

Financial Review

The Group

Summary of Financial Performance

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

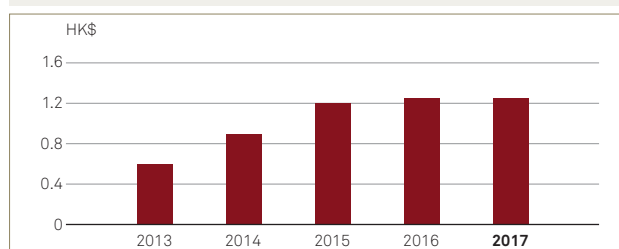
Review of 2017 Financial Performance

The Group's Results for the Year

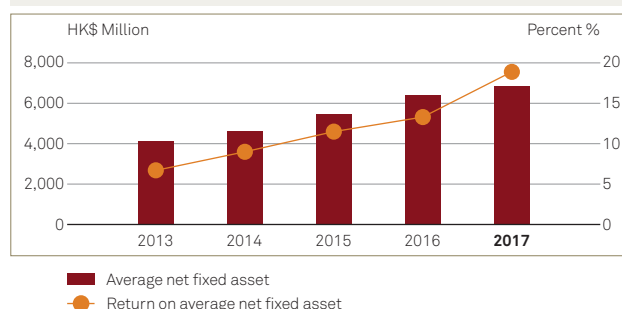
The Group's profit attributable to equity shareholders for the year ended 31 December 2017 was HK\$1,294.8 million, an increase of HK\$463.9 million or 55.8% compared to HK\$830.9 million for 2016. Earnings per share increased correspondingly from HK\$2.04 for 2016 to HK\$3.11 for 2017. The increase in profit was mainly attributable to the one-off gain of HK\$439.6 million arising from the disposal

of the entire 73% equity interest in RoadShow Holdings Limited during the year. When excluding such one-off gain, the Group's profit attributable to equity shareholders for 2017 amounted to HK\$855.2 million, an increase of HK\$24.3 million or 2.9% as compared with that for 2016.

Dividends per share



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



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

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

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

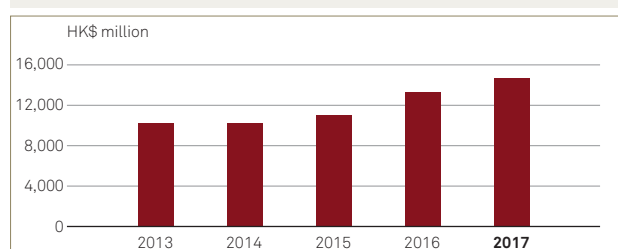
Key Changes to the Group's Revenue, Other Income and Operating Expenses

Revenue for 2017 amounted to HK\$7,899.9 million, an increase of HK\$155.7 million or 2.0% compared with HK\$7,744.2 million for 2016. The increase was mainly due to the increase in revenue from the Group's franchised public bus operations of HK\$125.1 million, primarily as a result of patronage growth. In addition, revenue from

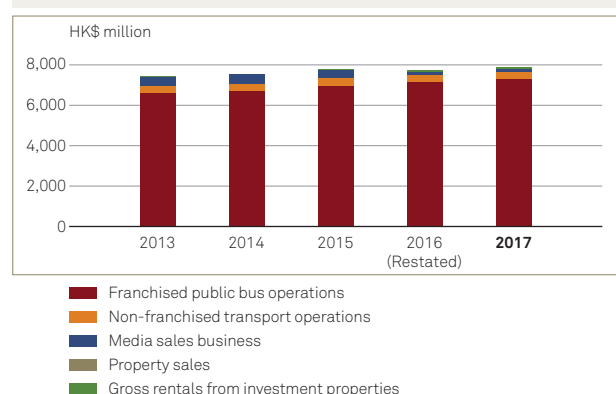
the Group's non-franchised transport operations division increased by HK\$17.7 million and rental income arising from the Group's investment properties increased by HK\$12.9 million.

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

Total assets at 31 December



Group turnover



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

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

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

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

Dividend

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

Key Changes to Financial Position

Capital Expenditure

As at 31 December 2017, the Group's investment properties, investment property under development, interest in leasehold land and other property, plant and equipment (comprising buildings, buses and other motor

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

Intangible Assets and Goodwill

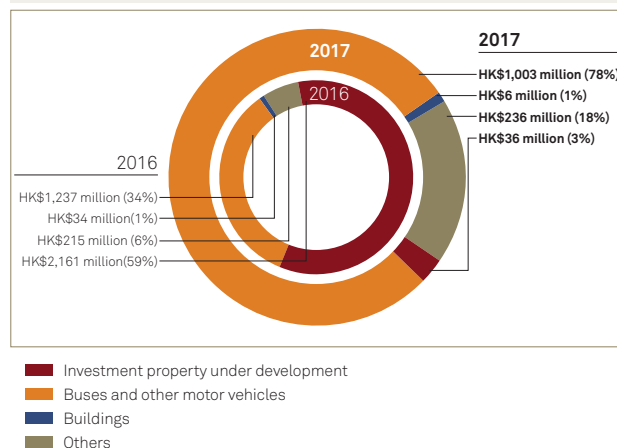
As at 31 December 2017, the Group's intangible assets and goodwill amounted to HK\$132.1 million (2016: HK\$132.1 million) and HK\$84.1 million (2016: HK\$84.1 million) respectively. The intangible assets mainly represent passenger service licences and transport operating rights of the Group's non-franchised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

Current Assets and Current Liabilities

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

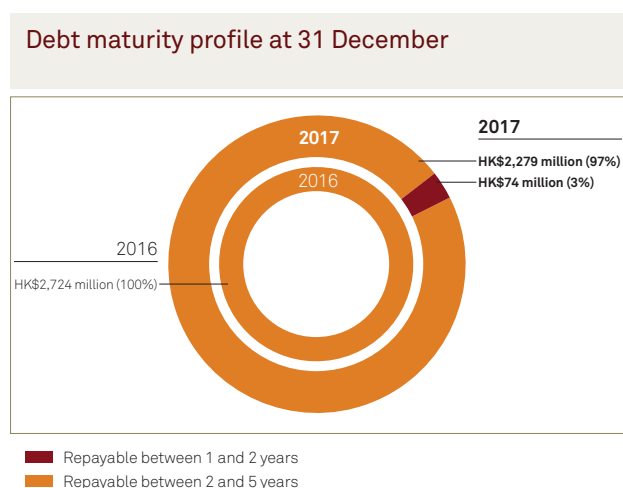
Total current liabilities as at 31 December 2017 amounted to HK\$1,334.6 million (2016: HK\$1,397.1 million), which mainly included accounts payable and accruals.

Capital expenditure



Bank Loans

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



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

Capital Commitments

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

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

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

Funding and Financing

Financial Liquidity and Resources

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

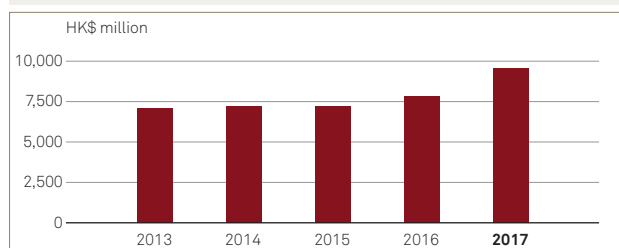
Net Cash/Net Borrowing and Liquidity Ratio

As at 31 December 2017, the Group's net borrowing (i.e. total borrowings less cash and deposits at banks) amounted to HK\$1,120.5 million (2016: HK\$1,648.4 million) with a liquidity ratio (the ratio of current assets

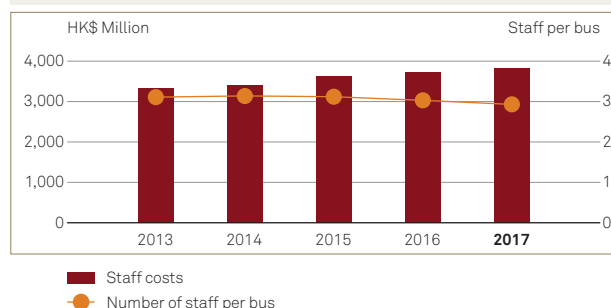
to current liabilities) of 1.3 (2016: 1.3). The details of the Group's net cash/net borrowing position by currency are set out as follows:

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

Shareholders' fund at 31 December



Staff costs and staff per bus (Franchised public bus operations)



Finance Costs and Interest Cover

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

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

Net Cash Flow

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

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

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

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

Treasury Risk Management

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

Foreign Currency Risk

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

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

Interest Rate Risk

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

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

Fuel Price Risk

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

Credit Risk

The Group's credit risk is primarily attributable to trade and other receivables and debt investments. Management has a credit policy in place under which exposure to credit risks is monitored on an ongoing basis. In respect of trade and other receivables, credit evaluations are performed on major customers requiring credit over a certain amount. Regular reviews and any necessary follow-up action are carried out on overdue amounts to minimise the Group's exposure to credit risk. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables. The Group has established treasury management guidelines for investment of surplus cash reserves in debt securities for yield enhancement purposes. Limits are set for the total portfolio size and individual debt security to minimise the overall risk as well as the concentration risk. The credit ratings of the debt

issuers and market news relating to them, as available, are closely monitored over the life of the transactions. Cash at bank and bank deposits are placed with licensed financial institutions with high credit ratings and the Group monitors the exposure to each financial institution. The Group does not provide guarantees to third parties which would expose the Group to credit risk.

Cash Flow and Liquidity Risk

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

Employees and Remuneration Policies

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