Director on 20 October 2016 and was re-designated as a Non-executive Director on 20 October 2016.
- (c) Mr Roger Lee Chak Cheong took up the position of Managing Director on 1 January 2015.
- (d) Mr Edmond Ho Tat Man retired from the position of Managing Director on 1 January 2015 and was re-designated as a Non-executive Director on 1 January 2015.
- (e) Mr Godwin So Wai Kei was appointed as Alternate Director to Mr Raymond Kwok Ping Luen for the period from 3 March 2014 to 30 November 2015.
- (f) Ms Susanna Wong Sze Lai was appointed as Alternate Director to Mr Raymond Kwok Ping Luen with effect from 1 December 2015.
- (g) Mr Evan Au Yang Chi Chun resigned on 1 March 2016.
- (h) 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 21.

## 8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2015: two) 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:

	2016 \$'000	2015 \$'000
Fees	324	576
Salaries, allowances and benefits in kind	20,224	19,789
Discretionary bonuses	800	1,300
Equity-settled share-based payment expenses	493	–
Retirement scheme contributions	726	839
	<b>22,567</b>	<b>22,504</b>

The emoluments of the five individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2016	2015
\$3,000,001 – \$3,500,000	2	2
\$4,000,001 – \$4,500,000	1	1
\$4,500,001 – \$5,000,000	1	–
\$5,500,001 – \$6,000,000	–	1
\$6,000,001 – \$6,500,000	–	1
\$6,500,001 – \$7,000,000	1	–

## 9 Other comprehensive income

	2016 \$'000	2015 \$'000
<b>Available-for-sale debt securities:</b>		
Change in fair value recognised during the year	(7,657)	1,329
Reclassification adjustment for amount transferred to profit or loss on maturity (note 4)	(9)	11
	<b>(7,666)</b>	<b>1,340</b>



## 10 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of \$830,873,000 (2015: \$628,711,000) and the weighted average number of shares in issue during the year, calculated as follows:

	2016	2015
Issued shares at 1 January	403,639,413	403,639,413
Effect of shares issued in respect of scrip dividend	3,134,082	—
Weighted average number of shares at 31 December	406,773,495	403,639,413

### (b) Diluted earnings per share

The diluted earnings per share for the year ended 31 December 2016 is the same as basic earnings per share as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

There were no dilutive potential ordinary shares for the year ended 31 December 2015 and diluted earnings per share is the same as basic earnings per share.

## 11 Dividends

### (a) Dividends paid/payable to equity shareholders of the Company attributable to the year

	2016		2015	
	Per share \$	Total \$'000	Per share \$	Total \$'000
Interim dividend declared and paid	0.35	143,168	0.30	121,092
Final dividend proposed after the end of the reporting period	0.90	370,512	0.90	363,275
	1.25	513,680	1.20	484,367

The final dividend proposed after the end of the reporting period has not been recognised as liability at the end of the reporting period.

The interim dividend with a scrip dividend alternative in respect of the six months period ended 30 June 2016 was paid on 18 October 2016, of which \$62,387,000 was settled by the issuance of 2,628,991 shares at an issue price of \$23.73 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

	2016		2015	
	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	363,275	0.75	302,730

The final dividend with a scrip dividend alternative in respect of the year ended 31 December 2015 was paid on 8 July 2016, of which \$108,458,000 was settled by the issuance of 5,412,095 shares at an issue price of \$20.04 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.

Media sales business: 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.

Property holdings and development: The holding and development of non-residential property for the use as investment property.

For the year ended 31 December 2015, property holdings and development did not meet the quantitative thresholds prescribed by HKFRS 8, *Operating segments* to qualify as a reportable segment, and was included in "all other segments". As a result of the additions of investment property under development in 2016, property holdings and development qualifies as a reportable segment in 2016. Comparatives have been restated to disclose the segment separately from "all other segments" as a reportable segment in 2015.

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.

Information regarding the Group's reportable segments for the years ended 31 December 2016 and 2015 is set out below.

	Franchised bus operation		Media sales business		Property holdings and development		All other segments		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	7,125,790	6,982,263	407,511	411,946	60,466	38,712	342,714	347,009	7,936,481	7,779,930
Inter-segment revenue	169,029	180,086	–	–	10,745	20,385	55,301	69,183	235,075	269,654
<b>Reportable segment revenue</b>	<b>7,294,819</b>	<b>7,162,349</b>	<b>407,511</b>	<b>411,946</b>	<b>71,211</b>	<b>59,097</b>	<b>398,015</b>	<b>416,192</b>	<b>8,171,556</b>	<b>8,049,584</b>
<b>Reportable segment profit/(loss)</b>	<b>648,892</b>	<b>545,275</b>	<b>(42,124)</b>	<b>(46,029)</b>	<b>45,588</b>	<b>23,724</b>	<b>81,983</b>	<b>78,952</b>	<b>734,339</b>	<b>601,922</b>
Interest income	117	125	3,815	4,998	–	–	–	3,096	3,932	8,219
Interest expense	(17,788)	(9,674)	–	–	–	–	–	–	(17,788)	(9,674)
Depreciation and amortisation for the year	(833,402)	(773,322)	(15,241)	(16,014)	(6,465)	(23,030)	(26,320)	(22,631)	(881,428)	(834,997)
Provision of impairment loss on trade and other receivables	(1,104)	–	(2,421)	(13,137)	–	–	(165)	(8)	(3,690)	(13,145)
Impairment loss on intangible assets	–	–	(217)	(2,895)	–	–	–	–	(217)	(2,895)
Impairment loss on other property, plant and equipment	–	–	(22,910)	–	–	–	–	–	(22,910)	–
Staff costs	(3,744,065)	(3,634,488)	(66,010)	(77,806)	–	–	(132,939)	(126,093)	(3,943,014)	(3,838,387)
Share of profits of associates	–	–	–	–	–	–	30,847	32,357	30,847	32,357
Income tax expense	(127,879)	(109,497)	(24)	(4,892)	(9,242)	(7,765)	(12,945)	(6,226)	(150,090)	(128,380)
<b>Reportable segment assets</b>	<b>7,680,474</b>	<b>6,913,429</b>	<b>617,630</b>	<b>687,354</b>	<b>2,319,280</b>	<b>154,021</b>	<b>1,300,842</b>	<b>1,290,574</b>	<b>11,918,226</b>	<b>9,045,378</b>
– including interest in associates	–	–	–	–	–	–	601,557	634,363	601,557	634,363
Additions to non-current segment assets during the year	1,405,057	2,117,257	19,988	8,061	2,165,135	10,914	57,363	29,425	3,647,543	2,165,657
<b>Reportable segment liabilities</b>	<b>3,552,478</b>	<b>3,379,811</b>	<b>116,796</b>	<b>141,781</b>	<b>1,528,559</b>	<b>33,079</b>	<b>128,047</b>	<b>108,368</b>	<b>5,325,880</b>	<b>3,663,039</b>

## 12 Segment reporting (continued)

### (b) Reconciliation of reportable segment revenue, profit, assets and liabilities

	2016 \$'000	2015 \$'000
<b>Revenue</b>		
Reportable segment revenue	7,773,541	7,633,392
Revenue from all other segments	398,015	416,192
Elimination of inter-segment revenue	(235,075)	(269,654)
Consolidated revenue	7,936,481	7,779,930
<b>Profit</b>		
Reportable segment profit	652,356	522,970
Profit from all other segments	81,983	78,952
Unallocated profits	89,977	16,946
Consolidated profit after taxation	824,316	618,868
<b>Assets</b>		
Reportable segment assets	10,617,384	7,754,804
Assets from all other segments	1,300,842	1,290,574
Unallocated assets	1,394,297	2,024,414
Consolidated total assets	13,312,523	11,069,792
<b>Liabilities</b>		
Reportable segment liabilities	5,197,833	3,554,671
Liabilities from all other segments	128,047	108,368
Unallocated liabilities	15,113	45,190
Consolidated total liabilities	5,340,993	3,708,229

### (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	
	2016 \$'000	2015 \$'000
Hong Kong	8,998,962	6,259,501
The PRC	693,875	724,631
	9,692,837	6,984,132

### 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
<b>Cost:</b>									
At 1 January 2015	1,509,629	10,223,139	269,035	3,519,446	15,521,249	17,575	173,288	115,513	15,827,625
Additions	29,755	43,306	1,877,073	251,728	2,201,862	9,333	2,282	–	2,213,477
Disposals	(16,275)	(1,139,458)	–	(509,506)	(1,665,239)	–	–	–	(1,665,239)
Exchange adjustments	–	–	–	(51)	(51)	–	–	–	(51)
Transfers	(5,018)	1,671,434	(1,671,434)	–	(5,018)	–	5,018	–	–
At 31 December 2015	1,518,091	10,798,421	474,674	3,261,617	16,052,803	26,908	180,588	115,513	16,375,812
<b>Accumulated depreciation, amortisation and impairment losses:</b>									
At 1 January 2015	992,571	6,972,867	–	3,065,290	11,030,728	2,020	64,425	50,123	11,147,296
Charge for the year	52,237	493,872	–	279,120	825,229	–	6,981	2,012	834,222
Written back on disposal	(16,275)	(1,138,981)	–	(494,758)	(1,650,014)	–	–	–	(1,650,014)
Exchange adjustments	–	–	–	(48)	(48)	–	–	–	(48)
Transfers	(2,344)	–	–	–	(2,344)	–	2,344	–	–
At 31 December 2015	1,026,189	6,327,758	–	2,849,604	10,203,551	2,020	73,750	52,135	10,331,456
<b>Net book value:</b>									
At 31 December 2015	491,902	4,470,663	474,674	412,013	5,849,252	24,888	106,838	63,378	6,044,356
<b>Add: Deposits paid in respect of buses on order</b>					89,051	–	–	–	89,051
					5,938,303	24,888	106,838	63,378	6,133,407

### 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
<b>Cost:</b>									
At 1 January 2016	1,518,091	10,798,421	474,674	3,261,617	16,052,803	26,908	180,588	115,513	16,375,812
Additions	34,203	54,483	1,220,958	211,144	1,520,788	2,161,317	4,184	–	3,686,289
Disposals	(5,704)	(954,577)	–	(268,668)	(1,228,949)	–	–	–	(1,228,949)
Exchange adjustments	–	–	–	(54)	(54)	–	–	–	(54)
Transfers	(17,651)	1,511,118	(1,511,118)	–	(17,651)	–	17,651	–	–
At 31 December 2016	1,528,939	11,409,445	184,514	3,204,039	16,326,937	2,188,225	202,423	115,513	18,833,098
<b>Accumulated depreciation, amortisation and impairment losses:</b>									
At 1 January 2016	1,026,189	6,327,758	–	2,849,604	10,203,551	2,020	73,750	52,135	10,331,456
Charge for the year	40,728	570,886	–	262,160	873,774	–	5,580	2,012	881,366
Written back on disposal	(5,704)	(953,800)	–	(267,830)	(1,227,334)	–	–	–	(1,227,334)
Impairment loss (note 13(g))	–	–	–	22,910	22,910	–	–	–	22,910
Exchange adjustments	–	–	–	(51)	(51)	–	–	–	(51)
Transfers	(9,293)	–	–	–	(9,293)	–	9,293	–	–
At 31 December 2016	1,051,920	5,944,844	–	2,866,793	9,863,557	2,020	88,623	54,147	10,008,347
<b>Net book value:</b>									
At 31 December 2016	477,019	5,464,601	184,514	337,246	6,463,380	2,186,205	113,800	61,366	8,824,751
<b>Add: Deposits paid in respect of buses on order</b>					50,356	–	–	–	50,356
					6,513,736	2,186,205	113,800	61,366	8,875,107

### 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:

	2016 \$'000	2015 \$'000
Medium-term leases	2,531,317	377,004
Short-term leases	307,073	310,002
	2,838,390	687,006
<b>Representing:</b>		
Buildings	477,019	491,902
Investment property under development	2,186,205	24,888
Investment properties	113,800	106,838
Interest in leasehold land	61,366	63,378
	2,838,390	687,006

- (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 \$3,993,170,000 and \$3,225,000,000 respectively (2015: \$3,056,810,000 and \$2,115,000,000 respectively) as at 31 December 2016. 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. During the year ended 31 December 2016, additions of investment property under development includes the payment of land premium of \$2,152,500,000 (2015: \$Nil). As at 31 December 2016, investment property under development of \$2,186,205,000 (2015: \$24,888,000) is related to the Group's interests in a joint operation.

#### (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

### 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)

##### (i) Fair value hierarchy (continued)

	2016			
	Fair value measurements categorised into			
	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<i>Recurring fair value disclosures</i>				
Investment properties in Hong Kong:				
– commercial properties	2,864,170	–	–	2,864,170
– industrial property	1,129,000	–	–	1,129,000
Investment property under development in Hong Kong	3,225,000	–	–	3,225,000

	2015			
	Fair value measurements categorised into			
	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<i>Recurring fair value disclosures</i>				
Investment properties in Hong Kong:				
– commercial properties	1,914,810	–	–	1,914,810
– industrial property	1,142,000	–	–	1,142,000
Investment property under development in Hong Kong	2,115,000	–	–	2,115,000

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

##### (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 10% (2015: -60% to 10%)
Investment properties in Hong Kong – industrial property	Market comparison approach	Discount/premium on quality of redevelopment	-20% to 60% (2015: -20% to -5%)
Investment property under development in Hong Kong	Market comparison approach	Discount/premium on location characteristics of the property	-10% to 5% (2015: -10% to 15%)

The Group has adopted market comparison approach for all its commercial properties in Hong Kong for the years ended 31 December 2016 and 2015. 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.



### 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 the industrial property in Hong Kong, taken into account its future redevelopment value, is determined using market comparison approach. The market comparison approach determined the fair value of the gross development value with reference to recent transaction data of nearby project, adjusted for a premium or a discount specific to the quality of the Group's property compared to the recent transaction. 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.

The fair value of investment property under development located in Hong Kong is determined using market comparison approach 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 investment property under development compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

- (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:

	2016 \$'000	2015 \$'000
Within 1 year	68,670	26,975
After 1 year but within 5 years	72,796	30,653
	141,466	57,628

- (f) In 2016, subsidies totalling \$7,072,000 (2015: \$22,426,000) were received or receivable from the HKSAR Government for purchase of diesel-electric hybrid buses and electric buses (the "Buses"). The purpose of the subsidies is to encourage the use of the Buses by granting financial assistance to franchised public bus operators to purchase the Buses for trial. 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).
- (g) Audio and visual equipment included in tools and others is used in the media sales business. For the year ended 31 December 2016, management assessed that the carrying amount of the audio and visual equipment may not be recoverable through future cash flows to be generated from operations or from their disposal. Therefore, the carrying amount of the audio and visual equipment was fully impaired and an impairment loss of \$22,910,000 was recognised (2015: \$Nil).

## 14 Intangible assets

	Passenger service licences and transport operating rights \$'000	Websites and mobile apps \$'000	Total \$'000
<b>Cost:</b>			
At 1 January 2015	132,122	2,930	135,052
Additions	–	1,418	1,418
At 31 December 2015	132,122	4,348	136,470
At 1 January 2016	132,122	4,348	136,470
Additions	–	90	90
At 31 December 2016	132,122	4,438	136,560
<b>Accumulated amortisation and impairment losses:</b>			
At 1 January 2015	–	489	489
Charge for the year	–	775	775
Impairment loss	–	2,895	2,895
At 31 December 2015	–	4,159	4,159
At 1 January 2016	–	4,159	4,159
Charge for the year	–	62	62
Impairment loss	–	217	217
At 31 December 2016	–	4,438	4,438
<b>Net book value:</b>			
At 31 December 2016	132,122	–	132,122
At 31 December 2015	132,122	189	132,311

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

	2016 \$'000	2015 \$'000
<b>Cost and carrying amount:</b>		
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:

	2016 %	2015 %
Growth rate	2.4	3.0
Discount rate	5.3 – 6.4	6.9 – 8.0

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 Non-current prepayments

Non-current prepayments and deposits comprise prepayments and deposits for purchase of other property, plant and equipment, security for the due payment for licence fees and office rental. The amounts are neither past due nor impaired.

## 17 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			Principal activity
			Group's effective interest	Held by the Company	Held by subsidiaries	
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 for North Lantau and Hong Kong International Airport
Sun Bus Limited	Hong Kong	2 shares	100	—	100	Provision of non-franchised bus services in Hong Kong
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)
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

## 17 Interest in subsidiaries (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Percentage of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by subsidiaries	
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
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
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

## 17 Interest in subsidiaries (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Percentage of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by subsidiaries	
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
RoadShow Holdings Limited	Incorporated in Bermuda and operates in Hong Kong	997,365,332 shares of \$0.1 each	73	—	73	Investment holding
RoadShow Creations Limited	Hong Kong	2 shares	73	—	100	Trading of bus souvenirs
RoadShow Media Limited	Hong Kong	2 shares	73	—	100	Provision of media sales and management services for advertising on transit vehicles, shelters and for the Multi-media On-board business
RoadShow Productions Limited	Hong Kong	2 shares	73	—	100	Production of content for Multi-media On-board systems
Bus Power Limited	Hong Kong	1 share	73	—	100	Provision of media sales services for advertising on transit vehicle exteriors and interiors

The market value of the Group's interest in a listed subsidiary, RoadShow Holdings Limited ("RoadShow"), at 31 December 2016 amounted to \$422,313,000 (2015: \$458,720,000).

## Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

### 17 Interest in subsidiaries (continued)

The following table lists out the information relating to RoadShow, the only subsidiary of the Group which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016 \$'000	2015 \$'000
NCI percentage	27%	27%
Current assets	593,152	635,763
Non-current assets	25,545	51,591
Current liabilities	117,725	141,564
Non-current liabilities	138	217
Net assets	500,834	545,573
Carrying amount of NCI (note)	145,749	153,906
Revenue	407,511	411,946
Loss for the year	(42,124)	(46,029)
Total comprehensive income	(46,275)	(46,978)
Loss allocated to NCI	(6,557)	(9,843)
Dividend paid to NCI	(1,600)	(26,204)
Cash flows from operating activities	47,674	9,295
Cash flows from/(used in) investing activities	23,441	(27,399)
Cash flows used in financing activities	(1,600)	(102,006)

Note: The amount includes the amount of NCI recognised in the consolidated financial statements of RoadShow.

### 18 Interest in associates

	2016 \$'000	2015 \$'000
Share of net assets	538,620	569,228
Goodwill	60,183	63,870
Amount due from an associate	7,676	6,187
Amount due to an associate	(4,922)	(4,922)
	601,557	634,363

Amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of settlement/repayment. The amount due from an associate is neither past due nor impaired.

## 18 Interest in associates (continued)

The following list contains the particulars of the material associate, which is an unlisted corporate entity whose quoted market price is not available:

Name of associate	Form of business structure	Place of establishment and business	Particulars of registered and paid-up capital	Percentage of ownership interest		Principal activity
				Group's effective interest	Held by subsidiaries	
Shenzhen Bus Group Company Limited	Sino-foreign joint stock company	The PRC	RMB 951,430,306	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.

Summarised financial information of a 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	
	2016 \$'000	2015 \$'000
<b>Gross amounts of the associate</b>		
Current assets	1,688,370	1,476,492
Non-current assets	4,225,288	1,770,464
Current liabilities	3,559,316	1,545,736
Non-current liabilities	1,072,742	370,726
Total equity	1,281,600	1,330,494
Non-controlling interest	(21,883)	—
Revenue	1,576,027	1,825,275
Profit for the year	82,147	85,255
Total comprehensive income	82,147	85,255
Dividend received from the associate	24,697	29,105
<b>Reconciled to the Group's interests in the associate</b>		
Gross amounts of net assets of the associate attributable to equity shareholders	1,259,717	1,330,494
Group's effective interest	35%	35%
Group's share of net assets of the associate	440,901	465,673
Goodwill	60,183	63,870
Carrying amount in the consolidated financial statements	501,084	529,543



**18 Interest in associates (continued)**

Aggregate information of associates that are not individually material:

	2016 \$'000	2015 \$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	100,473	104,820
Aggregate amounts of the Group's share of those associates		
Profit for the year	2,096	2,518
Total comprehensive income	2,096	2,518

**19 Other financial assets**

	2016 \$'000	2015 \$'000
Unlisted equity securities, at cost (note (a))	15,355	15,355
Available-for-sale debt securities, at fair value (note (b))		
– listed outside Hong Kong	1,286,711	164,314
	1,302,066	179,669
Less: available-for-sale debt securities classified as current assets		
– listed outside Hong Kong	(94,915)	(67,223)
Other financial assets classified as non-current assets	1,207,151	112,446

Notes:

- (a) The unlisted equity securities of \$15,355,000 (2015: \$15,355,000) relate to an investment of the Group for which no impairment loss is considered necessary.
- (b) Debt securities are issued by corporate entities with credit rating ranging from B+ to A. As at 31 December 2016 and 2015, the Group's available-for-sale debt securities were neither past due nor impaired. Debt securities that will mature within one year are classified as current assets.

## 20 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 actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuations of the plans were at 31 December 2016 and 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. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 124% (2015: 120%) 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 plans 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:

	2016 \$'000	2015 \$'000
Present value of funded obligations (note (c))	(2,541,954)	(2,803,663)
Fair value of plan assets (notes (b) and (d))	3,159,263	3,371,859
	617,309	568,196
<b>Represented by:</b>		
Employee benefit assets	626,206	577,303
Employee benefit liabilities	(8,897)	(9,107)
	617,309	568,196

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 or reduction of 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 plans for the year ending 31 December 2017 is \$Nil (2016: \$Nil).

**20 Employee retirement benefits (continued)****(b) Plan assets consist of the following:**

	2016 \$'000	2015 \$'000
Equity securities:		
– Hong Kong and Mainland China	724,193	817,821
– Europe	400,986	505,778
– North America	609,977	573,216
– Other Asia Pacific	600,260	606,935
	2,335,416	2,503,750
Bonds	719,351	800,672
Cash and others	104,496	67,437
	3,159,263	3,371,859

All of the equity securities and bonds have quoted prices in active markets.

**(c) Movements in the present value of the defined benefit obligations:**

	2016 \$'000	2015 \$'000
At 1 January	2,803,663	2,813,072
Remeasurements:		
– Actuarial gains arising from changes in demographic assumptions	(4,308)	–
– Actuarial (gains)/losses arising from changes in financial assumptions	(67,177)	85,326
– Actuarial (gains)/losses arising from liability experience	(25,205)	5,092
	(96,690)	90,418
Benefits paid by the plans	(310,038)	(260,258)
Current service cost	106,474	110,663
Interest cost	38,545	49,768
	(165,019)	(99,827)
At 31 December	2,541,954	2,803,663

The weighted average duration of the Monthly Rated and Daily Rated defined benefit obligations are 10.2 and 6.0 years respectively (2015: 10.5 and 6.4 years respectively).

## 20 Employee retirement benefits (continued)

### (d) Movements in plan assets:

	2016 \$'000	2015 \$'000
At 1 January	3,371,859	3,667,527
Administrative expenses paid	(615)	(666)
Benefits paid by the plans	(310,038)	(260,258)
Interest income	46,150	64,854
Return on plan assets, excluding interest income	51,907	(99,598)
At 31 December	3,159,263	3,371,859

### (e) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2016 \$'000	2015 \$'000
Current service cost	106,474	110,663
Net interest on net defined benefit asset	(7,605)	(15,086)
Administrative expenses paid	615	666
Total amounts recognised in profit or loss	99,484	96,243
Actuarial (gains)/losses	(96,690)	90,418
Return on plan assets, excluding interest income	(51,907)	99,598
Total amounts recognised in other comprehensive income	(148,597)	190,016
Total defined benefit (income)/expense	(49,113)	286,259

## 20 Employee retirement benefits (continued)

(f) Significant actuarial assumptions and sensitivity analysis are as follows:

	2016	2015
Discount rate		
– Monthly Rated Employees Scheme	1.9%	1.6%
– Daily Rated Employees Scheme	1.7%	1.3%
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% change in the significant actuarial assumptions:

	2016		2015	
	Increase in 0.25% \$'000	Decrease in 0.25% \$'000	Increase in 0.25% \$'000	Decrease in 0.25% \$'000
Discount rate	(45,679)	47,180	(53,865)	55,718
Future salary increases	42,032	(40,945)	49,710	(48,359)

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.

## 21 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 time 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.

## 21 Equity-settled share-based transactions (continued)

### (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%

### (b) The number and weighted average exercise prices of share options are as follows:

	2016	
	Weighted average exercise price	Number of share options '000
Outstanding at the beginning of the year	–	–
Granted during the year	\$23.45	5,560
Forfeited during the year	\$23.45	(540)
Outstanding at the end of the year	\$23.45	5,020
Exercisable at the end of the year	–	–

The options outstanding at 31 December 2016 had an exercise price of \$23.45 and a weighted average remaining contractual life of 4.83 years.

## 21 Equity-settled share-based transactions (continued)

### (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 a 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.

	2016
<b>Fair value of share options and assumptions</b>	
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.

## 22 Accounts receivable

	2016 \$'000	2015 \$'000
Trade and other receivables	498,566	443,834
Interest receivable	26,054	5,210
Less: allowance for doubtful debts (note 22(b))	(7,870)	(13,404)
	516,750	435,640

All of the accounts receivable are expected to be recovered within one year.

## 22 Accounts receivable (continued)

### (a) Ageing analysis

Included in accounts receivable are trade receivables (net of allowance for doubtful debts) with the following ageing analysis, based on the due date, as of the end of the reporting period:

	2016 \$'000	2015 \$'000
Current	144,600	174,352
1 to 3 months past due	17,618	27,502
More than 3 months past due	21,375	26,679
	<b>183,593</b>	<b>228,533</b>

According to the Group's credit policy set out in note 31(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.

### (b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(n)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016 \$'000	2015 \$'000
At 1 January	13,404	402
Impairment loss recognised (note 5(d))	3,690	13,164
Write-back of impairment loss (note 5(d))	–	(19)
Uncollectible amounts written off	(9,224)	(143)
At 31 December	<b>7,870</b>	<b>13,404</b>

At 31 December 2016, the Group's trade and other receivables of \$7,870,000 (2015: \$13,404,000) were individually determined to be impaired. The individually impaired receivables related to customers that have defaulted on repayment and management assessed that the receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of \$7,870,000 (2015: \$13,404,000) were recognised as at 31 December 2016.



**22 Accounts receivable (continued)****(c) Accounts receivable that are not impaired**

The ageing analysis of accounts receivable that are neither individually nor collectively considered to be impaired is as follows:

	2016 \$'000	2015 \$'000
Neither past due nor impaired	477,757	381,459
Past due but not impaired		
– 1 to 3 months past due	17,618	27,502
– More than 3 months past due	21,375	26,679
	38,993	54,181
	516,750	435,640

Receivables that were neither past due nor impaired relate 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 relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

**23 Cash and cash equivalents****(a) Cash and cash equivalents comprise:**

	2016 \$'000	2015 \$'000
Cash at bank and in hand	428,746	383,612
Bank deposits	647,239	2,330,862
	1,075,985	2,714,474
Less: pledged and restricted bank deposits (note (b))	(131,714)	(84,678)
Cash and cash equivalents in the consolidated statement of financial position	944,271	2,629,796
Less: bank deposits with original maturities of over three months	(243,333)	(1,908,184)
Cash and cash equivalents in the consolidated cash flow statement	700,938	721,612

- (b) Pursuant to certain licence agreements between certain subsidiaries of the Group and certain subsidiaries of RoadShow, and between a third party and certain subsidiaries of RoadShow, the subsidiaries of RoadShow have provided bank guarantees regarding the due performance under the respective licence agreements. RoadShow has pledged bank deposits of \$78,342,000 (2015: \$79,691,000) to banks for the bank guarantees issued.

In addition, the Group is required to maintain the balance of passenger rewards (note 4) in designated bank accounts under the revised MBOF approach. As at 31 December 2016, the related restricted bank deposits amounted to \$53,372,000 (2015: \$4,987,000).

## 23 Cash and cash equivalents (continued)

(c) Reconciliation of profit before taxation to cash generated from operations:

	2016 \$'000	2015 \$'000
<b>Profit before taxation</b>	<b>974,406</b>	<b>746,943</b>
Adjustments for:		
Depreciation and amortisation	881,428	834,997
Impairment loss on other property, plant and equipment	22,910	–
Impairment loss on intangible assets	217	2,895
Finance costs	17,788	9,674
Dividend income from unlisted equity securities	(34,720)	(31,000)
Interest income	(60,195)	(55,133)
Share of profits of associates	(30,847)	(32,357)
Net gain on disposal of property, plant and equipment	(8,469)	(1,745)
Government subsidies	(6,334)	(29,351)
Equity-settled share-based payment expenses	990	–
Effect of foreign exchange rate	8,981	26,977
<b>Operating profit before changes in working capital</b>	<b>1,766,155</b>	<b>1,471,900</b>
Change in working capital:		
Decrease/(increase) in non-current prepayments	4,429	(849)
Decrease in employee benefit assets	99,484	96,243
Decrease/(increase) in spare parts and stores	12,797	(6,890)
(Increase)/decrease in trade and other receivables	(60,266)	69,779
Decrease/(increase) in deposits and prepayments	59,549	(90,087)
Increase in accounts payable and accruals	89,926	146,882
Increase in contingency provision – insurance	1,807	4,256
Decrease in provision for long service payments	(3,060)	(2,919)
<b>Cash generated from operations</b>	<b>1,970,821</b>	<b>1,688,315</b>

## 24 Bank loans

At 31 December 2016, the bank loans were repayable as follows:

	2016 \$'000	2015 \$'000
Within 1 year or on demand	–	459,942
After 2 years but within 5 years	2,724,366	589,000
	<b>2,724,366</b>	<b>1,048,942</b>

All of the bank loans were unsecured.

## 25 Accounts payable and accruals

	2016 \$'000	2015 \$'000
Trade payables	146,283	88,377
Balance of passenger rewards (note 4(a))	109,134	76,150
Other payables and accruals	953,647	1,237,682
	<b>1,209,064</b>	<b>1,402,209</b>

All accounts payable and accruals as at 31 December 2016 and 2015 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:

	2016 \$'000	2015 \$'000
Due within 1 month or on demand	140,380	80,626
Due after 1 month but within 3 months	1,893	4,932
Due after more than 3 months	4,010	2,819
	<b>146,283</b>	<b>88,377</b>

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.

## 26 Contingency provision – insurance

	2016 \$'000	2015 \$'000
At 1 January	434,422	430,166
Provision charged to profit or loss	55,875	59,764
Payments made during the year	(54,068)	(55,508)
At 31 December	<b>436,229</b>	<b>434,422</b>
<b>Representing:</b>		
Current portion	183,203	183,133
Non-current portion	253,026	251,289
	<b>436,229</b>	<b>434,422</b>

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.

## 27 Income tax in the consolidated statement of financial position

### (a) Current taxation in the consolidated statement of financial position represents:

	2016 \$'000	2015 \$'000
Provision for Hong Kong Profits Tax for the year	20,841	19,981
Provisional Profits Tax paid	(19,927)	(14,910)
PRC Income Tax (recoverable)/payable	914 (182)	5,071 463
Net current tax payable	732	5,534
<b>Representing:</b>		
Current tax recoverable	(4,131)	(4,167)
Current tax payable	4,863	9,701
Net current tax payable	732	5,534

### (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 arising from:	Depreciation allowances in excess of the related depreciation \$'000	Intangible assets \$'000	Provisions \$'000	Tax losses \$'000	Defined benefit assets/ liabilities \$'000	Others \$'000	Total \$'000
At 1 January 2015	689,430	14,511	(16,648)	(119,650)	140,986	5,880	714,509
Charged/(credited) to profit or loss	107,930	–	7,703	10,151	(15,880)	(4,186)	105,718
Credited to other comprehensive income	–	–	–	–	(31,353)	–	(31,353)
At 31 December 2015	797,360	14,511	(8,945)	(109,499)	93,753	1,694	788,874
At 1 January 2016	797,360	14,511	(8,945)	(109,499)	93,753	1,694	788,874
Charged/(credited) to profit or loss	80,402	–	6,381	62,324	(16,415)	(5,902)	126,790
Charged to other comprehensive income	–	–	–	–	24,519	–	24,519
At 31 December 2016	877,762	14,511	(2,564)	(47,175)	101,857	(4,208)	940,183

- (ii) Amounts recognised in the consolidated statement of financial position:

	2016 \$'000	2015 \$'000
Net deferred tax assets	(11,028)	(5,551)
Net deferred tax liabilities	951,211	794,425
	940,183	788,874

## 27 Income tax in the consolidated statement of financial position (continued)

### (c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets of \$40,244,000 (2015: \$37,172,000) in respect of tax losses of \$243,906,000 (2015: \$225,278,000) 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 2016 and 2015, the tax losses do not expire under the current tax legislation.

## 28 Provision for long service payments

Details of the provision for long service payments of the Group are as follows:

	2016 \$'000	2015 \$'000
At 1 January	9,423	12,342
Movements charged to profit or loss (note 5(a))	4,636	2,222
Payments made during the year	(7,696)	(5,141)
At 31 December	6,363	9,423

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.

## 29 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
At 1 January 2015		403,639	—	—	1,300,000	46,606	1,750,245
Changes in equity for 2015:							
Dividend approved in respect of the previous year	11(b)	—	—	—	—	(302,730)	(302,730)
Profit and total comprehensive income for the year		—	—	—	—	450,363	450,363
Dividend approved in respect of the current year	11(a)	—	—	—	—	(121,092)	(121,092)
At 31 December 2015		403,639	—	—	1,300,000	73,147	1,776,786

## 29 Capital and reserves (continued)

### (a) Movements in components of equity (continued)

	Note	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Contributed surplus \$'000	Retained profits \$'000	Total equity \$'000
At 1 January 2016		403,639	–	–	1,300,000	73,147	1,776,786
Changes in equity for 2016:							
Shares issued in respect of scrip dividend – 2015 final dividend		5,412	103,046	–	–	–	108,458
Shares issued in respect of scrip dividend – 2016 interim dividend		2,629	59,758	–	–	–	62,387
Equity-settled share-based transaction		–	–	990	–	–	990
Unclaimed dividend forfeited		–	–	–	–	29,400	29,400
Dividend approved in respect of the previous year	11(b)	–	–	–	–	(363,275)	(363,275)
Profit and total comprehensive income for the year		–	–	–	–	950,309	950,309
Dividend approved in respect of the current year	11(a)	–	–	–	–	(143,168)	(143,168)
At 31 December 2016		411,680	162,804	990	1,300,000	546,413	2,421,887

The Company's reserves available for distribution to shareholders at 31 December 2016 amounted to \$1,846,413,000 (2015: \$1,373,147,000). After the end of the reporting period, the Directors proposed a final dividend of \$0.90 (2015: \$0.90) per share, amounting to \$370,512,000 (2015: \$363,275,000). The final dividend proposed has not been recognised as liability at the end of the reporting period.

**29 Capital and reserves (continued)****(b) Authorised and issued share capital**

	2016		2015	
	No. of shares	\$'000	No. of shares	\$'000
<b>Authorised:</b>				
Ordinary shares of \$1 each	600,000,000	600,000	600,000,000	600,000
<b>Ordinary shares of \$1 each, issued and fully paid:</b>				
At 1 January	403,639,413	403,639	403,639,413	403,639
Shares issued in respect of scrip dividend – 2015 final dividend	5,412,095	5,412	–	–
Shares issued in respect of scrip dividend – 2016 interim dividend	2,628,991	2,629	–	–
At 31 December	411,680,499	411,680	403,639,413	403,639

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.

**(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) Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale debt securities held at the end of the reporting period and is dealt with in accordance with the accounting policies set out in note 1(g).

## 29 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 cash/debt compared to the amount of capital. For this purpose the Group defines net cash/debt as cash and cash equivalents 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 cash/debt and equity at 31 December 2016 and 2015 were as follows:

	2016 \$'000	2015 \$'000
Cash and cash equivalents (note 23(a))	944,271	2,629,796
Pledged and restricted bank deposits (note 23(a))	131,714	84,678
Less: Bank loans (note 24)	(2,724,366)	(1,048,942)
Net (debt)/cash	(1,648,381)	1,665,532
Total equity	7,976,630	7,361,563

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

## 30 Commitments

### (a) Capital commitments

- (i) At 31 December 2016, 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:

	2016 \$'000	2015 \$'000
Contracted for	456,847	914,024

- (ii) At 31 December 2016, 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:

	2016 \$'000	2015 \$'000
Contracted for	22,320	22,320



**30 Commitments (continued)****(b) Operating leases**

At 31 December 2016, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	2016 \$'000	2015 \$'000
Within 1 year	6,761	8,974
After 1 year but within 5 years	5,247	9,807
	<b>12,008</b>	<b>18,781</b>

The Group leases a number of properties under operating leases. The leases typically run for a period of one to five years. The leases do not include contingent rentals.

- (c) Certain exclusive licences to conduct media sales agency and management business on selected bus shelters and to solicit advertising business on billboards and advertising spaces owned by the Government of the Hong Kong Special Administrative Region and other independent third parties have been granted to the Group, and the respective licences will expire in periods from 2014 to 2020. Under such licences, the Group has committed to pay licence fees or royalty fees at a pre-determined percentage of the net advertising rental received. The future minimum guaranteed licence fees or royalty fees are as follows:

	2016 \$'000	2015 \$'000
Within 1 year	22,537	33,550
After 1 year but within 5 years	5,011	27,548
	<b>27,548</b>	<b>61,098</b>

### 31 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

The Group's credit risk is primarily attributable to trade and other receivables and debt investments. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

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.

Debt investments 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. 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.

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 impairment 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 debt investments and receivables are set out in notes 19 and 22 respectively.

## 31 Financial risk management and fair values of financial instruments (continued)

### (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.

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

	2016					2015				
	Contractual undiscounted cash flow					Contractual undiscounted cash flow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Bank loans	44,282	44,282	2,932,046	3,020,610	2,724,366	468,859	8,226	621,225	1,098,310	1,048,942
Accounts payable and accruals	1,208,539	–	–	1,208,539	1,208,539	1,400,067	–	–	1,400,067	1,400,067
	1,252,821	44,282	2,932,046	4,229,149	3,932,905	1,868,926	8,226	621,225	2,498,377	2,449,009

#### Derivative financial liabilities

	2016		2015	
	Contractual undiscounted cash flow		Contractual undiscounted cash flow	
	Within 1 year or on demand	Total	Within 1 year or on demand	Total
	\$'000	\$'000	\$'000	\$'000
Derivatives settled gross				
– outflow	(59,630)	(59,630)	(179,380)	(179,380)
– inflow	59,105	59,105	177,238	177,238

## 31 Financial risk management and fair values of financial instruments (continued)

### (c) Interest rate risk

It is the Group's policy to closely monitor the market conditions and devise suitable strategies against interest rate risk. As at 31 December 2016 and 2015, 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.

	2016		2015	
	Effective interest rate p.a. %	Amount \$'000	Effective interest rate p.a. %	Amount \$'000
<b>Fixed rate assets:</b>				
Bank deposits	1.3	647,239	2.5	2,330,862
Available-for-sale debt securities	4.3	1,286,711	3.1	164,314
		<u>1,933,950</u>		<u>2,495,176</u>
<b>Variable rate liabilities:</b>				
Bank loans	1.5	<u>(2,724,366)</u>	1.2	<u>(1,048,942)</u>

#### (ii) Sensitivity analysis

At 31 December 2016, 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 \$10,303,000 (2015: \$8,759,000). Other components of consolidated equity would have decreased/increased by approximately \$31,381,000 (2015: \$1,254,000) 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 2015.

**31 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 50% (2015: 38%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. During the years ended 31 December 2016 and 2015, the Group used forward foreign exchange contracts to hedge its currency risk. At 31 December 2016, the Group had liabilities arising from forward foreign exchange contracts outstanding of \$525,000 (2015: \$2,142,000), which were recognised as derivative financial liabilities. These forward foreign exchange contracts were for the purchases of British Pounds Sterling totalling 6,174,000 (2015: 15,433,000) and had maturities of less than one year after the end of the reporting period.

**(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)					
	2016			2015		
	Renminbi \$'000	British Pounds Sterling \$'000	United States dollars \$'000	Renminbi \$'000	British Pounds Sterling \$'000	United States dollars \$'000
Cash and cash equivalents	174,708	26,386	125,105	184,345	13,809	123,627
Accounts payable and accruals	(16,421)	(85,496)	(11,702)	(25,669)	(248,449)	(3,185)
Available-for-sale debt securities	—	—	1,286,711	—	—	164,314
	158,287	(59,110)	1,400,114	158,676	(234,640)	284,756
Notional amount of forward foreign exchange contracts used as economic hedges	—	59,105	—	—	177,238	—
Overall net exposure	158,287	(5)	1,400,114	158,676	(57,402)	284,756

In addition, the Group is exposed to currency risk arising from inter-company receivables denominated in Renminbi which is not the functional currency of the lender. Such inter-company receivables amounted to RMB122,454,000 as at 31 December 2016, equivalent to \$136,144,000 (2015: RMB122,454,000, equivalent to \$144,496,000).

### 31 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.

	2016			2015		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits (increase/ (decrease)) \$'000	Effect on other components of equity (increase/ (decrease)) \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits (increase/ (decrease)) \$'000	Effect on other components of equity (increase/ (decrease)) \$'000
Renminbi	3% (3%)	8,867 (8,867)	– –	3% (3%)	9,190 (9,190)	– –
British Pounds Sterling	6% (6%)	– –	– –	6% (6%)	(2,739) 2,739	– –
United States dollars	1% (1%)	1,153 (1,153)	12,867 (12,867)	1% (1%)	1,205 (1,205)	1,643 (1,643)

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 2015.

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.

#### (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 year ended 31 December 2016. The Group had not entered into any fuel oil swap contract during the years ended 31 December 2016 and 2015.

## 31 Financial risk management and fair values of financial instruments (continued)

### (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

	2016			2015		
	Fair value measurements categorised into			Fair value measurements categorised into		
	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Fair value \$'000	Level 1 \$'000	Level 2 \$'000
<b>Recurring fair value measurements</b>						
<i>Assets:</i>						
Available-for-sale debt securities – listed	1,286,711	1,286,711	–	164,314	164,314	–
<i>Liabilities:</i>						
Derivative financial instrument – forward foreign exchange contracts	525	–	525	2,142	–	2,142

During the years ended 31 December 2016 and 2015, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3.

#### (ii) Valuation techniques and inputs used in Level 2 fair value measurement

The fair values of forward foreign exchange contracts as at 31 December 2016 and 2015 in Level 2 were marked to market using quoted market price from financial institutions.

## 31 Financial risk management and fair values of financial instruments (continued)

### (f) Fair values measurement (continued)

#### (iii) 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 2016 and 2015 except as follows:

- (1) Amounts due from/to associates of the Group are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose their fair values.
- (2) Unlisted equity securities of \$15,355,000 (2015: \$15,355,000) do not have a quoted market price in an active market and therefore their fair values cannot be reliably measured. They are stated at cost less accumulated impairment losses at the end of the reporting period.

## 32 Contingent liabilities

At 31 December 2016, guarantees are given to a bank 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 \$1,600,000,000 (2015: \$Nil).

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.



### 33 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

	Note	2016 \$'000	2015 \$'000
Service fees for provision of coach services	(i) & (ii)	47,397	55,097
Insurance premium paid	(iii)	94,524	89,529
Amount paid and accrued for building management services	(iv)	3,617	4,762
Amount paid and accrued for project management service and lease modification	(v)	—	—

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 17 December 2015. The amounts received and receivable under the Shuttle Bus Service Agreements amounted to \$6,551,000 (2015: \$10,644,000). During the year, the Group also provided coach services to certain subsidiaries of SHKP ("Other Shuttle Bus Service Agreements"). The amounts received and receivable under the Other Shuttle Bus Service Agreements amounted to \$5,543,000 (2015: \$11,000). Outstanding balances due from these companies at 31 December 2016 amounted to \$1,647,000 (2015: \$3,083,000).
- (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 \$35,303,000 (2015: \$44,442,000). Outstanding balances due from these companies at 31 December 2016 amounted to \$5,024,000 (2015: \$9,229,000).
- (iii) In 2013 and 2015, the Group entered into contracts with a subsidiary of SHKP, Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of insurance services to the Group for the period from 1 January 2014 to 30 June 2015 (the "2014/15 Insurance Arrangements") and for the period from 1 July 2015 to 31 December 2016 (the "2015/16 Insurance Arrangements") respectively. The amount paid and payable under the 2015/16 Insurance Arrangements during the year amounted to \$94,524,000 (2015: \$89,529,000). Outstanding balance receivable for these contracts at 31 December 2016 amounted to \$812,000 (2015: outstanding balance payable of \$2,369,000).
- (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. Amount paid and payable under the Deed during the year amounted to \$3,617,000 (2015: \$4,762,000). Outstanding balance payable for this contract at 31 December 2016 amounted to \$45,000 (2015: \$24,000).
- (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 regnant of an industrial site at Kwun Tong (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 2016 amounted to \$2,000,000 (2015: \$2,000,000).

#### (b) Key management personnel remuneration

Remuneration for key management personnel represents amounts paid to the Company's Directors as disclosed in note 7.

### 33 Material related party transactions (continued)

#### (c) Applicability of the Listing Rules relating to connected transactions

The related party transactions as described in note (a)(i) 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 in respect of the Shuttle Bus Service Agreements by including the relevant disclosures in the section headed “Continuing Connected Transactions” under “Financial Review” on pages 84 and 85 of this Annual Report whereas the transactions under the Other Shuttle Bus Service Agreements were exempt from the disclosure requirements in Chapter 14A of the Listing Rules pursuant to Rule 14A.76.

The related party transactions as described in note (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 note (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 “Continuing Connected Transactions” under “Financial Review” on pages 84 and 85 of this Annual Report.

The related party transaction as described in note (a)(iv) above constitutes continuing connected transaction of the Company as defined in Chapter 14A of the Listing Rules. However, it is 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 (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 2016.

## 34 Company-level statement of financial position

	Note	2016 \$'000	2015 \$'000
<b>Non-current assets</b>			
Investments in subsidiaries		1,189,413	1,188,423
Deferred tax assets		730	730
		1,190,143	1,189,153
<b>Current assets</b>			
Deposits and prepayments		975	788
Amounts due from subsidiaries		7,217,480	6,363,762
Cash and cash equivalents		5,266	8,994
		7,223,721	6,373,544
<b>Current liabilities</b>			
Accounts payable and accruals		15,791	52,390
Amounts due to subsidiaries		5,976,186	5,733,521
		5,991,977	5,785,911
<b>Net current assets</b>		1,231,744	587,633
<b>NET ASSETS</b>		2,421,887	1,776,786
<b>Capital and reserves</b>	29(a)		
Share capital		411,680	403,639
Reserves		2,010,207	1,373,147
<b>TOTAL EQUITY</b>		2,421,887	1,776,786

Approved and authorised for issue by the Board of Directors on 23 March 2017

**Norman LEUNG Nai Pang**

Chairman

**Roger LEE Chak Cheong**

Managing Director

### 35 Non-adjusting event after the reporting period

After the end of the reporting period, the Directors proposed final dividend for the year. Further details are disclosed in note 11(a) to the financial statements.

### 36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 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
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

## 36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (continued)

### HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

#### (a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and investments in debt securities measured at FVTOCI will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's investments in equity securities currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

### 36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (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. As disclosed in note 30(b), at 31 December 2016 the Group’s future minimum lease payments under non-cancellable operating leases amount to \$12,008,000 for properties, which are payable within 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.