The Group

Summary of Financial Performance

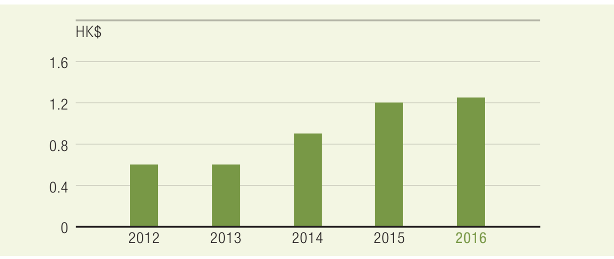
	2016	2015	Favourable/(Unfavourable) Change	
	HK$ million	HK$ million	HK$ million	%
Revenue	7,936.5	7,779.9	156.6	2.0
Other income	128.4	78.9	49.5	62.7
Operating expenses	(7,080.4)	(7,131.6)	51.2	0.7
Finance costs	(17.8)	(9.7)	(8.1)	(83.5)
Share of profits of associates	30.8	32.4	(1.6)	(4.9)
Impairment loss on other property, plant and equipment	(22.9)	–	(22.9)	N/A
Impairment loss on intangible assets	(0.2)	(2.9)	2.7	93.1
Profit before taxation	974.4	747.0	227.4	30.4
Income tax	(150.1)	(128.1)	(22.0)	(17.2)
Non-controlling interests	6.6	9.8	(3.2)	(32.7)
Profit attributable to equity shareholders of the Company	830.9	628.7	202.2	32.2
Earnings per share (HK$)	2.04	1.56	0.48	30.8

Review of 2016 Financial Performance

The Group's Results for the Year

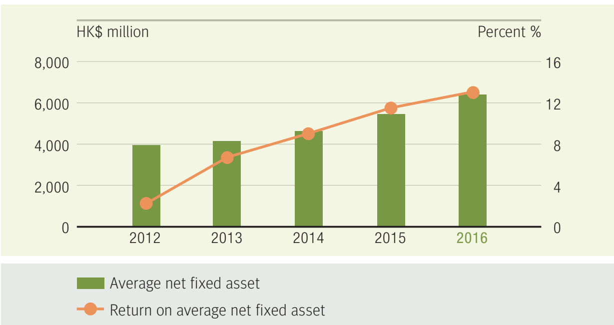
The Group's profit attributable to equity shareholders for the year ended 31 December 2016 was HK$830.9 million, an increase of HK$202.2 million or 32.2% compared to HK$628.7 million for 2015. Earnings per share increased correspondingly from HK$1.56 for 2015 to HK$2.04 for 2016. The increase in profit was mainly attributable to the improvement in the financial performance of our franchised public bus business operated by The Kowloon Motor Bus Company (1933) Limited ("KMB"), and the increase in investment return through the purchase of debt securities.

Dividends per share



Return on average net fixed asset employed

(exclude property development)



The revenue and underlying profit generated by the Group's six Divisions for the year ended 31 December 2016 are shown below:

HK$ million	Revenue 2016	Revenue 2015	Profit/(Loss) before taxation 2016	Profit/(Loss) before taxation 2015
Franchised Public Bus Operations Division	7,125.8	6,982.3	794.6	664.4
Non-franchised Transport Operations Division	342.7	347.0	65.0	49.3
Property Holdings and Development Division	60.5	38.7	54.7	45.9
Media Sales Business Division	407.5	411.9	(30.7)	(41.1)
Financial Services Division	–	–	50.5	8.1
China Mainland Transport Operations Division	–	–	30.8	32.4
	7,936.5	7,779.9	964.9	759.0
Finance costs			(17.8)	(9.7)
Unallocated net operating income/(loss)			27.3	(2.3)
Profit before taxation and non-controlling Interests			974.4	747.0
Income tax			(150.1)	(128.1)
Non-controlling interests			6.6	9.8
Profit attributable to equity shareholders of the Company			830.9	628.7

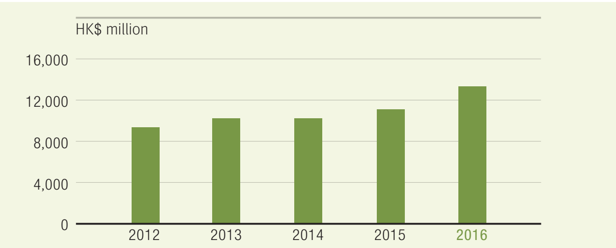
Segment information on the Group's main businesses is set out in note 12 to the financial statements on pages 163 to 165 of this Annual Report.

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

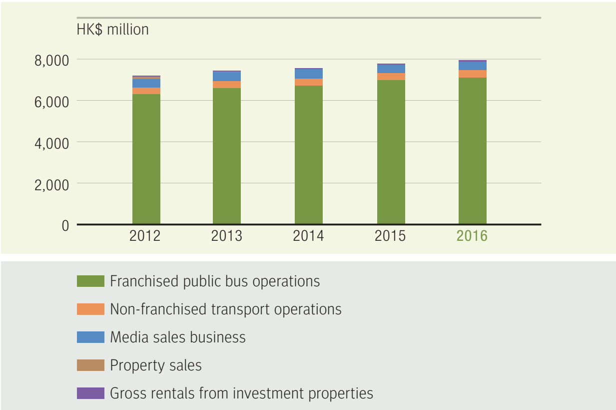
Revenue for 2016 amounted to HK$7,936.5 million, an increase of HK$156.6 million or 2.0% compared with HK$7,779.9 million for 2015. The increase was mainly due to the increase in revenue from the Group's franchised public bus operations by HK$143.5 million, primarily as a result of patronage growth. In addition, the rental income arising from the Group's investment properties increased by HK$21.8 million. However, such positive factors were partly offset by the decrease in the media sales revenue from RoadShow Holdings Limited and its subsidiaries (the "RoadShow Group") by HK$4.4 million as a result of sluggish demand in the advertising market, and decrease in revenue from the Group's Non-franchised Transport Operations Division by HK$4.3 million.

Other income increased by HK$49.5 million from HK$78.9 million in 2015 to HK$128.4 million in 2016. The increase was mainly due to the additional interest income generated from the purchase of debt securities. The breakdown of other income is set out in note 4 to the financial statements on page 156 of this Annual Report.

Total assets at 31 December



Group revenue



Total operating expenses for 2016 amounted to HK$7,080.4 million, a decrease of HK$51.2 million or 0.7% compared to HK$7,131.6 million for 2015. The decrease was mainly due to the decrease in fuel and oil costs by HK$118.3 million or 14.6% as a result of the fall in international fuel prices, and the decrease in other operating expenses due to enhancement in operating efficiency. However, these positive factors were partly offset by the increase in staff costs of HK$107.5 million due to the annual pay rise.

The Group's share of profits of associates for 2016 amounted to HK$30.8 million, a decrease of HK$1.6 million or 4.9% compared to HK$32.4 million for 2015.

Income tax expense for the year amounted to HK$150.1 million (2015: HK$128.1 million). The breakdown of the income tax expense is set out in note 6 to the financial statements on page 158 of this Annual Report.

More detailed information in respect of the Group's individual business units is set out on pages 79 to 84 of this Annual Report.

Dividend

The Board has recommended an ordinary final dividend of HK$0.90 per share (2015: HK$0.90 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 18 May 2017 or at any adjournment thereof, the proposed final dividend, together with the interim dividend of HK$0.35 per share (2015: HK$0.30 per share) paid in October 2016, would result in a total dividend of HK$1.25 per share for 2016 (2015: HK$1.20 per share), representing an increase of 4.2% compared with 2015.

Key Changes to Financial Position

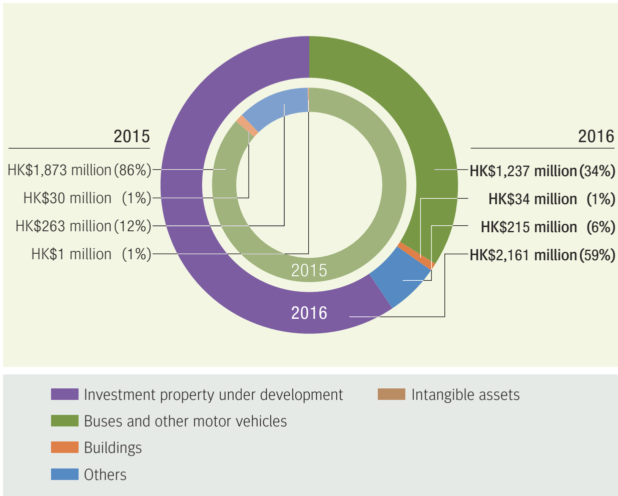
Capital Expenditure

As at 31 December 2016, 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$8,875.1 million (2015: HK$6,133.4 million). The increase was mainly due to the payment of the Group's share of the land premium for Kwun Tong Inland Lot No. 240, No. 98 How Ming Street, Kowloon, Hong Kong (the "Kwun Tong Site"), which amounted to HK$2,152.5 million, and was recorded as investment property under development. None of these assets was pledged or charged as at 31 December 2016. The breakdown of the capital expenditure is shown in note 13 to the financial statements on pages 166 and 170 of this Annual Report.

Intangible Assets and Goodwill

As at 31 December 2016, the Group's intangible assets and goodwill amounted to HK$132.1 million (2015: HK$132.3 million) and HK$84.1 million (2015: 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.

Capital expenditure



Current Assets and Current Liabilities

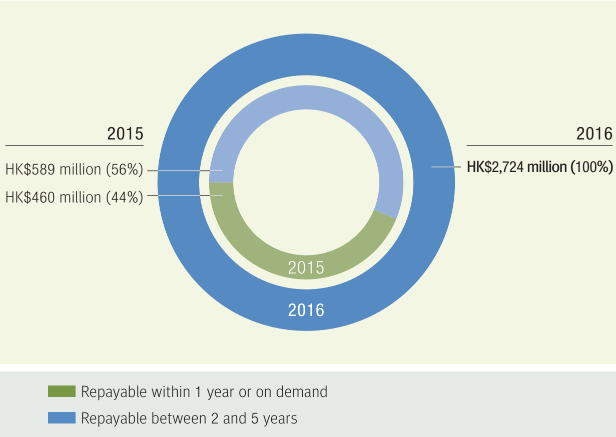
The Group's total current assets as at 31 December 2016 amounted to HK$1,773.8 million (2015: HK$3,375.9 million), mainly comprising liquid funds of HK$1,076.0 million (2015: HK$2,714.5 million) and accounts receivable of HK$516.8 million (2015: HK$435.6 million). The decrease in liquid funds was mainly due to the purchase of debt securities of HK$1,200.0 million in 2016 as well as the payment of the Group's share of the land premium for the Kwun Tong Site which was partially funded by the Group's liquid funds. The Group's liquid funds at the end of 2016 were mainly denominated in Hong Kong dollars.

Total current liabilities as at 31 December 2016 amounted to HK$1,397.1 million (2015: HK$2,055.0 million), which mainly included accounts payable and accruals.

Bank Loans

As at 31 December 2016, bank loans, all unsecured, amounted to HK$2,724.4 million (2015: HK$1,048.9 million). The increase in bank loans was mainly due to additional bank financing arranged for the Kwun Tong Site project. The maturity profile of the bank loans of the Group as at 31 December 2016 and 31 December 2015 is shown in the chart below:

Debt maturity profile at 31 December



As at 31 December 2016, the Group had undrawn banking facilities totalling HK$1,490.0 million (2015: HK$1,980.0 million), of which HK$1,480.0 million (2015: HK$1,970.0 million) was of a committed nature.

Capital Commitments

The Group's capital commitments as at 31 December 2016 amounted to HK$479.1 million (2015: HK$936.3 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	2016	2015
Development of the Kwun Tong Site	22.3	22.3
Purchase of buses and other motor vehicles	418.4	861.3
Purchase of other properties, plant and equipment	38.4	52.7
Total	479.1	936.3

As at 31 December 2016, the Group had 323 (2015: 550) new buses on order for delivery in 2017.

Funding and Financing

Financial Liquidity and Resources

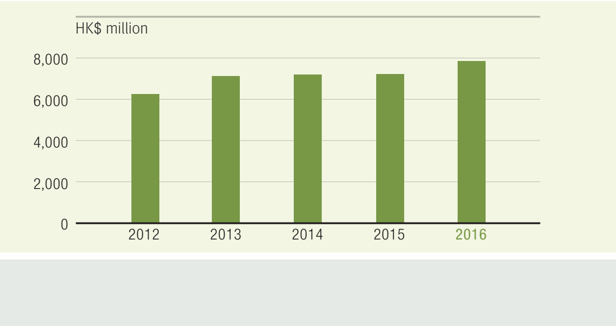
The Group closely monitors its liquidity requirement and financial resources to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with the Group's reserves of cash and liquid assets and undrawn committed banking facilities are sufficient 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, 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/Net Borrowings and Liquidity Ratio

As at 31 December 2016, the Group's net borrowings (i.e. total borrowings less cash and deposits at banks) amounted to HK$1,648.4 million (2015: net cash of HK$1,665.6 million) with a liquidity ratio (the ratio of current assets to current liabilities) of 1.3 (2015: 1.6). The details of the Group's net cash/net borrowings position by currency are set out as follows:

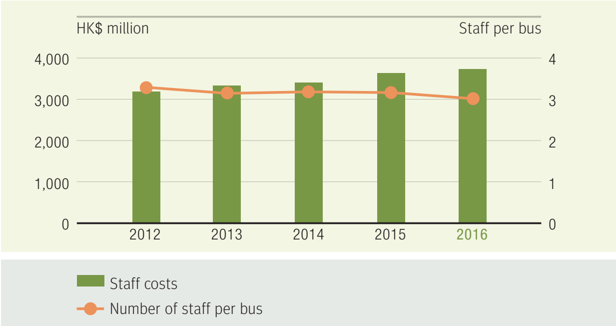
Currency	Cash and deposits at bank in foreign currency million	Cash and deposits at bank HK$ million	Bank loans HK$ million	Net cash/ (Net borrowings) HK$ million
At 31 December 2016				
Hong Kong dollars		739.4	(2,724.4)	(1,985.0)
Renminbi	157.1	174.7	–	174.7
United States dollars	16.1	125.1	–	125.1
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)
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

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 2016 were HK$17.8 million, an increase of HK$8.1 million compared with HK$9.7 million for 2015. The increase was mainly due to the increase in average bank borrowings of the Group as well as the rise in average interest rate from 1.28% per annum for 2015 to 1.61% per annum for 2016.

For the year ended 31 December 2016, the Group's interest income exceeded the total finance costs by HK$42.4 million (2015: HK$45.5 million).

Net Cash Flow

For 2016, there was a net decrease of HK$15.4 million (2015: a net decrease of HK$640.1 million) in cash and cash equivalents. The sources are set out below:

	2016 HK$ million	2015 HK$ million
Net cash generated from/ (used in):		
• Operating activities	1,978.1	1,741.0
• Investing activities	(3,327.1)	(2,434.1)
• Financing activities	1,333.6	53.0
Total	(15.4)	(640.1)

The main components of the net cash outflow of HK$15.4 million (2015: HK$640.1 million) included: (i) net cash generated from operating activities of the franchised public bus operations of HK$1,750.5 million (2015: HK$1,607.7 million); (ii) payment of the Group's share of the land premium for the Kwun Tong Site of HK$2,152.5 million (2015: nil); (iii) payment of capital expenditure of HK$1,729.4 million (2015: HK$1,982.9 million); (iv) purchase of debt securities of HK$1,200.0 million (2015: nil); (v) decrease of HK$1,664.9 million (2015: increase of HK$662.3 million) in bank deposits with original maturities of over three months; (vi) proceeds received on the maturity of available-for-sale debt securities of HK$66.8 million (2015: HK$42.7 million); and (vii) payment of dividends of HK$335.6 million (2015: HK$423.8 million).

Details of the Group's cash flow movement for the year ended 31 December 2016 are set out in the consolidated cash flow statement on page 137 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 2016, the Group hedged approximately 50% (2015: 38%) of its estimated foreign currency exposure in respect of highly probable forecast purchases denominated in British Pounds Sterling. As at 31 December 2016, the Group had outstanding GBP forward contracts totalling GBP6.2 million (2015: GBP15.4 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 2016, 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 2016. 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 56% (2015: 54%) of the total operating expenses of the Group in 2016. 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 2016 amounted to HK$3,726.2 million (2015: HK$3,633.6 million), representing an increase of 2.5%. At the end of 2016, the Group employed over 13,300 staff (2015: over 13,400 staff).