

Individual Business Units

Franchised Public Bus Operations

The Kowloon Motor Bus Company (1933) Limited (“KMB”)

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

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

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

trips (a daily average of 2.80 million passenger trips) as compared with 1,005.5 million passenger trips (a daily average of 2.75 million passenger trips) for 2017.

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

Long Win Bus Company Limited (“LWB”)

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

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

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

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

Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK\$48.3 million for 2018, representing an increase of HK\$2.8 million or 6.2% compared with HK\$45.5 million for 2017. A review of the operations of the principal business units in this Division is set out as follows:

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

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

The revenue of the SBH Group for 2018 decreased by 3.2% compared with 2017 due mainly to the decline in local business as certain contracts with low margin were

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

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

New Hong Kong Bus Company Limited ("NHKB")

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

Property Holdings and Development

The Group's Property Holdings and Development Division reported a profit after taxation of HK\$53.9 million for 2018, representing a decrease of HK\$0.7 million or 1.3% compared with HK\$54.6 million for 2017. A review of the Group's investment properties is set out as follows:

LCK Commercial Properties Limited ("LCKCP")

LCKCP, a wholly-owned subsidiary of the Group, is the owner of "Manhattan Mid-town", the commercial complex of Manhattan Hill. The 50,000 square feet shopping mall has provided Manhattan Hill residents and other shoppers with high quality retail facilities since its opening in March 2009. As at 31 December 2018, 100% of the lettable area of the shopping mall was leased out, generating a stream of recurring rental income for the Group.

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

LCK Real Estate Limited (“LCKRE”)

LCKRE, a wholly-owned subsidiary of the Group, is the owner of a 17-storey commercial office building at 9 Po Lun Street, Lai Chi Kok, Kowloon, which has a total gross floor area of about 156,700 square feet. Approximately 12% of the gross floor area is used by the Group as headquarters with the remaining gross floor area leased out to offices, shops and restaurants.

As at 31 December 2018, the carrying value of the building stated at cost less accumulated depreciation and impairment losses, amounted to HK\$31.0 million (2017: HK\$29.6 million).

TM Properties Investment Limited (“TMPI”)

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

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

KT Real Estate Limited (“KTRE”)

KTRE, a wholly-owned subsidiary of the Group, together with Turbo Result Limited (“TRL”), a subsidiary of Sun Hung Kai Properties Limited (“SHKP”), owns Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kowloon, Hong Kong (the “Kwun Tong Site”) in equal shares as tenants in common.

On 11 December 2009, KTRE, TRL, the Company and SHKP entered into an agreement to jointly develop the Kwun Tong Site for non-residential (excluding hotel) purposes (the “Development”). Sun Hung Kai Real Estate Agency Limited (“SHKRE”), a wholly-owned subsidiary of SHKP, has been appointed as the project manager to oversee the Development. The Group intends to hold the Development for long-term investment purposes.

On 4 August 2016, KTRE and TRL accepted the offer from the Lands Department for the grant of lease modification for the Kwun Tong Site from industrial to non-residential use (excluding hotel, petrol filling station and residential care home) at a land premium of HK\$4,305.0 million. 50% of such land premium, which amounted to HK\$2,152.5 million, was borne by KTRE.

On 20 December 2018, KTRE and TRL engaged Yee Fai Construction Company Limited, a wholly-owned subsidiary of SHKP, to carry out and perform construction works for the Development at a contract sum of approximately HK\$4,436.0 million (i.e. approximately HK\$2,218.0 million by each of KTRE and TRL) (the “Building Contract”), subject to adjustments in accordance with the Building Contract. The Building Contract was approved by independent shareholders of the Group on 1 February 2019.

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

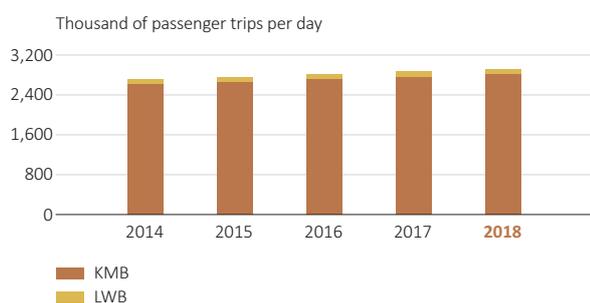
China Mainland Transport Operations

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

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

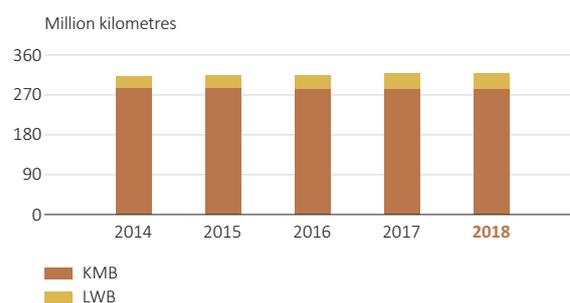
Average number of passenger trips per day

(Franchised public bus operations)



Bus kilometres operated

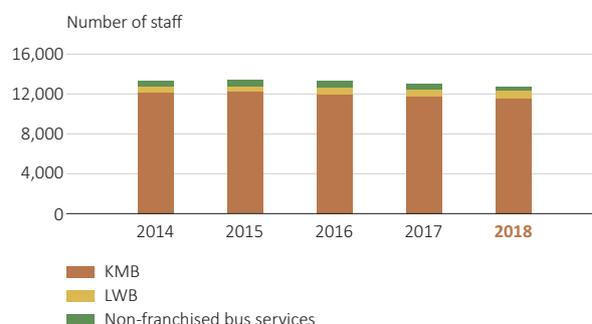
(Franchised public bus operations)



Number of licensed buses at 31 December



Number of staff at 31 December



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

| | Shenzhen | Beijing |
|--|----------------------------------|----------------------------------|
| Nature of business | Bus and taxi hire services | Taxi and car rental services |
| Form of business structure | Sino-foreign joint stock company | Sino-foreign joint stock company |
| Operation commenced | January 2005 | April 2003 |
| The Group's investment cost (RMB million) | 387 | 80 |
| The Group's effective interest | 35% | 31.38% |
| Fleet size at year-end 2018 (Number of vehicles) | 11,913 | 4,795 |
| Bus passenger volume (Million trips) | 608 | N/A |
| Bus kilometres travelled (Million km) | 397 | N/A |
| Staff number at year-end 2018 | 28,272 | 4,571 |

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

SZBG, which commenced operations in January 2005, is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four other Mainland investors. The Group has invested RMB387.1 million (equivalent to HK\$363.9 million at the investment date) in SZBG, representing a stake of 35%. SZBG mainly provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province (廣東省深圳市), operating a fleet of over 6,400 buses running on around 350 routes and over 5,500 taxis. By continuously improving services, patronage of SZBG’s bus operations increased by 2.4% to 607.5 million in 2018 as compared to 593.1 million in 2017. To improve its competitiveness in the public transport field, SZBG has taken measures to enhance its operational efficiency and productivity.

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

BBKT, a Sino-foreign joint stock company, was established in Beijing in March 2003. BBKT’s shareholders include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, and four other China Mainland investors. The Group has invested RMB80.0 million (equivalent to HK\$75.5 million at the investment date) in BBKT, representing an equity interest of 31.38%. BBKT operated both taxi hire and car rental businesses in Beijing until April 2013, when, to sharpen its focus on the business opportunities provided by the booming but challenging car rental market, BBKT spun off its car rental business to another Sino-foreign joint stock company, namely Beijing Beiqi First Company Limited (北京北汽福斯特股份有限公司), which has the same shareholding structure as BBKT. As at 31 December 2018, BBKT had a fleet of over 3,600 taxis and 4,500 employees.

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

Established in April 2013 as a Sino-foreign joint stock company with the same shareholding structure as BBKT, BBF operates the car rental business formerly undertaken by BBKT. With ISO 9001:2008 certification for management systems in car rental services, BBF is well placed to take advantage of the business opportunities afforded by business commuters as well as by the wide variety of events, conferences and exhibitions that are held in the capital. As at 31 December 2018, BBF had over 1,100 vehicles available for charter mainly in Beijing and Tianjin.

Connected Transactions and Continuing Connected Transactions

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

(a) THE GROUP

Transactions with Sun Hung Kai Properties Insurance Limited (“SHKPI”)

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

The cap amounts of the insurance premium payable by the Group to SHKPI under the 2017/18 Insurance Arrangements for the two years ended 31 December 2017 and 2018 as disclosed in the announcement dated 2 November 2016 were HK\$77,000,000 and HK\$80,000,000 respectively. Such cap amounts were determined mainly with reference to the historical