

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)

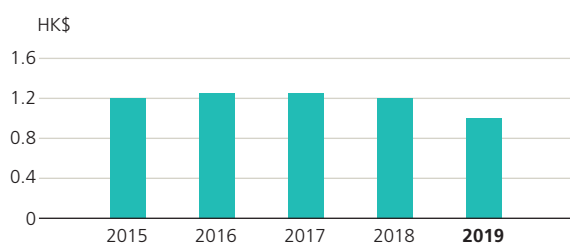
Review of 2019 Financial Performance

The Group's Results for the Year

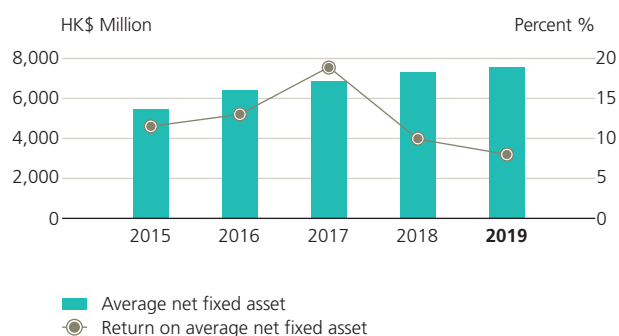
The Group's profit attributable to equity shareholders for the year ended 31 December 2019 was HK\$605.3 million, a decrease of HK\$114.8 million or 15.9% compared to HK\$720.1 million for 2018. Earnings per share decreased correspondingly from HK\$1.68 for 2018 to HK\$1.38 for

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.

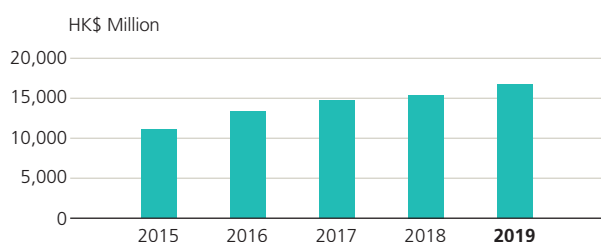
Key Changes to the Group's Revenue, Other Income and Operating Expenses

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

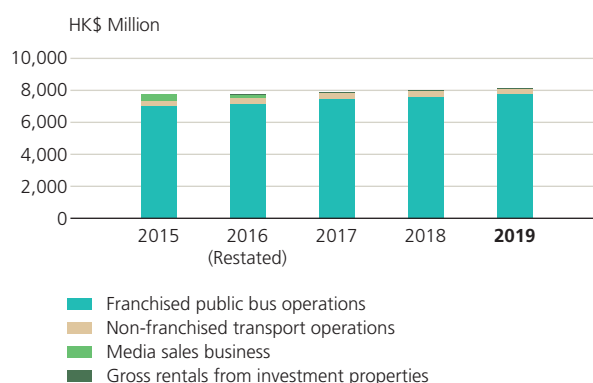
was partly offset by the decreases in (i) revenue from the Group's non-franchised transport operations division by HK\$33.7 million; and (ii) rental income arising from the Group's investment properties by HK\$2.8 million.

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



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

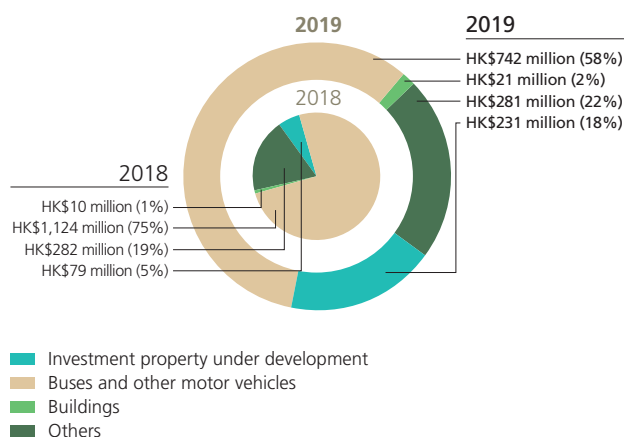
As at 31 December 2019, the Group's intangible assets and goodwill amounted to HK\$365.0 million (2018: HK\$360.6 million) and HK\$84.1 million (2018: HK\$84.1 million) respectively. The intangible assets mainly represent passenger service licences and transport operating rights of the Group's non-franchised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

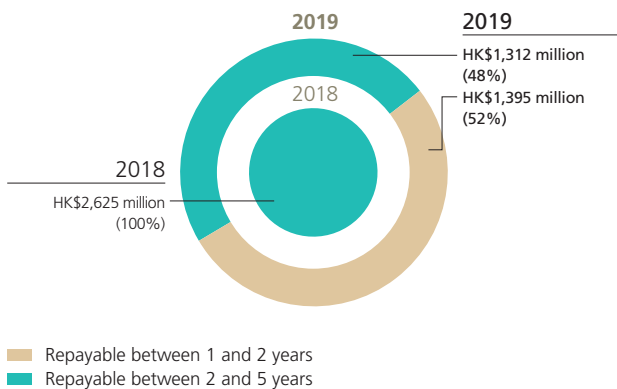
Capital Expenditure



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.

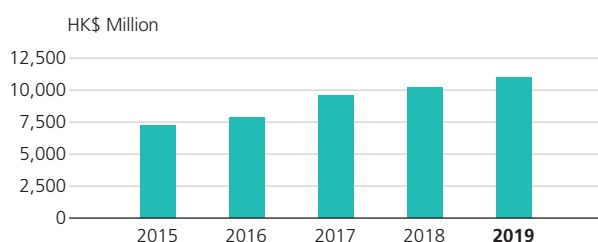
Financial Review

Net Cash/Net Borrowing and Liquidity Ratio

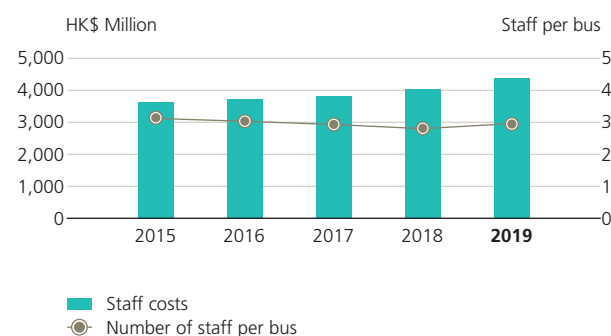
As at 31 December 2019, the Group's net borrowing (i.e. total borrowings less cash and deposits at banks) amounted to HK\$1,250.7 million (2018: HK\$1,444.0 million) with a liquidity ratio (the ratio of current assets to current liabilities) of 1.9 (2018: 1.6). The details of the Group's net cash/net 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).