

## Chairman's Letter



### **Dear Shareholders and Partners,**

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

### **Dividends**

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

## Financial Performance in 2018

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

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

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

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

## Focus on Passengers’ Needs and New Development Opportunities

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

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

### Advanced Safety Enhancement Measures

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

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

### Care for Employees

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

### Use of Environment-friendly Technology

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

### Connecting the Community

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

### Challenges and Opportunities

The China-US trade conflicts bring uncertainty to the global economy, while expenditure on fuel and human resources increase our operating costs. In mid-2019, when KMB and LWB fully implement the "Guidelines on Bus Captain Working Hours, Rest Times and Meal Breaks" issued by the Transport Department, it is anticipated that manpower will be even tighter and additional bus captains will be required. We will continue to invest resources in enhancing driving safety and identifying and training talent. The continuous expansion of the railway network poses another challenge to our bus operations. It is against this background that we have submitted an application for a fare adjustment to the Government so as to increase our resources. We will explore business opportunities through innovative thinking and the potential commissioning of new routes and special routes. The superstructure work at the How Ming Street site in Kwun Tong will soon commence, and the project will include multi-storey Grade A office buildings and

large shopping malls. This is expected to bring stable rental income to the Group upon completion. Meanwhile, the opening of the Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link ushers in an era of even closer connection between Hong Kong and Mainland cities, which should be further strengthened when the Liantang Boundary Control Point is opened. The Group will take every opportunity to develop its businesses in a sustainable way while delivering a return to its shareholders.

### Acknowledgements

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

### Norman LEUNG Nai Pang

Chairman

21 March 2019