FINANCIAL REVIEW

The Group

Summary of Financial Performance

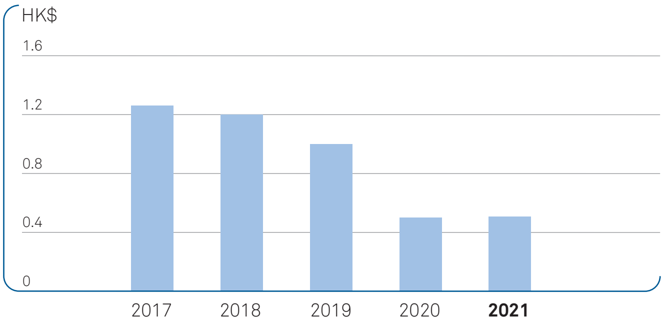
	2021	2020	Favourable/(Unfavourable) Change	
	HK$ million	HK$ million	HK$ million	%
Revenue	**7,202.0**	6,190.9	1,011.1	16.3
Other income	**254.0**	1,249.6	(995.6)	(79.7)
Operating expenses	**(7,197.4)**	(7,193.5)	(3.9)	(0.1)
Profit from operations	**258.6**	247.0	11.6	4.7
Finance costs	**(14.4)**	(26.9)	12.5	46.5
Gain on disposal of a subsidiary	**–**	1,495.5	(1,495.5)	(100.0)
Share of profits of associates	**19.6**	6.5	13.1	201.5
Share of profit of joint venture	**8.3**	–	8.3	N/A
Profit before taxation	**272.1**	1,722.1	(1,450.0)	(84.2)
Income tax (expense)/credit	**(27.1)**	182.0	(209.1)	(114.9)
Profit for the year	**245.0**	1,904.1	(1,659.1)	(87.1)
Earnings per share (HK$)	**0.53**	4.21	(3.68)	(87.4)

Review of 2021 Financial Performance

The Group's Results for the Year

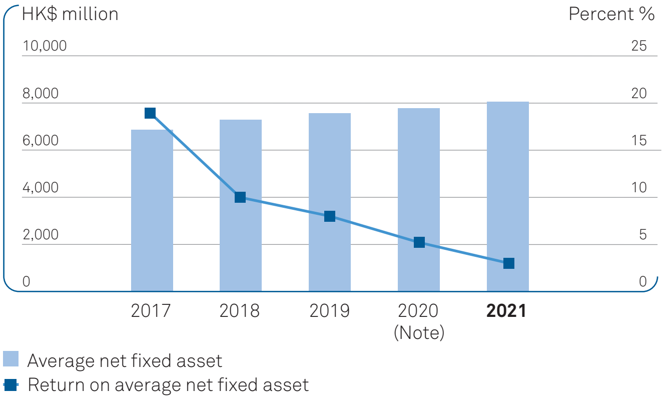
The Group's profit attributable to equity shareholders for the year ended 31 December 2021 was HK$245.0 million (2020: HK$1,904.1 million), representing a decrease of HK$1,659.1 million compared with 2020. The decline was mainly due to the one-off non-recurring net gain of HK$1,495.5 million in 2020. Total revenue increased by 16.3% from HK$6,190.9 million in 2020 to HK$7,202.0 million in 2021 due to a rebound in patronage. Profit from operations improved by 4.7% from HK$247.0 million in 2020 to HK$258.6 million in 2021. Earnings per share decreased correspondingly from HK$4.21 for 2020 to HK$0.53 for 2021.

Dividends per Share



Return on Average Net Fixed Asset Employed

(exclude property development)



Note: Excluding 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

The revenue and underlying profit generated by the Group's five Divisions for the year ended 31 December 2021 are shown below:

	Revenue		Profit before taxation	
HK$ million	**2021**	2020	**2021**	2020
Franchised Public Bus Operations Division	**6,940.1**	5,909.7	**94.3**	34.5
Non-franchised Transport Operations Division	**212.6**	208.3	**11.2**	42.2
Property Holdings and Development Division	**49.3**	72.9	**55.8**	63.0
Financial Services Division	**–**	–	**68.6**	66.3
China Mainland Transport Operations Division	**–**	–	**19.6**	6.5
	7,202.0	6,190.9	**249.5**	212.5
Finance costs			**(14.4)**	(26.9)
Unallocated net operating income			**37.0**	41.0
Gain on disposal of a subsidiary			**–**	1,495.5
Profit before taxation			**272.1**	1,722.1
Income tax (expense)/credit			**(27.1)**	182.0
Profit for the year			**245.0**	1,904.1

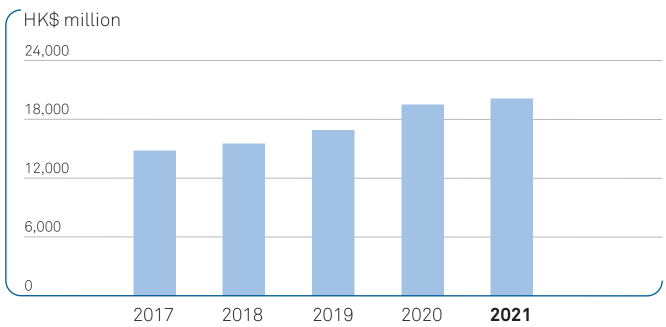
Segment information on the Group's main businesses is set out in note 12 to the financial statements on pages 195 to 197 of this Annual Report.

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

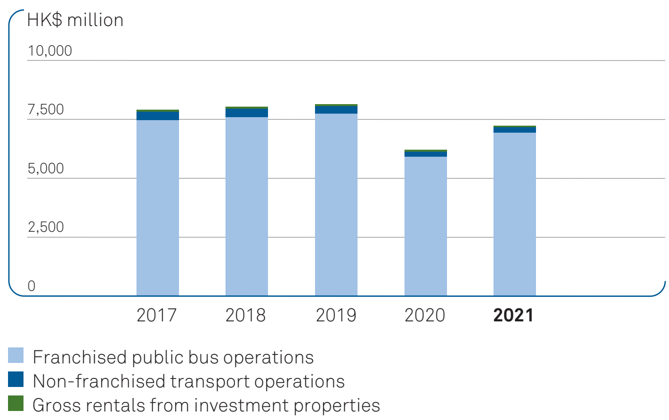
Revenue for 2021 amounted to HK$7,202.0 million, an increase of HK$1,011.1 million or 16.3% compared with HK$6,190.9 million for 2020. The increase was mainly due to (i) the increase in revenue from the Group's franchised public bus operations of HK$1,030.4 million, primarily as a result of patronage increase and fare increase with effect from 4 April 2021; and (ii) the increase in revenue from the Group's non-franchised transport operations of HK$4.3 million, which was partly offset by the decrease in rental income arising from the Group's investment properties of HK$23.6 million.

Other income decreased by HK$995.6 million from HK$1,249.6 million in 2020 to HK$254.0 million in 2021. The decrease was mainly due to the decrease in government subsidies of HK$1,008.5 million from various support schemes rolled out by the Government under the Anti-epidemic Fund to provide financial support to the public transport sector in 2020. 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



FINANCIAL REVIEW

Total operating expenses for 2021 amounted to HK$7,197.4 million, an increase of HK$3.9 million or 0.1% compared to HK$7,193.5 million for 2020. The increase was mainly due to the increase in fuel cost as a result of the rise in international fuel prices.

The Group's share of profits of associates for 2021 amounted to HK$19.6 million, an increase of HK$13.1 million or 201.5% compared to HK$6.5 million for 2020.

Income tax expense for the year amounted to HK$27.1 million (2020: income tax credit of HK$182.0 million). The breakdown of the income tax expense/credit 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 99 to 104 of this Annual Report.

Dividend

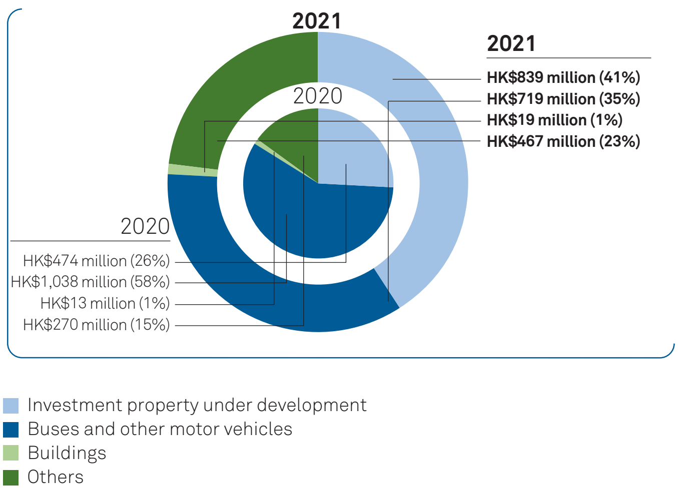
The Board has recommended an ordinary final dividend of HK$0.50 per share (2020: HK$0.50 per share). Subject to the approval of the shareholders at the Annual General Meeting of the Company to be held on 19 May 2022 or at any adjournment thereof, the total dividend for the year amounted to HK$0.50 per share (2020: HK$0.50 per share). The Company's intention is to maintain stable returns to shareholders.

Key Changes to Financial Position

Capital Expenditure

As at 31 December 2021, 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$11,976.1 million (2020: HK$10,953.6 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 during the year. None of the assets was pledged or charged as at 31 December 2021. The breakdown of the capital expenditure is shown in note 13 to the financial statements on pages 198 to 203 of this Annual Report.

Capital Expenditure



Intangible Assets and Goodwill

As at 31 December 2021, the Group's intangible assets and goodwill amounted to HK$419.7 million (2020: HK$365.0 million) and HK$84.1 million (2020: 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

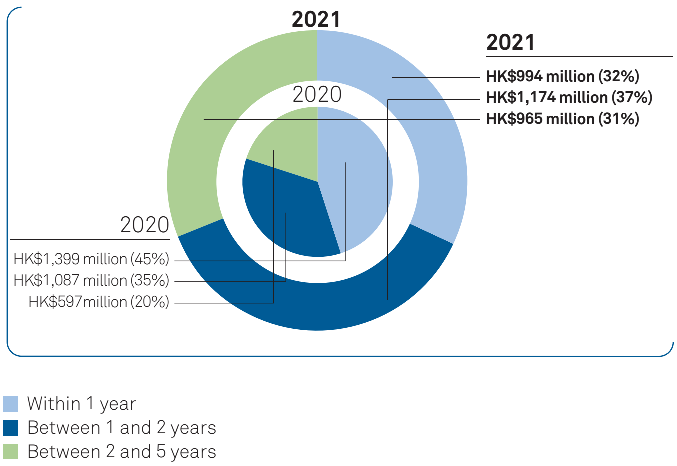
The Group's total current assets as at 31 December 2021 amounted to HK$2,720.0 million (2020: HK$3,316.3 million), mainly comprising liquid funds of HK$1,237.5 million (2020: HK$2,293.7 million) and accounts receivable of HK$605.1 million (2020: HK$660.5 million). The Group's liquid funds as at 31 December 2021 were mainly denominated in Hong Kong dollars.

Total current liabilities as at 31 December 2021 amounted to HK$2,759.5 million (2020: HK$3,087.0 million), which mainly included accounts payable and accruals, and the current portion of bank loans.

Bank Loans

As at 31 December 2021, bank loans, all unsecured, amounted to HK$3,132.5 million (2020: HK$3,082.5 million). The maturity profile of the bank loans of the Group as at 31 December 2021 and 31 December 2020 is shown in the chart below:

Debt Maturity Profile at 31 December



As at 31 December 2021, the Group had undrawn committed banking facilities totalling HK$1,555.0 million (2020: HK$2,110.0 million).

Capital Commitments

The Group's capital commitments as at 31 December 2021 amounted to HK$1,605.2 million (2020: HK$2,579.1 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	2021	2020
Development of the Kwun Tong Site	950.9	1,752.8
Purchase of buses and other motor vehicles	552.3	680.3
Purchase of other properties, plant and equipment	102.0	146.0
Total	1,605.2	2,579.1

As at 31 December 2021, the Group had 200 (2020: 427) new buses on order for delivery in 2022.

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 2021, the Group's net borrowing (i.e. total borrowings less cash and deposits at banks) amounted to HK$1,895.0 million (2020: HK$788.8 million) with a liquidity ratio (the ratio of current assets to current liabilities) of 1.0 (2020: 1.1). 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 2021				
Hong Kong dollars		**1,004.7**	**(3,132.5)**	**(2,127.8)**
United States dollars	**29.0**	**226.3**	**–**	**226.3**
Other currencies		**6.5**	**–**	**6.5**
Total		**1,237.5**	**(3,132.5)**	**(1,895.0)**
At 31 December 2020				
Hong Kong dollars		1,746.0	(3,082.5)	(1,336.5)
United States dollars	68.9	534.5	–	534.5
Other currencies		13.2	–	13.2
Total		2,293.7	(3,082.5)	(788.8)

Finance Costs and Interest Cover

The finance costs incurred by the Group for the year ended 31 December 2021 were HK$14.4 million, a decrease of HK$12.5 million compared with HK$26.9 million for 2020. The decrease was mainly due to the decrease in the average interest rate from 1.68% per annum for 2020 to 0.97% per annum for 2021 but was partly offset by the increase in average bank borrowings of the Group.

For the year ended 31 December 2021, the Group's interest income exceeded the total finance costs by HK$46.8 million (2020: HK$49.7 million).

Net Cash Flow

For 2021, there was a net decrease of HK$310.4 million (2020: net increase of HK$589.3 million) in cash and cash equivalents. The sources are set out below:

	2021 HK$ million	2020 HK$ million
Net cash generated from/(used in):		
• Operating activities	**1,319.9**	1,198.4
• Investing activities	**(1,581.4)**	(827.0)
• Financing activities	**(48.9)**	217.9
Net cash (outflow)/inflow	**(310.4)**	589.3

The main components of the net cash outflow of HK$310.4 million (2020: net cash inflow of HK$589.3 million) included: (i) net cash generated from operating activities of the franchised public bus operations of HK$1,116.1 million (2020: HK$1,006.6 million); (ii) payment of capital expenditure of HK$2,093.1 million (2020: HK$1,648.4 million); (iii) decrease of HK$810.3 million (2020: increase of HK$43.7 million) in bank deposits with original maturities of over three months; (iv) proceeds received on the maturity of debt securities of HK$436.3 million (2020: HK$722.8 million); (v) purchase of debt securities of HK$767.3 million (2020: HK$438.3 million); (vi) increase of HK$55.0 million in bank loans (2020: HK$370.0 million); and (vii) payment of dividends of HK$109.4 million (2020: HK$149.2 million). Net cash inflow in 2020 included proceeds received from disposal of a subsidiary of HK$744.7 million.

Details of the Group's cash flow movement for the year ended 31 December 2021 are set out in the consolidated cash flow statement on page 166 of this Annual Report.

Treasury Risk Management

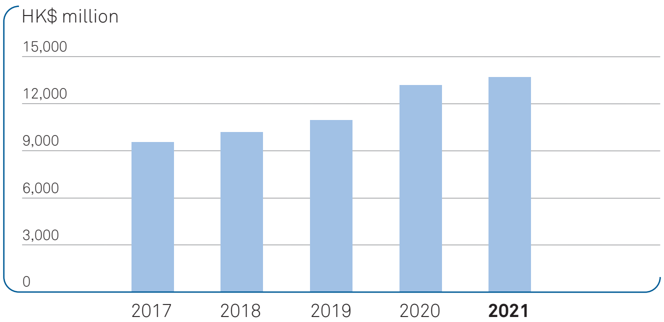
The Group's activities are exposed to various financial risks, including foreign currency, interest rate, fuel price, credit and liquidity risks. The Group's exposure to these risks as well as its risk management policies and practices are described below:

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.

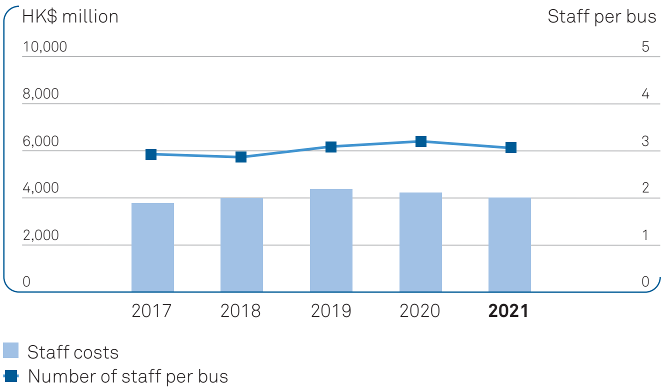
As at 31 December 2021, the Group had outstanding GBP forward contracts totalling GBP7.1 million (2020: GBP15.2 million), which had maturities of less than one year after the end of the reporting period.

Shareholders' Fund at 31 December



Staff Costs and Staff per Bus

(Franchised public bus operations)



Interest Rate Risk

In view of the volatile financial markets and the prospect of interest rate hikes, the Group will continue to closely monitor the market conditions and devise 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 2021, 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 conditions.

The Group's major subsidiary, KMB, has been assigned an "A" credit rating 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 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 enters into contracts with diesel suppliers from time to time 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. It is expected that the fuel price will continue to be volatile as a result of the Russia-Ukraine crisis. The 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 conditions.

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.