

FINANCIAL REVIEW

The Group

SUMMARY OF FINANCIAL PERFORMANCE

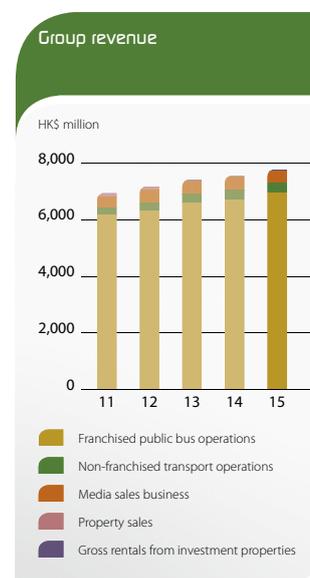
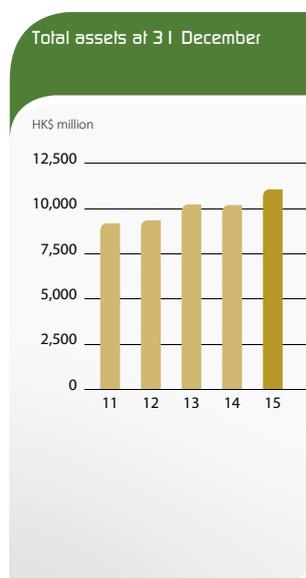
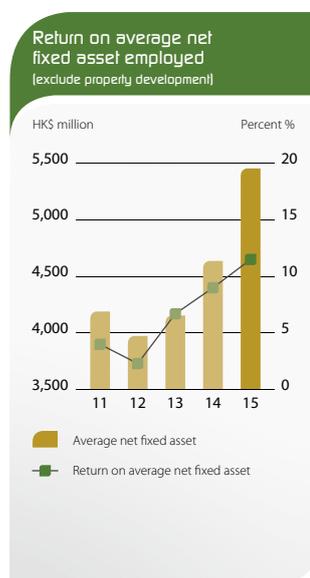
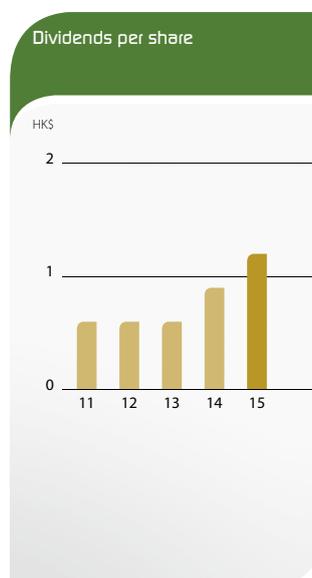
	2015	2014	Favourable/(Unfavourable) Change	
	HK\$ million	HK\$ million	HK\$ million	%
Revenue	7,779.9	7,556.6	223.3	3.0
Other income	78.9	115.0	(36.1)	(31.4)
Operating expenses	(7,131.6)	(7,233.0)	101.4	1.4
Finance costs	(9.7)	(5.0)	(4.7)	(94.0)
Share of profits of associates	32.4	37.8	(5.4)	(14.3)
Gain on disposal of other financial assets	–	36.6	(36.6)	N/A
Impairment loss on intangible assets	(2.9)	–	(2.9)	N/A
Profit before taxation	747.0	508.0	239.0	47.0
Income tax	(128.1)	(69.0)	(59.1)	(85.7)
Non-controlling interests	9.8	(23.9)	33.7	N/A
Profit attributable to equity shareholders of the Company	628.7	415.1	213.6	51.5
Earnings per share (HK\$)	1.56	1.03	0.53	51.5

REVIEW OF 2015 FINANCIAL PERFORMANCE

The Group's Results for the Year

The Group's profit attributable to equity shareholders for the year ended 31 December 2015 was HK\$628.7 million, an increase of HK\$213.6 million or 51.5% compared to HK\$415.1 million for 2014. Earnings per share increased correspondingly from HK\$1.03 for 2014 to HK\$1.56 for

2015. The increase in profit was mainly attributable to the improvement in the financial performance of our franchised public bus businesses operated by The Kowloon Motor Bus Company (1933) Limited ("KMB") and Long Win Bus Company Limited ("LWB"), as well as our non-franchised transport business operated by Sun Bus Holdings Limited and its subsidiaries (the "SBG Group").



The revenue and underlying profit generated by the Group's six Divisions for the year ended 31 December 2015 are shown below:

HK\$ million	Revenue		Profit/(Loss) before taxation	
	2015	2014	2015	2014
Franchised Public Bus Operations Division	6,982.3	6,724.8	664.4	277.2
Non-franchised Transport Operations Division	347.0	339.8	49.3	40.8
Property Holdings and Development Division	38.7	32.5	45.9	40.3
Media Sales Business Division	411.9	459.5	(41.1)	84.7
Financial Services Division	–	–	8.1	33.0
China Mainland Transport Operations Division	–	–	32.4	37.8
	7,779.9	7,556.6	759.0	513.8
Finance costs			(9.7)	(5.0)
Unallocated net operating loss			(2.3)	(0.8)
Profit before taxation and non-controlling interests			747.0	508.0
Income tax			(128.1)	(69.0)
Non-controlling interests			9.8	(23.9)
Profit attributable to equity shareholders of the Company			628.7	415.1

Segment information on the Group's main businesses is set out in note 12 to the financial statements on pages 155 to 157 of this Annual Report.

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

Revenue for 2015 amounted to HK\$7,779.9 million, an increase of HK\$223.3 million or 3.0% compared with HK\$7,556.6 million for 2014. The increase was mainly due to the year-on-year increase of HK\$257.5 million in the revenue of the Group's franchised public bus operations, primarily as a result of patronage growth and the full year effect of the 3.9% fare increase of KMB which was implemented with effect from 6 July 2014. In respect of the Group's non-franchised transport operations division, revenue generated from new and existing customers increased by HK\$7.2 million from HK\$339.8 million for 2014 to HK\$347.0 million for 2015. In addition, the rental income of the Group's investment properties also increased by HK\$6.4 million. However, the aforesaid positive factors were partly offset by the decrease in the media sales revenue of RoadShow Holdings Limited and its subsidiaries (the "RoadShow Group") by HK\$47.6 million as a result of sluggish demand in the advertising market, particularly in the retail sector.

Other income decreased by HK\$36.1 million from HK\$115.0 million in 2014 to HK\$78.9 million in 2015. The decrease was mainly due to a provision for passenger rewards of HK\$71.6 million, representing 50% of the excess return of KMB and

LWB above a prescribed level, which was made in 2015. This amount, however, was partly offset by the increase of HK\$28.5 million in subsidies received from the HKSAR Government under the ex-gratia payment scheme for scrapping pre-Euro IV buses. The breakdown of other income is set out in note 4 to the financial statements on page 149 of this Annual Report.

Total operating expenses for 2015 amounted to HK\$7,131.6 million, a decrease of HK\$101.4 million or 1.4% compared to HK\$7,233.0 million for 2014. The decrease was mainly due to the year-on-year decrease in fuel and oil costs of HK\$542.6 million or 40.1% resulting from the lower international fuel prices in the year and the improvement in bus operating efficiency. This positive factor helped to offset increases in staff costs of HK\$234.8 million due to the annual pay rise, and other operating expenses as a result of inflation.

The Group's share of profits of associates for 2015 amounted to HK\$32.4 million (2014: HK\$37.8 million), a decrease of HK\$5.4 million or 14.3% compared to 2014.

Income tax expense for the year amounted to HK\$128.1 million (2014: HK\$69.0 million). The breakdown of the income tax expense is set out in note 6 to the financial statements on page 151 of this Annual Report.

More detailed information in respect of the Group's individual business units is set out on pages 76 to 81 of this Annual Report.

FINANCIAL REVIEW

DIVIDEND

The Board has recommended an ordinary final dividend of HK\$0.90 per share (2014: HK\$0.75 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 26 May 2016 or at any adjournment thereof, the proposed final dividend, together with the interim dividend of HK\$0.30 per share (2014: HK\$0.15 per share) paid in October 2015, would result in a total dividend of HK\$1.20 per share for 2015 (2014: HK\$0.90 per share), representing an increase of 33.3% compared with 2014.

KEY CHANGES TO FINANCIAL POSITION

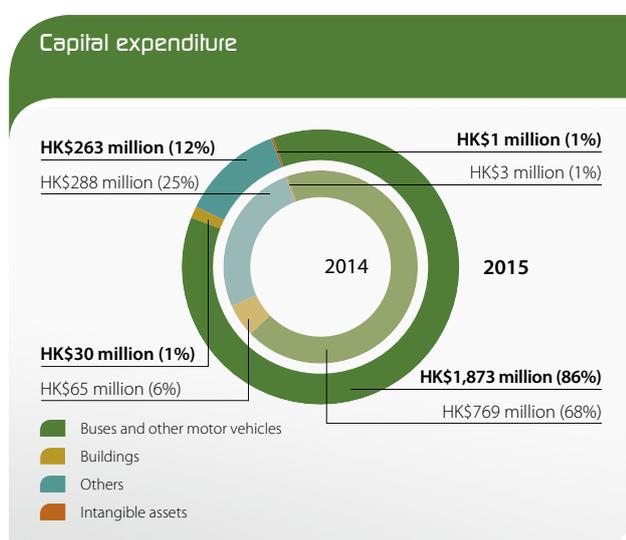
Capital Expenditure

As at 31 December 2015, 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\$6,133.4 million (2014: HK\$4,817.2 million). None of these assets was pledged or charged as at 31 December 2015.

In 2015, the Group incurred capital expenditure of HK\$2,167.1 million (2014: HK\$1,124.5 million). The breakdown of the capital expenditure is shown in note 13 to the financial statements on pages 158 to 162 of this Annual Report.

Intangible Assets and Goodwill

As at 31 December 2015, the Group's intangible assets and goodwill amounted to HK\$132.3 million (2014: HK\$134.6 million) and HK\$84.1 million (2014: 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.



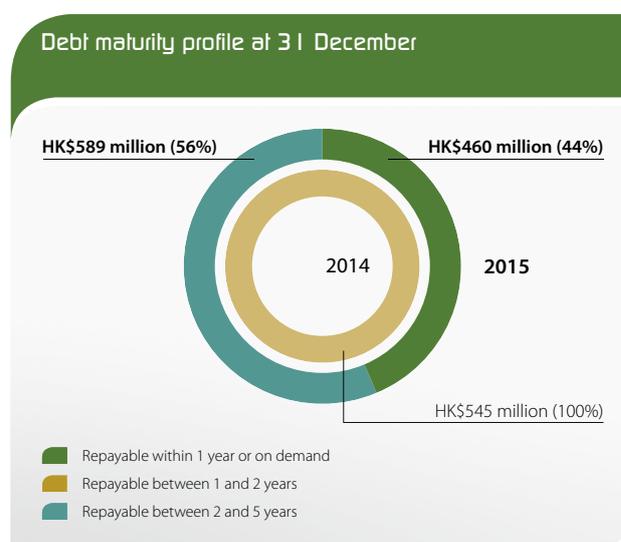
Current Assets and Current Liabilities

The Group's total current assets as at 31 December 2015 amounted to HK\$3,375.9 million (2014: HK\$3,370.9 million), mainly comprising liquid funds of HK\$2,714.5 million (2014: HK\$2,703.5 million) and accounts receivable of HK\$435.6 million (2014: HK\$518.6 million). The Group's liquid funds at the end of 2015 were mainly denominated in Hong Kong dollars.

Total current liabilities as at 31 December 2015 amounted to HK\$2,055.0 million (2014: HK\$1,258.6 million), which mainly included accounts payable and accruals, and the current portion of bank loans.

Bank Loans

As at 31 December 2015, bank loans, all unsecured, amounted to HK\$1,048.9 million (2014: HK\$544.5 million). The maturity profile of the bank loans of the Group as at 31 December 2015 and 31 December 2014 is shown in the chart below:



As at 31 December 2015, the Group had undrawn banking facilities totalling HK\$1,980.0 million (2014: HK\$295.0 million), of which HK\$1,970.0 million (2014: HK\$285.0 million) was of a committed nature.

Capital Commitments

The Group's capital commitments as at 31 December 2015 amounted to HK\$936.3 million (2014: HK\$1,308.1 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 on the following page.

HK\$ million	2015	2014
Development of Kwun Tong Site	22.3	22.3
Purchase of buses and other motor vehicles	861.3	1,193.8
Purchase of other property, plant and equipment	52.7	92.0
Total	936.3	1,308.1

As at 31 December 2015, the Group had 550 (2014: 605) new buses on order for delivery in 2016.

FUNDING AND FINANCING

Liquidity and Financial 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, bank loans and overdrafts. 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 and Liquidity Ratio

As at 31 December 2015, the Group was in a net cash position (i.e. cash and deposits at banks less total borrowings) of HK\$1,665.6 million (2014: HK\$2,158.9 million) and with a liquidity ratio (the ratio of current assets to current liabilities) of 1.6 (2014: 2.7). The details of the Group's net cash by currency are set out as follows:

Currency	Cash and deposits at bank in foreign currency	Cash and deposits at bank	Bank loans	Net cash
	million	HK\$ million	HK\$ million	HK\$ million
At 31 December 2015				
Hong Kong dollars		2,384.4	(1,048.9)	1,335.5
Renminbi	156.2	184.3	–	184.3
United States dollars	15.9	123.6	–	123.6
British Pounds Sterling	1.2	13.8	–	13.8
Other currencies		8.4	–	8.4
Total		2,714.5	(1,048.9)	1,665.6
At 31 December 2014				
Hong Kong dollars		1,232.9	(544.5)	688.4
Renminbi	1,020.0	1,271.6	–	1,271.6
United States dollars	19.3	150.4	–	150.4
British Pounds Sterling	3.1	37.8	–	37.8
Other currencies		10.7	–	10.7
Total		2,703.4	(544.5)	2,158.9

Finance Costs and Interest Cover

The finance costs incurred by the Group for the year ended 31 December 2015 were HK\$9.7 million, an increase of HK\$4.7 million compared with HK\$5.0 million for 2014. The

increase was mainly due to the increase in the average bank borrowings of the Group as well as the rise in the average interest rate from 1.00% per annum for 2014 to 1.28% per annum for 2015.

FINANCIAL REVIEW

For the year ended 31 December 2015, the Group's interest income exceeded the total finance costs by HK\$45.5 million (2014: HK\$64.9 million).



Net Cash Flow

In 2015, there was a net decrease of HK\$640.1 million (2014: a net increase of HK\$473.3 million) in cash and cash equivalents. The sources are set out below:

	2015 HK\$ million	2014 HK\$ million
Net cash generated from/(used in):		
• Operating activities	1,741.0	1,246.7
• Investing activities	(2,434.1)	(449.7)
• Financing activities	53.0	(323.7)
Total	(640.1)	473.3

The main components of the net cash outflow of HK\$640.1 million (2014: net cash inflow of HK\$473.3 million) included: (i) net cash generated from the operating activities of the franchised public bus operations of HK\$1,607.7 million (2014: HK\$1,037.2 million); (ii) payment of capital expenditure of HK\$1,982.9 million (2014: HK\$1,201.5 million); (iii) increase of HK\$662.7 million (2014: decrease of HK\$374.1 million) in bank deposits with original maturities of over three months; (iv) proceeds received on the maturity of available-for-sale debt securities of HK\$42.7 million (2014: HK\$363.0 million); (v) increase of HK\$503.0 million (2014: decrease of HK\$55.0

million) in bank loans; and (vi) payment of dividends of HK\$423.8 million (2014: HK\$242.2 million).

Details of the Group's cash flow movement for the year ended 31 December 2015 are set out in the consolidated cash flow statement on page 131 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. The Group's placement of RMB time deposits was for yield enhancement purposes. In light of the weakening of RMB against USD after the People's Bank of China reformed its RMB/USD exchange rate mechanism on 11 August 2015, the Group has converted most of its RMB time deposits back to Hong Kong dollar funds to reduce its currency risk exposure.

In 2015, the Group hedged approximately 38% (2014: 30%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. As at 31 December 2015, the Group had outstanding GBP forward contracts totalling GBP15.4 million (2014: GBP9.7 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 are used when appropriate. As at 31 December 2015, 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 reflect 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. Therefore the Group did not enter into any fuel oil swap contract during 2015. On the other hand, the Group has entered into purchase contracts with two diesel suppliers for the supply of diesel for a term of three years commencing from 1 January 2016. A new 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 new 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 minimize 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 has no significant concentrations of credit risk and 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 54.0% of the total operating expenses of the Group in 2015. 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 for 2015 amounted to HK\$3,633.6 million (2014: HK\$3,420.3 million), representing an increase of 6.2%. At the end of 2015, the Group employed over 13,400 staff.