載通國際
Transport International

Heartbeat of the City

Transport International Holdings Limited
2017 Annual Report

Heartbeat of the City

As a leading public transport operator in Hong Kong, Transport International Holdings Limited connects people day and night, serving the urban area, rural communities and the Airport – the true heartbeat of the city. Following the renewal of our flagship company KMB's 10-year franchise, we are entering a new era of service improvement and network expansion, exemplified by the introduction of our "City Red" bus fleet representing energy and vitality.

Contents

Transport International

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

We aspire to set the highest standards in the public transport industry by providing innovative, high quality services that take our customers safely and comfortably to their destination. We are able to achieve our vision by tailoring our services to meet our customers' needs, improving the connectivity of our route network and providing instant communication of real-time information. Our commitment to sustainable business practices, enhanced shareholder value and the social and economic development of Greater China is unswerving.

Mission

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

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

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

Vision

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

Values

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

Transport International Holdings Limited

Hong Kong Franchised Public Bus Operations

The Kowloon Motor Bus Company (1933) Limited
the Group's flagship company, operates franchised public bus services with a fleet of about 3,900 buses operating on 397 routes covering Kowloon, the New Territories and Hong Kong Island.

Long Win Bus Company Limited
operates franchised public bus services with 245 buses operating on 30 routes linking the New Territories with Hong Kong International Airport and North Lantau.

Hong Kong Non-franchised Transport Operations

Sun Bus Holdings Limited and its subsidiaries
with Sun Bus Limited as the flagship company, operate 386 buses offering a variety of non-franchised bus services to the residential and commercial sectors through chartered hire services.

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

China Mainland Transport Operations

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

Beijing Beiqi Kowloon Taxi Company Limited
is a Sino-foreign joint stock company operating taxi services in Beijing.

Beijing Beiqi First Company Limited
is a Sino-foreign joint stock company offering car rental services in Beijing.

Property Holdings and Development

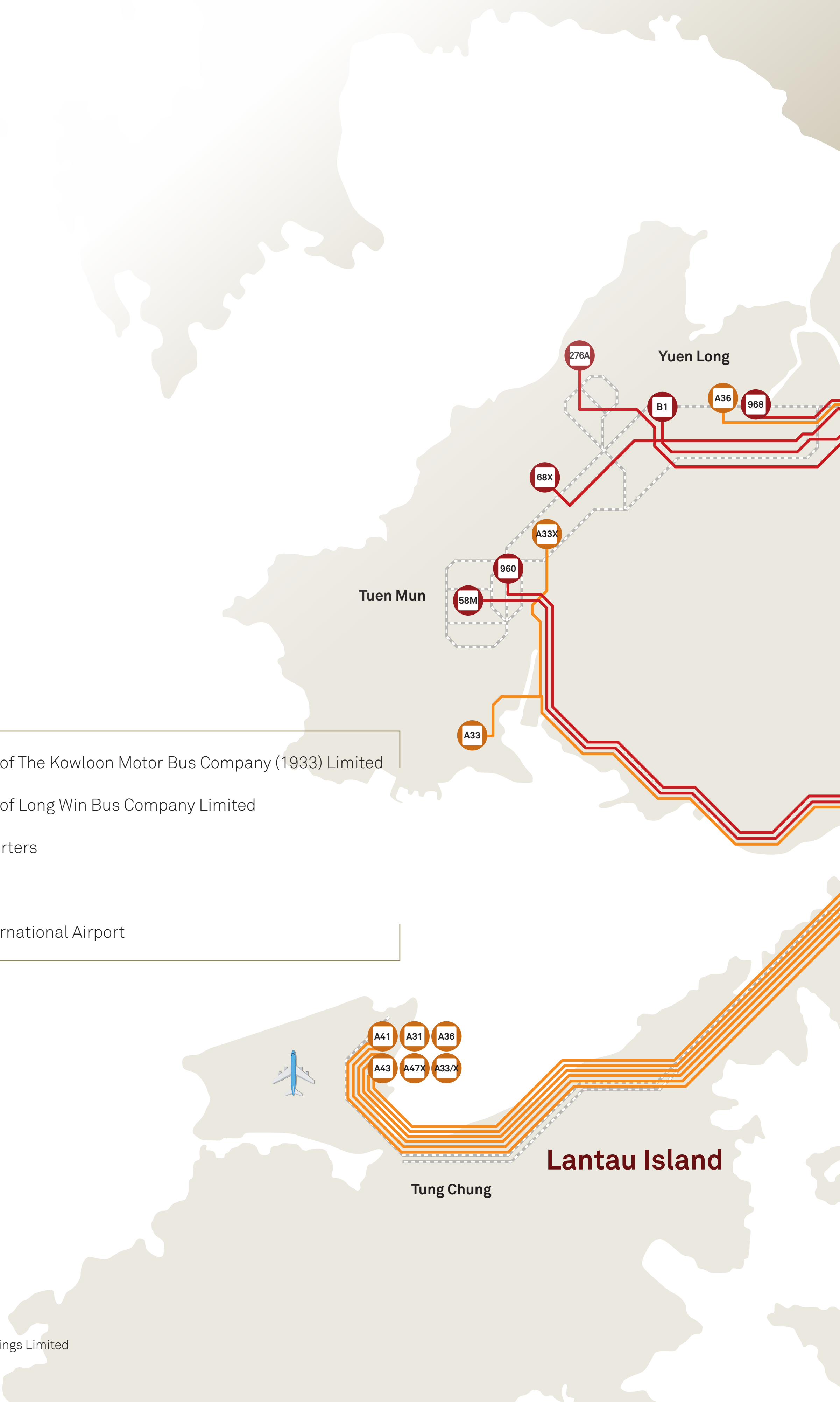
LCK Real Estate Limited
owns a 17-storey commercial building at 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong with a total gross floor area of 156,700 square feet.

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

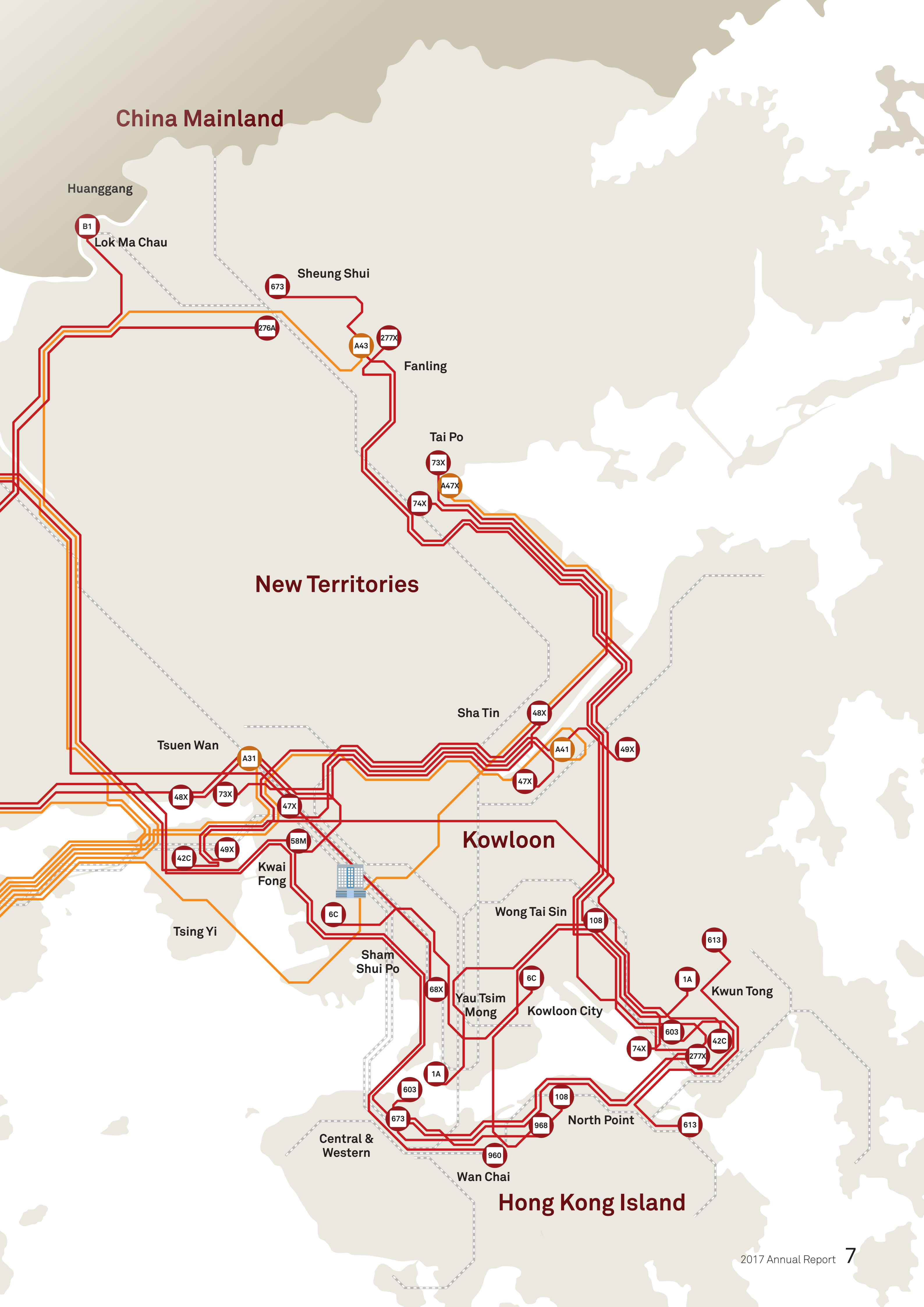
LCK Commercial Properties Limited
owns the Manhattan Mid-town shopping mall, which is a two-level retail podium covering around 50,000 square feet at 1 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong.

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

Key Franchised Bus Network in Hong Kong



- Popular routes of The Kowloon Motor Bus Company (1933) Limited
- Popular routes of Long Win Bus Company Limited
- Group headquarters
- Railways
- Hong Kong International Airport


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

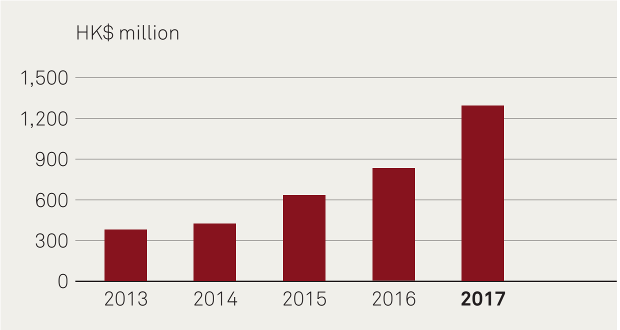
Financial and Operational Highlights

For the Year Ended 31 December 2017

	Unit	**2017**	2016 (Restated)	Increase/ (decrease)
Financial Highlights				
Revenue (from continuing operations):	HK$ million	**7,899.9**	7,744.2	2%
– Fare revenue	HK$ million	**7,644.2**	7,501.5	2%
– Media sales revenue	HK$ million	**181.6**	179.2	1%
– Gross rentals from investment property	HK$ million	**74.1**	63.5	17%
Profit attributable to equity shareholders of the Company	HK$ million	**1,294.8**	830.9	56%
Earnings per share	HK$	**3.11**	2.04	52%
Ordinary dividends per share	HK$	**1.25**	1.25	–
Total equity attributable to equity shareholders of the Company	HK$ million	**9,542.9**	7,825.8	22%
Total assets	HK$ million	**14,656.0**	13,312.5	10%
Net borrowings	HK$ million	**1,120.5**	1,648.4	(32%)
Net finance income	HK$ million	**46.3**	42.4	9%
Cash generated from operations	HK$ million	**1,791.1**	1,970.8	(9%)
Key Financial Ratios				
Profit margin		**16.4%**	10.7%	53%
Profit margin (for continuing operations)		**10.9%**	11.1%	(2%)
EBITDA margin		**29.7%**	24.2%	23%
EBITDA margin (for continuing operations)		**24.1%**	24.5%	(2%)
Return on equity attributable to equity shareholders of the Company		**13.6%**	10.6%	28%
Gearing ratio (ratio of net borrowings to total equity attributable to equity shareholders of the Company)	Times	**0.1**	0.2	(44%)
Total borrowings/EBITDA (for continuing operations)		**1.2**	1.4	(14%)
Current ratio		**1.3**	1.3	5%
Dividend cover (ratio of profit attributable to equity shareholders of the Company to total dividends paid and proposed for the year)	Times	**2.5**	1.6	56%
Share price per share at year-end	HK$	**25.15**	22.10	14%
Market capitalisation at year-end	HK$ million	**10,624.80**	9,098.10	17%
Operational Highlights				
Hong Kong Franchised Public Bus Operations:				
Average number of passenger trips per day	Million trips	**2.86**	2.81	2%
Number of licensed buses at year-end		**4,217**	4,162	1%
Number of staff at year-end		**12,363**	12,610	(2%)
Average number of staff per licensed bus at year-end		**2.93**	3.03	(3%)
Hong Kong Non-franchised Transport Operations:				
Number of licensed buses at year-end		**401**	401	-
Number of staff at year-end		**678**	634	7%
China Mainland Transport Operations:				
Number of licensed buses at year-end		**6,205**	5,211	19%
Number of taxis and vehicles for rental at year-end		**9,284**	7,505	24%

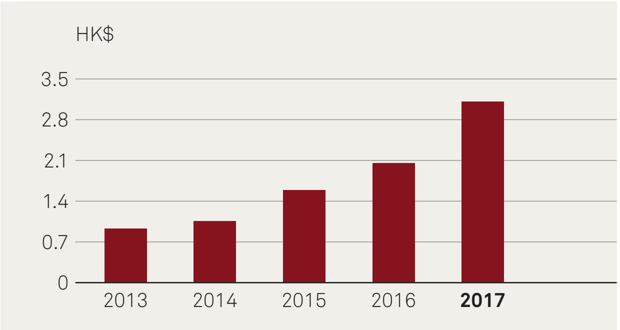
Profit attributable to equity shareholders of the Company

Profit attributable to equity shareholders for 2017 was HK$1,295 million



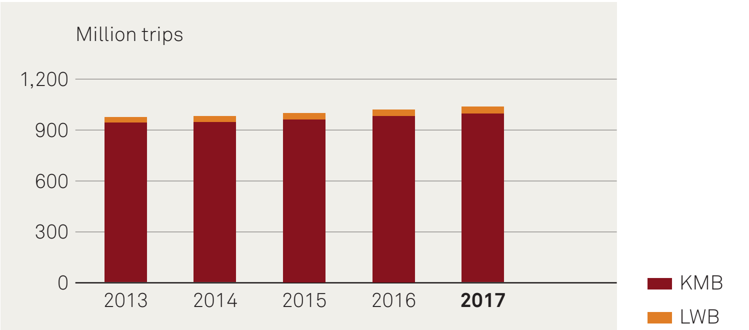
Earnings per share

Earnings per share for 2017 was HK$3.11



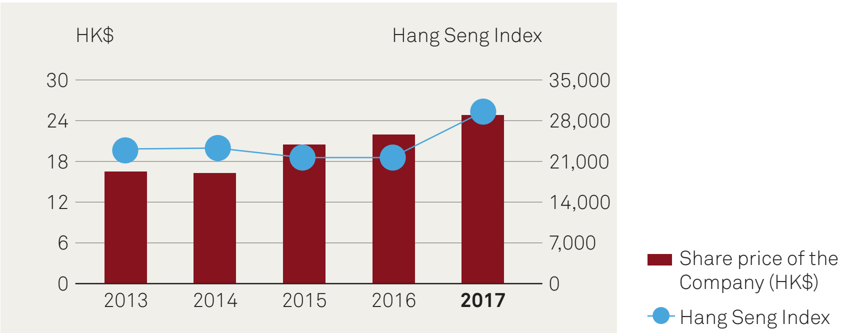
Number of passenger trips (Franchised public bus operations)

Number of passenger trips in 2017 was 1,044.6 million, up from 1,027.4 million in 2016



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

The closing share price of the Company at 2017 year-end was HK$25.15 per share, up 14% compared with that at 2016 year-end



Corporate Milestones 2017

January

KMB opened the first stall at the Lunar New Year Fair

To welcome the Year of the Rooster, KMB opened a stall at the Yuen Long Lunar New Year Fair for the first time, and distributed over 10,000 free rice cakes and red packets with a special Lunar New Year design to the elderly.

March

KMB introduced emission-free electric patrol car fleet

KMB introduced 20 electric patrol cars to improve roadside air quality and promote low carbon living.

15 Years Plus Caring Company Logo

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

April

"Event 1933" held to showcase KMB's 84-year service history

A carnival was held at Tsim Sha Tsui highlighting KMB's developments over the past 84 years.

KMB won Reader's Digest Trusted Brands 2017 Gold Award

KMB won the "Reader's Digest Trusted Brands 2017 Gold Award – Public Transport category" in appreciation of its bus service.

May

KMB introduced first Euro VI bus in Hong Kong

KMB introduced Hong Kong's first Euro VI diesel double-deck bus, reducing emissions of major pollutants and improving fuel consumption.

June

KMB introduced new red buses in fleet revamp

KMB introduced new red buses to replace the champagne gold buses, with the provision of USB chargers and a free Wi-Fi service.

KMB opened first Pop-up Store

KMB opened its first Pop-up Store in Tai Po, entertaining the public with bus scenes and bus souvenirs.

July

KMB granted new 10-year franchise

KMB was granted a 10-year franchise by the Government with effect from 1 July 2017. KMB introduced more fare concession schemes, including a scheme for full-time students and interchange concession partnerships with Hong Kong Tramways and AMS (minibus). KMB pledged to invest HK$3.8 billion in the next five years to renew its bus fleet.

LWB issued pre-paid group tickets on Airbus Routes

LWB introduced a pre-paid group ticket scheme on "A" Routes with fare discounts of 15%-25%.

Partnership with CITIBANK to offer year-round 10% KMB and LWB bus fare rebate

KMB and LWB partnered with CITIBANK to enable Citi Octopus Platinum Cardholders to earn a year-round 10% bus fare rebate when they pay for KMB and LWB rides using the card.

KMB and LWB held first staff concert

KMB and LWB held its first concert for staff, helping their dream of performing on stage come true.

First participation in Hong Kong Book Fair

KMB participated in the Hong Kong Book Fair for the first time, offering new collections of bus models and souvenirs.

August

KMB installed mosquito repelling devices across the territory

Around 400 mosquito repelling devices were installed at about 100 spots with a higher risk of mosquito breeding, helping to minimise the potential risks associated with mosquito-borne diseases.

Red Bus Experience@ Rt.1A

KMB deployed around 30 red buses to Route 1A and invited passengers to experience the new bus fleet at Tsim Sha Tsui Star Ferry Bus Terminus.

September

KMB introduced in-house developed solar power system for double-deckers

KMB introduced its first double-deck bus equipped with an in-house developed solar power system, which serves as an auxiliary electric power supply and drives the air ventilation system.

KMB retired bus regenerated as primary school reading centre

KMB launched the Donation of Used and Retired Bus Programme to benefit schools and NGOs. The first donated bus was regenerated as a library and STEM (science, technology, engineering, and mathematics) learning station.

"KMB Football" played first match in Hong Kong League

The newly formed team "KMB Football" played its first match in the Third Division of the Hong Kong League.

October

LWB offered 20% fare discount on "A" Routes for those taking first leg on "E" Routes

LWB introduced a same-day return fare concession scheme on "A" Routes for those taking the first leg on "E" Routes.

November

KMB introduced "Green Bus Stop Scheme"

KMB introduced the "Green Bus Stop Scheme", through which the rooftops of around 600 bus shelters currently without any electrical installations will be equipped with solar panels.

December

KMB received awards from Social Welfare Department

KMB took Second Runner-up in the Highest Service Hour Award (Private Organisations – Best Customers Participation) and Merit in the Highest Service Hour Award (Private Organisations – Best Staff Participation).

Following the upgrade of the bus fleet, the enhancement of the efficiency and competitiveness of the bus network and the improvement in bus service reliability, the ridership of KMB increased by 1.6% compared with 2016.

Norman LEUNG Nai Pang
Chairman

Dear Shareholders and Partners,

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

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

Dividends

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

Financial Performance in 2017

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

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

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

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

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

Design and Innovation

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

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

Expanded Network

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

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

Care for Employees

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

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

Social Responsibility

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

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

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

Challenges and Opportunities

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

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

Safety First

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

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

Acknowledgements

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

Norman LEUNG Nai Pang
Chairman
22 March 2018

We will continue to look into ways to progressively adopt technology in our operations and services. As a public transport company carrying more than two million passengers a day, it is important that we strive to meet the needs of our passengers.

Roger LEE Chak Cheong
Managing Director

Q

What is your vision for franchised public bus services? According to Government statistics, the proportion of Hong Kong people using public transport has reached 90%. As one of the public bus operators in Hong Kong, what role does KMB have to play in future developments?

A

Public bus services with their inherent flexibility are an indispensable part of Hong Kong's transport environment. Our competitiveness will be greatly enhanced as bus services are brought more closely in line with passenger needs, with services flexibly deployed in response to different demands and demographic changes. The flexible deployment of buses and human resources and the development of new products will further enhance the efficiency of bus services.

Bus services need not be subject to existing demand; demand can be created by encouraging people who were staying at home to go out. To this end, the introduction of a Monthly Pass is a significant breakthrough, changing the inherent pattern of fare payment. With a Monthly Pass, passengers can travel across the territory on our network of nearly 400 routes, enjoying unlimited, flexible and convenient point to point bus services with our interchange facilities. With its competitive fare, the "KMB Monthly Pass" is set to reshape commuting trends.

In addition to double-deck and regular single-deck buses, we are also looking at introducing Medium Buses as a new vehicle mode to better suit certain market segments. The Medium Bus would be a new solution for areas currently with a low population density with potential for long-term growth. In line with the concept of the Medium Bus, which was raised in the Government's "Public Transport Strategy Study", KMB has taken the lead in conducting a pilot project in Tuen Mun and Yuen Long providing short-distance shuttle services between local communities and major transport hubs.

Another example of a new product is the introduction of a Premium Bus service. At present, commuters travelling from the New Territories to the urban areas have the choice of a bus with a fare of around HK$20 or a taxi costing about HK$200. There is a considerable price gap between the two options. The introduction of a Premium Bus service offers a means of bridging this gap for passengers who are willing to pay more for a quicker and more direct service. Featuring more spacious compartments and seats, and equipped with features such as a free Wi-Fi service and USB chargers, the Premium Bus offers greater comfort and convenience to commuters.

We will continue to optimise bus route planning and develop more bus routes to meet the needs of passengers by, among other things, enhancing night bus services and express peak-hour routes, and introducing more interchange hubs.

Q

What technological measures are planned to upgrade bus services?

A

We will continue to look into ways to progressively adopt technology in our operations and services. As a public transport company carrying more than two million passengers a day, it is important that we strive to meet the needs of our passengers. Current applications of technology include the red "Heartbeat of the City" bus fleet introduced in 2017, which features free Wi-Fi and mobile phone charging points, and App1933, our award-winning mobile phone application that provides the estimated time of bus arrival among other functions.

Looking ahead, we will enhance on-board facilities on our buses by introducing a vacant seat display. By means of infra-red induction technology, passengers on the lower deck will be able to see how many seats are available on the upper deck, saving them unnecessary trips upstairs. We will also strengthen the estimated time of arrival system by indicating the occupancy of the next bus.

As electronic payment systems become more mature and more popular, KMB and LWB will study the introduction of new payment means to give passengers more options, besides cash and Octopus.

Q

What is your opinion on the Government's amendment to "the Guidelines on Bus Captain Working Hours, Rest Times and Meal Breaks"?

A

We have always been committed to providing a better environment for our bus captains. The new guidelines, revised by the Government, aim for a balance between bus captains' rest times, remuneration and bus service levels. They also maintain the flexibility of bus operations so that bus operators can respond to changes in passenger demand for bus services effectively.

We understand that the community is highly concerned about driving safety. Bus captains need to be highly focused when conducting driving duties, so we strive to improve duty dispatch arrangements as well as the working environment for frontline staff. To this end, we continue to install lounges where frontline staff can relax.

A number of bus captains have told me that it is not driving itself that is tiring, but that traffic congestion is. Therefore, a smooth traffic flow will improve the quality of the driving experience. The number of private cars in Hong Kong has surged by 50% in the past decade, while the growth in new roads has been slow, which means that traffic congestion is becoming more serious. Traffic congestion tends to lengthen bus captains' driving hours and increase the pressure on them. It is crucial and urgent that we work to make the traffic flow smoother. I have repeatedly raised this issue with the Government and put forward different proposals, such as setting up "Public Transport Only Lanes". I will continue to urge that public transport operators should have higher priority on the roads, which will not only benefit large numbers of travellers but also provide a better working environment for frontline staff.

Q

What is the Group's commitment to environmental protection?

A

We have introduced a number of new measures to promote environmental protection, including the in-house developed double-deck bus with a solar power system, which provides a more comfortable compartment for passengers and bus captains by helping to reduce the temperature in the compartment. We have also launched the "Green Bus Stop Scheme", whereby 600 older bus stops without an electricity supply are equipped with solar power devices to power the lighting and mosquito repelling devices. We also installed solar power devices for the ventilation of temporary staff toilets to improve the working environment.

We are committed to reducing emissions. In 2017, KMB introduced the first Euro VI diesel double-deck bus to Hong Kong, leading the local industry to the latest environmental standards. Under the Government's subsidy plan, KMB has put supercapacitor electric buses and battery electric buses into service, and in support of zero-emission green driving we have purchased 20 electric patrol cars to supersede the petrol cars.

At the end of 2017, KMB and LWB had 2,586 air-conditioned buses at Euro V standard or above. Looking ahead, we will examine the feasibility of introducing electric double-deck buses to Hong Kong and will explore more solutions for clean energy use.

Q

What measures has the Group taken in its human resources policy to maintain good bus service standards in Hong Kong?

A

Public transport is a labour-intensive industry, and a tight labour market has brought pressure in relation to hiring across the industry. In addition to the provision of an annual pay adjustment, we have optimised the salary structure of our frontline staff, including bus captains, benefiting some 10,000 colleagues. This arrangement should help enhance income stability and attract recruits to provide quality bus services to the public.

The Group will continue to optimise the recruitment, training, working conditions and emotional support of its bus captains. The group will also look into installing additional safety devices in buses to assist bus captains in performing their driving duties and maintaining safe driving.

The company is also focusing on enhancing staff communication, so that from 2018, in addition to existing communication channels, management will have regular meetings with frontline staff to promote more direct engagement.

Business Review

The Group's core business is the provision of franchised public bus services in Hong Kong by means of its flagship subsidiary, The Kowloon Motor Bus Company (1933) Limited, and Long Win Bus Company Limited. The Group also offers non-franchised tailor-made transport services for a wide range of customers in Hong Kong and a 24-hour cross-boundary shuttle bus service serving commuters and leisure travellers between Lok Ma Chau and Huanggang through Sun Bus Holdings Limited and its subsidiaries (the "Sun Bus Group") and New Hong Kong Bus Company Limited ("NHKB") respectively. The Group has a 35% interest in a Shenzhen joint venture and a 31.38% interest in two Beijing joint ventures, operating public bus, minibus and taxi services in Shenzhen, and taxi and car rental services in Beijing respectively. The Group also holds a portfolio of properties for investment and development purposes.

The business review of each business operation is set out on pages 22 to 39 of this Annual Report. The prospects of the Group's businesses are discussed in the Chairman's Letter on pages 12 to 15 and in the Conversation with the Managing Director on pages 16 to 19 of this Annual Report.

Key risks and uncertainties

The Group's businesses face a number of key risks and uncertainties, including those set out below. It should be noted that the following is a non-exhaustive list and there may be other risks and uncertainties in addition to the key risk areas outlined below.

Regulatory environment and government policies

A substantial part of the Group's revenue is generated from franchised transport operations. As a result, changes in government transport policy and regulations, such as Public Bus Services Ordinance (Cap 230) and Public Bus Services Regulations (Cap 230A), may have a significant impact on the Group's operating results and financial conditions in either the short or the long term. Proposals for a fare increase are subject to the approval of the HKSAR Government, who need to take into account a basket of factors, including public acceptability and affordability, which may not align with the financial conditions of the franchised bus companies. There is no guarantee that a fare increase of a sufficient magnitude will be granted in time to enable the franchised bus companies to offset rising overheads and costs. The inflexibility inherent in this arrangement may have an adverse impact on the financial condition of the Group in an inflationary atmosphere.

Fuel prices and other financial risks

Fuel represents a major component of the Group's cost structure. Volatility in fuel prices may affect the financial stability of the Group. In addition, the Group's activities are exposed to various financial risks, including foreign currency, interest rate, credit and liquidity risks, which are discussed in the Financial Review on pages 60 to 73 of this Annual Report.

Unexpected events and natural disasters

The operations of the Group's businesses may be subject to the impact of unexpected events, such as prolonged electricity outages at depots or large-scale road blockages over an extended period of time. While the Group has implemented an effective Business Continuity Plan ("BCP") to deliver quality transport services in all circumstances, its operations may still be adversely affected by natural disasters and severe weather conditions, including floods and typhoons.

Hong Kong Franchised Public Bus Operations

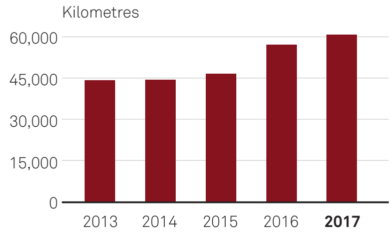
The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited are leading franchised public bus operators providing world-class, environment-friendly, value-for-money bus services in Kowloon and the New Territories and on Hong Kong Island. Safety, reliability, comfort and convenience underpin their operations.

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

KMB, a wholly-owned subsidiary of Transport International Holdings Limited, is the largest franchised bus operator in Hong Kong, serving more than 2.7 million passenger trips each day. A workforce of around 11,700 employees, including some 8,600 bus captains, ensures that customers enjoy high quality service on a fleet of over 3,900 buses operating on 397 routes. On 1 July 2017, we entered a new era of service with the grant of a franchise to operate for ten more years.

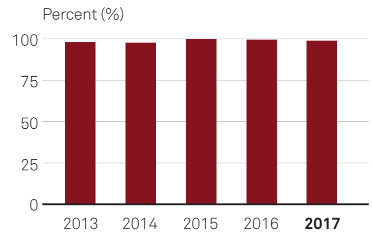
KMB connects people day and night

Mechanical reliability – KMB



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

Operational capability – KMB



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

Operational Excellence

KMB has provided reliable franchised bus services in Hong Kong for eighty four years, and is an industry leader in operational and service excellence. Reflecting the company's commitment to achieving the highest operational and service standards, KMB has been ISO certified for Quality Management System (ISO9001) since 1999 and ISO certified for Environmental Management System (ISO14001) at its two largest depots since 2003. KMB has also been accredited with Occupational Health and Safety Assurance Series ("OHSAS") 18001:2007 certification for all of its depots since 2012. With the new 2015 version of ISO9001 becoming effective in 2018, work is currently being undertaken to ensure a smooth transition to the latest certification requirements.

Performance Pledge/Safety and Reliability

Mechanical reliability and operational capability are the key benchmarks of an efficient public bus services. Mechanical reliability refers to the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. In 2017, the mechanical reliability of KMB's fleet was 61,033 km: 1. Operational capability refers to the ratio of actual to scheduled departures in the peak direction during the peak hours of 7:00 a.m. to 9:00 a.m. across the entire bus network. In 2017, we achieved an operational capability of 98.86%.

KMB has introduced brand new red buses with ergonomic design and innovative facilities

Bus Fleet and Fleet Upgrade

KMB continues to modernise its bus fleet with a raft of innovations. All non-super-low floor buses were phased out by July 2017, affording greater accessibility for all our passengers. KMB's technologically advanced and environment-friendly buses showcase a range of innovative features, including the On-board Electronic Bus Stop Announcement System.

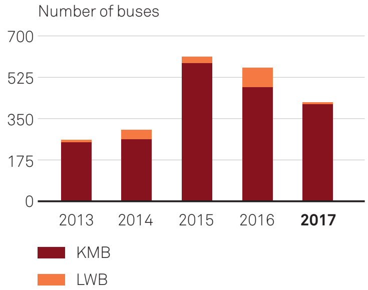
In mid-2017, KMB introduced brand new red buses with silver trim and the slogan "Heartbeat of the City" to reflect the energy KMB provides to the whole bus network in Hong Kong. The interior of the buses, designed to create a warmer atmosphere for passengers, is equipped with USB chargers and a free Wi-Fi service.

We are committed to contributing to a better environment by investing in environment-friendly buses that meet the exhaust emission standards laid down by the European Union. In 2009, we became the first public bus company in Asia to introduce Euro V double-deck buses at a time when legislation required only Euro IV emission standards for newly-registered diesel vehicles. In 2017, we introduced Hong Kong's first diesel-powered double-deck bus with Euro VI emission standards. Compared to the Euro V double-decker, the Euro VI bus's emissions of major pollutants are reduced considerably, with emissions of nitrogen oxides, hydrocarbons and particulate matter decreasing by 80%, 72% and 50% respectively. In terms of performance, the bus's more efficient engine reduces fuel consumption and lowers noise levels, while the Electronic Stability Program significantly reduces the risk of roll or skid in all conditions. On the other hand, Euro III and earlier model buses will be completely phased out within the next four years.

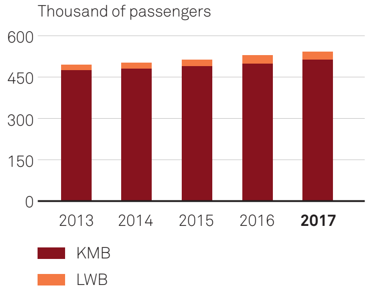
In 2017, KMB continued to make substantial investments in new buses with the latest safety, environmental and design features, acquiring a total of 400 new Euro V and one Euro VI super-low floor double-deck air-conditioned buses. KMB also introduced ten battery electric single-deck buses and one supercapacitor electric single-deck bus into its fleet in 2017. As at 31 December 2017, KMB operated a total of 3,972 licensed air-conditioned buses, comprising 3,827 double-deck buses and 145 single-deck buses. The fleet currently features three hybrid double-deck buses, ten battery electric single-deck buses and four supercapacitor electric single-deck buses. In addition, 464 air-conditioned double-deck Euro V buses were on order for delivery in 2018 and four additional supercapacitor electric single-deck buses will commence operation in 2018.

KMB's bus fleet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Total number of buses
As at 1 January 2017	3,756	164	**3,920**
Additions during year	401	11	**412**
Disposals during year	(330)	(30)	**(360)**
As at 31 December 2017	3,827	145	**3,972**

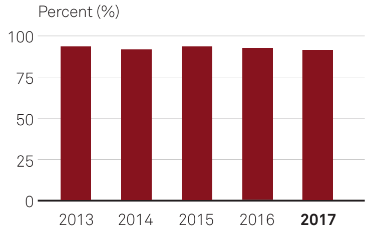
Number of new buses introduced to the fleet



Total fleet capacity at 31 December



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



In 2017, KMB introduced the trial of Hong Kong's first double-decker equipped with an in-house developed solar power system that drives the air ventilation system and the USB chargers.

Bus Service Network

At the end of 2017, KMB operated a total of 397 bus routes. KMB monitors the viability of its bus routes in terms of the changing operating environment, taking into consideration factors such as railway expansion, population intake and redistribution, and the building of new highways. By matching resource allocation to new demand patterns, KMB strives to improve the efficiency, competitiveness and long-term sustainability of its bus network, while seeking opportunities for expansion into new growth markets.

Following the opening of the Kwun Tong Line Extension and the South Island Line (East) in the fourth quarter of 2016, some passengers travelling to and from Hung Hom, Ho Man Tin and Island South have shifted from road-based public transport to rail. In response, KMB has implemented route reorganisation with the concerted efforts of all stakeholders to improve operational effectiveness by redeploying buses to other routes. In this way, a sustainable and financially viable bus network is able to play its part in easing traffic congestion and improving environmental management through reduced roadside emissions.

KMB, in partnership with Hong Kong Tramways Limited, launched an inter-modal interchange fare concession scheme

In 2017, we implemented 76 route reorganisation proposals, enhancing the overall route network while bringing the following benefits to the travelling public:

- eliminating wasteful duplication of routes;
- allowing resources to be released for redeployment in new growth areas;
- straightening routes that are unduly circuitous;
- introducing new express routes that utilise the new highway infrastructure; and
- offering greater connectivity between routes by using Bus-Bus Interchanges ("BBI").

Promotions

In July 2017, KMB introduced new inter-company interchange concession schemes with Hong Kong Tramways and with certain Green Minibus routes of AMS Public Transport Holdings Limited. These promotion schemes have been extended until mid-2018 to promote public transport use. Furthermore, a half-fare concession has been provided to students if they pay for the return trip of the designated KMB routes on the same day using the same Octopus Card.

To promote ridership on public transport, and as part of the Passenger Reward Scheme, two discount schemes were introduced in 2017. A fare discount of 5% was offered to adult and student passengers from 1 May 2017 to 30 June 2017. In December 2017, all passengers enjoyed 20% discount (except students as they already enjoyed 50% discount) if they paid for the return trip of the designated KMB routes on the same day using the same Octopus Card.

Comprehensive upgrade Smartphone App

KMB launched a new version of the KMB and Long Win mobile app, "App1933", in September 2016 to allow passengers to check information on bus routes and the estimated time of bus arrivals more conveniently. In 2017, the interface

App1933 continues to upgrade its features

Major Depots Serving KMB and LWB Buses

Depot	Areas served/ main purpose of depot	Gross floor area (square feet)	Number of buses served as at 31 December 2017	Year in which operations commenced	Remarks
KMB depots:					
Kowloon Bay Depot	East Kowloon	768,038	1,086	1990	The depot land was acquired at market price from the Government in 1986 under a Private Treaty Grant
Sha Tin Depot	North and East New Territories	720,005	1,124	1988	The depot land was acquired at public auction in 1984
Lai Chi Kok Dept	South and West Kowloon	648,946	882	2002	The depot land has been leased from the Government on a short term tenancy#
Tuen Mun Depot	West New Territories	148,961	880	1979	The depot land was acquired at public auction in 1974
KMB Overhaul Centre	Bus overhaul	380,915	N/A	1983	The depot land was acquired at market price from the Government in 1979 under a Private Treaty Grant
LWB depot:					
Siu Ho Wan Depot	Lantau Island	82,422	245	1998	The depot land has been leased from the Government on a short term tenancy#
Total		**2,749,287**	**4,217**		

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

was further upgraded. Besides offering the Live Chat function to communicate with customer service representatives, App1933's boarding function estimates arrival time at the destination. A trial of real-time passenger counting on selected routes has also been launched to keep App1933 users informed of the occupancy level of arriving buses. This function will be fully launched in 2018. App1933 ranked Number 1 in App Store of iPhone Applications (free download category) in Hong Kong in 2017.

Application of Information Technology

Information technology links offices, bus depots, bus termini and customer service centres via a high-speed network. Key computer systems used by the Company include the Estimated Time of Arrival ("ETA") service, which operates via display panels at bus termini and bus stops, as well as on App1933 and the KMB and LWB websites. Other systems include Integrated Bus Service Information Display System (IBSID), Electronic Bus Stop Announcement System (BSAS), Terminus Management System (TER), Traffic Operations Management System (TOM), Bus On-board Monitoring System (BOM) and Operations Communications Management System (OCM).

In 2017, KMB conducted trials of passenger counting on the upper deck, and the system is expected to be launched in 2018. The number of passengers on the upper deck will be displayed on the lower deck to assist passengers in deciding whether to seek seats on the upper deck.

Depots

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

Hong Kong Franchised Public Bus Operations

Long Win Bus Company Limited ("LWB")

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

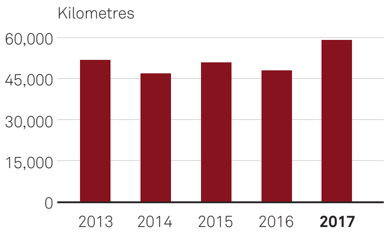
LWB provides transport services connecting Hong Kong International Airport and North Lantau with the New Territories

Performance Assurance

LWB constantly reviews its bus services and maintenance regime to ensure that safety and efficiency are maintained at the highest level across its bus fleet. LWB measures its operational performance by reference to two key performance indicators: mechanical reliability and operational capability. Mechanical reliability is the average number of kilometres a bus operates before it experiences a mechanical breakdown on the road with passengers on board. Operational capability is the ratio of actual to scheduled departures in the peak direction in the peak hours of 7:00 a.m. to 9:00 a.m. across the whole bus network. In 2017, LWB achieved 59,232km: 1 in mechanical reliability and 99.10% in operational capability.

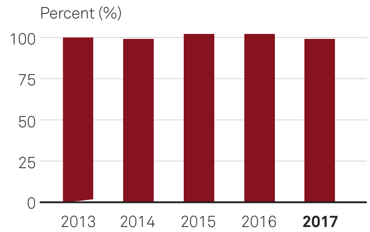
Having obtained ISO9001:2008 quality management systems certification in November 2012, LWB had its certification extended for three years to September 2018 after undergoing a certification renewal audit in 2015.

Mechanical reliability – LWB



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

Operational capability – LWB



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

Bus Fleet and Fleet Upgrade

The bus livery and compartments of the new-generation LWB Airbuses come in orange complemented by warm grey and khaki. The redesigned interior features ergonomically designed seats with increased legroom, while the upper compartment adopts a more spacious design. The buses provide a free Wi-Fi service, USB chargers, seatback magazine bags, spacious luggage racks, a screen displaying the bus arrival time and glass windows with a high degree of opacity, mirroring the experience of flying.

The LWB Airbuses are operated by a selected group of elite bus captains offering professional and friendly services. The design of their uniforms, in orange and grey, is consistent with the style of KMB uniforms, underlining the connection between the two companies.

LWB's bus fleet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Total number of buses
As at 1 January 2017	242	–	**242**
Additions during year	2	4	**6**
Disposals during year	(3)	–	**(3)**
As at 31 December 2017	241	4	**245**

In 2017, LWB introduced two new Euro V super-low floor air-conditioned double-deck buses and four battery electric single-deck buses. As at 31 December 2017, LWB operated 241 super-low floor air-conditioned double-deck buses, and four battery electric single-deck buses, all wheelchair accessible and equipped with the On-board Electronic Bus Stop Announcement System. To meet growing passenger demand, 44 buses are 12.8 metres in length, offering a higher carrying capacity.

LWB has 32 Euro V super-low floor air-conditioned double-deck buses scheduled for licensing in 2018, of which 24 are premium design buses, which are slated to operate on Airbus routes.


LWB expands its bus network continuously

Bus Service Network

At the end of 2017, LWB operated 30 routes. To satisfy the needs of the increasing number of air travellers arriving late at night and Airport staff working night or early morning shifts, the overnight Airbus network was extended in phases in 2017. LWB introduced three new routes, NA31, NA32 and NA47, to serve passengers travelling between Tsuen Wan, Kwai Chung, Tsing Yi, Tai Po and the Airport. Additional departures of existing overnight Airbus routes NA33, NA34, NA40 and NA43 were operated to provide passengers in the western, eastern and northern New Territories with a more direct connection to the airport.

To provide a more convenient Airbus service for Tai Po residents travelling to and from the Airport, in January LWB extended Route A47X to cover Tai Po Central and Fu Heng Estate on a whole-day service basis. In December, residents in Tuen Mun benefited from the rationalisation of Routes A33 and A33X, which enabled those in southern and northern Tuen Mun to travel directly to the airport.

To better serve the new residential area in Tung Chung North, in January LWB extended Route S64P to Ying Tung Estate, and introduced new peak-hour service Route E32A between Tung Chung North, Tsuen Wan and Kwai Chung.

New Octopus BBI schemes between LWB Airbus routes and LWB Shuttle Routes S64/S64X were introduced, and in July the discount on the BBI scheme between LWB Route A43P and KMB Route B1 was increased to provide a better connection between North Lantau/the Airport and Lok Ma Chau Station. Under these Octopus schemes, the fare of the feeder leg on Route S64/S64X and Route B1 is free.

LWB launched several fare concession schemes

Depots

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

Safety and Customer Service

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

To provide passengers with real-time bus trip information to assist journey planning, App1933 provides estimated time of arrival information on all LWB routes with a regular service. It also automatically displays on its home page each user's regular bus routes as well as information on buses at bus stops near the user's location. A single tap gives users access to the quickest route to their destination from their current location. Estimated time of arrival information is also provided on LWB's website, along with route information, and on display panels at selected bus stops.

LWB offered the "Same-day Second-trip Discount Concession" from 10 September 2016 to 30 April 2017. Passengers making any two trips on the same day within the same route group of "A" routes or "E" Routes enjoyed a 20% or 10% discount, respectively, on the same-day second trip. Moreover, to provide passengers with a more comfortable and direct return journey, LWB introduced the "Same-day Return Fare Concession Scheme" on "A" Routes for those taking the first leg on "E" Routes from 1 October 2017 to 31 March 2018. Octopus-paying passengers were able to enjoy a 20% fare discount on the same-day return trip on the 13 "A" Routes if the forward leg was made on any of the 11 "E" Routes, so long as the full fare for both journeys was paid with the same Octopus card. These concessions were offered in accordance with the passenger reward arrangement agreed with the Government.

For the convenience of passengers travelling to and from the Airport in groups in the summer holiday period, LWB introduced a pre-paid group ticket scheme on 13 "A" Routes with a fare discount of 15%-25%. As the scheme was welcomed by the community, the second round of the scheme was launched on 8 November 2017, to run until 15 May 2018, or until stocks last.

Environmental Protection

LWB is fully aware of the importance of environment protection and continues to invest in environment-friendly buses that meet the stringent emission standards of the European Council of Environmental Ministers. In 2017, LWB introduced two new Euro V buses and four new battery electric single-deck buses to its fleet, bringing the proportion of Euro V or electric buses up to 80%. In addition, it has retrofitted Diesel Particulate Filters on all its Euro III buses to reduce the emission of particulates. To further improve air quality, Near Zero Sulphur Diesel ("NZSD") has been used fleet-wide since 2010.

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

Hong Kong Non-franchised Transport Operations

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

Sun Bus provides services for The Chinese University of Hong Kong

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

The SBH Group is one of the leading non-franchised bus operators in Hong Kong, providing premium, safe, reliable, and economical transport services.

Led by its flagship subsidiary, Sun Bus Limited ("SBL"), the SBH Group tailors a range of bus services for specific markets, including residential estates, shopping malls, major employers, travel agents and schools, as well as providing the general public with chartered hire services.

The SBH Group continues to upgrade its fleet with the latest environment-friendly buses. In 2017, the SBH Group purchased 60 Euro V/VI buses for fleet replacement purposes. At the end of 2017, the SBH Group had a fleet of 386 buses. The SBH Group will continue to introduce more Euro V/VI buses as part of its fleet upgrade programme.

The SBH Group has 92 Euro V/VI buses scheduled for licensing in 2018, of which 29 are geared for long haul service, to cater for the potential growth in demand for cross-boundary bus service upon the opening of the Hong Kong-Zhuhai-Macao Bridge.

Hong Kong Non-franchised Transport Operations

New Hong Kong Bus Company Limited ("NHKB")

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

NHKB takes the strain out of cross-boundary travel

In 2017, NHKB operated a fleet of 15 air-conditioned super-low floor single-deck buses on its shuttle bus service between Lok Ma Chau and Huanggang. NHKB's terminus at the San Tin Public Transport Interchange boasts four comfortable air-conditioned boarding lounges and an integrated information display system.

With the stronger social and economic ties between Hong Kong and China Mainland, NHKB experienced an increase in patronage from 4.47 million in 2016 to 4.86 million in 2017. The demand for cross-boundary bus services remains strong, NHKB is geared up to maintain its shuttle bus services as a preferred means of transport for cross-boundary travelers through the provision of convenient and quality services.

China Mainland Transport Operations

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

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

SZBG is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four Mainland investors. The Group has a 35% interest in SZBG.

SZBG has been operating public bus, minibus and taxi services in Shenzhen since 2005. SZBG has a fleet of over 6,000 buses, operating on more than 260 routes and more than 4,000 taxis. Owing in large part to the expansion of the Shenzhen underground railway system and increasing operating costs reflecting higher staff costs, patronage of SZBG's bus operations fell by 13% to 593.1 million in 2017 as compared to 682.9 million in 2016.

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

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

KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, holds an equity interest of 31.38% in BBKT – the first Sino-foreign joint stock company to enter China Mainland's taxi hire and car rental sector when it was established in 2003.

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

In 2017, SZBG completed the transformation of its entire bus fleet to electric buses.

BBKT operated both taxi hire and car rental businesses until April 2013, when, to sharpen its focus on the business opportunities provided by the booming but challenging car rental market, it spun off its car rental business to another Sino-foreign joint stock company, namely Beijing Beiqi First Company Limited(北京北汽福斯特股份有限公司).

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

Beijing Beiqi First Company Limited (北京北汽福斯特股份有限公司)("BBF")

Established in April 2013 as a Sino-foreign joint stock company with the same shareholding structure as BBKT, BBF operates the car rental business formerly undertaken by BBKT. BBF has more than 1,100 vehicles available for charter, mainly serving Beijing (北京) and Tianjin (天津). With ISO9001:2008 certification for quality management systems in car rental services, BBF is well placed to take advantage of the business opportunities afforded by business commuters as well as by the wide variety of events, conferences and exhibitions that are held in the capital.

Property Holdings and Development

The Group has a portfolio of investment properties, including a shopping mall, an office building and an industrial property, which provide steady rental income.

LCK Commercial Properties Limited ("LCKCP")

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

LCKCP owns Manhattan Mid-town shopping mall, the two-level high-end retail podium at Manhattan Hill, centrally located in Kowloon within easy reach of Hong Kong Island and Hong Kong International Airport by road or rail. The 50,000 square feet shopping mall has provided Manhattan Hill residents and other shoppers with high quality retail facilities since its opening in March 2009. At the end of 2017, 100% of the lettable area of the shopping mall was leased out, generating a stream of recurring rental income for the Group.

LCK Real Estate Limited ("LCKRE")

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

LCKRE owns the 17-storey commercial office building at 9 Po Lun Street, Lai Chi Kok, Kowloon, which has a total gross floor area of about 156,700 square feet. The building is situated next to Manhattan Hill. Approximately 15% of the gross floor area is used by the Group as headquarters with the remaining gross floor area leased out to offices, shops and restaurants.

KT Real Estate Limited ("KTRE")

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

Sun Hung Kai Real Estate Agency Limited, a subsidiary of SHKP, has been appointed as the project manager to oversee the development of the Kwun Tong Site. In August 2016, KTRE and TRL accepted the offer from the Lands Department for the grant of lease modification from industrial to non-residential use (excluding hotel, petrol filling station and residential care home). Demolition work began in 2017 and it is expected that the redevelopment project will be completed by 2022.

TM Properties Investment Limited ("TMPI")

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

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

The Group's Property Holdings and Development:

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

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

Care for Customers

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

The highest standards of maintenance keep the fleets in tip-top shape

Safety First

KMB and LWB's Safety Policy is based on a commitment to providing a safe and healthy environment for everyone who uses our services or may be affected by our bus operations. We adopt a safety management system which supports safety performance improvement in accordance with the international standards of Occupational Health and Safety Assessment Series ("OHSAS") 18001. The system promotes continual improvement of the safety performance of all aspects of our business, including bus maintenance, and design upgrades.

Public Safety Awareness Promotion

A number of technological devices are incorporated on buses to improve safety and record operational data, including speed limiting devices, which limit the speed of buses to 70 km/h, and the telematics system. All KMB and LWB buses undergo an ISO-certified maintenance regime, comprising daily and monthly servicing, a semi-annual minor dock and an annual road-worthiness inspection carried out at the depots, in addition to random checks from the Transport Department of the HKSAR Government.

KMB and LWB make use of different channels to boost public awareness of safety matters. A series of safety messages, broadcast on the Bus Stop Announcement System in Cantonese, English and Putonghua, remind passengers to hold the handrail at all times. In addition, this message is conveyed via the smartphone App and KMB's Facebook page.

Operational Excellence

KMB and LWB are ISO9001 certified for their Quality Management Systems, and KMB is also ISO14001 certified for its Environmental Management Systems. KMB was also the first listed public transport organisation in Hong Kong to receive Green Mark Certification from the Q-Mark Council of the Federation of Hong Kong Industries. KMB's four major depots and LWB's depot are subject to quarterly surveillance audits to ensure compliance with stringent environmental management standards.

Training and Quality Assurance

To ensure the delivery of excellent service, KMB and LWB continuously monitor their operations and services. In 2017, the Training and Quality Assurance Department assumed the role of consolidating and enhancing staff development programmes and ensuring the delivery of quality services.

New buses are equipped with USB chargers

Data Protection

The Group is concerned about personal data protection and has established working instruction guidelines to prevent personal data from being disclosed inappropriately. 2,414 KMB and LWB buses are equipped with a CCTV system to enhance the service provided and ensure passenger safety. Stickers are posted on all such buses to inform bus passengers and bus captains. Recordings from CCTV cameras will be accessed by authorised persons for the purposes of security and incident investigation. The recorded data is controlled by management and will only be accessed, copied or viewed following management approval in accordance with the governing procedures.

New Bus Fleet and Facilities

KMB's new red bus fleet, launched in 2017, symbolises the vitality of Hong Kong, with an image of Hong Kong's skyscrapers depicted on the bus roof matched by the slogan "Heartbeat of the City". LWB's new logo, in the company's traditional vivid orange, shares a design concept with its sister company KMB, with an eye on forging a clearer connection between the two companies.

KMB and LWB's latest double-deck buses have upgraded passenger facilities, including a free Wi-Fi service and USB charging points on both upper and lower decks, a straight staircase for easy access to the upper deck, more spacious 2+2 seating, priority seats for passengers in need, space near the entrance/exit for wheelchair users, colour contrasted handrails and easy-reach bell-pushes. In addition, the provision of continuous railing and hand poles on the lower deck ensures a smooth passenger flow in the space between the entrance and exit doors. All seats on the upper deck of LWB's Airbuses are equipped with an armrest to provide a more comfortable bus journey. At the end of 2017, 2,390 buses at Euro V standard or above were licensed in the KMB fleet, while 196 buses at Euro V standard or above were licensed in the LWB fleet. The majority of these buses are deployed on routes passing through low-emission zones to help improve the air quality in busy districts.

Upgraded Compartments

We continue to improve the comfort inside the bus compartment, incorporating the latest ergonomic designs for passenger seats with a classic tone and installing sophisticated automatically-controlled air-conditioning systems. The air quality in bus compartments benefits from the electrostatic air filtration function installed on all air-conditioned bus models purchased after 2002, which is able to remove up to 80% of fine particles. At the end of 2017, electrostatic filters had been installed on 3,224 KMB and 241 LWB buses. In addition, all KMB and LWB buses ordered after 2008 are equipped with power-saving variable capacity air-conditioning compressors which provide more adaptive and refined thermal control in the most fuel-efficient manner in all weather conditions.

The entire KMB and LWB fleet has been deploying super-low floor buses since August 2017 for easy boarding and alighting, as well as wide entrance and exit doors for better passenger access, which means that all KMB and LWB buses are accessible to the elderly and wheelchair users. In addition, since March 2017, KMB has been retrofitting some of its buses to accommodate two wheelchair passengers.

Fare Concession Schemes

KMB and LWB are committed to providing efficient bus services. A number of fare concession schemes were launched in the reporting period, including:

KMB

- A long-haul route fare concession scheme for full-time students, who enjoy a concessionary half fare on their return trip on daytime routes;
- Alignment of fares for 77 short-haul trips on inter-district routes with shuttle bus routes;
- 13 new Bus-Bus Interchange ("BBI") concessions on 81 routes;
- Partnership with Hong Kong Tramways Limited providing inter-modal interchange fare concessions; and
- A KMB-AMS interchange discount when interchanging from designated cross-harbour routes solely operated by KMB to designated Hong Kong Island Green Minibus routes operated by AMS, and vice versa.

LWB

- A pre-paid group ticket scheme on "A" Routes with fare discounts of 15%-25%;
- A 20% same-day fare discount on "A" Routes for those taking the first leg on "E" Routes; and
- 2 new Bus-Bus Interchange ("BBI") concessions on 11 routes.

Octopus Bus-Bus Interchange ("BBI") Schemes

KMB and LWB's Octopus BBI Schemes offer fare discounts to passengers on the second leg of journeys and broaden our network coverage. The schemes contribute to a greener environment by improving bus use and reducing congestion on busy roads. At the end of 2017, KMB operated a total of 144 Octopus BBI Schemes covering around 380 routes, while LWB operated 25 Octopus BBI Schemes covering 24 routes. The BBI interface on the KMB and LWB websites has been enhanced to provide more detailed and comprehensive route-to-route BBI information for passengers.

Upgrade of Depots, Termini and Bus Stops

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


KMB has retrofitted some of its buses to accommodate two wheelchair passengers

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

- A scheme to install passenger seats for the elderly, disabled and parents with young children at all bus shelters, bus termini and interchanges was launched in November 2017;
- Bus stop railings with cement bases are being phased out to ease the passage of wheelchair passengers;
- 100 selected bus termini have been equipped with anti-mosquito lamps;
- The Green Bus Shelter Campaign provides installation of solar power equipment for lighting, mosquito repelling devices and ventilation fans;
- 450 KMB and LWB bus termini and bus shelters are equipped with the Integrated Bus Service Information Display System;
- 21 bus shelters were constructed, bringing the total to 2,550; and
- 280 crystal bus stop poles with LED lighting are in place across KMB's operating area.

Care for Employees

Our staff are our greatest resource and we cherish them accordingly.

Management and frontline staff build a professional team to serve the public

Human Resources Policy

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

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

Staff Benefits

To help attract and keep talented staff, attractive benefit packages are offered, including annual leave, medical benefits, hospitalisation insurance, accident insurance and free bus travel for staff and dependents. In 2017, KMB and LWB strengthened the benefit package of full-time employees by:

- Extending marriage leave and compassionate leave entitlement to operations and maintenance staff;
- Introducing alternate Saturday off for apprentices;
- Extending outpatient medical services to staff dependents; and
- Organising tours to China Mainland for staff and their dependents at a special price.

A scholarship scheme supports the tertiary education of children of staff

We extend our care for employees to their families. We provide a scholarship programme for the children of staff with satisfactory academic performance to support their tertiary education. In 2017, 51 children of KMB and LWB staff members received scholarships. Some of the scholarship recipients have gone on to work as interns in KMB. We brought festive joy to our staff at traditional festivals. At Lunar New Year, we distributed limited-edition corporate red packets to our staff, while, at Dragon Boat Festival and Mid-Autumn Festival, we distributed a rice dumpling and mooncakes respectively.

Staff Communication

To strengthen bilateral communication, meetings of each of the five KMB and one LWB Joint Consultative Committees, which represent around 90% of the KMB and LWB total workforce, were held on a monthly and bi-monthly basis respectively between management and staff representatives to review issues including safety, operations, the work environment and staff welfare. At the meetings, employee representatives generally accounted for 75% of attendees to ensure that the views of staff were well reflected.

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

Occupational Safety and Health

KMB and LWB are committed to providing a safe and reliable service. The Safety Policy is predicated on a commitment made by all staff members to providing a safe and healthy environment for all persons who may be affected by our work activities with the objective of minimising the risk of injury and ill health. Various safety committees have been set up, with representation from management and staff members at different levels, to gather staff opinions on occupational safety and health related issues.

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

KMB and LWB staff members are encouraged to suggest improvement measures to enhance health and safety conditions. After reviewing staff suggestions at regular meetings of safety committees, wireless portable electric fans were used to replace traditional electric fans, and wireless portable electric hand tools and lights were used to replace traditional ones in order to reduce the risk of tripping posed by electric cables on the floor. In addition, universal shears were used to replace general cutters and scissors for cutting and shaping the floor covering inside bus compartments so as to reduce the chance of hand injuries. Both KMB and LWB provided cut-resistant gloves to staff.

Improved Working Environment

KMB and LWB have continued to renovate and upgrade the working environment for staff, especially frontline staff, providing improved places to rest before working. KMB renovated the Workshop and rest area at Kowloon Bay Depot and added around 30 staff rest kiosks with air-conditioners at bus termini, including Lok Wah Estate Bus Terminus. Additionally, 100 selected bus termini have been equipped with mosquito repelling devices. LWB renovated the Duty Dispatch Office, Reception Office and Store at Siu Ho Wan Depot, as well as the Ticket Office, Bus Regulator's Office and Staff Rest Room at Ground Transportation Centre at Hong Kong International Airport.

Senior Management Visits

Members of the senior management from KMB and LWB made visits to depots and offices during the year. At Lunar New Year, they held staff gatherings to welcome the Year of the Rooster with staff members. These visits provided a good opportunity for staff to share their views about operational matters and workplace-related issues with members of the management team.

Technical and Apprentice Training

The Technical Training School has been responsible for training our bus maintenance staff in the latest bus technologies since 1973. In 2017, 172 in-house training sessions were run for 1,197 skilled workers, while four training sessions were organised in collaboration with our manufacturers for 52 engineers, supervisors and foremen.

KMB and LWB continue to improve staff welfare benefits, including retired staff

KMB's professional engineering team introduced the first in-house double-deck bus with a solar power system

To ensure a continuous stream of skilled workers to provide maintenance for the KMB and LWB bus fleets, the school runs a four-year apprenticeship training programme for youngsters who are interested in bus maintenance. The total of graduates since the school's establishment is 2,405. In 2017, 173 apprentices were enrolled in the School's programme. The quality of our apprentice training was once again recognised in 2017 with a KMB apprentice being awarded Outstanding Apprentice of the Year by the Vocational Training Council.

Bus Captain Training

The Bus Captain Training School provides each Bus Captain Trainee with a comprehensive Training Course which aims to equip them with a safe driving mindset, bus manoeuvring skills and bus route knowledge. The Training Course includes training on emotional management and customer service skills. More than 700 new bus captains undertook our Training Course in 2017. Enhancement Driving Training plays a crucial role in upgrading both the driving skills and safety awareness of in-service Bus Captains, who return to the Bus Captain Training School every three years to refresh their job competence in various aspects, including safe driving mindset, bus manoeuvring skills, emotional management and customer service skills. In 2017, over 3,000 in-service bus captains completed the Enhancement Driving Training Course.

To meet customers' needs and expectations, our bus captain performance management system helps keep our bus captains at a high standard in terms of driving safety, driving manner and quality customer service. In 2017, we handled over 60,000 items of feedback from customers in relation to bus captains' service. Through one-on-one coaching and guidance, we aim to ensure that bus captains' performance continues to meet the expectations of the general public.

The Bus Captain Training School also provides professional driving training services to meet the ever changing needs of the community while supporting the Company's business growth. The number of Driving Instructors is also being increased to enhance the service quality of our bus captains in line with the Company's growth.

Rewarding Service Excellence

377 "Star" Bus Captains were recognised for their outstanding performance in safe driving and customer care. The Long Service Award Presentation Ceremony was held once again to recognise the loyal service of our staff. 60 KMB and LWB staff received the 35-year award and a gold medal, 106 employees received the 30-year award and a plaque and a pin, 531 employees

received the 20-year award and a plaque and a pin, and 234 employees with 10 years' service received a certificate of appreciation.

Sports and Leisure Activities

In pursuit of an effective work-life balance, KMB and LWB staff members are encouraged to participate in sports and leisure activities as well as undertake voluntary work. As at the end of 2017, nine interest clubs were available, focusing on singing, photography, basketball, table tennis, badminton, football, long distance running, chess and dragon boat racing. The groups arranged different activities or competitions. A staff concert was held in the reporting period drawing a large audience of staff and their families and friends.

KMB has formed a football team to participate in the Hong Kong Football Association's 3rd Division League in the 2017-2018 season. Employees who are keen on playing football are encouraged to join the team. Through regular training and competitive play, team spirit and a sense of belonging can be fostered and work-life balance achieved.

TIH Retiree Association

The TIH Retiree Association was formed with the aim of organising activities to maintain close contact with retired colleagues. The Association swung into action with three dinners to celebrate Chinese New Year and the Mid-Autumn Festival, attended by around 1,200 retirees. Two outings were also organised by the Association, in which around 350 retirees participated.

Workforce (as at 31 December 2017)

		KMB, LWB and SBH Group
Total		**13,040**
By gender	Female	**1,053**
	Male	**11,987**
By age group	Under 30 years old	**902**
	30-50 years old	**5,907**
	Over 50 years old	**6,231**
By employment category	Senior level	**35**
	Middle level	**268**
	Entry level	**12,737**

Training Hours (1 January – 31 December 2017)

		KMB, LWB and SBH Group
Total hours		**141,850**
By gender	Female	**8,265** (7.8 per capita)
	Male	**133,585** (11.1 per capita)
By employment category	Senior level	**212** (6.1 per capita)
	Middle level	**2,010** (7.5 per capita)
	Entry level	**139,628** (11.0 per capita)

Care for the Environment

Our commitment to innovation and concern for the environment are helping us to usher in a new era.

Environmental Policy

We recognise the potential environmental impacts of our services and are committed to mitigating and minimising these impacts in the following ways:

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

Environmental Bus Design

We are dedicated to creating a better environment by investing in environment-friendly buses that meet the strict exhaust emission standards of the European Council of Environmental Ministers. At the end of 2017, KMB had 2,372 air-conditioned Euro V buses, four Euro VI buses (including three diesel electric hybrid double-deckers), ten battery electric buses and four supercapacitor electric buses in the fleet, and LWB had 192 air-conditioned Euro V buses and four battery electric buses in the fleet. We have invested a total amount of HK$910 million on upgrading our bus fleet. In collaboration with our suppliers, we have been gradually replacing older bus models with the latest, more energy-efficient bus models. The average energy use per kilometer of Euro V/VI buses was 23-27% less than that of Euro II/III buses. In recognition of its achievements in environment-friendly transport, KMB won the Bronze Award in the Transport and Logistics category of the 2016 Hong Kong Awards for Environmental Excellence.

First Euro VI Diesel Bus in Hong Kong

To drive an emission-free future, KMB has introduced the first Euro VI diesel double-deck bus in Hong Kong. This bus marks a NEW stage, standing for "Natural", "Evolutionary", and "Wise", in KMB's commitment to environmental protection in Hong Kong. Compared to the Euro V double-decker, the Euro VI bus's emissions of major pollutants are reduced considerably, with emissions of nitrogen oxides, hydrocarbons and particulate matter reduced by 80%, 72% and 50% respectively. In terms of performance, the bus's more efficient engine reduces fuel consumption and lowers noise levels, while the Electronic Stability Programme significantly reduces the risk of roll and skid in all conditions.

Exploring New Low-emission and Zero-emission Bus Technologies

KMB and LWB have put great effort into improving environmental protection by exploring various kinds of zero- and low-emission technologies.

- In 2017, KMB introduced the first in-house developed double-deck bus equipped with a solar power system. The system serves as an auxiliary electric power supply and drives the air ventilation system, which reduces the bus compartment's air temperature by around 5-10°C during prolonged exposure to the sun, enhancing bus services and contributing to environmental protection.
- KMB and LWB have further explored the use of the battery electric bus ("eBus") powered by 340kWh Lithium Iron Phosphate batteries capable of delivering 180km of zero-emission bus transport.

The aircraft-style "Posilock" fuel filling system is used on both KMB and LWB buses to prevent spillage

- KMB has introduced the latest version of the "gBus", the supercapacitor-powered 12-metre air-conditioned single-deck bus, which testifies to KMB's vision for green public transport in the future. The gBus is characterised by the abilities of fast charging using its overhead charging pantograph and sustains multiple charging/ discharging cycles. Thus its application in routes with long operating hours and frequent start stop duty cycles is promising.

Fuel Consumption and Greenhouse Gas Emissions

KMB and LWB consumed around 8,552,000 gigajoules (GJ) of diesel oil in 2017, including the bus fleets and vehicles other than buses. To reduce fuel consumption, a number of measures have been adopted on the KMB and LWB bus fleets and across its operations:

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

Mostly contributed by mobile source combustion, the greenhouse gas emissions (Scopes I and II) of KMB and LWB were around 146 tonnes of CO_2 equivalent per bus per year.

Emission Reduction

KMB and LWB adopt the latest technologies to reduce roadside emissions and maintain good air quality in the bus compartments. To meet the stringent exhaust emission standards laid down by the European Council of Environmental Ministers, we use Near Zero Sulphur Diesel, renew the bus fleet with the latest low-emission models and upgrade older buses by retrofitting exhaust treatment devices, including Diesel Oxidation Catalysts, Diesel Particulate Filters and Selective Catalytic Reduction units. The Eco-Driveline System, a standard feature on new buses since 2003, reduces exhaust emissions by 6%-10% compared with conventional drivelines by improving fuel economy. In 2017, KMB and LWB emitted around 130 tonnes of particulate matter (PM) and 1,810 tonnes of nitrogen oxides (NOx). As at 31

KMB introduced the first Euro VI diesel bus to Hong Kong

December 2017, KMB and LWB had improved emissions of particulate matter and nitrogen oxides by 96.16% and 75.72% respectively compared to 1992. 683 KMB and LWB buses had been retrofitted with a Selective Catalytic Reduction device, which can reduce the emission of nitrogen oxides, as the ammonia formed from the urea solution converts nitrogen oxides into nitrogen gas and water vapour. KMB and LWB have introduced 20 electric patrol cars for back-up support and have set up electricity-recharging facilities at their main depots.

Checks on CO_2 Concentration

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

Tyres

In 2017, 30,000 used KMB and LWB tyres (equivalent to a saving of 1,800 tonnes in solid waste disposal at landfills) were retreaded internally at workshops and by appointed contractors. More than 19,000 scrapped tyres and seven tonnes of tyre chips from KMB and LWB, which would otherwise have been disposed of at landfills, were collected by an agent for recycling into various products.

Fluorescent Tubes

In 2017, KMB and LWB sent a total of around 17,000 used fluorescent tubes to the Government's Chemical Waste Treatment Centre for recycling.

Oil and Chemicals

In 2017, around 248,000 kilograms of solid chemical waste were treated and stored according to type in designated areas at bus depots before being disposed of by a registered chemical waste collector at the Government's Chemical Waste Treatment Centre. Around 624,800 litres of waste oil were recycled or disposed of in accordance with the statutory standards. Around 186,000 kilograms of waste lead-acid batteries were disposed of by a licensed contractor in compliance with Environmental Protection Department ("EPD") instructions, including some which were exported to overseas facilities approved by the EPD under the Basel Convention.

Water Consumption and Waste Water Treatment

Though no major issue concerning sourcing water has been encountered, KMB and LWB are committed to reducing water consumption and to properly treating effluents before discharge. In 2017, KMB and LWB consumed around 352,000 cubic metres of fresh water that is, the average water consumption per bus was 0.22 cubic metres per day. Our depots are equipped with 11 automatic waste water treatment systems that handle 610 cubic metres per day.

Green Measures in the Office

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

Electricity Consumption

KMB and LWB consumed around 129,000 GJ of electricity in 2017. We continued to explore more environment-friendly initiatives and invested in the latest technologies to minimise energy use and reduce greenhouse gas emissions. Over 2,500 high bay lights were changed to LED lights on the ceilings of KMB's four main depots and LWB's Siu Ho Wan Depot. Such long-lasting lighting uses up to 70% less energy than traditional lights.

KMB and LWB have added battery electric buses to their fleets

Engaging Stakeholders

Many different communication channels are employed to engage our stakeholders, including passengers, manufacturers, suppliers, contractors, political parties, community groups, the government and members of the public.

Engaging the Public

In 2017, a number of events were organised to interact with the public we serve:

- From 22 to 28 January 2017, KMB operated a store at the Lunar New Year Market in Yuen Long, offering the public the chance to buy new KMB products as New Year gifts;
- On 29 April 2017, KMB organised the "Retrospective Carnival with KMB" at the Hong Kong Cultural Centre Piazza in Tsim Sha Tsui, giving the public the opportunity to appreciate the bus services provided by KMB over the past 80-plus years. At the event, a vintage bus was displayed and interactive games were provided;
- From June to December 2017, KMB hosted pop-up stores at different shopping malls in Hong Kong, including Tai Po Mega Mall (June), Lai Chi Kok D2 Place (July), Tuen Mun V city (October), Yuen Long Yoho Mall (November) and Tseung Kwan O East Point City (December). The stores allowed the public to understand more about KMB's services, showcasing bus models from past decades and providing various games and activities related to bus services;
- Between 19 and 25 July 2017, KMB organised their first booth at the Hong Kong Book Fair at the Hong Kong Convention and Exhibition Centre in Wan Chai, where the new generation "red bus" models were introduced;
- On 13 August 2017, KMB organised a "Red Bus Day" at the Star Ferry Bus Terminus in Tsim Sha Tsui, offering the public the opportunity to ride on a red bus. A fleet of red buses was arranged to operate on Route 1A; and
- KMB and LWB held a total of 12 Passenger Liaison Group meetings at bus termini across their operating areas to collect customer views on a variety of issues, including interchange schemes, environment-friendly buses, passenger facilities and network connectivity.

Media and Online Communication

In the reporting period, we invited the media to events to strengthen communications and made increasing use of social media platforms such as Facebook and Instagram to publicise KMB and LWB-related information. Our interaction with netizens included a number of cross-media activities that have been well received, as the number of fans of our Facebook page grew to over 60,000 in December 2017. Likewise, the number of followers of our Instagram account had reached more than 59,000 in December 2017.

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

The following activities were organised via online social media platforms:

- From March to May 2017, KMB used its Facebook page to recruit the public to participate in a running training activity, which encouraged the public to live a healthy life;
- In April 2017, KMB recruited participants via Facebook to dress in costumes from the 1930s to the 1980s in a vintage cosplay activity at a carnival in Tsim Sha Tsui;
- In May 2017, KMB used the Facebook live function to introduce the new-generation KMB "Red Bus", with its new brand image and the slogan "Heartbeat of the City";
- In July 2017, KMB used the Instagram photo sharing function to encourage the public to visit and take photos of the KMB pop-up store at D2 Place in Lai Chi Kok, and get a free gift from the store;
- In October 2017, KMB used its Facebook page to encourage the public to participate in a busking at a bus stop video competition, which provided a good means for KMB to engage the public via music; and
- In November 2017, KMB used the Facebook live function to introduce two new facilities, "Bus captain security screen" and "Solar bus stop".

Smartphone App

The in-house developed Bus Estimated Time of Arrival ("ETA") service has been applied to all KMB and LWB regular routes. Passengers are able to obtain bus arrival information via display panels at bus termini and bus stops, as well as via the KMB and LWB smartphone App "App1933" and the KMB and LWB websites.

Providing real-time bus information for the whole fleet, the "Nearby ETA" feature gives users the estimated arrival time of buses on nearby routes. When a passenger enters a desired destination, the App will immediately display all recommended routes available at nearby bus stops, including information on estimated time of arrival, destinations for the routes, journey distance and fares. After choosing or inputting a location, the App will display each bus stop with the expected arrival time of the next bus. If the passenger needs to make use of a bus-bus interchange on the journey, the App will immediately calculate the total fare after taking the relevant fare concession into account. To provide helpful information for passengers, App1933 has launched a trial project to show seat availability on the next bus.

App1933 ranked Number 1 in App Store of iPhone Applications (free download category) in Hong Kong in 2017.

Websites

The KMB and LWB websites (www.kmb.hk and www.lwb.hk) not only serve as a corporate information portal, providing corporate news, promotion schemes and customer enquiries; they also provide a map-based point-to-point bus route search function with 360-degree photo Street View, Live Chat and the Octopus Refund Enquiry functions.

Customer Service Centres

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

KMB participated for the first time in the Hong Kong Book Fair

Customer Service Hotline

The KMB customer service hotline (2745 4466) handled about 1.6 million calls in 2017, an average of 132,800 calls a month, with a hotline operator service, available daily from 7:00 a.m. to 11:00 p.m., being complemented by a 24-hour hotline system. The LWB customer service hotline (2261 2791) handled about 31,570 calls in the reporting period, an average of 2,630 calls a month, with a hotline operator service, available daily from 7:00 a.m. to 11:00 p.m., being complemented by a 24-hour hotline system.

Live Chat for Enquiries

To provide more channels for passenger enquiries, KMB has set up a live chat channel on the KMB website and App1933 for instant response to customer enquiries, providing a daily service from 7:00 a.m. to 11:00 p.m.

Hosting Visits

To increase our stakeholders' understanding of the daily operations at our bus depots, including maintenance and bus cleaning procedures, we received visitors from some 70 organisations in 2017, including 33 social service organisations and 10 overseas delegations.

Membership of Associations and Advocacy

In 2017, we further strengthened our connection with stakeholders via participation in the following organisations:

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

KMB's Donation of Retired and Used Bus Programme benefits schools and NGOs

Supporting the Community

The Group takes steps to understand the communities among which we work and support various initiatives and non-governmental organisations ("NGOs") providing assistance to the needy and improving the environment. To support the elderly and passengers in need, each year KMB and LWB participate in the International Day of Disabled Persons event organised by The Hong Kong Council of Social Service offering free rides on all its bus routes to people with disabilities and one accompanying carer. KMB and LWB also supported the annual Senior Citizens Day, by offering free rides to people aged 65 and over. To share festive joy with the elderly, we distributed red packets, rice cakes, rice dumplings, and mooncakes at traditional festivals.

We sponsor and participate in a variety of local community programmes, including the New Territories Walk for Millions, Dress Casual Day and the Corporate Challenge Half Marathon, all organised by The Community Chest of Hong Kong, as well as taking part in The Hong Kong Council of Social Service Caring Company Patron's Club. In 2017, KMB provided bus-body advertisements for 13 NGOs on 17 buses.

Donation of Used and Retired Bus Programme

To nurture the next generation and show our support for sustainability and recycling, KMB launched a pilot programme, the "Donation of Used and Retired Bus Programme," to donate used and retired single-deck and double-deck buses to schools or non-profit organisations. The buses were regenerated as learning centres for use by students and teachers.

The list of beneficiary schools/non-profit organisations in 2017 is as follows:

- Buddhist Lim Kim Tian Memorial Primary School
- Hong Chi Tuen Mun Morninghope School
- Buddhist Chung Wah Kornhill Primary School

FRIENDS OF KMB

KMB's volunteer club FRIENDS OF KMB ("FRN") has promoted environmental protection, civic education and social service activities since it was formed in 1995. In 2017, FRN comprised 5,300 volunteers, including KMB and LWB staff and their dependents, and passengers. We were awarded the Second Runner-up in the Highest Service Hour Award (Private Organisations – Best Customer Participation) and Merit in the Highest Service Hour Award (Private Organisations – Best Staff Participation) from the Social Welfare Department.

During the year, FRN volunteers, in partnership with Tung Wah Group of Hospitals, Prince of Wales Hospital, Suicide Prevention Services, Po Leung Kuk, Baptist Oi Kwan Social Service, Hong Kong Sheng Kung Hui, Hope Worldwide, and Lok Sin Tong, visited the elderly and less privileged people living in Eastern District, Kowloon City, Kwai Tsing, Kwun Tong, Sha Tin, Sham Shui Po, Tsuen Wan, Tuen Mun, Wan Chai, Wong Tai Sin, and Yau Tsim Mong.

Working with Suppliers

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

To ensure compliance by our suppliers and sub-contractors with our guidelines on social and environmental requirements, we require tenderers to submit information on their performance in the following key aspects, which will be evaluated when we award contracts:

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

Environmental Care, Health and Safety of Suppliers/Sub-contractors

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

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

Forced Labour and Child Labour

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

To ensure that our suppliers conduct operations with a comprehensive consideration of their environmental and social aspects, we require our tenderers to provide us with details of the following aspects of their operations. We review their performance in these areas carefully when considering the awarding of contracts:

- The tenderer's awareness of environmental care, health and safety, and policies regarding the prevention of the use of forced labour and child labour;
- Measures taken by the tenderer to check compliance of its key suppliers/sub-contractors with its standards on Environmental Care, Health and Safety of Suppliers/Sub-contractors, and Forced Labour and Child Labour; and
- Any major social controversies, fines or settlements related to the activities of the tenderer's suppliers/sub-contractors.

Legal and Regulatory Compliance

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

Prevention of Bribery and of Corrupt Practices in Procurement

We promote fair and open competition and aim to develop and secure long-term relationships with suppliers and sub-contractors based on mutual trust. We make efforts to ensure that the procurement of supplies and services is conducted to the highest ethical standards so as to ensure a high quality end product and the sustained confidence of customers, suppliers and the public.

We ensure that all suppliers, sub-contractors and consultants are managed equally without prejudice, both local and overseas, and that those staff involved in the selection of and purchase from suppliers and sub-contractors avoid misuse of authority and do not engage in actions which could interfere with their ability to make free and independent decisions in respect of purchase and procurement.

Procurement and Tendering Procedures

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

- Impartial selection of capable and responsible suppliers and subcontractors;
- Fair competition;
- Selection of appropriate contract types according to need;
- Compliance with laws, relevant regulations and contractual obligations; and
- Adoption of an effective monitoring system and management controls to detect and prevent bribery, fraud or other malpractices in procurement and tendering. Procurement and tendering protocols for implementing this policy will specifically include procedures and practices designed to detect and prevent fraudulent activities.

Financial Review

The Group

Summary of Financial Performance

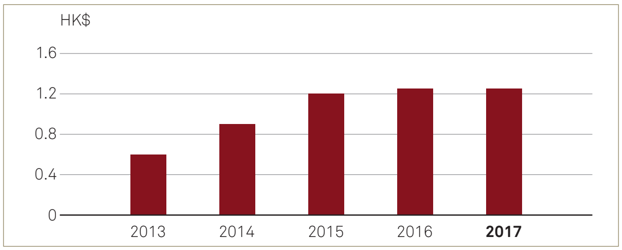
	2017	2016 (Restated)	Favourable/(Unfavourable) Change	
	HK$ million	HK$ million	HK$ million	%
Revenue	**7,899.9**	7,744.2	155.7	2.0
Other income	**208.2**	164.3	43.9	26.7
Operating expenses	**(7,085.8)**	(6,905.0)	(180.8)	(2.6)
Finance costs	**(21.5)**	(17.8)	(3.7)	(20.8)
Share of profits of associates	**7.1**	30.8	(23.7)	(76.9)
Profit before taxation	**1,007.9**	1,016.5	(8.6)	(0.8)
Income tax	**(148.2)**	(150.1)	1.9	1.3
Profit for the year from continuing operations	**859.7**	866.4	(6.7)	(0.8)
Profit/(loss) for the year from discontinued operations	**429.0**	(42.1)	471.1	1,119.0
Non-controlling interests	**6.1**	6.6	(0.5)	(7.6)
Profit attributable to equity shareholders of the Company	**1,294.8**	830.9	463.9	55.8
Earnings per share (HK$)	**3.11**	2.04	1.07	52.5

Review of 2017 Financial Performance

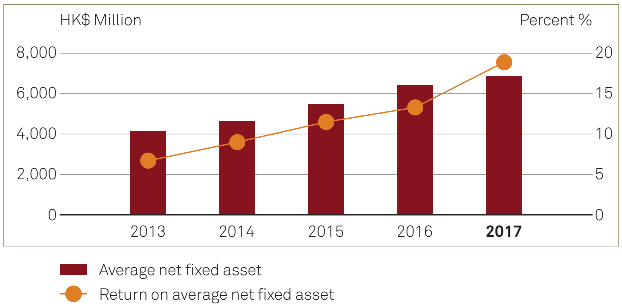
The Group's Results for the Year

The Group's profit attributable to equity shareholders for the year ended 31 December 2017 was HK$1,294.8 million, an increase of HK$463.9 million or 55.8% compared to HK$830.9 million for 2016. Earnings per share increased correspondingly from HK$2.04 for 2016 to HK$3.11 for 2017. The increase in profit was mainly attributable to the one-off gain of HK$439.6 million arising from the disposal of the entire 73% equity interest in RoadShow Holdings Limited during the year. When excluding such one-off gain, the Group's profit attributable to equity shareholders for 2017 amounted to HK$855.2 million, an increase of HK$24.3 million or 2.9% as compared with that for 2016.

Dividends per share



Return on average net fixed asset employed
(exclude property development)



The revenue and underlying profit generated by the Group's five Divisions for the year ended 31 December 2017 are shown below:

HK$ million	Revenue 2017	Revenue 2016 (Restated)	Profit/(Loss) before taxation 2017	Profit/(Loss) before taxation 2016 (Restated)
Franchised Public Bus Operations Division	**7,464.6**	7,339.5	**803.3**	794.6
Non-franchised Transport Operations Division	**361.4**	343.7	**53.6**	65.0
Property Holdings and Development Division	**73.9**	61.0	**65.7**	54.7
Financial Services Division	**–**	–	**79.4**	50.5
China Mainland Transport Operations Division	**–**	–	**7.1**	30.8
	7,899.9	7,744.2	**1,009.1**	995.6
Finance costs			**(21.5)**	(17.8)
Unallocated net operating income			**20.3**	38.7
Profit before taxation and non-controlling interests from continuing operations			**1,007.9**	1,016.5
Income tax			**(148.2)**	(150.1)
Profit for the year from continuing operations			**859.7**	866.4
Profit/(loss) for the year from discontinued operations			**429.0**	(42.1)
Non-controlling interests			**6.1**	6.6
Profit attributable to equity shareholders of the Company			**1,294.8**	830.9

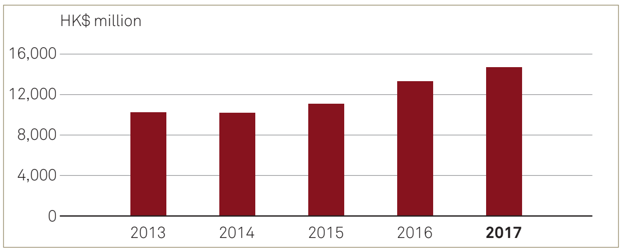
Segment information on the Group's main businesses is set out in note 12 to the financial statements on pages 156 to 159 of this Annual Report.

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

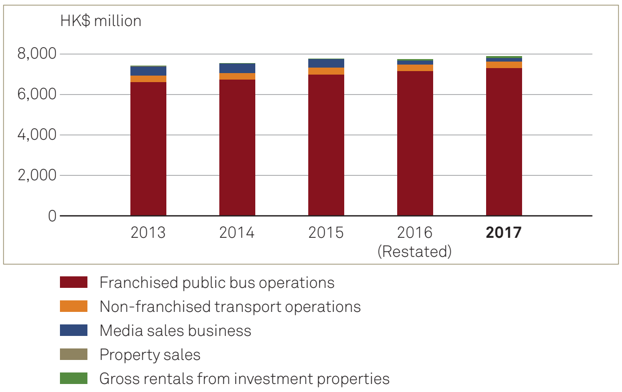
Revenue for 2017 amounted to HK$7,899.9 million, an increase of HK$155.7 million or 2.0% compared with HK$7,744.2 million for 2016. The increase was mainly due to the increase in revenue from the Group's franchised public bus operations of HK$125.1 million, primarily as a result of patronage growth. In addition, revenue from the Group's non-franchised transport operations division increased by HK$17.7 million and rental income arising from the Group's investment properties increased by HK$12.9 million.

Other income increased by HK$43.9 million from HK$164.3 million in 2016 to HK$208.2 million in 2017. The increase was mainly due to the additional investment income generated from the purchase of debt securities for yield enhancement. The breakdown of other income is set out in note 4 to the financial statements on page 146 of this Annual Report.

Total assets at 31 December



Group turnover



Total operating expenses for 2017 amounted to HK$7,085.8 million, an increase of HK$180.8 million or 2.6% compared to HK$6,905.0 million for 2016. The increase was mainly due to the increase in fuel and oil costs of HK$148.7 million or 21.5% as a result of the rise in international fuel prices, and the increase in staff costs of HK$62.3 million due to the annual pay rise.

The Group's share of profits of associates for 2017 amounted to HK$7.1 million, a decrease of HK$23.7 million or 76.9% compared to HK$30.8 million for 2016.

Income tax expense for the year amounted to HK$148.2 million (2016: HK$150.1 million). The breakdown of the income tax expense is set out in note 6 to the financial statements on pages 148 to 149 of this Annual Report.

More detailed information in respect of the Group's individual business units is set out on pages 67 to 71 of this Annual Report.

Dividend

The Board has recommended an ordinary final dividend of HK$0.90 per share (2016: HK$0.90 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 17 May 2018 or at any adjournment thereof, the proposed final dividend, together with the interim dividend of HK$0.35 per share (2016: HK$0.35 per share) paid in October 2017, would result in a total dividend of HK$1.25 per share for 2017 (2016: HK$1.25 per share).

Key Changes to Financial Position

Capital Expenditure

As at 31 December 2017, the Group's investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (comprising buildings, buses and other motor vehicles, buses under construction, tools and others) amounted to HK$9,261.4 million (2016: HK$8,875.1 million). The increase was mainly due to more new buses being purchased by KMB and LWB for fleet replacement as well as service enhancements made during the year. None of the assets was pledged or charged as at 31 December 2017. The breakdown of the capital expenditure is shown in note 13 to the financial statements on pages 160 to 165 of this Annual Report.

Intangible Assets and Goodwill

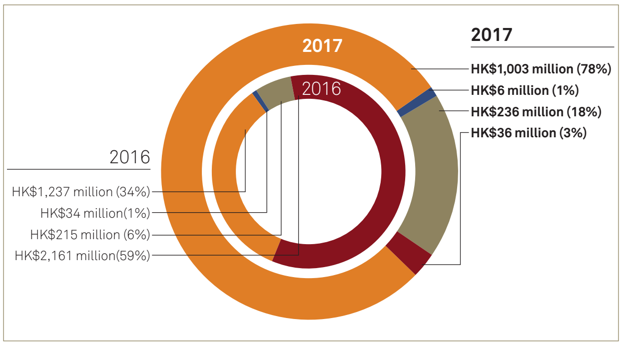
As at 31 December 2017, the Group's intangible assets and goodwill amounted to HK$132.1 million (2016: HK$132.1 million) and HK$84.1 million (2016: HK$84.1 million) respectively. The intangible assets mainly represent passenger service licences and transport operating rights of the Group's non-franchised transport operations.

Current Assets and Current Liabilities

The Group's total current assets as at 31 December 2017 amounted to HK$1,773.0 million (2016: HK$1,773.8 million), mainly comprising liquid funds of HK$1,232.8 million (2016: HK$1,076.0 million) and accounts receivable of HK$459.6 million (2016: HK$516.8 million). The Group's liquid funds at the end of 2017 were mainly denominated in Hong Kong dollars.

Total current liabilities as at 31 December 2017 amounted to HK$1,334.6 million (2016: HK$1,397.1 million), which mainly included accounts payable and accruals.

Capital expenditure

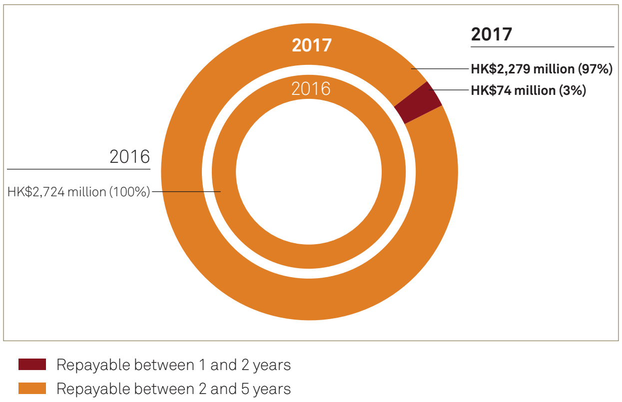


Investment property under development
Buses and other motor vehicles
Buildings
Others

Bank Loans

As at 31 December 2017, bank loans, all unsecured, amounted to HK$2,353.3 million (2016: HK$2,724.4 million). The maturity profile of the bank loans of the Group as at 31 December 2017 and 31 December 2016 is shown in the chart below:

Debt maturity profile at 31 December



As at 31 December 2017, the Group had undrawn committed banking facilities totalling HK$2,800.0 million (2016: HK$1,480.0 million).

Capital Commitments

The Group's capital commitments as at 31 December 2017 amounted to HK$1,188.6 million (2016: HK$479.1 million). These commitments are to be financed by borrowings and from the Group's working capital. A summary of the capital commitments is set out below:

HK$ million	2017	2016
Development of the Kwun Tong Site	**74.0**	22.3
Purchase of buses and other motor vehicles	**1,045.7**	418.4
Purchase of other properties, plant and equipment	**68.9**	38.4
Total	**1,188.6**	479.1

As at 31 December 2017, the Group had 562 (2016: 323) new buses on order for delivery in 2018.

Funding and Financing

Financial Liquidity and Resources

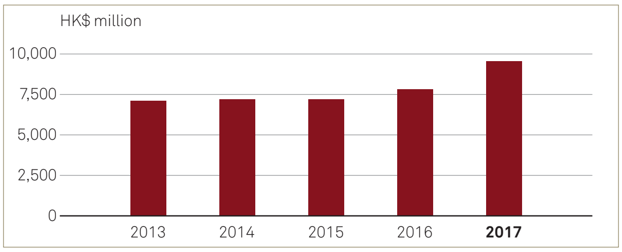
The Group closely monitors its liquidity requirement and financial resources to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with the Group's reserves of cash and liquid assets and undrawn committed banking facilities are sufficient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

Net Cash/Net Borrowing and Liquidity Ratio

As at 31 December 2017, the Group's net borrowing (i.e. total borrowings less cash and deposits at banks) amounted to HK$1,120.5 million (2016: HK$1,648.4 million) with a liquidity ratio (the ratio of current assets to current liabilities) of 1.3 (2016: 1.3). The details of the Group's net cash/net borrowing position by currency are set out as follows:

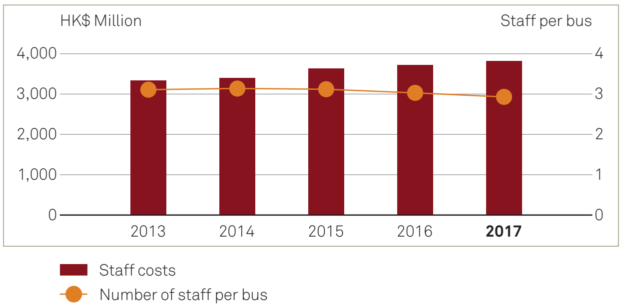
Currency	Cash and deposits at bank in foreign currency million	Cash and deposits at bank HK$ million	Bank loans HK$ million	Net cash/ (Net borrowing) HK$ million
At 31 December 2017				
Hong Kong dollars		**856.6**	**(2,353.3)**	**(1,496.7)**
Renminbi	**8.3**	**10.0**	**–**	**10.0**
United States dollars	**35.0**	**273.6**	**–**	**273.6**
British Pounds Sterling	**7.9**	**83.8**	**–**	**83.8**
Other currencies		**8.8**	**–**	**8.8**
Total		**1,232.8**	**(2,353.3)**	**(1,120.5)**
At 31 December 2016				
Hong Kong dollars		739.4	(2,724.4)	(1,985.0)
Renminbi	157.1	174.7	–	174.7
United States dollars	16.1	125.1	–	125.1
British Pounds Sterling	2.8	26.4	–	26.4
Other currencies		10.4	–	10.4
Total		1,076.0	(2,724.4)	(1,648.4)

Shareholders' fund at 31 December



Staff costs and staff per bus

(Franchised public bus operations)



Finance Costs and Interest Cover

The finance costs incurred by the Group for the year ended 31 December 2017 were HK$21.5 million, an increase of HK$3.7 million compared with HK$17.8 million for 2016. The increase was mainly due to the increase in average bank borrowings of the Group as well as the rise in the average interest rate from 1.61% per annum for 2016 to 2.05% per annum for 2017.

For the year ended 31 December 2017, the Group's interest income exceeded the total finance costs by HK$46.3 million (2016: HK$42.4 million).

Net Cash Flow

For 2017, there was a net increase of HK$496.8 million (2016: a net decrease of HK$15.4 million) in cash and cash equivalents. The sources are set out below:

	2017 HK$ million	2016 HK$ million
Net cash generated from/ (used in):		
• Operating activities	1,768.2	1,978.1
• Investing activities	(652.7)	(3,327.1)
• Financing activities	(618.7)	1,333.6
Total	496.8	(15.4)

The main components of the net cash inflow of HK$496.8 million (2016: net cash outflow of HK$15.4 million) included: (i) net cash generated from operating activities of the franchised public bus operations of HK$1,604.5 million (2016: HK$1,750.5 million); (ii) payment of capital expenditure of HK$1,152.8 million (2016: HK$1,729.4 million); (iii) purchase of debt securities of HK$515.2 million (2016: HK$1,200.0 million); (iv) decrease of HK$233.0 million (2016: HK$1,664.9 million) in bank deposits with original maturities of over three months; (v) proceeds received on the maturity of available-for-sale debt securities of HK$316.5 million (2016: HK$66.8 million); (vi) proceeds received from disposal of subsidiaries of HK$408.4 million (2016: HK$Nil) and (vii) payment of dividends of HK$244.9 million (2016: HK$335.6 million). Net cash outflow in 2016 included payment of the Group's share of the land premium for the Kwun Tong Site of HK$2,152.5 million.

Details of the Group's cash flow movement for the year ended 31 December 2017 are set out in the consolidated cash flow statement on page 125 of this Annual Report.

Treasury Risk Management

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

Foreign Currency Risk

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

In 2017, the Group hedged approximately 29% (2016: 50%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. As at 31 December 2017, the Group had outstanding GBP forward contracts totalling GBP11.0 million (2016: GBP6.2 million), which had maturities of less than one year after the end of the reporting period.

Interest Rate Risk

The Group closely monitors the market conditions and devises suitable strategies to manage its exposure to interest rate risk. Different techniques and instruments, including natural hedges achieved by spreading loans over different rollover periods and maturity dates, and derivative financial instruments such as interest rate swaps will be considered as and when appropriate. As at 31 December 2017, all of the Group's borrowings were denominated in Hong Kong dollars and on a floating interest rate basis. The Group regularly reviews its strategy on interest rate risk management in the light of the prevailing market condition.

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

Fuel Price Risk

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

Credit Risk

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

Cash Flow and Liquidity Risk

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

Employees and Remuneration Policies

Running a transport operation is a labour intensive business, and staff costs accounted for about 56% (2016: 56%) of the total operating expenses of the Group in 2017. The Group closely monitors its headcount and staff remuneration in line with productivity and the prevailing market trends. The Group's total remuneration excluding retirement costs and equity-settled share-based payment expenses for 2017 amounted to HK$3,776.3 million (2016: HK$3,726.2 million), representing an increase of 1.3%. At the end of 2017, the Group employed over 13,000 staff (2016: over 13,300 staff).

Individual Business Units

Franchised Public Bus Operations

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

	Unit	2017	2016 (Restated)
Revenue	HK$ million	**6,942.1**	6,873.3
Other income	HK$ million	**111.4**	105.9
Total operating expenses	HK$ million	**(6,302.3)**	(6,222.8)
Profit from operations	HK$ million	**751.2**	756.4
Finance costs	HK$ million	**(19.9)**	(16.8)
Profit before taxation	HK$ million	**731.3**	739.6
Income tax	HK$ million	**(121.2)**	(121.9)
Profit after taxation	HK$ million	**610.1**	617.7
Net profit margin		**8.8%**	9.0%
Passenger volume	Million passenger trips	**1,005.5**	990.1
Kilometres operated	Million km	**282.0**	282.5
Staff number at year-end	Number of staff	**11,703**	11,958
Fleet size at year-end	Number of buses	**3,972**	3,920
Total assets	HK$ million	**7,928.6**	7,067.6

KMB recorded a profit after taxation of HK$610.1 million for 2017, representing a decrease of HK$7.6 million or 1.2% compared with HK$617.7 million for 2016.

KMB's fare revenue for 2017 was HK$6,760.1 million, an increase of HK$71.8 million or 1.1% compared with HK$6,688.3 million for 2016. The increase was mainly attributable to patronage growth resulting from the enhancement of service levels of existing routes as well as the introduction of new services. During the year, KMB's total ridership increased by 1.6% to 1,005.5 million passenger trips (a daily average of 2.75 million passenger trips) as compared with 990.1 million passenger trips (a daily average of 2.71 million passenger trips) for 2016.

Total operating expenses for 2017 amounted to HK$6,302.3 million, an increase of HK$79.5 million or 1.3% compared with HK$6,222.8 million for 2016. The increase was mainly attributable to the increase in fuel costs of HK$126.8 million as a result of the rise in international fuel prices. In addition, staff costs and toll charges have also increased as a result of annual pay rise and the increase in toll rates.

Long Win Bus Company Limited ("LWB")

	Unit	2017	2016 (Restated)
Revenue	HK$ million	**524.9**	471.3
Other income	HK$ million	**2.1**	2.1
Total operating expenses	HK$ million	**(475.0)**	(435.2)
Profit from operations	HK$ million	**52.0**	38.2
Finance costs	HK$ million	**(1.6)**	(1.0)
Profit before taxation	HK$ million	**50.4**	37.2
Income tax	HK$ million	**(8.2)**	(6.0)
Profit after taxation	HK$ million	**42.2**	31.2
Net profit margin		**8.0%**	6.6%
Passenger volume	Million passenger trips	**39.1**	37.3
Kilometres operated	Million km	**36.5**	32.0
Staff number at year-end	Number of staff	**660**	652
Fleet size at year-end	Number of buses	**245**	242
Total assets	HK$ million	**611.5**	617.0

The profit after taxation of LWB for 2017 was HK$42.2 million, representing an increase of HK$11.0 million or 35.3% compared with HK$31.2 million for 2016.

LWB's fare revenue for 2017 was HK$520.9 million, an increase of HK$54.2 million or 11.6% compared with HK$466.7 million for 2016. The increase was mainly due to the continuing growth in the number of A-route passengers as a result of the enhancement in A-route services implemented in 2016. LWB recorded a total ridership of 39.1 million passenger trips (a daily average of 107,100 passenger trips) for 2017, as compared with 37.3 million passenger trips (a daily average of 101,900 passenger trips) for 2016.

Total operating expenses for 2017 amounted to HK$475.0 million, an increase of HK$39.8 million or 9.1% compared with HK$435.2 million for 2016. The increase in operating expenses was mainly due to the full year impact of A-route service enhancements implemented in 2016 as well as the increase in fuel costs resulting from the rise in international fuel prices.

Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK$45.5 million for 2017, representing a decrease of HK$9.9 million or 17.9% compared with HK$55.4 million for 2016. A review of the operations of the principal business units in this Division is set out as follows:

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

The SBH Group is a leading non-franchised bus operator in Hong Kong. With Sun Bus Limited as its flagship company, the SBH Group provides customised transport services to a wide range of customers, including large residential estates, shopping malls, major employers, travel agents and schools, as well as the general public through chartered hire services.

The revenue of the SBH Group increased by HK$14.4 million or 4.8% from HK$299.1 million in 2016 to HK$313.5 million in 2017. The increase was mainly attributable to business growth from local and cross-boundary services. Total operating costs for 2017 also increased as a result of increase in fuel costs, staff costs and other operating expenses due to general inflation.

In 2017, SBH Group purchased 60 (2016: 48) Euro V/ VI buses for fleet replacement purposes. As at 31 December 2017, the SBH Group had a fleet of 386 buses (2016: 386 buses).

New Hong Kong Bus Company Limited ("NHKB")

NHKB jointly operates with its Shenzhen (深圳) counterpart a direct, economical, 24-hour cross-boundary shuttle bus service (commonly known as the "Huang Bus" service) serving regular commuters and holiday travellers between Lok Ma Chau in Hong Kong and Huanggang (皇崗) in Shenzhen. The revenue of NHKB increased by HK$3.3 million or 7.4% from HK$44.6 million in 2016 to HK$47.9 million in 2017. The increase was mainly attributable to the increase in NHKB's patronage by 8.7% from 4.47 million passenger trips (an average monthly ridership of 372,000 passenger trips) in 2016 to 4.86 million passenger trips (an average monthly ridership of 405,000 passenger trips) in 2017. As at 31 December 2017, NHKB had a fleet of 15 buses (2016: 15 buses).

Property Holdings and Development

The Group's Property Holdings and Development Division reported a profit after taxation of HK$54.6 million for 2017, representing an increase of HK$9.0 million or 19.7% compared with HK$45.6 million for 2016. Rental income increased by 21.1% from HK$61.0 million in 2016 to HK$73.9 million in 2017. A review of the Group's investment properties is set out as follows:

LCK Commercial Properties Limited ("LCKCP")

LCKCP, a wholly-owned subsidiary of the Group, is the owner of "Manhattan Mid-town", the commercial complex of Manhattan Hill. The 50,000 square feet shopping mall has provided Manhattan Hill residents and other shoppers with high quality retail facilities since its opening in March 2009. As at 31 December 2017, 100% of the lettable area of the shopping mall was leased out, generating a stream of recurring rental income for the Group.

As at 31 December 2017, the carrying value of the shopping mall (classified as investment property on the consolidated statement of financial position), stated at cost less accumulated depreciation and impairment losses, amounted to HK$80.5 million (2016: HK$82.9 million).

LCK Real Estate Limited ("LCKRE")

LCKRE, a wholly-owned subsidiary of the Group, is the owner of a 17-storey commercial office building situated at 9 Po Lun Street, Lai Chi Kok, Kowloon, which has a total gross floor area of about 156,700 square feet. Approximately 15% of the gross floor area is used by the Group as headquarters with the remaining gross floor area leased out to shops and restaurants.

As at 31 December 2017, the carrying value of the building stated at cost less accumulated depreciation and impairment losses, amounted to HK$29.6 million (2016: HK$31.3 million).

TM Properties Investment Limited ("TMPI")

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

As at 31 December 2017, the carrying value of the industrial property (classified as investment property on the consolidated statement of financial position), stated at cost less accumulated depreciation and impairment losses, amounted to HK$2.2 million (2016: HK$3.5 million).

KT Real Estate Limited ("KTRE")

KTRE, a wholly-owned subsidiary of the Company, together with Turbo Result Limited ("TRL"), a subsidiary of Sun Hung Kai Properties Limited ("SHKP"), owns the Kwun Tong Site in equal shares as tenants in common.

On 11 December 2009, KTRE, TRL, the Company and SHKP entered into an agreement to jointly develop the Kwun Tong Site for non-residential (excluding hotel) purposes. Sun Hung Kai Real Estate Agency Limited ("SHKRE"), a wholly-owned subsidiary of SHKP, has been appointed as the project manager to oversee the development of the Kwun Tong Site. The Group intends to hold the development for long-term investment purposes. On 4 August 2016, KTRE and TRL accepted the offer from the Lands Department for the grant of lease modification for the Kwun Tong Site from industrial to non-residential use (excluding hotel, petrol filling station and residential care home) at a land premium of HK$4,305.0 million. 50% of such land premium, which amounted to HK$2,152.5 million, was borne by KTRE.

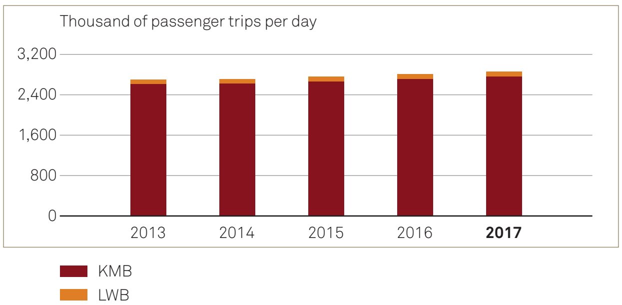
As at 31 December 2017, the carrying value of the Kwun Tong Site (classified as investment property under development on the consolidated statement of financial position) amounted to HK$2,222.2 million (2016: HK$2,186.2 million).

China Mainland Transport Operations

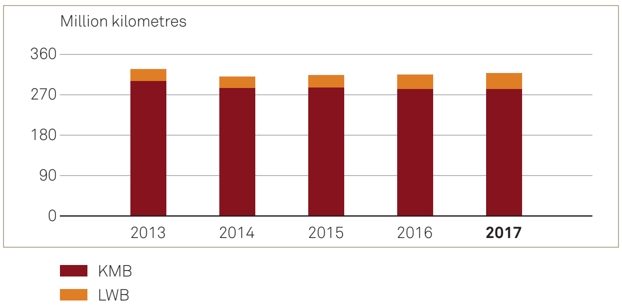
The Group's China Mainland Transport Operations Division reported a profit after taxation of HK$7.1 million for 2017, representing a decrease of HK$23.7 million or 76.9% compared with HK$30.8 million for 2016.

As at 31 December 2017, the Group's total interests in associates within the China Mainland Transport Operations Division amounted to HK$624.8 million (2016: HK$601.6 million). Such investments are mainly related to the operation of public transport services in Shenzhen (深圳), and taxi and car rental services in Beijing (北京).

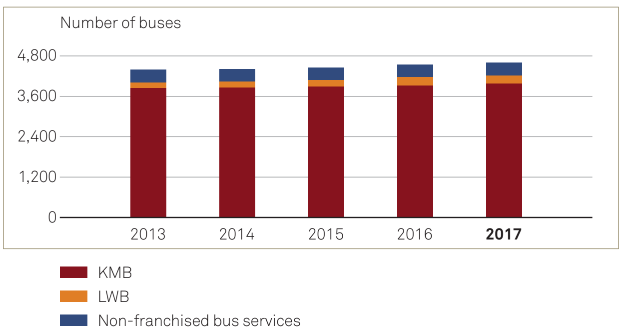
Average number of passenger trips per day
(Franchised public bus operations)



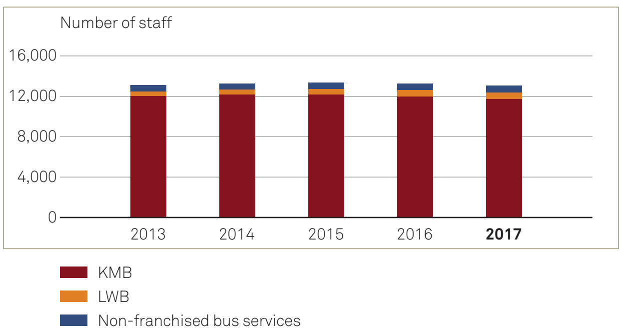
Bus kilometres operated
(Franchised public bus operations)



Number of licensed buses at 31 December



Number of staff at 31 December



Summary of Investments in China Mainland Transport Operations as at 31 December 2017

	Shenzhen	Beijing
Nature of business	Bus and taxi hire services	Taxi and car rental services
Form of business structure	Sino-foreign joint stock company	Sino-foreign joint stock company
Operation commenced	January 2005	April 2003
The Group's investment cost (RMB million)	387	80
The Group's effective interest	35%	31.38%
Fleet size at year-end 2017 (Number of vehicles)	10,690	4,799
Bus passenger volume (Million trips)	593	N/A
Bus kilometres travelled (Million km)	383	N/A
Staff number at year-end 2017	21,987	5,233

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

SZBG, which commenced operations in January 2005, is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four other Mainland investors. The Group has invested RMB387.1 million (equivalent to HK$363.9 million at the investment date) in SZBG, representing a stake of 35%. SZBG mainly provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province (廣東省深圳市), operating a fleet of 6,205 buses running on around 267 routes and 4,485 taxis. Due mainly to the keen competition from the Shenzhen underground railway system, SZBG total ridership fell by 13.1% from 682.9 million passenger trips in 2016 to 593.1 million passenger trips in 2017. To improve its competitiveness in the public transport field, SZBG has taken measures to enhance its operational efficiency and productivity.

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

BBKT, a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT's shareholders include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, and four other China Mainland investors. The Group has invested RMB80.0 million (equivalent to HK$75.5 million at the investment date) in BBKT, representing an equity interest of 31.38%. BBKT operated both taxi hire and car rental businesses in Beijing until April 2013, when, to sharpen its focus on the business opportunities provided by the booming but challenging car rental market, BBKT spun off its car rental business to another Sino-foreign joint stock company, namely Beijing Beiqi First Company Limited (北京北汽福斯特股份有限公司), which has the same shareholding structure as BBKT. As at 31 December 2017, BBKT had a fleet of 3,664 taxis and 5,176 employees.

Beijing Beiqi First Company Limited (北京北汽福斯特股份有限公司) ("BBF")

Established in April 2013 as a Sino-foreign joint stock company with the same shareholding structure as BBKT, BBF operates the car rental business formerly undertaken by BBKT. With ISO9001:2008 certification for management systems in car rental services, BBF is well placed to take advantage of the business opportunities afforded by business commuters as well as by the wide variety of events, conferences and exhibitions that are held in the capital. As at 31 December 2017, BBF had 1,135 vehicles available for charter mainly in Beijing and Tianjin and 57 employees.

Continuing Connected Transactions

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

(a) THE GROUP

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

As described in note 33(a) to the financial statements on page 200 of this Annual Report, on 2 November 2016, the Group entered into various insurance arrangements with SHKPI, a wholly-owned subsidiary of SHKP, which is a substantial shareholder of the Company, pursuant to which SHKPI agreed to provide to the Group (i) a motor vehicle third party and passengers' liability insurance and an employees' compensation insurance from 1 January 2017 to 31 December 2018; and (ii) a directors and officers liability and company reimbursement insurance from 1 January 2017 to 30 June 2018 (collectively, the "**2017/18 Insurance Arrangements**"). On 1 November 2017, the Group also entered into an insurance policy with SHKPI, pursuant to which the Group will maintain medical and dental insurance coverage with SHKPI from 1 January 2018 to 31 December 2019 (the "**2018/19 Medical and Dental Insurance Arrangement**"). The transactions contemplated under the 2017/18 Insurance Arrangements and 2018/19 Medical and Dental Insurance Arrangement constitute continuing connected transactions of the Company, particulars of which were disclosed in the announcements of the Company dated 2 November 2016 and 1 November 2017 respectively.

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

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

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

(b) SUN BUS LIMITED ("Sun Bus")

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

As described in note 33(a) to the financial statements on page 200 of this Annual Report, Sun Bus Limited, an indirect wholly-owned subsidiary of the Company, has entered into various shuttle bus service contracts ("Shuttle Bus Service Agreements") with certain subsidiaries of SHKP, pursuant to which Sun Bus agreed to provide and operate various shuttle bus services for the period from 1 May 2015 to 14 July 2019. The service fees for the provision of the shuttle bus services were charged in accordance with the rates specified in the relevant contracts, ranging from HK$232 to HK$530 per hour per bus, which were determined after taking into account factors such as the number and model of buses requested, the days and hours of service requested and the relevant costs, using the prevailing market rates as a price indicator, namely, the service fees charged by bus operators in the same industry. The transactions contemplated under the Shuttle Bus Service Agreements constitute continuing connected transactions of the Company, particulars of which were disclosed in the announcement of the Company dated 31 October 2017. The cap amounts estimated to be receivable by Sun Bus under the Shuttle Bus Service Agreements for the year ended 31 December 2017 and the two years ending 31 December 2018 and 2019 as disclosed in the announcement dated 31 October 2017 were HK$9,049,711, HK$1,321,700 and HK$101,771 respectively. Such cap amounts were determined with reference to (i) the rates specified in the relevant contracts; and (ii) the expected demand for the services. For the year ended 31 December 2017, the service fees received or receivable by Sun Bus (inclusive of the fees for basic services, overtime services, on-demand additional services, and toll charges) under the Shuttle Bus Service Agreements amounted to HK$9,006,000. The transactions contemplated under the Shuttle Bus Service Agreements are only subject to the reporting, announcement and annual review requirements of the Listing Rules and are exempt from the independent shareholders' approval requirement.

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

1. The foregoing continuing connected transactions conducted during the year ended 2017 with SHKPI and certain subsidiaries of SHKP were entered into:

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

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

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

2. the annual insurance premium paid and payable by the Group to SHKPI under the 2017/18 Insurance Arrangements for the year ended 31 December 2017 did not exceed the cap amount of HK$77,000,000 as disclosed in the announcement dated 2 November 2016; and

3. the service fees received and receivable by Sun Bus (inclusive of the fees for basic services, overtime services, on-demand additional services, and toll charges) from certain subsidiaries of SHKP under the Shuttle Bus Services Agreements for the year ended 31 December 2017 did not exceed the cap amount of HK$9,049,711 as disclosed in the announcement dated 31 October 2017.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions conducted during the year ended 31 December 2017 as set out above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Good corporate governance provides a solid foundation for business success by providing the basis for sustainable returns to shareholders and fostering stakeholders' confidence. To this end, a set of sound policies, procedures and rules are observed by Board members and staff. We also take into account the interests of our stakeholders as we set our long term business goals.

Corporate Governance Framework

The Group has a Corporate Governance Framework (the "Framework") for identifying all the key participants in good governance, the ways in which they correlate and the contribution each makes to the application of effective governance policies and processes. The Framework is built on principles of accountability, transparency and integrity.

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

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

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

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

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

Corporate Governance Code Compliance

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

The Company complied with all applicable Code Provisions throughout the year ended 31 December 2017, except that four Directors of the Company were unable to attend the Annual General Meeting of the Company held on 18 May 2017 as provided for in Code Provision A.6.7 owing to another engagement.

The Board of Directors

Board Composition

The structure of the Board maintains a balance of high calibre executive and non-executive directors possessing relevant skills, industry knowledge, first-hand experience and a diversity of perspectives that is suitable for the Group's businesses. Mr Gordon SIU Kwing Chue retired as an Independent Non-executive Director and Mr John Anthony MILLER retired as a Non-executive Director with effect from the conclusion of the Annual General Meeting held on 18 May 2017 (the "2017 AGM"). Subsequent to the retirement of Mr SIU and Mr MILLER, as at 31 December 2017, the Board comprised 12 members, of whom four are Independent Non-executive Directors, seven are Non-executive Directors and one is Executive Director. Day-to-day management of the Group's business is delegated to the senior management under the supervision of four designated Board Committees: the Standing Committee, the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee. The Board of Directors and the Board Committees are chaired by Independent Non-executive Directors. The compositions of the Board and Board Committees at 31 December 2017 are stated below:

	Independent Non-executive Directors	Non-executive Directors	Executive Director	Total
Board of Directors	4	7	1*	**12**
Board Committees:				
Standing Committee	2	3	1*	**6**
Audit and Risk Management Committee	2	1	–	**3**
Remuneration Committee	3	1	–	**4**
Nomination Committee	2	1	–	**3**

* The Managing Director

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

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

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

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

Board Diversity

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

The backgrounds of our Executive and Non-executive Directors are diverse. Each of them possesses the depth of relevant experience and the expertise to oversee the business of the Group. This ensures that sustainable value is delivered and shareholders' interests are safeguarded. The current mix of our Board members represents a balance of business, academia and the professions.

The age group and gender diversity of the Board of Directors as at 31 December 2017 are set out below:

Age Group	Male	Female
41-50	1	0
51-60	3	1
61-70	3	0
Over 70	4	0
Total	**11**	**1**

The Role of the Board

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. The primary responsibilities of the Board are as follows:

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

The Roles of Chairman and Managing Director

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

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

Responsibilities of the Chairman:

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

Responsibilities of the Managing Director:

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

- putting adequate operational, planning, legal and financial-control systems in place; and

- managing the Company's relationships with its diverse stakeholders.

The Chairman also meets once a year with the Non-executive Directors, in the absence of the Executive Director, to discuss the Group's business affairs. Such a meeting was held on 18 December 2017.

Board Proceedings

Board Meetings

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

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

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

Voting on Connected Transactions

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

Independent Non-executive Directors, together with the other Board members, ensure that connected transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the agreement governing them on terms that are fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole. The Company Secretary ensures that all connected transactions entered into are in compliance with the Listing Rules. In 2017, the Company entered into two continuing connected transactions, details of which are given on pages 72 to 73 of this Annual Report.

Obligations of Directors

Code of Conduct

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

Securities Transactions by Directors

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

After the making of specific enquiries, all Directors confirmed that they had complied throughout 2017 with the standard of dealings set out in the Model Code. Details of the shareholding interests held by the Directors in the Company as at 31 December 2017 are set out on pages 107 and 108 of this Annual Report.

Induction and Continuous Professional Development

All Directors attended training programmes in the year to keep themselves abreast of the latest developments in the fields relevant to their respective expertise and professions. The Company Secretary is responsible for providing tailored induction programmes for new Directors and appropriate training programmes for the ongoing development of all Directors to ensure that they have proper understanding of the Company's business operations and practices and are fully aware of their responsibilities under the Listing Rules and other regulatory requirements. Information on the latest developments regarding the Listing Rules and other applicable governance matters is provided to the Directors as and when required. The Directors are provided with detailed monthly management reports, as well as monthly media reports, including press articles relevant to the Company's businesses. On 26 October 2017, a seminar was run by a professional services firm to update the Directors on the latest development in corporate governance. Directors are encouraged to participate in continuous professional development programmes organised by qualified institutions. The costs for such programmes are borne by the Company. There is a formal procedure in place for reporting the training and continuous professional development received by Directors.

Time Commitment of Directors

For the year ended 31 December 2017, the Company has received confirmation from each Director that he/she committed sufficient time and attention to the Company's affairs. The Board reviews their contribution annually.

Appointment of Alternate Director and Re-election, Retirement and Appointment of Directors

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

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

Appointment of Alternate Director

Mr Gao Feng was appointed as Alternate Director to Mr William LOUEY Lai Kuen of the Company and of its two subsidiary companies, namely, The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB"), with effect from 1 January 2017.

Re-election of Directors

At the 2017 AGM, four Directors, namely, Mr NG Siu Chan, Dr John CHAN Cho Chak, GBS, JP, Mr Allen FUNG Yuk Lun and Mr Roger LEE Chak Cheong, retired by rotation and were re-elected as Directors of the Company.

Retirement of Directors

Mr Gordon SIU Kwing Chue retired as an Independent Non-executive Director and Mr John Anthony MILLER retired as a Non-executive Director with effect from the conclusion of the 2017 AGM and did not offer themselves for re-election.

Appointment of Directors

Mr TSANG Wai Hung, GBS, PDSM, JP, was appointed by the Board as an Independent Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 January 2018.

Mr CHEUNG Wing Yui was appointed by the Board as a Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 January 2018.

Mr LEE Luen Fai was appointed by the Board as a Non-executive Director of the Company and of its two subsidiary companies, KMB and LWB, with effect from 1 January 2018.

Mr TSANG, Mr CHEUNG and Mr LEE will hold office as Directors until the next annual general meeting of the Company to be held on 17 May 2018 (the "2018 AGM"), when they shall be eligible for re-election, and will then be subject to retirement by rotation and re-election at subsequent annual general meetings of the Company pursuant to the Company's Bye-laws.

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

At the 2018 AGM, Mr Edmond HO Tat Man will retire with effect from the conclusion of the 2018 AGM. Mr Raymond KWOK Ping Luen, JP, Mr Charles LUI Chung Yuen, M.H., Ms Winnie NG, JP, Dr Eric LI Ka Cheung, GBS, OBE, JP, and Professor LIU Pak Wai, SBS, JP, will retire as Directors of the Company and offer themselves for re-election at the 2018 AGM. All these retiring Directors (except Mr Edmond HO Tat Man) and Mr TSANG, Mr CHEUNG and Mr LEE, being eligible, have been nominated by the Nomination Committee and recommended by the Board to stand for re-election at the 2018 AGM. The election of each Director will be subject to the vote of shareholders in a separate resolution.

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

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

Directors' Indemnities and Protections

The Company has taken out an appropriate insurance policy covering any legal action against the Directors of the Company, which indemnifies the Directors for liability incurred in connection with the Company's activities. These indemnities were in force during 2017 and remain in force.

Delegation by the Board of Directors

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

The membership of each Committee (as at 1 January 2018) is shown below:

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

Standing Committee

The role of the Standing Committee is to advise and assist the Board in devising business strategies, making significant investment proposals and monitoring their implementation. In 2017, it held seven meetings with senior management to review and discuss financial, operational and strategic planning, as well as potential investment opportunities for the Group. The findings and recommendations of the Standing Committee are submitted directly to the Board.

Audit and Risk Management Committee

On 19 May 2017, the Board appointed Professor LIU Pak Wai, an Independent Non-executive Director and Mr Allen FUNG Yuk Lun, a Non-executive Director, as members of the Audit and Risk Management Committee. Mr TSANG Wai Hung was appointed as a member of the Audit and Risk Management Committee of the Company with effect from 1 January 2018. The Chairman of the Audit and Risk Management Committee, Dr Eric LI Ka Cheung, an Independent Non-executive Director of the Company, is a Certified Public Accountant who possesses the professional qualifications and accounting expertise prescribed by the Listing Rules. Dr LI and the other members of the Audit and Risk Management Committee have diverse experience in various business and professional fields as set down in the Directors' Profiles on pages 96 to 102 of this Annual Report. None of the Audit and Risk Management Committee members is a former or existing partner of the external auditors of the Company. The Audit and Risk Management Committee is responsible for establishing and maintaining an adequate internal control structure, for ensuring the quality and integrity of financial statements, for nominating independent external auditors, and for reviewing the adequacy of external audits in respect of cost, scope and performance. It also ensures that an effective system of internal control and risk management is established within the Company. The Audit and Risk Management Committee's terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and are regularly updated with reference to the recommendations of the CG Code of the Listing Rules.

In 2017, the Audit and Risk Management Committee and senior management held two meetings with the Company's external auditors, KPMG – at which the Company's financial reports, internal control systems and other relevant matters were reviewed and discussed. At the end of the meetings which they attended, the external auditors were invited to discuss in private with members of the Audit and Risk Management Committee issues noted during the course of the audit and any other matters they might wish to bring to the attention of the Audit and Risk Management Committee without the presence of senior management. Following each of the two meetings, the Chairman of the Audit and Risk Management Committee submitted a report to the Board of Directors and gave a briefing on all significant issues that had arisen.

The major work undertaken by the Audit and Risk Management Committee in the financial year ended 31 December 2017 included:

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

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

Following these reviews and discussions, the Audit and Risk Management Committee recommended to the Board that the unaudited interim financial report of the Company for the six months ended 30 June 2017 and the audited annual financial statements for the year ended 31 December 2017 be approved.

(b) Maintenance of Relationship with External Auditors

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

Based on the conclusions drawn from these reviews, the Audit and Risk Management Committee recommended to the Board that KPMG, the existing external auditors, be re-appointed as auditors of the financial statements of the Company for the year ending 31 December 2018.

Remuneration Committee

On 19 May 2017, the Board appointed Ms Winnie NG, a Non-executive Director, as a member of the Remuneration Committee. The Board has devolved upon the Remuneration Committee the authority to formulate remuneration policies, including the establishment of guidelines to determine terms and conditions of employment, and remuneration and retirement benefits of Directors and employees of the Group. The Remuneration Committee also draws up criteria for performance-based bonuses and makes recommendations to the Board on human resources related policies based on the Group's goals and objectives. Details of the terms of reference, remuneration policies and work performed by the Remuneration Committee in 2017 are set out in the Remuneration Report on pages 92 to 95 of this Annual Report.

Nomination Committee

On 19 May 2017, the Board appointed Mr Allen FUNG Yuk Lun, a Non-executive Director, as a member of the Nomination Committee. The Board has appointed the Nomination Committee to identify suitable candidates of a high calibre and with sufficient experience for its consideration, taking into account the Board Diversity Policy. The Nomination Committee ensures that the appointment of Directors undergoes formal, stringent and transparent procedures. The majority of members of the Nomination Committee, including its chairman, are Independent Non-executive Directors of the Company. The principal terms of reference of the Nomination Committee include:

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

Attendance Records

The Directors' attendance at the Annual General Meeting, Board Meetings and Committee Meetings in 2017 is given below:

Members of the Board of Directors	2017 AGM	Board	Standing Committee	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee
Independent Non-executive Directors						
Dr Norman LEUNG Nai Pang, GBS, JP (Chairman)	1/1	7/7	7/7			
Dr John CHAN Cho Chak, GBS, JP (Deputy Chairman)	1/1	7/7	7/7		2/2	2/2
Dr Eric LI Ka Cheung, GBS, OBE, JP	1/1	7/7		2/2	2/2	2/2
Professor LIU Pak Wai, SBS, JP	0/1	7/7		1/1	2/2	
Mr Gordon SIU Kwing Chue, GBS, CBE, JP (retired on 18 May 2017)	0/1	1/3		1/1		1/1
Non-executive Directors						
Mr Raymond KWOK Ping Luen, JP	0/1	0/7	4/7			
Mr NG Siu Chan	0/1	5/7				
Mr Charles LUI Chung Yuen, M.H.	1/1	7/7	6/7			
Mr William LOUEY Lai Kuen	1/1	3/7				
Ms Winnie NG, JP	1/1	7/7	7/7		2/2	
Mr Allen FUNG Yuk Lun	1/1	6/7		1/1		1/1
Mr Edmond HO Tat Man	1/1	7/7				
Mr John Anthony MILLER, SBS, OBE (retired on 18 May 2017)	1/1	3/3		1/1		
Executive Director						
Mr Roger LEE Chak Cheong (Managing Director)	1/1	7/7	7/7			
Alternate Directors						
Mr GAO Feng (Alternate Director to Mr William LOUEY Lai Kuen)	0/1	4/7				
Ms Winnie NG, JP (Alternate Director to Mr NG Siu Chan)	1/1	2/7				
Ms Susanna WONG Sze Lai (Alternate Director to Mr Raymond KWOK Ping Luen, JP)	0/1	7/7				
In attendance						
External Auditors	1/1			2/2		

Notes:

1. Particulars of the 2017 AGM are set out on page 90 of this Annual Report.

The Board held seven meetings in 2017, which exceeded the minimum of four board meetings a year required by the CG Code. On average, regular Board meetings and Board Committee meetings lasted for at least two hours.

Delegation of Responsibilities to Senior Management

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

The Role of the Company Secretary

The post of Company Secretary is held by Miss Lana WOO, who is a fellow member of The Hong Kong Institute of Chartered Secretaries. She is responsible for ensuring that the correct Board procedures are followed, advising the Board on all corporate governance matters and facilitating the induction and continuous professional development of Directors. She reports to the Managing Director of the Company, and all Directors may call upon her for advice and assistance at any time in respect of their duties and the effective operation of the Board and Board Committees. In 2017, the Company Secretary took more than 15 hours of professional training to update her skills and knowledge.

Accountability and Audit

Financial Reporting

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

The financial statements of the Company and the Group for the year ended 31 December 2017 given on pages 120 to 207 of this Annual Report represent a true and fair view of the state of affairs of the Company and the Group, and the results and cash flow for the year. The Audit and Risk Management Committee of the Company, together with senior management and the Company's external auditors, has reviewed the accounting principles and policies adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the financial results for the year ended 31 December 2017.

Internal Control and Risk Management Systems

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

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

Internal Control Framework

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

The Board

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

The Audit and Risk Management Committee

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

Management

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

The Internal Audit Department

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

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

Control Environments

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

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

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

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

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

Risk Assessment

TIH Enterprise Risk Management System

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

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

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

The Group's risk management structure is as follows:

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

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

TIH Risk Management Framework

Board of Directors

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

Audit and Risk Management Committee

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

Risk Management Taskforce ("RMTF")

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

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

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

Internal Audit

Control Activities

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

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

Quality Management System

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

The Hong Kong Quality Assurance Agency ("HKQAA") conducts an annual independent audit of QMS to assess its effectiveness, efficiency and conformity. During 2017, there was no non-conformity in QMS noted during the ISO audits of the operations of both KMB and LWB.

As of December 2017, both KMB and LWB possessed ISO 9001:2008 quality management system certification. In addition, two of KMB's major bus depots are ISO 14001-certified for their environmental management systems.

With the new 2015 version of ISO9001 becoming effective in 2018, work is under way to ensure a smooth transition to the latest certification requirements in the coming year.

Business Continuity Plan

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

Information and Communication/Monitoring Activities

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

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

Internal Audit Function

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

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

In 2017, the Internal Audit Department performed the following functions, among others:

- Conducted compliance reviews of relevant laws and regulations applicable to the Group's business;

- Carried out operational reviews and surprise checks of major internal control processes in respect of both franchised and non-franchised businesses;
- Performed special reviews and investigations at the request of the Group's management; and
- Assisted operations in carrying out Internal Quality Audits ("IQA") in accordance with ISO requirements.

Based on the report of the Internal Audit Department and the report of the Company Secretary on the Group's whistleblowing policy, the Audit and Risk Management Committee has concluded that the Group continues to operate in an effective control environment with a control system that adequately monitors and corrects non-compliance in all significant areas. Following the Audit and Risk Management Committee's annual review of the Group's internal control systems, the Board is satisfied that the Group fully complied with the Code Provisions on internal controls in 2017.

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

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

External Audit

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

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

The Company engaged KPMG as its external auditors to audit the financial statements of the Company for the year ended 31 December 2017. KPMG has formally confirmed in writing to the Audit and Risk Management Committee that for the year ended 31 December 2017 and up to the date of this Annual Report, it remains independent of the Group in accordance with the independence requirements of the HKICPA.

The fees for services rendered by KPMG to the Group for the year ended 31 December 2017 are set out below:

	HK$ million
Audit related services	6.4
Non-audit related services (Note)	2.0
Total	**8.4**

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

Engagement with Stakeholders

Shareholders

The Company had 3,984 registered shareholders as at 31 December 2017. The shareholders comprise individual shareholders, institutional investors plus people and organisations holding shares via financial intermediaries such as nominees, investment funds and the Central Clearing and Settlement System ("CCASS") of Hong Kong.

The names of the shareholders, other than Directors of the Company, holding 5% or more of the shares of the Company as at 31 December 2017 are disclosed in the Report of the Directors on page 110 of this Annual Report. The largest single shareholder of the Company is Sun Hung Kai Properties Limited, which retains an equity interest of about 36.15% in the Company.

As at 31 December 2017, the shareholding distribution of the Company was as follows:

Size of registered shareholding	Number of shareholders	% of shareholders	Number of shares (Note)	% of issued share capital
0-1,000	1,425	35.77	451,208	0.11
1,001-5,000	1,506	37.80	3,559,604	0.84
5,001-10,000	438	10.99	3,330,967	0.79
10,001-100,000	507	12.73	14,951,971	3.54
Above 100,000	108	2.71	400,162,060	94.72
	3,984	**100.00**	**422,455,810**	**100.00**

Note: 44.36% of all TIH's issued shares were held through CCASS.

Based on information that is publicly available to the Company and the Directors, the Company has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year ended 31 December 2017.

Shareholder Communications Policy

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

Annual Reports

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

Over the years, the Company's annual reports have won widespread recognition in local and international award programmes. In 2017, the Company won the Gold Award for Written Text, Silver Award for Financial Data, Silver Award for Traditional Annual Report, Bronze Award for Photography and Bronze Award for Cover Photo/Design in the Transportation & Leasing category of the 2017 International ARC Awards.

The Company's General Meetings

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

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

Annual General Meeting

The 2017 AGM was held on 18 May 2017 and the matters resolved are summarised below:

As ordinary business:

- Approval of the audited financial statements and reports of the Directors and Auditors for the year ended 31 December 2016;
- Approval of an ordinary final dividend of HK$0.90 per share for the year ended 31 December 2016;
- Re-election of Mr NG Siu Chan, Dr John CHAN Cho Chak, GBS, JP, Mr Allen FUNG Yuk Lun and Mr Roger LEE Chak Cheong as Directors of the Company;
- Re-appointment of KPMG as auditors of the Company, and authorisation of the Directors to fix their remuneration;
- Granting of a general mandate to the Directors to issue shares;
- Granting of a general mandate to the Directors to exercise the powers of the Company to purchase its own shares; and
- Extending the share issue mandate granted to the Board of Directors.

The details and poll voting results of the 2017 AGM were published on the websites of the Company and the Stock Exchange on 18 May 2017.

The 2018 Financial Calendar of the Company is set out as follows:

Announcement of 2017 final results	22 March 2018
Dispatch of 2017 Annual Report and accompanying circular to shareholders	17 April 2018
Last day to register transfer to qualify to attend and vote at the 2018 AGM	11 May 2018
Book closure for 2018 AGM (both dates inclusive)	14 May 2018 – 17 May 2018
Date of 2018 AGM	17 May 2018
Last day to register transfer to qualify for 2017 final dividend	24 May 2018
Book closure for 2017 final dividend	24 May 2018
Payment of 2017 final dividend	29 June 2018
Announcement of 2018 interim results	mid-August 2018
Payment of 2018 interim dividend	mid-October 2018
Financial year end date	31 December 2018

Shareholders' Right

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

Procedures for Making Proposals at General Meetings

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

Procedure for Sending Enquiries to the Board

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

Constitutional Documents

An up-to-date and consolidated version of the Bye-laws of the Company is published on the websites of the Company and the Stock Exchange. No changes were made to the Company's constitutional documents in 2017.

Change of Principal Place of Business in Hong Kong

The Company on 30 December 2016 announced that the Company's principal place of business in Hong Kong will be changed to 15/F, 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong with effect from 1 January 2017.

General Public

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

Website – The Company's website www.tih.hk offers a wide range of information about the Group and its various businesses for shareholders and other interested parties.

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

Publications – KMB and LWB publish a number of booklets and leaflets which keep the travelling public updated on their services and operations.

KMB's publications can be accessed on its website www.kmb.hk, together with regular updates on corporate, financial and media matters relating to the Group.

Employees

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

The Staff Handbook, which is accessible on the staff website, outlines the Company's human resources policies and employment guidelines.

Remuneration Report

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

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

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

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

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

- Determine the policies on remuneration of the Directors and the employees of the Group for approval by the Board;
- Set appropriate criteria for performance-related bonuses for employees, having regard to achievement against the assessment criteria with reference to market norms, and the Group's business objectives and targets;
- Establish guidelines for determining the remuneration of Directors, including the terms and conditions of employment, remuneration and retirement benefits of the Executive Directors;
- Review and make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, as well as Non-executive Directors; and
- Review and consider proposals submitted by the Managing Director on human resources or related policies and make appropriate recommendations to the Board.

In 2017, the Remuneration Committee:

- Reviewed the remuneration policy for 2017;
- Reviewed the annual performance-related bonuses for Group employees, with reference to the performance of the Group, individual achievement, the assessment criteria and market norms;

- Examined employees' wage and salary increments on a merit basis with reference to relevant factors including market pay trends and inflation forecasts; and

- Reviewed the remuneration of Executive and Non-executive Directors, benchmarked against the remuneration level of comparable listed companies in respect of workload, scale and complexity of business.

Criteria for Determination of the Remuneration of Directors

In line with good corporate governance practice, assessment of the remuneration of Directors is based on formal principles, which take into account both market practices and a tried and tested methodology. As in previous years, Directors' fees for 2017 were determined based on the methodology developed in the "Higgs Report" on the "Review of the Role and Effectiveness of Non-executive Directors" in the United Kingdom, which takes into account the likely workload, the scale and complexity of the business, and the responsibility involved. Reference was also made to the results of a desk-top survey conducted by the Company on the remuneration of the directors of 20 major companies listed on The Stock Exchange of Hong Kong Limited. The fee structure for Directors in 2017 is set out as follows:

	Fee per annum HK$
Board Members	
– Chairman	453,600
– Other Directors	324,000
Audit and Risk Management Committee Members	
– Chairman	200,000
– Other members	180,000
Remuneration Committee Members	
– Chairman	70,000
– Other members	60,000
Nomination Committee Members	
– Chairman	70,000
– Other members	60,000
Standing Committee Members (except Executive Director)	
– Chairman	1,352,800
– Other members	252,000

Except as disclosed above, no Independent Non-executive Director or Non-executive Director received any pension benefits or bonuses from the Group in 2017.

The remuneration package of each Director, on a named basis, for the year ended 31 December 2017, together with 2016 comparisons, are given in note 7 to the consolidated financial statements on pages 150 and 151 of this Annual Report.

Criteria for Determination of the Remuneration of Corporate Executives and other Employees

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

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

Base Compensation

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

Discretionary Bonus

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

Share Option Scheme

Under the Share Option Scheme, which was approved and adopted by shareholders at the 2016 AGM on 26 May 2016, the Board may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Share Option Scheme is intended to provide employees of the Company and its subsidiaries with the opportunity to participate in the growth and success of the Company. The Board may exercise its discretion to grant options to eligible employees proposed by the Remuneration Committee.

Details of the Share Option Scheme and options granted to eligible employees of the Company under the Share Option Scheme are set out on pages 108 and 109 of this Annual Report.

Staff Retirement Schemes

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

i) The Monthly Scheme

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

ii) The Daily Scheme

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

iii) SHKP MPF Employer Sponsored Scheme

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

Directors' Profiles

Dr Norman LEUNG Nai Pang
GBS, JP, LLD, BA

Chairman and Independent Non-executive Director, aged 77. Dr Leung has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 18 March 2000 and Deputy Chairman of the Company, KMB and LWB since 14 June 2001. Dr Leung became an Independent Non-executive Director of the Company with effect from 1 February 2006. He has been appointed as the Chairman of the Company with effect from the conclusion of the Annual General Meeting of the Company held on 17 May 2012. Dr Leung is the Chairman of the Standing Committee of the Company. He is an Independent Non-executive Director of Sun Hung Kai Properties Limited (a company listed on the Hong Kong Stock Exchange).

Dr Leung has been active in public service for 40 years and he served as Commissioner of the Civil Aid Service from 1993 to 2007, Chairman of the Broadcasting Authority from 1997 to 2002, a member of the Advisory Committee on Post-office Employment for former Chief Executives and Politically Appointed Officials from 2007 to 2013, Council Chairman of the City University of Hong Kong from 1997 to 2003 and Pro-Chancellor of such University from 2005 to June 2016. Dr. Leung has been appointed as the Council Chairman of The Chinese University of Hong Kong since May 2016.

Dr John CHAN Cho Chak
GBS, JP, DBA(Hon), DSocSc(Hon), BA, DipMS,CCMI, FCILT, FHKIoD

Deputy Chairman and Independent Non-executive Director, aged 74. Dr Chan was the Managing Director of Transport International Holdings Limited (the "Company") from 4 September 1997 to 7 April 2008; the Managing Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") from 1 November 1993 to 31 December 2006 and from 8 May 1997 to 31 December 2006 respectively; and the Senior Executive Director of KMB and LWB from 1 January 2007 to 7 April 2008. He has been a Non-executive Director of the Company, KMB and LWB since 8 April 2008, and was re-designated as Independent Non-executive Director of the Company with effect from 4 January 2012. He was appointed as the Deputy Chairman of the Company with effect from the conclusion of the Annual General Meeting of the Company held on 17 May 2012. He is the Chairman of the Remuneration Committee and the Nomination Committee as well as a member of the Standing Committee of the Company. He is an Independent Non-executive Director of Hang Seng Bank Limited and Guangdong Investment Limited. He was the Chairman and Non-executive Director of RoadShow Holdings Limited from 15 January 2001 to 12 December 2017. He was formerly an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited, 2000-03 and a member of the Hong Kong Civil Service, 1964-78 and 1980-93. Key posts held in Government included Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. Dr Chan was formerly also the Executive Director and General Manager of Sun Hung Kai Finance Company Limited, 1978-80. He was a Director of Swire Properties Limited from April 2010 to March 2017 during which he acted as an Independent Non-Executive Director from December 2011 to March 2017. He is currently Chairman of the Court of The Hong Kong University of Science and Technology. In December 2000, Dr Chan won the Executive Award in the DHL/SCMP HK Business Awards 2000 and received an Honorary University Fellowship from The University of Hong Kong. He was awarded the degrees of Doctor of Business Administration (honoris causa) by the International Management Centres in 1997 and Doctor of Social Sciences (honoris causa) by The Hong Kong University of Science and Technology in 2009, The University of Hong Kong in 2011 and Lingnan University in 2012. He is a Companion of the Chartered Management Institute, a Fellow of the Chartered Institute of Logistics and Transport and a Fellow of the Hong Kong Institute of Directors.

Raymond KWOK Ping Luen
JP, MA(Cantab), MBA, Hon DBA, Hon LLD

Non-executive Director, aged 64. Mr Kwok has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He is also a member of the Standing Committee of the Company. He has been a Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 September 1981 and 8 May 1997 respectively. Mr Kwok holds a Master of Arts degree in Law from Cambridge University, a Master's degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong. He is the Chairman and Managing Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is also the Chairman and an Executive Director of SUNeVision Holdings Ltd., the Chairman and a Non-executive Director of SmarTone Telecommunications Holdings Limited and a Non-executive Director of Wing Tai Properties Limited.

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

NG Siu Chan

Non-executive Director, aged 87. Mr Ng has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He is also a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 3 March 1983 and 8 May 1997 respectively. Mr Ng was an Independent Non-executive Director of Century City International Holdings Limited from 2 December 1994 to 31 December 2017, Paliburg Holdings Limited from 18 August 1995 to 31 December 2017 and Regal Hotels International Holdings Limited from 22 March 2005 to 31 December 2017.

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

William LOUEY Lai Kuen
BSc(Econ)

Non-executive Director, aged 58. Mr Louey has been a Director of Transport International Holdings Limited since 4 September 1997 and of its subsidiaries, The Kowloon Motor Bus Company (1933) Limited since 14 January 1993 and Long Win Bus Company Limited since 8 May 1997. He was appointed as a member of the Standing Committee of the Company with effect from 1 January 2018. Formerly, Mr Louey had a successful career in the United Kingdom, with an international merchant bank for five years and an international accounting firm for three years afterwards.

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

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

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

Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT

Non-executive Director, aged 83. Mr Lui has been a Director of Transport International Holdings Limited (the "Company") since 4 September 1997. He has also been a Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited since 17 September 1993 and 24 August 1994 respectively, and has been re-designated as a Non-executive Director of the Company with effect from 20 October 2016. He is also a member of the Standing Committee of the Company. Joined KMB in 1960 as Accountant and promoted to Chief Accountant, Assistant General Manager and appointed as General Manager on 1 March 1989. Retired as General Manager on 21 July 1999 on reaching the retirement age of 65 years. Mr Lui was appointed the Deputy Managing Director of KMB (China) Holdings Limited ("KMB (China)") on 1 September 1999. Relinquished the post of Deputy Managing Director to assume the post of Chairman of KMB (China) on 13 August 2003 until 20 October 2016.

Winnie NG

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

Non-executive Director, aged 54, has been Director of The Kowloon Motor Bus Company (1933) Limited ("KMB") since 1995 and Director of Transport International Holdings Limited (the "Company") and Long Win Bus Company Limited since 1997, and was Founder and Deputy Chairman of RoadShow Holdings Limited ("RoadShow") until 12 December 2017. Ms Ng is also an Independent Non-executive Director of Century City International Holdings Limited, Paliburg Holdings Limited and Regal Hotels International Holdings Limited which are all listed companies. Ms Ng has received numerous awards and recognition. In 2017, Ms Ng was appointed a Justice of the Peace. In 2016, she won Nobel Laureate Series: Asian Chinese Leadership Award, and China Top Ten Outstanding Women Entrepreneurs. In 2010, she was named a Woman of Excellence and was also selected as one of 60 Meritorious Chinese Entrepreneurs with Achievement and National Contribution. In previous years, she won the Yazhou Zhoukan Young Chinese Entrepreneur Award, was named one of China's 100 Outstanding Women Entrepreneurs, was Mason Fellow of Harvard University, and was the Caring Heart Award recipient.

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

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

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

Dr Eric LI Ka Cheung

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

Independent Non-executive Director, aged 64. Dr Li has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 10 December 1998. Dr Li was an Independent Non-executive Director of RoadShow Holdings Limited from 16 September 2004 to 12 December 2017. He is the Senior Partner of Li, Tang, Chen & Co., Certified Public Accountants. Dr Li is an Independent Non-executive Director of SmarTone Telecommunications Holdings Limited, Wong's International Holdings Limited, Hang Seng Bank Limited, China Resources Beer (Holdings) Company Limited (formerly China Resources Enterprises, Limited) and Bank of Communications Co. Ltd. (until 25 June 2013), all of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was formerly an Independent Non-executive Director of China Vanke Co., Ltd., Sinofert Holdings Limited, CATIC International Holdings Limited and Meadville Holdings Limited (a company listed on the Stock Exchange until its withdrawal of its listing status on 19 April 2010). He is also an Independent Non-executive Director of Sun Hung Kai Properties Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is a member of the 13th National Committee of the Chinese People's Political Consultative Conference, Chairman of Independent Commission on Remuneration for Members of the District Council of the HKSAR and the Chairman of the Legal Aid Services Council. He was also a former member of the Legislative Council of Hong Kong and a past president of the Hong Kong Institute of Certified Public Accountants. Dr Li is the Chairman of the Audit and Risk Management Committee of the Company, and a member of the Nomination Committee and Remuneration Committee of the Company.

Edmond HO Tat Man

MA(Cantab), MBA, FCILT, MHKIoD

Non-executive Director, aged 56. Mr Ho has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 1 January 2001. He joined KMB in September 1998 and served as Finance and Administration Director from January 1999 to April 2003. Mr Ho was promoted to Deputy Managing Director of the Company, KMB and LWB with effect from 10 January 2002, and was appointed as Managing Director of KMB and LWB on 1 January 2007, and as Managing Director of the Company on 8 April 2008. Mr Ho was re-designated as a Non-executive Director of the Company, KMB and LWB with effect from 1 January 2015. Mr Ho was a Non-executive Director of RoadShow Holdings Limited for the period from 13 October 2008 to 8 July 2014. Positions previously held by him included Investment Director of a merchant bank and executive director of a number of transport infrastructure management and investment companies in Hong Kong and in the Mainland of China. He was formerly also a director of four Sino-foreign joint venture companies of an international leading soft drink brand. Mr Ho holds a master's degree in engineering from Cambridge University and an MBA degree from The University of Hong Kong.

Professor LIU Pak Wai
SBS, JP

Independent Non-executive Director, aged 70. Professor Liu was appointed Independent Non-executive Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited with effect from 1 September 2011. He was appointed as a member of the Remuneration Committee and the Audit and Risk Management Committee of the Company with effect from the conclusion of the Annual General Meeting of the Company held on 17 May 2012 and on 19 May 2017 respectively. He received his AB degree from Princeton University and PhD degree from Stanford University in the United States of America. He is the Research Professor and formerly Pro-Vice-Chancellor of The Chinese University of Hong Kong and holds a number of positions related to his field of study, including Executive Committee Chairman of the Lau Chor Tak Institute of Global Economics and Finance. Professor Liu is an Independent Non-executive Director of Hang Lung Group Limited and China Zheshang Bank Co., Ltd., both companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. He was an Independent Non-executive Director of Hang Lung Properties Limited. He is also a director of the Hong Kong Institute for Monetary Research of the Hong Kong Monetary Authority, a board member of the Shenzhen Finance Institute and was a Non-executive Director of the Securities and Futures Commission and the Chairman of its Remuneration Committee. In public service, he serves as Chairman of the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials. He was a past member of the Commission on Strategic Development, the Working Group on Long Term Fiscal Planning, the Independent Review Committee for the Prevention and Handling of Potential Conflicts of Interests, and the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR.

Allen FUNG Yuk Lun
BA, Ph.D.

Non-executive Director, aged 49. Mr Fung has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 January 2014. He was appointed as a member of the Audit and Risk Management Committee and Nomination Committee of the Company with effect from 19 May 2017. He is an Executive Director of Sun Hung Kai Properties Limited ("SHKP"), a Deputy Chairman of SmarTone Telecommunications Holdings Limited and a Vice Chairman of SUNeVision Holdings Limited. He is also a member of the Executive Committee of SHKP and the Chief Executive Officer of the SHKP Group's non-property related portfolio investments. He is also a director of certain SHKP subsidiaries. He was a Non-executive Director of RoadShow Holdings Limited from 8 July 2014 to 12 December 2017. Mr Fung obtained an undergraduate degree (Modern History) from Oxford University and holds a doctoral degree in History and East Asian Languages from Harvard University. He was a recipient of a Guggenheim Fellowship in 1996. Mr Fung was a Teaching Fellow at Harvard University from 1993 to 1994 and a visiting Assistant Professor of History at Brown University from 1996 to 1997. Mr Fung joined McKinsey & Company ("McKinsey"), a global management consulting company, in 1997. During his time in McKinsey, he primarily served clients in China and Hong Kong, and also served institutions in Europe and Southeast Asia.

Mr Fung was the co-leader of the infrastructure practice for McKinsey. He was the Managing Partner of McKinsey Hong Kong from 2004 to 2010. In 2011, he became a Director of McKinsey globally, being the first Hong Kong Chinese to become a Director in McKinsey's history. He was also the head of recruiting for the Asia region in McKinsey.

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

Roger LEE Chak Cheong
BSc, MSc, MICE, CEng

Managing Director, aged 55. Mr Lee has been a Director of Transport International Holdings Limited (the "Company"), The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB") since 3 March 2014. He has been appointed as Managing Director of the Company, KMB and LWB since 1 January 2015. He is a member of the Standing Committee of the Company. He is also a director of certain subsidiaries of the Company. Mr Lee also served as an Alternate Director to Mr Raymond Kwok Ping Luen of the Company, KMB and LWB for the period from 1 April 2013 to 2 March 2014. Prior to joining Sun Hung Kai Properties Limited in 2006, he was a Director with MVA Hong Kong Limited, a leading traffic and transport consultancy in Hong Kong. Before returning to Hong Kong, Mr Lee has worked for the West Sussex County Council, the London Borough of Bexley and the East Sussex County Council in England between 1986 and 1994. Mr Lee obtained a Bachelor Degree in Civil Engineering from University of Westminster, England in 1985 and a Master Degree in Transportation Planning & Engineering from University of Southampton, England in 1986. Mr Lee is a Chartered Engineer and is a member of the Institution of Civil Engineers.

TSANG Wai Hung
GBS, PDSM, JP, MBA

Independent Non-executive Director, aged 59. Mr Tsang has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 January 2018. He is a member of the Audit and Risk Management Committee of the Company.

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

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

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

CHEUNG Wing Yui
BCom, Hon DBA, CPA(Aust.)

Non-executive Director, aged 68. Mr Cheung has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 January 2018. He is a deputy chairman and a non-executive director of SmarTone Telecommunications Holdings Limited, a vice chairman and a non-executive director of SUNeVision Holdings Limited, a non-executive director of Tai Sang Land Development Limited and Tianjin Development Holdings Limited. He is also a non-executive director of Sun Hung Kai Properties Insurance Limited, which is a wholly-owned subsidiary of Sun Hung Kai Properties Limited. He is a director of The Community Chest of Hong Kong.

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

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

LEE Luen Fai
BA

Non-executive Director, aged 64. Mr Lee has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 January 2018. He is the Director of Public Affairs of Sun Hung Kai Properties Limited ("SHKP"). He joined SHKP in May 2005. He is a veteran of the broadcasting industry, with more than 20 years of experience in the field. He joined Radio Television Hong Kong ("RTHK") in the 70's and has hosted a number of popular programmes including "Talkabout" and "City Forum". Mr Lee has also been the Head of Public Affairs for RTHK radio division. In 1993, he was promoted as the Head of Public and Current Affairs of the television division overseeing all public and current affairs programmes. He became Controller of Educational Television in 1996 and was responsible for all educational TV and school programmes. Mr Lee graduated from Grantham College of Education (now known as The Education University of Hong Kong) and holds a bachelor of arts degree in Chinese History from University of East Asia (now known as University of Macau).

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

Key Corporate Executives

Company/Position	Name
Transport International Holdings Limited	
Managing Director	Roger LEE Chak Cheong, BSc, MSc, MICE, CEng
General Manager, Corporate Planning and Business Development	Godwin SO Wai Kei, BA, MBA, FCPA, FCCA, FCIS, FCS, ACIB
Finance Director	William HO Sai Kei, BBA, MBA, CA(Canada), FCPA
Company Secretary	Lana WOO, BA, MBA, FCIS, FCS(PE), CPA(Canada), CGA
Head of Internal Audit Department	Louisa LEUNG Chik Yee, AICPA, CIA, CISA, CFE, CRMA
Head of Legal Department	Henry LEUNG Ho Yin, BA, LLB
The Kowloon Motor Bus Company (1933) Limited/ Long Win Bus Company Limited	
Operations Director	LEUNG Kin Wang, BSc
Commercial Director	Thomas TONG Tung Ming, MSc, MBA, CEng, MIStructE, MHKIE, AP, RSE
Deputy Operations Director	Patrick PANG Shu Hung, MSc
Head of Communications and Public Affairs Department	Emily HUI Wan Han, MA
Head of Customer Service Department	CHAN Pik Yin, BA
Head of Financial Accounting & Treasury Department	Kathy CHEUNG Mei Lam, BBA, CPA
Head of Financial Planning and Control Department	Joseph LEUNG Cho Tak, BA, CPA, AICPA
Head of Human Resources Department	Susanna WONG Pui Yee, BSocSc
Head of Information Technology Department (Acting)	Karmen HON Ka Yin, BA
Head of Procurement Department	Anita LAM Chiu Lin, BCom, MSc, MCIPS
Head of Training and Quality Assurance Department	James WONG Cheung Ming
Depot General Manager	Andrew KWAN Chi Wai, CMILT

Contents

The Directors have pleasure in submitting their Annual Report together with the audited financial statements for Transport International Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2017.

Principal place of business

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

Principal activities and business review

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

Particulars of the Company's principal subsidiaries are set out in note 17 to the financial statements.

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

The analysis of the principal activities of the Group during the financial year is set out in note 12 to the financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business, a discussion of the Group's environmental policies and performance, and its compliance with the relevant laws and regulations that have a significant impact on the Group and an account of the Group's key relationships with its employees, customers and suppliers that have a significant impact on the Group can be found in the Management Discussion and Analysis set out on pages 20 to 95 of this Annual Report. This discussion forms part of this Directors' Report.

Recommended dividend

An interim dividend of HK$0.35 per share (2016: HK$0.35 per share) was paid to the shareholders on 17 October 2017. This included a scrip dividend alternative to allow shareholders to elect to receive the dividend wholly or partly in the form of new fully paid shares in lieu of cash. The Directors now recommend that a final dividend of HK$0.90 per share (2016: HK$0.90 per share) in respect of the year ended 31 December 2017 be paid to shareholders on 29 June 2018.

Charitable donations

Charitable donations made by the Group during the year amounted to HK$2,100,000 (2016: HK$2,374,000).

Share capital

Details of the movements in share capital of the Company during the year are set out in note 29(b)(i) to the financial statements. Shares were issued during the year on exercise of share options and scrip dividend respectively. Details about the issue of shares are also set out in note 29(b)(ii) to the financial statements.

Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$2,300,670,000 (2016: HK$1,846,413,000). After the end of the reporting period the Directors proposed a final dividend of HK$0.90 per share (2016: HK$0.90 per share), amounting to HK$380,210,000 (2016: HK$370,512,000) (note 11(a)). This dividend has not been recognised as a liability at the end of the reporting period.

Directors

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

Dr Norman LEUNG Nai Pang*, GBS, JP	(Chairman)
Dr John CHAN Cho Chak*, GBS, JP	(Deputy Chairman)
Raymond KWOK Ping Luen, JP	
NG Siu Chan	
William LOUEY Lai Kuen	
Charles LUI Chung Yuen, M.H.	
Winnie NG, JP	(Director and Alternate Director to Mr NG Siu Chan)
Dr Eric LI Ka Cheung*, GBS, OBE, JP	
Edmond HO Tat Man	
Professor LIU Pak Wai*, SBS, JP	
Allen FUNG Yuk Lun	
Roger LEE Chak Cheong	(Managing Director)
TSANG Wai Hung*, GBS, PDSM, JP	(Appointed on 1 January 2018)
CHEUNG Wing Yui	(Appointed on 1 January 2018)
LEE Luen Fai	(Appointed on 1 January 2018)
Susanna WONG Sze Lai	(Alternate Director to Mr Raymond KWOK Ping Luen, JP)
GAO Feng	(Appointed as Alternate Director to Mr William LOUEY Lai Kuen on 1 January 2017)
Gordon SIU Kwing Chue*, GBS, CBE, JP	(Retired on 18 May 2017)
John Anthony MILLER, SBS, OBE	(Retired on 18 May 2017)

* Independent Non-executive Director

In accordance with the Company's Bye-laws 86(2) and Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), Mr Tsang Wai Hung, Mr Cheung Wing Yui and Mr Lee Luen Fai, whom were appointed as Directors with effect from 1 January 2018, will hold office only until the forthcoming Annual General Meeting ("AGM") and being eligible, has offered themselves for re-election.

In accordance with the Company's Bye-laws 87(1) and Appendix 14 of the Listing Rules, Mr Raymond Kwok Ping Luen, Mr Charles Lui Chung Yuen, Ms Winnie Ng, Dr Eric Li Ka Cheung, Mr Edmond Ho Tat Man and Professor Liu Pak Wai will retire from the Board at the forthcoming AGM of the Company. Except for Mr Edmond Ho Tat Man who will not offer himself for re-election, all other retiring Directors, being eligible, will offer themselves for re-election at the AGM.

Brief biographical details of the Directors of the Company are set out on pages 96 to 102 of this Annual Report.

Indemnity provision

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

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

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

The Directors of the Company who held office at 31 December 2017 had the following interests in the shares of the Company, subsidiaries and other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under Section 352 of the SFO.

(i) Interests in issued shares of the Company

	Ordinary shares of HK$1 each						
	Personal interests	Family interests	Corporate interests	Trustee interests	Other interests	Total number of shares held	Percentage of total issued shares
Dr Norman LEUNG Nai Pang*	–	–	–	–	–	–	–
Dr John CHAN Cho Chak*	2,000	–	–	–	–	2,000	–
Raymond KWOK Ping Luen	437,799 (note 1)	–	–	–	–	437,799	0.104%
NG Siu Chan	–	22,969,285	–	–	–	22,969,285	5.437%
William LOUEY Lai Kuen	6,668,810	–	–	–	23,444,425 (note 2)	30,113,235	7.128%
Charles LUI Chung Yuen	13,829	–	–	2,911,146 (note 3)	–	2,924,975	0.692%
Winnie NG (Director and Alternate Director to Mr NG Siu Chan)	181,416	–	–	22,969,285 (note 4)	–	23,150,701	5.480%
Dr Eric LI Ka Cheung*	–	–	–	–	–	–	–
Edmond HO Tat Man	–	–	–	–	–	–	–
Professor LIU Pak Wai*	–	–	–	–	–	–	–
Allen FUNG Yuk Lun	–	–	–	–	–	–	–
Roger LEE Chak Cheong (Managing Director)	104,800	–	–	–	–	104,800	0.025%
Susanna WONG Sze Lai (Alternate Director to Mr Raymond KWOK Ping Luen)	–	–	–	–	–	–	–
GAO Feng (Alternate Director to Mr William LOUEY Lai Kuen)	–	–	–	–	–	–	–

* Independent Non-executive Director

Notes:

(1) Mr Raymond Kwok Ping Luen held 434,322 shares of the Company jointly with his spouse.

(2) Mr William Louey Lai Kuen, Ms Phyllis Louey and Ms Carol Wilma Louey entered into a shareholders voting agreement and together have interests in 30,113,235 shares of the Company.

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

(4) Ms Winnie Ng has interest in 22,969,285 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

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

(ii) Interests in underlying shares

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

As at 31 December 2017, none of the Directors had any non-beneficial interest in the share capital of the Company.

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

Equity-linked agreement

Share option scheme

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

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

The total number of securities available for issue under the share option scheme as at 31 December 2017 was 40,363,941 shares (including options for 4,300,000 shares that have been granted but not yet lapsed or exercised) which represented 9.6% of the ordinary shares of the Company in issue at 31 December 2017. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

Equity-linked agreement (continued)

Share option scheme (continued)

At 31 December 2017, a Director of the Company and certain employees of the Group had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2017 was HK$25.15) granted for a consideration of HK$1 under the share option scheme of the Company. As at 31 December 2017, the total grant date fair value of unexercised vested and unvested options, measured in accordance with the accounting policy set out in note 1(x)(iv) to the financial statements, amounted to HK$2,358,000 and HK$5,513,000, respectively. The options are unlisted. Once vested, each option gives the holder the right to subscribe for one ordinary share of the Company. Assuming that all the options outstanding as at 31 December 2017 are exercised, the Company will receive proceeds of HK$100,835,000.

	No. of options outstanding at 1 January 2017	No. of shares acquired on exercise of options during the year	No. of options forfeited during the year	No. of options outstanding at 31 December 2017	Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant of options*	Market value per share on exercise of options*
Director									
Roger LEE Chak Cheong	860,000	–	–	860,000	31 October 2016	31 October 2017 to 30 October 2021 (note)	HK$23.45	HK$23.45	–
Employees	4,160,000	(54,000)	(666,000)	3,440,000	31 October 2016	31 October 2017 to 30 October 2021 (note)	HK$23.45	HK$23.45	HK$24.20

* being the closing price of the Company's ordinary shares on the date of grant or exercise, as applicable.

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

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

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(x)(iv) and note 21 to the financial statements respectively.

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

Directors' service contracts

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

Directors' interests in transactions, arrangements or contracts

As disclosed in note 33(a) to the financial statements, certain subsidiaries of the Group entered into transactions with certain subsidiaries of a shareholder, Sun Hung Kai Properties Limited ("SHKP"). Dr Norman Leung Nai Pang, Dr Eric Li Ka Cheung, Mr Raymond Kwok Ping Luen and Mr Allen Fung Yuk Lun are directors of SHKP; and Mr Allen Fung Yuk Lun and Mr Cheung Wing Yui are directors of Sun Hung Kai Properties Insurance Limited. Among them, Mr Raymond Kwok Ping Luen is materially interested in these transactions by virtue of his interest and deemed interest under Part XV of the SFO in more than 5% of the issued shares of SHKP.

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

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

At 31 December 2017, the interests or short positions of the persons, other than Directors and the chief executive of the Company, being 5% or more in the interest in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

	Ordinary shares of HK$1 each			
	Registered shareholders	Corporate interests	Total number of shares held	Percentage of total issued shares
Sun Hung Kai Properties Limited (Notes 1 and 2)	–	152,718,686	152,718,686	36.2%
Arklake Limited (Note 1)	83,501,000	–	83,501,000	19.8%
Hung Fat (Hop Kee) General Contractors Limited (Note 1)	25,409,778	–	25,409,778	6.0%
Wister Investment Limited (Note 1)	22,541,089	–	22,541,089	5.3%
HSBC International Trustee Limited	37,805,269	–	37,805,269	8.9%
Kwong Tai Holdings (PTC) Limited (Note 3)	22,969,285	–	22,969,285	5.4%

Notes:

1 The interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 131,451,867 shares disclosed by Arklake Limited, Hung Fat (Hop Kee) General Contractors Limited and Wister Investment Limited.

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

3 The interest disclosed by Kwong Tai Holdings (PTC) Limited includes 22,969,285 shares disclosed by Mr Ng Siu Chan and Ms Winnie Ng, both of whom are Directors of the Company.

Purchase, sale or redemption of the Company's shares

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

Pre-emptive rights

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

Senior management

The Executive Director of the Company, Mr Roger Lee Chak Cheong is a member of the senior management of the Group whose brief particular is set out on page 101 of this Annual Report.

Staff retirement schemes

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

(a) Defined benefit retirement schemes

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

The most recent actuarial valuations of the two schemes were at 1 January 2018 which showed that there were sufficient assets in the schemes to cover both the solvency and ongoing liabilities of the schemes. Other relevant information extracted from the valuation pertaining to the two schemes is set out below:

The KMB Monthly Rated Employees Scheme

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

(ii) The actuary of the scheme is Ms Wing Lui, Fellow of the Society of Actuaries of the United States of America. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: Salary escalation at 4.5% per annum; mortality rates 2016 Hong Kong Life Tables; and normal retirement age of 65.

(iii) The market value of the scheme assets at 31 December 2017 was HK$1,049,471,000 (2016: HK$971,801,000).

(iv) On the basis of the assumptions made as to the future economic and demographic experience of the scheme, and assuming the past service surplus is to be utilised faster to offset the Group's contribution requirement, the Group took a contribution holiday for the years ended 31 December 2017 and 2016.

(v) The ongoing funding surplus in the scheme was HK$459,837,000 (2016: HK$282,161,000) and the solvency surplus was HK$460,339,000 (2016: HK$283,824,000) at 31 December 2017.

Staff retirement schemes (continued)

(a) Defined benefit retirement schemes (continued)

The KMB Daily Rated Employees Scheme

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

(ii) The actuary of the scheme is Ms Wing Lui, Fellow of the Society of Actuaries of the United States of America. In the actuarial valuation, the attained age valuation method was used (see note below) for calculation of contributions paid to the scheme. Other major assumptions used in the valuation were: Salary escalation at 4.5% per annum; mortality rates 2016 Hong Kong Life Tables; and normal retirement age of 60.

(iii) The market value of the scheme assets at 31 December 2017 was HK$2,494,601,000 (2016: HK$2,187,462,000).

(iv) On the basis of the assumptions made as to the future economic and demographic experience of the scheme, and assuming the past service surplus is to be utilised faster to offset the Group's contribution requirement, the Group took a contribution holiday for the years ended 31 December 2017 and 2016.

(v) The ongoing funding surplus in the scheme was HK$1,230,259,000 (2016: HK$768,687,000) and the solvency surplus was HK$1,280,788,000 (2016: HK$855,291,000) at 31 December 2017.

Note: The obligations in respect of defined benefit retirement schemes included in the financial statements are calculated using the projected unit credit method under different actuarial assumptions (see notes 1(x)(ii) and 20 to the financial statements).

(b) Defined contribution retirement scheme

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

The Group is also a participating member of the SHKP Scheme, which is a defined contribution retirement scheme. A majority of those employees who do not participate in the defined benefit retirement schemes are covered by the SHKP Scheme which is administered by an independent trustee. The assets of the SHKP Scheme are held separately from those of the Group in independently administered funds. The Group is required to make contributions to the SHKP Scheme at rates ranging from 5% to 12% of the relevant employees' salaries, depending on their length of service with the Group. The employees are required to make contributions to the SHKP Scheme at 5% of the employees' relevant income as defined by the Hong Kong Mandatory Provident Fund Schemes Ordinance, subject to a cap of monthly relevant income of HK$30,000 (HK$25,000 prior to 1 June 2014). Contributions to the SHKP Scheme during the year are charged to profit or loss as incurred. Forfeited amounts due to resignation prior to the vesting of the benefits will be used to reduce the Group's contributions made in that corresponding financial year. The amount of forfeited contributions utilised during the year and the amount available for use as at 31 December 2017 were insignificant to the Group.

Bank loans

Particulars of bank loans of the Group as at 31 December 2017 are set out in note 24 to the financial statements.

Major customers and suppliers

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

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

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on page 208 of this Annual Report.

Model code for securities transactions by Directors

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

Corporate governance

The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2017, except that four Directors of the Company were unable to attend the Annual General Meeting of the Company held on 18 May 2017 as provided for in code provision A.6.7 due to another engagement. A report on the principal corporate governance practices adopted by the Company is set out on pages 74 to 91 of this Annual Report.

Properties

Particulars of the investment properties of the Group are shown on pages 69 and 70 of this Annual Report.

Audit and Risk Management Committee

The Audit and Risk Management Committee of the Company, together with management and the Company's external auditors, KPMG, has reviewed the accounting principles and policies adopted by the Group, discussed auditing, internal control, risk management and financial reporting matters, and also reviewed the financial statements for the year ended 31 December 2017.

Confirmation of independence

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

Sufficiency of public float

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

Auditors

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

By Order of the Board

Norman LEUNG Nai Pang
Chairman
Hong Kong, 22 March 2018

KPMG

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

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Transport International Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 120 to 207, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Key audit matters (continued)

Assessing the carrying value of buses and other motor vehicles

Refer to note 13 to the consolidated financial statements and the accounting policies on pages 131 and 135 to 136.

The Key Audit Matter	How the matter was addressed in our audit
The carrying value of the Group's buses and other motor vehicles as at 31 December 2017 totalled HK$5,817 million which accounted for 40% of the Group's total assets as at that date. Buses and other motor vehicles mainly represent the bus fleet employed in the Group's franchised bus operations. The estimated useful lives and residual values of buses and other motor vehicles are reviewed annually by management taking into consideration factors which include bus deployment and scrapping plans and technological changes which may affect the useful life expectancy of the assets and, therefore, could have a material impact on any impairment charge or the depreciation charge for the year. Internal and external information is reviewed by management annually to determine whether there are any indicators that the buses and other motor vehicles may be impaired. We identified assessing the carrying value of buses and other motor vehicles as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves the exercise of judgement by management, in particular in considering the nature, timing and likelihood of changes to factors such as bus deployment and scrapping plans and technological developments which may affect the carrying value of buses and other motor vehicles.	Our audit procedures to assess the carrying value of buses and other motor vehicles included the following: – assessing the design, implementation and operating effectiveness of key internal controls over the preparation and monitoring of bus deployment and scrapping plans; – assessing the estimated useful lives and residual values of buses and other motor vehicles with reference to the Group's historical experience, laws and regulations relating to the deployment of buses and bus deployment and scrapping plans; – discussing with management their assessment of whether any indicators of potential impairment of buses and other motor vehicles existed at the reporting date; – challenging management's assertion that no indicators of potential impairment of buses and other motor vehicles existed at the reporting date by comparing management's assessment of the indicators of potential impairment in the prior year with actual results for the current year and by comparing the bases of management's current year's assertions with our understanding of the latest developments in the franchised bus industry and market conditions.

Key audit matters (continued)

Assessing the contingency provision for insurance

Refer to note 26 to the consolidated financial statements and the accounting policies on page 138.

The Key Audit Matter	How the matter was addressed in our audit
The Group is involved from time to time in litigation and claims in connection with its franchised bus operations. The contingency provision for insurance, which totalled HK$473 million as at 31 December 2017, has been set aside by management to meet the liabilities which are expected to arise from third party claims for incidents which have occurred in connection with the Group's franchised bus operations. Management assessed the provision based on an independent valuation performed by a qualified external actuary. The assessment of the provision involves estimates based on past claims experience and recent claims developments. The ultimate claim amount is dependent on future external events which are inherently uncertain and actual claims may therefore deviate from management estimations. We identified the assessment of the contingency provision for insurance as a key audit matter because of the level of management judgement required in assessing the variable factors and assumptions in order to estimate the potential costs of settlement of claims.	Our audit procedures to assess the contingency provision for insurance included the following: – assessing the design, implementation and operating effectiveness of key internal controls over management's maintenance of claims records and the assessment of related provision; – assessing the independence, qualifications and expertise of the external actuary engaged by management and evaluating whether a consistent methodology had been applied in determining the amount of the provision; – with the assistance of our internal actuarial specialists, assessing the valuation methodology adopted by the external actuary and comparing the key estimates and assumptions adopted in the actuarial valuation with past claims experience; – comparing the claims details provided by management to the external actuary with the claims records maintained by management, on a sample basis.

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

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

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 March 2018

Consolidated Statement of Profit or Loss

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000 (Restated)
Continuing operations			
Revenue	3 & 12	**7,899,895**	7,744,171
Other income	4	**208,178**	164,288
Staff costs	5(a)	**(3,950,695)**	(3,888,406)
Depreciation and amortisation		**(878,262)**	(866,187)
Fuel and oil		**(839,395)**	(690,737)
Spare parts and stores		**(218,185)**	(235,403)
Toll charges		**(465,273)**	(432,258)
Other operating expenses		**(733,914)**	(792,022)
Profit from operations		**1,022,349**	1,003,446
Finance costs	5(b)	**(21,497)**	(17,788)
Share of profits of associates		**7,052**	30,847
Profit before taxation	5	**1,007,904**	1,016,505
Income tax	6(a)	**(148,159)**	(150,065)
Profit for the year from continuing operations		**859,745**	866,440
Discontinued operations			
Profit/(loss) for the year from discontinued operations	34	**428,970**	(42,124)
Profit for the year		**1,288,715**	824,316
Attributable to:			
Equity shareholders of the Company		**1,294,834**	830,873
Non-controlling interests		**(6,119)**	(6,557)
Profit for the year		**1,288,715**	824,316
Profit/(loss) attributable to equity shareholders of the Company arises from:			
– Continuing operations		**862,271**	863,915
– Discontinued operations		**432,563**	(33,042)
		1,294,834	830,873
Earnings per share from continuing and discontinued operations attributable to equity shareholders of the Company for the year			
Basic earnings/(loss) per share	10(a)		
From continuing operations		**$ 2.07**	$ 2.12
From discontinued operations		**1.04**	(0.08)
From profit for the year		**$ 3.11**	$ 2.04
Diluted earnings per share	10(b)		
From continuing operations		**$ 2.07**	N/A
From discontinued operations		**1.04**	N/A
From profit for the year		**$ 3.11**	N/A

The notes on pages 126 to 207 form part of these financial statements. Details of dividends paid and payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000 (Restated)
Profit for the year		**1,288,715**	824,316
Other comprehensive income for the year (after tax and reclassification adjustments):			
Item that will not be reclassified to profit or loss:			
Remeasurements of employee benefit assets and liabilities, net of tax expense of $124,219,000 (2016: $24,519,000)		**628,624**	124,078
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside Hong Kong, net of nil tax		**49,529**	(39,285)
Available-for-sale debt securities: net movement in the fair value reserve, net of nil tax	9	**(6,705)**	7,666
Other comprehensive income for the year		**671,448**	92,459
Total comprehensive income for the year		**1,960,163**	916,775
Attributable to:			
Equity shareholders of the Company		**1,966,282**	923,332
Non-controlling interests		**(6,119)**	(6,557)
Total comprehensive income for the year		**1,960,163**	916,775
Total comprehensive income attributable to equity shareholders of the Company arises from:			
– Continuing operations		**1,965,695**	924,347
– Discontinued operations		**587**	(1,015)
		1,966,282	923,332

The notes on pages 126 to 207 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Non-current assets			
Investment properties	13(a)	**109,427**	113,800
Investment property under development	13(a)	**2,222,174**	2,186,205
Interest in leasehold land	13(a)	**59,354**	61,366
Other property, plant and equipment	13(a)	**6,870,489**	6,513,736
		9,261,444	8,875,107
Intangible assets	14	**132,122**	132,122
Goodwill	15	**84,051**	84,051
Non-current prepayments	16	**–**	1,523
Interest in associates	18	**624,805**	601,557
Other financial assets	19	**1,493,302**	1,207,151
Employee benefit assets	20(a)	**1,286,657**	626,206
Deferred tax assets	27(b)	**656**	11,028
		12,883,037	11,538,745
Current assets			
Spare parts and stores		**55,999**	56,428
Accounts receivable	22	**459,633**	516,750
Other financial assets	19	**–**	94,915
Deposits and prepayments		**21,980**	25,569
Current tax recoverable	27(a)	**2,556**	4,131
Pledged and restricted bank deposits	23(a)	**27,996**	131,714
Cash and cash equivalents	23(a)	**1,204,805**	944,271
		1,772,969	1,773,778
Current liabilities			
Accounts payable and accruals	25	**1,138,771**	1,209,064
Contingency provision – insurance	26	**187,970**	183,203
Current tax payable	27(a)	**7,814**	4,863
		1,334,555	1,397,130
Net current assets		**438,414**	376,648
Total assets less current liabilities		**13,321,451**	11,915,393

at 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Non-current liabilities			
Bank loans	24	2,353,265	2,724,366
Deferred tax liabilities	27(b)	1,135,806	951,211
Contingency provision – insurance	26	285,384	253,026
Employee benefit liabilities	20(a)	–	8,897
Provision for long service payments	28	4,065	6,363
		3,778,520	3,943,863
NET ASSETS		9,542,931	7,971,530
CAPITAL AND RESERVES			
Share capital	29(b)	422,456	411,680
Reserves		9,120,475	7,414,101
Total equity attributable to equity shareholders of the Company		9,542,931	7,825,781
Non-controlling interests		–	145,749
TOTAL EQUITY		9,542,931	7,971,530

Approved and authorised for issue by the Board of Directors on 22 March 2018

Norman LEUNG Nai Pang
Chairman

Roger LEE Chak Cheong
Managing Director

The notes on pages 126 to 207 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company									
		Share capital $'000	Share premium $'000 (note 29(c)(i))	Capital reserve $'000 (note 29(c)(ii))	Other reserves $'000	Exchange reserve $'000 (note 29(c)(iii))	Fair value reserve $'000 (note 29(c)(iv))	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total $'000
Balance at 1 January 2016		403,639	–	–	1,102,614	132,311	928	5,568,165	7,207,657	153,906	7,361,563
Changes in equity for 2016:											
Profit for the year		–	–	–	–	–	–	830,873	830,873	(6,557)	824,316
Other comprehensive income for the year		–	–	–	–	(39,285)	7,666	124,078	92,459	–	92,459
Total comprehensive income for the year		–	–	–	–	(39,285)	7,666	954,951	923,332	(6,557)	916,775
Shares issued in respect of scrip dividend – 2015 final dividend	29(b)	5,412	103,046	–	–	–	–	–	108,458	–	108,458
Shares issued in respect of scrip dividend – 2016 interim dividend	29(b)	2,629	59,758	–	–	–	–	–	62,387	–	62,387
Equity-settled share-based transactions		–	–	990	–	–	–	–	990	–	990
Unclaimed dividends forfeited		–	–	–	–	–	–	29,400	29,400	–	29,400
Dividends approved in respect of the previous year	11(b)	–	–	–	–	–	–	(363,275)	(363,275)	–	(363,275)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(1,600)	(1,600)
Dividends approved in respect of the current year	11(a)	–	–	–	–	–	–	(143,168)	(143,168)	–	(143,168)
		8,041	162,804	990	–	–	–	(477,043)	(305,208)	(1,600)	(306,808)
Balance at 31 December 2016 and 1 January 2017		**411,680**	**162,804**	**990**	**1,102,614**	**93,026**	**8,594**	**6,046,073**	**7,825,781**	**145,749**	**7,971,530**
Changes in equity for 2017:											
Profit for the year		–	–	–	–	–	–	1,294,834	1,294,834	(6,119)	1,288,715
Other comprehensive income for the year		–	–	–	–	49,529	(6,705)	628,624	671,448	–	671,448
Total comprehensive income for the year		–	–	–	–	49,529	(6,705)	1,923,458	1,966,282	(6,119)	1,960,163
Shares issued in respect of scrip dividend – 2016 final dividend	29(b)	7,923	193,697	–	–	–	–	–	201,620	–	201,620
Shares issued in respect of scrip dividend – 2017 interim dividend	29(b)	2,799	68,019	–	–	–	–	–	70,818	–	70,818
Issuance of shares upon exercise of share options	29(b)	54	1,311	(99)	–	–	–	–	1,266	–	1,266
Equity-settled share-based transactions		–	–	4,078	–	–	–	–	4,078	–	4,078
Dividends approved in respect of the previous year	11(b)	–	–	–	–	–	–	(370,512)	(370,512)	–	(370,512)
Dividends approved in respect of the current year	11(a)	–	–	–	–	–	–	(146,861)	(146,861)	–	(146,861)
Release of exchange reserve upon disposal of subsidiaries	34	–	–	–	–	(9,541)	–	–	(9,541)	–	(9,541)
Disposal of interest in subsidiaries to non-controlling interest		–	–	–	–	–	–	–	–	(139,630)	(139,630)
		10,776	263,027	3,979	–	(9,541)	–	(517,373)	(249,132)	(139,630)	(388,762)
Balance at 31 December 2017		**422,456**	**425,831**	**4,969**	**1,102,614**	**133,014**	**1,889**	**7,452,158**	**9,542,931**	**–**	**9,542,931**

The notes on pages 126 to 207 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Operating activities			
Cash generated from operations	23(c)	**1,791,056**	1,970,821
Interest received		**84,296**	53,085
Interest paid		**(19,630)**	(17,719)
Tax paid			
– Hong Kong Profits Tax		**(86,155)**	(25,358)
– The People's Republic of China ("PRC") income tax		**–**	(1,292)
– PRC withholding tax		**(1,411)**	(1,452)
Net cash generated from operating activities		**1,768,156**	1,978,085
Investing activities			
Decrease/(increase) in pledged and restricted bank deposits		**5,470**	(47,036)
Decrease in bank deposits with original maturities of over three months		**232,992**	1,664,851
Payment for the purchase of other property, plant and equipment		**(1,190,239)**	(1,738,665)
Payment for the land premium in relation to investment property under development		**–**	(2,152,500)
Payment for other additions of investment property under development		**(15,514)**	(4,067)
Payment for the purchase of intangible assets		**–**	(90)
Receipt of government grant for the purchase of other property, plant and equipment		**52,383**	7,072
Receipt of government grant for the disposal of other property, plant and equipment		**1,004**	6,334
Proceeds from disposal of other property, plant and equipment		**8,590**	10,084
Payment for purchase of available-for-sale debt securities		**(515,183)**	(1,199,958)
Proceeds on maturity of available-for-sale debt securities		**316,542**	66,789
Dividends received from associates		**32,745**	25,384
Dividends received from unlisted equity securities		**28,580**	34,720
Proceeds from disposal of subsidiaries, net of cash disposal		**408,404**	–
Finance costs paid and capitalised into investment property under development		**(18,455)**	–
Net cash used in investing activities		**(652,681)**	(3,327,082)
Financing activities			
Proceeds from new bank loans	23(d)	**1,640,000**	4,050,800
Repayments of bank loans	23(d)	**(2,015,000)**	(2,380,000)
Issuance of shares upon exercise of share options		**1,266**	–
Dividends paid to equity shareholders of the Company		**(244,935)**	(335,598)
Dividends paid to non-controlling interests		**–**	(1,600)
Net cash (used in)/generated from financing activities		**(618,669)**	1,333,602
Net increase/(decrease) in cash and cash equivalents		**496,806**	(15,395)
Cash and cash equivalents at 1 January		**700,938**	721,612
Effect of foreign exchange rate changes		**7,061**	(5,279)
Cash and cash equivalents at 31 December	23(a)	**1,204,805**	700,938

The notes on pages 126 to 207 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 23(d) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 leases

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

(m) Intangible assets (other than goodwill)

Intangible assets (other than goodwill) are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(n)(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).

1 Significant accounting policies (continued)

(n) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– **Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(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.

1 Significant accounting policies (continued)

(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.

(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).

1 Significant accounting policies (continued)

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

(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.

(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.

1 Significant accounting policies (continued)

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that assets. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(w) Translation of foreign currencies

The functional currency of the Company and subsidiaries which operate in Hong Kong is Hong Kong dollars while that for subsidiaries which operate in The People's Republic of China is Renminbi. The presentation currency of the Group is Hong Kong dollars.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. 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.

1 Significant accounting policies (continued)

(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)).

(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.

1 Significant accounting policies (continued)

(x) Employee benefits (continued)

(iv) Equity-settled share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(v) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(y) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 Significant accounting policies (continued)

(y) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies (continued)

(z) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(aa) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:
  (1) has control or joint control over the Group;
  (2) has significant influence over the Group; or
  (3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:
  (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  (3) Both entities are joint ventures of the same third party.
  (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  (6) The entity is controlled or jointly controlled by a person identified in (i).
  (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  (8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant accounting policies (continued)

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Accounting 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.

2 Accounting estimates and judgements (continued)

(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 and property holdings and development.

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

	Continuing operations		Discontinued operations	
	2017 **$'000**	2016 $'000 (Restated)	**2017** **$'000**	2016 $'000
Fare revenue from franchised public bus services	**7,280,930**	7,155,078	**–**	–
Revenue from non-franchised transport services	**363,221**	346,349	**–**	–
Licence fee income	**171,188**	169,381	**–**	–
Media sales revenue	**10,504**	9,824	**285,705**	407,511
Gross rentals from investment properties	**74,052**	63,539	**–**	–
	7,899,895	7,744,171	**285,705**	407,511

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

	Continuing operations		Discontinued operations	
	2017 **$'000**	2016 $'000 (Restated)	**2017** **$'000**	2016 $'000
Interest income on other financial assets not at fair value through profit or loss	**63,093**	55,277	**4,742**	4,918
Dividend income from equity securities	**28,580**	34,720	**–**	–
Claims received	**38,948**	35,911	**–**	–
Net miscellaneous business receipts	**10,147**	3,260	**–**	1,881
Net gain/(loss) on disposal of other property, plant and equipment	**5,931**	8,901	**1,987**	(432)
Net gain on disposal of subsidiaries (note 34)	**–**	–	**439,585**	–
Gain on disposal of available-for-sale debt securities	**5,752**	–	**–**	–
Available-for-sale debt securities: reclassified from equity on maturity (note 9)	**2**	(9)	**–**	–
Government subsidies (note)	**1,004**	6,334	**–**	–
Net foreign exchange gain/(loss)	**10,789**	(4,546)	**5,165**	(9,508)
Sundry revenue	**43,932**	24,440	**738**	90
	208,178	164,288	**452,217**	(3,051)

Note: In 2017, subsidies totalling $1,004,000 (2016: $6,334,000) 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):

	Continuing operations		Discontinued operations	
	2017 $'000	2016 $'000 (Restated)	**2017 $'000**	2016 $'000
(a) Staff costs				
Defined benefit retirement plan expense (note 20(e))	**83,495**	99,484	**–**	–
Contributions to defined contribution retirement plans	**130,284**	121,443	**1,271**	1,701
Movements in provision for long service payments (note 28)	**8,094**	4,636	**–**	–
Total retirement cost	**221,873**	225,563	**1,271**	1,701
Equity-settled share-based payment expenses	**4,078**	990	**–**	–
Salaries, wages and other benefits	**3,724,744**	3,661,853	**51,528**	64,309
	3,950,695	3,888,406	**52,799**	66,010
(b) Finance costs				
Total interest on bank loans not at fair value through profit or loss	**39,952**	22,538	**–**	–
Less: interest expense capitalised into investment property under development *	**(18,455)**	(4,750)	**–**	–
	21,497	17,788	**–**	–
* The borrowing costs have been capitalised at the average interest rate of 1.25% per annum (2016: 1.50% per annum).				
(c) Rentals received and receivable from investment properties				
Gross rentals (note)	**73,852**	63,539	**–**	–
Less: direct outgoings	**(10,514)**	(16,571)	**–**	–
	63,338	46,968	**–**	–
Note: Included contingent rental income of $17,000 (2016: $7,000).				
(d) Other items				
Amortisation of intangible assets	**–**	–	**–**	62
Amortisation of land lease premium	**2,012**	2,012	**–**	–
Depreciation	**876,250**	864,175	**3,909**	15,179
Impairment loss on trade and other receivables (note 22(b))	**167**	1,268	**1,812**	2,422
Impairment loss on other property, plant and equipment (note 13(g))	**–**	–	**–**	22,910
Impairment loss on intangible assets (note 14)	**–**	–	**–**	217
(Reversal of provision)/provision for onerous contracts	**–**	–	**(13,259)**	14,455
Write-down/(write-back) of spare parts and stores	**7,147**	(7,329)	**–**	4,101
Provision for passenger rewards (note)	**85**	78,057	**–**	–
Operating lease charges: minimum lease payments	**39,001**	29,360	**2,792**	4,671
Auditors' remuneration				
– audit services	**4,253**	3,915	**2,118**	2,420
– other services	**1,230**	1,112	**773**	528

5 Profit before taxation (continued)

Note: Under the revised Modified Basket of Factors ("MBOF") approach, which is the existing basis for the assessment of bus fare adjustment applications, 50% of any return on a franchised bus operator in a given year in excess of a prescribed triggering point of return on its average net interest in leasehold land and other property, plant and equipment is required to be set aside and accumulated in a balance of passenger 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 2017 and 2016 was 9.7% per annum. The balance of passenger rewards of the Group as at 31 December 2017, included in accounts payable and accruals (note 25), was $6,843,000 (2016: $109,134,000).

6 Income tax in the consolidated statement of profit or loss

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

	Continuing operations		Discontinued operations	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Current tax – Hong Kong Profits Tax				
Provision for the year	**86,498**	15,744	**1,116**	5,097
(Over)/under-provision in respect of prior years	**(298)**	382	**153**	(22)
	86,200	16,126	**1,269**	5,075
Current tax – The People's Republic of China ("PRC") Income Tax				
Provision for the year	**–**	–	**423**	621
Under-provision in respect of prior years	**–**	–	**–**	26
	–	–	**423**	647
PRC withholding tax	**1,466**	1,452	**–**	–
	87,666	17,578	**1,692**	5,722
Deferred tax				
Origination and reversal of temporary differences	**60,493**	132,487	**2,627**	(5,697)
	148,159	150,065	**4,319**	25

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 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.

6 Income tax in the consolidated statement of profit or loss (continued)

(b) Reconciliation between tax expense and accounting profit/(loss) at the applicable tax rates:

	Continuing operations		Discontinued operations	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Profit/(loss) before taxation	**1,007,904**	1,016,505	**433,289**	(42,099)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits/(losses) in the tax jurisdictions concerned	**166,673**	169,088	**71,637**	(6,735)
Tax effect of non-deductible expenses	**6,732**	8,536	**380**	1,695
Tax effect of non-taxable income	**(24,137)**	(24,679)	**(73,880)**	(436)
Tax effect of unused tax losses not recognised	**667**	482	**6,032**	5,460
Tax effect of utilisation of unused tax losses not recognised in prior years	**(32)**	(58)	**(3)**	–
(Over)/under-provision in prior years	**(298)**	382	**153**	4
Others	**(1,446)**	(3,686)	**–**	37
Actual tax expense	**148,159**	150,065	**4,319**	25

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:

		2017						
	Note	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payment (note (g)) $'000	Total $'000
Executive Director								
Roger Lee Chak Cheong	(a)	324	5,557	1,140	335	7,356	822	8,178
Non-executive Directors								
Raymond Kwok Ping Luen		576	–	–	–	576	–	576
Ng Siu Chan		324	–	–	–	324	–	324
Charles Lui Chung Yuen	(b)	576	–	–	–	576	–	576
William Louey Lai Kuen		324	–	–	–	324	–	324
Winnie Ng	(a)	839	–	–	–	839	–	839
Edmond Ho Tat Man		324	–	–	–	324	–	324
John Anthony Miller	(a) & (e)	340	–	–	–	340	–	340
Allen Fung Yuk Lun	(a)	600	–	–	–	600	–	600
Susanna Wong Sze Lai		–	–	–	–	–	–	–
Gao Feng	(f)	–	–	–	–	–	–	–
Independent Non-executive Directors								
Dr Norman Leung Nai Pang		1,806	–	–	–	1,806	–	1,806
Dr John Chan Cho Chak	(a)	862	–	–	–	862	–	862
Dr Eric Li Ka Cheung	(a)	918	–	–	–	918	–	918
Gordon Siu Kwing Chue	(d)	213	–	–	–	213	–	213
Professor Liu Pak Wai		496	–	–	–	496	–	496
		8,522	5,557	1,140	335	15,554	822	16,376

7 Directors' emoluments (continued)

	Note	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payment (note (g)) $'000	Total $'000
		2016						
Executive Directors								
Roger Lee Chak Cheong	(a)	324	5,344	800	307	6,775	170	6,945
Evan Au Yang Chi Chun	(a) & (c)	53	1,069	–	53	1,175	–	1,175
Non-executive Directors								
Raymond Kwok Ping Luen		576	–	–	–	576	–	576
Ng Siu Chan		324	–	–	–	324	–	324
Charles Lui Chung Yuen	(a) & (b)	374	673	–	–	1,047	–	1,047
William Louey Lai Kuen		324	–	–	–	324	–	324
Winnie Ng	(a)	807	–	–	–	807	–	807
Edmond Ho Tat Man		324	–	–	–	324	–	324
John Anthony Miller	(a)	679	–	–	–	679	–	679
Allen Fung Yuk Lun	(a)	456	–	–	–	456	–	456
Susanna Wong Sze Lai		–	–	–	–	–	–	–
Independent Non-executive Directors								
Dr Norman Leung Nai Pang		1,806	–	–	–	1,806	–	1,806
Dr John Chan Cho Chak	(a)	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

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 Evan Au Yang Chi Chun resigned on 1 March 2016.

(d) Mr Gordon Siu Kwing Chue retired on 18 May 2017.

(e) Mr John Anthony Miller retired on 18 May 2017.

(f) Mr Gao Feng was appointed as Alternate Director to Mr William Louey Lai Kuen with effect from 1 January 2017.

(g) 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 (2016: one) is a Director whose emolument is disclosed in note 7. The aggregate of the emoluments in respect of the five individuals with the highest emoluments (including the Director) are as follows:

	2017 $'000	2016 $'000
Fees	324	324
Salaries, allowances and benefits in kind	18,969	18,036
Discretionary bonuses	3,788	2,988
Equity-settled share-based payment expenses	2,427	493
Retirement scheme contributions	791	726
	26,299	22,567

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

	Number of individuals	
	2017	2016
$3,000,001 – $3,500,000	–	2
$3,500,001 – $4,000,000	1	–
$4,000,001 – $4,500,000	1	1
$4,500,001 – $5,000,000	1	1
$5,500,001 – $6,000,000	1	–
$6,500,001 – $7,000,000	–	1
$8,000,001 – $8,500,000	1	–

9 Other comprehensive income

	Continuing operations		Discontinued operations	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Available-for-sale debt securities:				
Change in fair value recognised during the year	6,703	(7,657)	–	–
Reclassification adjustment for amount transferred to profit or loss on maturity (note 4)	2	(9)	–	–
	6,705	(7,666)	–	–

10 Earnings per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of $1,294,834,000 (2016: $830,873,000) and the weighted average number of shares in issue during the year, calculated as follows:

(i) Profit/(loss) attributable to equity shareholders of the Company

	2017 $'000	2016 $'000
Profit/(loss) attributable to equity shareholders of the Company arises from		
– Continuing operations	**862,271**	863,915
– Discontinued operations	**432,563**	(33,042)
	1,294,834	830,873

(ii) Weighted average number of ordinary shares

	2017	2016
Issued ordinary shares at 1 January	**411,680,499**	403,639,413
Effect of shares issued in respect of scrip dividend	**4,598,187**	3,134,082
Effect of shares issued in respect of share option	**5,030**	–
Weighted average number of ordinary shares at 31 December	**416,283,716**	406,773,495

10 Earnings per share (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of $1,294,834,000 (2016: $830,873,000) and the weighted average number of shares (diluted), calculated as follows:

(i) Profit/(loss) attributable to equity shareholders of the Company

	2017 $'000	2016 $'000
Profit/(loss) attributable to equity shareholders of the Company arises from		
– Continuing operations	862,271	863,915
– Discontinued operations	432,563	(33,042)
	1,294,834	830,873

(ii) Weighted average number of ordinary shares (diluted)

	2017	2016
Weighted average number of ordinary shares at 31 December	416,283,716	406,773,495
Effect of deemed issue of shares under the Company's share option scheme	79,045	–
Weighted average number of ordinary shares (diluted) at 31 December	416,362,761	406,773,495

11 Dividends

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

	2017		2016	
	Per share $	Total $'000	Per share $	Total $'000
Interim dividend declared and paid	0.35	146,861	0.35	143,168
Final dividend proposed after the end of the reporting period	0.90	380,210	0.90	370,512
	1.25	527,071	1.25	513,680

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

11 Dividends (continued)

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

The interim dividend with a scrip dividend alternative in respect of the six months period ended 30 June 2017 was paid on 17 October 2017, of which $70,818,000 was settled by the issuance of 2,799,123 shares at an issue price of $25.30 per share under the scrip dividend scheme.

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.

(b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2017		2016	
	Per share $	**Total $'000**	Per share $	Total $'000
Final dividend in respect of the previous financial year, approved and paid during the year	**0.90**	**370,512**	0.90	363,275

The final dividend with a scrip dividend alternative in respect of the year ended 31 December 2016 was paid on 30 June 2017, of which $201,620,000 was settled by the issuance of 7,922,188 shares at an issue price of $25.45 per share under the scrip dividend scheme.

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.
Property holdings and development:	The holding and development of non-residential property for the use as investment property.
Discontinued operations:	The provision of audio-video programming through a multi-media on-board system and marketing of advertising spaces on transit vehicles, shelters and outdoor signages.
All other segments:	The provision of non-franchised public transport services, provision of cross-boundary shuttle bus services between Lok Ma Chau (Hong Kong) and Huanggang (Shenzhen) and investment holding.

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.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to the revenue generated and expenses incurred by those segments. The measure used for reporting segment profit is net profit after taxation, adjusted for head office or corporate administration costs which are not specifically attributable to individual segments. Inter-segment revenue is priced with reference to the price charged to external parties for similar transactions.

Segment assets and segment liabilities include all current and non-current assets and liabilities, respectively, which are directly managed by the segments.

As discussed in note 34, subsequent to the disposal of RoadShow, the Group no longer carried on the business of media sales services. The results of this business have been classified as discontinued operation of the Group for the years ended 31 December 2017 and 2016.

12 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments for the years ended 31 December 2017 and 2016 is set out below.

	Franchised bus operation		Property holdings and development		All other segments		Continuing operations sub-total		Discontinued operations		Total	
	2017 $'000	2016 $'000 (Restated)	2017 $'000	2016 $'000 (Restated)	2017 $'000	2016 $'000 (Restated)	2017 $'000	2016 $'000 (Restated)	2017 $'000	2016 $'000 (Restated)	2017 $'000	2016 $'000 (Restated)
Revenue from external customers	7,323,012	7,171,055	73,852	60,466	361,490	342,714	7,758,354	7,574,235	285,705	407,511	8,044,059	7,981,746
Revenue from discontinued operations	141,541	168,456	–	555	–	925	141,541	169,936	–	–	141,541	169,936
Inter-segment revenue	532	573	5,816	10,190	10,790	54,376	17,138	65,139	–	–	17,138	65,139
Reportable segment revenue	7,465,085	7,340,084	79,668	71,211	372,280	398,015	7,917,033	7,809,310	285,705	407,511	8,202,738	8,216,821
Reportable segment profit/(loss)	652,306	648,892	54,617	45,588	48,762	81,983	755,685	776,463	428,970	(42,124)	1,184,655	734,339
Interest income	326	117	–	–	1	–	327	117	4,742	4,918	5,069	5,035
Interest expense	(21,497)	(17,788)	–	–	–	–	(21,497)	(17,788)	–	–	(21,497)	(17,788)
Depreciation and amortisation for the year	(831,304)	(833,402)	(7,069)	(6,465)	(39,889)	(26,320)	(878,262)	(866,187)	(3,909)	(15,241)	(882,171)	(881,428)
Impairment loss on trade and other receivables	–	(1,104)	–	–	(167)	(164)	(167)	(1,268)	(1,812)	(2,422)	(1,979)	(3,690)
Impairment loss on intangible assets	–	–	–	–	–	–	–	–	–	(217)	–	(217)
Impairment loss on other property, plant and equipment	–	–	–	–	–	–	–	–	–	(22,910)	–	(22,910)
Reversal of provision/(provision) for onerous contracts	–	–	–	–	–	–	–	–	13,259	(14,455)	13,259	(14,455)
Staff costs	(3,804,897)	(3,744,065)	–	–	(136,635)	(132,939)	(3,941,532)	(3,877,004)	(52,799)	(66,010)	(3,994,331)	(3,943,014)
Share of profits of associates	–	–	–	–	7,052	30,847	7,052	30,847	–	–	7,052	30,847
Income tax expense	(129,454)	(127,879)	(11,051)	(9,242)	(7,654)	(12,944)	(148,159)	(150,065)	(4,319)	(25)	(152,478)	(150,090)
Reportable segment assets	8,539,963	7,680,474	2,350,834	2,319,280	1,339,366	1,300,842	12,230,163	11,300,596	–	617,630	12,230,163	11,918,226
– including interest in associates	–	–	–	–	624,805	601,557	624,805	601,557	–	–	624,805	601,557
Additions to non-current segment assets during the year	1,148,541	1,405,057	37,235	2,165,135	93,110	57,363	1,278,886	3,627,555	2,233	19,988	1,281,119	3,647,543
Reportable segment liabilities	3,443,333	3,552,478	1,527,925	1,528,559	108,236	128,047	5,079,494	5,209,084	–	116,796	5,079,494	5,325,880

12 Segment reporting (continued)

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

	2017 $'000	2016 $'000 (Restated)
Revenue		
Reportable segment revenue		
– Continuing operations	7,544,753	7,411,295
– Discontinued operations	285,705	407,511
Revenue from all other segments		
– Continuing operations	372,280	398,015
Elimination of inter-segment revenue		
– Continuing operations	(17,138)	(65,139)
Consolidated revenue	8,185,600	8,151,682
Profit		
Reportable segment profit/(loss)		
– Continuing operations	706,923	694,480
– Discontinued operations	428,970	(42,124)
Profit from all other segments		
– Continuing operations	48,762	81,983
Unallocated profits		
– Continuing operations	104,060	89,977
Consolidated profit after taxation	1,288,715	824,316
Assets		
Reportable segment assets	10,890,797	10,617,384
Assets from all other segments	1,339,366	1,300,842
Unallocated assets	2,425,843	1,394,297
Consolidated total assets	14,656,006	13,312,523
Liabilities		
Reportable segment liabilities	4,971,258	5,197,833
Liabilities from all other segments	108,236	128,047
Unallocated liabilities	33,581	15,113
Consolidated total liabilities	5,113,075	5,340,993

12 Segment reporting (continued)

(c) Geographic information

Substantially all of the Group's revenue from external customers, based on the location at which the services were provided, is generated in Hong Kong. The following table sets out information about the geographical location of the Group's investment properties, investment property under development, interest in leasehold land and other property, plant and equipment, intangible assets, goodwill and interest in associates ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset in the case of investment properties, investment property under development, interest in leasehold land and other property, plant and equipment, the location of the operation to which they are allocated in the case of intangible assets and goodwill, and the location of operations in the case of interest in associates.

	Specified non-current assets	
	2017 **$'000**	2016 $'000
Hong Kong	**9,353,032**	8,998,962
The PRC	**714,901**	693,875
	10,067,933	9,692,837

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment

(a) Reconciliation of carrying amount

	Buildings $'000	Buses and other motor vehicles $'000	Buses under construction $'000	Tools and others $'000	Sub-total $'000	Investment property under development $'000	Investment properties $'000	Interest in leasehold land $'000	Total $'000
Cost:									
At 1 January 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
Accumulated depreciation, amortisation and impairment losses:									
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 disposals	(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
Net book value:									
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
Add: Deposits paid in respect of buses on order					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)

	Buildings $'000	Buses and other motor vehicles $'000	Buses under construction $'000	Tools and others $'000	Sub-total $'000	Investment property under development $'000	Investment properties $'000	Interest in leasehold land $'000	Total $'000
Cost:									
At 1 January 2017	1,528,939	11,409,445	184,514	3,204,039	16,326,937	2,188,225	202,423	115,513	18,833,098
Additions	5,690	62,463	854,446	234,634	1,157,233	35,969	1,256	–	1,194,458
Disposals	(3,145)	(773,117)	–	(279,280)	(1,055,542)	–	–	–	(1,055,542)
Discontinued operations (note 34)	(10,594)	–	–	(95,659)	(106,253)	–	–	–	(106,253)
Exchange adjustments	–	–	–	27	27	–	–	–	27
Transfers	(1,614)	904,073	(904,073)	–	(1,614)	–	1,614	–	–
At 31 December 2017	1,519,276	11,602,864	134,887	3,063,761	16,320,788	2,224,194	205,293	115,513	18,865,788
Accumulated depreciation, amortisation and impairment losses:									
At 1 January 2017	1,051,920	5,944,844	–	2,866,793	9,863,557	2,020	88,623	54,147	10,008,347
Charge for the year	39,020	612,398	–	221,498	872,916	–	7,243	2,012	882,171
Written back on disposals	(3,112)	(771,029)	–	(280,728)	(1,054,869)	–	–	–	(1,054,869)
Discontinued operations (note 34)	(3,633)	–	–	(90,709)	(94,342)	–	–	–	(94,342)
Exchange adjustments	–	–	–	27	27	–	–	–	27
At 31 December 2017	1,084,195	5,786,213	–	2,716,881	9,587,289	2,020	95,866	56,159	9,741,334
Net book value:									
At 31 December 2017	435,081	5,816,651	134,887	346,880	6,733,499	2,222,174	109,427	59,354	9,124,454
Add: Deposits paid in respect of buses on order					136,990	–	–	–	136,990
					6,870,489	2,222,174	109,427	59,354	9,261,444

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(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:

	2017 $'000	2016 $'000
Medium-term leases	**2,536,792**	2,531,317
Short-term leases	**289,244**	307,073
	2,826,036	2,838,390
Representing:		
Buildings	**435,081**	477,019
Investment property under development	**2,222,174**	2,186,205
Investment properties	**109,427**	113,800
Interest in leasehold land	**59,354**	61,366
	2,826,036	2,838,390

(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 $4,486,780,000 and $3,810,000,000 respectively (2016: $3,993,170,000 and $3,225,000,000 respectively) as at 31 December 2017. 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 included the payment of land premium of $2,152,500,000. There was no such payment during the current year. As at 31 December 2017, investment property under development of $2,222,174,000 (2016: $2,186,205,000) related to the Group's interests in a joint operation.

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(d) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties and investment property under development disclosed at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	2017			
		Fair value measurements categorised into		
	Fair value $'000	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Recurring fair value disclosures				
Investment properties in Hong Kong				
– commercial properties	**3,214,780**	**–**	**–**	**3,214,780**
– industrial property	**1,272,000**	**–**	**–**	**1,272,000**
Investment property under development in Hong Kong	**3,810,000**	**–**	**–**	**3,810,000**

	2016			
		Fair value measurements categorised into		
	Fair value $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value disclosures				
Investment properties in Hong Kong				
– commercial properties	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

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(d) Fair value measurement of properties (continued)

(ii) Information about Level 3 fair value disclosures

	Valuation techniques	Unobservable inputs	Range
Investment properties in Hong Kong – commercial properties	Market comparison approach	Discount/premium on quality of shops	-15% to 15% (2016: -50% to 10%)
Investment properties in Hong Kong – industrial property	Market comparison and residual valuation approaches	Discount/premium on quality of redevelopment	-10% to 65% (2016: -20% to 60%)
Investment property under development in Hong Kong	Market comparison and residual valuation approaches	Discount/premium on quality of redevelopment (2016: discount/premium on location characteristics of the property)	-30% to 40% (2016: -10% to 5%)

The Group has adopted market comparison approach for all its commercial properties in Hong Kong for the years ended 31 December 2017 and 2016. The fair value of commercial properties using market comparison approach is determined by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's commercial properties compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

The fair value of the industrial property in Hong Kong, taken into account its future redevelopment value, is determined using market comparison and residual valuation approaches. The market comparison approach determined the fair value of the gross development value with reference to recent transaction data of nearby projects, adjusted for a premium or a discount specific to the quality of the Group's property compared to the recent transactions. While the residual valuation approach is a modification of income approach based on discounted cash flows, by making reference to the development potential of the Group's property after deduction of costs for completion of the development. The valuation relies upon a series of assumptions which produce an estimation of the expected current market value of the property held for development or redevelopment. These assumptions include the statutory and non-statutory restrictions associated with development that may be imposed by the government. Comparable transactions of similar development in the locality were gathered for gross development value assessment. Higher premium for higher quality redevelopment will result in a higher gross development value. The redevelopment of the industrial property is considered as its highest and best use under HKFRS 13.

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(d) Fair value measurement of properties (continued)

(ii) Information about Level 3 fair value disclosures (continued)

The fair value of investment property under development located in Hong Kong is determined using market comparison and residual valuation approaches by reference to recent transaction data of nearby projects, recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's investment property under development compared to the recent transactions. Higher premium for higher quality redevelopment will result in a higher gross development value.

(e) The Group leased out investment properties under operating leases. The leases typically run for an initial period from two to three years, with an option to renew the leases after that date at which time all terms are renegotiated. Certain leases include contingent rentals being the excess of a percentage of the monthly revenue generated by the lessees over the monthly minimum lease rentals.

The total future minimum lease payments from investment properties under non-cancellable operating leases are receivable as follows:

	2017 $'000	2016 $'000
Within 1 year	52,445	68,670
After 1 year but within 5 years	14,028	72,796
	66,473	141,466

(f) In 2017, subsidies totalling $52,383,000 (2016: $7,072,000) 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 was 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.

14 Intangible assets

	Passenger service licenses and transport operating rights $'000	Websites and mobile apps $'000	Total $'000
Cost:			
At 1 January 2016	132,122	4,348	136,470
Additions	–	90	90
At 31 December 2016	132,122	4,438	136,560
At 1 January 2017	**132,122**	**4,438**	**136,560**
Discontinued operations	**–**	**(4,438)**	**(4,438)**
At 31 December 2017	**132,122**	**–**	**132,122**
Accumulated amortisation and impairment losses:			
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
At 1 January 2017	**–**	**4,438**	**4,438**
Discontinued operations	**–**	**(4,438)**	**(4,438)**
At 31 December 2017	**–**	**–**	**–**
Net book value:			
At 31 December 2017	**132,122**	**–**	**132,122**
At 31 December 2016	132,122	–	132,122

For those passenger service licences and transport operating rights of the Group that are regarded to have indefinite useful lives, there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

Intangible assets that are regarded to have indefinite useful lives have been allocated to the cash-generating unit of non-franchised transport operations for the purpose of impairment testing. Details of impairment testing are set out in note 15 to the financial statements.

15 Goodwill

	2017 $'000	2016 $'000
Cost and carrying amount:		
At 1 January and 31 December	**84,051**	84,051

Impairment tests for cash-generating units containing goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives belong to the Group's non-franchised transport operations as a cash-generating unit.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below.

Key assumptions used for value-in-use calculations are as follows:

	2017 %	2016 %
Growth rate	**1.5**	2.4
Discount rate	**4.2 – 5.4**	5.3 – 6.4

The growth rate used does not exceed the long-term average growth rate for the business in which the cash-generating unit operates. The discount rate used is pre-tax and reflects specific risks relating to the segment.

The recoverable amount of the cash-generating unit based on the value-in-use calculations is higher than its carrying amount. Accordingly, no impairment loss on goodwill or intangible assets with indefinite useful lives has been recognised in profit or loss.

16 Non-current prepayments

At 31 December 2016, non-current prepayments and deposits comprised prepayments and deposits for purchase of other property, plant and equipment, security for the due payment for licence fees and office rental. The amounts were neither past due nor impaired.

(Expressed in Hong Kong dollars unless otherwise indicated)

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.

			Percentage of ownership interest			
Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
KMB Resources Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US$1	100	100	–	Investment holding
The Kowloon Motor Bus Company (1933) Limited	Hong Kong	403,639,413 shares	100	–	100	Provision of franchised public bus services in Hong Kong
Long Win Bus Company Limited	Hong Kong	100,000,000 shares	100	–	100	Provision of franchised public bus services 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: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activity
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

(Expressed in Hong Kong dollars unless otherwise indicated)

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
KMB Design Company Limited	Hong Kong	10,000 shares	100	–	100	Trading of bus souvenirs

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

17 Interest in subsidiaries (continued)

The following table lists out the information relating to RoadShow, the only subsidiary of the Group which had material non-controlling interest ("NCI") for the year ended 31 December 2016. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016 $'000
NCI percentage	27%
Current assets	593,152
Non-current assets	25,545
Current liabilities	117,725
Non-current liabilities	138
Net assets	500,834
Carrying amount of NCI (note)	145,749
Revenue	407,511
Loss for the year	(42,124)
Total comprehensive income	(46,275)
Loss allocated to NCI	(6,557)
Dividend paid to NCI	(1,600)
Cash flows from operating activities	47,673
Cash flows from investing activities	23,442
Cash flows used in financing activities	(1,600)

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

On 27 October 2017, the Group disposed its entire equity interest in RoadShow. For details, please refer to note 34.

18 Interest in associates

	2017 **$'000**	2016 $'000
Share of net assets	**563,048**	538,620
Goodwill	**64,930**	60,183
Amount due from an associate	**1,749**	7,676
Amount due to an associate	**(4,922)**	(4,922)
	624,805	601,557

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

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: Group's effective interest	Percentage of ownership interest: Held by subsidiaries	Principal activity
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 the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Shenzhen Bus Group Company Limited	
	2017 $'000	2016 $'000
Gross amounts of the associate		
Current assets	2,258,509	1,688,370
Non-current assets	7,233,684	4,225,288
Current liabilities	3,758,740	3,559,316
Non-current liabilities	4,387,140	1,072,742
Total equity	1,346,313	1,281,600
Non-controlling interest	(17,878)	(21,883)
Revenue	1,661,629	1,576,027
Profit for the year	16,222	82,147
Total comprehensive income	16,222	82,147
Dividend received from the associate	24,308	24,697
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate attributable to equity shareholders	1,328,435	1,259,717
Group's effective interest	35%	35%
Group's share of net assets of the associate	464,952	440,901
Goodwill	64,930	60,183
Carrying amount in the consolidated financial statements	529,882	501,084

18 Interest in associates (continued)

Aggregate information of associates that are not individually material:

	2017 $'000	2016 $'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**94,923**	100,473
Aggregate amounts of the Group's share of those associates		
Profit for the year	**1,374**	2,096
Total comprehensive income	**1,374**	2,096

19 Other financial assets

	2017 $'000	2016 $'000
Unlisted equity securities, at cost (note (a))	**15,356**	15,355
Available-for-sale debt securities, at fair value (note (b))		
– listed outside Hong Kong	**1,477,946**	1,286,711
	1,493,302	1,302,066
Less: available-for-sale debt securities classified as current assets		
– listed outside Hong Kong	**–**	(94,915)
Other financial assets classified as non-current assets	**1,493,302**	1,207,151

Notes:

(a) The unlisted equity securities of $15,356,000 (2016: $15,355,000) relate to investments of the Group for which no impairment loss is considered necessary.

(b) Debt securities are issued by corporate entities with credit rating ranging from BB- to A. As at 31 December 2017 and 2016, 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 2017 and were prepared by Towers Watson Hong Kong Limited which has among its staff fellow member of the Society of Actuaries of the United States of America, Ms Wing Lui, using the projected unit credit method. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 157% (2016: 124%) covered by the plan assets held by the trustee.

20 Employee retirement benefits (continued)

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:

	2017 $'000	2016 $'000
Present value of funded obligations (note 20(c))	(2,257,415)	(2,541,954)
Fair value of plan assets (notes 20(b) and 20(d))	3,544,072	3,159,263
	1,286,657	617,309
Represented by:		
Employee benefit assets	1,286,657	626,206
Employee benefit liabilities	–	(8,897)
	1,286,657	617,309

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 2018 is $Nil (2017: $Nil).

(b) Plan assets consist of the following:

	2017 $'000	2016 $'000
Equity securities:		
– Hong Kong and Mainland China	896,513	724,193
– Europe	475,181	400,986
– North America	567,051	609,977
– Other Asia Pacific	740,299	600,260
	2,679,044	2,335,416
Bonds	773,158	719,351
Cash and others	91,870	104,496
	3,544,072	3,159,263

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

20 Employee retirement benefits (continued)

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

	2017 $'000	2016 $'000
At 1 January	**2,541,954**	2,803,663
Remeasurements:		
– Actuarial gains arising from changes in demographic assumptions	**(11)**	(4,308)
– Actuarial losses/(gains) arising from changes in financial assumptions	**7,253**	(67,177)
– Actuarial gains arising from liability experience	**(53,625)**	(25,205)
	(46,383)	(96,690)
Benefits paid by the plans	**(375,570)**	(310,038)
Current service cost	**93,610**	106,474
Interest cost	**43,804**	38,545
	(238,156)	(165,019)
At 31 December	**2,257,415**	2,541,954

The weighted average duration of the Monthly Rated and Daily Rated defined benefit obligations are 9.8 and 5.8 years respectively (2016: 10.2 and 6.0 years respectively).

(d) Movements in plan assets:

	2017 $'000	2016 $'000
At 1 January	**3,159,263**	3,371,859
Administrative expenses paid	**(570)**	(615)
Benefits paid by the plans	**(375,570)**	(310,038)
Interest income	**54,489**	46,150
Return on plan assets, excluding interest income	**706,460**	51,907
At 31 December	**3,544,072**	3,159,263

20 Employee retirement benefits (continued)

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

	2017 $'000	2016 $'000
Current service cost	93,610	106,474
Net income on net defined benefit asset	(10,685)	(7,605)
Administrative expenses paid	570	615
Total amounts recognised in profit or loss	83,495	99,484
Actuarial gains	(46,383)	(96,690)
Return on plan assets, excluding interest income	(706,460)	(51,907)
Amounts recognised in other comprehensive income	(752,843)	(148,597)
Total defined benefit income	(669,348)	(49,113)

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

	2017	2016
Discount rate		
– Monthly Rated Employees Scheme	1.8%	1.9%
– Daily Rated Employees Scheme	1.7%	1.7%
Future salary increases	4.5%	4.5%

The below analysis shows how the defined benefit obligation would have increased/(decreased) as a result of a 0.25% change in the significant actuarial assumptions:

	2017		2016	
	Increase in 0.25 percentage point $'000	Decrease in 0.25 percentage point $'000	Increase in 0.25 percentage point $'000	Decrease in 0.25 percentage point $'000
Discount rate	(39,482)	40,759	(45,679)	47,180
Future salary increases	36,342	(35,419)	42,032	(40,945)

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 date of grant. This period must expire no later than 10 years from the relevant date of grant. The Directors of the Company may also provide restrictions on the exercise of an option during the period an option may be exercised. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

	Number of instruments '000	Contractual life of options
Options granted to a Director:		
– on 31 October 2016	860	five years from the date of grant
Options granted to employees:		
– on 31 October 2016	4,700	five years from the date of grant
Total share options granted	5,560	

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

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

21 Equity-settled share-based transactions (continued)

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

	2017		2016	
	Weighted average exercise price	Number of share options '000	Weighted average exercise price	Number of share options '000
Outstanding at the beginning of the year	$23.45	5,020	–	–
Granted during the year	–	–	$23.45	5,560
Exercised during the year	$23.45	(54)	–	–
Forfeited during the year	$23.45	(666)	$23.45	(540)
Outstanding at the end of the year	$23.45	4,300	$23.45	5,020
Exercisable at the end of the year	$23.45	1,290	–	–

The weighted average share price at the date of exercise for shares options exercised during the year was $23.45.

The options outstanding at 31 December 2017 had an exercise price of $23.45 (2016: $23.45) and a weighted average remaining contractual life of 3.83 years (2016: 4.83 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

Fair value of share options and assumptions for share options granted on 31 October 2016	
Fair value at measurement date	$1.7937-$1.8457
Share price at the date of grant	$23.45
Exercise price	$23.45
Expected volatility	18%
Option life (expressed as weighted average life used in the modelling under binomial model)	5 years
Expected dividends	4.18%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	0.709%

21 Equity-settled share-based transactions (continued)

(c) Fair value of share options and assumptions (continued)

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

	2017 $'000	2016 $'000
Trade and other receivables	**437,620**	498,566
Interest receivable	**23,716**	26,054
Less: allowance for doubtful debts (note 22(b))	**(1,703)**	(7,870)
	459,633	516,750

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

(a) Ageing analysis

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

	2017 $'000	2016 $'000
Current	**95,695**	144,600
1 to 3 months past due	**6,615**	17,618
More than 3 months past due	**4,971**	21,375
	107,281	183,593

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.

22 Accounts receivable (continued)

(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:

	2017 $'000	2016 $'000
At 1 January	**7,870**	13,404
Impairment loss recognised (note 5(d))		
– From continuing operations	**167**	1,268
– From discontinued operations	**1,812**	2,422
Reversal of impairment loss recognised upon disposal of subsidiaries	**(1,812)**	–
Uncollectible amounts written off	**(6,334)**	(9,224)
At 31 December	**1,703**	7,870

At 31 December 2017, the Group's trade and other receivables of $1,703,000 (2016: $7,870,000) 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 $1,703,000 (2016: $7,870,000) were recognised as at 31 December 2017.

(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:

	2017 $'000	2016 $'000
Neither past due nor impaired	**448,047**	477,757
Past due but not impaired		
– 1 to 3 months past due	**6,615**	17,618
– More than 3 months past due	**4,971**	21,375
	11,586	38,993
	459,633	516,750

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:

	2017 $'000	2016 $'000
Cash at bank and on hand	190,114	428,746
Bank deposits	1,042,687	647,239
	1,232,801	1,075,985
Less: pledged and restricted bank deposits (note 23(b))	(27,996)	(131,714)
Cash and cash equivalents in the consolidated statement of financial position	1,204,805	944,271
Less: bank deposits with original maturities of over three months	–	(243,333)
Cash and cash equivalents in the consolidated cash flow statement	1,204,805	700,938

(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 to banks for the bank guarantees issued for the year ended 31 December 2016.

As mentioned in note 17, RoadShow was disposed by the Group on 27 October 2017. As such, there are no such disclosures in the current year.

In addition, the Group is required to maintain the balance of passenger rewards (note 5(d)) in designated bank accounts under the revised MBOF approach. As at 31 December 2017, the related restricted bank deposits amounted to $27,996,000 (2016: $53,372,000).

23 Cash and cash equivalents (continued)

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

	2017 $'000	2016 $'000
Profit before taxation	1,441,193	974,406
Adjustments for:		
Depreciation and amortisation	882,171	881,428
Impairment loss on other property, plant and equipment	–	22,910
Impairment loss on intangible assets	–	217
Finance costs	21,497	17,788
Dividend income from unlisted equity securities	(28,580)	(34,720)
Interest income	(67,835)	(60,195)
Reclassification from equity on disposal of available-for-sale debt securities	(2,824)	–
Share of profits of associates	(7,052)	(30,847)
Net gain on disposal of other property, plant and equipment	(7,918)	(8,469)
Net gain on disposal of subsidiaries	(439,585)	–
Government subsidies	(1,004)	(6,334)
Equity-settled share-based payment expenses	4,078	990
Effect of foreign exchange rate	(17,074)	8,981
Operating profit before changes in working capital	1,777,067	1,766,155
Changes in working capital:		
Decrease in non-current prepayments	438	4,429
Decrease in employee benefit assets	83,495	99,484
Decrease in spare parts and stores	429	12,797
Decrease/(increase) in trade and other receivables	6,184	(60,266)
(Increase)/decrease in deposits and prepayments	(8,010)	59,549
(Decrease)/increase in accounts payable and accruals	(103,374)	89,926
Increase in contingency provision – insurance	37,125	1,807
Decrease in provision for long service payments	(2,298)	(3,060)
Cash generated from operations	1,791,056	1,970,821

23 Cash and cash equivalents (continued)

(d) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans $'000 (note 24)	Total $'000
At 1 January 2017	2,724,366	2,724,366
Changes from financing cash flows:		
Proceeds from new bank loans	1,640,000	1,640,000
Repayment of bank loans	(2,015,000)	(2,015,000)
Other borrowing costs paid	(19,630)	(19,630)
Total changes from financing cash flows	(394,630)	(394,630)
Other changes:		
Interest expenses on bank loans not at fair value through profit or loss (note 5(b))	21,497	21,497
Capitalised borrowing costs	2,000	2,000
Interest payable	32	32
Total other changes	23,529	23,529
At 31 December 2017	2,353,265	2,353,265

24 Bank loans

At 31 December 2017, the bank loans were repayable as follows:

	2017 $'000	2016 $'000
After 1 year but within 2 years	74,509	–
After 2 years but within 5 years	2,278,756	2,724,366
	2,353,265	2,724,366

All of the bank loans were unsecured.

25 Accounts payable and accruals

	2017 $'000	2016 $'000
Trade payables	143,759	146,283
Balance of passenger rewards (note 5(d))	6,843	109,134
Other payables and accruals	988,169	953,647
	1,138,771	1,209,064

All of the accounts payable and accruals are expected to be settled within one year.

Included in accounts payable and accruals are trade payables with the following ageing analysis, based on the due date, as of the end of the reporting period:

	2017 $'000	2016 $'000
Due within 1 month or on demand	135,543	140,380
Due after 1 month but within 3 months	5,721	1,893
Due after more than 3 months	2,495	4,010
	143,759	146,283

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

	2017 $'000	2016 $'000
At 1 January	436,229	434,422
Provision charged to profit or loss	82,414	55,875
Payments made during the year	(45,289)	(54,068)
At 31 December	473,354	436,229
Representing:		
Current portion	187,970	183,203
Non-current portion	285,384	253,026
	473,354	436,229

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:

	2017 $'000	2016 $'000
Provision for Hong Kong Profits Tax for the year	**86,498**	20,841
Provisional Profits Tax paid	**(81,240)**	(19,927)
	5,258	914
PRC Income Tax recoverable	**–**	(182)
Net current tax payable	**5,258**	732
Representing:		
Current tax recoverable	**(2,556)**	(4,131)
Current tax payable	**7,814**	4,863
Net current tax payable	**5,258**	732

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

(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 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
At 1 January 2017	**877,762**	**14,511**	**(2,564)**	**(47,175)**	**101,857**	**(4,208)**	**940,183**
Charged/(credited) to profit or loss	**59,925**	**–**	**(3,103)**	**21,172**	**(13,776)**	**(1,098)**	**63,120**
Charged to other comprehensive income	**–**	**–**	**–**	**–**	**124,219**	**–**	**124,219**
Discontinued operations (note 34)	**586**	**–**	**–**	**7,042**	**–**	**–**	**7,628**
At 31 December 2017	**938,273**	**14,511**	**(5,667)**	**(18,961)**	**212,300**	**(5,306)**	**1,135,150**

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

	2017 $'000	2016 $'000
Net deferred tax assets	(656)	(11,028)
Net deferred tax liabilities	1,135,806	951,211
	1,135,150	940,183

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(y), the Group has not recognised deferred tax assets of $18,083,000 (2016: $40,244,000) in respect of cumulative tax losses of $109,592,000 (2016: $243,906,000) 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 2017 and 2016, 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:

	2017 $'000	2016 $'000
At 1 January	**6,363**	9,423
Movements charged to profit or loss (note 5(a))	**8,094**	4,636
Payments made during the year	**(10,392)**	(7,696)
At 31 December	**4,065**	6,363

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 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 transactions		–	–	990	–	–	990
Unclaimed dividends forfeited		–	–	–	–	29,400	29,400
Dividends 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
Dividends 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

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 2017		411,680	162,804	990	1,300,000	546,413	2,421,887
Changes in equity for 2017							
Shares issued in respect of scrip dividend – 2016 final dividend		7,923	193,697	–	–	–	201,620
Shares issued in respect of scrip dividend – 2017 interim dividend		2,799	68,019	–	–	–	70,818
Equity-settled share-based transactions		–	–	4,078	–	–	4,078
Issuance of shares upon exercise of share options		54	1,311	(99)	–	–	1,266
Dividends approved in respect of the previous year	11(b)	–	–	–	–	(370,512)	(370,512)
Profit and total comprehensive income for the year		–	–	–	–	971,630	971,630
Dividends approved in respect of the current year	11(a)	–	–	–	–	(146,861)	(146,861)
At 31 December 2017		422,456	425,831	4,969	1,300,000	1,000,670	3,153,926

The Company's reserves available for distribution to shareholders at 31 December 2017 amounted to $2,300,670,000 (2016: $1,846,413,000). After the end of the reporting period, the Directors proposed a final dividend of $0.90 (2016: $0.90) per share, amounting to $380,210,000 (2016: $370,512,000). The final dividend proposed has not been recognised as a liability at the end of the reporting period.

29 Capital and reserves (continued)

(b) Share capital

(i) Authorised and issued share capital

	2017		2016	
	No. of shares	**$'000**	No. of shares	$'000
Authorised:				
Ordinary shares of $1 each	**600,000,000**	**600,000**	600,000,000	600,000
Ordinary shares of $1 each, issued and fully paid:				
At 1 January	**411,680,499**	**411,680**	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
Shares issued in respect of scrip dividend – 2016 final dividend	**7,922,188**	**7,923**	–	–
Shares issued in respect of scrip dividend – 2017 interim dividend	**2,799,123**	**2,799**	–	–
Shares issued under the share option scheme	**54,000**	**54**	–	–
At 31 December	**422,455,810**	**422,456**	411,680,499	411,680

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under the share option scheme

During the year ended 31 December 2017, options were exercised to subscribe for 54,000 ordinary shares in the Company at a consideration of $1,266,000, of which $54,000 was credited to the share capital account and the balance of $1,212,000 was credited to the share premium account. $99,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(x)(iv).

29 Capital and reserves (continued)

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Company's Bye-laws and the Companies Act 1981 of Bermuda.

(ii) Capital reserve

The capital reserve comprises the portion of the grant date fair value of unexercised share options granted to a Director of the Company and certain employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(x)(iv).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of entities outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

(iv) 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).

(d) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital structure on the basis of the level of net debt compared to the amount of capital. For this purpose the Group defines net debt as 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 debt and equity at 31 December 2017 and 2016 were as follows:

	2017 **$'000**	2016 $'000
Cash and cash equivalents (note 23(a))	**1,204,805**	944,271
Pledged and restricted bank deposits (note 23(a))	**27,996**	131,714
Less: bank loans (note 24)	**(2,353,265)**	(2,724,366)
Net debt	**(1,120,464)**	(1,648,381)
Total equity	**9,542,931**	7,971,530

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

30 Commitments

(a) Capital commitments

(i) At 31 December 2017, 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:

	2017 $'000	2016 $'000
Contracted for	**1,114,546**	456,847

(ii) At 31 December 2017, 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:

	2017 $'000	2016 $'000
Contracted for	**74,021**	22,320

(b) Operating leases

At 31 December 2017, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	2017 $'000	2016 $'000
Within 1 year	**3,895**	6,761
After 1 year but within 5 years	**2,200**	5,247
	6,095	12,008

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.

30 Commitments (continued)

(c) As mentioned in note 17, RoadShow was disposed by the Group on 27 October 2017. Therefore, there were no such future minimum guaranteed licence fees or royalty fees as at 31 December 2017. For the year ended 31 December 2016, 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 as at 31 December 2016 were as follows:

	2016 $'000
Within 1 year	22,537
After 1 year but within 5 years	5,011
	27,548

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.

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

(a) Credit risk (continued)

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.

(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 assets/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

	2017					2016				
	Contractual undiscounted cash flow					Contractual undiscounted cash flow				
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Carrying amount at 31 December $'000
Bank loans	49,795	123,577	2,384,870	2,558,242	2,353,265	44,282	44,282	2,932,046	3,020,610	2,724,366
Accounts payable and accruals	1,138,771	–	–	1,138,771	1,138,771	1,208,539	–	–	1,208,539	1,208,539
	1,188,566	123,577	2,384,870	3,697,013	3,492,036	1,252,821	44,282	2,932,046	4,229,149	3,932,905

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

(b) Liquidity risk (continued)

Derivative financial assets/liabilities

	2017 Contractual undiscounted cash flow		2016 Contractual undiscounted cash flow	
	Within 1 year or on demand $'000	Total $'000	Within 1 year or on demand $'000	Total $'000
Derivatives settled gross				
– outflow	(116,107)	(116,107)	(59,630)	(59,630)
– inflow	116,417	116,417	59,105	59,105

(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 2017 and 2016, 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.

	2017		2016	
	Effective interest rate p.a. %	Amount $'000	Effective interest rate p.a. %	Amount $'000
Fixed rate assets:				
Bank deposits	1.6	1,042,687	1.3	647,239
Available-for-sale debt securities	3.9	1,477,946	4.3	1,286,711
		2,520,633		1,933,950
Variable rate liability:				
Bank loans	2.0	(2,353,265)	1.5	(2,724,366)

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

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2017, 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 $7,187,000 (2016: $10,303,000). Other components of consolidated equity would have decreased/increased by approximately $38,156,000 (2016: $31,381,000) 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 2016.

(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 29% (2016: 50%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. During the years ended 31 December 2017 and 2016, the Group used forward foreign exchange contracts to hedge its currency risk. At 31 December 2017, the Group had assets arising from forward foreign exchange contracts outstanding of $310,000 (2016: $525,000 recognised as derivative financial liabilities), which were recognised as derivative financial assets. These forward foreign exchange contracts were for the purchases of British Pounds Sterling totalling 11,028,000 (2016: 6,174,000) and had maturities of less than one year after the end of the reporting period.

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

(d) Currency risk (continued)

(i) Exposure to currency risk

The table below details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Hong Kong dollars)					
	2017			2016		
	Renminbi $'000	British Pounds Sterling $'000	United States dollars $'000	Renminbi $'000	British Pounds Sterling $'000	United States dollars $'000
Cash and cash equivalents	2,770	83,819	–	174,708	26,386	125,105
Accounts payable and accruals	–	(196,690)	(2,415)	(16,421)	(85,496)	(11,702)
Available-for-sale debt securities	–	–	1,477,946	–	–	1,286,711
	2,770	(112,871)	1,475,531	158,287	(59,110)	1,400,114
Notional amount of forward foreign exchange contracts used as economic hedges	–	116,417	–	–	59,105	–
Overall net exposure	2,770	3,546	1,475,531	158,287	(5)	1,400,114

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.

As mentioned in note 17, RoadShow was disposed by the Group on 27 October 2017. As such, there are no such disclosures in the current year.

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.

	2017			2016		
	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%	83	–	3%	8,867	–
	(3)%	(83)	–	(3)%	(8,867)	–
British Pounds Sterling	6%	1,007	–	6%	–	–
	(6)%	(1,007)	–	(6)%	–	–
United States dollars	1%	(20)	14,779	1%	1,153	12,867
	(1)%	20	(14,779)	(1)%	(1,153)	(12,867)

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 2016.

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.

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

(e) Fuel price risk

It is the Group's policy to closely monitor the fuel price movements. Certain subsidiaries of the Group have entered into price cap arrangements to limit the risk exposure in the event that oil prices rise above the cap level during the years ended 31 December 2017 and 2016. The Group had not entered into any fuel oil swap contract during the years ended 31 December 2017 and 2016.

(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

	2017			2016		
		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
Recurring fair value measurements						
Asset:						
Available-for-sale debt securities – listed	**1,477,946**	**1,477,946**	**–**	1,286,711	1,286,711	–
Asset/(liability):						
Derivative financial instrument – forward foreign exchange contracts	**310**	**–**	**310**	(525)	–	(525)

During the years ended 31 December 2017 and 2016, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3.

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

(f) Fair values measurement (continued)

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

The fair values of forward foreign exchange contracts as at 31 December 2017 and 2016 in Level 2 were marked to market using quoted market price from financial institutions.

(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 2017 and 2016 except as follows:

(1) Amounts due from/to associates of the Group are unsecured, interest-free and have no fixed repayment/settlement terms. Given these terms it is not meaningful to disclose their fair values.

(2) Unlisted equity securities of $15,356,000 (2016: $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 2017 and 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 $1,575,000,000 (2016: $1,600,000,000).

The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured and there is no transaction price.

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	Income/(expense) 2017 $'000	2016 $'000
Service fees for provision of coach services	(i) & (ii)	**42,132**	47,397
Insurance premium paid	(iii)	**(69,163)**	(94,524)
Amount paid and accrued for building management services	(iv)	**(786)**	(3,617)
Amount paid and accrued for project management service and lease modification	(v)	**–**	–

Notes:

(i) During the year, the Group provided coach services to certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP"), a substantial shareholder of the Company. The amounts received and receivable for these coach services amounted to $9,006,000 (2016: $12,094,000). Outstanding balances due from these companies at 31 December 2017 amounted to $3,092,000 (2016: $1,647,000).

(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 $33,126,000 (2016: $35,303,000). Outstanding balances due from these companies at 31 December 2017 amounted to $8,370,000 (2016: $5,024,000).

(iii) In 2016, the Group entered into contracts with a subsidiary of SHKP, Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of insurance services to the Group for the period from 1 January 2017 to 31 December 2018 (the "2017/18 Insurance Arrangements"). The amount paid and payable under the 2017/18 Insurance Arrangements during the year amounted to $69,163,000 (2016: $94,524,000). Outstanding balance receivable for these contracts at 31 December 2017 amounted to $92,000 (2016: $812,000).

(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 $786,000 (2016: $3,617,000). Outstanding balance payable for this contract at 31 December 2017 amounted to $Nil (2016: $45,000).

(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 regrant 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 2017 amounted to $2,000,000 (2016: $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 notes 33(a)(i) and 33(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 72 to 73 of this Annual Report.

The related party transactions as described in note 33(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 transaction as described in note 33(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 33(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 2017.

34 Discontinued operations

On 26 October 2017, the Group entered into a Sale and Purchase Agreement with an independent third party, Bliss Chance Global Limited, to dispose of its entire 73% equity interest in RoadShow Holdings Limited and its subsidiaries at a total consideration of $795,809,000. As such, a net gain on disposal of $439,585,000 was recognised in profit or loss for the year ended 31 December 2017. The transaction was completed on 27 October 2017.

The disposed businesses relate to the provision of media sales services. Upon completion of the disposal, the principal business of the Group has become the operation of both franchised and non-franchised public transportation and property holdings and development. As the disposed business is considered as a separate major line of business, the corresponding operation has been classified as discontinued operations upon completion of such disposal.

34 Discontinued operations (continued)

The carrying amounts of assets and liabilities as at 27 October 2017, the disposal date, were as follows:

	$'000
Other property, plant and equipment (note 13(a))	**11,911**
Non-current prepayments	**1,085**
Deferred tax assets (note 27(b)(i))	**7,733**
Accounts receivable	**88,597**
Deposits and prepayments	**11,599**
Current tax recoverable	**1,914**
Pledged and restricted bank deposits	**98,248**
Cash and cash equivalents	**344,267**
Accounts payable and accruals	**(74,153)**
Current tax payable	**(290)**
Deferred tax liabilities (note 27(b)(i))	**(105)**
Net assets disposed of	**490,806**
Less: non-controlling interests	**(138,520)**
Net assets disposed of attributable to the equity shareholders of the Company	**352,286**
Less: consideration	**(795,809)**
Other costs directly attributable to the disposal	**13,479**
	(430,044)
Release of exchange reserve upon disposal of subsidiaries	**(9,541)**
Net gain on disposal of subsidiaries	**(439,585)**

34 Discontinued operations (continued)

The results of these discontinued operations for the period from 1 January 2017 to 27 October 2017 and for the year ended 31 December 2016 are set out below:

	Period from 1 January 2017 to 27 October 2017 $'000	Year ended 31 December 2016 $'000
Revenue	**285,705**	407,511
Other income/(loss)	**12,632**	(3,051)
Staff costs	**(52,799)**	(66,010)
Depreciation and amortisation	**(3,909)**	(15,241)
Other operating expenses	**(259,372)**	(325,304)
Loss from operations	**(17,743)**	(2,095)
Impairment loss on other property, plant and equipment	**–**	(22,910)
Impairment loss on intangible assets	**–**	(217)
Impairment loss on trade and other receivables	**(1,812)**	(2,422)
Reversal of provision/(provision) for onerous contracts	**13,259**	(14,455)
Loss before taxation	**(6,296)**	(42,099)
Income tax	**(4,319)**	(25)
Loss after tax from discontinued operations	**(10,615)**	(42,124)
Net gain on disposal of subsidiaries	**439,585**	–
Profit/(loss) for the period/year from discontinued operations	**428,970**	(42,124)
Attributable to:		
Equity shareholders of the Company	**432,563**	(33,042)
Non-controlling interests	**(3,593)**	(9,082)
Profit/(loss) for the period/year from discontinued operations	**428,970**	(42,124)
Cash flow		
Operating cash (outflows)/inflows	**(44,241)**	47,673
Investing cash inflows	**172,711**	23,442
Financing cash outflows	**–**	(1,600)
Net cash inflows	**128,470**	69,515

35 Company-level statement of financial position

	Note	2017 $'000	2016 $'000
Non-current assets			
Investments in subsidiaries		**1,193,491**	1,189,413
Deferred tax assets		**598**	730
		1,194,089	1,190,143
Current assets			
Deposits and prepayments		**398**	975
Amounts due from subsidiaries		**7,936,914**	7,217,480
Other receivables		**1,032**	–
Cash and cash equivalents		**6,817**	5,266
		7,945,161	7,223,721
Current liabilities			
Accounts payable and accruals		**18,400**	15,791
Amounts due to subsidiaries		**5,966,924**	5,976,186
		5,985,324	5,991,977
Net current assets		**1,959,837**	1,231,744
NET ASSETS		**3,153,926**	2,421,887
Capital and reserves	29(a)		
Share capital		**422,456**	411,680
Reserves		**2,731,470**	2,010,207
TOTAL EQUITY		**3,153,926**	2,421,887

Approved and authorised for issue by the Board of Directors on 22 March 2018

Norman LEUNG Nai Pang
Chairman

Roger LEE Chak Cheong
Managing Director

36 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.

37 Comparative figures

Certain comparative figures have been reclassified to conform with the presentation of the current year, which the management consider would better facilitate analysis of the financial information and better reflect the Group's financial performance and position. Such reclassifications have no impact on the Group's prior year overall results and net assets.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (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, including the measurement of impairment for 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 and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

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):

- 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 interest revenue, impairment 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.

The Group has assessed that its financial assets currently measured at amortised cost and investment 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 decided to elect this designation option for any of the investment held on 1 January 2018 and will recognize any fair value changes in respect of these investments in other comprehensive income as they arise. This will give rise to a change in accounting policy as currently the Group recognises 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.

This change in policy will have an impact on the Group's net assets and total comprehensive income. Upon the initial adoption of HKFRS 9, the cumulative fair value gains or losses related to the available-for-sale investments will be recognized in fair value reserve at 1 January 2018. The Group is in the process of making an assessment of the quantitative impact of these amendments.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

HKFRS 9, *Financial instruments* (continued)

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 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 will not have any impact on the Group on adoption of HKFRS 9.

HKFRS 16, *Leases*

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. 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 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to $6,095,000 for properties, which are payable within five 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.

Financial Summary

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

	2017 $'M	2016 $'M (Restated) Note (b)	2015 $'M	2014 $'M	2013 $'M	2012 $'M (Restated) Note (a)	2011 $'M (Restated) Note (a)	2010 $'M	2009 $'M	2008 $'M
Statement of profit or loss										
Continuing operations										
Revenue	**7,900**	7,744	7,780	7,557	7,420	7,181	6,948	6,687	6,842	7,353
Profit before taxation	**1,008**	1,016	747	508	458	197	275	931	800	694
Income tax (expense)/credit	**(148)**	(150)	(128)	(69)	(55)	(6)	48	(75)	(118)	(18)
Profit for the year from continuing operations	**860**	866	–	–	–	–	–	–	–	–
Discontinued operations										
Profit/(loss) for the year from discontinued operations	**429**	(42)	–	–	–	–	–	–	–	–
Profit for the year	**1,289**	824	619	439	403	191	323	856	682	676
Non-controlling interests	**6**	7	10	(24)	(32)	(25)	8	11	(9)	(18)
Profit attributable to equity shareholders of the Company	**1,295**	831	629	415	371	166	331	867	673	658
Statement of financial position										
Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment	**9,261**	8,875	6,133	4,817	4,487	3,852	4,121	4,276	4,100	4,466
Intangible assets	**132**	132	132	135	132	132	44	23	22	15
Goodwill	**84**	84	84	84	84	84	63	63	63	63
Media assets	**–**	–	–	–	–	–	–	–	–	1
Non-current prepayments	**–**	2	15	7	12	4	2	44	19	29
Interest in associates	**625**	602	634	740	724	672	668	640	612	834
Interest in joint ventures	**–**	–	–	–	–	–	–	–	–	20
Other financial assets	**1,493**	1,207	112	183	229	591	472	636	334	136
Employee benefit assets	**1,287**	626	577	861	1,018	326	263	790	716	755
Net current assets	**438**	377	1,321	2,112	2,009	2,226	2,280	1,763	2,455	2,083
Employment of funds	**13,320**	11,905	9,008	8,939	8,695	7,887	7,913	8,235	8,321	8,402
Financed by:										
Share capital	**422**	412	404	404	404	404	404	404	404	404
Reserves	**9,120**	7,414	6,804	6,793	6,704	5,832	5,668	6,334	6,385	6,257
Total equity attributable to equity shareholders of the Company	**9,542**	7,826	7,208	7,197	7,108	6,236	6,072	6,738	6,789	6,661
Non-controlling interests	**–**	146	154	190	192	185	182	205	229	253
Total equity	**9,542**	7,972	7,362	7,387	7,300	6,421	6,254	6,943	7,018	6,914
Contingency provision – insurance	**285**	253	251	274	298	311	310	300	305	337
Long-term bank loans	**2,353**	2,724	589	545	399	598	798	470	470	590
Employee benefit liabilities	**–**	9	9	6	–	–	–	–	–	–
Other liabilities	**1,140**	947	797	727	698	557	551	522	528	561
Funds employed	**13,320**	11,905	9,008	8,939	8,695	7,887	7,913	8,235	8,321	8,402
Earnings/(loss) per share ($)	**3.11**	2.04	1.56	1.03	0.92	0.41	0.82	2.15	1.67	1.63
– From continuing operations	**2.07**	2.12	–	–	–	–	–	–	–	–
– From discontinued operations	**1.04**	(0.08)	–	–	–	–	–	–	–	–
Dividends per share ($)	**1.25**	1.25	1.20	0.90	0.60	0.60	0.60	1.35	2.35	1.35
Total assets per share ($)	**34.69**	32.34	27.42	25.28	25.36	23.19	22.78	24.01	24.71	25.49
Net assets per share ($)	**22.59**	19.36	18.24	18.30	18.09	15.91	15.49	17.20	17.39	17.13

Notes:

(a) In order to comply with Revised Hong Kong Accounting Standards 19, Employee benefits, that is effective for accounting period beginning on 1 January 2013, the Group adopted new accounting policies for defined benefit plans. Figures for the years 2011 and 2012 have been adjusted and it is not practicable to restate earlier years for comparison purposes.

(b) The disposal of RoadShow in 2017 constituted a discontinued operation. In accordance with HKFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* the Group has re-presented the comparative information in 2016 in this regard.

Corporate Directory

BOARD OF DIRECTORS

Dr Norman LEUNG Nai Pang*
GBS, JP, LLD, BA
Chairman

Dr John CHAN Cho Chak*
GBS, JP, DBA(Hon), DSocSc(Hon), BA, DipMS, CCMI, FCILT, FHKIoD
Deputy Chairman

Raymond KWOK Ping Luen^
JP, MA(Cantab), MBA, Hon DBA, Hon LLD

NG Siu Chan^

William LOUEY Lai Kuen^
BSc(Econ)

Charles LUI Chung Yuen^
M.H., BEc, AASA, FCILT

Winnie NG^
JP, BA, MBA(Chicago), MPA(Harvard), FCIM, CMILT, MHKIoD
(Non-executive Director and Alternate Director to Mr NG Siu Chan^)

Dr Eric LI Ka Cheung*
GBS, OBE, JP, LLD, DSocSc, Hon DSocSc(EdUHK), BA, FCPA(Practising), FCA, FCPA(Aust.), FCIS

Edmond HO Tat Man^
MA(Cantab), MBA, FCILT, MHKIoD

Professor LIU Pak Wai*
SBS, JP

Allen FUNG Yuk Lun^
BA, Ph.D.

Roger LEE Chak Cheong
BSc, MSc, MICE, CEng
Managing Director

TSANG Wai Hung*
GBS, PDSM, JP, MBA

CHEUNG Wing Yui^
BCom, Hon DBA, CPA (Aust.)

LEE Luen Fai^
BA

Susanna WONG Sze Lai
(Alternate Director to Mr Raymond KWOK Ping Luen, JP^)

GAO Feng
(Alternate Director to Mr William LOUEY Lai Kuen^)

BOARD COMMITTEES

Audit and Risk Management Committee
Dr Eric LI Ka Cheung#
Professor LIU Pak Wai
Allen FUNG Yuk Lun
TSANG Wai Hung

Nomination Committee
Dr John CHAN Cho Chak#
Dr Eric LI Ka Cheung
Allen FUNG Yuk Lun

Remuneration Committee
Dr John CHAN Cho Chak#
Dr Eric LI Ka Cheung
Winnie NG
Professor LIU Pak Wai

Standing Committee
Dr Norman LEUNG Nai Pang#
Raymond KWOK Ping Luen
Dr John CHAN Cho Chak
Charles LUI Chung Yuen
William LOUEY Lai Kuen
Winnie NG
Roger LEE Chak Cheong

COMPANY SECRETARY

Lana WOO
BA, MBA, FCIS, FCS (PE), CPA (Canada), CGA

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

PRINCIPAL OFFICE

15/F, 9 Po Lun Street, Lai Chi Kok
Kowloon, Hong Kong
Telephone: (852) 2786 8888
Facsimile: (852) 2745 0300
Website: www.tih.hk
E-mail: director@tih.hk

AUDITOR

KPMG
8/F, Prince's Building, 10 Chater Road
Central, Hong Kong

(* Independent Non-executive Director of the Company)
(^ Non-executive Director of the Company)
(# Committee Chairman)

This Annual Report is also available on our corporate website: www.tih.hk

REGISTRARS

Hong Kong
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

Bermuda
MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

REGISTER OF MEMBERS

Book closure for 2018 AGM:
14 May 2018 to 17 May 2018
(both dates inclusive)

Book closure for 2017 final dividend:
24 May 2018

DIVIDENDS

Interim
HK$0.35 per share,
paid on 17 October 2017

Final (proposed)
HK$0.90 per share,
payable on 29 June 2018

STOCK CODE

The Stock Exchange of Hong Kong: 62
Bloomberg: 62HK
Reuters: 0062.HK

CUSTOMER SERVICE HOTLINES

The Kowloon Motor Bus Company (1933) Limited
Telephone: (852) 2745 4466
Facsimile: (852) 2745 0600

Long Win Bus Company Limited
Telephone: (852) 2261 2791

Sun Bus Limited
Telephone: (852) 2371 2666

載通國際
Transport International

Transport International Holdings Limited

15/F, 9 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong
Telephone : (852) 2786 8888
Facsimile : (852) 2745 0300
www.tih.hk
Stock Code: 62

MIX
Paper from responsible sources
FSC™ C021898
FSC
www.fsc.org

Design and Production by: Toppan Vintage Limited
Website: www.toppanvintage.com