



載通國際

Transport International

2019
Annual Report



With Fortitude, We Aspire
Transport International Holdings Limited



With Fortitude, We Aspire

Operating the largest franchised bus company in Hong Kong, our mission is founded on professionalism and the provision of uncompromising and safe public transport services to the public around the clock. The Group has borne difficult circumstances with fortitude as it seeks to move forward with Hong Kong, adhering to the principle of people-orientated service while introducing various discount schemes, including the KMB Fare Saver Scheme and Bus-Bus Interchange packages. Our commitment to corporate social responsibility is evidenced by our care for passengers, employees, society and the natural environment.

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Hong Kong Franchised
Public Bus Operations



Hong Kong Non-franchised
Transport Operations



China Mainland
Transport Operations



Property Holdings
and Development

Group Profile





Transport International

Transport International Holdings Limited ("TIH", Stock Code: 62), a leading public transport operator in Hong Kong and China Mainland, 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. The Company also has business interests in property holdings and development in Hong Kong.

TIH aims to set the highest standards in the public transport industry through the provision of innovative and high quality services that take our customers safely and comfortably to their destination. With a dedication to sustainable business practices, enhanced shareholder value and the social and economic development of Greater China, TIH achieves its vision by tailoring its services to meet customer needs, improving the connectivity of its routes and providing real-time bus service information.

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.

Mission

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

Distinctive customer service
Reliable performance
Innovation
Value for money
Environmental responsibility
Sustainable business practice

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

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.

Business at a Glance

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 4,100 buses operating on 411 routes covering Kowloon, the New Territories and Hong Kong Island.



Long Win Bus Company Limited

operates franchised public bus services with 279 buses operating on 36 routes linking the New Territories with Hong Kong International Airport, the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge 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 390 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.

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.

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.



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

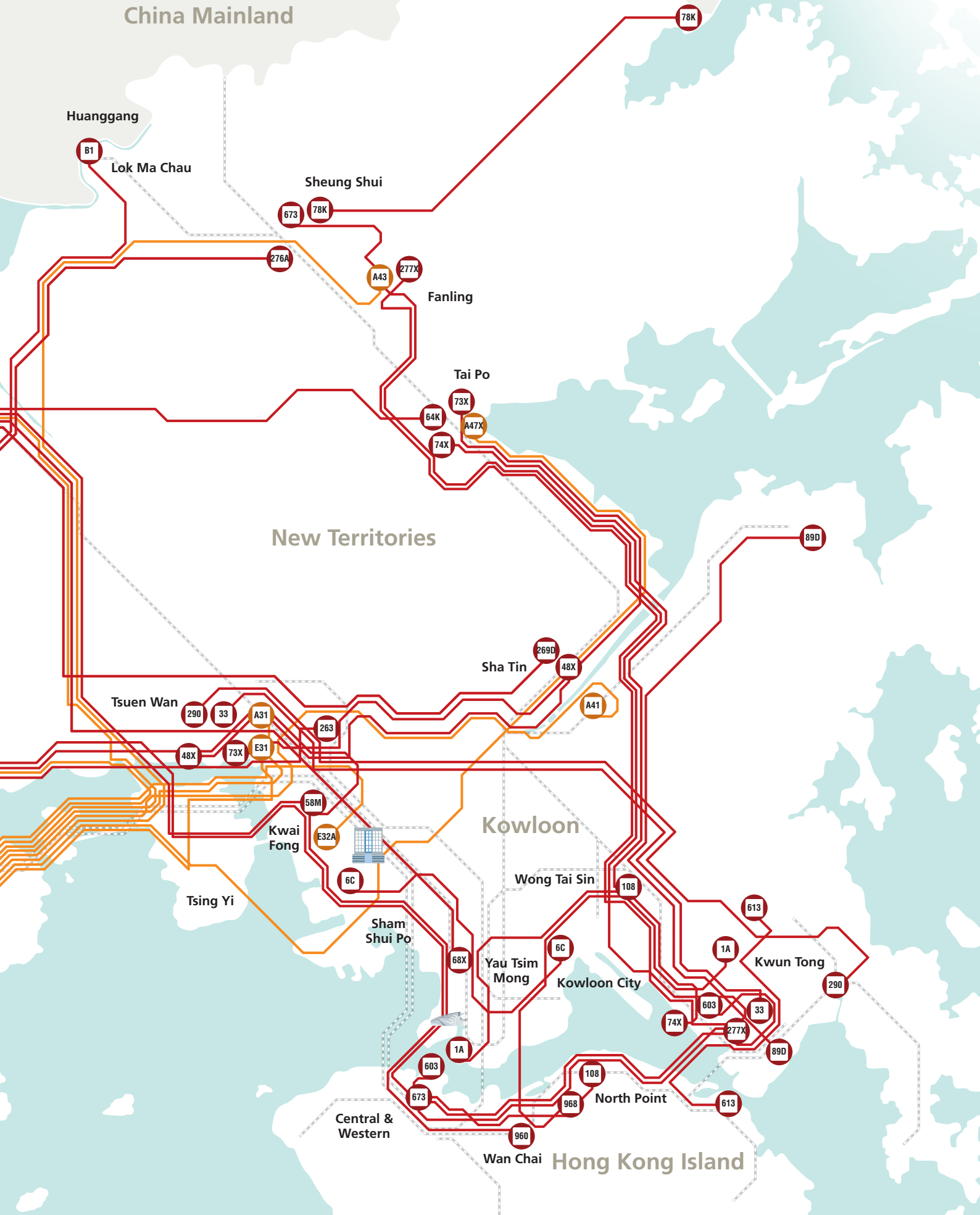
 Hong Kong International Airport

 High Speed Rail Hong Kong West Kowloon Station

 Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge



Key Franchised Bus Network in Hong Kong





Financial and Operational Highlights

For the Year Ended 31 December 2019

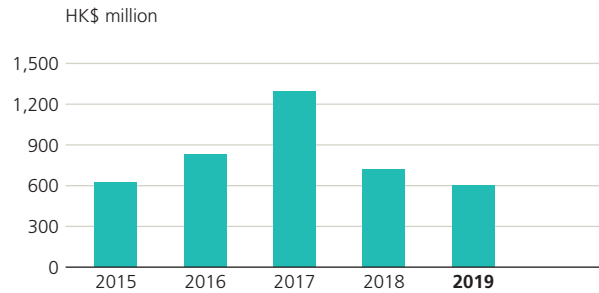
	Unit	2019	2018	Increase/ (Decrease)
Financial Highlights				
Revenue	HK\$ million	8,112.2	8,009.3	1%
– Fare revenue	HK\$ million	7,818.9	7,729.0	1%
– Media sales revenue	HK\$ million	226.3	210.5	8%
– Gross rentals from investment property	HK\$ million	67.0	69.8	(4%)
Profit attributable to equity shareholders of the Company	HK\$ million	605.3	720.1	(16%)
Earnings per share	HK\$	1.38	1.68	(18%)
Ordinary dividends per share	HK\$	1.00	1.20	(17%)
Total equity attributable to equity shareholders of the Company	HK\$ million	10,971.7	10,195.6	8%
Total assets	HK\$ million	16,712.5	15,410.0	8%
Net borrowings	HK\$ million	1,250.7	1,444.0	(13%)
Net finance income	HK\$ million	55.2	57.9	(5%)
Cash generated from operations	HK\$ million	1,378.3	1,709.4	(19%)
Key Financial Ratios				
Profit margin		7.5%	9.0%	(17%)
EBITDA margin		20.9%	22.1%	(5%)
Return on equity attributable to equity shareholders of the Company		5.5%	7.1%	(22%)
Gearing ratio (ratio of net borrowings to total equity attributable to equity shareholders of the Company)	Times	0.1	0.1	(20%)
Total borrowings/EBITDA		1.6	1.5	7%
Current ratio		1.9	1.6	17%
Dividend cover (ratio of profit attributable to equity shareholders of the Company to total dividends paid and proposed for the year)	Times	1.4	1.4	(2%)
Share price per share at year-end	HK\$	20.20	21.60	(6%)
Market capitalisation at year-end	HK\$ million	9,028.20	9,387.30	(4%)
Operational Highlights				
Hong Kong Franchised Public Bus Operations:				
Average number of passenger trips per day	Million trips	2.93	2.91	1%
Number of licensed buses at year-end		4,360	4,374	(0%)
Number of staff at year-end		12,907	12,257	5%
Average number of staff per licensed bus at year-end		2.96	2.80	6%
Hong Kong Non-franchised Transport Operations:				
Number of licensed buses at year-end		405	405	–
Number of staff at year-end		536	479	12%
China Mainland Transport Operations:				
Number of licensed buses at year-end		5,987	6,403	(6%)
Number of taxis and vehicles for rental at year-end		10,568	10,305	3%

Financial and Operational Highlights

For the Year Ended 31 December 2019

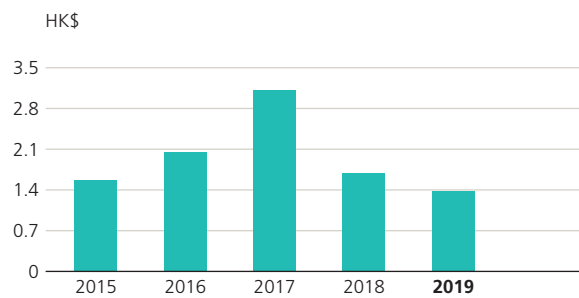
Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders for 2019 was HK\$605.3 million



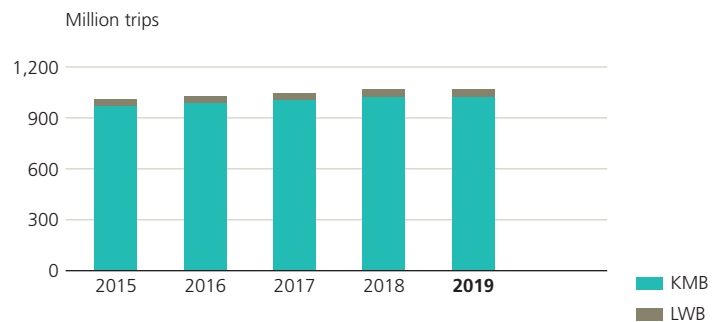
Earnings per Share

Earnings per share for 2019 was HK\$1.38



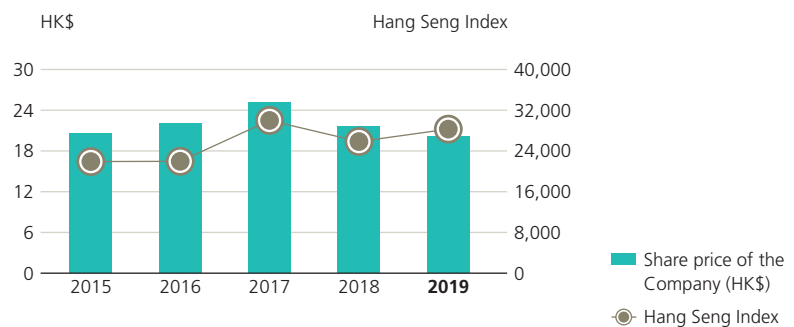
Number of Passenger Trips (Franchised Public Bus Operations)

The number of passenger trips in 2019 was 1,068.7 million, up from 1,063.8 million in 2018



Share Price of the Company and Hang Seng Index at Year-end

The closing share price of the Company at 2019 year-end was HK\$20.20 per share, down 6% compared to that of 2018 year-end



Corporate Milestones 2019

January

TIH delegation visited Singapore to enhance bus safety

A TIH delegation led by Chairman Dr. Norman Leung Nai Pang exchanged opinions on bus safety, the use of innovative technology, management models, bus captain training and public education with bus operators and the Land Transport Authority of Singapore.



February

New bus safety measures

To enhance safety, KMB and LWB introduced new safety measures to their fleets, including the Electronic Stability Programme (ESP) and the installation of seat-belts on all seats on new Euro VI buses.



March

New double-decker brought a brighter compartment

KMB introduced a new model double-decker featuring a full length glass window alongside the staircase. Sunlight is directed to the compartment, thus enhancing safety and passenger experience.



Ten tertiary education institutions participated in KMB Fare Saver Scheme

KMB Fare Saver Scheme was extended to ten tertiary education institutions. Passengers can enjoy a HK\$2.0 fare rebate by tapping their Octopus Card on Fare Saver kiosks.



April

KMB received HKAEE Award

KMB's advanced green technologies and innovative ideas were recognised by the winning of the Gold Award in the Hong Kong Awards for Environmental Excellence ("HKAEE"), Transport and Logistics Sector.



KMB held carnival to promote road safety

KMB organised a carnival at which the Safety Bus was displayed for the first time, to encourage the public to pay attention to road safety with the slogan "Stop, Look, Listen and Give Way".



May

KMB granted the operation right of new BCP Route B9

KMB was granted the operation right of Route B9 to carry passengers to and from Liantang/Heung Yuen Wai Boundary Control Point ("BCP") and Yuen Long/Tuen Mun.

KMB launched Smart Indicator System asking drivers to "Give Way to Bus"

KMB started installing the Smart Indicator System reminding drivers to be courteous to buses by giving them priority.



June

New Customer Service Centre at Tuen Mun BBI

KMB's New Customer Service Centre at the Tuen Mun Bus-Bus Interchange ("BBI") provides free Wi-Fi and charging points with a 180° sea view for passengers waiting for buses.



Corporate Milestones 2019

July

KMB Introduced Route 33 serving central business district in East Kowloon

New Route 33 was introduced between Tsuen Wan and the central business district in East Kowloon to provide a convenient service to and from residential and business areas.



August

KMB Monthly Pass Lucky Draw brought prizes valued at over HK\$1,000,000

Tens of thousands of App1933 users joined the KMB Monthly Pass Lucky Draw on their Octopus Card. Each winner received a special edition Octopus Card with a free Monthly Pass.



The Donation of Used and Retired Bus Programme makes sustainable contribution to education

Up to the end of August, a total of 24 retired KMB buses had been donated to primary, secondary and special schools for educational and training purposes.



September

KMB and ICBC brought first joint transport credit card

KMB worked with ICBC (Asia) to launch the ICBC/KMB UnionPay Dual Currency Card. Card holders can enjoy a maximum 20% bus fare rebate whenever they pay for KMB and LWB rides.



October

LWB buses equipped with new assistance driving systems

After testing and trialling, the Drowsiness Monitoring System and Advanced Driver Assistance System were both installed on 100 LWB buses to assist bus captains and enhance the safety of bus trips.



November

New Two-year Technical Trainee Programme launched

To further strengthen our professional team and nurture young people who aspire to a career in bus maintenance, KMB launched a new two-year technical trainee programme.



KMB received Award of Distinction from The Community Chest of Hong Kong

KMB received the Award of Distinction from The Community Chest of Hong Kong in 2018/2019 in recognition of its contributions to the community.

December

KMB recognised in The Hong Kong Outstanding Corporate Citizenship Programme

KMB received the Silver Award in The 10th Hong Kong Outstanding Corporate Citizenship Programme organised by the Committee on the Promotion of Civic Education and Hong Kong Productivity Council in recognition of its dedication to corporate social responsibility.



KMB received awards from the Social Welfare Department

KMB was awarded 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) from the Social Welfare Department in recognition of our commitment to serving the community.



Chairman's Letter



Staff members of the Group have demonstrated their commitment to their work, and this dedication has been acknowledged by the public.

Dear Shareholders,

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 2019 was HK\$605.3 million, a decrease of 15.9% compared to HK\$720.1 million for 2018.

Dividends

The Board of Directors has proposed an ordinary final dividend of HK\$0.70 per share to be paid on 30 June 2020. Together with the ordinary interim dividend of HK\$0.30 per share

paid on 15 October 2019, the total dividend for the year will be HK\$1.00 per share.

Financial Performance in 2019

The Kowloon Motor Bus Company (1933) Limited ("KMB") recorded a profit after taxation of HK\$314.9 million, representing a decrease of HK\$119.4 million compared with HK\$434.3 million for 2018. The enhancement of staff remuneration and benefits led to an increase in staff costs, which together

with the additional investment in safety measures for the bus fleet, contributed to an increase in operational costs. In 2019, the Hong Kong Government launched the Public Transport Fare Subsidy Scheme to ease the financial burden on citizens and encourage them to commute. In the second half of 2019, even though Hong Kong's transport system was severely affected by social events, KMB did its best to maintain services. Passenger numbers remained stable and on a par with 2018.



As for Long Win Bus Company Limited ("LWB"), profit after taxation for 2019 was HK\$53.7 million, representing an increase of HK\$16.9 million compared with HK\$36.8 million for 2018. The continuous enhancement of bus services and the additional transport demand associated with the Hong Kong-Zhuhai-Macao Bridge, saw year-on-year passenger growth increase by 10.4% in 2019.

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 2019, 217 Euro VI double-deck buses and five Euro V double-deck buses were added to the franchised bus fleet.

The Group's Non-franchised Transport Division, with Sun Bus Limited ("Sun Bus") as its flagship company, recorded a profit after taxation of HK\$39.8 million, representing a decrease in profit after taxation of HK\$8.5 million compared with HK\$48.3 million for 2018. Sun Bus tapped passenger sources proactively and set up a number of new service points. To meet market needs, Sun

Bus introduced double-deck buses into its fleet. Our China Mainland Transport Operations Division, which is comprised of our joint ventures in Shenzhen and Beijing, continued to record positive overall results in 2019.

Serving with Care, Keeping Pace with the Times

The Group continues to introduce innovations in operations, business promotions and service enhancements. KMB and LWB launched various fare concession schemes, including continuous expansion of the KMB Monthly Pass kiosk network and the new "Purchase Monthly Pass" button on the KMB and LWB mobile app, App1933, so that passengers can enjoy convenient, flexible and value-for-money bus services. Moreover, the KMB Fare Saver Scheme has been well received by teachers, students and passengers. Besides raising the number of Fare Saver kiosks to 17, we have also increased the total amount of fare discount that passengers enjoy. KMB continued to work with different banks on credit card rebate solutions, enabling more passengers to enjoy fare discounts.

Providing Safety First Professional Training

The Group has always put safety as its top priority. Although the Special Committee led by me has successfully completed its mission, the Group will continue to implement the suggestions made by the committee. Through bus captain recruitment, training, performance management and salary remuneration packages, the Group continues to enhance safety in services. All newly purchased Euro VI buses are equipped with the Electronic Stability Programme, a speed limiting retarder and seat belts on both decks. The Drowsiness Monitoring System and the Advanced Driver Assistance System have recently been introduced to the fleet. With the adoption of these advance technologies, driving safety has been further improved.

To further enhance the working environment of driving instructors and nurture more quality bus captains, the Bus Captain Training School has been refurbished. The school has a training fleet of 50 buses, mirroring the models used in the fleet. Trainees are able to receive training and learn

Chairman's Letter

how to drive a bus in real working conditions. This helps provide a more precise and target-oriented training in safety awareness and a good driving attitude among trainees.

To maintain high quality maintenance services and keep the fleet in tiptop shape, a professional team of engineering staff is essential. The newly introduced two-year "Technical Trainee Programme", includes both theories and practical skills. After completing this basic programme, graduates can continue their studies by joining an advanced programme. We aim to train well-rounded and professional engineering talents for our business development and operational needs.

Caring for Employees, Attaching Importance to Talents

Talents are valuable assets to the Group. Providing a quality working environment and career prospects is the responsibility of the Board of Directors and Executives. In 2019, the Group continued to improve

staff benefits, with eighty percent of frontline staff receiving a 5.5% salary increase. We have also launched a series of benefit enhancement measures for frontline staff, including improving the salary scale of monthly-paid maintenance staff.

To create a better working environment and boost the sense of belonging of employees, Club1933, a leisure area for staff members, was opened at Kowloon Bay and Lai Chi Kok depots. The related projects at Sha Tin and Tuen Mun depots will start soon. At Club1933, various facilities for leisure and gatherings are provided for employees and retired staff members. The Staff Relations & Welfare Services Department, established in April, is the bridge between the Company and its staff, both current and retired. By collecting opinions and advice from different channels and organising activities, we have built a close relationship between staff and the Company. Leveraging these advantages, we are looking for talents who are committed to delivering professional and reliable franchised bus services to join us.

Promoting Green Transport, Serving the Community

After winning awards in the Hong Kong Awards for Environmental Excellence (HKAEE) for the past two years, KMB's advanced green technologies and innovative ideas were again recognised in 2019 by the winning of the Gold Award in the Transport and Logistics Sector of the HKAEE.

We also supported various projects in the community to inspire students' learning and strengthen their bond with local neighbourhoods. KMB continues to donate buses to schools for renovation for educational purposes. Up to the end of 2019, 29 schools had benefited from the scheme.

KMB cares about the communities it serves. In April, we became a corporate partner of the Hong Kong Society for the Deaf and took the initiative to hire hearing-impaired people to help unleash their potential. FRIENDS OF KMB, our volunteer club, took part in a number of voluntary activities and reached a total of over 320,000 volunteering hours.

Challenges and Opportunities

The Group continues to allocate resources to enhance driving safety and staff members' remuneration packages and welfare. On the other hand, local and global economic uncertainties, in addition to volatility in fuel prices, continuous expansion of the local railway network and the pending fare application submitted to the government, continue to pose challenges to bus operators.

Since the middle of 2019, social incidents have been affecting the city. The outbreak of the COVID-19 pandemic has also cast a significant impact on the transport industry as well as the people of Hong Kong. To deal with this, KMB and LWB have taken a series of measures, including stepping up the cleaning of bus compartments, promoting public health and asking all bus captains to wear face masks when working to enhance protection for passengers and staff members. The suspension of schools, the work-from-home arrangements adopted by government departments and private companies, and the significant

contraction in the tourism, retail and banking sectors have led to a dramatic decrease in ridership since late January 2020 for KMB and LWB. In the face of such a difficult environment, the Group has responded by adjusting trip frequencies and saving resources. We will continue to deploy our buses in a flexible manner, while adopting appropriate measures to improve productivity to ensure the sustainability of our business.

The Group will also expand its service areas through the introduction of new routes and special routes. In respect of the Liantang Boundary Control Point, we have been granted the operating rights for a new bus route, which will carry passengers between Tuen Mun and Heung Yuen Wai Boundary Control Point. We believe this will bring the Group new business and development opportunities. Moreover, the superstructure work at the How Ming Street site in downtown Kwun Tong is expected to be completed in mid-2022, which will create a stable return for our shareholders.

Acknowledgements

2019 was a year full of challenges for Hong Kong. Staff members of the Group have demonstrated their commitment to their work and duties in serving passengers, and this dedication has been acknowledged by the public. In particular, I would like to praise the efforts of the team working day and night in the Command and Control Centre ("War Room") to ensure smooth operations, support for frontline staff members and the prompt release of route information, showcasing our commitment and professionalism as service providers. The Group will continue to serve the public in a professional spirit while delivering safe and quality bus services, relying on the unity of the whole team.

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

19 March 2020

Managing Director's Message



One of my responsibilities is to provide staff members with a stable work environment and good prospects.

With Fortitude, We Aspire

2019 was an unusual year for Hong Kong, with a volatile global landscape and the social situation in Hong Kong having an impact on every industry. Public transport services bore the brunt of the troubles. In addition to the COVID-19 pandemic has led to an extensive shutdown of Hong Kong, causing rapid economic contraction and taking a heavy toll on transport demand. In the face of adversity, maintaining bus services as well as the city's "heartbeat", while safeguarding the employment and health of over 10,000 employees and the livelihood of their families, has been an unprecedented challenge to

me and my management team. Even though we may not be sure when the economy will rebound, we are committed to leading the company with fortitude and assuming responsibility for staff members as we serve the broader society.

Reflecting on my five years as Managing Director, I am convinced that, besides curiosity and observation, courage and determination are keys to facing difficulties, solving problems and driving innovations. In the Confucian classic *Record of Music*, courage means taking resolute action in times of change, standing firm and refusing to back off. The Group's commitment to innovation and search for new

solutions in operations and facilities are firmly founded on our sense of responsibility for delivering caring bus services to passengers, maintaining stable jobs for employees, promoting social inclusion and bringing stable returns to shareholders.

The KMB and LWB mobile app App1933, with over 5 million downloads, and the value-for-money KMB Monthly Pass, were aligned in July when the KMB Monthly Pass purchase function was added to the app. In addition to bringing convenience to passengers, who can buy the Monthly Pass anytime, anywhere, this has established a wider point-of-sales network. The Group has also taken the initiative to

Managing Director's Message — ○

leverage the trend for different types of e-payment, with LWB installing multiple payment systems on its fleet, providing passengers with alternatives to Octopus. KMB and LWB have also worked with banks to offer further discounts on the Monthly Pass to bring passengers more comfortable and convenient bus services.

With safety our top priority, from the third quarter of 2018, many safety features have been installed as standard on new buses, including the speed retarding device, the Electronic Stability Programme and seat belts on both decks. Additional resources have been allocated to strengthen driving safety, including the Drowsiness Monitoring System and the Advanced Driver Assistance System.

To further promote safety awareness and enhance public education, KMB and LWB introduced the Smart Indicator System, whereby the LED route display panel at the back of the bus will display the message "Give Way to Bus" when the indicator is engaged. KMB has installed parking sensors on some buses to alert bus captains to the surrounding environment and the presence of any obstacles. We have also placed flashing LED lights and buzzers in selected bus termini to remind pedestrians to be aware of road conditions. We will continue to explore the latest technology so as to further enhance driving safety.

As an industry leader, we have installed Bluetooth positioning devices at 2,000 bus stops across Hong Kong, which in tandem with App1933 allow users to receive various types of useful

bus information, including latest route updates, important notices and terminus maps.

One of my responsibilities is to provide staff members with a stable work environment and good prospects. Even at a time when the economic outlook is unpredictable, as part of a people-orientated policy to make employees feel valued by the company we continue to support the career planning of our staff with comprehensive welfare facilities and training. Last year, we organised around 20 spring receptions for staff members to share the joy with colleagues. We are also setting up new leisure rooms, called Club1933, at our four main depots. While the facilities at Kowloon Bay and Lai Chi Kok have been completed, those at Tuen Mun and Sha Tin will open soon.

With a strong sense of community at the root of our service, the Group seeks to promote community affairs development in different ways. The Donation of Used and Retired Bus Programme is an initiative which benefits many schools and students. As at the end of 2019, a total of 29 schools had received retired buses. To a bus company, a retired bus may be just scrap metal, but for students, it is a whole new space in which to unleash their creative potential. We hope the Programme will continue to benefit more schools and inspire more new ideas.

Last year, besides using App1933 to help people find missing elderly relatives, we worked with different social service organisations to hire

mentally handicapped and deaf people to help build a more caring and inclusive society. KMB set up a KMB Fare Saver Scheme in tertiary institutions to provide passengers with discounts on bus rides, and the total number of campuses with Fare Savers kiosks rose to 17 during the year, benefiting more teachers and students. Taken together, these modernising measures and innovations in daily bus services demonstrate our commitment to the community and to corporate social responsibility in line with the core values of the Group.

Bus services are closely related to the daily lives of Hong Kong people. With its deeply rooted foundations in the city, KMB has been going through thick and thin with them for over eighty years. Looking to the future, we will continue to stand fast to serve Hong Kong. As the ancient Chinese poem puts it, "Resolution, courage and hard work from day to night bring you to the gateway of success." Let us work hard together and overcome together.

Roger LEE Chak Cheong

Managing Director

19 March 2020

Management Discussion and Analysis



Hong Kong Franchised Public Bus Operations

The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited are major franchised public bus operators in Hong Kong providing safe, reliable, high quality, environment-friendly, value-for-money bus services in Kowloon, the New Territories, Hong Kong Island and Lantau Island.



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.



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.



Property Holdings and Development

The Group has a portfolio of investment properties which provides steady rental income for the Group.



Management Discussion and Analysis — ○

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 ("KMB"), and Long Win Bus Company Limited ("LWB"). 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 "SBH 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, taxi and car rental services in Shenzhen and 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 20 to 37 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 Managing Director's Message on pages 16 to 17 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 public bus 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 80 to 93 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.





Business Review

Hong Kong Franchised Public Bus 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 2.8 million passenger-trips each day. A workforce of more than 12,600 employees, including some 8,900 bus captains, ensures that customers enjoy high quality services on a fleet of around 4,100 buses operating on 411 routes.





Business Review —

Hong Kong Franchised Public Bus Operations

KMB has been taking the lead in implementing the use of innovative technology in our bus fleet and forming a professional team to provide a safe, efficient and comfortable bus service



Bus Fleet and Fleet Upgrade

KMB shows its commitment to innovation by introducing a bus fleet with technological advances and environment-friendly features for a more desirable passenger experience.

In 2019, KMB introduced 140 Volvo B8L Euro VI double-deck buses and 73 ADL Enviro 500 MMC 12.8m double-deck buses featuring a light-directing glass window alongside the staircase connecting the two decks in place of the traditional sealed design, which lends a brighter ambience to the interior and enhances safety when passengers walk up and down. Besides, new buses are equipped with safety facilities including the Advanced Driver Assistance System, the Electronic Stability Programme and the Drowsiness Monitoring System, and all seats are equipped with seat belts and grab handles, to ensure bus captains' and passengers' safety.

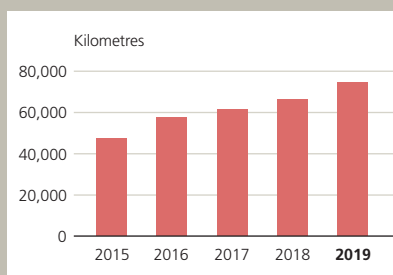
Operational Excellence

KMB has provided reliable franchised bus services in Hong Kong for some eighty years and is an industry leader in operational and service excellence. Reflecting the company's aim to achieve the highest operational and service standards, KMB has been ISO certified for Quality Management Systems (ISO9001) since 1999. KMB adopted the latest version of ISO9001 in 2018 and has been ISO certified for Environmental Management Systems (ISO14001) at its two largest depots since 2003. KMB has also been accredited with Occupational Health and Safety Management System (OHSAS18001:2007) certification for all its depots since 2012. To further improve occupational health and safety, KMB has been ISO certified

for Occupational Health and Safety Management Systems (ISO45001) for all its depots since June 2019.

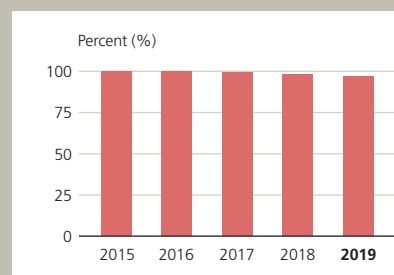
"Mechanical Reliability" and "Operational Capability" are the key benchmarks of efficient public bus services. Mechanical Reliability refers to the average number of kilometres a bus operates before it experiences one mechanical breakdown on the road with passengers on board. In 2019, the mechanical reliability of KMB's fleet was 74,278km: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 2019, we achieved an operational capability of 96.67%.

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

Note: Operational capability was affected by social unrest in the second half of 2019.

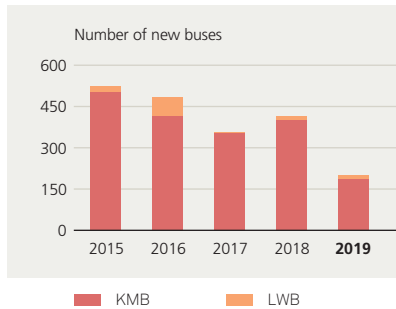




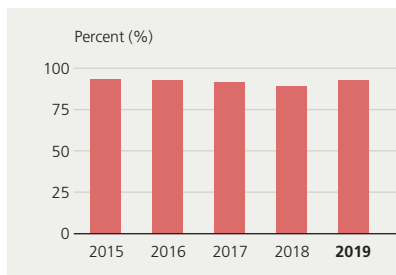
Business Review

Hong Kong Franchised Public Bus Operations

Number of New Buses Introduced to the Fleet



Percentage of Actual Number of Buses Operated on the Road to Licensed Bus Fleet – KMB



Total Fleet Capacity at 31 December



Innovation and support for the environment are two of the cornerstones of KMB's service. The first batch of solar panel equipped buses was deployed in October 2019, which reduces the temperature by around 8-10°C in the bus compartment when the engine is turned off. The captured solar energy drives the air ventilation system,



KMB provides affordable and convenient journeys for passengers, launching the Monthly Pass Scheme and upgrading App1933

extracting hot air from inside the bus compartment. This enhances the bus captains' working environment and passengers' ride, while saving an estimated 3% in fuel consumption.

KMB continues to invest in the latest environment-friendly buses. In 2009, it became the first public bus company in Asia to introduce Euro V double-deck buses. In 2017, it again led the industry by introducing the first diesel-powered double-deck bus with Euro VI emission standards in Hong Kong. All newly purchased KMB buses licensed since 2019 meet Euro VI emission standards, while Euro III and earlier model buses will be completely phased out within the next five years.

In 2019, 215 Euro VI super-low floor double-deck air-conditioned buses were added to the KMB fleet. As at 31 December 2019, KMB operated a

total of 4,081 licensed air-conditioned buses, comprising 3,938 double-deck buses and 143 single-deck buses. The fleet currently features three hybrid double-deck buses, ten electric single-deck buses and eight supercapacitor single-deck buses. In addition, 315 air-conditioned double-deck Euro VI buses were on order for delivery in 2020.

Bus Service Network

At the end of 2019, KMB operated a total of 411 bus routes. In a changing operating environment marked by railway commissioning, demographic changes and new highways, KMB reviews and arranges its resources to cater for the changing demand. KMB strives to operate an efficient, competitive and sustainable bus network while seeking opportunities for new market growth.

Business Review —
Hong Kong Franchised Public Bus Operations



In 2019, we implemented 54 route reorganisation proposals, which enhance the whole service network and bring the following benefits to the public:

- Eliminating wasteful duplication of routes;
- Allowing resources to be released for redeployment in high demand 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").

To better serve passenger needs, almost 200 KMB buses provide two wheelchair spaces to provide for the requirements of those in need. A sticker is placed on the windscreen to indicate two wheelchair spaces. Starting in 2020, passengers with special needs can carry compressed oxygen cylinders for self-medical use when travelling on KMB buses per relevant legislation.

In view of demographic changes, urban development and passenger needs, KMB introduced new routes to expand the ridership. To tie in with the completion of a residential area in Tsuen Wan West and the development of Kowloon East Commercial Area, Route 33 was introduced to provide a more convenient whole-day bus service for passengers. KMB introduced Routes 213A, 213B and N213 for the convenience of people in On Tat and On Tai travelling to and from the urban areas in the morning peak and late at night. To continually improve services, KMB introduced a Morning Express Service of Routes 74F, 98B, 261S, 277A and 288C to provide more choices for commuters and students.

KMB launched a customer service centre at the Tuen Mun Road Bus-Bus Interchange (Tuen Mun-bound) providing passengers waiting for

buses with caring services including rest facilities, charging ports, free Wi-Fi and bus information display panels. KMB will expand the service by setting up a customer service centre at the Tuen Mun Road Bus-Bus Interchange (Kowloon-bound) in due course.

KMB Monthly Pass

KMB continues to enhance its service by providing affordable and convenient journeys to passengers. KMB launched the Monthly Pass Scheme, whereby passengers can take ten rides per day on KMB buses for HK\$780 (and two additional trips on Route B1). The Pass covers over 400 KMB routes, including regular routes, overnight routes and racecourse routes. Jointly operated cross-harbour bus routes operated by KMB are also included in the Scheme.

The KMB Monthly Pass Scheme has been well-received since its launch. Passengers have been able to buy the Monthly Pass through "App1933" since July 2019. After making the transaction, the Pass will be added to the user's Octopus Card. In this way, passengers can enjoy a KMB Monthly Pass anytime, anywhere. During the year, the KMB Monthly Pass Kiosks were increased from 63 to 111.

KMB's bus fleet	Air-conditioned double-deck buses	Air-conditioned single-deck buses	Total number of buses
As at 1 January 2019	3,964	148	4,112
Additions during year	217	0	217
Disposals during year	(243)	(5)	(248)
As at 31 December 2019	3,938	143	4,081



Business Review

Hong Kong Franchised Public Bus Operations

Express Routes for Holidays

KMB expanded the network of Express Routes in Sai Kung District, introducing two new routes comprising Route 92R (from Sai Kung to Star Ferry) and Route 289R (from Wong Shek Pier to Sha Tin Central Bus Terminus) to provide an express service for passengers travelling between Sai Kung District and the urban area on holidays.

Command and Control Centre

Hong Kong has been facing challenges since the second half of 2019. Subject to the actual traffic

conditions, KMB activated the Command and Control Centre to handle emergencies to ensure smooth bus operations, co-ordinate and support frontline staff and announce route service information to provide safe and quality bus services to the public. When the services of other public transport operators were disrupted, KMB maintained close contact with different government departments and mobilised resources to provide temporary routes to meet the mobility needs of the community. For example, in relation to the temporary closure of MTR University Station in late 2019, KMB introduced two bus routes, 82D and 274S, after discussions with the Transport

Department, providing services for passengers travelling from the Hong Kong Science Park and The Chinese University of Hong Kong to other districts.

Depots

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



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 2019	Year in which operations commenced	Remarks
KMB depots :					
Kowloon Bay Depot	East Kowloon	768,038	1,099	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	1,168	1988	The depot land was acquired at public auction in 1984
Lai Chi Kok Depot	South and West Kowloon	648,946	881	2002	The depot land has been leased from the Government on a short term tenancy [#]
Tuen Mun Depot	West New Territories	148,961	933	1979	The depot land was acquired at public auction in 1974
KMB Overhaul Centre	Bus overhaul	380,915	NA	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	279	1998	The depot land has been leased from the Government on a short term tenancy [#]
Total		2,749,287	4,360		

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

Business Review — ○
Hong Kong Franchised Public Bus Operations



- The Command and Control Centre, operating 24 hours a day subject to the actual traffic conditions, executes effective contingency measures and information disclosure

Comprehensively Upgraded Smartphone App

KMB launched a new version of the KMB and LWB mobile app, App1933, in September 2016 which has been well received by the public. Passengers may check information about bus routes and estimated time of arrivals conveniently.

In 2019, App1933 upgraded the Bus Estimated Time of Arrival ("ETA") service by providing the ETA of all jointly-operated routes, including routes run by other operators to make bus journey planning easier for passengers. App1933 has also introduced the New Positioning Information Function, through which passengers at the bus stops can receive nearby route information, important notifications and Bus Terminus Map Notification within the 10-metre effective range of the Bluetooth Beacon signal after turning on the positioning, Bluetooth and notification functions.

Application of Information Technology

The use of information technology can benefit passengers by providing bus arrival information via Estimated Time of Arrival ("ETA") display panels at bus termini and bus stops, as well as on App1933 and the KMB and LWB websites. In addition, information technology helps KMB manage and monitor its intricate operations with ease. Applications includes the Integrated Bus Service Information Display System (IBSID), the Electronic Bus Stop Announcement System (BSAS), the Terminus Management System (TER), the Traffic Operations Management System (TOM), the Bus On-board Monitoring System (BOM) and the Operations Communications Management System (OCM).

Other Promotions

KMB ran a Monthly Pass Lucky Draw in August 2019 and received an encouraging response, with nearly 50,000 passengers registering to win prizes. Passengers who registered a valid Octopus Card through App1933 earned a point for each ride in the lucky draw.

KMB introducing innovations that provide passengers with cost effective services. KMB worked with Industrial and Commercial Bank of China (Asia) Limited to launch the first joint transport credit card, "ICBC/ KMB UnionPay Dual Currency Card". Cardholders can enjoy a maximum 20% bus fare rebate whenever they pay for KMB and LWB rides, as well as other benefits, including a 15% discount at the KMB Online Shop and Pop-up Stores. KMB partnered with CITIBANK to enable Citi Octopus Platinum Cardholders to earn a year round 15% bus fare rebate when they pay for KMB and LWB rides using the card.



Business Review

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, the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge, Hong Kong Disneyland, the Ngong Ping 360 cable car and AsiaWorld-Expo.



Business Review
Hong Kong Franchised Public Bus Operations

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 2019, LWB achieved 80,068 km:1 in mechanical reliability and 100.61% in operational capability.

LWB obtained ISO9001:2008 Quality Management Systems certification in November 2012. LWB has adopted the latest version of ISO9001 since August 2018.

Bus Fleet and Fleet Upgrade

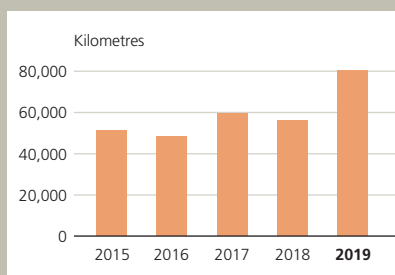
In 2019, LWB introduced 17 new Euro V super-low floor air-conditioned double-deck buses. As at 31 December 2019, LWB operated 275 super-low floor air-conditioned double-deck buses, and four air-conditioned electric single-deck buses, all wheelchair accessible and equipped with the On-board Electronic Bus Stop Announcement System. To meet growing passenger demand, 61 buses are 12.8 metres in length, offering a higher carrying capacity.

LWB's bus fleet	Air-conditioned double-deck buses	Air-conditioned electric single-deck buses	Total number of buses
As at 1 January 2019	258	4	262
Additions during year	17	0	17
Disposals during year	0	0	0
As at 31 December 2019	275	4	279

LWB upgrades the bus fleet constantly and delivers extensive training to staff to maintain a high standard of service

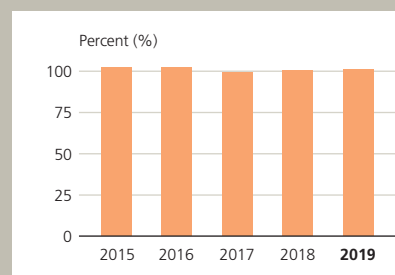


Mechanical Reliability – LWB



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





Business Review

Hong Kong Franchised Public Bus Operations



○ LWB expands its bus service network continuously and provides day-long quality services

Bus Service Network

At the end of 2019, LWB operated 36 routes. To provide a more convenient bus service for passengers travelling between Tung Chung town centre, Tung Chung West and Tung Chung North, LWB converted Route E32A into a whole-day service in both directions. LWB improved its services in a number of ways by rerouting Route E31 to travel via Mun Tung Estate and renumbering Route A31P operating between Allway Gardens and the Airport (Ground Transportation Centre) as Route A38 and extending the coverage to include Tsuen King Circuit and Tsing Lung Tau on a whole-day basis, while enhancing the Airport-bound service in the morning peak to meet the needs of the community.

LWB arranged bus services for mega events at AsiaWorld-Expo and Hong Kong Disneyland to help the public travel to and from the city, comprising Routes X33, X34, X40, X43, X47, R33P, R34, R40, R41 and R42D.

In terms of overnight bus services, Routes NA43 and N31 expanded their service network. Route NA43 was extended to Lok Ma Chau (San Tin) Public Transport Interchange to strengthen the overnight feeder services to the boundary, while Route N31 extended its service to Ying Tung Estate and Mun Tung Estate, upgrading the service to urban areas.

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. To enhance driving safety, the Drowsiness Monitoring System and Advanced Driver Assistance System were installed on LWB buses, which give early warning to bus captains and assists their driving performance. In addition, the LWB customer service and airbus ticket offices at Hong Kong International Airport's Ground Transportation Centre and the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge offer e-payment methods to provide more choices for passengers and tourists.

Business Review
Hong Kong Franchised Public Bus Operations



- LWB A-series buses offer a spacious compartment, luggage racks and seats with an armrest and seat belt to provide a comfortable and safe journey for passengers

Environmental Protection

LWB is fully aware of the importance of environmental protection and continues to invest in environment-friendly buses that meet the stringent emission standards of the European Council of Environmental Ministers. In 2019, LWB introduced 17 new Euro V buses, bringing the proportion of Euro V or electric buses in its fleet to over 80%. In addition, it has retrofitted Diesel Particulate Filters on all its Euro III buses to reduce the emission of particulates.

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.



- Professional bus repair and maintenance services minimise emissions and waste disposal



Business Review

Hong Kong Non-franchised Transport Operations



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

As a leading non-franchised bus operator in Hong Kong, the SBH Group provides premium, safe, reliable and economical transport services to different customers.



Business Review —

Hong Kong Non-franchised Transport Operations

Led by its flagship subsidiary, Sun Bus Limited ("Sun Bus"), the SBH Group offers a range of bus services designed for specific market segments, including large residential estates, shopping malls, corporations, travel agents and schools, as well as catering for the general public through chartered hire services.

During the year, the SBH Group continued to strengthen its services by upgrading its fleet with Euro V/VI buses. The fleet is mainly repaired and maintained by the authorised dealers to ensure the safe performance of the fleet. At the end of 2019, the SBH Group had a fleet of 390 buses and will continue its fleet upgrade programme through the introduction of more Euro VI buses and the wider application of technology.

The SBH Group will continue to purchase Euro VI buses in 2020 to keep the average age of the fleet below six years. The SBH Group is committed to continuously strengthening all aspects of its

management and operations, as well as to building a reputable brand with customers.



Sun Bus provides customised bus services to a wide range of customers and continues to strengthen its services by upgrading its fleet



Quality Services



Travel Agents



Shopping Malls



Schools



Large Residential Estates



Corporations



Business Review

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 in Hong Kong and Huanggang in Shenzhen.



Business Review —
Hong Kong Non-franchised Transport Operations

In 2019, 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.

During the year, the demand for NHKB's cross-boundary bus service declined, with a fall in patronage from 4.81 million passenger-trips in 2018 to 3.44 million passenger-trips in 2019. The decrease in demand was mainly attributable to a dramatic drop in visitor numbers to Hong Kong.

Notwithstanding the temporary decline in patronage, the demand for cross-boundary bus services is expected to grow in line with the stronger social and economic ties between Hong Kong and China Mainland, as the demand for cross-boundary bus services remains strong. NHKB will continue to maintain its

shuttle bus service as a preferred means of transport for cross-boundary travellers seeking convenient and quality services.

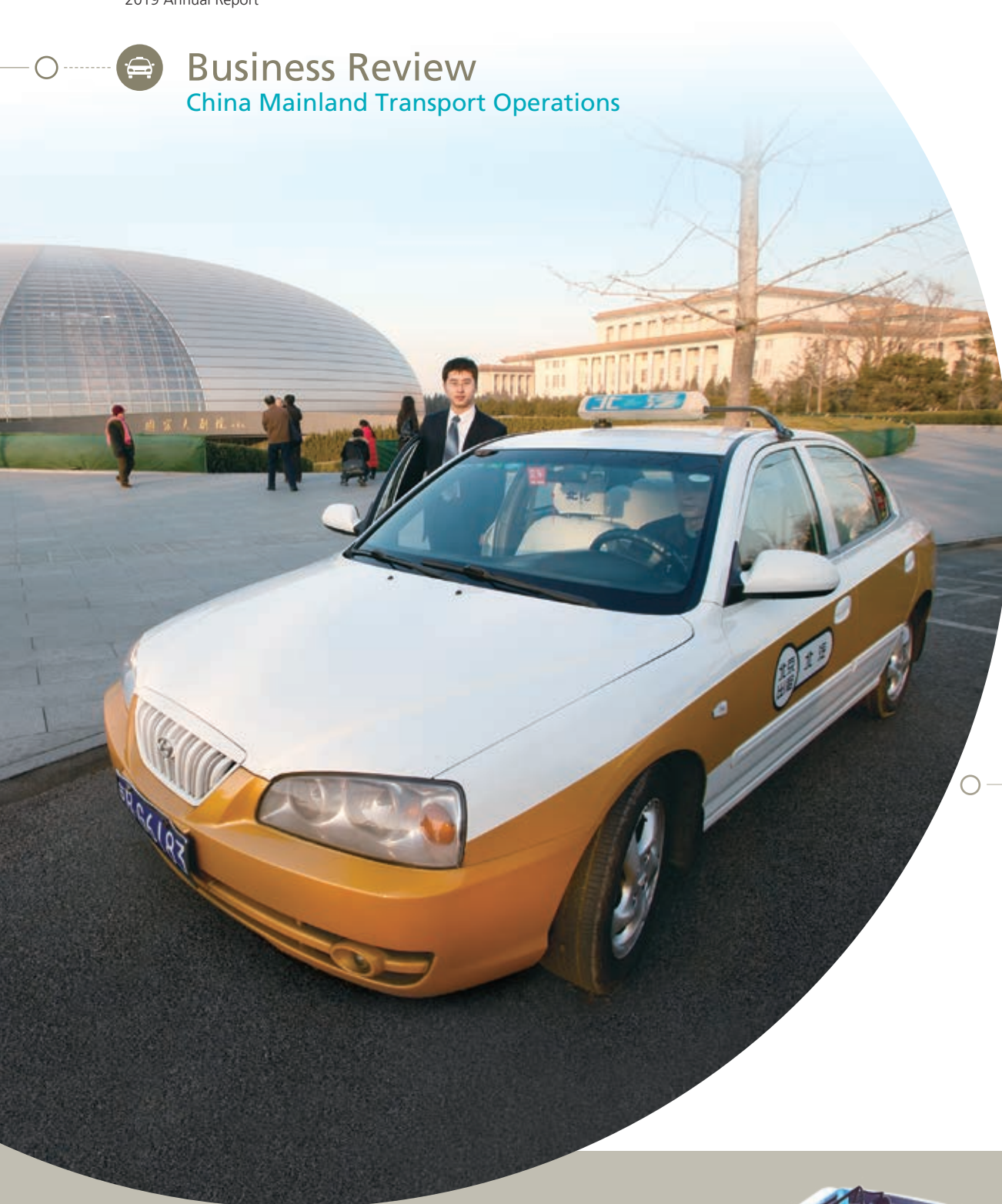
NHKB offers a value-for-money 24-hour cross-boundary shuttle bus service for travellers to and from China Mainland





Business Review

China Mainland Transport Operations



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.



Business Review — ○
China Mainland Transport Operations

SZBG has been operating public bus and taxi services in Shenzhen since 2005. SZBG has a fleet of over 5,900 buses, operating on more than 300 routes and more than 5,000 taxis. By continuously improving services, patronage of SZBG including its bus and taxi operation increased by 1.6% to 713.3 million in 2019 as compared to 701.8 million in 2018.

The holder of ISO9001:2008 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 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 3,700 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.



To optimise opportunities, the Group invests in public transport in China Mainland





Business Review

Property Holdings and Development



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.





The Group leverages its property assets to achieve a stable rental income



Business Review

Property Holdings and Development

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 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.

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, 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 provides Manhattan Hill residents and other shoppers with high quality retail facilities. At the end of 2019, the entire lettable area of the shopping mall was leased out, generating recurring rental income for the Group.

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. At the end of 2019, the entire lettable area of the property has been leased out to generate rental income for the Group.

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, was 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).

In December 2018, KTRE, TRL and Yee Fai Construction Company Limited, a subsidiary of SHKP (the "Contractor") entered into a building contract (the "Building Contract") under which KTRE and TRL engaged the Contractor to carry out and complete the construction work for the Kwun Tong Site at a contract sum of HK\$4,436,056,954.36 (to be borne by KTRE and TRL in equal shares), subject to adjustments in accordance with the Building Contract. The contract was approved by independent shareholders in February 2019.

The foundation work of Kwun Tong Site was completed in 2019. The basement and superstructure construction works are underway. The occupation permit is expected to be obtained in mid-2022.

The Group's Property Holdings and Development:

Property	Usage	Total Gross Floor Area (square feet)	Group's Interest %	Remarks
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
Manhattan Mid-town, 1 Po Lun Street, Lai Chi Kok, Kowloon	Shopping Centre	50,000	100	The site, acquired at market price through private purchase in 1955, was redeveloped and opened in 2009
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
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

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



Sustainability Report



With over 13,000 employees, KMB and LWB are major employers in Hong Kong, providing attractive staff benefits; two generations of a family work together for the Company



About the Report

Reporting Focus

This is the Sustainability Report 2019 ("this Report") of Transport International Holdings Limited ("TIH"). The report highlights the major environmental and corporate social responsibility performance and sustainability achievements of the Hong Kong franchised public bus operations provided by two of TIH's wholly-owned subsidiaries, namely The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB"). Operating in Hong Kong, these two

companies represent the significant business operations of TIH. This Report covers the reporting period from 1 January to 31 December 2019.

During the reporting period, the Group had no leased facilities and no outsourced operation of significant importance that requires disclosure. Data and statistics in this Report are presented as absolute figures and are normalised into comparable terms as far as possible. Unless otherwise stated, data and statistics in this Report cover the performance of KMB and LWB during the entire reporting period. There is no specific limitation

on the scope and boundary of this Report in respect of KMB and LWB's operations.

Reporting Principles

The TIH Sustainability Report 2019 was prepared in accordance with the Core Option of the Global Reporting Initiative Sustainability Reporting Standards ("GRI Standards") and the Environmental, Social and Governance Reporting Guide ("ESG Guide") issued by the Hong Kong Exchanges and Clearing Limited ("HKEX"). In addition, we have taken into account the concerns of stakeholders as identified through engagement



exercises such as the annual passenger liaison group meetings and interviews with representatives of different groups. The latest Annual Report of TIH contains more information about the Group including corporate governance and the financial performance of KMB and LWB.

If you have any comments on this Report, please send an email to ccd@kmb.hk.



Sustainability Highlights

75%

of bus fleet at Euro V standard or above



23,000
voluntary hours



40.9

Average training hour per employee



14

weeks of maternity leave



Sustainability Report

Major Recognition and Awards

We aim to deliver excellent public transport services in a sustainable manner and are pleased to receive a number of prestigious awards in 2019.

Corporate Social Responsibility

- Gold Award in the Transport and Logistics category of the 2018 Hong Kong Awards for Environmental Excellence ("HKAEE") from the Environmental Campaign Committee
- Silver Award in the Enterprise category of The 10th Hong Kong Outstanding Corporate Citizenship Programme from the Committee on the Promotion of Civic Education
- Hong Kong Green Organisation Certificate from the Environmental Campaign Committee
- Outstanding HKAEE Promotional Partner Award from the Environmental Campaign Committee
- 15 Years Plus Caring Company Logo from The Hong Kong Council of Social Service
- Award of 10,000 Hours for Volunteer Service from the Social Welfare Department
- Award of Distinction from The Community Chest of Hong Kong
- Gold Star Award in the 2018-2019 Age-friendly Appreciation Scheme from The Hong Kong Council of Social Service
- Social Capital Builder Logo Award from the Labour and Welfare Bureau and Community Investment and Inclusion Fund
- Sport-Friendly Action Decal from the Chinese YMCA of Hong Kong
- Corporate Partnership Award from the Christian Family Service Centre
- Jockey Club Age-friendly City Partner 2019 from The Hong Kong Jockey Club Charities Trust
- Second Runner-up in the Highest Service Hour Award (Private Organisations – Best Customers Participation) from the Social Welfare Department

- Merit in the Highest Service Hour Award (Private Organisations – Best Staff Participation) from the Social Welfare Department

Brand

- Manpower Developer from the Employees Retraining Board
- HKQAA 30th Anniversary Precognition Programme For Outstanding Organisations from the Hong Kong Quality Assurance Agency
- Hong Kong Best Awards 2019 from CMO Asia
- Top Service Awards 2019 for Public Transportation from Next Magazine
- Gold in the Public Transport category of the 2019 Reader's Digest Trusted Brands Awards
- Bronze Award for Financial Data for the TIH 2018 Annual Report in the Transportation and Leasing category of the International ARC Awards



Sustainability Report

Stakeholder Engagement and Materiality Assessment

Stakeholder engagement exercises and materiality assessments provide a sound basis for us to develop our sustainability reports, as they help identify the sustainability topics that are most relevant to both our operations and the shared interests of our stakeholders.

Our stakeholders include passengers, employees, suppliers, contractors, Legislative Councillors, District Councillors, transport advisory bodies, interest groups and the government. We have established several of engagement programmes to gauge their views on our operations and services. Our dialogue with

stakeholders is established through various channels, including the LiveChat enquiry channel on the KMB and LWB websites and App1933, the KMB Facebook page, the KMB Instagram account, the KMB YouTube channel and corporate publications such as *KMB Today*, as well as face-to-face meetings and media networking.

In 2019, we once again engaged an external consultant to carry out a series of stakeholder engagement activities to define the scope of this Report and to identify the material economic, environmental and social topics to be reported, with reference to the principles and requirements of the GRI Standards and the HKEX ESG Guide. We invited representatives from various stakeholder groups,

including passengers, employees, FRIENDS OF KMB, suppliers, non-governmental organisations (e.g. social organisation and green group) to participate in three stakeholder engagement activities involving surveys, focus group meetings and face-to-face interviews.

Based on the survey results and the materiality assessment conducted annually over the past few years, the Group further reviewed and validated the material topics to ensure a consistent and balanced representation of the Group's significant sustainability performance and impacts. As a result, the following material topics have been prioritised for disclosure in the TIH Sustainability Report 2019 with the corresponding boundaries specified:

Material Topics	Reporting Boundaries	
	KMB & LWB's Operations	KMB & LWB's Suppliers
 Environment		
Energy and Efficiency Measures	✓	
Emissions	✓	✓
Effluents and Waste	✓	
Green Procurement	✓	✓
 Employees		
Employment	✓	✓
Training and Education	✓	
Staff Communication	✓	
Occupational Health and Safety	✓	✓
 Community		
Customer Health and Safety	✓	
Community Engagement	✓	

Sustainability Report

The engagement activities provided us with the constructive comments and suggestions of our stakeholders. We appreciate their valuable feedback and will strive to address their expectations through continuous improvements.

Key Area of Interest	Stakeholders' Comments	Our Responses and Relevant Disclosures in this Report
Safety	More promotional activities would be helpful to enhance public awareness of on-bus safety.	Safety is our utmost priority, and we make great efforts to implement safety measures and promote safety awareness. (See details in Safety First)
Passengers	The super-low floor buses make boarding much easier for wheelchair users.	Bus facilities and compartment designs have been upgraded to provide better accessibility and comfort for passengers. (See details in Care for Customers)
Environment	The new bus fleet has lower air emissions, while new technologies, such as electric vehicles, present technical challenges for daily application.	KMB continues to work with suppliers to employ the latest technologies in new bus models. (See details in Care for the Environment)
Employees	It is suggested to further promote awareness of a healthy lifestyle and work-life balance among staff.	We have set up a new department, Staff Relations & Welfare Services, to promote a healthy lifestyle among Group members. (See details in Care for Employees)
Community	TIH could increase communications to inform stakeholders about its community contributions.	We play an active role in a range of community activities and take various opportunities to communicate with the public. (See details in Engaging Stakeholders)

Corporate Governance

With a commitment to conducting our businesses in line with the best corporate governance practices, we aim to achieve sustainable business development by considering the interests of our stakeholders, while ensuring compliance with legal and regulatory requirements. The Group has adopted an integrated management approach to guide the sustainable development of the Group based on the principles of integrity, equity and transparency. This integrated management approach is strengthened by on-going staff training and communication with all stakeholders. The board of directors of TIH (the "Board") as the highest governance body, is responsible for promoting the long-term development of the Group

and for growing shareholder value. The Board currently comprises nine non-executive directors and five independent non-executive directors. The biographies of our current directors can be found on pages 116 to 122 of our Annual Report 2019.

The overall strategic planning and accountability for the Group's sustainable development rest with our Board-level Committees, which determine the sustainability strategy and oversees its progress across the Group. Under the oversight of the Committees, the senior management team acts as the bridge between the Group and each subsidiary in driving sustainable initiatives throughout our operations, including safety, environmental protection, staff welfare, community engagement and volunteering. Key

corporate executives are responsible for optimising environmental performance, increasing staff awareness on corporate social responsibilities, and sharing knowledge and best practice with the industry.

The Group's Enterprise Risk Management System uses consistent risk assessment criteria to provide a systematic approach to the timely identification and management of risks. Accurate and concise risk information is made available to assist management in decision-making and risk control by adopting risk treatments of cost-effectiveness and efficiency. Meanwhile, with the Enterprise Risk Management System, the management monitor and review risk levels, including

Sustainability Report — ○

climate change related-risks, to ensure that risk exposure remains within an acceptable level. A Risk Key Performance Indicator Report ("Risk KPI Report") summarising the Group's major risks as identified by management, are submitted to the Audit and Risk Management Committee every six months. The Risk KPI Report provides a comprehensive profile of the major risks and the mechanism established by management for monitoring these risks.

For details of our corporate governance, please refer to pages 094 to 111 of our Annual Report 2019.

Legal and Regulatory Compliance

The Group is committed to conduct its business activities in a proper and lawful manner in compliance with the laws of the HKSAR. All Directors and staff of the Group are subject to a written Code of Conduct, available on the staff website, that provides guidance on matters relating to personal conduct, relations with suppliers and contractors, responsibilities to shareholders and community, relations with customers, and employment practices, as well as procedures for monitoring compliance and means of enforcement. The Code of Conduct promotes ethical values in business activities which Directors and employees are required to adhere to when discharging their delegated duties. The Code of Conduct is reviewed and updated periodically to reflect the latest regulatory changes. Our Group also reviews its employment practices on a regular basis, including strictly following the Employment Ordinance of Hong Kong to prohibit hiring of child labour and any form of forced labour practices. We do not use forced labour in any form of child labour (persons below the local minimum age or below the age of 16).

The Group has a whistleblowing policy to encourage employees and related third parties who deal with the Group to raise concerns in confidence about misconduct, malpractice, bribery, money laundering, any forms of forced, coerced or bonded labour and irregularities in any matters related to the Group. Employees and/or related third parties may make a report to the Company Secretary or the Chairman of the Board's Audit & Risk Management Committee. Appropriate follow-up action, including disciplinary action, will be taken by the Group in respect of substantiated and partially substantiated cases. In the event of an employee committing any offence of corruption under the Prevention of Bribery Ordinance (Chapter 201, Laws of Hong Kong), we would make a report to the Hong Kong Independent Commission Against Corruption. We have not committed any offence of corruption under this Ordinance. We also invited the Hong Kong Independent Commission Against Corruption to provide training to directors and employees to enhance their awareness of anti-corruption. During the reporting year, we had zero concluded legal cases regarding corruption cases.

Working with Suppliers

We believe in upstream integrated supply chain management with an emphasis on quality and logistics control. We work closely with our business partners to develop new buses and services that are adapted to the local climatic and operational environment while taking a high level of energy efficiency and the latest emission standards into consideration. We encourage fair and open competition with the aim of developing long-term relationships with suppliers based on mutual trust. Our supply chain activities are guided by 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. In 2019, KMB and LWB worked with 384 local and 46 non-local suppliers, of which 44 suppliers are newly added.

To ensure compliance by suppliers with our social and environmental requirements, we require them to declare their compliance with our guidelines upon supplier registration:

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

Procurement and Tendering Procedures

The criteria for the procurement and tendering of services or goods are based on price, quality, requirement and other relevant factors. Our procurement and tendering measures have been established according to the following principles:

- Impartial selection of capable and responsible suppliers;
- Fair competition;
- Selection of appropriate contract types according to requirement;
- Compliance with laws, relevant regulations and contractual obligations; and
- Adoption of an effective monitoring system, management controls and practices:
 - to prevent bribery, fraud or other malpractices; and
 - to ensure declaration of conflicts of interests by staff involved in the selection.

Sustainability Report

Safety First



Safety First

Safety is our number one priority and we continue to invest heavily in improving the safety of our bus operations.



Sustainability Report

Safety First

Safety Policy

The KMB and LWB Safety Policy is predicated on a commitment made by all employees to provide a safe and healthy environment for everyone who may be affected by our work activities. It is our objective to minimise the risk of injury and ill health.

Safety is an absolute pre-requisite in everything we do and is an integral part of our business strategy. Employees at all levels are required to comply with all legal requirements and other requirements applicable to our work activities. We consult our employees by engaging them in our safety management system. We shall continue to maintain our safety risks at as low a level as reasonably practicable and strive for continual improvement in safety performance.

Safety Committees

Safety Committees are responsible for ensuring that information about Occupational Safety and Health risks, trends and policies are properly communicated up and down the chain of command. Meetings of the Working Committee for Safety

are held to discuss safety issues at the corporate level. Meetings of Departmental Safety Committees, Maintenance Safety Committees and Operations Safety Committees are held at the local level to discuss safety issues relating to departments and sections. Departmental Safety Committees may vary the frequency of their meetings in accordance with the scale of their local safety risks.

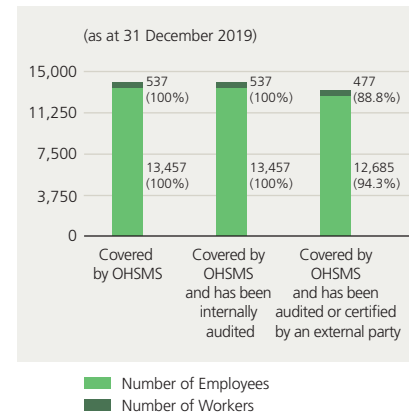
Safety Management

KMB adopts ISO45001:2018 Occupational Health and Safety Management System to promote further improvement of safety performance in all aspects of our business, including bus maintenance and design upgrades.

The key benchmarks of our operational performance are mechanical reliability and operational capability. 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 2019, the mechanical reliability of KMB's bus fleet was 74,278km:1, while LWB's bus fleet was 80,068km:1. Operational capability refers to the ratio of actual

to scheduled departures during the peak hours of 7:00 a.m. to 9:00 a.m. across the bus network. In 2019, KMB and LWB attained an operational capability of 96.67% and 100.61% respectively.

The Number and the Percentage of Staff and Workers Covered by Our Occupational Health and Safety Management System (OHSMS)



Operational Excellence

KMB and LWB are ISO9001 certified for their Quality Management Systems. Both companies have been accredited with the latest version of ISO9001, reflecting our commitment to achieving up-to-date operational and service standards.

KMB and LWB offer professional operations and maintenance training to provide safe and quality bus services; we also boost public awareness of safety matters by education and promotion in schools and the community at large



Sustainability Report

Safety First

Risk Assessment

Risk assessments are critically conducted by managerial staff together with the relevant workers before the commencement of work. Both the working environment and staff working behaviour are checked during safety inspections and safety audits to ensure compliance with not just the legal requirements but also

the in-house safety rules and the best practices of the industry. We adopted the Plan-Do-Check-Act cycle to ensure continual improvement.

Bus Safety Facilities and Maintenance

A number of technological devices, including speed limiting devices and the telematics system, have been

incorporated on buses to improve safety and record operational data. 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, as well as random checks from the Transport Department of the HKSAR Government.

Latest Bus Safety Measures



Sustainability Report

Safety First

Drowsiness Monitoring System ("DMS")

The DMS is installed on around one-third of LWB buses to monitor the status of bus captains when they are driving. This device, which is mounted on the dashboard, uses image-processing technology and advanced facial recognition to detect the level of alertness of a driver. Early audio and vibratory warnings are activated when "fatigue" or "microsleep" is detected.

Advanced Driver Assistance System ("ADAS")

The ADAS is installed on all LWB buses to monitor the road condition in front of a moving bus. The device is installed on the lower saloon windscreen and uses image-processing technology to detect the presence of different objects on the road and the corresponding distance. Early audio and vibratory warnings are activated when "unsafe" conditions are detected.

Safety Belts

KMB and LWB have requested bus manufacturers to install 3-point safety belts on all seats as a standard feature for new buses ordered after March 2018. Currently, close to 400 new buses are fully equipped with seat belts on both decks. As for buses that are currently in service and running on long-haul or expressway routes, 3-point safety belts will be installed on all upper-deck seats in phases.

Electronic Stability Programme ("ESP")

The ESP is an important safety feature, which reduces the risk of buses skidding or overturning when

cornering or operating on slippery road surfaces. To safeguard road safety, all new Euro VI buses will be equipped with the ESP. The first batch of these buses was deployed in 2019.

Speed Limiting Retarder

In addition to the current speed limitation technology installed on the fleet, which limits the fuel supply to the engine when the speed limit is reached, the Speed Limiting Retarder automatically activates the brakes or retarder to prevent speeding when travelling downhill. The retarder, with which a hydraulic brake built into the gearbox, is installed on all new buses introduced after August 2019.

Geo-fencing and Driver Feedback Device

With Global Positioning System (GPS) technology and the road speed restriction database provided by the Government, Geo-fencing and the Driver Feedback Device can identify the speed limit of each road section. When a bus runs on a road at a speed exceeding the speed limit of the road, an alarm will sound and a warning light will be turned on to alert the bus captain to reduce the speed.

Smart Indicator System, "Give Way to Bus"

KMB and LWB have introduced the Smart Indicator System on 1,478 buses. When the bus captain turns on an indicator, the LED route display at the rear of the bus will display the message "Give Way to Bus" to remind drivers to be courteous.

Parking Sensor

KMB and LWB have been installing parking sensors for trial. The system will alert the driver if the bus is nearing obstacles when reversing. In addition to the camera system, bus captains can monitor the real-time situation through the screen in the driving cab.

Surveillance Cameras and Data Protection

Surveillance cameras, including forward-looking cameras, to monitor road and saloon condition, have been standard features on all new buses since 2015. At the end of 2019, surveillance cameras were installed on 4,069 KMB buses and 279 LWB buses. The cameras protect the interests of bus captains in the event of police investigations or legal proceedings.

Attaching great importance to personal data protection, the Group has established working instruction guidelines to prevent inappropriate disclosure of personal data. Stickers are posted on all buses equipped with a CCTV system to inform bus passengers and bus captains of their presence and purpose. Recordings from CCTV cameras will be accessed by authorised persons only 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.

○ Sustainability Report

Safety First



○ To promote driving and road safety, KMB and LWB conducted events for staff and the public

Bus Captain Safety Training

The Bus Captain Training School provides comprehensive basic training to all new bus captains, including a safe driving mind-set, bus manoeuvring skills and bus route knowledge. The school also offers a series of training courses for in-service bus captains. These include route training, remedial training and bus type training as well as refresher training. Bus captains may upgrade their driving skills and enhance their safety awareness.

Practical defensive driving training and target-based remedial training, including prevention of speeding and awareness of passing through bus washing machines, have been introduced to address areas identified for improvement. A skills revision training course has been developed to help new bus captains with less than six months' service further enhance their driving skills and safety awareness.

In order to meet customers' needs and expectations, the "Bus Captain Performance Management

System" helps our bus captains maintain high standards in terms of driving safety, driving manner and quality customer service. Through coaching and guidance, we strive for continuous improvement in bus captains' performance to exceed the expectations of the general public.

For the Group's business growth and rising training needs, the number of Driving Instructors has been increased to enhance the service quality of our bus captains.



○ The Bus Captain Training School offers professional training for all new and in-service bus captains



Benchmark Our Performance

Take an Extra Step Improve Public Safety Awareness

KMB and LWB attach great importance to enhancing bus safety performance and make use of different channels to boost public awareness of safety issues. A series of safety messages, broadcast on the Bus Stop Announcement System in Cantonese, English and Putonghua, reminds passengers to hold the handrail at all times. This message is also periodically conveyed via App1933 and on KMB's Facebook page. KMB has also cooperated with the Hong Kong Police Force to promote road safety in some primary school zones as well as the community at large. During the reporting period, we conducted 17 safety talks for 1,590 students and 480 elderly people. In line with its mission of always putting safety first, KMB held a Road Safety Carnival to promote road safety to the general public.



“ Having been a bus captain for more than seven years, I always remind myself to drive safely, stay alert to the road conditions, and exercise tolerance and patience. To transport passengers to their destinations safely is the most important thing for me. I attended a safety forum, which helped me deepen my understanding of defensive driving. I can see that the Company continues to enhance the public's awareness of road safety and improve bus safety, with safety messages broadcast on the Bus Stop Announcement System to remind passengers to hold the handrails during their bus journey. ”

Mr Sung Wun Hei

Bus Captain

“ As a KMB customer from an early age, KMB accompanied me on numerous occasions and I naturally have a special feeling for the Company. KMB provides steady and comfortable journeys. I notice that bus captains' service has greatly improved in terms of politeness and concern for customers' needs. KMB has put more effort and resources into promoting road safety in recent years. I'm impressed with the safety messages broadcast and "Warm Notice" stickers inside the bus compartment that inspire me to pay special attention to safety on board. I attended the Road Safety Carnival, where the booth games deepened my awareness of road safety. ”

Mr Tsoi Kcon Wah

Customer



Sustainability Report

Care for Customers



Care for Customers

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



Sustainability Report — ○ — Care for Customers



New Bus Fleet and Facilities

Following the introduction of KMB's new red bus fleet in 2017, KMB introduced the double-decker featuring a glass window that shows the staircase leading to the upper deck. Sunlight is directed onto the staircase, thus enhancing safety and passengers' experience.

KMB and LWB's latest double-deck buses are equipped with upgraded passenger facilities, including a free Wi-Fi service and a number of USB charging points on both upper and lower decks, a straight staircase for easy access to the upper deck, additional space for 2+2 seating, priority seats for passengers in need, a designated area for wheelchair users near the entrance/exit, 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. As of the end of 2019, 3,073 buses at Euro V standard or above were licensed in the KMB fleet, while 229 buses at Euro V standard or above were licensed in the LWB fleet. The majority of these buses have been deployed on routes passing through low-emission zones to help improve the air quality in busy districts.

The entire KMB and LWB fleets deploy super-low floor buses 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, KMB has retrofitted around 200 buses to accommodate two wheelchair passengers, to run mainly on routes travelling to hospitals.

KMB and LWB have installed the Bus Information Panel System on 3,323 buses. Together with the Bus Stop Announcement System, passengers can obtain bus stop information easily and clearly through the display screens on the upper and lower decks.

Upgraded Compartments

The air quality in bus compartments benefits from electrostatic air filters installed on all KMB and LWB buses, which are able to remove up to 80% of fine particles. As at the end of 2019, electrostatic air filters were installed on 3,885 KMB buses and 272 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.

KMB refurbishes buses with a new look to enhance passengers' travelling experience. Mid-life buses with around eight years' service benefit from the "Refurbished Bus Scheme", which focuses on improving passenger comfort and safety on board. The scheme will also aid the maintenance and repair of buses in the long term. The refurbishment includes reupholstery of the seats and the installation of a light-coloured

To offer passengers, especially young people, a caring bus service experience, buses have upgraded passenger facilities including USB charging ports



Sustainability Report

Care for Customers



- KMB works with different banks to launch bus fare rebate schemes providing passengers with cost effective services

compartment floor to make the bus look bright and comfortable. In addition, the interior of the buses has been resprayed for a clean and fresh look, bringing comfort levels to the same standard as the new generation of the "Red Bus". The stair nosing and hand-holds are also replaced in the revamped compartments.

Fare Concession Schemes

KMB and LWB are committed to providing efficient bus services for the public. A number of fare concession schemes were introduced in 2019, including:

- A fare rebate scheme with Citibank earning cardholders a year-round 15% bus fare rebate;
- Partnership with Hong Kong Tramways Limited providing inter-modal interchange fare concessions;
- 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 Public Transport Holdings Limited, and vice versa; and
- Four new Bus-Bus Interchange concessions covering more than 90 routes.

KMB

- ICBC/KMB UnionPay Dual Currency Card holders can enjoy a maximum 20% bus fare rebate whenever they pay for KMB and LWB rides;
- KMB Fare Saver Scheme was extended to ten tertiary institutions, offering a HK\$2.0 rebate on each ride;



- To promote the use of public transport, KMB Fare Saver kiosks are set up on the campuses of tertiary education institutions; teachers and students can enjoy a HK\$2.0 fare rebate

LWB

- ICBC/KMB UnionPay Dual Currency Card holders can enjoy a maximum 20% bus fare rebate whenever they pay for KMB and LWB rides; and
- A fare rebate scheme with Citibank earning cardholders a year-round 15% bus fare rebate.

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 the network coverage. The schemes contribute to a greener environment by improving bus use and reducing congestion on busy roads. As of the end of 2019, KMB operated a total of 157 Octopus BBI Schemes covering all KMB operated routes, while LWB operated 27 Octopus BBI Schemes covering 27 routes. The KMB and LWB websites provide more detailed and comprehensive route-to-route BBI information for passengers.

Special Service Arrangements

KMB and LWB provide special bus services during festive periods, such as Lunar New Year, Christmas, New Year and Ching Ming, and for people participating in mega-events, including the Hong Kong Marathon, concerts at the Hong Kong Coliseum, and concerts at Hong Kong Disneyland. In 2019, KMB and LWB introduced 66 and 12 special bus routes respectively.

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

- A solar bus pole featuring solar-powered bulbs with an auto-sensor has been installed so passengers may obtain bus route information day and night;
- Seats for the elderly, disabled and people with young children are being introduced at bus shelters, bus termini and interchanges. At the end of 2019, 984 seats had been installed;
- The Solar-powered Bus Shelter Campaign promotes green energy by installing solar panels to power up lighting, mosquito repelling devices and ventilation fans. 117 bus stops have been equipped with solar power equipment;



- App1933 continues to upgrade its functions to keep passengers up-to-date with important bus information

- Alcohol-based hand-rub dispensers have been installed at the airport, the Hong Kong Port of the Hong Kong-Zhuhai-Macao Bridge, Lok Ma Chau Station Bus Terminus, interchanges and other bus termini for passengers and frontline staff members;
- Bus stop railings with cement bases are being phased out to enable easier access for wheelchair passengers;
- 756 KMB and LWB bus termini and bus shelters are equipped with the Integrated Bus Service Information Display System;
- KMB has installed LED kerb lights, flashing lights and buzzers at Mei Foo Bus Terminus to remind pedestrians to be aware of road conditions;
- 10,000 with the new layout of bus route information sheets at the bus poles have been enhanced. Passengers can scan a two-dimensional QR code for further bus route information, including bus frequencies; and
- In 2019, 25 new bus shelters were constructed, bringing the total to 2,597.

Smartphone App

The KMB and LWB mobile app, App1933, has one million daily active users making around five million downloads allowing passengers to check information on bus routes and the estimated time of bus arrivals. App1933 received a number of upgrades during the year. Passengers can purchase the KMB Monthly Pass with App1933. The app also offers the LiveChat function so that passengers can directly communicate with customer service representatives. To provide a more convenient service for passengers planning their journeys, Bluetooth positioning technology is being adopted at 1,500 bus stops, providing nearby route information, important notifications and Bus Terminus Map Notification.





Sustainability Report

Care for the Environment



Care for the Environment

Our environment-friendly bus fleets are driving us into a new era.



Sustainability Report — ○ — Care for the Environment

Environmental Policy

KMB and LWB recognise the potential environmental impacts of bus 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 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 suppliers, and making the policy available to the public;

- Responding to environmental enquiries 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 Management

KMB has been ISO14001 certified for its Environmental Management Systems for the two largest depots. KMB's four major depots and LWB's depot are subject to quarterly surveillance audits to ensure compliance with a set of stringent environmental management standards. Environmental working groups have been set up to handle environmental issues and ensure the implementation of the ISO systems. Under the guidance of Senior Management, the Engineering team is introducing new and innovative technologies applicable to both bus fleets and bus operations.

Environmental Bus Fleet

We are committed to creating a better environment and minimising the impact of climate-related issues by investing in environmental-friendly buses that meet the strict exhaust emission standards of the European Council of Environmental Ministers. At the end of 2019, there were 221 Euro VI buses (including three Euro VI diesel-electric hybrid buses), 2,830 Euro V buses, ten battery-electric buses and eight supercapacitor buses in the KMB fleet, and 225 Euro V buses and four battery-electric buses in the LWB fleet. In collaboration with our suppliers, we have been replacing older bus models with the latest, more energy-efficient bus models to enhance the environmental performance of our bus fleets. The average age of the KMB bus fleet has become 7.2 years, while that of LWB has become 5.5 years.



KMB and LWB spare no effort in introducing the latest technologies into their bus fleets to minimise the environmental impacts



Sustainability Report

Care for the Environment



KMB and LWB continue to explore the possibilities of renewable energy and zero-emission bus technologies

Exploring Renewable Energy and Zero-emission Bus Technologies

KMB and LWB strive to improve environmental performance by exploring various kinds of renewable energy and zero-emission technologies, which shows KMB and LWB's determination to introduce green public transport in Hong Kong.

- KMB introduced the first in-house developed solar power system installed on a double-decker in 2017. The system reduces the air temperature in the compartment by around 8-10°C compared to a bus without such a system. With an efficiency upgrade in 2018, the cooling time improved by 50%, saving up to 3% in terms of fuel consumption. The first batch of buses with a solar panel was deployed in October 2019;
- KMB and LWB are exploring the use of an electric bus ("eBus") with a 324 KWh Lithium Iron Phosphate

battery power pack capable of delivering 200km of zero-emission bus transport; and

- KMB has introduced the "gBus", the supercapacitor-powered 12-metre air-conditioned single-deck bus. The gBus is characterised by long working hours and frequent start-stop duty cycles, as the supercapacitor can be recharged more quickly and undertake many more charging/discharging cycles. The gBus can be powered up by an overhead pantograph or a plug-type charging port in the depot.

Checks on CO₂ Concentration

Each year, 80 KMB buses and 15 LWB buses from passenger-intensive bus routes are selected for a data-logger measurement of indoor CO₂ concentration. Our buses generally demonstrate compliance with the requirement.

Greenhouse Gas Emissions

KMB and LWB seek to minimise their greenhouse gas emissions through the judicious application of the latest technologies and relevant measures.

Total Tonnage of Greenhouse Gas Emissions

The total direct greenhouse gas emissions (Scope I) and indirect greenhouse gas emissions (Scope II)¹ of KMB and LWB are around 574,800 and 17,260 tonnes of CO₂ equivalent respectively. The total carbon intensity is 135.8 tonnes CO₂ equivalent per bus.

Emissions Reduction

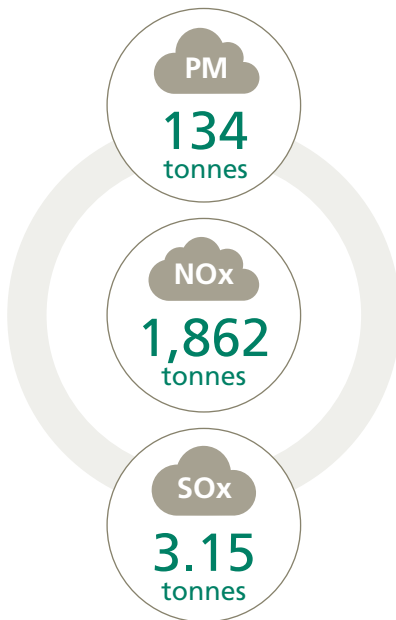
KMB and LWB adopt the latest technologies to reduce roadside emissions and maintain good air quality in bus compartments. We use Near Zero Sulphur Diesel, renew the bus fleet with the latest low-emission models and upgrade older buses by retrofitting exhaust treatment devices,

¹ The emission factors of greenhouse gas emissions due to electricity consumption are obtained from the sustainability reports of CLP Power: 0.51 kg CO₂-e/kWh.

Sustainability Report — **Care for the Environment**

including Diesel Oxidation Catalysts, Diesel Particulate Filters, and Selective Catalytic Reduction units to meet the high standards of exhaust emissions laid down by the European Council of Environmental Ministers.

In 2019, KMB and LWB emitted around 134 tonnes of particulate matter (PM), 1,862 tonnes of nitrogen oxides (NOx) and 3.15 tonnes of sulphur oxides (SOx)².



The latest batch of KMB and LWB buses have 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.

As part of our commitment to conserving the environment, KMB and LWB are investing in upgrading the environmental performance of not only the bus fleets, but also the patrol cars. KMB and LWB have introduced 20 electric patrol cars for back-up support and have set up electricity-recharging facilities at the main depots.

Consumption and Waste

KMB and LWB take all practicable measures to reduce the consumption of precious resources and streamline waste disposal procedures. We aim to handle and dispose of all materials in compliance with present laws and regulations and in a responsible manner without creating risks to human health or the environment.

Energy Consumption

KMB and LWB consumed around 8,285,000 gigajoules (GJ) of diesel oil in the reporting period, 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.

Electricity Consumption

KMB and LWB consumed around 121,700 GJ (33,820,000 kWh) of electricity in 2019, an increase of 2.5% compared to 2018. The energy intensity, by electricity in total, for the reporting year was 0.044 GJ per square feet (12.2 kWh per square feet). The number of bus stops increased by 0.09% compared to 2018 causing the increase of electricity consumption. We continued to explore environment-friendly initiatives and invested in the latest technologies to minimise energy use and reduce greenhouse gas emissions. Over 100 flood lights were changed to LED flood lights at the rooftop of KMB's four main depots and LWB's Siu Ho Wan Depot. After the implementation of these saving measures, the use of energy-saving LED flood lights helped the depots reduce its total electricity consumption by around 10%. In addition, we have changed 22 chiller fan coil units to VRF air-conditioning units at Sha Tin Depot. These installations bring a reduction of electricity consumption in that depot by around 30%.



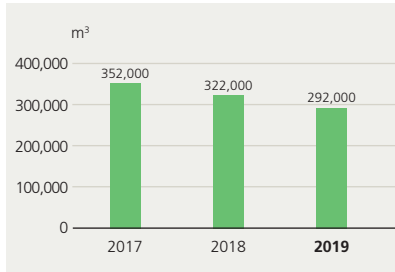
○ KMB and LWB have installed electric patrol car recharging facilities in their main depots

² The emission factors were taken from "Appendix 2: Reporting Guidance on Environmental KPIs" published by the Hong Kong Stock Exchange.

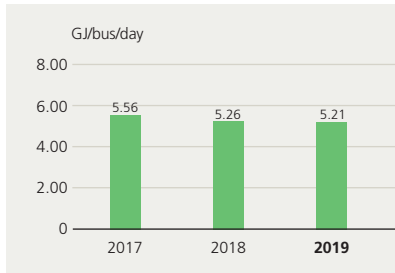
Sustainability Report

Care for the Environment

Total Water Consumption of KMB & LWB



Total Diesel Oil Consumption of KMB & LWB



Water Consumption and Waste Water Treatment

KMB and LWB are committed as responsible corporate citizens to reducing water consumption and properly treating effluents before discharge. KMB and LWB consumed around 291,600 cubic metres in the reporting period, with the average water consumption per bus being 0.18 cubic metres per day. Our depots are equipped with 11 automatic waste water treatment systems handling 548 cubic metres per day. Two water recycling systems were upgraded in two KMB depots. The water used for bus washing was collected and recycled, bring a reduction in total water consumption at depots of around 10%.

Waste Generation

KMB and LWB are committed to good waste management through responsible storage and disposal of waste, recycling and reusing resources whenever feasible. Significant types of waste generated in our operations are reported as follows:

Tyres

In 2019, 32,300 used KMB and LWB tyres (equivalent to a saving of 1,938 tonnes of solid waste disposal at landfills) were retreaded by KMB's appointed contractors.

Fluorescent Tubes

In 2019, KMB and LWB sent a total of around 3,600 used fluorescent tubes to the Government's Chemical Waste Treatment Centre for recycling.

Oil and Chemicals

In 2019, around 27,280 litres 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 102,000 litres of waste oil were recycled or disposed of in accordance with the statutory standards.

Around 118,000 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.



The new generation environment-friendly air-conditioning system is equipped with electronic air filters that help improve in-vehicle air quality



○ With their environmental-friendly design, the automatic waste water treatment systems properly treat effluents, while the fuel filling system prevents spillage

Metals

In 2019, KMB and LWB sent a total of around 707 tonnes of metal to recycling companies.

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.

In 2019, KMB and LWB implemented a default setting on all computers to revert to a screensaver after a designated period of time. This measure serves as a good practice to raise the awareness of staff to the need to save electricity and conserve the environment.

Sustainability Report

Care for Employees



Care for Employees

Our employees are our greatest asset and we cherish them accordingly.



Sustainability Report — ○ — Care for Employees

Human Resources Policy

We take care of our employees by maintaining a safe, respectful and harmonious work environment. 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 respect employees' rights to join trade unions.

As an equal 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 are securely held and used only for the purposes stated in our personal data collection statement. As public bodies included in the Schedule of

the Prevention of Bribery Ordinance, KMB and LWB remind staff members that they should not make use of their position to solicit or receive any advantage from the public.

From time to time, we remind our employees to comply with the Human Resources Policies. In addition, we have a complete complaints handling mechanism in place. In case we receive complaints, we would thoroughly investigate all complaints on breach of the above policies and take appropriate action. Depending on the degree of seriousness of the complaint, an ad hoc committee may be set up to investigate the complaint. Serious disciplinary action, including summary dismissal, will be instigated for any violation.

Staff Benefits

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

- Increasing the entitlement of Inspector to 12 days of double overtime pay every year;
- Enhancing the promotion path by adding a position of senior bus terminus supervisor;
- Enhancing the overnight allowance of monthly-paid Operations staff; and
- Enhancing the salary scale of monthly-paid Maintenance 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. At 31 December 2019, 259 children of KMB and LWB staff members had received scholarships. We brought festive joy to our staff at traditional festivals. At Lunar New Year, we distributed Chinese New Year gifts to our staff, while at Dragon Boat Festival and Mid-Autumn Festival, we distributed rice dumplings and mooncakes respectively. In addition to festive gatherings at Lunar New Year, 18 spring gatherings were held for all KMB and LWB staff in February 2019, the first time all staff have been catered for in this way. Senior corporate executives and managerial staff joined the gatherings and shared the festive joy with around 7,000 staff and retirees.

KMB and LWB aim to be an employer of choice by establishing a supportive and respectful working environment



Sustainability Report

Care for Employees



In line with KMB and LWB's commitment to upgrading the working environment for staff, Club 1933, the Company's first leisure area, was opened at Kowloon Bay Depot

Staff Communication

To strengthen bilateral communications and staff welfare, a new department was established to enhance staff relations and welfare services. Five KMB and one LWB Joint Consultative Committees, which comprise management and staff representatives representing around 90% of KMB and LWB's total workforce, hold meetings monthly and bi-monthly respectively. The meetings are to review issues including safety, operations, work environment and staff welfare. At the meetings, employee representatives generally account for 90% of attendees to ensure that the views of staff are comprehensively relayed.

Staff members are kept informed through the staff website of useful information, including KMB and LWB announcements, safe driving tips, snapshots of 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 an e-learning training platform. The bi-monthly corporate magazine, *KMB Today*, provides another means of keeping employees up to date on KMB and LWB news and industry developments.

Senior Management Visits

Members of KMB and LWB senior management visited bus termini, depots and offices during the year. These visits provided an excellent opportunity for staff to share their views about operational matters and workplace-related issues with members of the management team.

Occupational Safety and Health

KMB and LWB staff members are encouraged to suggest improvement measures to enhance health and safety conditions. After reviewing staff suggestions at the regular

meetings of the Working Committee for Safety, a series of safety control measures is being introduced. To further raise the safety awareness of our frontline staff, 22 Safety Forums and 17 Safety Talks were conducted in 2019 at different bus termini, at which Driving Instructors discussed accidents and incidents with bus captains and shared suggestions on safety measures with frontline staff, as well as focusing on a particular topic.

KMB and LWB have organised fire warden training sessions to promote fire safety, updating knowledge of fire extinguisher and hose reel use, enhancing understanding of the role and responsibilities of fire wardens and familiarising them with emergency preparedness within depots.

In October 2019, KMB and LWB launched a series of health-related activities, including a health talk, body check session, Chinese medical consultation, stretching exercise

Sustainability Report — ○ Care for Employees

class and a weight loss campaign, to promote a healthy lifestyle.

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. The leisure area, Club1933, was first furnished and opened at KMB's Kowloon Bay Depot, where a pool table, an air hockey table and table football are provided for staff. KMB has also retrofitted a retired bus with facilities such as chairs, TVs, refrigerators and microwave ovens as a rest station for staff.

Skills Development and Training

Our diversified learning channels provide self-learning opportunities, including internal classroom training and e-learning programmes. Job rotation and secondment opportunities are also available so that our employees may broaden their understanding of the industry.

We regularly organise customised training and learning activities for all levels of staff to keep them abreast of the latest industry trends, knowledge and work skills. For instance, we arranged training courses that focused on emotion management and inspirational empathy communication skills. Some training courses were held for accident investigators to enhance their knowledge of the causes of traffic accidents, as well as relevant regulations and laws.

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 2019, 126 in-house training sessions were run for 798 skilled workers, while 13 training sessions were organised in collaboration with our manufacturers for 143 engineers, supervisors and foremen.

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 number of graduates since the school was established stands at 2,473. At the end of 2019, 115 apprentices were enrolled in the School's programme. The quality of our apprentice training was once again recognised in 2019 when a KMB apprentice was awarded the Outstanding Contestant in the Vocational Training Council's Best Apprentice in the Automobile Trade Competition. The apprentice was invited to visit a motor plant in Germany. Another apprentice was recognised for Excellent Performance in the Outstanding Apprentice/Trainee of the Year Competition organised by the Vocational Training Council.

A new two-year technical trainee programme was launched to strengthen our professional team and nurture young people who aspire to a career in bus maintenance. Trainees who complete the programme will receive a Completion Certificate from bus manufacturers.



○ KMB and LWB care for the health and career development of employees, attracting talents with a multi-pronged approach

Sustainability Report

Care for Employees



○ KMB and LWB care for the needs of employees, their families and retirees to increase their sense of belonging

Psychological Support

KMB and LWB have engaged the Christian Family Service Centre to provide a counselling hotline service to staff members including bus captains who need assistance. In 2019, the hotline service extended its service to 24 hours a day, 7 days a week, and broadened its coverage to include family members.

Recognition for Service Excellence

In 2019, 254 Star Bus Captains were recognised for their outstanding performance in safe driving and customer care. To recognise the loyal service of our staff, the Annual Award Presentation Ceremony was held. 70 KMB and LWB staff received the 35-year award and a gold medal,

121 employees received the 30-year award with a plaque and a pin, 182 employees received the 20-year award with a plaque and a pin, and 244 employees with 10 years' service received a certificate of appreciation.

Sustainability Report — ○ —
Care for Employees

Sports and Leisure Activities

To promote 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 2019, nine interest clubs were available, focusing on singing, photography, basketball, table tennis, badminton, soccer, running, chess and dragon boat racing. The interest clubs arranged different activities or competitions. Interest Clubs

encourage employees to take part in periodic training, matches with other companies and recreational activities to benefit from healthy work-life balance.

TIH Retiree Association

The TIH Retiree Association was formed so that close contacts could be maintained with retired colleagues through various activities, such as picnics and gatherings. In 2019, the Association held four gatherings to celebrate the Chinese New Year and

Mid-Autumn Festival, attended by around 1,500 retirees. To maintain close contacts, we arranged afternoon tea sessions on a monthly basis. To share the festive joy with retirees, we distributed red packets, Chinese sausages, rice dumplings, and mooncakes during the traditional festivals. We have also enhanced the communication channel with retirees by setting up a KMB retiree website to share activity information and photos.



○ Board members attended the Annual Awards Presentation Ceremony to recognise the loyal service and outstanding performance of staff



○ To enhance morale, KMB and LWB distributed festive gifts and drinks to staff

Sustainability Report

Care for Employees

Workforce

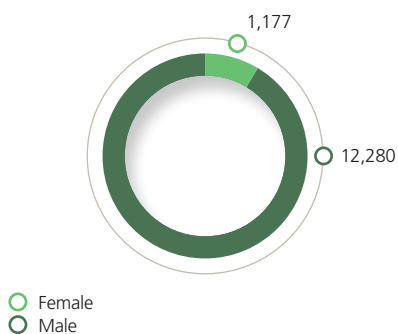
(as at 31 December 2019)



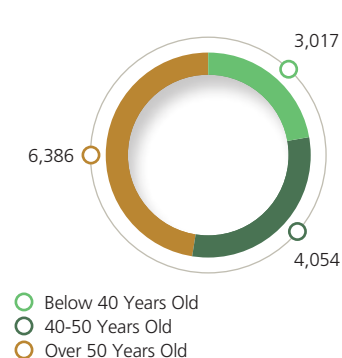
KMB and LWB
Total Workforce:

13,457

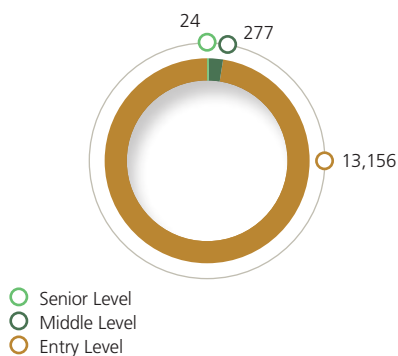
By Gender



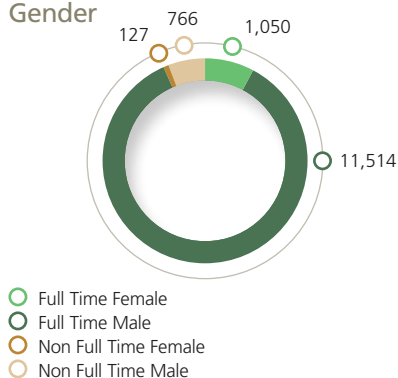
By Age Group



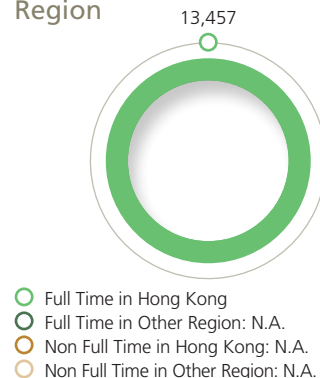
By Employment Category



By Employment Contract by Gender



By Employment Contract by Region



Training Statistics

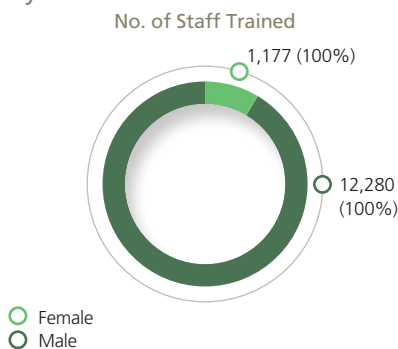
(as at 31 December 2019)



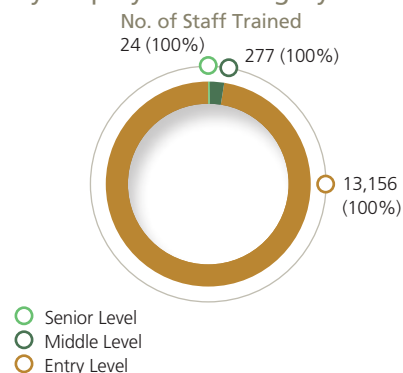
KMB and LWB
Total Training Hours:

550,970 hrs

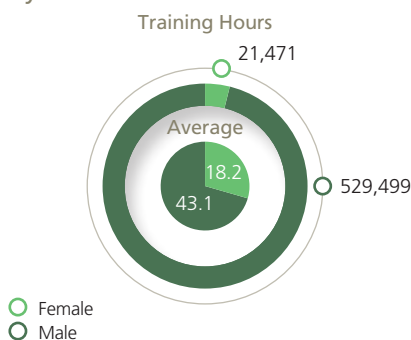
By Gender



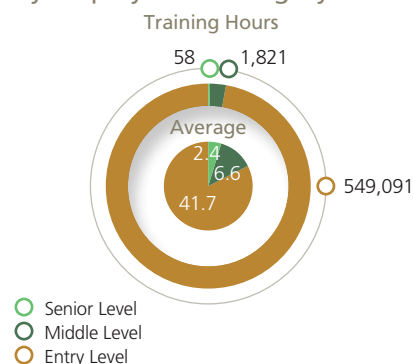
By Employment Category



By Gender



By Employment Category





Nurturing Talent

Attracting Talent with a Solid Career Path and Upgrading Facilities

The KMB Bus Captain Training School – the first of its kind in Hong Kong – is the largest bus captain training school in Hong Kong, providing comprehensive training to all new and in-service bus captains. To nurture more drivers in the industry, the Company renovated the Bus Captain Training School in Sha Tin Depot. The school provides a more comfortable learning environment for trainees and a pleasant working environment for trainers. The Company has always attached great importance to educational resources. Therefore, the school adopts updated bus models for training so that the trainees are able to obtain up-to-date experience and knowledge with the bus models.

After passing the written and oral test of the Transport Department and finishing an internal professional training course and passing an internal assessment, the trainee will qualify to drive for KMB or LWB. KMB offers a solid career path for bus captains with experience and a good performance record. They have the opportunity to be promoted as bus captain trainers who impart not only skills but also safety knowledge to later cohorts.



“ Having worked as a KMB bus captain with a zero-accident record for 17 years, I was delighted to switch my career path and take a promotion to become a bus captain trainer. I share my experience with new bus captains to help them improve their safety awareness. I derive satisfaction from seeing my trainees become qualified as bus captains and start serving customers. The Company provides me with excellent career prospects and personal development opportunities. Working as a bus captain is a stable career, and I enjoy life as part of the KMB family and the friendship between colleagues. The Company cares about our families and us, providing free-ride bus passes and distributing festive gifts. Over the years, the Company has improved our benefits, staff welfare and the working environment, including working hours and rest stations. ”

Mr Lam Hiu Cheung

KMB Bus Captain Trainer



○ To nurture more professional and quality bus captains in the industry, KMB and LWB continue to enhance the learning facilities and environment of the Bus Captain Training School, while upgrading the training quality



○ The KMB Bus Captain Training School provides comprehensive training to all new and in-service bus captains

Sustainability Report

Engaging Stakeholders



Engaging Stakeholders

We are committed to supporting various initiatives to enhance the well-being of the community and engaging our stakeholders through effective communication channels.



Sustainability Report — Engaging Stakeholders

Engaging the Public

In 2019, a number of events were organised to interact with the public we serve:

- From 30 January to 5 February, KMB operated six stalls at Lunar New Year Fairs in Victoria Park, Fa Hui Park, Morse Park, Sha Tin and Yuen Long;
- From January to December, KMB ran pop-up stores at different shopping malls in Hong Kong, including Tuen Mun Chelsea Heights (January), Yuen Long YOHO Mall (April), Tuen Mun V city (May), San Po Kong Mikiki (June), Tai Kok Tsui Olympic City (July-August), Yuen Long Plaza (October), Tsuen Wan Citywalk (November) and Tseung Kwan O East Point City (December). The stores allowed the public to understand more about the KMB's services, showcasing bus models and providing various games and activities related to bus services;
- On 27 April, KMB organised a "Road Safety Carnival" in Tsim Sha Tsui to promote road safety to the public;

- Between 14 and 16 June, KMB organised a booth at the Hong Kong Toy Festival and between 17 and 23 July, KMB organised a booth at the Hong Kong Book Fair at the Hong Kong Convention and Exhibition Centre in Wan Chai; 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 2019, we invited the media to our 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. These activities proved popular, as the number of fans of our Facebook page grew from over 81,000 in January exceeded to over 151,000 at the

end of December. Likewise, the KMB Instagram account had reached more than 200,000 netizens by the end of 2019.

Firm in the belief that social media platforms constitute a major communication means between the public and the Group, we will continue 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:

- Throughout the year, KMB Facebook has promoted different events with images, GIFs and videos, especially safety promotions and recruitment;
- In February and April, KMB Facebook page organised give-away events to KMB fans;
- In March, KMB Facebook introduced the brand new Volvo B8TL bus model; and
- From June, KMB Facebook page was an effective channel for special bus service announcements.



KMB hosted pop-up stores at different sites to interact with the public

Sustainability Report

Engaging Stakeholders



The Customer Service Centre at the Tuen Mun Road Bus-Bus Interchange provides passengers waiting for buses with caring services

App1933

To respond to the needs of our communities, we used App1933 to help find missing people, especially the elderly who may have dementia. Some passengers were found after appeals on App1933.

Websites

The KMB and LWB websites (www.kmb.hk and www.lwb.hk), as corporate information portals, provide corporate news, promotion information and a customer enquiry service. The websites also serve our passengers by providing a map-based point-to-point bus route search function with 360-degree photo "Street View", LiveChat and "Octopus Refund Enquiry" functions.

Customer Service Centres

Our 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. Tuen Mun Road Bus-Bus Interchange Customer Service Centre provides an air-conditioned waiting area for passengers to enjoy a comfortable environment. The customer service kiosk at Hong Kong International Airport's Ground Transportation Centre provides a passenger enquiry service and Airbus ticket sales.

Customer Service Hotline

The KMB customer service hotline (2745 4466) and LWB customer service hotline (2261 2791) handled about 1.59 million and 55,223 calls in 2019 respectively, an average of 132,266 and 4,602 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.

LiveChat for Enquiries

To provide more channels for passenger enquiries, KMB and LWB have set up a LiveChat channel on their websites and App1933 to provide instant responses to customer enquiries, offering a daily service from 7:00 a.m. to 11:00 p.m.

Sustainability Report — Engaging Stakeholders

Customer Feedback

KMB and LWB place great emphasis on providing quality services to customers and welcomes customers who wish to express views on our bus service. All customer feedback is handled with due care. KMB and LWB treat substantive feedback as a reference for continuous service improvement and future service development.

Hosting Visits

To increase our stakeholders' understanding of the daily operations at our bus depots, we received visitors from 44 organisations in the reporting period, including social service organisations, government organisations, professional and academic institutions and overseas delegations. Schools and non-government organisations participated in the Summer Visit Programme to visit KMB depots. We hosted 36 such delegations in 2019.

Membership of Associations and Advocacy

During the reporting period, we further strengthened the 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; and
- The Hong Kong General Chamber of Commerce.

Serving the Community

We take steps to understand the needs of our community and actively support various initiatives in society. We leverage the Group's business strengths and resources to optimise positive social impacts, mainly through engagement with elderly people and nurturing youth development.

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, Chinese sausages, rice dumplings, and mooncakes during the traditional festivals.

We sponsor and participate in a variety of local community programmes, including the Dress Casual Day and the Corporate Challenge Half Marathon, both 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 2019, KMB provided bus-body advertisements for 13 non-governmental organisations ("NGOs") on 15 buses. We took steps to utilise our resources by supporting a charity run held at KMB's Tseung Kwan O Depot. Around 6,000 runners took part in the run and donated one million calories of food.

- KMB and LWB care about the community, organising events for the elderly



Sustainability Report

Engaging Stakeholders



○ The Donation of Used and Retired Bus Programme is well received by teachers and students

Donation of Used and Retired Bus Programme

To nurture the next generation and show our support for sustainability and recycling, KMB launched the Donation of Used and Retired Bus Programme in 2016 to donate used and retired buses to schools and non-profit organisations. The buses can be regenerated specifically to meet the creative learning needs of the schools or non-profit organisations. By the end of 2019, 29 retired buses had been donated.

The list of beneficiary schools/non-profit organisations that received donated bus in 2019 is as follows:

- Buddhist Wing Yan School
- Tai Po Old Market Public School (Plover Cove)
- Cumberland Presbyterian Church Yao Dao Primary School
- Tin Shui Wai Methodist College
- The H.K.C.W.C. Hioe Tjo Yoeng Primary School

- TWGHs Ma Kam Chan Memorial Primary School
- Hong Kong And Macau Lutheran Church Ming Tao Primary School
- Kam Tsin Village Ho Tung School
- Caritas Ma On Shan Secondary School
- Rhenish Church Grace School
- Yuen Long Public Middle School Alumni Association Tang Ying Yip Primary School
- Chinese YMCA Primary School
- TWGHs Leo Tung-hai Lee Primary School
- The Yuen Yuen Institute MFBM Nei Ming Chan Lui Chung Tak Memorial College
- Kowloon Bay St. John The Baptist Catholic 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 the reporting period, FRN comprised

5,700 members, including passengers and KMB and LWB staff and their dependents.

During the reporting period, FRN volunteers participated in regular home visits to elderly people who are suffering from depression. The programme was organised by the Suicide Prevention Service, with whom FRN has built up a partnership since 2013. FRN also made care visits to paediatric patients of Prince of Wales Hospital and partnered with Hong Kong Central Library and Hapi Reading Club to arrange a reading tour on a KMB bus for 30 families. In recognition of our contributions to the community, FRN received the Award of 10,000 Hours for Volunteer Service, 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) from the Social Welfare Department.

Sustainability Report — Engaging Stakeholders



Care for the Underprivileged Embracing Social Inclusion

Business-School Partnership Café1933 provides placements for students

Committed to corporate social responsibility and bringing about an inclusive working environment, KMB leverages its resources to help the community. To further its Business-School Partnership, Café1933, a staff coffee shop, has joined hands with Hong Chi Association (HCA) to offer food and beverage for patrons and retail placement for students from four HCA Special Schools to unleash their potential. Students prepare ingredients, make coffee and handle orders and cash transactions under the guidance of their teachers, which improves their communication and work skills, and helps equip them to integrate into the community with an independent approach. In addition to helping those with disabilities and special educational needs, KMB also uses its resources to benefit the youth, including donating used buses under the Donation of Used and Retired Bus Programme.



○ KMB Café1933, a staff coffee shop, offers food and beverage for patrons and retail placement for students from four Hong Chi Association Special Schools.



○ Students prepare ingredients, make coffee and handle orders and cash transactions under the guidance of their teachers.



“ Our school wants to help students equip themselves to enter the job market after graduating. Thank KMB for providing a comfortable and authentic environment for their social inclusion training. Complementing the teacher-student interaction they receive at school, working at Café 1933 students allows them to engage with a range of customers, which boosts their confidence and motivation to get a job. KMB gives us the flexibility to run Café 1933 as a relatively simple operation, which reduces the administrative workload of teachers and allows students to enjoy the moment. I must give a special mention to KMB staff, who provide great support and encouragement for our students. We hope more companies will follow KMB by providing placements for students. ”

Mr Yuen Hok Sum

Principal, Hong Chi Morninghope School, Tuen Mun



Sustainability Report

Reporting Content Index Tables

Reporting Content Index Tables

TIH has developed this report in accordance with the Core Option of the Global Reporting Initiative

Standards ("GRI") Sustainability Reporting Guidelines and the Environmental, Social and Governance Reporting Guide ("ESG" Guide) issued by the Hong Kong Exchanges and Clearing Limited ("HKEX"). The

following content index table presents the associated disclosures either by cross-referring relevant section(s) in this Report or by providing direct remarks.



HKEX ESG Reporting Guide (General Disclosures and KPIs)	GRI Standard	GRI Disclosure	Reference/*Direct Answer/* Reason for omission	Page(s) ^: refer to TIH 2019 Annual Report
GRI 101: Foundation 2016				
GRI 102: General Disclosures 2016				
Organisation Profile				
	102-1	Name of the organisation	Group Profile	002-003 [^]
	102-2	Activities, brands, products, and services	Group Profile Business at a Glance Key Franchised Bus Network in Hong Kong	002-003 [^] 004-005 [^] 006-007 [^]
	102-3	Location of headquarters	Property Holdings and Development	036-037 [^]
	102-4	Location of operations	Business at a Glance	004-005 [^]
	102-5	Ownership and legal form	Business at a Glance	004-005 [^]
	102-6	Markets served	Business at a Glance	004-005 [^]
	102-7	Scale of the organisation	Business at a Glance Key Franchised Bus Network in Hong Kong Financial and Operational Highlights Care for Employees	004-005 [^] 006-007 [^] 008-009 [^] 060-067
B1.1	102-8	Information on employees and other workers	Care for Employees	060-067
B5 General Disclosure B5.1	102-9	Supply chain	Working with Suppliers	043
	102-10	Significant changes to the organisation and its supply chain	* There were no significant changes during the reporting period.	–
	102-11	Precautionary Principle or approach	Corporate Governance Corporate Governance Report	042-043 094-111 [^]
	102-12	External initiatives	Group Profile Management Discussion and Analysis About the Report Safety First	002-003 [^] 018-019 [^] 038-040 044-049
	102-13	Membership of associations	Engaging Stakeholders	071
Strategy				
	102-14	Statement from senior decision-maker	Chairman's Letter Managing Director's Message	012-015 [^] 016-017 [^]
	102-15	Key impacts, risks, and opportunities	Chairman's Letter Managing Director's Message	012-015 [^] 016-017 [^]

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HKEX ESG Reporting Guide (General Disclosures and KPIs)	GRI Standard	GRI Disclosure	Reference/*Direct Answer/* Reason for omission	Page(s) ^: refer to TIH 2019 Annual Report
Ethics and integrity				
B7 General Disclosure	102-16	Values, principles, standards, and norms of behavior	Group Profile Legal and Regulatory Compliance Working with Suppliers Procurement and Tendering Procedures Safety First Care for Customers Care for the Environment Care for Employees Corporate Governance Report	002-003^ 043 043 043 044-049 050-053 054-059 060-067 094-111^
B7.2	102-17	Mechanisms for advice and concerns about ethics	Legal and Regulatory Compliance	043
Governance				
	102-18	Governance structure	Corporate Governance Safety First Corporate Governance Report	042-043 044-049 094-111^
Stakeholder engagement				
	102-40	List of stakeholder groups	Stakeholder Engagement and Materiality Assessment	041
	102-41	Collective bargaining agreements	Care for Employees	060-067
	102-42	Identifying and selecting stakeholders	Stakeholder Engagement and Materiality Assessment	041
	102-43	Approach to stakeholder engagement	Stakeholder Engagement and Materiality Assessment Engaging Stakeholders	041 068-073
	102-44	Key topics and concerns raised	Stakeholder Engagement and Materiality Assessment	041
Report Profile				
	102-45	Entities included in the consolidated financial statements	Financial and Operational Highlights Reporting Focus	008-009^ 038
	102-46	Defining report content and topic boundaries	Reporting Principles Stakeholder Engagement and Materiality Assessment	038 041
	102-47	List of material topics	Stakeholder Engagement and Materiality Assessment	041
	102-48	Restatements of information	* There were no restatement of information provided in the previous report.	—
	102-49	Changes in reporting	* There were no significant changes in the report.	—
	102-50	Reporting period	Reporting Focus	038
	102-51	Date of most recent report	* April 2019	—

Sustainability Report

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HKEX ESG Reporting Guide (General Disclosures and KPIs)	GRI Standard	GRI Disclosure	Reference/*Direct Answer/* Reason for omission	Page(s) ^: refer to TIH 2019 Annual Report
	102-52	Reporting cycle	* Annual	–
	102-53	Contact point for questions regarding the report	Reporting Principles	038
	102-54	Claims of reporting in accordance with the GRI Standards	Reporting Principles	038
	102-55	GRI content index	Reporting Content Index Tables	074-079
	102-56	External assurance	* This report was not externally assured.	–
Material Topics				
GRI 205: Anti-corruption 2016				
	103-1 103-2 103-3 Management Approach		+ Anti-corruption is not considered a material topic.	–
B7 General Disclosure, B7.1	205-3	Confirmed incidents of corruption and actions taken	Legal and Regulatory Compliance	043
GRI 301: Materials 2016				
	103-1 103-2 103-3 Management Approach		+ Materials is not considered a material topic.	–
A2.5	301-1	Materials used by weight or volume	+ Quantitative data of total packaging materials are not available as they are not applicable to KMB & LWB's business.	–
GRI 302: Energy 2016				
A2 General Disclosure, A3 General Disclosure A3.1	103-1 103-2 103-3 Management Approach		Care for Customers Care for the Environment	050-053 054-059
A2.1	302-1	Energy consumption within the organisation	Care for the Environment	054-059
A2.3	302-4	Reduction of energy consumption	Care for Customers Care for the Environment	050-053 054-059
A2.3	302-5	Reductions in energy requirements of products and services	Care for the Environment	054-059

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HKEX ESG Reporting Guide (General Disclosures and KPIs)	GRI Standard	GRI Disclosure	Reference/*Direct Answer/* Reason for omission	Page(s) ^: refer to TIH 2019 Annual Report
GRI 303: Water and Effluents 2018				
A2 General Disclosure, A3 General Disclosure A3.1	103-1 103-2 103-3 Management Approach		Care for the Environment	054-059
A2.4	303-1	Interactions with water as a shared resource	* All water was sourced from municipal water supplies. No major issue concerning sourcing water and water-related impacts has been encountered.	—
	303-2	Management of water discharge-related impacts	Care for the Environment * We ensure water discharge to drainage systems and water bodies were in compliance with local government requirements.	054-059
A2.2	303-5	Water consumption	Care for the Environment * No specific regions are water stressed in Hong Kong.	054-059
GRI 305: Emissions 2016				
A1 General Disclosure, A3 General Disclosure A3.1	103-1 103-2 103-3 Management Approach		Care for the Environment	054-059
A1.2	305-1	Direct (Scope 1) GHG emissions	Care for the Environment	054-059
A1.2	305-2	Energy indirect (Scope 2) GHG emissions	Care for the Environment	054-059
A1.2	305-4	GHG emissions intensity	Care for the Environment	054-059
A1.5	305-5	Reduction of GHG emissions	Care for the Environment	054-059
A1.1	305-7	Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	Care for the Environment	054-059
GRI 306: Effluents and Waste 2016				
A1 General Disclosure, A1.6, A3 General Disclosure A3.1	103-1 103-2 103-3 Management Approach		Care for the Environment	054-059
A1.3 A1.4	306-2	Waste by type and disposal method	Care for the Environment * Hazardous Waste: 1)Tyres 2)Fluorescent Tubes 3)Oil and Chemicals * Non-hazardous Waste: 4)Metals	054-059

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HKEX ESG Reporting Guide (General Disclosures and KPIs)	GRI Standard	GRI Disclosure	Reference/*Direct Answer/* Reason for omission	Page(s) ^: refer to TIH 2019 Annual Report
GRI 307: Environmental Compliance 2016				
A1 General Disclosure	103-1 103-2 103-3 Management Approach		Working with Suppliers Care for the Environment	043 054-059
A1 General Disclosure	307-1	Non-compliance with environmental laws and regulations	* There was no non-compliance with local environmental laws and regulations in 2019.	–
GRI 401: Employment 2016				
B1 General Disclosure, B1.1, B4, General Disclosure	103-1 103-2 103-3 Management Approach		Legal and Regulatory Compliance Care for Employees	043 060-067
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Care for Employees	060-067
GRI 403: Occupational Health and Safety 2018				
B2 General Disclosure, B2.3	103-1 103-2 103-3 Management Approach		Safety First Care for Employees	044-049 060-067
B2.3	403-1	Occupational health and safety management system	Safety First	044-049
	403-2	Hazard identification, risk assessment, and incident investigation	Safety First	044-049
	403-3	Occupational health services	Care for Employees	060-067
	403-4	Worker participation, consultation, and communication on occupational health and safety	Safety First Care for Employees	044-049 060-067
	403-5	Worker training on occupational health and safety	Safety First Care for Employees	044-049 060-067
	403-6	Promotion of worker health	Care for Employees	060-067
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Safety First	044-049
	403-8	Workers covered by an occupational health and safety management system	Safety First	044-049

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HKEX ESG Reporting Guide (General Disclosures and KPIs)	GRI Standard	GRI Disclosure	Reference/*Direct Answer/* Reason for omission	Page(s) ^: refer to TIH 2019 Annual Report
GRI 404: Training and Education 2016				
B3 General Disclosure	103-1 103-2 103-3 Management Approach		Safety First Care for Employees	044-049 060-067
B3.1 B3.2	404-1	Average hours of training per year per employee	Care for Employees	060-067
GRI 408: Child Labour 2016				
B4 General Disclosure, B4.1, B4.2	103-1 103-2 103-3 Management Approach		Legal and Regulatory Compliance + Child and forced labour is not considered a material topic.	043
	408-1	Operations and suppliers at significant risk for incidents of child labor	–	–
GRI 413: Local Communities 2016				
B8 General Disclosure	103-1 103-2 103-3 Management Approach		Engaging Stakeholders	068-073
B8.1 B8.2	413-1	Operations with local community engagement, impact assessments, and development programs	Engaging Stakeholders	068-073
GRI 416: Customer Health and Safety 2016				
B6 General Disclosure, B6.1, B6.3, B6.4	103-1 103-2 103-3 Management Approach		Operational Excellence Safety First Engaging Stakeholders * Products sold or shipped and intellectual property rights are not material to KMB and LWB's business nature.	021 & 045 044-049 068-073
	416-1	Assessment of the health and safety impacts of product and service categories	Safety First Care for the Environment	044-049 054-059
GRI 418: Customer Privacy 2016				
B6 General Disclosure, B6.5	103-1 103-2 103-3 Management Approach		Safety First + Customer Privacy is not considered a material topic.	044-049
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Safety First Care for our employee * There were no significant incidents of non-compliance concerning laws and regulations during the reporting period.	044-049 060-067

Financial Review

The Group

Summary of Financial Performance

	2019 HK\$ million	2018 HK\$ million	Favourable/(Unfavourable) Change	
			HK\$ million	%
Revenue	8,112.2	8,009.3	102.9	1.3
Other income	411.1	217.6	193.5	88.9
Operating expenses	(7,813.3)	(7,389.7)	(423.6)	(5.7)
Finance costs	(32.2)	(23.7)	(8.5)	(35.9)
Share of profits of associates	21.5	23.8	(2.3)	(9.7)
Profit before taxation	699.3	837.3	(138.0)	(16.5)
Income tax	(94.0)	(117.2)	23.2	19.8
Profit for the year	605.3	720.1	(114.8)	(15.9)
Earnings per share (HK\$)	1.38	1.68	(0.3)	(17.9)

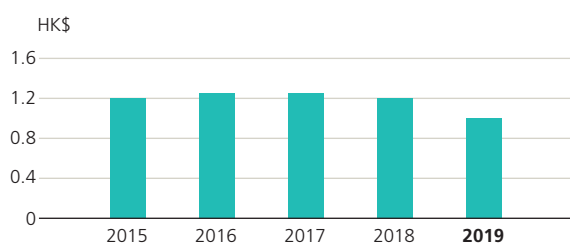
Review of 2019 Financial Performance

The Group's Results for the Year

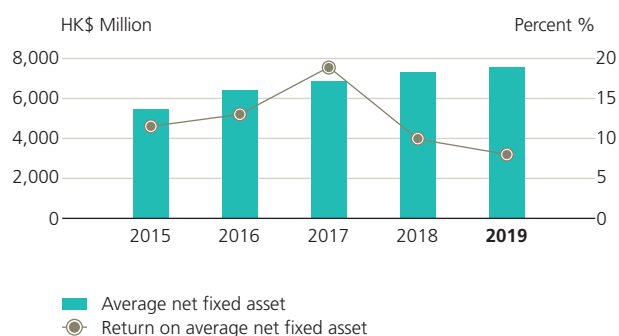
The Group's profit attributable to equity shareholders for the year ended 31 December 2019 was HK\$605.3 million, a decrease of HK\$114.8 million or 15.9% compared to HK\$720.1 million for 2018. Earnings per share decreased correspondingly from HK\$1.68 for 2018 to HK\$1.38 for

2019. The decrease in profit was mainly attributable to the increase in staff costs as a result of the continuous improvement in staff remuneration and benefits as well as the prolonged social unrest throughout the second half of 2019 causing disruptions to public transport operations. Moreover, there was a one-off write-back of provision for third party liabilities in 2018. However, these negative factors were partly compensated by government subsidies.

Dividends per Share



Return on Average Net Fixed Asset Employed (exclude property development)



Financial Review

The revenue and underlying profit generated by the Group's five Divisions for the year ended 31 December 2019 are shown below:

HK\$ million	Revenue		Profit before taxation	
	2019	2018	2019	2018
Franchised Public Bus Operations Division	7,732.5	7,593.1	473.1	588.6
Non-franchised Transport Operations Division	312.7	346.4	47.6	58.2
Property Holdings and Development Division	67.0	69.8	65.5	64.6
Financial Services Division	—	—	76.8	84.7
China Mainland Transport Operations Division	—	—	21.5	23.8
	8,112.2	8,009.3	684.5	819.9
Finance costs			(32.2)	(23.7)
Unallocated net operating income			47.0	41.1
Profit before taxation			699.3	837.3
Income tax			(94.0)	(117.2)
Profit for the year			605.3	720.1

Segment information on the Group's main businesses is set out in note 12 to the financial statements on pages 181 to 184 of this Annual Report.

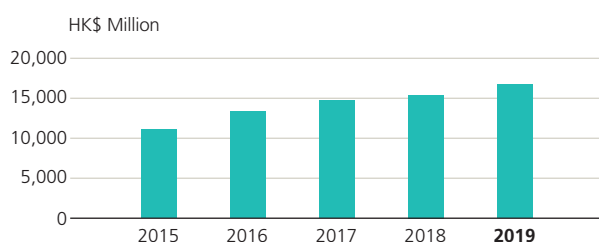
Key Changes to the Group's Revenue, Other Income and Operating Expenses

Revenue for 2019 amounted to HK\$8,112.2 million, an increase of HK\$102.9 million or 1.3% compared with HK\$8,009.3 million for 2018. The increase was mainly due to the increase in revenue from the Group's franchised public bus operations of HK\$139.4 million, primarily as a result of patronage growth. However, such positive factor

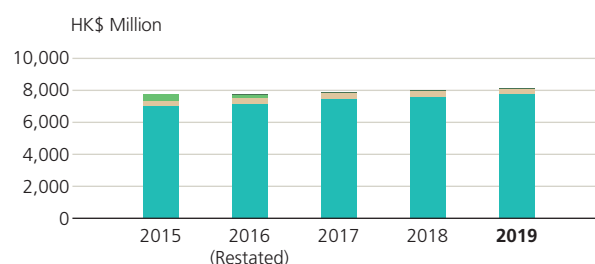
was partly offset by the decreases in (i) revenue from the Group's non-franchised transport operations division by HK\$33.7 million; and (ii) rental income arising from the Group's investment properties by HK\$2.8 million.

Other income increased by HK\$193.5 million from HK\$217.6 million in 2018 to HK\$411.1 million in 2019. The increase was mainly due to government subsidies amounting to HK\$152.3 million to cope with the operating pressure arising from the prolonged social unrest throughout the second half of 2019. The breakdown of other income is set out in note 4 to the financial statements on page 173 of this Annual Report.

Total Assets at 31 December



Group Revenue



Franchised public bus operations
Non-franchised transport operations
Media sales business
Gross rentals from investment properties

Financial Review

Total operating expenses for 2019 amounted to HK\$7,813.3 million, an increase of HK\$423.6 million or 5.7% compared to HK\$7,389.7 million for 2018. The increase was mainly due to the increase in staff costs of HK\$338.2 million as a result of annual pay rise and the improvement in benefit packages.

The Group's share of profits of associates for 2019 amounted to HK\$21.5 million, a decrease of HK\$2.3 million or 9.7% compared to HK\$23.8 million for 2018.

Income tax expense for the year amounted to HK\$94.0 million (2018: HK\$117.2 million). The breakdown of the income tax expense is set out in note 6 to the financial statements on page 176 of this Annual Report.

More detailed information in respect of the Group's individual business units is set out on pages 87 to 91 of this Annual Report.

Dividend

The Board has recommended an ordinary final dividend of HK\$0.70 per share (2018: HK\$0.90 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 21 May 2020 or at any adjournment thereof, the proposed final dividend, together with the interim dividend of HK\$0.30 per share (2018: HK\$0.30 per share) paid in October 2019, would result in a total dividend of HK\$1.00 per share for 2019 (2018: HK\$1.20 per share).

Key Changes to Financial Position

Capital Expenditure

As at 31 December 2019, 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\$10,154.4 million (2018: HK\$9,840.5 million). The increase was mainly due to the development of the Kwun Tong site and purchase of new buses by KMB and LWB for fleet replacement as well as service enhancements during the year. None of the assets were pledged or charged as at 31 December 2019. The breakdown of the capital expenditure is shown in note 13 to the financial statements on pages 185 to 192 of this Annual Report.

Intangible Assets and Goodwill

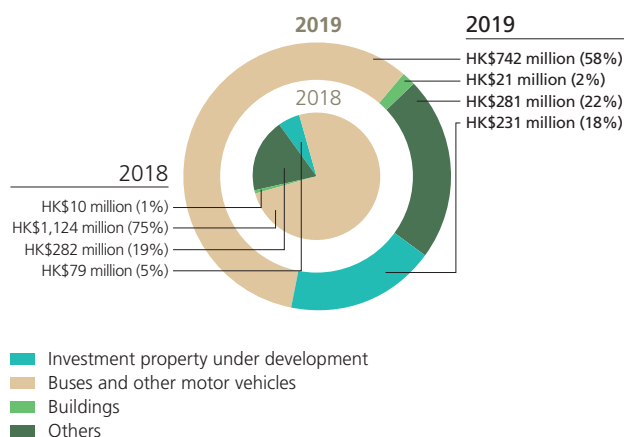
As at 31 December 2019, the Group's intangible assets and goodwill amounted to HK\$365.0 million (2018: HK\$360.6 million) and HK\$84.1 million (2018: HK\$84.1 million) respectively. The intangible assets mainly represent passenger service licences and transport operating rights of the Group's non-franchised transport operations.

Current Assets and Current Liabilities

The Group's total current assets as at 31 December 2019 amounted to HK\$2,931.3 million (2018: HK\$1,891.1 million), mainly comprising liquid funds of HK\$1,455.9 million (2018: HK\$1,181.0 million) and accounts receivable of HK\$666.7 million (2018: HK\$371.1 million). The increase in accounts receivable was mainly due to the subsidies to be received from the Government. The Group's liquid funds as at 31 December 2019 were mainly denominated in Hong Kong dollars.

Total current liabilities as at 31 December 2019 amounted to HK\$1,557.0 million (2018: HK\$1,179.8 million), which mainly included accounts payable and accruals. The increase in accounts payable and accruals was mainly due to the setup of Toll Exemption Fund.

Capital Expenditure

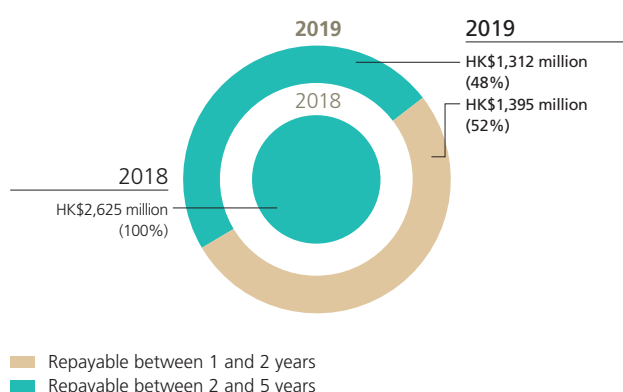


Financial Review

Bank Loans

As at 31 December 2019, bank loans, all unsecured, amounted to HK\$2,706.6 million (2018: HK\$2,625.0 million). The maturity profile of the bank loans of the Group as at 31 December 2019 and 31 December 2018 is shown in the chart below:

Debt Maturity Profile at 31 December



As at 31 December 2019, the Group had undrawn committed banking facilities totalling HK\$2,280.0 million (2018: HK\$2,455.0 million).

Capital Commitments

The Group's capital commitments as at 31 December 2019 amounted to HK\$3,409.9 million (2018: HK\$677.9 million). These commitments were mainly in respect of the development of the Kwun Tong site and the purchase of buses and other motor vehicles, which are to be financed by bank borrowings and from the Group's internal resources. A summary of the capital commitments is set out below:

HK\$ million	2019	2018
Development of the Kwun Tong Site	2,186.6	144.7
Purchase of buses and other motor vehicles	1,173.6	444.3
Purchase of other properties, plant and equipment	49.7	88.9
Total	3,409.9	677.9

As at 31 December 2019, the Group had 514 (2018: 225) new buses on order for delivery in 2020.

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 by 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.

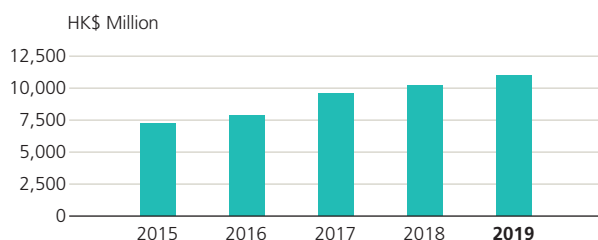
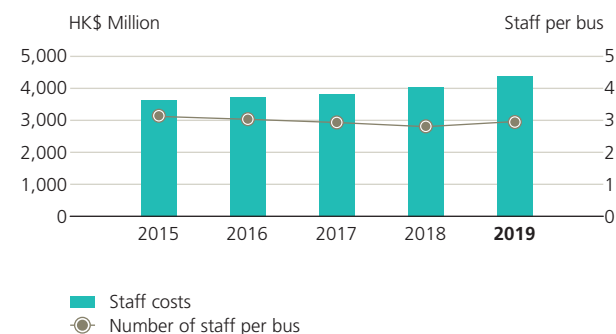
Financial Review

Net Cash/Net Borrowing and Liquidity Ratio

As at 31 December 2019, the Group's net borrowing (i.e. total borrowings less cash and deposits at banks) amounted to HK\$1,250.7 million (2018: HK\$1,444.0 million) with a liquidity ratio (the ratio of current assets to current liabilities) of 1.9 (2018: 1.6). 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
<i>At 31 December 2019</i>				
Hong Kong dollars		1,136.9	(2,706.6)	(1,569.7)
Renminbi	2.6	2.9	—	2.9
United States dollars	26.9	209.6	—	209.6
British Pounds Sterling	9.8	100.7	—	100.7
Other currencies		5.8	—	5.8
Total		1,455.9	(2,706.6)	(1,250.7)
<i>At 31 December 2018</i>				
Hong Kong dollars		905.6	(2,625.0)	(1,719.4)
Renminbi	1.8	2.0	—	2.0
United States dollars	25.4	198.7	—	198.7
British Pounds Sterling	7.3	73.1	—	73.1
Other currencies		1.6	—	1.6
Total		1,181.0	(2,625.0)	(1,444.0)

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 2019 were HK\$32.2 million, an increase of HK\$8.5 million compared with HK\$23.7 million for 2018. 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 2.19% per annum for 2018 to 2.74% per annum for 2019.

For the year ended 31 December 2019, the Group's interest income exceeded the total finance costs by HK\$55.2 million (2018: HK\$57.9 million).

Financial Review

Net Cash Flow

For 2019, there was a net increase of HK\$316.9 million (2018: a net decrease of HK\$975.8 million) in cash and cash equivalents. The sources are set out below:

	2019 HK\$ million	2018 HK\$ million
Net cash generated from/(used in):		
• Operating activities	1,439.7	1,726.6
• Investing activities	(941.5)	(2,736.0)
• Financing activities	(181.3)	33.6
Net cash inflow/(outflow)	316.9	(975.8)

The main components of the net cash inflow of HK\$316.9 million (2018: net cash outflow of HK\$975.8 million) included: (i) net cash generated from operating activities of the franchised public bus operations of HK\$1,367.1 million (2018: HK\$1,472.5 million); (ii) payment of capital expenditure of HK\$1,248.3 million (2018: HK\$1,874.6 million); (iii) decrease of HK\$183.0 million (2018: increase of HK\$949.6 million) in bank deposits with original maturities of over three months; (iv) increase of HK\$75 million in bank loans (2018: increase of HK\$270.0 million); and (v) payment of dividends of HK\$261.2 million (2018: HK\$236.4 million).

Details of the Group's cash flow movement for the year ended 31 December 2019 are set out in the consolidated cash flow statement on pages 146 and 147 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) and United States dollars (USD). In respect of its exposure in GBP used for bus purchases, the Group's treasury team will enter into forward foreign exchange contracts in a strategic manner when appropriate.

In 2019, the Group hedged approximately 94% (2018: 96%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in GBP. The Group did not have any outstanding GBP forward contracts (2018: GBP10.1 million) as at 31 December 2019.

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 2019, 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.

Financial Review

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 diesel suppliers for the supply of diesel. 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. 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 58% (2018: 57%) of the total operating expenses of the Group in 2019. 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 2019 amounted to HK\$4,280.9 million (2018: HK\$3,962.7 million), representing an increase of 8.0%. As at 31 December 2019, the Group employed over 13,000 staff (2018: over 12,500 staff).

Individual Business Units

Franchised Public Bus Operations

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

	Unit	2019	2018
Revenue	HK\$ million	7,092.6	7,032.4
Other income	HK\$ million	299.3	106.1
Total operating expenses	HK\$ million	(6,982.7)	(6,595.1)
Profit from operations	HK\$ million	409.2	543.4
Finance costs	HK\$ million	(32.1)	(22.5)
Profit before taxation	HK\$ million	377.1	520.9
Income tax	HK\$ million	(62.2)	(86.6)
Profit after taxation	HK\$ million	314.9	434.3
Net profit margin		4.4%	6.2%
Passenger volume	Million passenger trips	1,022.9	1,022.3
Kilometres operated	Million km	280.8	281.3
Staff number at year-end	Number of staff	12,123	11,544
Fleet size at year-end	Number of buses	4,081	4,112
Total assets	HK\$ million	8,927.7	8,035.8

KMB recorded a profit after taxation of HK\$314.9 million for 2019, representing a decrease of HK\$119.4 million or 27.5% compared with HK\$434.3 million for 2018.

KMB's fare revenue for 2019 was HK\$6,866.5 million, an increase of HK\$41.2 million or 0.6% compared with HK\$6,825.3 million for 2018. The increase was mainly attributable to patronage growth in the first half of 2019 resulting from the enhancement of service on existing routes as well as the introduction of new services but was largely offset by the prolonged social unrest throughout the second half of 2019 which dampened patronage growth. As a result, KMB's total ridership for 2019 was 1,022.9 million passenger trips (a daily average of 2.80 million passenger

trips), which remained on par with 2018. Other income for 2019 included a fuel subsidy of HK\$137.2 million from the Government.

Total operating expenses for 2019 amounted to HK\$6,982.7 million, an increase of HK\$387.6 million or 5.9% compared with HK\$6,595.1 million for 2018. The increase was mainly attributable to the increase in staff costs of HK\$315.9 million as a result of the annual pay rise and the improvement in benefit packages, as well as the increase in depreciation charges of HK\$39.2 million resulting from continued investment in new buses with enhanced safety features.

Long Win Bus Company Limited ("LWB")

	Unit	2019	2018
Revenue	HK\$ million	642.4	563.1
Other income	HK\$ million	16.2	2.4
Total operating expenses	HK\$ million	(594.1)	(520.4)
Profit from operations	HK\$ million	64.5	45.1
Finance costs	HK\$ million	(0.1)	(1.2)
Profit before taxation	HK\$ million	64.4	43.9
Income tax	HK\$ million	(10.7)	(7.1)
Profit after taxation	HK\$ million	53.7	36.8
Net profit margin		8.4%	6.5%
Passenger volume	Million passenger trips	45.8	41.5
Kilometres operated	Million km	37.7	37.5
Staff number at year-end	Number of staff	784	713
Fleet size at year-end	Number of buses	279	262
Total assets	HK\$ million	655.8	552.2

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The profit after taxation of LWB for 2019 was HK\$53.7 million, representing an increase of HK\$16.9 million or 45.9% compared with HK\$36.8 million for 2018.

LWB's fare revenue for 2019 was HK\$638.1 million, an increase of HK\$78.3 million or 14.0% compared with HK\$559.8 million for 2018. The increase was mainly due to the continuous growth of A-route passengers in the first half of 2019 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. However, such growth became stagnant in the second half of 2019 as a result of the social unrest. LWB recorded a total ridership of 45.8 million passenger trips (a daily average of 125,500 passenger trips) for 2019, as compared with 41.5 million passenger trips (a daily average of 113,700 passenger trips) for 2018. Other income for 2019 included a fuel subsidy of HK\$13.0 million from the Government.

Total operating expenses for 2019 amounted to HK\$594.1 million, an increase of HK\$73.7 million or 14.2% compared with HK\$520.4 million for 2018. The increase in operating expenses was mainly due to the increase in staff costs as a result of the annual pay rise and the improvement in benefit packages, as well as the increase in depreciation charges resulting from continued investment in new buses with enhanced safety features.

Non-franchised Transport Operations

The Group's Non-franchised Transport Operations Division reported a profit after taxation of HK\$39.8 million for 2019, representing a decrease of HK\$8.5 million or 17.6% compared with HK\$48.3 million for 2018. 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 for 2019 decreased by 8.2% compared with 2018 mainly due to the social unrest which affected the local transport services business. Total operating expenses for 2019 decreased by 8.1% compared with 2018, which was in line with the decline in revenue.

In 2019, the SBH Group purchased 16 (2018: 84) Euro VI buses for fleet replacement purposes. As at 31 December 2019, the SBH Group had a fleet of 390 buses (2018: 390 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 decreased by HK\$8.3 million or 17.3% from HK\$48.0 million in 2018 to HK\$39.7 million in 2019 mainly due to the increase in choices for cross-boundary services as well as the social unrest. As at 31 December 2019, NHKB had a fleet of 15 buses (2018: 15 buses).

Property Holdings and Development

The Group's Property Holdings and Development Division reported a profit after taxation of HK\$54.8 million for 2019, representing an increase of HK\$0.9 million or 1.7% compared with HK\$53.9 million for 2018. 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 2019, the entire lettable area of the shopping mall was leased out, generating a stream of recurring rental income for the Group.

As at 31 December 2019, 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\$76.0 million (2018: HK\$78.3 million).

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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 2019, the carrying value of the building stated at cost less accumulated depreciation and impairment losses, amounted to HK\$29.4 million (2018: HK\$31.0 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 2019, 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\$1.9 million (2018: HK\$2.0 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. The basement and superstructure construction works are underway. The occupation permit is expected to be obtained in mid-2022.

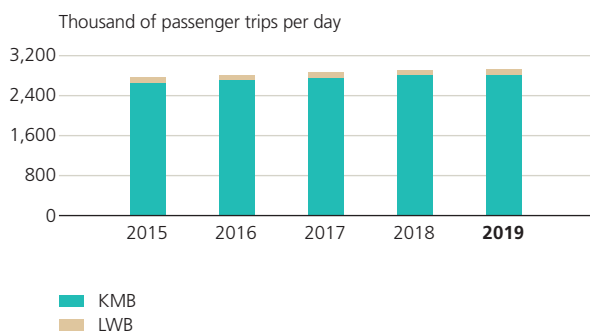
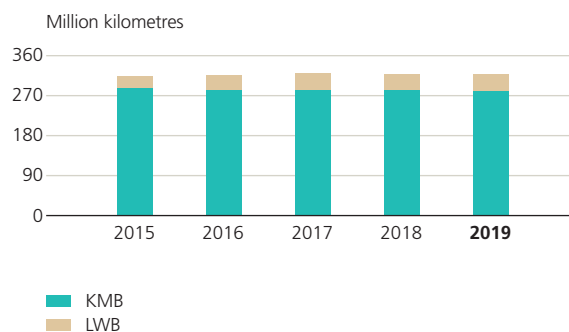
As at 31 December 2019, the carrying value of the Kwun Tong Site (classified as investment property under development on the consolidated statement of financial position) amounted to HK\$2,531.6 million (2018: HK\$2,301.1 million).

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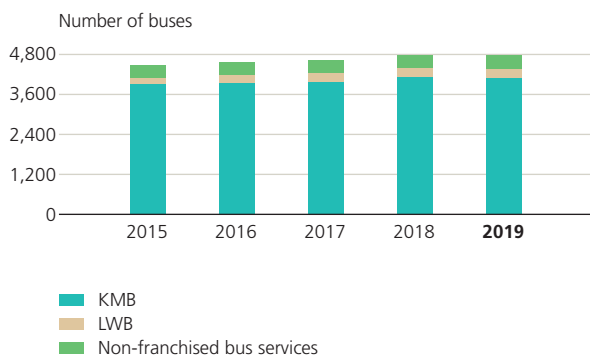
China Mainland Transport Operations

The Group's China Mainland Transport Operations Division reported a profit after taxation of HK\$21.5 million for 2019, representing a decrease of HK\$2.3 million or 9.7% compared with HK\$23.8 million for 2018.

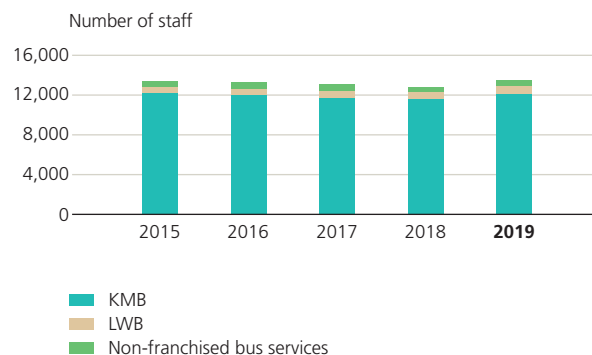
As at 31 December 2019, the Group's total interests in associates within the China Mainland Transport Operations Division amounted to HK\$606.9 million (2018: HK\$610.9 million). Such investments are mainly related to the operation of public transport services in Shenzhen, and taxi and car rental services in Beijing.

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 2019

	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 2019 (Number of vehicles)	11,599	4,956
Bus passenger volume (Million trips)	581	N/A
Bus kilometres travelled (Million km)	386	N/A
Staff number at year-end 2019	23,801	4,303

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 and taxi services in Shenzhen City, Guangdong Province, operating a fleet of over 5,000 buses running on around 300 routes and over 5,000 taxis. By continuously improving services, patronage of SZBG's bus and taxi operations increased by 1.6% to 713.3 million in 2019 as compared to 701.8 million in 2018. 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 2019, BBKT had a fleet of over 3,000 taxis and 4,000 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 2019, BBF had over 1,000 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 33(a) to the financial statements on pages 231 and 232 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 maintained medical and dental insurance coverage with SHKPI from 1 January 2018 to 31 December 2019 (the "2018/19 Medical and Dental Insurance Arrangement"). 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"). On 1 November 2019, the Group entered into an insurance policy with SHKPI, pursuant to which the Group will maintain medical and dental insurance coverage with SHKPI from 1 January 2020 to 31 December 2021 (the "2020/21 Medical and Dental Insurance Arrangement"). The transactions contemplated under the 2017/18 Insurance Arrangements, 2018/19 Medical and Dental Insurance Arrangement, 2019/20 Insurance Arrangements and 2020/21 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, 1 November 2017, 1 November 2018 and 1 November 2019 respectively.

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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 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 2019, the insurance premium paid to SHKPI under the 2017/18 Insurance Arrangements was HK\$2,951,000.

The cap amounts of the insurance premium payable by the Group to SHKPI under the 2018/19 Medical and Dental Insurance Arrangement for the years ended 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 were 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. For the year ended 31 December 2019, the insurance premium paid and payable to SHKPI under the 2018/19 Medical and Dental Insurance Arrangement was HK\$20,954,000 (2018: HK\$21,206,000).

The cap amounts of the insurance premium payable by the Group to SHKPI under the 2019/20 Insurance Arrangements for the year ended 31 December 2019 and the year ending 31 December 2020 as disclosed in the announcement dated 1 November 2018 were HK\$90,000,000 and HK\$93,000,000 respectively. Such annual cap amounts are 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 2019/20 Insurance Arrangements. For the year ended 31 December 2019, the insurance premium paid and payable to SHKPI under the 2019/20 Insurance Arrangements was HK\$86,030,000.

The cap amounts of the insurance premium payable by the Group to SHKPI under the 2020/21 Medical and Dental Insurance Arrangement for the years ending 31 December 2020 and 2021 as disclosed in

the announcement dated 1 November 2019 were HK\$22,090,000 and HK\$22,090,000 respectively. Such annual cap amounts were 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 2020/21 Medical and Dental Insurance Arrangement and the historical transaction amount under the 2018/19 Medical and Dental Insurance Arrangement.

The insurance premium paid and payable by the Group under the 2017/18 Insurance Arrangements, 2018/19 Medical and Dental Insurance Arrangement, 2019/20 Insurance Arrangements and 2020/21 Medical and Dental Insurance Arrangement was and will be satisfied by internal resources of the Group. The transactions under the 2017/18 Insurance Arrangements, 2018/19 Medical and Dental Insurance Arrangement, 2019/20 Insurance Arrangements and 2020/21 Medical and Dental Insurance Arrangement 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") and EAGLE WIN LIMITED ("Eagle Win")

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 pages 231 and 232 of this Annual Report, Sun Bus Limited (an indirect wholly-owned subsidiary of the Company) and Eagle Win Limited (an indirect wholly-owned subsidiary of the Company) have entered into various shuttle bus service contracts ("Shuttle Bus Service Agreements") with certain subsidiaries of SHKP, pursuant to which Sun Bus and Eagle Win agreed to provide and operate various shuttle bus services for the period from 15 July 2017 to 30 June 2021. 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\$380 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 services requested, the relevant costs and expected loads and routes, using the prevailing market rates as a price indicator, namely, the service fees charged for similar bus operations in the market. 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 28 June 2019. The cap amounts estimated

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to be receivable by Sun Bus and Eagle Win under the Shuttle Bus Service Agreements for the year ended 31 December 2019 and the year ending 31 December 2020 as disclosed in the announcement dated 28 June 2019 were HK\$11,431,000 and HK\$1,691,000 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 2019, the service fees received or receivable by Sun Bus and Eagle Win (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\$10,979,000. 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.

(c) KT REAL ESTATE LIMITED ("KTRE")

Building Contract

As described in note 33(a) to the financial statements on pages 231 and 232 of this Annual Report, on 20 December 2018, KTRE (a wholly-owned subsidiary of the Company), Turbo Result Limited ("TRL") (a wholly-owned subsidiary of SHKP) and Yee Fai Construction Company Limited ("Yee Fai") (a wholly-owned subsidiary of SHKP) entered into the building contract in which KTRE and TRL engaged Yee Fai to carry out and complete the building works involving the construction of a commercial building at Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kwun Tong, Kowloon, Hong Kong (the "Building Contract"). KTRE and TRL shall pay to Yee Fai, in equal shares, the contract sum of HK\$4,436,056,954.36 (i.e. HK\$2,218,028,477.18 each), subject to adjustments in accordance with the Building Contract. The transactions contemplated under the Building Contract constitute both a major transaction and connected transaction of the Company under the Listing Rules which are subject to reporting, announcement and independent shareholders' approval requirements. Particulars of the transactions contemplated under the Building Contract were disclosed in the announcement and circular of the Company dated 20 December 2018 and 15 January 2019 respectively and such transactions were approved by independent shareholders at the special general meeting of the Company held on 1 February 2019.

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 31 December 2019 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 2018/19 Medical and Dental Insurance Arrangement and 2019/20 Insurance Arrangements for the year ended 31 December 2019 did not exceed the cap amounts of HK\$22,944,545 and HK\$90,000,000 respectively as disclosed in the announcement dated 1 November 2017 and 1 November 2018 respectively; and
3. the service fees received and receivable by Sun Bus and Eagle Win (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 2019 did not exceed the cap amount of HK\$11,431,000 as disclosed in the announcement dated 28 June 2019.

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 2019 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.

Corporate Governance Report

Good corporate governance is the foundation of business success as it provides the basis for stakeholder confidence and sustainable returns for shareholders. To achieve this goal, Board members and staff observe a set of sound policies, procedures and rules. The Group also takes into account the interests of stakeholders when setting long term business goals.

Corporate Governance Framework

The Group's Corporate Governance Framework (the "Framework") is built on principles of accountability, transparency and integrity, with the aim of identifying all the key participants in good governance, their correlation and their contribution to the application of effective governance policies and processes.

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, social expectations and international relations, the Group regularly reviews the Framework, updates its management policies and practices, and ensures the same are closely followed at all levels throughout the Group.

The 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 interests of the 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 that any irregularities, deviations, material misstatements 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 sets out the principles of good corporate governance with two levels of recommendations: (a) "Code Provisions" and (b) "Recommended Best Practices".

The Company complied with all applicable Code Provisions throughout the year ended 31 December 2019, except that three Directors of the Company were unable to attend the Annual General Meeting of the Company held on 16 May 2019 (the "2019 AGM") as provided for in Code Provision A.6.7 owing to other engagements.

The Board of Directors

Board Composition

The composition of the Board represents a balance of high calibre executive and non-executive directors possessing relevant skills, industry knowledge, first-hand experience and a diversity of perspectives which are essential to the businesses of the Group. As at 31 December 2019, the Board comprised 15 members, including 5 Independent Non-executive Directors, 9 Non-executive Directors and 1 Executive Director. Day-to-day management of the Group's businesses 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 2019 are stated below:

Corporate Governance Report

	Independent Non-executive Directors	Non-executive Directors	Executive Director	Total
Board of Directors	5	9	1*	15
Board Committees:				
Standing Committee	3	4	1*	8
Audit and Risk Management Committee	3	1	—	4
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 fully considered by the Board. They also see that connected transactions and other issues are subject to impartial and thorough contemplation 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 Independent Non-executive Directors to be independent, as all of them have confirmed their independence in writing to both the Stock Exchange and the Company. The Company complies with the requirement in the Listing Rules that at least one-third of the 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 the Directors' Profiles section of the Annual Report.

Board Diversity

Diverse board composition ensures a wide range of business and professional experience on the Board, so 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. This policy can be found on the company's website. In 2019, the Nomination Committee reviewed the Board Diversity Policy and confirmed that the selection of board members would continue to be based on merit with reference to the Board Diversity Policy.

The Executive and Non-executive Directors have a diverse background. Each of them possesses a depth of relevant experience and expertise necessary to oversee the businesses of the Group. The current mix of Board members represents a balance of business, academia and the professions, which helps to deliver sustainable value and safeguard shareholders' interests.

The age group and gender diversity of the Board of Directors as at 31 December 2019 are set out below:

Age Group	Male	Female
41-50	0	0
51-60	4	1
61-70	5	0
Over 70	5	0
Total	14	1

○ Corporate Governance Report

The Role of the Board

The Board promotes the success of the Group 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, *GBS, JP*, an Independent Non-executive Director, and Mr Roger LEE Chak Cheong, an Executive Director, 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 appropriate 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:

- realising 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.

Corporate Governance Report — ○

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 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 operational and financial performance of the Group's various business areas. The Company Secretary prepares draft minutes of Board meetings, which record the matters considered by the Board and the decisions reached as well as any concerns raised or dissenting views expressed by the Directors. The draft minutes are circulated 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 is responsible for making sure that all connected transactions entered into are in compliance with the Listing Rules. In 2019, the Company entered into three continuing connected transactions, details of which are given on pages 91 to 93 of this Annual Report.

Corporate Governance 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 which the Directors and employees are required to adhere to when discharging their delegated duties. The Code of Conduct is reviewed and updated periodically to be kept 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 with the standard of dealings set out in the Model Code throughout 2019. Details of the shareholding interests held by the Directors in the Company as at 31 December 2019 are set out on pages 127 to 128 of this Annual Report.

Induction and Continuous Professional Development

All Directors attended training programmes during 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 17 October 2019, a seminar was run by a professional services firm to update the Directors on the conduct and duties of Directors and rules and regulations of backdoor listing and continuing listing criteria. The Directors are encouraged to participate in continuous professional development programmes organised by qualified institutions. The costs for such programmes are borne by the Company. Formal procedures are in place for reporting the training and continuous professional development received by Directors.

Time Commitment of Directors

For the year ended 31 December 2019, 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.

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Re-election 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/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.

Re-election of Directors

At the 2019 AGM, three Directors, namely, Dr Norman LEUNG Nai Pang, *GBS, JP*, Mr William LOUEY Lai Kuen and Mr LUNG Po Kwan, retired by rotation and were re-elected as Directors of the Company.

Dr John CHAN Cho Chak, *GBS, JP*, Mr NG Siu Chan, Mr Allen FUNG Yuk Lun and Mr Roger LEE Chak Cheong will retire as Directors of the Company and offer themselves for re-election at the 2020 AGM. All these retiring Directors, being eligible, have been nominated by the Nomination Committee and recommended by the Board to stand for re-election at the 2020 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 2019 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.

Corporate Governance Report

The membership of each Committee (as at 1 January 2020) 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	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. The Standing Committee's findings and recommendations are submitted directly to the Board. In 2019, the Standing Committee held six meetings with senior management to review and discuss financial, operational and strategic planning, as well as potential investment opportunities for the Group.

Audit and Risk Management Committee

The Chairman of the Audit and Risk Management Committee is Dr Eric LI Ka Cheung, an Independent Non-executive Director of the Company. He 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' biographies on pages 116 to 122 of this Annual Report. None of the members of the Audit and Risk Management Committee 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,

ensuring the quality and integrity of financial statements, nominating independent external auditors, reviewing the adequacy of external audits in respect of cost, scope and performance, and ensuring 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 2019, the Audit and Risk Management Committee and senior management held a meeting focusing on safety issues and 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 these meetings, 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 identified.

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The major work undertaken by the Audit and Risk Management Committee in the financial year ended 31 December 2019 included:

(a) Supervision of the Company's Financial Reporting Process, 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 thereto, and considered their impact on the financial reporting of the Company and the Group;
- Reviewed with 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 such 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;
- 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 2019 and the audited annual financial statements for the year ended 31 December 2019 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 2020.

Remuneration Committee

The Board has devolved upon the Remuneration Committee the authority to formulate remuneration policies, including the establishment of guidelines to determine the terms and conditions of employment and the 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 2019 are set out in the Remuneration Report on pages 112 to 115 of this Annual Report.

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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.

In 2019, the Nomination Committee also performed the following tasks:

- Recommended the re-election of retiring Directors;
- Evaluated all Independent Non-executive Directors' confirmations of independence;
- Reviewed and confirmed the structure, size and composition of the Board;
- Reviewed the Board Diversity Policy; and
- Endorsed the Nomination Policy for adoption by the Board.

In 2019, the Nomination Committee formalised its current practices on nomination and set out the same into a nomination policy for Board adoption, providing shareholders with transparency on our nomination process. This policy can be found on the Company's website.

Corporate Governance Report

Attendance Records

The Directors' attendance at the Annual General Meeting, Board Meetings and Committee Meetings in 2019 is given below:

Members of the Board of Directors	2019 AGM	Board	Audit and Risk			
			Standing Committee	Management Committee	Remuneration Committee	Nomination Committee
Independent Non-executive Directors						
Dr Norman LEUNG Nai Pang, GBS, JP (Chairman)	1/1	6/6	6/6			
Dr John CHAN Cho Chak, GBS, JP (Deputy Chairman)	1/1	6/6	6/6		2/2	1/1
Dr Eric LI Ka Cheung, GBS, OBE, JP	1/1	5/6		3/3	2/2	1/1
Professor LIU Pak Wai, SBS, JP	1/1	6/6		3/3	2/2	
Mr TSANG Wai Hung, GBS, PDSM, JP	1/1	6/6	5/6	3/3		
Non-executive Directors						
Mr Raymond KWOK Ping Luen, JP (with Ms Susanna WONG Sze Lai, as alternate)	0/1	0/6	6/6			
Mr NG Siu Chan (with Ms Winnie NG, JP as alternate)	0/1	0/6				
Mr Charles LUI Chung Yuen, M.H.	1/1	5/6	6/6			
Mr William LOUEY Lai Kuen (with GAO Feng as alternate)	1/1	6/6	6/6			
Ms Winnie NG, JP	1/1	6/6	6/6		2/2	
Mr Allen FUNG Yuk Lun	0/1	5/6		2/3		1/1
Dr CHEUNG Wing Yui, BBS	1/1	6/6				
Mr LEE Luen Fai, JP	1/1	5/6				
Mr LUNG Po Kwan	1/1	6/6				
Executive Director						
Mr Roger LEE Chak Cheong (Managing Director)	1/1	6/6	6/6			
Alternate Directors						
Mr GAO Feng (Alternate Director to Mr William LOUEY Lai Kuen)	0/1	0/6				
Ms Winnie NG, JP (Director and Alternate Director to Mr NG Siu Chan)	1/1	6/6				
Ms Susanna WONG Sze Lai (Alternate Director to Mr Raymond KWOK Ping Luen, JP)	0/1	6/6				

Notes:

1. Particulars of the 2019 AGM are set out on page 110 of this Annual Report.

The Board held six meetings in 2019, 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 at least two hours.

Corporate Governance Report

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 2019, 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 2019 given on pages 140 to 235 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 2019.

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 misstatement 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 the 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; and

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- 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; and
- 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; and
- 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; and
- 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 Committee of Sponsoring Organisations of the Treadway Commission's Internal Control – Integrated Framework issued in May 2013, consists of the following components:

Control Environments

The Group complies with the requirement in the Listing Rules 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.

Corporate Governance Report

Risk Assessment

TIH Enterprise Risk Management System

The Group has an Enterprise Risk Management System ("ERM System") which 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; and

- To monitor and review risk levels to ensure that risk exposure remains within an acceptable level.

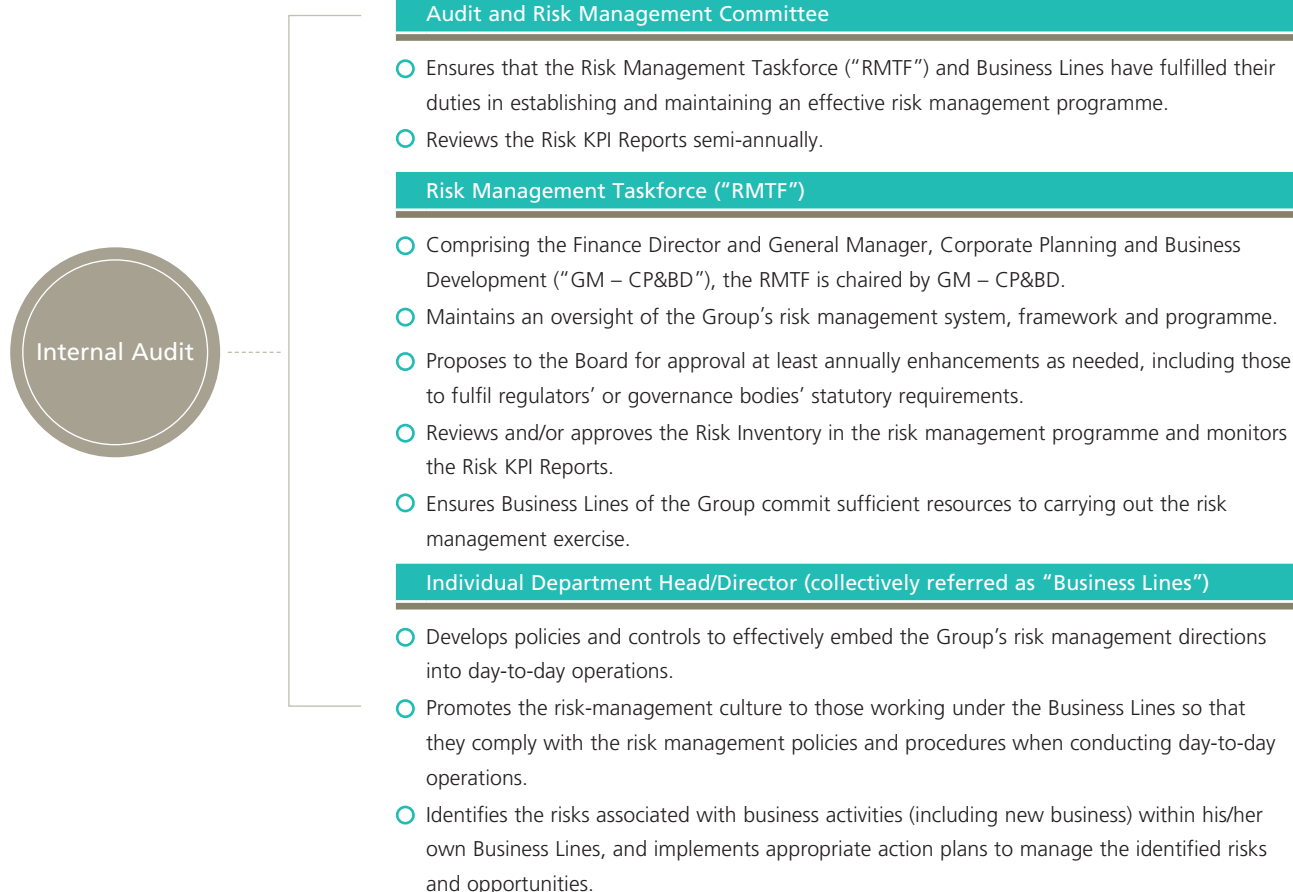
The Group's ERM System was designed with reference to the COSO ERM framework.

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") is submitted to the Audit and Risk Management Committee every six months. The Group's major risks as identified by the management are listed in the Risk KPI Report, together with a comprehensive profile of such risks and the monitoring mechanism as established by management.

TIH Risk Management Framework



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Control Activities

The Group's franchised and non-franchised bus services 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 2019, there was no non-conformity in QMS noted during the ISO audit of the operations of both KMB and LWB.

As of December 2019, both KMB and LWB possessed ISO 9001:2015 quality management system certification. In addition, all KMB depots are ISO45001-certified for their occupational health and safety systems and two of KMB's major bus depots are ISO 14001-certified for their environmental management systems.

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, creates a systematic approach for providing 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 the 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 Department, are required to declare their independence every year.

Corporate Governance Report

In 2019, the functions performed by the Internal Audit Department included, among others:

- Conducting compliance reviews of relevant laws and regulations applicable to the Group's business;
- Carrying out operational reviews and surprise checks of major internal control processes in respect of both franchised and non-franchised businesses;
- Performing special reviews and investigations at the request of the Group's management; and
- Assisting 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 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 complied with the Code Provisions on internal controls in 2019.

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. A suite of procedures and internal control measures are 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. During the course of their review of the Company's interim financial report and their audit of the Company's annual financial statements, if 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. There is a formal policy 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 2019. KPMG has formally confirmed in writing to the Audit and Risk Management Committee that for the year ended 31 December 2019 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 2019 are set out below:

	HK\$ million
Audit related services	4.2
Non-audit related services (Note)	0.9
Total	5.1

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

Corporate Governance Report

Engagement with Stakeholders

Shareholders

The Company had 3,867 registered shareholders as at 31 December 2019. 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 holding 5% or more of the shares of the Company as at 31 December 2019, other than those who are also Directors of the Company, are disclosed in the Report of the Directors on page 130 of this Annual Report. The largest single shareholder of the Company is Sun Hung Kai Properties Limited, which retains an equity interest of about 38.04% in the Company.

As at 31 December 2019, 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	1,408	36.41	445,097	0.10
1,001-5,000	1,449	37.47	3,421,430	0.77
5,001-10,000	423	10.94	3,221,559	0.72
10,001-100,000	477	12.34	14,006,437	3.13
Above 100,000	110	2.84	425,846,488	95.28
	3,867	100.00	446,941,011	100.00

Note: 45.64% 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 2019.

Shareholder Communications Policy

Transparency is vital to good corporate governance. The Board has formulated the Shareholder Communications Policy to provide shareholders with information about the Company, allowing them to engage with the Company and obtain information about the Company to exercise their rights as shareholders. 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, circulars and interim and annual reports, to convey messages to the shareholders. Interim and annual reports, notices of general meetings, announcements and circulars in English and Chinese are posted on the Company's website (www.tih.hk) and the website of the Stock Exchange. They are also 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 the annual report informative, comprehensible and transparent, with a sufficient level of disclosure. There are both English and Chinese versions of the annual report and both printed and electronic copies are available to shareholders. 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 such as 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 2019, the Company won the Bronze Award for Financial Data in the Transportation and Leasing category of the 2019 International ARC Awards.

Corporate Governance Report

The Company's General Meetings

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

Shareholders have control over the Company primarily through exercising their voting rights at general meetings. All voting is conducted by poll at general meetings with each shareholder being entitled to one vote. A separate resolution is 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 2019 AGM was held on 16 May 2019 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 2018;
- Approval of an ordinary final dividend of HK\$0.90 per share for the year ended 31 December 2018;
- Re-election of Dr Norman LEUNG Nai Pang, *GBS, JP*, Mr William LOUEY Lai Kuen and Mr LUNG Po Kwan as Directors of the Company;
- Re-appointment of KPMG as auditors of the Company, and authorisation of the Board of Directors to fix their remuneration;
- Fixing the remuneration of the Directors of the Company;
- Granting of a general mandate to the Board of Directors to issue shares;

- Granting of a general mandate to the Board of 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 2019 AGM were published on the websites of the Company and the Stock Exchange on 16 May 2019.

The 2020 Financial Calendar of the Company is set out as follows:

○ Announcement of 2019 final results	19 March 2020
○ Dispatch of 2019 Annual Report and accompanying circular to shareholders	20 April 2020
○ Last day to register transfer to qualify to attend and vote at 2020 AGM	15 May 2020
○ Book closure for 2020 AGM (both dates inclusive)	18 May 2020 – 21 May 2020
○ Date of 2020 AGM	21 May 2020
○ Last day to register transfer to qualify for 2019 final dividend	26 May 2020
○ Book closure for 2019 final dividend	27 May 2020
○ Payment of 2019 final dividend	30 June 2020
○ Announcement of 2020 interim results	mid-August 2020
○ Payment of 2020 interim dividend	mid-October 2020
○ Financial year end date	31 December 2020

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 Registrars 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.

Corporate Governance Report — ○

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 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 2019.

Dividends

The company adopts a dividend policy of providing its shareholders with a stable dividend. As an alternative to receiving a cash dividend, the company offers a scrip dividend programme, which enables its shareholders to elect to receive new fully paid shares.

In determining the dividend amount, the Board will take into account a number of factors such as the Group's financial performance, future capital expenditures and financial position, as well as the general economic and business conditions. The policy will be reviewed from time to time so as to keep in line with the future prospects and capital requirements of the Group and the changes in market conditions.

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 company, financial and corporate social responsibility 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 precious feedback from the public.

Publications – KMB and LWB publish a number of booklets which keep the public updated on their services and operations. These publications can be accessed on the companies' websites (www.kmb.hk and www.lwb.hk).

Employees

Effective communication between the management and staff is a key means to boost efficiency and morale. The 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. The 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, allows the staff to know more about 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 remuneration policies which are fair, properly structured and 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 the other one is a Non-executive Director. The Committee is chaired by Independent Non-executive Director Dr John CHAN Cho Chak, *GBS, JP*, who is also the Deputy Chairman of the Company. The other members are Independent Non-executive Director Dr Eric LI Ka Cheung, *GBS, OBE, JP*, Independent Non-executive Director Professor LIU Pak Wai, *SBS, JP* and Non-executive Director Ms Winnie NG, *JP*.

The Remuneration Committee makes recommendations to the Board on the remuneration packages of the Directors and employees of the Company and its subsidiaries. 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 motivate 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 those relating to the Directors, should be fair, transparent and compliant with relevant legislation;
- No Director or member of senior management should be involved in deciding his/her own remuneration; and
- Directors and employees should be rewarded on a fair basis according to their merits, job responsibilities, qualifications and experience, with reference to the market practices and packages for similar posts offered 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:

- Determining the remuneration policies in respect of remuneration of the Directors and employees of the Group for approval by the Board;
- Setting appropriate criteria for performance-related bonuses for employees, having regard to their achievement against the assessment criteria and with reference to market norms and the Group's business objectives and targets;
- Establishing guidelines for determining the remuneration of Directors, including the terms and conditions of employment, remuneration and retirement benefits of the Executive Director(s);
- Reviewing and making recommendations to the Board on the remuneration packages of individual Executive Director(s), senior management and Non-executive Directors; and
- Reviewing and considering proposals submitted by the Managing Director on human resources and related policies and making appropriate recommendations to the Board.

In 2019, the work conducted by the Remuneration Committee included:

- Reviewing the remuneration policy for 2019;
- Reviewing the annual performance-related bonuses for the Group's employees, with reference to the performance of the Group, individual achievement, assessment criteria and market norms;
- Examining employees' wage and salary increments on a merit basis with reference to relevant factors including market pay trends and inflation forecasts; and
- Reviewing 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.

Remuneration Report

Criteria for Determining 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 2019 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, in view of 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 2019 is set out as follows:

	Fee per annum HK\$
Board Members	
– Chairman	546,000
– Other Directors	390,000
Audit and Risk Management Committee Members	
– Chairman	260,400
– Other members	186,000
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	1,569,600
– Other members	264,000

Except as disclosed above, no Independent Non-executive Director or Non-executive Director received any pension benefits or bonuses from the Group in 2019.

The remuneration package of each Director, on a named basis, for the year ended 31 December 2019, together with 2018 comparisons, are given in note 7 to the consolidated financial statements on pages 177 and 178 of this Annual Report.

○ — Remuneration Report

Criteria for Determining 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 employees' base compensation, including salaries, allowances and fringe benefits, with reference to the Group's financial performance, the scope and complexity of the individuals' responsibilities, performance and market pay levels.

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 approved and adopted by the shareholders at the 2016 Annual General Meeting held on 26 May 2016, the Board may grant options to eligible employees, including Executive Director(s) 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 as proposed by the Remuneration Committee.

Details of the Share Option Scheme and options granted to eligible employees under the Share Option Scheme are set out on pages 128 and 129 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(ies) and associated company(ies) which participate 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(ies) and associated company(ies) which participate 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 aforesaid 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 their 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 79. 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 76. 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 and a member of the Board of Directors and Executive Committee of the Community Chest of Hong Kong. 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.

Directors' Profiles — ○



Raymond KWOK Ping Luen

JP, MA(Cantab), MBA, Hon DBA, Hon LLD

Non-executive Director, aged 66. 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 member of the 13th National Committee of the Chinese People's Political Consultative Conference. He is also a Director of The Real Estate Developers Association of Hong Kong and a Member of the Council of The Chinese University of Hong Kong.



NG Siu Chan

Non-executive Director, aged 89. 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 60. 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.

○ — Directors' Profiles



Charles LUI Chung Yuen

M.H., BEc, AASA, FCILT

Non-executive Director, aged 85. 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 56, 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 2019, Ms Ng received the Outstanding Businesswomen Award and in 2017, she 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 previous years, she was named a Woman of Excellence, was selected

as one of 60 Meritorious Chinese Entrepreneurs with Achievement and National Contribution, 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, Director of Po Leung Kuk, Member of Women's Commission, 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 2019.

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.

Directors' Profiles — ○



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 66. 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 Honorary Chairman of Shinewing (HK) CPA Limited, 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. 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.



Professor LIU Pak Wai

SBS, JP

Independent Non-executive Director, aged 72. 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 and Financial 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 and a member of the Judicial Officers Recommendation Commission. 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.

○ — Directors' Profiles


Allen FUNG Yuk Lun

BA, Ph.D.

Non-executive Director, aged 51. 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 Ltd. 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 an Executive Committee Member of The Hong Kong Management Association, a Council Member of Sir Edward Youde Memorial Fund, a member of the Board of the Asian Youth Orchestra, and a member of the Advisory Committee on Gifted Education of Education Bureau and a member of the Board of the Hong Kong Philharmonic Society Limited. Mr Fung also is a board member of the Hong Kong Tourism Board.


Roger LEE Chak Cheong

BSc, MSc, MICE, CEng

Managing Director, aged 57. 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.

Directors' Profiles — ○



Andy TSANG Wai Hung

GBS, PDSM, JP, MBA

Independent Non-executive Director, aged 61. 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 and Standing 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 appointed as the Deputy Commissioner of the National Narcotics Control Commission with effect from 1 April 2019. 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.



Dr CHEUNG Wing Yui

BBS, BCom, Hon DBA, CPA(Aust.)

Non-executive Director, aged 70. Dr 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 Ltd., 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.

Dr 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. Dr Cheung was also admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore. Dr 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.

He is currently the chairman of Admissions, Budgets and Allocations Committee as well as a director, of The Community Chest of Hong Kong

Limited. He is also a member of the Sponsorship & Development Fund Committee and a court member of The Open University of Hong Kong and an Honorary Council Member of The Hong Kong Institute of Directors Limited.

Dr 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, an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd., Hop Hing Group Holdings Limited and Agile Group Holdings Limited.

○ Directors' Profiles



LEE Luen Fai

JP, BA

Non-executive Director, aged 66. 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 was a non-official Member of Family Council (1 September 2016 – 31 March 2019) and he was also a non-executive director of RoadShow Holdings Limited (18 June 2015 – 12 December 2017).



LUNG Po Kwan

BSocSc, MSocSc(Economics), MBA, CFA

Non-executive Director, aged 54. Mr Lung has been a Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited since 1 July 2018. He is the Chief Financial Officer of the China region for Sun Hung Kai Properties

Limited ("SHKP"). He has over 27 years of experience in financial markets, including investment research, fund management, private equity investments and risk management in both corporate and financial institutions.

Mr. Lung joined SHKP in 1992 and was responsible for investor relations and investment in infrastructure project until 1996. During 1996-2003, Mr. Lung was a portfolio manager with BNP Paribas Asset Management, specialising in Asian equity investments. In 2004, Mr. Lung was seconded to a fund management company jointly set up by BNP Paribas and Shenying Wanguo Securities in

Shanghai, China to head the risk management of the joint-venture. In 2007, Mr. Lung joined as one of the founding partners in a private equity firm funded by seed capital from BNP Paribas and Shinhan Financial Group. Mr. Lung rejoined SHKP in 2013 and took up the current position since then.

Mr. Lung holds a Bachelor of Social Sciences degree and a Master of Social Sciences degree in Economics from the University of Hong Kong, and a Master of Business Administration degree from China Europe International Business School in Shanghai. Mr. Lung is a CFA charterholder of the CFA Institute.

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
Administration Director	Steve HUI Chun Tak, PDSM, MMgt
Financial Controller	Joseph LEUNG Cho Tak, BA, CPA, AICPA
Company Secretary	Lana WOO, BA, MBA, FCIS, FCS(PE), CPA(Canada), CGA
Head of Internal Audit Department	Ken HO Wing Kin, BComm, CPA (Aust.), HKICPA, CFE
Head of Legal Department	Henry LEUNG Ho Yin, BA, MBA, LLB
The Kowloon Motor Bus Company (1933) Limited/ Long Win Bus Company Limited	
Operations Director	Andrew Duncan EDWARDS, BA(Hons), CPC
Commercial Director	Thomas TONG Tung Ming, MSc, MBA, CEng, MStructE, MHKIE, AP, RSE
Safety Director	Andrew KWAN Chi Wai, CMILT
Deputy Operations Director, Bus Operations	Patrick PANG Shu Hung, MSc
Assistant Operations Director, Bus Servicing	Tin Cheung LAU, MIET
Assistant Operations Director, Bus Servicing	Siu Lun NG, MSc(Eng), CEng, MIMechE
Assistant Operations Director, Projects & Administration	Louisa LEUNG Chik Yee, AICPA, CIA, CISA, CFE, CRMA
Head of Commercial Department	Emily CHEUNG Yee Hang, MA, MCILT
Head of Corporate Communications & Public Affairs Department	Addie LAM Tsz Ho, BA, MSc
Head of Financial Accounting & Treasury Department	Kathy CHEUNG Mei Lam, BBA, CPA
Head of Human Resources Department	Cindy LUI Fung Kuen, BBA, MIHRM(HK)
Head of Information Technology Department	Sylvian LEE Chi Hung, BSc
Head of Procurement Department	Anita LAM Chiu Lin, BCom, MSc, MCIPS
Head of Staff Relations & Welfare Services Department	Wing YIM Wing Han, BA, PgDHRM, MHRM
Head of Training & Quality Assurance Department	James WONG Cheung Ming, PMSM
Sun Bus Holdings Limited	
General Manager	Susan SO, BBA, MSc, FCCA, HKICPA

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Directors' Report

The Directors submit herewith 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 2019.

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 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 16 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 18 to 115 of this Annual Report. This discussion forms part of this Directors' Report.

Recommended dividend

An interim dividend of HK\$0.30 per share (2018: HK\$0.30 per share) was paid to the shareholders on 15 October 2019. 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\$0.70 per share (2018: HK\$0.90 per share) in respect of the year ended 31 December 2019 be paid to shareholders on 30 June 2020.

Charitable donations

Charitable donations made by the Group during the year amounted to HK\$2,610,000 (2018: HK\$12,000,500).

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 scheme. Details about the issue of shares are also set out in note 29(b)(i) to the financial statements.

○ Directors' Report

Distributability of reserves

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$2,305,392,000 (2018: HK\$2,308,376,000). After the end of the reporting period, the Directors proposed a final dividend of HK\$0.70 per share (2018: HK\$0.90 per share), amounting to HK\$312,859,000 (2018: HK\$391,138,000) (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	
Professor LIU Pak Wai*, SBS, JP	
Allen FUNG Yuk Lun	
Roger LEE Chak Cheong	(Managing Director)
TSANG Wai Hung*, GBS, PDSM, JP	
Dr CHEUNG Wing Yui, BBS	
LEE Luen Fai, JP	
LUNG Po Kwan	
Susanna WONG Sze Lai	(Alternate Director to Mr Raymond KWOK Ping Luen, JP)
GAO Feng	(Alternate Director to Mr William LOUEY Lai Kuen)

* Independent Non-executive Director

In accordance with the Company's Bye-laws 87(1) and Appendix 14 of the Listing Rules, Dr John Chan Cho Chak, Mr Ng Siu Chan, Mr Allen Fung Yuk Lun and Mr Roger Lee Chak Cheong will retire from the Board at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors of the Company are set out on pages 116 to 122 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' Report — ○

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

The Directors of the Company who held office at 31 December 2019 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					Total number of shares held	Percentage of total issued shares
	Personal interests	Family interests	Corporate interests	Trustee interests	Other interests		
Dr Norman LEUNG Nai Pang*	–	–	–	–	–	–	–
Dr John CHAN Cho Chak*	2,000	–	–	–	–	2,000	–
Raymond KWOK Ping Luen	486,864 (note 1)	–	–	–	–	486,864	0.11%
NG Siu Chan	–	24,984,977	–	–	–	24,984,977	5.59%
William LOUEY Lai Kuen	7,438,410	–	–	–	25,180,544	32,618,954 (note 2)	7.30%
Charles LUI Chung Yuen	13,829	–	–	3,071,667 (note 3)	–	3,085,496	0.69%
Winnie NG (Director and Alternate Director to Mr NG Siu Chan)	181,416	–	–	24,984,977 (note 4)	–	25,166,393	5.63%
Dr Eric LI Ka Cheung*	–	–	–	–	–	–	–
Professor LIU Pak Wai*	–	–	–	–	–	–	–
Allen FUNG Yuk Lun	–	–	–	–	–	–	–
Roger LEE Chak Cheong (Managing Director)	122,336	–	–	–	–	122,336	0.03%
TSANG Wai Hung*	–	–	–	–	–	–	–
Dr CHEUNG Wing Yui	–	–	–	–	–	–	–
LEE Luen Fai	–	30,000	–	–	–	30,000	0.01%
LUNG Po Kwan	–	–	–	–	–	–	–
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) Of these shares in the Company, Mr Raymond Kwok Ping Luen held 482,999 shares 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 32,618,954 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 3,071,667 shares in the Company.
- (4) Ms Winnie Ng has interest in 24,984,977 shares in the Company as a beneficiary in certain private trusts which beneficially held the aforesaid block of shares.

○ — Directors' Report

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 2019, 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 2019 was 40,363,941 shares (including options for 2,313,200 shares that have been granted but not yet lapsed or exercised) which represented 9% of the ordinary shares of the Company in issue at 31 December 2019. 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.

Directors' Report

Equity-linked agreement (Continued)

Share option scheme (Continued)

At 31 December 2019, 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 2019 was HK\$20.2) granted for a consideration of HK\$1 under the share option scheme of the Company. As at 31 December 2019, the total grant date fair value of unexercised vested options, measured in accordance with the accounting policy set out in note 1(x)(iv) to the financial statements, amounted to HK\$4,216,000. 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 2019 are exercised, the Company will receive proceeds of HK\$54,245,000.

	No. of options outstanding at 1 January 2019	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 2019	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	2,720,000	(382,800)	(884,000)	1,453,200	31 October 2016	31 October 2017 to 30 October 2021 (note)	HK\$23.45	HK\$23.45	HK\$24.09

* being the weighted average 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 20 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' Report

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"). Certain Directors, namely Dr Norman Leung Nai Pang, Dr Eric Li Ka Cheung, Mr Raymond Kwok Ping Luen, Mr Allen Fung Yuk Lun and Dr Cheung Wing Yui are also directors of SHKP and/or Sun Hung Kai Properties Insurance Limited, and Mr Lee Luen Fai and Mr Lung Po Kwan are employees of SHKP. Among them, Mr Raymond Kwok Ping Luen is a director of SHKP and 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 2019, 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				Percentage of total issued shares
	Registered shareholders	Corporate interests	Trustee Interests	Total number of shares held	
HSBC Trustee (C.I.) Limited	–	–	169,994,730	169,994,730	38.0%
Sun Hung Kai Properties Limited (Notes 1 and 2)	–	169,994,730	–	169,994,730	38.0%
Arklake Limited (Note 1)	93,111,769	–	–	93,111,769	20.8%
Hung Fat (Hop Kee) General Contractors Limited (Note 1)	28,223,700	–	–	28,223,700	6.3%
Wister Investment Limited (Note 1)	25,037,326	–	–	25,037,326	5.6%
HSBC International Trustee Limited	37,805,269	–	–	37,805,269	8.5%
Kwong Tai Holdings (PTC) Limited (Note 3)	24,984,977	–	–	24,984,977	5.6%

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

Notes:

- 1 The interest disclosed by Sun Hung Kai Properties Limited ("SHKP") includes the 146,372,795 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 comprises 24,984,977 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 particulars are set out on page 120 of this Annual Report.

 Directors' 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 retirement 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 2020 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 2018 Hong Kong Life Tables; and normal retirement age of 65.
- (iii) The market value of the scheme assets at 31 December 2019 was HK\$905,511,000 (2018: HK\$848,080,000).
- (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 2019 and 2018.
- (v) The ongoing funding surplus in the scheme was HK\$430,737,000 (2018: HK\$328,046,000) and the solvency surplus was HK\$431,596,000 (2018: HK\$329,215,000) at 31 December 2019.

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 2018 Hong Kong Life Tables; and normal retirement age of 60.
- (iii) The market value of the scheme assets at 31 December 2019 was HK\$2,233,053,000 (2018: HK\$2,059,699,000).
- (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 2019 and 2018.
- (v) The ongoing funding surplus in the scheme was HK\$1,165,983,000 (2018: HK\$921,001,000) and the solvency surplus was HK\$1,219,398,000 (2018: HK\$953,512,000) at 31 December 2019.

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 19 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 2019 were insignificant to the Group.

Bank loans

Particulars of bank loans of the Group as at 31 December 2019 are set out in note 23 to the consolidated financial statements.

○ Directors' Report

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 236 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 2019, except that three Directors of the Company were unable to attend the Annual General Meeting of the Company held on 16 May 2019 as provided for in code provision A.6.7 due to other engagements. A report on the principal corporate governance practices adopted by the Company is set out on pages 94 to 111 of this Annual Report.

Properties

Particulars of the investment properties of the Group are shown on pages 88 and 89 of this Annual Report.

Audit and Risk Management Committee

The Audit and Risk Management Committee of the Company, together with management, 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 2019.

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, 19 March 2020

Independent Auditor's Report



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 140 to 235, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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.

○ Independent Auditor's Report

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 156 to 157 and 163 to 164.

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 2019 totalled HK\$6,380 million which accounted for 38% 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.

Independent Auditor's Report

Key audit matters (continued)

Assessing the contingency provision for insurance

Refer to note 25 to the consolidated financial statements and the accounting policies on page 165.

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 bus operations. The contingency provision for insurance in connection with the Group's franchised bus operations, which represented the majority of the total balance of HK\$371 million as at 31 December 2019, has been set aside by management to meet the liabilities which are expected to arise from third party claims for incidents which have occurred. 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.

Independent Auditor's Report

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.
- 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.

Independent Auditor's Report — ○

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

- 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

19 March 2020



Consolidated Statement of Profit or Loss

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 (Note) \$'000
Revenue	3 & 12	8,112,201	8,009,275
Other income	4	411,068	217,555
Staff costs	5(a)	(4,517,368)	(4,179,168)
Depreciation and amortisation		(966,607)	(912,920)
Fuel and oil		(919,993)	(988,965)
Spare parts and stores		(214,679)	(223,836)
Toll charges		(328,717)	(460,364)
Other operating expenses		(865,944)	(624,404)
Profit from operations		709,961	837,173
Finance costs	5(b)	(32,182)	(23,677)
Share of profits of associates		21,544	23,769
Profit before taxation	5	699,323	837,265
Income tax	6(a)	(94,012)	(117,193)
Profit for the year		605,311	720,072
Earnings per share			
Basic and diluted	10	\$1.38	\$1.68

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

The notes on pages 148 to 235 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 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 (Note) \$'000
Profit for the year		605,311	720,072
Other comprehensive income for the year (after tax and reclassification adjustments):			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of net defined benefit asset/liability, net of tax expense of \$74,709,000 (2018: tax credit of \$52,190,000)		378,074	(264,115)
Equity investment at fair value through other comprehensive income: net movement in fair value reserve (non-recycling), net of nil tax	31(f)	3,907	20,508
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of entities outside Hong Kong, net of nil tax		(10,705)	(31,189)
Cash flow hedge: net movement in hedging reserve, net of nil tax (2018: net of tax credit of \$222,000)	31(d)	—	(1,124)
Investments in debt securities: net movement in fair value reserve (recycling), net of nil tax	9	38,198	(39,453)
Share of other comprehensive income of an associate, net of nil tax		11,707	—
Other comprehensive income for the year		421,181	(315,373)
Total comprehensive income for the year		1,026,492	404,699

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).



Consolidated Statement of Financial Position

at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 (Note) \$'000
Non-current assets			
Investment properties	13(a)	104,994	108,705
Investment property under development	13(a)	2,531,596	2,301,060
Interest in leasehold land	13(a)	55,330	57,342
Other property, plant and equipment	13(a)	7,462,447	7,373,397
		10,154,367	9,840,504
Intangible assets	14	364,964	360,619
Goodwill	15	84,051	84,051
Interest in associates	17	606,930	610,948
Other financial assets	18	1,263,534	1,708,863
Employee benefit assets	19(a)	1,306,851	913,234
Deferred tax assets	27(b)	477	656
		13,781,174	13,518,875
Current assets			
Spare parts and stores		78,999	82,493
Accounts receivable	21	666,654	371,123
Other financial assets	18	702,363	231,223
Deposits and prepayments		26,924	14,927
Current tax recoverable	27(a)	483	10,270
Restricted bank deposits	22(a)	146,955	6,803
Bank deposits and cash	22(a)	1,308,958	1,174,249
		2,931,336	1,891,088
Current liabilities			
Accounts payable and accruals	24	1,339,459	1,033,758
Contingency provision – insurance	25	126,350	145,040
Lease liabilities	26	3,907	–
Current tax payable	27(a)	87,277	1,018
		1,556,993	1,179,816
Net current assets			
		1,374,343	711,272
Total assets less current liabilities			
		15,155,517	14,230,147

Consolidated Statement of Financial Position at 31 December 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 (Note) \$'000
Non-current liabilities			
Bank loans	23	2,706,572	2,625,039
Lease liabilities	26	3,111	–
Deferred tax liabilities	27(b)	1,227,243	1,161,577
Contingency provision – insurance	25	244,327	241,357
Employee benefit liabilities	19(a)	–	2,591
Provision for long service payments	28	2,554	4,019
		4,183,807	4,034,583
NET ASSETS		10,971,710	10,195,564
CAPITAL AND RESERVES			
Share capital	29(b)(i)	446,941	434,597
Reserves		10,524,769	9,760,967
TOTAL EQUITY		10,971,710	10,195,564

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

Approved and authorised for issue by the Board of Directors on 19 March 2020

Norman LEUNG Nai Pang
Chairman

Roger LEE Chak Cheong
Managing Director

The notes on pages 148 to 235 form part of these financial statements.



Consolidated Statement of Changes in Equity

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)



		Attributable to equity shareholders of the Company									
	Note	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))	Hedging reserve \$'000 (note 29 (c)(iv))	Fair value reserve (recycling) \$'000 (note 29 (c)(v))	Fair value reserve (non-recycling) \$'000 (note 29 (c)(vi))	Retained profits \$'000 (note)	Total \$'000
Balance at 1 January 2018		422,456	425,831	4,969	1,102,614	133,014	–	1,889	476,155	7,452,158	10,019,086
Changes in equity for 2018:											
Profit for the year		–	–	–	–	–	–	–	–	720,072	720,072
Other comprehensive income for the year		–	–	–	–	(31,189)	(1,124)	(39,453)	20,508	(264,115)	(315,373)
Total comprehensive income for the year		–	–	–	–	(31,189)	(1,124)	(39,453)	20,508	455,957	404,699
Shares issued in respect of scrip dividend											
– 2017 final dividend	29(b)(i)	9,172	201,318	–	–	–	–	–	–	–	210,490
Shares issued in respect of scrip dividend											
– 2018 interim dividend	29(b)(i)	2,969	59,813	–	–	–	–	–	–	–	62,782
Equity-settled share-based transactions	5(a)	–	–	853	–	–	–	–	–	–	853
Unclaimed dividends forfeited		–	–	–	–	–	–	–	–	7,352	7,352
Dividends approved in respect of the previous year	11(b)	–	–	–	–	–	–	–	–	(380,210)	(380,210)
Dividends declared in respect of the current year	11(a)	–	–	–	–	–	–	–	–	(129,488)	(129,488)
		12,141	261,131	853	–	–	–	–	–	(502,346)	(228,221)
Balance at 31 December 2018		434,597	686,962	5,822	1,102,614	101,825	(1,124)	(37,564)	496,663	7,405,769	10,195,564

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company								
		Share capital	Share premium	Capital reserve	Other reserves	Exchange reserve	Hedging reserve	Fair value reserve (recycling)	Fair value reserve (non-recycling)	Retained profits
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
			(note 29 (c)(i))	(note 29 (c)(ii))		(note 29 (c)(iii))	(note 29 (c)(iv))	(note 29 (c)(v))	(note 29 (c)(vi))	(note)
Balance at 31 December 2018 and 1 January 2019		434,597	686,962	5,822	1,102,614	101,825	(1,124)	(37,564)	496,663	7,405,769
Changes in equity for 2019:										
Profit for the year		-	-	-	-	-	-	-	-	605,311
Other comprehensive income for the year		-	-	-	-	(10,705)	-	38,198	3,907	389,781
Total comprehensive income for the year		-	-	-	-	(10,705)	-	38,198	3,907	995,092
Amounts transferred from hedging reserve to initial carrying amount of hedged items and related tax		-	-	-	-	-	1,124	-	-	-
Shares issued in respect of scrip dividend – 2018 final dividend	29(b)(i)	8,764	190,974	-	-	-	-	-	-	-
Shares issued in respect of scrip dividend – 2019 interim dividend	29(b)(i)	3,197	60,505	-	-	-	-	-	-	-
Issuance of shares upon exercise of share options	29(b)(i)	383	9,298	(704)	-	-	-	-	-	-
Forfeiture of share options		-	-	(891)	-	-	-	-	-	891
Equity-settled share-based transactions	5(a)	-	-	(11)	-	-	-	-	-	-
Unclaimed dividends forfeited		-	-	-	-	-	-	-	-	729
Dividends approved in respect of the previous year	11(b)	-	-	-	-	-	-	-	-	(391,482)
Dividends declared in respect of the current year	11(a)	-	-	-	-	-	-	-	-	(133,123)
		12,344	260,777	(1,606)	-	-	1,124	-	-	(522,985)
Balance at 31 December 2019		446,941	947,739	4,216	1,102,614	91,120	-	634	500,570	7,877,876

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).



Consolidated Cash Flow Statement

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 (Note) \$'000
Operating activities			
Cash generated from operations	22(c)	1,378,325	1,709,432
Interest received		93,533	86,512
Interest paid		(29,798)	(15,784)
Tax paid			
– Hong Kong profits tax		(1,422)	(51,876)
– The People's Republic of China ("PRC") withholding tax		(943)	(1,644)
Net cash generated from operating activities		1,439,695	1,726,640
Investing activities			
(Increase)/decrease in restricted bank deposits		(140,152)	21,193
Decrease/(increase) in bank deposits with original maturities of over three months		183,040	(949,647)
Payment for the purchase of other property, plant and equipment		(832,298)	(1,599,769)
Payment for other additions of investment property under development		(180,539)	(51,492)
Payment for the purchase of intangible assets		(4,345)	(228,497)
Payment for the purchase of debt securities		(237,073)	–
Receipt of government grant for the purchase of other property, plant and equipment		5,921	5,128
Proceeds from the disposal of other property, plant and equipment		6,176	14,040
Proceeds on the maturity of debt securities		231,132	–
Dividends received from associates		26,564	6,435
Dividends received from unlisted equity securities		40,300	33,480
Proceeds from the disposal of subsidiaries, net of cash disposal		–	40,000
Finance costs paid and capitalised into investment property under development		(40,224)	(26,894)
Net cash used in investing activities		(941,498)	(2,736,023)
Financing activities			
Capital element of lease rentals paid	22(d)	(3,923)	–
Proceeds from new bank loans	22(d)	1,765,000	1,605,000
Repayments of bank loans	22(d)	(1,690,000)	(1,335,000)
Issuance of shares upon exercise of share options		8,977	–
Interest element of lease rentals paid	22(d)	(200)	–
Dividends paid to equity shareholders of the Company		(261,165)	(236,426)
Net cash (used in)/generated from financing activities		(181,311)	33,574

Consolidated Cash Flow Statement

for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

		2019	2018
	Note	\$'000	(Note) \$'000
Net increase/(decrease) in cash and cash equivalents		316,886	(975,809)
Cash and cash equivalents at 1 January		224,602	1,204,805
Effect of foreign exchange rate changes		863	(4,394)
Cash and cash equivalents at 31 December		542,351	224,602
Analysis of cash and cash equivalents:			
Bank deposits and cash in the consolidated statement of financial position	22(a)	1,308,958	1,174,249
Less: bank deposits with original maturities of over three months	22(a)	(766,607)	(949,647)
Cash and cash equivalents in the consolidated cash flow statement		542,351	224,602

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).



Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 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 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.

Notes to the Financial Statements — ○

1 Significant accounting policies (continued)

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and there are no adjustments to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 30(b). For an explanation of how the Group applies lessee accounting, see note 1(l)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2.7%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as disclosed in note 30(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 \$'000
Operating lease commitments at 31 December 2018	8,628
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(1,444)
	7,184
Less: total future interest expenses	(232)
Total lease liabilities recognised at 1 January 2019	6,952

Notes to the Financial Statements

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

b. Lessee accounting and transitional impact (continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 \$'000	Capitalisation of operating lease contracts \$'000	Carrying amount at 1 January 2019 \$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	7,373,397	6,952	7,380,349
Total non-current assets	13,518,875	6,952	13,525,827
Lease liabilities (current)	—	3,122	3,122
Current liabilities	1,179,816	3,122	1,182,938
Net current assets	711,272	(3,122)	708,150
Total assets less current liabilities	14,230,147	3,830	14,233,977
Lease liabilities (non-current)	—	3,830	3,830
Total non-current liabilities	4,034,583	3,830	4,038,413
Net assets	10,195,564	—	10,195,564

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

c. Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(d) Subsidiaries

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 a 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.

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)(iii)).

Notes to the Financial Statements — ○

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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. 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)(iii)). 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 any other long-term interests that in substance form part of the Group's net investment in the associate after applying the expected credit loss ("ECL") model to such other long-term interests, where applicable (see note 1(n)(i)).

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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)(iii)).

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 set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 31(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(u)(iv)).
- fair value through other comprehensive income ("FVOCI") – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Notes to the Financial Statements — ○

1 Significant accounting policies (continued)

(g) Other investments in debt and equity securities (continued)

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(u)(v).

(h) Derivative financial instruments

Derivative financial instruments are recognised 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

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates (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 gain or loss on the derivative financial instrument is 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 no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.



Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(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)(iii)). 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).

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see note 1(l)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in note 1(l).

(k) Other property, plant and equipment

Properties held for own use and other items of plant and equipment, including right-of-use assets arising from leases of underlying property, plant and equipment (see note 1(l)), are stated at cost less accumulated depreciation and impairment losses (see note 1(n)(iii)).

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 attaching to them.

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.

Notes to the Financial Statements — ○

1 Significant accounting policies (continued)

(k) Other property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, 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	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.

(l) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to its present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(k) and 1(n)(iii)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(I) Leased assets (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, except for land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, which was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Where the Group acquired 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 were recognised as interest in leasehold land and property, plant and equipment. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 1(k). Impairment losses were accounted for in accordance with the accounting policy as set out in note 1(n)(iii). All of the Group's leasehold land classified under finance lease has been fully paid.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(u)(vi).

Notes to the Financial Statements — ○

1 Significant accounting policies (continued)

(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)(iii)).

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.

(n) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

- financial assets measured at amortised cost (including restricted bank deposits and cash and trade and other receivables); and
- investments in debt securities measured at FVOCI (recycling).

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether the credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 1(u)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Credit losses from 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.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or 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.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(n)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

Notes to the Financial Statements — ○

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current 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, including right-of-use assets;
- interest in leasehold land;
- intangible assets;
- goodwill;
- investments in associates and joint operations; 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).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current 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.

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, 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 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) Accounts receivable

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Accounts receivable are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for credit losses (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 credit losses.

(q) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(v)).

Notes to the Financial Statements — ○

1 Significant accounting policies (continued)

(r) Accounts payable and accruals

Accounts payable and accruals are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(n)(ii), accounts payable and accruals are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Bank deposits and cash

Bank deposits and cash 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. Bank deposits and cash are assessed for ECL in accordance with the policy set out in note 1(n)(i).

(t) Provisions and contingent liabilities

(i) 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, when it is probable that an outflow of economic benefits will be required to settle the obligation and when 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.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.



Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promise consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are 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. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(n)(i)).
- (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.

Notes to the Financial Statements — ○

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 asset. 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. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. 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 exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. 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 foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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.

Notes to the Financial Statements — ○

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.

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.



Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(y) Income tax (continued)

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.

Notes to the Financial Statements — ○

1 Significant accounting policies (continued)

(z) Related parties

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

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

(aa) Segment reporting

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Accounting judgements and estimates

Notes 15, 19(f), 20(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, including right-of-use assets, 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, taking into account anticipated technological changes. The depreciation/amortisation expense for future periods is adjusted if there are material changes from previous estimates.

(b) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for ECLs on the asset. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually even if there is no indication of impairment.

(c) Contingency provision – insurance

Estimation of the contingency provision – insurance, as disclosed in note 25, is based on past claim experience and recent claim 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.

Notes to the Financial Statements

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:

	2019 \$'000	2018 \$'000
Fare revenue from franchised public bus services	7,504,233	7,385,055
Revenue from non-franchised transport services	314,709	343,897
Licence fee income	190,924	180,986
Media sales revenue	35,363	29,507
Gross rentals from investment properties	66,972	69,830
	8,112,201	8,009,275

All revenue, except gross rentals from investment properties which are subject to HKFRS 16, *Leases*, falls within the scope of HKFRS 15, *Revenue from contracts with customers*. 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

	2019 \$'000	2018 \$'000
Interest income on financial assets measured at FVOCI (recycling)	57,299	57,189
Interest income on financial assets measured at amortised cost	30,098	24,352
Dividend income from unlisted equity securities	40,300	33,480
Claims received	43,477	34,495
Net miscellaneous business receipts	10,625	12,476
Net gain on disposal of other property, plant and equipment	4,125	11,139
Net losses on derecognition of investments in debt securities (note 9)	(120)	–
Net foreign exchange (loss)/gain	(7,055)	3,537
Government subsidies (note)	152,267	–
Sundry income	80,052	40,887
	411,068	217,555

Note: This represented subsidies proposed by the Hong Kong Special Administrative Region ("HKSAR") Government in October 2019 for franchised and non-franchised bus operators to cope with the operating pressure caused by the prolonged social unrest throughout the second half of 2019 which were subsequently approved by the Finance Committee of the Legislative Council of the HKSAR.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2019 \$'000	2018 (Note) \$'000
(a) Staff costs		
Defined benefit retirement plan expense (note 19(e))	56,575	59,709
Contributions to defined contribution retirement plans	170,571	148,001
Movements in provision for long service payments (note 28)	9,383	7,953
Total retirement cost	236,529	215,663
Equity-settled share-based payment expenses	(11)	853
Salaries, wages and other benefits	4,280,850	3,962,652
	4,517,368	4,179,168
(b) Finance costs		
Interest on bank loans	68,534	50,571
Interest on lease liabilities (note 22(d))	200	–
Total interest expense on financial liabilities not at fair value through profit or loss	68,734	50,571
Less: interest expense capitalised into investment property under development*	(36,552)	(26,894)
	32,182	23,677

* The borrowing costs have been capitalised at the average interest rate of 2.33% per annum (2018: 1.69% per annum).

	2019 \$'000	2018 \$'000
(c) Rentals received and receivable from investment properties		
Gross rentals (note)	(66,972)	(69,830)
Less: direct outgoings	11,332	9,680
	(55,640)	(60,150)

Note: Included contingent rental income of \$17,000 (2018: \$Nil).

Notes to the Financial Statements

5 Profit before taxation (continued)

	2019 \$'000	2018 \$'000
(d) Other items		
Amortisation of land lease premium*	–	2,012
Depreciation		
– owned property, plant and equipment*	960,598	910,908
– right-of-use assets*	6,009	–
Total minimum lease payments for lease previously classified as operating leases under HKAS 17*	–	32,185
Write-down/(write-back) of spare parts and stores	725	(8,093)
Provision for passenger reward (note a)	6,834	–
Provision for toll exemption fund (note b)	195,782	–
Auditors' remuneration		
– audit services	4,203	4,111
– other services	884	1,210

Note a: 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 reward, 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 2019 and 2018 was 8.7% and 9.7% per annum respectively. The balance of passenger reward of the Group as at 31 December 2019, included in accounts payable and accruals (note 24), was \$12,375,000 (2018: \$6,052,000).

Note b: The HKSAR Government announced that with effect from 17 February 2019, all franchised buses are exempted from paying toll when using the Government tunnels and roads. However, each franchised bus operator is required to spend an equivalent amount of the toll saved to set up its own dedicated account known as the "Toll Exemption Fund" in which the fund will normally be used to lower the magnitude of future fare increases. In addition, any additional fare revenue resulting from the increase of the bus fare on the jointly operated routes with other franchised bus operators arising from a fare adjustment is required to be paid into the Toll Exemption Fund. The balance of Toll Exemption Fund of the Group as at 31 December 2019, included in accounts payable and accruals (note 24), was \$196,354,000 (2018: \$Nil).

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted to the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

6 Income tax in the consolidated statement of profit or loss

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

	2019 \$'000	2018 \$'000
Current tax – Hong Kong profits tax		
Provision for the year	58,393	38,374
Under/(over)-provision in respect of prior years	43,762	(926)
	102,155	37,448
PRC withholding tax	943	1,562
	103,098	39,010
Deferred tax		
Origination and reversal of temporary differences	(9,086)	78,183
	94,012	117,193

The provision for Hong Kong profits tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for a subsidiary of the Group which is a qualifying corporation under the two-tier profits tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong profits tax for this subsidiary was calculated using the same basis in 2018.

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

	2019 \$'000	2018 \$'000
Profit before taxation	699,323	837,265
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	116,634	139,296
Tax effect of non-deductible expenses	4,327	8,166
Tax effect of non-taxable income	(26,204)	(28,968)
Tax effect of unused tax losses not recognised	22	67
Tax effect of utilisation of unused tax losses not recognised in prior years	–	(57)
Tax effect of temporary difference previously not recognised	(44,316)	–
Under/(over)-provision in prior years	43,762	(926)
Others	(213)	(385)
Actual tax expense	94,012	117,193

Notes to the Financial Statements

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:

		2019						
	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)	390	6,077	1,306	369	8,142	171	8,313
Non-executive Directors								
Raymond Kwok Ping Luen		654	–	–	–	654	–	654
Ng Siu Chan		390	–	–	–	390	–	390
Charles Lui Chung Yuen		654	–	–	–	654	–	654
William Louey Lai Kuen		654	–	–	–	654	–	654
Winnie Ng		714	–	–	–	714	–	714
Allen Fung Yuk Lun		636	–	–	–	636	–	636
Susanna Wong Sze Lai		–	–	–	–	–	–	–
Gao Feng		–	–	–	–	–	–	–
Dr Cheung Wing Yui	(c)	390	–	–	–	390	–	390
Lee Luen Fai	(d)	390	–	–	–	390	–	390
Lung Po Kwan	(e)	390	–	–	–	390	–	390
Independent non-executive Directors								
Dr Norman Leung Nai Pang		2,116	–	–	–	2,116	–	2,116
Dr John Chan Cho Chak		794	–	–	–	794	–	794
Dr Eric Li Ka Cheung		770	–	–	–	770	–	770
Professor Liu Pak Wai		636	–	–	–	636	–	636
Tsang Wai Hung	(b)	840	–	–	–	840	–	840
		10,418	6,077	1,306	369	18,170	171	18,341

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 Directors' emoluments (continued)

		2018						
	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)	372	5,791	1,250	352	7,765	398	8,163
Non-executive Directors								
Raymond Kwok Ping Luen		624	–	–	–	624	–	624
Ng Siu Chan		372	–	–	–	372	–	372
Charles Lui Chung Yuen		624	–	–	–	624	–	624
William Louey Lai Kuen		624	–	–	–	624	–	624
Winnie Ng		684	–	–	–	684	–	684
Edmond Ho Tat Man	(f)	140	–	–	–	140	–	140
Allen Fung Yuk Lun		612	–	–	–	612	–	612
Susanna Wong Sze Lai		–	–	–	–	–	–	–
Gao Feng		–	–	–	–	–	–	–
Dr Cheung Wing Yui	(c)	372	–	–	–	372	–	372
Lee Luen Fai	(d)	372	–	–	–	372	–	372
Lung Po Kwan	(e)	188	–	–	–	188	–	188
Independent non-executive Directors								
Dr Norman Leung Nai Pang		1,874	–	–	–	1,874	–	1,874
Dr John Chan Cho Chak		764	–	–	–	764	–	764
Dr Eric Li Ka Cheung		692	–	–	–	692	–	692
Professor Liu Pak Wai		612	–	–	–	612	–	612
Tsang Wai Hung	(b)	552	–	–	–	552	–	552
		9,478	5,791	1,250	352	16,871	398	17,269

Notes:

- (a) The amounts included emoluments from the Company and certain of its subsidiaries.
- (b) Mr Tsang Wai Hung was appointed as Independent Non-executive Director with effect from 1 January 2018.
- (c) Dr Cheung Wing Yui was appointed as Non-executive Director with effect from 1 January 2018.
- (d) Mr Lee Luen Fai was appointed as Non-executive Director with effect from 1 January 2018.
- (e) Mr Lung Po Kwan was appointed as Non-executive Director with effect from 1 July 2018.
- (f) Mr Edmond Ho Tat Man retired on 17 May 2018.
- (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 20.

Notes to the Financial Statements

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2018: 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:

	2019 \$'000	2018 \$'000
Fees	390	372
Salaries, allowances and benefits in kind	20,071	19,797
Discretionary bonuses	4,224	4,242
Equity-settled share-based payment expenses	338	1,177
Retirement scheme contributions	1,215	853
	26,238	26,441

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

	Number of individuals	
	2019	2018
\$2,500,001 – \$3,000,000	1	–
\$3,000,001 – \$3,500,000	–	1
\$3,500,001 – \$4,000,000	1	–
\$4,000,001 – \$4,500,000	–	1
\$5,000,001 – \$5,500,000	–	1
\$5,500,001 – \$6,000,000	2	1
\$8,000,001 – \$8,500,000	1	1

9 Other comprehensive income

	2019 \$'000	2018 \$'000
Investments in debt securities:		
Change in fair value recognised during the year	38,078	(39,453)
Amounts transferred to profit or loss on derecognition of investments in debt securities (note 4)	120	–
Net movement in the fair value reserve (recycling) during the year recognised in other comprehensive income	38,198	(39,453)

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$605,311,000 (2018: \$720,072,000) and the weighted average number of ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019	2018
Issued ordinary shares at 1 January	434,597,327	422,455,810
Effect of shares issued in respect of scrip dividend	5,197,315	5,300,304
Effect of shares issued in respect of share option	267,634	–
Weighted average number of ordinary shares at 31 December	440,062,276	427,756,114

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years presented and diluted earnings per share are the same as basic earnings per share.

11 Dividends

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

	2019		2018	
	Per share \$	Total \$'000	Per share \$	Total \$'000
Interim dividend declared and paid	0.30	133,123	0.30	129,488
Final dividend proposed after the end of the reporting period	0.70	312,859	0.90	391,138
	1.00	445,982	1.20	520,626

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.

The interim dividend with a scrip dividend alternative in respect of the six months ended 30 June 2019 was paid on 15 October 2019, of which \$63,702,000 was settled by the issuance of 3,196,601 shares at an issue price of \$19.93 per share under the scrip dividend scheme.

The interim dividend with a scrip dividend alternative in respect of the six months ended 30 June 2018 was paid on 16 October 2018, of which \$62,782,000 was settled by the issuance of 2,969,828 shares at an issue price of \$21.14 per share under the scrip dividend scheme.

Notes to the Financial Statements

11 Dividends (continued)

(b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019		2018	
	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	391,482	0.90	380,210

The final dividend with a scrip dividend alternative in respect of the year ended 31 December 2018 was paid on 27 June 2019, of which \$199,738,000 was settled by the issuance of 8,764,283 shares at an issue price of \$22.79 per share under the scrip dividend scheme.

The final dividend with a scrip dividend alternative in respect of the year ended 31 December 2017 was paid on 29 June 2018, of which \$210,490,000 was settled by the issuance of 9,171,689 shares at an issue price of \$22.95 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 two 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 properties for the use as investment properties.

All other segments: The provision of non-franchised 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

12 Segment reporting (continued)

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to the revenue generated and expenses incurred by those segments. The measure used for reporting segment profit is net profit after taxation, adjusted for head office or corporate administration costs which are not specifically attributable to individual segments. Inter-segment revenue is priced with reference to the price charged to external parties for similar transactions.

Segment assets and segment liabilities include all current and non-current assets and liabilities, respectively, which are directly managed by the segments.

Information regarding the Group's reportable segments for the years ended 31 December 2019 and 2018 is set out below.

	Franchised bus operation		Property holdings and development		All other segments		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$'000	(Note)	\$'000	\$'000	\$'000	\$'000	\$'000	(Note)
		\$'000						\$'000
Revenue from external customers	7,732,512	7,593,067	66,972	69,830	312,717	346,378	8,112,201	8,009,275
Inter-segment revenue	971	491	5,717	5,298	9,696	11,569	16,384	17,358
Reportable segment revenue	7,733,483	7,593,558	72,689	75,128	322,413	357,947	8,128,585	8,026,633
Reportable segment profit	368,022	471,151	54,792	53,904	60,261	68,858	483,075	593,913
Interest income	1,560	416	-	-	-	-	1,560	416
Interest expense	(32,182)	(23,677)	-	-	-	-	(32,182)	(23,677)
Depreciation and amortisation for the year	(916,600)	(868,332)	(6,636)	(6,238)	(43,371)	(38,350)	(966,607)	(912,920)
Staff costs	(4,385,633)	(4,034,164)	-	-	(121,295)	(135,311)	(4,506,928)	(4,169,475)
Share of profits of associates	-	-	-	-	21,544	23,769	21,544	23,769
Income tax expense	(72,950)	(93,728)	(10,756)	(10,650)	(10,306)	(12,815)	(94,012)	(117,193)
Reportable segment assets	9,582,826	8,587,994	2,649,389	2,421,744	1,795,491	1,806,705	14,027,706	12,816,443
- including interest in associates	-	-	-	-	606,930	610,948	606,930	610,948
Additions to non-current segment assets during the year	1,025,751	1,319,159	232,926	83,889	28,191	91,833	1,286,868	1,494,881
Reportable segment liabilities	4,035,344	3,541,108	1,555,638	1,538,586	116,313	103,554	5,707,295	5,183,248

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

Notes to the Financial Statements — ○

12 Segment reporting (continued)

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

	2019 \$' 000	2018 (Note) \$' 000
Revenue		
Reportable segment revenue	7,806,172	7,668,686
Revenue from all other segments	322,413	357,947
Elimination of inter-segment revenue	(16,384)	(17,358)
Consolidated revenue	8,112,201	8,009,275
Profit		
Reportable segment profit	422,814	525,055
Profit from all other segments	60,261	68,858
Unallocated profits	122,236	126,159
Consolidated profit after taxation	605,311	720,072
Assets		
Reportable segment assets	12,232,215	11,009,738
Assets from all other segments	1,795,491	1,806,705
Unallocated assets	2,684,804	2,593,520
Consolidated total assets	16,712,510	15,409,963
Liabilities		
Reportable segment liabilities	5,590,982	5,079,694
Liabilities from all other segments	116,313	103,554
Unallocated liabilities	33,505	31,151
Consolidated total liabilities	5,740,800	5,214,399

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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. It is based on the location of the operation to which they are allocated in the case of intangible assets and goodwill, and on the location of operations in the case of interest in associates.

	Specified non-current assets	
	2019 \$'000	2018 (Note) \$'000
Hong Kong	10,432,033	10,112,030
The PRC	778,279	784,092
	11,210,312	10,896,122

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

Notes to the Financial Statements

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment

(a) Reconciliation of carrying amount

	Buildings \$'000	Other properties leased for own use carried at cost \$'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 2018	1,519,276	–	11,602,864	134,887	3,063,761	16,320,788	2,224,194	205,293	115,513	18,865,788
Additions	9,950	–	143,452	1,067,816	277,516	1,498,734	78,886	4,974	–	1,582,594
Disposals	(1,350)	–	(935,895)	–	(277,932)	(1,215,177)	–	–	–	(1,215,177)
Transfers	–	–	1,135,035	(1,135,035)	–	–	–	–	–	–
At 31 December 2018	1,527,876	–	11,945,456	67,668	3,063,345	16,604,345	2,303,080	210,267	115,513	19,233,205
Accumulated depreciation and amortisation:										
At 1 January 2018	1,084,195	–	5,786,213	–	2,716,881	9,587,289	2,020	95,866	56,159	9,741,334
Charge for the year	36,562	–	661,825	–	206,825	905,212	–	5,696	2,012	912,920
Written back on disposals	(1,350)	–	(933,395)	–	(277,531)	(1,212,276)	–	–	–	(1,212,276)
At 31 December 2018	1,119,407	–	5,514,643	–	2,646,175	9,280,225	2,020	101,562	58,171	9,441,978
Net book value:										
At 31 December 2018	408,469	–	6,430,813	67,668	417,170	7,324,120	2,301,060	108,705	57,342	9,791,227
Add: Deposits paid in respect of buses on order						49,277	–	–	–	49,277
						7,373,397	2,301,060	108,705	57,342	9,840,504

Notes to the Financial Statements

(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)

(a) Reconciliation of carrying amount (continued)

	Buildings \$'000	Other properties leased for own use carried at cost \$'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 31 December 2018	1,527,876	-	11,945,456	67,668	3,063,345	16,604,345	2,303,080	210,267	115,513	19,233,205
Impact on initial application of HKFRS 16 (Note)	-	6,952	-	-	-	6,952	-	-	-	6,952
At 1 January 2019	1,527,876	6,952	11,945,456	67,668	3,063,345	16,611,297	2,303,080	210,267	115,513	19,240,157
Additions	21,473	3,990	46,148	623,464	275,084	970,159	230,536	2,382	-	1,203,077
Disposals	-	-	(494,397)	-	(88,896)	(583,293)	-	-	-	(583,293)
Transfers	-	-	604,595	(604,595)	-	-	-	-	-	-
At 31 December 2019	1,549,349	10,942	12,101,802	86,537	3,249,533	16,998,163	2,533,616	212,649	115,513	19,859,941
Accumulated depreciation and amortisation:										
At 1 January 2019	1,119,407	-	5,514,643	-	2,646,175	9,280,225	2,020	101,562	58,171	9,441,978
Charge for the year	35,241	3,997	699,770	-	219,494	958,502	-	6,093	2,012	966,607
Written back on disposals	-	-	(492,623)	-	(88,619)	(581,242)	-	-	-	(581,242)
At 31 December 2019	1,154,648	3,997	5,721,790	-	2,777,050	9,657,485	2,020	107,655	60,183	9,827,343
Net book value:										
At 31 December 2019	394,701	6,945	6,380,012	86,537	472,483	7,340,678	2,531,596	104,994	55,330	10,032,598
Add: Deposits paid in respect of buses on order						121,769	-	-	-	121,769
						7,462,447	2,531,596	104,994	55,330	10,154,367

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 1(c).

Notes to the Financial Statements — ○

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

		31 December 2019 \$'000	1 January 2019 \$'000
	Note		
Interest in leasehold land, carried at amortised cost, with remaining lease term between 10 and 50 years	(i)	55,330	57,342
Other properties leased for own use, carried at depreciated cost	(ii)	6,945	6,952
		62,275	64,294
Investment property under development with remaining lease term between 10 and 50 years		2,153,903	2,153,903
		2,216,178	2,218,197

Notes to the Financial Statements

(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)

(b) Right-of-use assets (continued)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 \$'000	2018 (Note) \$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Interest in leasehold land	2,012	2,012
Other properties leased for own use	3,997	–
	6,009	2,012
Interest on lease liabilities (note 5(b))	200	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	3,672	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	32,185

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

During the year, additions to right-of-use assets were \$3,990,000. This amount related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 22(e) and 26, respectively.

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(b) Right-of-use assets (continued)

(i) Interest in leasehold land

The Group holds several pieces of land for industrial and commercial buildings for its public transportation and property holding and development businesses. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners or the Government, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its staff rest kiosks and bus regulators' offices through tenancy agreements. The leases typically run for an initial period of two to three years.

(c) 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

Notes to the Financial Statements

(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)

(c) Fair value measurement of properties (continued)

(i) Fair value hierarchy (continued)

	2019			
	Fair value \$'000	Fair value measurements categorised into		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<i>Recurring fair value disclosures</i>				
Investment properties in Hong Kong				
– commercial properties	3,148,750	–	–	3,148,750
– industrial property	1,416,000	–	–	1,416,000
Investment property under development in Hong Kong	4,560,000	–	–	4,560,000
	2018			
	Fair value \$'000	Fair value measurements categorised into		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<i>Recurring fair value disclosures</i>				
Investment properties in Hong Kong				
– commercial properties	3,530,470	–	–	3,530,470
– industrial property	1,497,000	–	–	1,497,000
Investment property under development in Hong Kong	4,825,000	–	–	4,825,000

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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. As at 31 December 2019, investment property under development of \$2,531,596,000 (2018: \$2,301,060,000) related to the Group's interests in a joint operation.

Notes to the Financial Statements — ○

13 Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (continued)

(c) 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	-60% to -25% (2018: -50% to 15%)
Investment property in Hong Kong – industrial property	Market comparison and residual valuation approaches	Discount/premium on quality of redevelopment	-50% to -10% (2018: -30% to 75%)
Investment property under development in Hong Kong	Market comparison and residual valuation approaches	Discount/premium on quality of redevelopment	-45% to 25% (2018: -30% to 10%)

The Group adopted a market comparison approach for all its commercial properties in Hong Kong for the years ended 31 December 2019 and 2018. The fair value of commercial properties using a market comparison approach is determined by reference to the 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 recent sales. Higher premiums for higher quality buildings will result in a higher fair value measurement.

The fair value of the industrial property in Hong Kong, taking into account its future redevelopment value, is determined using market comparison and residual valuation approaches. The market comparison approach determines 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 industrial property compared to the recent transactions. The residual valuation approach is a modification of an income approach based on discounted cash flows, making reference to the development potential of the Group's industrial 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 industrial 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 developments in the locality were gathered for gross development value assessment. A higher premium for higher quality redevelopment will result in a higher gross development value. The redevelopment of industrial property is considered as its highest and best use under HKFRS 13.

Notes to the Financial Statements

(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)

(c) 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, and the 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 recent transactions. A higher premium for higher quality redevelopment will result in a higher gross development value.

- (d) 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.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2019 \$'000	2018 \$'000
Within 1 year	68,399	44,545
After 1 year but within 2 years	55,512	28,762
After 2 years but within 3 years	41,461	17,310
After 3 years but within 4 years	25,687	4,356
After 4 years but within 5 years	13,655	2,331
After 5 years	1,826	—
	206,540	97,304

- (e) In 2019, subsidies totalling \$5,921,000 (2018: \$5,128,000) were received or receivable from the HKSAR Government for purchase of diesel-electric hybrid buses and electric buses ("the Buses") and for installation of facilities at bus stops and termini. The purposes of the subsidies are to encourage the use of the Buses by granting financial assistance to franchised public bus operators to purchase the Buses for trial and to expedite the installation of facilities for the convenience of passengers. 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).

Notes to the Financial Statements

14 Intangible assets

	Passenger service licences and transport operating rights \$'000
Cost:	
At 1 January 2018	132,122
Additions	228,497
At 31 December 2018 and 1 January 2019	360,619
Additions	4,345
At 31 December 2019	364,964
Accumulated amortisation:	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	—
Net book value:	
At 31 December 2019	364,964
At 31 December 2018	360,619

In respect of passenger service licences and transport operating rights of the Group that are regarded as having 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 as having 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 Goodwill

	2019 \$'000	2018 \$'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:

	2019 %	2018 %
Growth rate	1.4	2.4
Discount rate	5.1 – 5.7	4.7 – 5.9

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.

Notes to the Financial Statements

16 Interest in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Percentage of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by subsidiaries	
KMB Resources Limited	Incorporated in the British Virgin Islands and operates in Hong Kong	1 share of US\$1	100	100	–	Investment holding
The Kowloon Motor Bus Company (1933) Limited	Hong Kong	403,639,413 shares	100	–	100	Provision of franchised public bus services in Hong Kong
Long Win Bus Company Limited	Hong Kong	100,000,000 shares	100	–	100	Provision of franchised public bus services in Hong Kong
Sun Bus Limited	Hong Kong	2 shares	100	–	100	Provision of non-franchised bus services
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)

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 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	
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
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
Power Crown Limited	Hong Kong	1 share	100	—	100	Provision of non-franchised bus services in Hong Kong
Eagle Win Limited	Hong Kong	1 share	100	—	100	Provision of non-franchised bus services in Hong Kong
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

Notes to the Financial Statements

16 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	
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
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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Interest in associates

	2019 \$'000	2018 \$'000
Share of net assets	532,434	527,619
Goodwill	60,584	61,704
Amount due from an associate	18,834	26,547
Amount due to an associate	(4,922)	(4,922)
	606,930	610,948

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.

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

Name of associate	Form of business structure	Place of establishment and business	Particulars of registered and paid-up capital	Percentage of ownership interest		Principal activity
				Group's effective interest	Held by subsidiaries	
Shenzhen Bus Group Company Limited	Sino-foreign joint stock company	The PRC	RMB951,430,306	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.

Notes to the Financial Statements

17 Interest in associates (continued)

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	
	2019	2018
	\$'000	(Note) \$'000
Gross amounts of the associate		
Current assets	2,824,779	2,733,913
Non-current assets	6,476,693	6,306,728
Current liabilities	4,200,518	2,978,416
Non-current liabilities	3,848,731	4,817,401
Total equity	1,252,223	1,244,824
Non-controlling interest	(12,227)	(13,169)
Revenue	2,164,822	2,182,641
Profit for the year	49,293	74,852
Other comprehensive income	33,449	—
Total comprehensive income	84,141	74,852
Dividend from the associate	18,852	30,045
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate attributable to equity shareholders	1,239,996	1,231,655
Group's effective interest	35%	35%
Group's share of net assets of the associate	433,998	431,079
Amount due from an associate	17,738	24,810
Goodwill	60,584	61,704
Carrying amount in the consolidated financial statements	512,320	517,593

Note: The associates have initially applied HKFRS 16 using the modified retrospective approach and there are no adjustments to the opening balances of equity at 1 January 2019. Under this approach, the comparative information is not restated.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Interest in associates (continued)

Aggregate information of associates that are not individually material:

	2019 \$'000	2018 \$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	94,610	93,355
Aggregate amounts of the Group's share of those associates		
Profit/(loss) for the year	4,291	(2,429)
Total comprehensive income	4,291	(2,429)

18 Other financial assets

	Note	2019 \$'000	2018 \$'000
Equity securities designated at FVOCI (non-recycling)			
– Unlisted equity securities	(i)	515,926	512,019
Financial assets measured at FVOCI (recycling)			
– Debt securities listed outside Hong Kong	(ii)	1,449,971	1,428,067
		1,965,897	1,940,086
Less: debt securities listed outside Hong Kong classified as current assets		(702,363)	(231,223)
Other financial assets classified as non-current assets		1,263,534	1,708,863

Notes:

- (i) The unlisted equity securities mainly represented a company incorporated in Hong Kong and engaged primarily in the business of managing a common ticketing and payment system. The Group designated its investments in unlisted equity securities at FVOCI (non-recycling), as the investments are held for strategic purposes. Dividends of \$40,300,000 (2018: \$33,480,000) were received on these investments during the year.
- (ii) Debt securities are issued by corporate entities with credit rating ranging from BB- to A. As at 31 December 2019 and 2018, the Group's investments in debt securities were neither past due nor impaired. Debt securities that will mature within one year are classified as current assets.

Notes to the Financial Statements

19 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 independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuations of the plans at 31 December 2019 were prepared by Towers Watson Hong Kong Limited which has among its staff fellow members of the Society of Actuaries of the United States of America using the projected unit credit method, and were carried out by the appointed actuary, represented by Ms Wing Lui. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement schemes are 171% (2018: 146%) covered by the plan assets held by the trustee.

The plans expose the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk. Since the two retirement schemes 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:

	2019 \$'000	2018 \$'000
Present value of funded obligations (note 19(c))	(1,831,713)	(1,997,136)
Fair value of plan assets (notes 19(b) and 19(d))	3,138,564	2,907,779
	1,306,851	910,643
Represented by:		
Employee benefit assets	1,306,851	913,234
Employee benefit liabilities	—	(2,591)
	1,306,851	910,643

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/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 schemes for the year ending 31 December 2020 is \$Nil (2019: \$Nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Employee retirement benefits (continued)

(b) Plan assets consist of the following:

	2019 \$'000	2018 \$'000
Equity securities:		
– Hong Kong and Mainland China	730,925	682,115
– Europe	389,903	319,856
– North America	551,666	497,958
– Other Asia Pacific	659,098	543,997
	2,331,592	2,043,926
Bonds	744,200	785,100
Cash and others	62,772	78,753
	3,138,564	2,907,779

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

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

	2019 \$'000	2018 \$'000
At 1 January	1,997,136	2,257,415
Remeasurements:		
– Actuarial losses/(gains) arising from changes in demographic assumptions	160	(8,318)
– Actuarial losses/(gains) arising from changes in financial assumptions	17,411	(27,301)
– Actuarial gains arising from liability experience	(7,992)	(13,022)
	9,579	(48,641)
Benefits paid by the plans	(282,844)	(330,873)
Current service cost	70,497	81,290
Interest cost	37,345	37,945
	(175,002)	(211,638)
At 31 December	1,831,713	1,997,136

The weighted average duration of the Monthly Rated and Daily Rated defined benefit obligations are 9.0 and 5.6 years respectively (2018: 8.8 and 5.7 years respectively).

Notes to the Financial Statements — ○

19 Employee retirement benefits (continued)

(d) Movements in plan assets:

	2019 \$'000	2018 \$'000
At 1 January	2,907,779	3,544,072
Administrative expenses paid	(3,582)	(592)
Benefits paid by the plans	(282,844)	(330,873)
Interest income	54,849	60,118
Return/(loss) on plan assets, excluding interest income	462,362	(364,946)
At 31 December	3,138,564	2,907,779

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

	2019 \$'000	2018 \$'000
Current service cost	70,497	81,290
Net income on net defined benefit asset	(17,504)	(22,173)
Administrative expenses paid	3,582	592
Total amounts recognised in profit or loss	56,575	59,709
Actuarial losses/(gains)	9,579	(48,641)
(Return)/loss on plan assets, excluding interest income	(462,362)	364,946
Amounts recognised in other comprehensive income	(452,783)	316,305
Total defined benefit (income)/costs	(396,208)	376,014

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Employee retirement benefits (continued)

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

	2019	2018
Discount rate		
– Monthly Rated Employees Scheme	1.8%	2.0%
– Daily Rated Employees Scheme	1.8%	1.9%
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 percentage point change in the significant actuarial assumptions:

	2019		2018	
	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	(30,106)	31,013	(33,212)	34,230
Future salary increases	27,547	(26,904)	30,499	(29,769)

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.

Notes to the Financial Statements

20 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%

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 Equity-settled share-based transactions (continued)

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

	2019		2018	
	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	3,580	\$23.45	4,300
Exercised during the year	\$23.45	(383)	\$23.45	–
Forfeited during the year	\$23.45	(884)	\$23.45	(720)
Outstanding at the end of the year	\$23.45	2,313	\$23.45	3,580
Exercisable at the end of the year	\$23.45	2,313	\$23.45	2,148

The weighted average share price at the date of exercise for shares exercised during the year was \$23.45 (2018: \$23.45).

The options outstanding at 31 December 2019 had an exercise price of \$23.45 (2018: \$23.45) and a weighted average remaining contractual life of 1.83 years (2018: 2.83 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%

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.

Notes to the Financial Statements

21 Accounts receivable

	2019 \$'000	2018 \$'000
Trade and other receivables	625,958	338,895
Interest receivable	41,056	32,588
Less: loss allowance (note 21(b))	(360)	(360)
	666,654	371,123

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 loss allowance) with the following ageing analysis, based on the due date, as of the end of the reporting period:

	2019 \$'000	2018 \$'000
Current	49,787	49,661
Less than 1 month past due	41,209	45,964
1 to 3 months past due	17,622	7,963
More than 3 months past due	10,042	6,610
	118,660	110,198

According to the Group's credit policy set out in note 31(a) to the financial statements, the credit period granted to customers is generally between 30 days and 90 days. Therefore, all the balances which are not past due as disclosed above are within three months from the invoice date.

(b) Loss allowance of trade receivables

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

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 \$'000	2018 \$'000
Balance at 1 January	360	1,703
Amounts written off during the year	—	(1,343)
Balance at 31 December	360	360

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 Accounts receivable (continued)

(b) Loss allowance of trade receivables (continued)

Loss allowance of receivables are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive) (see note 1(n)(i)). Normally, the Group does not hold any collateral over these balances.

22 Bank deposits and cash

(a) Bank deposits and cash comprise:

	2019 \$'000	2018 \$'000
Cash at bank and on hand	185,999	156,405
Bank deposits	1,269,914	1,024,647
	1,455,913	1,181,052
Less: restricted bank deposits (note 22(b))	(146,955)	(6,803)
Bank deposits and cash in the consolidated statement of financial position	1,308,958	1,174,249
Less: bank deposits with original maturities of over three months	(766,607)	(949,647)
Cash and cash equivalents in the consolidated cash flow statement	542,351	224,602

- (b) The Group is required to maintain the balance of passenger reward (note 5(d)) under the revised MBOF approach and the balance of toll exemption fund (note 5(d)) in designated bank accounts. As at 31 December 2019, the related restricted bank deposits amounted to \$5,543,000 and \$141,412,000 (2018: \$6,803,000 and \$Nil) respectively.

Notes to the Financial Statements — ○

22 Bank deposits and cash (continued)

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

	Note	2019 \$'000	2018 (Note) \$'000
Profit before taxation		699,323	837,265
Adjustments for:			
Depreciation and amortisation		966,607	912,920
Finance costs	5(b)	32,182	23,677
Dividend income from unlisted equity securities	4	(40,300)	(33,480)
Interest income		(87,397)	(81,541)
Net losses on derecognition of investments in debt securities	4	120	–
Share of profits of associates		(21,544)	(23,769)
Net gain on disposal of other property, plant and equipment	4	(4,125)	(11,139)
Equity-settled share-based payment expenses	5(a)	(11)	853
Effect of foreign exchange rate		6,648	980
Operating profit before changes in working capital		1,551,503	1,625,766
Changes in working capital:			
Decrease in employee benefit assets		56,575	59,709
Decrease/(increase) in spare parts and stores		3,494	(26,494)
(Increase)/decrease in accounts receivable		(291,750)	57,381
(Increase)/decrease in deposits and prepayments		(11,997)	7,053
Increase in accounts payable and accruals		87,685	73,020
Decrease in contingency provision – insurance		(15,720)	(86,957)
Decrease in provision for long service payments		(1,465)	(46)
Cash generated from operations		1,378,325	1,709,432

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of \$32,185,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, all other rentals paid on leases are now split into capital element and interest element (see note 22(d)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 Bank deposits and cash (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 23)	Lease liabilities \$'000 (Note 26)	Total \$'000
At 31 December 2018	2,625,039	–	2,625,039
Impact on initial application of HKFRS 16 (Note)	–	6,952	6,952
At 1 January 2019	2,625,039	6,952	2,631,991
Changes from financing cash flows:			
Proceeds from new bank loans	1,765,000	–	1,765,000
Repayment of bank loans	(1,690,000)	–	(1,690,000)
Capital element of lease rentals paid	–	(3,923)	(3,923)
Interest element of lease rentals paid	–	(200)	(200)
Total changes from financing cash flows	75,000	(4,123)	70,877
Other changes:			
Increase in lease liabilities from entering into new leases during the year	–	3,989	3,989
Interest expenses (note 5(b))	–	200	200
Amortisation of bank loans arrangement fee	6,533	–	6,533
Total other changes	6,533	4,189	10,722
At 31 December 2019	2,706,572	7,018	2,713,590

Notes to the Financial Statements

22 Bank deposits and cash (continued)

(d) Reconciliation of liabilities arising from financing activities: (continued)

	Bank loans \$'000 (Note 23)	Lease liabilities \$'000 (Note 26)	Total \$'000
At 1 January 2018	2,353,265	–	2,353,265
Changes from financing cash flows:			
Proceeds from new bank loans	1,605,000	–	1,605,000
Repayment of bank loans	(1,335,000)	–	(1,335,000)
Total changes from financing cash flows	270,000	–	270,000
Other change:			
Amortisation of bank loans arrangement fee	1,774	–	1,774
At 31 December 2018	2,625,039	–	2,625,039

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 1(c) and 22(c).

(e) Total cash outflow for leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

	2019 \$'000	2018 (Note) \$'000
Within operating cash flows	3,672	32,185
Within financing cash flows	4,123	–
	7,795	32,185

Note: As explained in note 22(c), the adoption of HKFRS 16 introduced a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Bank loans

At 31 December 2019, the bank loans were repayable as follows:

	2019 \$' 000	2018 \$' 000
After 1 year but within 2 years	1,394,657	–
After 2 years but within 5 years	1,311,915	2,625,039
	2,706,572	2,625,039

All of the bank loans were unsecured.

24 Accounts payable and accruals

	2019 \$' 000	2018 \$' 000
Trade payables	135,595	159,914
Balance of passenger reward (note 5(d))	12,375	6,052
Balance of toll exemption fund (note 5(d))	196,354	–
Other payables and accruals	995,135	867,792
	1,339,459	1,033,758

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:

	2019 \$' 000	2018 \$' 000
Due within 1 month or on demand	130,401	154,114
Due after 1 month but within 3 months	2,402	3,138
Due after more than 3 months	2,792	2,662
	135,595	159,914

The 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.

Notes to the Financial Statements

25 Contingency provision – insurance

	2019 \$'000	2018 \$'000
At 1 January	386,397	473,354
Provision charged to profit or loss	55,142	11,122
Payments made during the year	(70,862)	(98,079)
At 31 December	370,677	386,397
Representing:		
Current portion	126,350	145,040
Non-current portion	244,327	241,357
	370,677	386,397

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.

26 Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)	
	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000
Within 1 year	3,907	4,042	3,122	3,272
After 1 year but within 2 years	3,111	3,162	3,830	3,912
	7,018	7,204	6,952	7,184
Less: total future interest expenses		(186)		(232)
Present value of lease liabilities		7,018		6,952

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Income tax in the consolidated statement of financial position

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

	2019 \$'000	2018 \$'000
Provision for Hong Kong profits tax for the year	58,393	38,374
Provisional profits tax paid	(6,305)	(47,626)
	52,088	(9,252)
Balance of profits tax provision relating to prior years	34,706	–
Net current tax payable/(recoverable)	86,794	(9,252)
Representing:		
Current tax recoverable	(483)	(10,270)
Current tax payable	87,277	1,018
Net current tax payable/(recoverable)	86,794	(9,252)

(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 (assets)/liabilities arising from:	Depreciation allowances in excess of the related depreciation \$'000	Intangible assets \$'000	Provisions \$'000	Tax losses \$'000	Defined benefit assets \$'000	Cash flow hedge \$'000	Others \$'000	Total \$'000
At 1 January 2018	938,273	14,511	(5,667)	(18,961)	212,300	–	(5,306)	1,135,150
Charged/(credited) to profit or loss	72,027	–	5,027	11,446	(9,853)	–	(464)	78,183
Credited to reserves	–	–	–	–	(52,190)	(222)	–	(52,412)
At 31 December 2018 and 1 January 2019	1,010,300	14,511	(640)	(7,515)	150,257	(222)	(5,770)	1,160,921
Charged/(credited) to profit or loss	34,779	–	(40,002)	4,932	(9,335)	–	540	(9,086)
Charged to reserves	–	–	–	–	74,709	222	–	74,931
At 31 December 2019	1,045,079	14,511	(40,642)	(2,583)	215,631	–	(5,230)	1,226,766

Notes to the Financial Statements

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

(b) Deferred tax assets and liabilities recognised: (continued)

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

	2019 \$'000	2018 \$'000
Net deferred tax assets	(477)	(656)
Net deferred tax liabilities	1,227,243	1,161,577
	1,226,766	1,160,921

(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 \$18,172,000 (2018: \$18,150,000) in respect of cumulative tax losses of \$110,133,000 (2018: \$110,003,000) 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 2019 and 2018, these 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:

	2019 \$'000	2018 \$'000
At 1 January	4,019	4,065
Movements charged to profit or loss (note 5(a))	9,383	7,953
Payments made during the year	(10,848)	(7,999)
At 31 December	2,554	4,019

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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
Balance at 1 January 2018		422,456	425,831	4,969	1,300,000	1,000,670	3,153,926
Changes in equity for 2018							
Shares issued in respect of scrip dividend							
– 2017 final dividend	29(b)(i)	9,172	201,318	–	–	–	210,490
Shares issued in respect of scrip dividend							
– 2018 interim dividend	29(b)(i)	2,969	59,813	–	–	–	62,782
Equity-settled share-based transaction	5(a)	–	–	853	–	–	853
Unclaimed dividends forfeited		–	–	–	–	7,352	7,352
Dividends approved in respect of the previous year	11(b)	–	–	–	–	(380,210)	(380,210)
Profit and total comprehensive income for the year		–	–	–	–	510,052	510,052
Dividends declared in respect of the current year	11(a)	–	–	–	–	(129,488)	(129,488)
Balance at 31 December 2018		434,597	686,962	5,822	1,300,000	1,008,376	3,435,757

	Note	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Contributed surplus \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 January 2019		434,597	686,962	5,822	1,300,000	1,008,376	3,435,757
Changes in equity for 2019							
Shares issued in respect of scrip dividend							
– 2018 final dividend	29(b)(i)	8,764	190,974	–	–	–	199,738
Shares issued in respect of scrip dividend							
– 2019 interim dividend	29(b)(i)	3,197	60,505	–	–	–	63,702
Issuance of shares upon exercise of share options	29(b)(i)	383	9,298	(704)	–	–	8,977
Forfeiture of share options		–	–	(891)	–	891	–
Equity-settled share-based transaction	5(a)	–	–	(11)	–	–	(11)
Unclaimed dividends forfeited		–	–	–	–	729	729
Dividends approved in respect of the previous year	11(b)	–	–	–	–	(391,482)	(391,482)
Profit and total comprehensive income for the year		–	–	–	–	520,001	520,001
Dividends declared in respect of the current year	11(a)	–	–	–	–	(133,123)	(133,123)
Balance at 31 December 2019		446,941	947,739	4,216	1,300,000	1,005,392	3,704,288

Note: The Group, including the Company, has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See notes 1(c) and 34.

Notes to the Financial Statements

29 Capital and reserves (continued)

(a) Movements in components of equity (continued)

The Company's reserves available for distribution to shareholders at 31 December 2019 amounted to \$2,305,392,000 (2018: \$2,308,376,000). After the end of the reporting period, the Directors proposed a final dividend of \$0.70 (2018: \$0.90) per share, amounting to \$312,859,000 (2018: \$391,138,000). The final dividend proposed has not been recognised as a liability at the end of the reporting period.

(b) Share capital

(i) Authorised and issued share capital

	2019		2018	
	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	434,597,327	434,597	422,455,810	422,456
Shares issued in respect of scrip dividend – 2017 final dividend	–	–	9,171,689	9,172
Shares issued in respect of scrip dividend – 2018 interim dividend	–	–	2,969,828	2,969
Shares issued in respect of scrip dividend – 2018 final dividend	8,764,283	8,764	–	–
Shares issued in respect of scrip dividend – 2019 interim dividend	3,196,601	3,197	–	–
Shares issued under the share option scheme	382,800	383	–	–
At 31 December	446,941,011	446,941	434,597,327	434,597

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 2019, 884,000 options were forfeited and options were exercised to subscribe for 383,000 ordinary shares in the Company at a consideration of \$8,977,000, of which \$383,000 was credited to the share capital account and the balance of \$8,594,000 was credited to the share premium account. \$704,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(x)(iv).



Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(i).

(v) Fair value reserve (recycling)

The fair value reserve (recycling) comprises the cumulative net change in the fair value of debt securities measured at FVOCI under HKFRS 9 held at the end of the reporting period (see note 1(g)).

(vi) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see 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.

Notes to the Financial Statements

29 Capital and reserves (continued)

(d) Capital management (continued)

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, the Group defines adjusted net debt as bank deposits and cash and restricted bank deposits less interest-bearing loans and borrowings and lease liabilities in the consolidated statement of financial position. Capital comprises all components of equity.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused an increase in the Group's total debt when compared to its position as at 31 December 2018.

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 was as follows:

		31 December 2019	1 January 2019 (Note)	31 December 2018 (Note)
	Note	\$'000	\$'000	\$'000
Current liabilities:				
Lease liabilities	26	3,907	3,122	–
Non-current liabilities:				
Bank loans	23	2,706,572	2,625,039	2,625,039
Lease liabilities	26	3,111	3,830	–
Total debt		2,713,590	2,631,991	2,625,039
Less: Bank deposits and cash	22(a)	(1,308,958)	(1,174,249)	(1,174,249)
Restricted bank deposits	22(a)	(146,955)	(6,803)	(6,803)
Adjusted net debt		1,257,677	1,450,939	1,443,987
Capital		10,971,710	10,195,564	10,195,564
Adjusted net debt-to-capital ratio		11.5%	14.2%	14.2%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 1(c).

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

30 Commitments

(a) Capital commitments

- (i) At 31 December 2019, 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:

	2019 \$'000	2018 \$'000
Contracted for	1,223,266	533,234

- (ii) At 31 December 2019, 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 was as follows:

	2019 \$'000	2018 \$'000
Contracted for	2,186,632	144,675

(b) Operating leases commitments

At 31 December 2018, the total future minimum lease payments of the Group under non-cancellable operating leases were payable as follows:

	2018 \$'000
Within 1 year	4,342
After 1 year but within 5 years	4,286
	8,628

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, there are no adjustments to the opening balances of equity at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 1(l), and the details regarding the Group's future lease payments are disclosed in note 26.

Notes to the Financial Statements — ○

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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables and investments in debt securities.

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. Due to the financial strength of these customers and the short duration of the trade and other receivables, the ECL allowance is considered insignificant.

Investments in debt securities 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. No loss allowance for investments in debt securities was recognised as at 31 December 2019 and 31 December 2018.

The Group's exposure to credit risk arising from bank deposits and cash is limited because the counterparties are banks, which the Group considers to have low credit risk.

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 any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any loss allowance. The Group does not provide any guarantee to third parties which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from investments in debt securities and trade and other receivables are set out in notes 18 and 21 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, and 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk (continued)

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using interest rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

Non-derivative financial liabilities

	2019					2018				
	Contractual undiscounted cash flow					Contractual undiscounted cash flow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Bank loans	86,453	86,453	2,702,375	2,875,281	2,706,572	81,246	81,246	2,737,395	2,899,887	2,625,039
Lease liabilities (note)	4,042	3,162	-	7,204	7,018	-	-	-	-	-
Accounts payable and accruals	1,339,459	-	-	1,339,459	1,339,459	1,032,412	-	-	1,032,412	1,032,412
	1,429,954	89,615	2,702,375	4,221,944	4,053,049	1,113,658	81,246	2,737,395	3,932,299	3,657,451

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 1(c).

Derivative financial liabilities

	2018	
	Contractual undiscounted cash flow	
	Within 1 year or on demand \$'000	Total \$'000
Derivatives settled gross:		
Forward foreign exchange contracts held as cash flow hedging instruments:		
– outflow	(101,887)	(101,887)
– inflow	100,541	100,541
Other forward foreign exchange contracts:		
– outflow	(11,898)	(11,898)
– inflow	11,986	11,986

Notes to the Financial Statements — ○

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

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is the Group's policy to closely monitor the market conditions and devise suitable strategies against interest rate risk. As at 31 December 2019 and 2018, 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 prevailing market conditions.

(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.

	2019		2018	
	Effective interest rate p.a. %	Amount \$'000	Effective interest rate p.a. %	Amount \$'000
Fixed rate assets:				
Bank deposits	2.9	1,269,914	3.0	1,024,647
Investments in debt securities	4.0	1,449,971	3.9	1,428,067
		<u>2,719,885</u>		<u>2,452,714</u>
Fixed rate liabilities:				
Lease liabilities (note)	2.7	(7,018)	—	—
Variable rate liabilities:				
Bank loans	4.5	(2,706,572)	3.3	(2,625,039)

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 1(c).

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately \$10,131,000 (2018: \$9,475,000). Other components of consolidated equity would have decreased/increased by approximately \$17,136,000 (2018: \$23,961,000) 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 2018.



Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk

The Group is exposed to currency risk primarily through purchases of new buses and motor vehicle components from overseas, investments in debt securities and deposits placed at banks that are denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily British Pounds Sterling, United States dollars and Renminbi.

The Group hedges approximately 94% (2018: 96%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. The Group uses forward foreign exchange contracts to manage its currency risk. For the year ended 31 December 2019, the Group designates those forward foreign exchange contracts as hedging instruments in cash flow hedges and does not separate the forward and spot elements of a forward foreign exchange contract but instead designates the forward foreign exchange contract in its entirety in a hedging relationship. Correspondingly, the hedged item is measured based on the forward exchange rate.

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the forward foreign exchange contracts and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows. The main sources of ineffectiveness in these hedging relationships are:

- (i) the effect of the counterparty's and the Group's own credit risk on the fair value of the forward foreign exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and
- (ii) changes in the timing of the hedged transactions.

At 31 December 2019, the Group did not have any outstanding forward foreign exchange contracts (2018: liabilities of \$1,346,000 were recognised as derivative financial liabilities and included in "Accounts payable and accruals" (note 24) line item in the consolidated statement of financial position). At 31 December 2018, these forward foreign exchange contracts were for the purchases of British Pounds Sterling totalling 10,100,000. They had maturities of less than one year after the end of the reporting date and had an average exchange rate of 10.10 between British Pounds Sterling and Hong Kong dollars.

Notes to the Financial Statements

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

(d) Currency risk (continued)

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2019 \$'000	2018 \$'000
Balance at 1 January	(1,124)	–
Effective portion of the cash flow hedge recognised in other comprehensive income	–	(1,346)
Amounts transferred to the initial carrying amount of the hedged items (note (i))	1,346	–
Related tax	(222)	222
Balance at 31 December (note (ii))	–	(1,124)
Change in fair value of the forward foreign exchange contracts during the year	–	(1,346)
Hedge ineffectiveness recognised in profit or loss	–	–
Effective portion of the cash flow hedge recognised in other comprehensive income	–	(1,346)

Notes:

- (i) Amounts transferred from the hedging reserve are recognised in the "Other property, plant and equipment" line item in the consolidated statement of financial position.
- (ii) The entire balance in the hedging reserve relates to continuing hedges.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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)					
	2019			2018		
	Renminbi \$'000	British Pounds Sterling \$'000	United States dollars \$'000	Renminbi \$'000	British Pounds Sterling \$'000	United States dollars \$'000
Bank deposits and cash	2,924	100,731	209,612	2,032	73,113	198,664
Accounts payable and accruals	–	(90,764)	(5,563)	–	(35,877)	(3,141)
Investments in debt securities	–	–	1,449,970	–	–	1,428,069
Gross exposure arising from recognised assets and liabilities	2,924	9,967	1,654,019	2,032	37,236	1,623,592
Notional amount of forward foreign exchange contracts used as economic hedge	–	–	–	–	–	–
Net exposure arising from recognised assets and liabilities	2,924	9,967	1,654,019	2,032	37,236	1,623,592
Highly probable future purchases	–	–	–	–	(101,887)	–
Notional amount of forward foreign exchange contracts used as cash flow hedge	–	–	–	–	100,541	–
Net exposure arising from committed future purchases	–	–	–	–	(1,346)	–
Overall net exposure	2,924	9,967	1,654,019	2,032	35,890	1,623,592

Notes to the Financial Statements

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 Hong Kong dollars and United States dollars would be materially unaffected by any changes in movement in value of United States dollars against other currencies.

	2019			2018		
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits \$'000	Increase/ (decrease) in other components of equity \$'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits \$'000	Increase/ (decrease) in other components of equity \$'000
Renminbi	3%	88	-	3%	61	-
	(3)%	(88)	-	(3)%	(61)	-
British Pounds Sterling	6%	1,497	-	6%	2,522	-
	(6)%	(1,497)	-	(6)%	(2,522)	-
United States dollars	1%	2,050	14,500	1%	1,960	14,281
	(1)%	(2,050)	(14,500)	(1)%	(1,960)	(14,281)

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 2018.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Fuel price risk

It is the Group's policy to closely monitor 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 2019 and 2018. The Group had not entered into any fuel oil swap contract during the years ended 31 December 2019 and 2018.

(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

	2019				2018			
	Fair value measurements categorised into				Fair value measurements categorised into			
	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Recurring fair value measurements								
<i>Assets:</i>								
Investments in debt securities – listed	1,449,971	1,449,971	-	-	1,428,067	1,428,067	-	-
Unlisted equity securities	515,926	-	-	515,926	512,019	-	-	512,019
Derivative financial instruments – other forward foreign exchange contracts	-	-	-	-	88	-	88	-
<i>Liability:</i>								
Derivative financial instruments – forward foreign exchange contracts held as cash flow hedge	-	-	-	-	(1,346)	-	(1,346)	-

During the years ended 31 December 2019 and 2018, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Financial Statements — ○

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 2019 and 2018 in Level 2 were marked to market using quoted market prices from financial institutions.

(iii) Information about Level 3 fair value measurement

	Valuation technique	Significant unobservable inputs	Percentage
Unlisted equity instruments	Market comparable companies	Discount for lack of marketability	35% (2018: 35%)

The fair value of unlisted equity instruments is determined using the market approach of comparable companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2019, it is estimated that with all other variables held constant, a decrease/increase in the discount for lack of marketability by 5% would have increased/decreased the Group's other comprehensive income by \$39,687,000 (2018: \$39,386,000).

The movement during the year in the balance of Level 3 fair value measurement is as follows:

	2019 \$' 000	2018 \$' 000
Unlisted equity securities:		
At 1 January	512,019	—
Transfer to Level 3 upon the initial adoption of HKFRS 9	—	491,511
Net unrealised gains recognised in other comprehensive income during the year	3,907	20,508
At 31 December	515,926	512,019



Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(f) Fair values measurement (continued)

(iii) Information about Level 3 fair value measurement (continued)

Any gains or losses arising from the remeasurement of the Group's unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

(iv) 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 2019 and 2018 except as follows:

Amounts due from/to associates of the Group are unsecured, interest-free and have no fixed terms of repayment/settlement. Given these terms, it is not meaningful to disclose their fair values.

32 Contingent liabilities

At 31 December 2019 and 2018, guarantees were given to banks 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 \$1,500,000,000 (2018: \$1,500,000,000).

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.

Notes to the Financial Statements

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

Nature of transactions	Note	Income/(expense)	
		2019 \$' 000	2018 \$' 000
Service fees for provision of coach services	(i) & (ii)	54,451	52,371
Insurance premium paid	(iii)	(109,935)	(90,118)
Amount paid and accrued for building management services	(iv)	(898)	(818)
Amount paid and accrued for project management service and lease modification	(v)	—	—
Amount paid and accrued for a building contract	(vi)	—	—
Advertising income	(vii)	2,054	5,849

Notes:

- (i) During the year, the Group provided coach services ("Shuttle Bus Service Agreements") to certain subsidiaries of Sun Hung Kai Properties Limited ("SHKP"), a substantial shareholder of the Company, details of which were disclosed in the announcement of the Company dated 28 June 2019. The amounts received and receivable under the Shuttle Bus Service Agreements amounted to \$10,979,000 (2018: \$8,379,000). Subsequently during the year, the Group also provided coach services to certain subsidiaries of SHKP and the amounts received and receivable thereunder amounted to \$1,507,000 (2018: \$4,463,000). Outstanding balances due from these companies at 31 December 2019 amounted to \$3,493,000 (2018: \$3,312,000).
- (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 \$41,965,000 (2018: \$39,529,000). Outstanding balances due from these companies at 31 December 2019 amounted to \$9,183,000 (2018: \$10,619,000).
- (iii) In 2016, the Group entered into contracts with a subsidiary of SHKP, Sun Hung Kai Properties Insurance Limited ("SHKPI"), for the provision of various kind of insurance services to the Group for the period from 1 January 2017 to 31 December 2018 (the "2017/18 Insurance Arrangements"). In 2017, the Group entered into contracts with SHKPI for the provision of medical and dental insurance services to the Group for the period from 1 January 2018 to 31 December 2019 (the "2018/19 Medical and Dental Insurance Arrangements"). In 2018, the Group entered into contracts with SHKPI for the provision of various kind of insurance services to the Group for the period from 1 January 2019 to 31 December 2020 (the "2019/20 Insurance Arrangements"). The amount paid and payable under the 2017/18 and 2019/20 Insurance Arrangements and 2018/19 Medical and Dental Insurance Arrangements during the year amounted to \$109,935,000 (2018: \$90,118,000). There was no outstanding balance payable for these contracts at 31 December 2019 (2018: outstanding balance receivable of \$437,000).



Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

33 Material related party transactions (continued)

(a) Transactions with related companies (continued)

Notes (continued):

- (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. The amount paid and payable under the Deed during the year amounted to \$898,000 (2018: \$818,000). Outstanding balance payable for this contract at 31 December 2019 amounted to \$150,000 (2018: \$201,000).

- (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 Inland Lot No. 240, No. 98 How Ming Street, Kwun Tong, Kowloon, Hong Kong (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 2019 amounted to \$2,000,000 (2018: \$2,000,000).

- (vi) On 20 December 2018, KTRE, TRL and Yee Fai Construction Company Limited ("Yee Fai") (a wholly-owned subsidiary of SHKP) entered into a building contract in which KTRE and TRL have engaged Yee Fai to carry out and complete the building works involving the construction of a commercial building at the Kwun Tong Site (the "Building Contract"). KTRE and TRL shall pay to Yee Fai, in equal shares, the contract sum of \$4,436,057,000 (i.e. \$2,218,028,500 each), subject to adjustments in accordance with the Building Contract. Outstanding balance payable for this contract as at 31 December 2019 amounted to \$16,108,000 (2018: \$Nil).
- (vii) During the year, the Group provided advertising services to certain subsidiaries of SHKP, a substantial shareholder of the Company. The amounts received and receivable for these advertising services amounted to \$2,054,000 (2018: \$5,849,000). Outstanding balances due from these companies at 31 December 2019 amounted to \$673,000 (2018: \$48,000).

(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 “Connected Transactions and Continuing Connected Transactions” under “Financial Review” on pages 91 to 93 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 transactions as described in notes 33(a)(iv) and 33(a)(vii) above constitute continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules. However, they are 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.

The related party transaction as described in note 33(a)(vi) above constitutes connected transaction of the Company as defined in 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 “Connected Transactions and Continuing Connected Transactions” under “Financial Review” on pages 91 to 93 of this Annual Report.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

34 Company-level statement of financial position

	Note	2019 \$'000	2018 \$'000
Non-current assets			
Investments in subsidiaries		1,194,334	1,194,345
Deferred tax assets		535	535
		1,194,869	1,194,880
Current assets			
Deposits and prepayments		1,481	188
Amounts due from subsidiaries		8,834,195	8,567,384
Bank deposits and cash		5,434	3,668
		8,841,110	8,571,240
Current liabilities			
Accounts payable and accruals		12,119	11,207
Amounts due to subsidiaries		6,319,572	6,319,156
		6,331,691	6,330,363
Net current assets		2,509,419	2,240,877
NET ASSETS		3,704,288	3,435,757
CAPITAL AND RESERVES	29(a)		
Share capital		446,941	434,597
Reserves		3,257,347	3,001,160
TOTAL EQUITY		3,704,288	3,435,757

Approved and authorised for issue by the Board of Directors on 19 March 2020

Norman LEUNG Nai Pang
Chairman

Roger LEE Chak Cheong
Managing Director

Notes to the Financial Statements — ○

35 Non-adjusting event after the reporting period

(a) Proposal of a final dividend

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

(b) Effect of COVID-19 on the Group

The outbreak of COVID-19 in late January 2020 has adversely affected the Group's daily operation and patronage of local and cross-boundary transport. The Group has been implementing a number of measures to lessen the impact and will continue to closely monitor further effect that could be caused by COVID-19 on the business operation and financial position of the Group.

36 Comparative figures

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i>	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.



Financial summary

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

	2019 \$'M	2018 \$'M	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
	Note (d)	Note (c)								
Statement of profit or loss										
Continuing operations										
Revenue	8,112	8,009	7,888	7,744	7,780	7,557	7,420	7,181	6,948	6,687
Profit before taxation	699	837	1,008	1,016	747	508	458	197	275	931
Income tax (expense)/credit	(94)	(117)	(148)	(150)	(128)	(69)	(55)	(6)	48	(75)
Profit for the year from continuing operations	605	720	860	866	–	–	–	–	–	–
Discontinued operations										
Profit/(loss) for the year from discontinued operations	–	–	429	(42)	–	–	–	–	–	–
Profit for the year	605	720	1,289	824	619	439	403	191	323	856
Non-controlling interests	–	–	6	7	10	(24)	(32)	(25)	8	11
Profit attributable to equity shareholders of the Company	605	720	1,295	831	629	415	371	166	331	867
Statement of financial position										
Investment properties, investment property under development, interest in leasehold land and other property, plant and equipment	10,154	9,841	9,261	8,875	6,133	4,817	4,487	3,852	4,121	4,276
Intangible assets	365	361	132	132	132	135	132	132	44	23
Goodwill	84	84	84	84	84	84	84	84	63	63
Non-current prepayments	–	–	–	2	15	7	12	4	2	44
Interest in associates	607	611	625	602	634	740	724	672	668	640
Other financial assets	1,264	1,709	1,493	1,207	112	183	229	591	472	636
Employee benefit assets	1,307	913	1,287	626	577	861	1,018	326	263	790
Net current assets	1,372	711	438	377	1,321	2,112	2,009	2,226	2,280	1,763
Employment of funds	15,153	14,230	13,320	11,905	9,008	8,939	8,695	7,887	7,913	8,235
Financed by:										
Share capital	447	435	422	412	404	404	404	404	404	404
Reserves	10,525	9,761	9,120	7,414	6,804	6,793	6,704	5,832	5,668	6,334
Total equity attributable to equity shareholders of the Company	10,972	10,196	9,542	7,826	7,208	7,197	7,108	6,236	6,072	6,738
Non-controlling interests	–	–	–	146	154	190	192	185	182	205
Total equity	10,972	10,196	9,542	7,972	7,362	7,387	7,300	6,421	6,254	6,943
Contingency provision – insurance	244	241	285	253	251	274	298	311	310	300
Long-term bank loans	2,707	2,625	2,353	2,724	589	545	399	598	798	470
Employee benefit liabilities	–	3	–	9	9	6	–	–	–	–
Other liabilities	1,230	1,165	1,140	947	797	727	698	557	551	522
Funds employed	15,153	14,230	13,320	11,905	9,008	8,939	8,695	7,887	7,913	8,235
Earnings/(loss) per share (\$)	1.38	1.68	3.11	2.04	1.56	1.03	0.92	0.41	0.82	2.15
– From continuing operations	1.38	1.68	2.07	2.12	–	–	–	–	–	–
– From discontinued operations	–	–	1.04	(0.08)	–	–	–	–	–	–
Dividends per share (\$)	1.00	1.20	1.25	1.25	1.20	0.90	0.60	0.60	0.60	1.35
Total assets per share (\$)	37.40	35.46	34.69	32.34	27.42	25.28	25.36	23.19	22.78	24.01
Net assets per share (\$)	24.55	23.46	22.59	19.36	18.24	18.30	18.09	15.91	15.49	17.20

Notes:

- In order to comply with Revised Hong Kong Accounting Standard 19, *Employee benefits*, which was effective for the 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.
- 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.
- The Group has initially applied HKFRS 9, *Financial instruments*, at 1 January 2018. Under the transition method chosen, comparative information is not restated.
- As a result of the adoption of HKFRS 16, *Leases*, with effect from 1 January 2019, the Group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of recognising right-of-use assets and lease liabilities as at 1 January 2019. After initial recognition of these assets and liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.

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

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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

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

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

LEE Luen Fai^
JP, BA

LUNG Po Kwan^
BSocSc, MSocSc(Economics), MBA, CFA

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
Professor LIU Pak Wai
Winnie NG

Standing Committee

Dr Norman LEUNG Nai Pang#
Dr John CHAN Cho Chak
Raymond KWOK Ping Luen
Charles LUI Chung Yuen
Winnie NG
Roger LEE Chak Cheong
William LOUEY Lai Kuen
TSANG Wai Hung

COMPANY SECRETARY

Lana WOO
BA, MBA, FCIS, FCS (PE),
CPA (Canada), CGA

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AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor
registered in accordance with the
Financial Reporting Council Ordinance
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

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Investor Services Limited
17M Floor, Hopewell Centre,
183 Queen's Road East,
Wan Chai, Hong Kong

Bermuda

**MUFG Fund Services (Bermuda)
Limited**
4th Floor North Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

REGISTER OF MEMBERS

Book closure for 2020 AGM:
18 May 2020 to 21 May 2020
(both dates inclusive)

Book closure for 2019 final dividend:
27 May 2020

DIVIDENDS

Interim

HK\$0.30 per share,
paid on 15 October 2019

Final (proposed)

HK\$0.70 per share,
payable on 30 June 2020

STOCK CODE

The Stock Exchange of Hong Kong: 62
Bloomberg: 62HK
Reuters: 0062.HK

CUSTOMER SERVICE HOTLINES

**The Kowloon Motor Bus Company
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Stock Code: 62



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