

The Group

Summary of Financial Performance

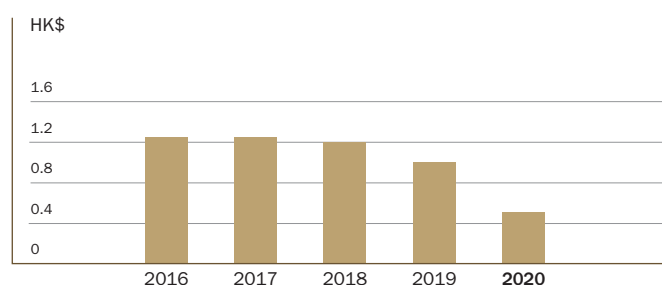
	2020 HK\$ million	2019 HK\$ million	Favourable/(Unfavourable) Change	
			HK\$ million	%
Revenue	6,190.9	8,112.2	(1,921.3)	(23.7)
Other income	1,249.6	411.1	838.5	204.0
Operating expenses	(7,193.5)	(7,813.3)	619.8	7.9
Finance costs	(26.9)	(32.2)	5.3	16.5
Gain on disposal of a subsidiary	1,495.5	–	1,495.5	N/A
Share of profits of associates	6.5	21.5	(15.0)	(69.8)
Profit before taxation	1,722.1	699.3	1,022.8	146.3
Income tax credit/(expense)	182.0	(94.0)	276.0	293.6
Profit for the year	1,904.1	605.3	1,298.8	214.6
Earnings per share (HK\$)	4.21	1.38	2.83	205.1

Review of 2020 Financial Performance

The Group's Results for the Year

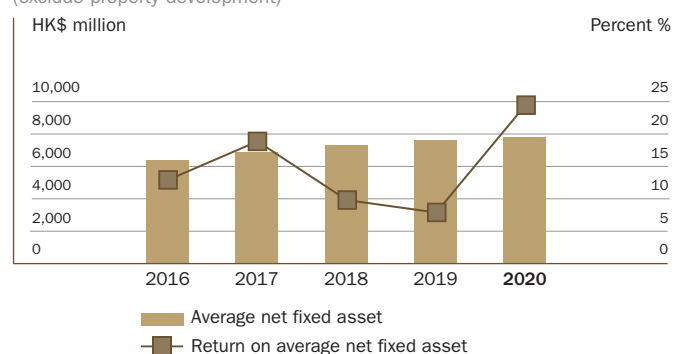
The Group recorded a non-recurring net gain amounting to HK\$1,495.5 million arising from the revaluation and disposal of 50% equity interest in TM Properties Investment Limited, being the wholly-owned subsidiary which holds the Tuen Mun Town Lot No. 80 site in 2020. As a result, the Group's profit attributable to equity shareholders for the year ended 31 December 2020 was HK\$1,904.1 million, an increase of HK\$1,298.8 million or 214.6% compared to HK\$605.3 million for 2019. Earnings per share increased correspondingly from HK\$1.38 for 2019 to HK\$4.21 for 2020. Excluding such non-recurring net gain, the profit attributable to equity shareholders for 2020 would have been HK\$408.6 million, representing a decrease of HK\$196.7 million or 32.5% compared to that for 2019.

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 2020 are shown below:

HK\$ million	Revenue		Profit before taxation	
	2020	2019	2020	2019
Franchised Public Bus Operations Division	5,909.7	7,732.5	34.5	473.1
Non-franchised Transport Operations Division	208.3	312.7	42.2	47.6
Property Holdings and Development Division	72.9	67.0	63.0	65.5
Financial Services Division	–	–	66.3	76.8
China Mainland Transport Operations Division	–	–	6.5	21.5
	6,190.9	8,112.2	212.5	684.5
Finance costs			(26.9)	(32.2)
Unallocated net operating income			41.0	47.0
Gain on disposal of a subsidiary			1,495.5	–
Profit before taxation			1,722.1	699.3
Income tax credit/(expense)			182.0	(94.0)
Profit for the year			1,904.1	605.3

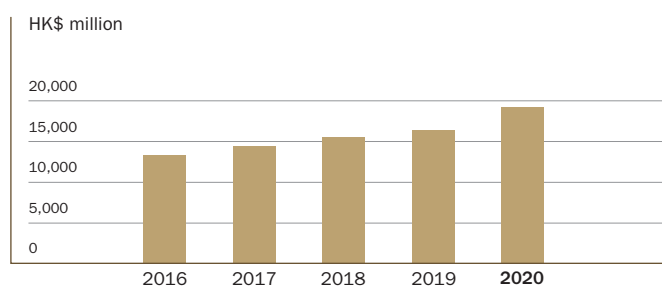
Segment information on the Group's main businesses is set out in note 12 to the financial statements on pages 195 to 197 of this Annual Report.

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

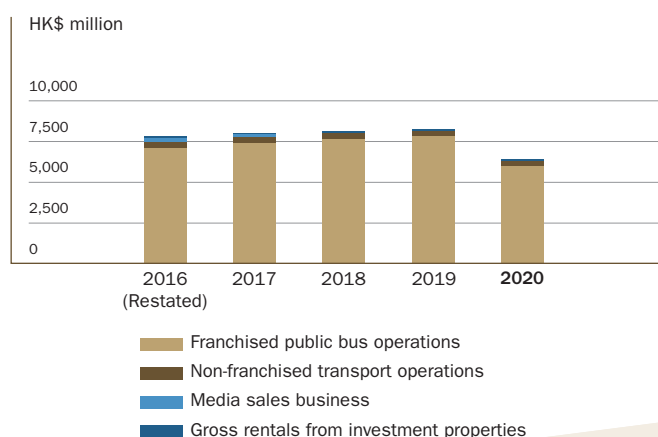
Revenue for 2020 amounted to HK\$6,190.9 million, a decrease of HK\$1,921.3 million or 23.7% compared with HK\$8,112.2 million for 2019. The decrease was mainly due to (i) the decrease in revenue from the Group's franchised public bus operations of HK\$1,822.8 million, primarily as a result of patronage drop; and (ii) the decrease in revenue from the Group's non-franchised transport operations of HK\$104.4 million, which partly offset by the increase in rental income arising from the Group's investment properties of HK\$5.9 million.

Other income increased by HK\$838.5 million from HK\$411.1 million in 2019 to HK\$1,249.6 million in 2020. The increase was mainly due to the increase in government subsidies of HK\$861.3 million from various support schemes rolled out by the Government under the Anti-epidemic Fund to provide financial support to the public transport sector. The breakdown of other income is set out in note 4 to the financial statements on page 187 of this Annual Report.

Total Assets at 31 December



Group Revenue



Total operating expenses for 2020 amounted to HK\$7,193.5 million, a decrease of HK\$619.8 million or 7.9% compared to HK\$7,813.3 million for 2019. The decrease was mainly due to the decrease in fuel costs, staff costs and toll related expenses as a result of service reductions as well as the decrease in other overheads through implementing various cost control measures to streamline its business.

The Group's share of profits of associates for 2020 amounted to HK\$6.5 million, a decrease of HK\$15.0 million or 69.8% compared to HK\$21.5 million for 2019.

Income tax credit for the year amounted to HK\$182.0 million (2019: income tax expense of HK\$94.0 million). The breakdown of the income tax credit/expense is set out in note 6 to the financial statements on page 190 of this Annual Report.

More detailed information in respect of the Group's individual business units is set out on pages 101 to 106 of this Annual Report.

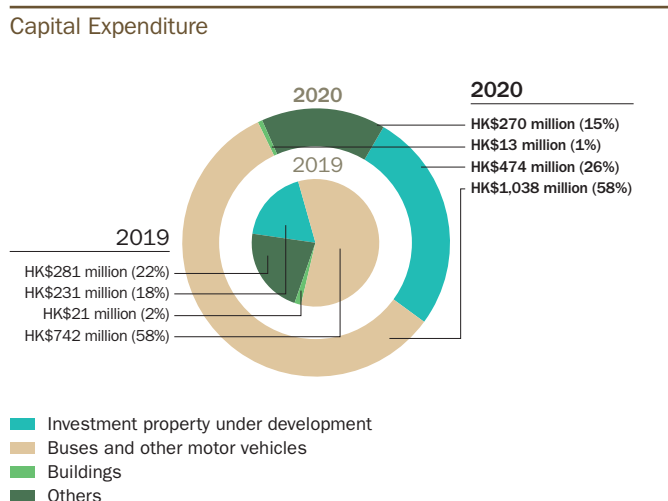
Dividend

The Board has recommended an ordinary final dividend of HK\$0.50 per share (2019: HK\$0.70 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 20 May 2021 or at any adjournment thereof, the total dividend for the year will be HK\$0.50 per share (2019: HK\$1.00 per share). The Company's intention is to maintain stable returns to shareholders.

Key Changes to Financial Position

Capital Expenditure

As at 31 December 2020, 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\$10,953.6 million (2019: HK\$10,154.4 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 during the year. None of the assets was pledged or charged as at 31 December 2020. The breakdown of the capital expenditure is shown in note 13 to the financial statements on pages 198 to 203 of this Annual Report.



Intangible Assets and Goodwill

As at 31 December 2020, the Group's intangible assets and goodwill amounted to HK\$365.0 million (2019: HK\$365.0 million) and HK\$84.1 million (2019: 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

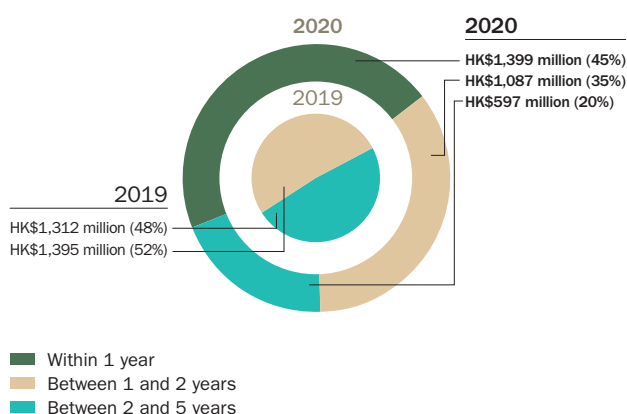
The Group's total current assets as at 31 December 2020 amounted to HK\$3,316.3 million (2019: HK\$2,931.3 million), mainly comprising liquid funds of HK\$2,293.8 million (2019: HK\$1,455.9 million) and accounts receivable of HK\$660.5 million (2019: HK\$666.7 million). The Group's liquid funds as at 31 December 2020 were mainly denominated in Hong Kong dollars.

Total current liabilities as at 31 December 2020 amounted to HK\$3,087.0 million (2019: HK\$1,561.9 million), which mainly included accounts payable and accruals, and the current portion of bank loans.

Bank Loans

As at 31 December 2020, bank loans, all unsecured, amounted to HK\$3,082.5 million (2019: HK\$2,706.6 million). The maturity profile of the bank loans of the Group as at 31 December 2020 and 31 December 2019 is shown in the chart below:

Debt Maturity Profile at 31 December



As at 31 December 2020, the Group had undrawn committed banking facilities totalling HK\$2,110.0 million (2019: HK\$2,280.0 million).

Capital Commitments

The Group's capital commitments as at 31 December 2020 amounted to HK\$2,579.1 million (2019: HK\$3,409.9 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	2020	2019
Development of the Kwun Tong Site	1,752.8	2,186.6
Purchase of buses and other motor vehicles	680.3	1,173.6
Purchase of other properties, plant and equipment	146.0	49.7
Total	2,579.1	3,409.9

As at 31 December 2020, the Group had 427 (2019: 514) new buses on order for delivery in 2021.

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.

Net Cash/Net Borrowing and Liquidity Ratio

As at 31 December 2020, the Group's net borrowing (i.e. total borrowings less cash and deposits at banks) amounted to HK\$788.8 million (2019: HK\$1,250.7 million) with a liquidity ratio (the ratio of current assets to current liabilities) of 1.1 (2019: 1.9). 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 2020</i>				
Hong Kong dollars		1,746.0	(3,082.5)	(1,336.5)
Renminbi	2.0	2.3	-	2.3
United States dollars	68.9	534.5	-	534.5
British Pounds Sterling	0.2	1.6	-	1.6
Other currencies		9.3	-	9.3
Total		2,293.7	(3,082.5)	(788.8)
<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)

Finance Costs and Interest Cover

The finance costs incurred by the Group for the year ended 31 December 2020 were HK\$26.9 million, a decrease of HK\$5.3 million compared with HK\$32.2 million for 2019. The decrease was mainly due to the decrease in the average interest rate from 2.74% per annum for 2019 to 1.68% per annum for 2020 but was partly offset by the increase in average bank borrowings of the Group.

For the year ended 31 December 2020, the Group's interest income exceeded the total finance costs by HK\$49.7 million (2019: HK\$55.2 million).

Net Cash Flow

For 2020, there was a net increase of HK\$589.3 million (2019: HK\$316.9 million) in cash and cash equivalents. The sources are set out below:

	2020 HK\$ million	2019 HK\$ million
Net cash generated from/(used in):		
• Operating activities	1,198.4	1,439.7
• Investing activities	(827.0)	(941.5)
• Financing activities	217.9	(181.3)
Net cash inflow	589.3	316.9

The main components of the net cash inflow of HK\$589.3 million (2019: HK\$316.9 million) included: (i) net cash generated from operating activities of the franchised public bus operations of HK\$1,006.6 million (2019: HK\$1,367.1 million); (ii) payment of capital expenditure of HK\$1,648.4 million (2019: HK\$1,248.3 million); (iii) increase of HK\$43.7 million (2019: decrease of HK\$183.0 million) in bank deposits with original maturities of over three months; (iv) proceeds received on the maturity of debt securities of HK\$722.8 million (2019: HK\$231.1 million); (v) purchase of debt securities of HK\$438.3 million (2019: HK\$237.1 million); (vi) increase of HK\$370.0 million in bank loans (2019: HK\$75.0 million); (vii) proceeds received from disposal of a subsidiary of HK\$744.7 million (2019: Nil); and (viii) payment of dividends of HK\$149.2 million (2019: HK\$261.2 million).

Details of the Group's cash flow movement for the year ended 31 December 2020 are set out in the consolidated cash flow statement on page 166 of this Annual Report.

Treasury Risk Management

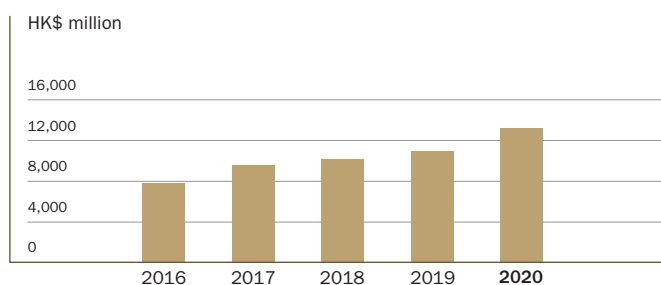
The Group's activities are exposed to various financial risks, including foreign currency, interest rate, fuel price, credit and liquidity risks. The Group's exposure to these risks as well as its risk management policies and practices are described below:

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.

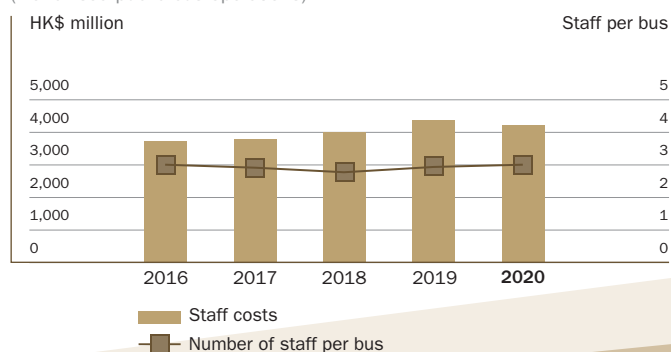
As at 31 December 2020, the Group had outstanding GBP forward contracts totalling GBP15.2 million (2019: Nil), which had maturities of less than one year after the end of the reporting period.

Shareholders' Fund at 31 December



Staff Costs and Staff per Bus

(Franchised public bus operations)



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 2020, 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 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 risk 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 60% (2019: 58%) of the total operating expenses of the Group in 2020. 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 2020 amounted to HK\$4,119.9 million (2019: HK\$4,280.9 million), representing a decrease of 3.8%. As at 31 December 2020, the Group employed over 13,000 staff (2019: over 13,000 staff).