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Transport International Holdings Limited

(載通國際控股有限公司) *

(incorporated in Bermuda with limited liability)

(Stock code: 62)

2019 Final Results Announcement

FINANCIAL HIGHLIGHTS

- The Group's profit attributable to equity shareholders for the year ended 31 December 2019 was HK\$605.3 million (2018: HK\$720.1 million), a decrease of HK\$114.8 million or 15.9% compared with 2018.
- The Group's flagship company, The Kowloon Motor Bus Company (1933) Limited, recorded a profit after taxation of HK\$314.9 million for 2019 (2018: HK\$434.3 million), a decrease of HK\$119.4 million or 27.5% compared with 2018. 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 the government fuel subsidy.
- The Group's earnings per share for 2019 were HK\$1.38 (2018: HK\$1.68).
- An ordinary final dividend of HK\$0.70 per share for 2019 has been declared (2018: HK\$0.90 per share), resulting in total dividend for the year amounted to HK\$1.00 per share (2018: HK\$1.20 per share).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Note)
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
Revenue	3	8,112,201	8,009,275
Other income	4	411,068	217,555
Staff costs	5	(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	6	(32,182)	(23,677)
Share of profits of associates		21,544	23,769
Profit before taxation		699,323	837,265
Income tax	8	(94,012)	(117,193)
Profit for the year		605,311	720,072
Earnings per share – basic and diluted	9	HK\$ 1.38	HK\$ 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.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i> (Note)
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 HK\$74,709,000 (2018: tax credit of HK\$52,190,000)	378,074	(264,115)
- Equity investment at fair value through other comprehensive income ("FVOCI"): net movement in fair value reserve (non-recycling), net of nil tax	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: tax credit of HK\$222,000)	-	(1,124)
- Investments in debt securities: net movement in fair value reserve (recycling), net of nil tax	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.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019**

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Note)
Non-current assets			
Investment properties		104,994	108,705
Investment property under development		2,531,596	2,301,060
Interest in leasehold land		55,330	57,342
Other property, plant and equipment		7,462,447	7,373,397
		10,154,367	9,840,504
Intangible assets		364,964	360,619
Goodwill		84,051	84,051
Interest in associates		606,930	610,948
Other financial assets		1,263,534	1,708,863
Employee benefit assets		1,306,851	913,234
Deferred tax assets		477	656
		13,781,174	13,518,875
Current assets			
Spare parts and stores		78,999	82,493
Accounts receivable	10	666,654	371,123
Other financial assets		702,363	231,223
Deposits and prepayments		26,924	14,927
Current tax recoverable		483	10,270
Restricted bank deposits		146,955	6,803
Bank deposits and cash		1,308,958	1,174,249
		2,931,336	1,891,088
Current liabilities			
Accounts payable and accruals	11	1,339,459	1,033,758
Contingency provision – insurance	12	126,350	145,040
Lease liabilities		3,907	-
Current tax payable		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
(continued)

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Note)
Non-current liabilities			
Bank loans		2,706,572	2,625,039
Lease liabilities		3,111	-
Deferred tax liabilities		1,227,243	1,161,577
Contingency provision – insurance	12	244,327	241,357
Employee benefit liabilities		-	2,591
Provision for long service payments		2,554	4,019
		4,183,807	4,034,583
NET ASSETS		10,971,710	10,195,564
CAPITAL AND RESERVES			
Share capital		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.

Notes:

1. Auditor's report

The Group's consolidated financial statements for the year ended 31 December 2019 have been audited in accordance with Hong Kong Standards on Auditing, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by the Group's auditor, KPMG, Certified Public Accountants, whose unmodified auditor's report is included in the annual report to be sent to shareholders. The results have also been reviewed by the Company's Audit and Risk Management Committee.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been compared by KPMG to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the auditor on this announcement.

2. Basis of preparation

The annual results set out in the announcement are extracted from the Group's consolidated financial statements, which 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 HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, HKFRS 16, *Leases*, is relevant to the Group's financial statements.

Except for HKFRS 16, *Leases*, none of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has 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.

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

3. Segment reporting

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker 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 (Note (a))		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	(Note (b))						(Note (b))	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'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 (a): 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.

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

3. Segment reporting (continued)

Reconciliation of reportable segment revenue, profit, assets and liabilities

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Note)
<i>Revenue</i>		
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	<u>8,112,201</u>	<u>8,009,275</u>
<i>Profit</i>		
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	<u>605,311</u>	<u>720,072</u>
<i>Assets</i>		
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	<u>16,712,510</u>	<u>15,409,963</u>
<i>Liabilities</i>		
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	<u>5,740,800</u>	<u>5,214,399</u>

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.

3. Segment reporting (continued)

Geographic information

Substantially all of the Group's revenue from external customers, based on the location at which the services were provided, is generated in Hong Kong. The following table sets out information about the geographical location of the Group's investment properties, investment property under development, interest in leasehold land and other property, plant and equipment, intangible assets, goodwill and interest in associates ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset in the case of investment properties, investment property under development, interest in leasehold land and other property, plant and equipment, the location of the operation to which they are allocated in the case of intangible assets and goodwill, and the location of operations in the case of interest in associates.

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

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.

4. Other income

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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	(120)	-
Net foreign exchange (loss)/gain	(7,055)	3,537
Government subsidies (Note)	152,267	-
Sundry income	80,052	40,887
	<hr/> 411,068 <hr/>	<hr/> 217,555 <hr/>

Note: This represented subsidies proposed by the 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.

5. Staff costs

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Defined benefit retirement plan expense	56,575	59,709
Contributions to defined contribution retirement plans	170,571	148,001
Movements in provision for long service payments	<u>9,383</u>	<u>7,953</u>
Total retirement cost	236,529	215,663
Equity-settled share-based payment expenses	(11)	853
Salaries, wages and other benefits	<u>4,280,850</u>	<u>3,962,652</u>
	<u>4,517,368</u>	<u>4,179,168</u>

6. Finance costs

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest on bank loans	68,534	50,571
Interest on lease liabilities (Note (a))	<u>200</u>	<u>-</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	68,734	50,571
Less: interest expense capitalised into investment property under development (Note (b))	<u>(36,552)</u>	<u>(26,894)</u>
	<u>32,182</u>	<u>23,677</u>

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

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

7. Dividends

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

	2019		2018	
	Per share <i>HK\$</i>	Total <i>HK\$'000</i>	Per share <i>HK\$</i>	Total <i>HK\$'000</i>
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 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 HK\$63,702,000 was settled by the issuance of 3,196,601 shares at an issue price of HK\$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 HK\$62,782,000 was settled by the issuance of 2,969,828 shares at an issue price of HK\$21.14 per share under the scrip dividend scheme.

At the Board meeting held on 19 March 2020, the Directors recommended a final dividend of HK\$0.70 per share for 2019 (2018: HK\$0.90 per share). Such dividend, which will be proposed at the Annual General Meeting of the Company to be held on 21 May 2020, has not been recognised as a liability at the end of the reporting period.

7. Dividends (continued)

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

	2019		2018	
	Per share	Total	Per share	Total
	HK\$	HK\$'000	HK\$	HK\$'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 HK\$199,738,000 was settled by the issuance of 8,764,283 shares at an issue price of HK\$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 HK\$210,490,000 was settled by the issuance of 9,171,689 shares at an issue price of HK\$22.95 per share under the scrip dividend scheme.

8. Income tax

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

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 that 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 that subsidiary was calculated using the same basis in 2018.

9. 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 HK\$605,311,000 (2018: HK\$720,072,000) and the weighted average number of ordinary shares in issue during the year, calculated as follows:

	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.

10. Accounts receivable

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

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

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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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, 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.

11. Accounts payable and accruals

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables	135,595	159,914
Balance of passenger reward	12,375	6,052
Balance of toll exemption fund (Note)	196,354	-
Other payables and accruals	995,135	867,792
	<u>1,339,459</u>	<u>1,033,758</u>

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 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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
	<u>135,595</u>	<u>159,914</u>

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.

Note: The Government has announced that with effect from 17 February 2019, all franchised buses are exempted from paying toll when using 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 increase. As at 31 December 2019, the balance of Toll Exemption Fund amounted to HK\$196,354,000.

12. Contingency provision – insurance

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

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.

13. Event after the reporting period

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.

RESULTS

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.

PROPOSED DIVIDEND

The Board has proposed the payment to shareholders registered as at 27 May 2020 an ordinary final dividend of HK\$0.70 per share (2018: HK\$0.90 per share) totalling HK\$312.9 million (2018: HK\$391.1 million). Together with the ordinary interim dividend of HK\$0.30 per share (2018: HK\$0.30 per share) paid on 15 October 2019, total dividends for the year will amount to HK\$1.00 per share (2018: HK\$1.20 per share) and the total dividend payout will amount to HK\$446.0 million (2018: HK\$520.6 million).

The ordinary final dividend will be payable in cash, with an option for the shareholders of the Company to receive new and fully paid ordinary shares in lieu of cash or partly in cash or partly in shares under a scrip dividend scheme (the "Scrip Dividend Scheme"). The new shares will, on issue, not be entitled to the aforesaid ordinary final dividend, but will rank *pari passu* in all other respects with the existing shares. The circular containing details of the Scrip Dividend Scheme and the election form are expected to be sent to shareholders on or about 4 June 2020.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of ordinary final dividend at the forthcoming Annual General Meeting ("AGM") to be held on 21 May 2020 or at any adjournment thereof and the granting of the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme by the Listing Committee of The Stock Exchange of Hong Kong Limited. The ordinary final dividend and the share certificates to be issued under the Scrip Dividend Scheme are expected to be distributed and sent to shareholders on 30 June 2020.

The Transfer Books of the Company will be closed from 18 May 2020 to 21 May 2020, both dates inclusive. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited (the "Branch Share Registrars") at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 15 May 2020.

For the purpose of ascertaining shareholders' entitlement to the proposed ordinary final dividend of the Company for the year ended 31 December 2019, the Transfer Books of the Company will be closed on 27 May 2020. In order to qualify for the proposed ordinary final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars at the aforementioned address for registration not later than 4:30 p.m. on 26 May 2020.

MANAGEMENT REVIEW AND OUTLOOK

REVIEW OF OPERATIONS AND RESULTS OF INDIVIDUAL BUSINESS UNIT

Franchised Public Bus Operations

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

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”)

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).

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).

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.

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

SZBG, which commenced operations in January 2005, is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, and four other Mainland investors. The Group has invested RMB387.1 million (equivalent to HK\$363.9 million at the investment date) in SZBG, representing a stake of 35%. SZBG mainly provides public bus, minibus and taxi services in Shenzhen City, Guangdong Province, 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.

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.

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).

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

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).

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 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.

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).

OUTLOOK

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. With such difficult environment, the Group has responded by adjusting trip frequencies and saving resources. We will

continue to deploy our bus fleets 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 Kwun Tong site is expected to be completed in mid-2022, which will create a stable return for our shareholders.

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.

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 another engagement.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee of the Company, together with management and the Company's external auditors, KPMG, has reviewed the accounting principles and policies adopted by the Group, discussed auditing, internal control, risk management and financial reporting matters, and also reviewed the financial results for the year ended 31 December 2019.

By Order of the Board
Norman LEUNG Nai Pang
Chairman

Hong Kong, 19 March 2020

The Directors of the Company as at the date of this announcement are:

Independent Non-executive Directors:

Dr. Norman LEUNG Nai Pang, *GBS, JP* (Chairman)
Dr. John CHAN Cho Chak, *GBS, JP* (Deputy Chairman)
Dr. Eric LI Ka Cheung, *GBS, OBE, JP*
Professor LIU Pak Wai, *SBS, JP*
Mr. TSANG Wai Hung, *GBS, PDSM, JP*

Non-executive Directors:

Mr. Raymond KWOK Ping Luen, *JP* (Ms. Susanna WONG Sze Lai as his alternate)
Mr. NG Siu Chan (Ms. Winnie NG, *JP* as his alternate)
Mr. Charles LUI Chung Yuen, *M.H.*
Mr. William LOUEY Lai Kuen (Mr. GAO Feng as his alternate)
Ms. Winnie NG, *JP*
Mr. Allen FUNG Yuk Lun
Dr. CHEUNG Wing Yui, *BBS*
Mr. LEE Luen Fai, *JP*
Mr. LUNG Po Kwan

Executive Director:

Mr. Roger LEE Chak Cheong (Managing Director)

** For identification purposes only*