

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

## 1 GENERAL

The Company (Registration No. 199206653M) is incorporated in Singapore with its registered office and principal place of business at 205 Braddell Road, Singapore 579701. The Company is listed on the Singapore Exchange Securities Trading Limited.

The principal activities of the Company are those of the provision of public transport services, namely bus and rail services.

The principal activities of the subsidiary are described in Note 9 to the Financial Statements.

The Financial Statements are expressed in Singapore dollars and all values are rounded to the nearest thousand (\$'000) except when otherwise indicated.

The Consolidated Financial Statements of the Group for the financial year ended 31 December 2019 and the Statement of Financial Position and Statement of Changes in Equity of the Company as at 31 December 2019 were authorised for issue by the Board of Directors on 13 February 2020.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF ACCOUNTING** – The Financial Statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below and are drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 and Singapore Financial Reporting Standards (International) (“SFRS(I)s”).

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of SFRS(I) 2 *Share-based Payment*, leasing transactions that are within the scope of SFRS(I) 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in SFRS(I) 1-2 *Inventories* or value in use in SFRS(I) 1-36 *Impairment of Assets*.

**ADOPTION OF NEW AND REVISED STANDARDS** – On 1 January 2019, the Company has adopted all the new and revised SFRS(I)s that are relevant to its operations and effective from that date. The adoption of these new/revised SFRS(I)s does not result in changes to the Company’s accounting policies and has no material effect on the amounts reported for the current or prior years except as disclosed below.

### SFRS(I) 16 Leases

SFRS(I) 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, with exemption for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of SFRS(I) 16 on the Group’s consolidated financial statements is described below.

The date of initial application of SFRS(I) 16 for the Group is 1 January 2019.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The Group has applied SFRS(I) 16 using the cumulative catch-up approach which:

- Requires the Group to recognise the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening balance of retained earnings at the date of initial application; and
- Does not permit restatement of comparatives, which continue to be presented under SFRS(I) 1-17 and SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*.

(a) Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. SFRS(I) 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in SFRS(I) 1-17 and SFRS(I) INT 4.

The Group applies the definition of a lease and related guidance set out in SFRS(I) 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). The new definition in SFRS(I) 16 does not significantly change the scope of contracts that meet the definition of a lease for the Group.

(b) Impact on lessee accounting

*Former operating leases*

SFRS(I) 16 changes how the Group accounts for leases previously classified as operating leases under SFRS(I) 1-17, which were off-balance-sheet.

Applying SFRS(I) 16, for all leases, the Group:

- Recognises right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of the remaining lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with SFRS(I) 16:C8(b)(ii), except for the right-of-use asset for property leases which were measured on a retrospective basis as if the Standard had been applied since the commencement date;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in Profit or Loss; and
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Group Cash Flow Statement.

Lease incentives (eg. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under SFRS(I) 1-17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (b) Impact on lessee accounting (cont'd)

Under SFRS(I) 16, right-of-use assets are tested for impairment in accordance with SFRS(I) 1-36. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and lease of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by SFRS(I) 16. This expense is presented within other operating costs in Profit or Loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying SFRS(I) 1-17.

- No reassessment on whether a contract is or contains a lease if the contract was entered into before 1 January 2019. Accordingly, the definition of a lease in accordance with SFRS(I) 1-17 and SFRS(I) INT 4 will continue to be applied to those leases entered or modified before 1 January 2019.
- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

The right-of-use asset and the lease liability are accounted for applying SFRS(I) 16 from 1 January 2019.

### (c) Impact on lessor accounting

SFRS(I) 16 does not change substantially how a lessor accounts for leases. Under SFRS(I) 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, SFRS(I) 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Financial impact of initial application of SFRS(I) 16

The weighted average lessee's incremental borrowing rate applied to the lease liabilities recognised in the Statement of Financial Position on 1 January 2019 is 2.7%.

The following table shows the operating lease commitments disclosed applying SFRS(I) 1-17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the Statement of Financial Position at the date of initial application.

	<b>2019</b> <b>\$'000</b>
Operating lease commitments at 31 December 2018	26,863
Less: Short-term leases and leases of low value assets	(210)
Less: Effect of discounting the above amounts	(8,285)
Add: Present value of the lease payments due in periods covered by extension options	55,954
Add: Present value of the lease payments within the scope of SFRS(I) 16 but not previously included in operating lease commitments	14,692
<b>Lease liabilities recognised at 1 January 2019</b>	<b>89,014</b>

Right-of-use assets were measured on a modified retrospective basis as if the Standard had been applied since the commencement date. Consequently, right-of-use assets of \$78,038,000, net investment from sublease of \$201,000, and the net impact on retained earnings of \$10,775,000 relating to the lease liabilities above were recognised on 1 January 2019.

**BASIS OF CONSOLIDATION** – The Consolidated Financial Statements incorporate the Financial Statements of the Company and an entity controlled by the Company. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Group Income Statement and Group Comprehensive Income Statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the Financial Statements of the subsidiary to bring its accounting policies in line with those consistently used by the Group.

Changes in the Group's ownership interests in the subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

In the Statement of Financial Position of the Company, investment in subsidiary is carried at cost less any impairment in net recoverable value that has been recognised in Profit or Loss.

**BUSINESS COMBINATIONS** – The acquisition of subsidiary is accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group to the former owners of the acquiree in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under SFRS(I) 3 *Business Combinations* are recognised at their fair values at the acquisition date except for deferred tax assets or liabilities which are recognised and measured in accordance with SFRS(I) 1-12 *Income Taxes*. Acquisition-related costs are recognised in Profit or Loss as incurred.

The interest of the non-controlling shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**FINANCIAL INSTRUMENTS** – Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through Profit or Loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in Profit or Loss.

### **Financial assets**

All financial assets are recognised and derecognised on a trade date basis where the purchase or sale of financial assets is under a contract whose terms require delivery of assets within the time frame established by the market concerned.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments that meet both the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

#### *Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

#### *Debt instruments classified as FVTOCI*

Investments in debt instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, any gains or losses on such a financial asset are recognised in Other Comprehensive Income, except for impairment gains or losses and foreign exchange gains and losses until the financial asset is derecognised. When the financial asset is derecognised the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified from equity to Profit or Loss for the period.

Interest income is recognised in Profit or Loss and is included in the "Net Income from Investments" line item in Profit or Loss.

#### Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group applies the simplified approach permitted by SFRS(I) 9 *Financial Instruments* for trade receivables. The ECL on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors as well as current and forecast general economic conditions at the reporting date.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Impairment of financial assets (cont'd)

To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the rate of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information, where relevant.

A default on a financial asset is when the counterparty fails to make contractual payments within a specific period after the credit period granted.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include taking into consideration observable data about the significant financial difficulty of the issuer or the borrower; a breach of contract, such as a default or past due event; it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Where receivables have been written off, the Group continues to recover the receivables due. Where recoveries are made, these are recognised in Profit or Loss.

### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in Profit or Loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the Investment Revaluation Reserve is reclassified to Profit or Loss.

## **Financial liabilities and equity instruments**

### Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

### Borrowings

Interest-bearing loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised in Profit or Loss over the term of the borrowings.

### Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in Profit or Loss.

#### Hedging instruments and hedge accounting

The Group uses hedging instruments to manage its exposure to fuel price fluctuation, interest rate and foreign exchange rate risks. The Group uses hedging instruments such as forwards and options, to manage these risks. The use of hedging instruments is governed by the Group's policies which provide written principles on the use of financial instruments consistent with the Group's risk management strategy (see Note 33).

Hedging instruments are initially recognised at fair value on the contract date, and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in Profit or Loss immediately unless the hedging instrument is designated and effective as a hedging instrument, in which event the timing of the recognition in Profit or Loss depends on the nature of the hedge relationship. The Group designates its hedging instruments as either fair value hedges or cash flow hedges.

Hedging instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of hedging instrument is classified as a non-current asset or a non-current liability if the maturity of the hedge relationship exceeds 12 months and as a current asset or current liability if the maturity of the hedge relationship is within 12 months.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objective and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The Group designates any interest rate swap for hedging of interest rate risk arising from borrowings as cash flow hedges. Hedges of both foreign currency risk and fuel price risk for future purchases of goods are designated as cash flow hedges.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Note 32 (c) contains details of the fair values of the hedging instruments.

#### (a) Fair value hedge

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in Profit or Loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

#### (b) Cash flow hedge

The effective portion of changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are recognised in Other Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in Profit or Loss. Amounts recognised in Other Comprehensive Income are taken to Profit or Loss when the hedged item is realised.



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### LEASES

#### Leases (Before 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

##### The Group as lessee

Rentals payable under operating leases (net of any incentive received from lessor) are charged to Profit or Loss on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

#### Leases (From 1 January 2019)

##### The Group as lessor

The Group enters into lease agreements as a lessor with respect to its property.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

##### The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate specific to the lessee.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### The Group as lessee (cont'd)

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under SFRS(I) 1-37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### The Group as lessee (cont'd)

The right-of-use assets are presented as a separate line in the Statement of Financial Position.

The Group applies SFRS(I) 1-36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 2.

As a practical expedient, SFRS(I) 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

**INVENTORIES** – Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of purchase and those costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**VEHICLES, PREMISES AND EQUIPMENT** – Vehicles and equipment are stated at cost less accumulated depreciation and any provision for impairment.

Capital projects in progress comprising development and construction costs incurred during the period of construction are carried at cost, less any recognised provision for impairment. Depreciation on these assets, on the same basis as other vehicles, premises and equipment, commences when the assets are available for use.

Depreciation is charged so as to write off the cost of the assets, other than capital projects in progress, over the estimated useful lives using the straight-line method, on the following bases:

	<u>Number of years</u>
Buses	17
Leasehold land and buildings (including leasehold improvements)	Over the remaining lease period
Computers and automated equipment	3 to 5
Workshop machinery, tools and equipment	3 to 7
Motor vehicles	5 to 10
Furniture, fittings and equipment	5 to 7

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of vehicles, premises and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in Profit or Loss.

Fully depreciated vehicles, premises and equipment are retained in the Financial Statements until they are no longer in use.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**IMPAIRMENT OF NON-FINANCIAL ASSETS** – At the end of each reporting year, the Group reviews the carrying amounts of its non-financial assets, if any, to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the provision for impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. A provision for impairment is recognised immediately in Profit or Loss.

Where provision for impairment subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no provision for impairment been recognised for the asset (cash-generating unit) in prior years. A reversal of a provision for impairment is recognised immediately in Profit or Loss.

**FUEL PRICE EQUALISATION ACCOUNT** – At the direction of the Public Transport Council (“PTC”), a fuel price equalisation account (“FPEA”) has been set up to account for diesel price and electricity tariff adjustment charge for the purpose of mitigating the effects of any increase in fuel price and electricity tariff.

Annual contributions to the FPEA may be required as determined by the PTC, based on the reference electricity tariff and diesel price for the year.

Applications can be made to the PTC to seek approval for a draw down as may be catered for by the purpose of the FPEA mechanism, provided that the amount drawn does not exceed half of the available FPEA balance.

**PROVISION FOR ACCIDENT CLAIMS** – Claims for accident, public liability and others are provided in the Financial Statements based on the claims outstanding and the estimated amounts payable.

**PROVISIONS** – Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

**DEFERRED INCOME** – Deferred income comprises advance receipts from customers that are recognised to Profit or Loss when the services are rendered.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**SERVICE BENEFITS** – These comprise the following:

- (a) Retirement benefits – Under the Collective Agreement entered into by the Group with the Union, a retirement benefit subject to a maximum of \$3,000 is payable to an employee retiring on or after attaining the retirement age and on completion of at least five years of service. Provision is made in the Financial Statements based on the number of years of service rendered by qualifying employees and discounted to present value using the market yield of Singapore Government Bonds at end of the reporting period and after taking into account an estimated attrition rate. The estimated attrition rate used is based on the Management's best estimate using historical trend.
- (b) Long service awards – Staff serving more than 15 years are entitled to long service awards of \$500 for 15 years of service, \$700 for 20 years, \$900 for 25 years, \$1,100 for 30 years and \$1,300 for 35 years. Provision is made in the Financial Statements based on the number of years of service rendered by qualifying employees.

The provision for retirement benefits and long service awards is discounted using the market yield of Singapore Government Bonds at end of the reporting year.

- (c) Apart from the retirement benefits described in (a) above, the Group participates in a defined contribution plan managed by the Singapore Government ("Singapore Central Provident Fund"). Payments made to the plan are charged as an expense when the employees have rendered the services entitling them to the contributions.
- (d) Employee leave entitlement – Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting year.
- (e) Share-based payments – The Company issues share options to certain employees and Directors. Share options are measured at fair value of the equity instruments (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the share options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**GOVERNMENT GRANTS** – Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the Statement of Financial Position and transferred to Profit or Loss on a systematic and rational basis over the useful lives of the related assets.

Government grants in relation to expenses incurred are recognised as other operating income in the period in which they become receivable.

Government grants in relation to form of a transfer of a non-monetary asset, such as land or other resources, for the use of the Group, are recognised as both asset and grant at a nominal amount.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**REVENUE RECOGNITION** – The Group recognises revenue from the following sources:

- Transport services
- Lease revenue
- Other commercial services

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Revenue from transport services comes from the provision of bus and rail services to commuters travelling on public transport systems. Revenue from transport regulator for scheduled bus services is recognised as and when services are rendered, including an estimation of the expected consideration on achieving certain performance targets. Revenue from other third parties for rail services is recognised as and when services are rendered.

Lease revenue comprises leasing fees for the buses and other assets used in the provision of bus services under the Bus Contracting Model ("BCM"). Lease revenue is recognised upon completion of services.

Revenue from other commercial services comprises advertising and rental income. Advertising production revenue is recognised when production is completed and advertising media revenue is recognised on a time proportionate basis over the term relevant contract. Rental income is recognised on a straight-line basis over the term of the relevant lease.

**BORROWING COSTS** – Borrowing costs incurred to finance the purchase of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised in Profit or Loss in the period which they are incurred.

**INCOME TAX** – Current income tax liabilities (and assets) for current and prior periods are recognised at the amounts expected to be paid to (or recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

Deferred income tax assets/liabilities are recognised for deductible/taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. The principal temporary differences arise from depreciation, provision for fuel equalisation and future tax benefits from certain provisions are not allowed for tax purposes until a later period. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised on taxable temporary differences arising from investment in subsidiary except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Current and deferred tax are recognised as an expense or income in Profit or Loss, except when they relate to items credited or debited outside Profit or Loss (either in Other Comprehensive Income or directly in equity), in which case the tax is also recognised outside Profit or Loss (either in Other Comprehensive Income or directly in equity), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

**FOREIGN CURRENCY TRANSACTIONS** – The individual Financial Statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Consolidated Financial Statements of the Group and the Statement of Financial Position and Statement of Changes in Equity of the Company are presented in Singapore dollars, which is the functional currency of the Company, and the presentation currency for the Consolidated Financial Statements.

Transactions in currencies other than each Group entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in Profit or Loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in Profit or Loss for the period except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in Other Comprehensive Income. For such non-monetary items, any exchange component of that gain or loss is also recognised in Other Comprehensive Income.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (please see above for details of the Group's accounting policies in respect of such hedging instruments).

**CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT OF THE GROUP** – Cash and cash equivalents in the Cash Flow Statement of the Group comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period of the revision and future periods if the revision affects both current and future periods.

### ***Critical judgements in applying the Group's accounting policies***

Management is of the opinion that any instances of applications of judgements are not expected to have a significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations, which are dealt with below).

**3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D)*****Key sources of estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

## (a) Accident claims

Claims for property damage and personal injury are provided in the Financial Statements based on the claims outstanding as of the end of the financial year and estimated amounts payable. The past claims history and payment are used as a basis to estimate the amounts in which the Group will have to pay to third parties for such claims. Provision for claims is disclosed in Note 17.

## (b) Retirement benefits

Retirement benefits subject to a maximum of \$3,000 is payable to a retiring employee on or after attaining the retirement age and on completion of at least five years of service. Provision is made based on the number of years of service rendered by qualifying employees and discounted to present value using the market yield of Singapore Government Bonds at end of the reporting period of 1.60% to 1.88% (2018 : 1.93% to 2.37%) per annum and after taking into account an estimated attrition rate. The estimated attrition rate used is based on the Management's best estimate using historical trend. Provision for retirement benefits is disclosed in Note 19.

## (c) Long service awards

Staff with more than 15 years of service are entitled to long service awards of \$500 for 15 years of service, \$700 for 20 years, \$900 for 25 years, \$1,100 for 30 years and \$1,300 for 35 years. Provision is made based on the number of years of service rendered by qualifying employees and discounted to present value using the market yield of Singapore Government Bonds at end of the reporting period of 1.60% to 1.88% (2018 : 1.93% to 2.37%) per annum and after taking into account an estimated attrition rate. The estimated attrition rate used is based on the Management's best estimate using historical trend. Provision for long service awards is disclosed in Note 19.

Useful lives of vehicles, premises and equipment

As described in Note 2, the Group reviews the estimated useful lives of vehicles, premises and equipment at the end of each annual reporting period. During the financial year, Management determined that the estimated useful lives of vehicles, premises and equipment are appropriate and no material revision is required. The carrying amounts of the vehicles, premises and equipment are disclosed in Note 11.



#### 4 HOLDING COMPANY, RELATED COMPANY AND RELATED PARTY TRANSACTIONS

The Company's immediate and ultimate holding company is ComfortDelGro Corporation Limited, incorporated in Singapore.

Related companies in these Financial Statements refer to members of the ultimate holding company's group of companies.

Some of the Group's transactions and arrangements are with related parties and other members of the ultimate holding company's group of companies and the effects of these on the basis determined between the parties are reflected in these Financial Statements.

Related parties include associate or joint venture of a member of the ultimate holding company.

Significant intercompany and related party transactions during the financial year, other than those disclosed elsewhere in the notes to the Financial Statements are as follows:

	The Group	
	2019 \$'000	2018 \$'000
Purchases of inventories from a related company	28,568	30,450
Rental expense from:		
Ultimate holding company	3,316	3,222
Related company	600	600
Purchase of goods and services from:		
Ultimate holding company	4,300	2,845
Related companies	2,929	2,646
Associate of the ultimate holding company	27	25
Sales of goods and services to:		
Ultimate holding company	(21)	(21)
Related companies	(990)	(1,098)
Associate of the ultimate holding company	(7)	(7)
Rental income from related companies	(243)	(233)

The amounts outstanding are unsecured, interest-free and are repayable on demand, unless otherwise stated. No guarantees have been given or received.

No expense has been recognised in the financial year for bad and doubtful debts in respect of the amounts owed by related companies.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 5 SHORT-TERM DEPOSITS AND BANK BALANCES

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
Cash and bank balances	5,963	5,711	4,780	4,785
Fixed deposits	25,500	27,000	25,500	27,000
Total	31,463	32,711	30,280	31,785

Fixed deposits bear effective interest rate of 1.65% to 1.77% (2018 : 1.60% to 1.74%) per annum and for a tenure of approximately 10 to 16 days (2018 : 3 to 14 days). The fixed deposits can be readily converted to a known amount of cash and are subject to an insignificant risk of changes in value.

### 6 TRADE RECEIVABLES

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
Related companies (Note 4)	14	15	14	15
Related parties (Note 4)	99	–	73	–
Outside parties	167,320	123,494	163,976	120,210
Total	167,433	123,509	164,063	120,225

The amounts outstanding are interest-free and the credit period ranges from 7 to 30 days (2018 : 7 to 30 days).

The expected risks of default on trade receivables at the reporting date is insignificant as a majority of receivables is from the Land Transport Authority ("LTA"). For the remaining receivables, the concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, no allowance for doubtful trade receivables is deemed necessary by the Group as at the reporting date.

## 7 OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
Receivables from:				
Related companies (Note 4)	736	1,749	736	1,749
Subsidiary (Note 9)	–	–	262,501	213,194
	736	1,749	263,237	214,943
Prepayments	12,628	11,432	7,266	7,560
Interest receivable	9	13	9	13
Staff advances	329	525	156	334
Security deposits from outside parties	1,091	961	1,074	941
Accrued income	8,755	18,703	3,589	14,249
Net investment on sublease	30	–	30	–
Receivables from outside parties	44,170	23,083	42,332	21,511
<b>Total</b>	<b>67,748</b>	<b>56,466</b>	<b>317,693</b>	<b>259,551</b>

Majority of the other receivables are due from creditworthy parties where Management has assessed the credit risk to be low.

## 8 INVENTORIES

Inventories comprised mainly parts, accessories and consumable stores required for the operation and maintenance of vehicles and equipment.

At the end of the reporting period, the inventories are stated net of allowance of \$1,887,000 (2018: Nil) due to certain parts being phased out.

## 9 SUBSIDIARY

The Company has investment in unquoted equity shares representing 100% equity interest in SBS Transit DTL Pte. Ltd. incorporated in Singapore. The cost of investment in the subsidiary was \$5,000,000 (2018 : \$5,000,000). The subsidiary is audited by Deloitte & Touche LLP, Singapore.

The principal activities of the subsidiary are those of the operation and maintenance of Downtown Line.

The Group is in compliance with Listing Rules 712 and 715 of The Singapore Exchange Securities Trading Limited as suitable auditing firms have been appointed to meet the Group's audit obligations.

## 10 PREPAYMENTS

Prepayments pertain to downpayments for the purchase of vehicles, premises and equipment.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

## 11 VEHICLES, PREMISES AND EQUIPMENT

	Buses \$'000	Leasehold land and building <sup>(N1)</sup> \$'000	Leasehold improve- ments \$'000	Computers and automated equipment \$'000	Workshop machinery, tools and equipment \$'000	Motor vehicles \$'000	Furniture, fittings and equipment \$'000	Capital projects in progress \$'000	Total \$'000
<b>The Group</b>									
<b>Cost or valuation:</b>									
At 1 January 2018	1,140,991	63,880	49,450	60,924	67,611	8,363	17,389	8,702	1,417,310
Additions	5,056	109	668	1,808	7,654	575	2,198	6,258	24,326
Disposals <sup>(N2)</sup>	(21,437)	–	–	(42,821)	(32,585)	(441)	(1,092)	(2,006)	(100,382)
Reclassification	385	–	2,646	729	3,593	19	423	(7,795)	–
Transfer to Ultimate holding company	–	–	–	(1)	–	–	(3)	–	(4)
At 31 December 2018	1,124,995	63,989	52,764	20,639	46,273	8,516	18,915	5,159	1,341,250
Additions	1,251	219	2,727	5,498	5,737	1,006	2,774	12,399	31,611
Disposals	(10,201)	–	–	(757)	(194)	(496)	(336)	–	(11,984)
Reclassification	3,961	–	504	1,396	577	–	520	(6,958)	–
Transfer to Ultimate holding company	–	–	–	(1)	–	–	–	–	(1)
At 31 December 2019	1,120,006	64,208	55,995	26,775	52,393	9,026	21,873	10,600	1,360,876
<b>Accumulated depreciation:</b>									
At 1 January 2018	468,248	6,271	34,027	57,660	30,546	4,817	11,897	–	613,466
Additions	77,257	4,706	2,064	2,505	4,193	919	1,492	–	93,136
Disposals <sup>(N2)</sup>	(21,436)	–	–	(42,821)	(5,632)	(397)	(366)	–	(70,652)
Transfer to Ultimate holding company	–	–	–	(1)	–	–	(3)	–	(4)
At 31 December 2018	524,069	10,977	36,091	17,343	29,107	5,339	13,020	–	635,946
Additions	75,135	4,729	2,451	3,067	4,669	988	1,663	–	92,702
Disposals	(10,200)	–	–	(757)	(190)	(455)	(334)	–	(11,936)
Transfer to Ultimate holding company	–	–	–	(1)	–	–	–	–	(1)
At 31 December 2019	589,004	15,706	38,542	19,652	33,586	5,872	14,349	–	716,711
<b>Carrying amount:</b>									
At 31 December 2019	531,002	48,502	17,453	7,123	18,807	3,154	7,524	10,600	644,165
At 31 December 2018	600,926	53,012	16,673	3,296	17,166	3,177	5,895	5,159	705,304

## 11 VEHICLES, PREMISES AND EQUIPMENT (CONT'D)

	Buses \$'000	Leasehold land and building <sup>(N1)</sup> \$'000	Leasehold improve- ments \$'000	Computers and automated equipment \$'000	Workshop machinery, tools and equipment \$'000	Motor vehicles \$'000	Furniture, fittings and equipment \$'000	Capital projects in progress \$'000	Total \$'000
<b>The Company</b>									
<b>Cost or valuation:</b>									
At 1 January 2018	1,140,991	63,880	35,002	58,503	63,941	6,246	15,468	6,436	1,390,467
Additions	5,056	109	405	1,536	5,651	565	1,906	6,250	21,478
Disposals <sup>(N2)</sup>	(21,437)	–	–	(42,811)	(32,566)	(441)	(1,090)	(2,006)	(100,351)
Reclassification	385	–	380	729	3,593	19	423	(5,529)	–
Transfer to Ultimate holding company	–	–	–	(1)	–	–	(3)	–	(4)
Transfer from subsidiary	–	–	–	1	–	–	1	–	2
At 31 December 2018	1,124,995	63,989	35,787	17,957	40,619	6,389	16,705	5,151	1,311,592
Additions	1,251	219	2,332	4,759	5,107	650	2,654	12,264	29,236
Disposals	(10,201)	–	–	(726)	(194)	(496)	(295)	–	(11,912)
Reclassification	3,961	–	504	1,396	577	–	520	(6,958)	–
Transfer to Ultimate holding company	–	–	–	(1)	–	–	–	–	(1)
Transfer to subsidiary	–	–	–	(4)	–	–	–	–	(4)
At 31 December 2019	1,120,006	64,208	38,623	23,381	46,109	6,543	19,584	10,457	1,328,911
<b>Accumulated depreciation:</b>									
At 1 January 2018	468,248	6,271	31,462	56,352	28,952	4,022	11,339	–	606,646
Additions	77,257	4,706	946	1,840	3,560	590	1,211	–	90,110
Disposals <sup>(N2)</sup>	(21,436)	–	–	(42,811)	(5,614)	(397)	(365)	–	(70,623)
Transfer to Ultimate holding company	–	–	–	(1)	–	–	(3)	–	(4)
Transfer from subsidiary	–	–	–	–	–	–	–	–	–
At 31 December 2018	524,069	10,977	32,408	15,380	26,898	4,215	12,182	–	626,129
Additions	75,135	4,729	1,321	2,585	3,857	662	1,349	–	89,638
Disposals	(10,200)	–	–	(726)	(189)	(455)	(293)	–	(11,863)
Transfer to Ultimate holding company	–	–	–	(1)	–	–	–	–	(1)
Transfer to subsidiary	–	–	–	(5)	–	–	–	–	(5)
At 31 December 2019	589,004	15,706	33,729	17,233	30,566	4,422	13,238	–	703,898
<b>Carrying amount:</b>									
At 31 December 2019	531,002	48,502	4,894	6,148	15,543	2,121	6,346	10,457	625,013
At 31 December 2018	600,926	53,012	3,379	2,577	13,721	2,174	4,523	5,151	685,463

<sup>(N1)</sup> : The Group's leasehold land and building at Soon Lee bus depot are stated at their revalued amounts (Note 21) being the fair value at the date of revaluation based on valuation performed by an independent external valuer. The revaluation was done pursuant to the agreement in the Negotiated Contract under the BCM (Note 36). As at 31 December 2019, the carrying amount of Soon Lee bus depot would have been \$18,143,000 (2018 : \$19,665,000), had the depot been carried at cost less accumulated depreciation.

<sup>(N2)</sup> : The disposals for 2018 included assets sold to LTA under the New Rail Financing Framework at net book values of \$29,210,000 (Note 35).

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 11 VEHICLES, PREMISES AND EQUIPMENT (CONT'D)

Details of leasehold land and building owned by the Group and the Company are as follows:

<b>Location</b>	<b>Approximate land area</b>	<b>Tenure</b>	<b>Usage</b>
No. 28 Soon Lee Road Singapore	26,670 sq m	30 years from 1 April 2000 (10 years 3 months unexpired)	Bus depot

Details of other leasehold buildings are as follows:

<b>Location</b>	<b>Approximate land area</b>	<b>Tenure</b>	<b>Usage</b>
No. 550 Bukit Batok Street 23 Singapore	52,187 sq m	43 years from 1 January 1983 (6 years unexpired)	Bus depot
No. 4 Defu Ave 1 Singapore	74,236 sq m	38 years from 1 January 1983 (1 year unexpired)	Bus depot
No. 1470 Bedok North Ave 4 Singapore	62,220 sq m	Under Temporary Occupation Licence	Bus depot
No. 2A Ayer Rajah Crescent Singapore	17,939 sq m	Under Temporary Occupation Licence	Bus park
No. 15 Ang Mo Kio Street 63 Singapore	63,955 sq m	30 years 9 months from 1 March 1994 (4 years 11 months unexpired)	Bus depot

## 12 RIGHT-OF-USE ASSETS

The Group leases several leasehold land and buildings at an average lease term of 9 years, where the Group makes periodic payments which are used for its day to day bus operations. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

	<u>The Group and The Company</u> \$'000
<b>Cost:</b>	
At 1 January 2019	118,516
Additions	4,310
At 31 December 2019	122,826
<b>Accumulated depreciation:</b>	
At 1 January 2019	40,478
Additions	11,368
At 31 December 2019	51,846
<b>Carrying amount:</b>	
At 31 December 2019	70,980

Approximately one third of the leases for property expired in the current financial year. The expired contracts were extended through exercising the extension options. This resulted in additions to right-of-use assets of \$2,450,000 in 2019.

In addition, the Group has also secured the right-of-use of certain leasehold land with no future payments required. This leasehold land amounting to \$13,281,000 (2018: \$14,577,000) for the Group is presented within vehicles, premises and equipment (Note 11).

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 13 DEFERRED TAX ASSETS/LIABILITIES

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
Deferred tax assets	21,540	21,680	–	–
Deferred tax liabilities	(74,940)	(77,676)	(74,940)	(77,676)
<b>Net</b>	<b>(53,400)</b>	<b>(55,996)</b>	<b>(74,940)</b>	<b>(77,676)</b>
At beginning of year	(55,996)	(64,375)	(77,676)	(87,112)
Credit to Profit or Loss (Note 27)	10,537	16,666	2,913	9,262
Utilisation of deferred tax assets under Group Relief Scheme				
– SBS Transit DTL Pte. Ltd.	(7,542)	(8,629)	–	–
Arising from movement in Other Comprehensive Income Statement	(399)	342	(177)	174
<b>At end of year</b>	<b>(53,400)</b>	<b>(55,996)</b>	<b>(74,940)</b>	<b>(77,676)</b>

The balance comprises the tax effects of:

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
<b>Deferred tax assets</b>				
Unutilised tax losses	20,130	20,435	–	–
Excess of tax written down value over carrying amount	1,342	1,026	–	–
Other items	68	219	–	–
	21,540	21,680	–	–
<b>Deferred tax liabilities</b>				
Excess of carrying amount over tax written down value	(91,572)	(97,650)	(91,572)	(97,650)
Other items	16,632	19,974	16,632	19,974
	(74,940)	(77,676)	(74,940)	(77,676)
<b>Net deferred tax liabilities</b>	<b>(53,400)</b>	<b>(55,996)</b>	<b>(74,940)</b>	<b>(77,676)</b>



## 14 BORROWINGS

	The Group and The Company	
	31 December 2019 \$'000	31 December 2018 \$'000
Long Term Bank Loans	75,000	75,000
Analysed as:		
Current	75,000	–
Non-current	–	75,000
Total	75,000	75,000

The long term bank loan which has a remaining tenure of 1 year (2018 : 2 years), is unsecured and bears a fixed interest rate of 1.91% (2018 : 1.91%) per annum.

## 15 TRADE AND OTHER PAYABLES

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
Payables to:				
Ultimate holding company (Note 4)	1,252	884	1,227	870
Related companies (Note 4)	4,252	7,391	4,153	4,928
Related parties (Note 4)	5	–	5	–
Outside parties	62,009	59,968	54,369	52,552
Accruals	187,533	222,281	157,345	192,419
Deferred income	2,815	3,247	2,285	2,681
Total	257,866	293,771	219,384	253,450

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

The amounts outstanding are interest-free and the average credit period is 30 days (2018 : 30 days).

## 16 DEPOSITS RECEIVED

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
Deposits received	10,178	9,745	8,470	8,124
Less: Due within 12 months	(3,560)	(2,588)	(2,917)	(2,259)
Due after 12 months	6,618	7,157	5,553	5,865

Deposits received from tenants in respect of leases of stalls and shop lots, are repayable upon termination of the lease agreements. Deposits that are not expected to be repaid within the next 12 months after the end of the reporting period are presented as a non-current liability. The carrying amount of the deposits approximates their fair value.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 17 INSURANCE PREMIUMS PAYABLE AND PROVISION FOR ACCIDENT CLAIMS

	The Group and The Company	
	31 December 2019 \$'000	31 December 2018 \$'000
At beginning of year	19,533	21,965
Charge to Profit or Loss	7,400	2,606
Payments	(5,728)	(5,038)
At end of year	21,205	19,533

The balance comprises provision for:

Accident claims	21,205	19,533
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The provision for accident claims represents the estimated amount which the Group will have to pay to outside parties for accident claims involving the Group Vehicles (Note 3 (a)).

### 18 DEFERRED GRANTS

The grants received/receivable had been recognised as deferred income in accordance with the Group's accounting policy.

### 19 PROVISION FOR SERVICE BENEFITS AND LONG SERVICE AWARDS

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
At beginning of year	11,004	10,718	10,706	10,496
Charge to Profit or Loss	1,167	954	1,057	876
Payments	(836)	(668)	(833)	(666)
At end of year	11,335	11,004	10,930	10,706

The balance comprises provision for:

Retirement benefits	7,767	7,617	7,517	7,438
Long service awards	3,568	3,387	3,413	3,268
Total	11,335	11,004	10,930	10,706

## 20 SHARE CAPITAL

	The Group and The Company			
	31 December 2019 Number ('000) of ordinary shares	31 December 2018	31 December 2019 \$'000	31 December 2018 \$'000
Issued and paid up:				
At beginning of year	311,670	311,085	100,162	98,873
Exercise of share options	195	585	337	1,289
At end of year	311,865	311,670	100,499	100,162

Fully paid ordinary shares, which have no par value, carry one vote per share and a right to dividends as and when declared by the Company.

Share options over ordinary shares granted under the employee share option plan

Details of the outstanding share options of the Company as at the end of the financial year are set out in Note 23 (b).

The Company has one class of ordinary shares which carry no right to fixed income.

## 21 OTHER RESERVES

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
Share option reserve:				
At beginning of year	33	124	33	124
Transfer to share capital on exercise of share options (Note 20)	(28)	(62)	(28)	(62)
Transfer to accumulated profits	(5)	(29)	(5)	(29)
At end of year	–	33	–	33
Investments revaluation reserve:				
At beginning of year	–	133	–	133
Maturity of investments	–	(133)	–	(133)
At end of year	–	–	–	–
Premises revaluation reserve:				
At beginning of year	40,265	40,265	40,265	40,265
At end of year	40,265	40,265	40,265	40,265
Hedging reserve:				
At beginning of year	(1,670)	–	(848)	–
Gain (Loss) on cash flow hedges	1,948	(1,670)	868	(848)
At end of year	278	(1,670)	20	(848)
Total	40,543	38,628	40,285	39,450

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 22 REVENUE

Revenue comprises the following amounts:

	The Group	
	2019 \$'000	2018 \$'000
Transport services	1,283,771	1,226,013
Lease revenue	99,564	99,314
Other commercial services	61,962	58,286
<b>Total</b>	<b>1,445,297</b>	<b>1,383,613</b>

Revenue from transport services are mainly contracts with the government (public sector) in Singapore for an average of 7 years. The Group derives the revenue that corresponds directly with the services rendered to the customers.

### 23 STAFF COSTS

(a) Included in staff costs are:

- (i) The remuneration of the Directors (executive and non-executive) and key executives comprised mainly short term benefits amounting to \$2,929,990 (2018 : \$3,708,030).

	The Group	
	2019 \$'000	2018 \$'000
(ii) <u>Cost of contribution to Central Provident Fund</u>	<u>57,386</u>	<u>54,719</u>

(b) Share-based payments

#### *Share option scheme*

The Company has a share option scheme for employees of the Group of the rank of Executive and above, and certain categories of persons who are not employees but who work closely with the Group. The scheme is administered by the Remuneration Committee. Information on the share option plan is disclosed in paragraph 4 to the Directors' Statement. Options are exercisable at a subscription price determined with reference to the market price of the shares at the time of grant of the options. The vesting period is one year. If the options remain unexercised after a period of 10 years (5 years for non-executive Directors) from the date of the grant, the options expire. Options granted will lapse when the option holder ceases to be a full-time employee or Director of the Group, subject to certain exceptions at the discretion of the Remuneration Committee.

## 23 STAFF COSTS (CONT'D)

### (b) Share-based payments (cont'd)

Details of the share options outstanding during the year are as follows:

	The Company			
	2019	Weighted average exercise price \$	2018	Weighted average exercise price \$
	Number of share options		Number of share options	
Outstanding at beginning of year	232,500	1.58	1,040,000	1.91
Lapsed during the year	(37,500)	1.58	(222,500)	1.78
Exercised during the year	(195,000)	1.58	(585,000)	2.10
Outstanding at end of year	–	–	232,500	1.58
Exercisable at end of year	–	–	232,500	1.58

The SSOS expired on 8 June 2010 and hence no option has been granted since then.

The weighted average share price at the date of exercise for share options during the year was \$3.20 (2018 : \$2.60). As at 31 December 2019, there was no option outstanding. The options outstanding at the end of the prior year had a weighted average remaining contractual life of 0.5 year.

## 24 OPERATING PROFIT

In addition to the charges and credits disclosed elsewhere in the notes to the Financial Statements, this item includes the following charges (credits):

	The Group	
	2019 \$'000	2018 \$'000
Directors' fees	509	508
Cost of inventories recognised in repairs and maintenance costs	138,034	130,139
Net gain on disposal of vehicles and equipment	(76)	(261)
Insurance premiums payable and provision for accident claims	7,400	2,606
Provision for service benefits and long service awards	1,167	954
Audit fees:		
Paid to auditors of the Company	122	122
Non-audit fees:		
Paid to auditors of the Company	37	32

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 25 NET INCOME FROM INVESTMENTS

	The Group	
	2019 \$'000	2018 \$'000
Interest income from bank and short-term deposits	134	79
Interest income from net investment on sublease	3	–
Interest income from bonds	–	195
<b>Total</b>	<b>137</b>	<b>274</b>

### 26 FINANCE COSTS

	The Group	
	2019 \$'000	2018 \$'000
Interest expense on lease liabilities	2,341	–
Interest expense on bank loans	1,908	3,390
<b>Total</b>	<b>4,249</b>	<b>3,390</b>

### 27 TAXATION

	The Group	
	2019 \$'000	2018 \$'000
Current taxation	28,623	30,749
Deferred tax (Note 13)	(10,537)	(16,666)
<b>Total</b>	<b>18,086</b>	<b>14,083</b>

The taxation charge varied from the amount of taxation charge determined by applying the Singapore income tax rate of 17% (2018 : 17%) to profit before taxation as a result of the following differences:

	The Group	
	2019 \$'000	2018 \$'000
Profit before taxation	99,374	94,185
Taxation charge at statutory rate	16,894	16,011
Non-allowable items	897	612
Tax-exempt income	(17)	(26)
Under (Over) provision of deferred tax in prior years	312	(2,500)
Other items	–	(14)
	<b>18,086</b>	<b>14,083</b>

## 28 EARNINGS PER SHARE

Earnings per share is calculated by dividing the Group's net profit attributable to shareholders of the Company for the year by the weighted average number of ordinary shares in issue during the financial year as follows:

	2019	2018
Profit attributable to shareholders of the Company (\$'000)	81,288	80,102
Weighted average number of ordinary shares in issue ('000)	311,825	311,448
Basic earnings per share (in cents)	26.07	25.72

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares which are the share options granted to employees and Directors. A calculation is done to determine the number of shares that could have been acquired at market price (determined as the average share price of the Company's shares for the financial year) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the 'unpurchased' shares to be added to the ordinary shares outstanding for the purpose of computing the dilution.

	2019	2018
Profit attributable to shareholders of the Company (\$'000)	81,288	80,102
Weighted average number of ordinary shares in issue ('000)	311,825	311,448
Adjustment for share options ('000)	–	91
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000)	311,825	311,539
Diluted earnings per share (in cents)	26.07	25.71

## 29 BUSINESS SEGMENT INFORMATION

The Group operates principally in Singapore.

Following the developments in the public transport industry, the Group's business segment information reported to the Group's chief operating decision maker for purposes of resource allocation and assessment of segment performance are based on the following:

- (a) Public Transport Services: Income is generated substantially from the provision of bus and rail services to commuters travelling on public transport systems.
- (b) Other Commercial Services: Income is generated substantially through –
  - (i) advertisements on buses and trains and at bus interchanges and rail stations; and
  - (ii) rental collections from commercial and shop space at bus interchanges and rail stations.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 29 BUSINESS SEGMENT INFORMATION (CONT'D)

Segment revenue and expense: Segment revenue and expense are the operating revenue and expense reported in the Group's Profit or Loss that are directly attributable to a segment and the relevant portion of such revenue and expense that can be allocated on a reasonable basis to a segment.

Segment assets and liabilities: Segment assets include all operating assets used by a segment and consist principally of operating receivables, inventories and vehicles, premises and equipment, net of allowances and provisions. Capital additions include the total cost incurred to acquire vehicles, premises and equipment directly attributable to the segment. Segment liabilities include all operating liabilities and consist principally of accounts payable and accruals.

	Public Transport Services \$'000	Other Commercial Services \$'000	Total \$'000
<b>31 December 2019</b>			
REVENUE	1,383,335	61,962	1,445,297
RESULTS			
Segment results	61,948	41,538	103,486
Net income from investments			137
Finance costs			(4,249)
Profit before taxation			99,374
Taxation			(18,086)
Profit after taxation			81,288
OTHER INFORMATION			
Additions of vehicles, premises and equipment	30,243	1,368	31,611
Depreciation expense	102,521	1,549	104,070
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Segment assets	1,063,037	22,927	1,085,964
Unallocated corporate assets			51,321
Consolidated total assets			1,137,285
LIABILITIES			
Segment liabilities	386,918	28,995	415,913
Unallocated corporate liabilities			194,631
Consolidated total liabilities			610,544



**29 BUSINESS SEGMENT INFORMATION (CONT'D)**

	Public Transport Services \$'000	Other Commercial Services \$'000	Total \$'000
<b>31 December 2018</b>			
REVENUE	1,325,327	58,286	1,383,613
RESULTS			
Segment results	60,210	37,091	97,301
Net income from investments			274
Finance costs			(3,390)
Profit before taxation			94,185
Taxation			(14,083)
Profit after taxation			80,102
OTHER INFORMATION			
Additions of vehicles, premises and equipment	23,829	497	24,326
Depreciation expense	91,682	1,454	93,136
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Segment assets	989,225	21,503	1,010,728
Unallocated corporate assets			52,105
Consolidated total assets			1,062,833
LIABILITIES			
Segment liabilities	332,901	29,632	362,533
Unallocated corporate liabilities			201,900
Consolidated total liabilities			564,433

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 30 LEASE LIABILITIES

The Group as lessee

*Disclosure required by SFRS(I) 16*

	<b>The Group</b>
	<b>2019</b>
	<b>\$'000</b>
<hr/>	
Maturity analysis:	
Within one year	13,485
In the second to fifth year inclusive	59,991
After five years	17,113
	<hr/>
	90,589
Less: Future finance charges	(7,413)
	<hr/>
	83,176
<hr/>	
Analysed as:	
Current	11,375
Non-current	71,801
	<hr/>
	83,176
<hr/>	

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

### 31 OPERATING LEASE ARRANGEMENTS

*Disclosure required by SFRS(I) 16*

As at 31 December 2019, the Group is committed to \$93,000 for leases exempted under SFRS(I) 16.

*Disclosure required by SFRS(I) 1-17*

As at 31 December 2018, the Group had outstanding commitments under non-cancellable operating leases, which fell due as follows:

	<b>The Group</b>
	<b>2018</b>
	<b>\$'000</b>
<hr/>	
Within one year	10,606
In the second to fifth year inclusive	12,581
After five years	3,676
Total	<hr/>
	26,863
<hr/>	

Operating lease payments represent rentals payable by the Group for office premises and bus depots. Leases were negotiated for periods up to 43 years. Periods with rental increment were fixed ranging from 1 year to 13 years.

### 31 OPERATING LEASE ARRANGEMENTS (CONT'D)

The Group as lessor

*Disclosure required by SFRS(I) 16*

Operating leases, in which the Group is the lessor, relate to rental of spaces and floor areas at bus interchanges, bus depots and train stations. The properties are managed and maintained by the Group.

	<b>The Group</b>	<b>The Company</b>
	<b>2019</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Maturity analysis of operating lease payments:		
Within one year	16,876	13,941
In the second to fifth year inclusive	15,479	12,067
<b>Total</b>	<b>32,355</b>	<b>26,008</b>

*Disclosure required by SFRS(I) 1-17*

For the year ended 31 December 2018, the Group rented out part of their spaces and floor areas at bus depots and train stations under operating leases. Property rental and licence fee income earned under non-cancellable leases in 2018 was \$19,096,000. The properties were managed and maintained by the Group.

As at 31 December 2018, the Group and the Company contracted with tenants for the following future minimum lease payments:

	<b>The Group</b>	<b>The Company</b>
	<b>2018</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	16,032	12,876
In the second to fifth year inclusive	13,053	11,085
<b>Total</b>	<b>29,085</b>	<b>23,961</b>

### 32 CAPITAL COMMITMENTS

As at 31 December 2019, the Group and the Company have the following capital commitments contracted for but not provided for in the Financial Statements:

	<b>The Group</b>		<b>The Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Purchase of vehicles, premises and equipment	31,847	37,833	29,819	36,234

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

(a) Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
<b>Financial assets</b>				
Amortised cost	253,172	201,254	504,342	404,001
Financial instruments designated in hedge accounting relationships:				
Hedging instrument	843	–	428	–
<b>Financial liabilities</b>				
Amortised cost	317,067	343,437	277,084	304,888
Financial instruments designated in hedge accounting relationships:				
Hedging instrument	508	2,012	404	1,021

(b) Financial risk, management policies and objectives

The main areas of financial risk faced by the Group are foreign currency exchange rate risk, interest rate risk, credit risk, liquidity risk and fuel price risk. The Group recognises that management of financial risk is an important aspect in its drive towards creating shareholders' value. It is the Group's policy not to participate in speculative financial instruments. The Group oversees financial risk management and regularly reviews its policy governing risk management practices.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk.

Foreign exchange rate risk management

The Group is exposed to currency risk as a result of its purchases of spare parts, fuel and any other purchases where the currency denomination differs from its functional currency (Singapore dollars). Its exposures include United States Dollar ("USD"), Swedish Kroner ("SEK"), Euro ("EUR"), Japanese Yen ("JPY"), Malaysian Ringgit ("MYR") and Sterling Pound ("GBP"). The Group manages its foreign exchange exposure through active currency management using hedging instruments such as forwards and options where necessary.

### 33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONT'D)

- (b) Financial risk, management policies and objectives (cont'd)

#### *Foreign currency sensitivity*

Based on sensitivity analysis performed, the exposure to changes in foreign exchange rates is minimal and hence the resulting impact on profit or equity of the Group is insignificant.

#### Interest rate risk management

The Group's primary interest rate risk relates to borrowings, investments in fixed income securities and deposits. The Group uses hedging instruments such as interest rate swaps and caps, where necessary, to achieve the desired interest rate profile in its effort to manage interest rate risk.

Summary quantitative data of the Group's interest-bearing financial instruments are disclosed in Section (e) of this note.

#### *Interest rate sensitivity*

Based on sensitivity analysis performed at end of the reporting period, the exposure to changes in interest rates is minimal and hence the resulting impact on the profit or Other Comprehensive Income of the Group is insignificant.

#### Credit risk management

The Group has minimal credit risk arising from its public transport operations as the credit risk that arises from its public transport operations is mainly from LTA and commuters who use the contactless smart card where cash is collected upfront. The remaining credit risk from advertisement and rental revenue is controlled via upfront deposits or strict credit terms and regular monitoring of advertisers' and tenants' financial standing. The Group enters into treasury transactions only with creditworthy institutions. Its investments in fixed income instruments are above investment grade as assigned by international credit-rating agencies. Cash and deposits are kept with reputable financial institutions. There is no significant concentration of credit risk. In determining the recoverability of a receivable, the Group considers any change in the credit quality of the receivables from the date credit was initially granted up to the reporting date and expected credit losses as at end of the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the rate of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information, where relevant.

The carrying amount of financial assets represents the Group's maximum exposure to credit risk as disclosed in the notes to the Financial Statements.

#### Liquidity risk management

The Group regularly reviews its liquidity position comprising free cash flows from its operations and credit lines from banks to ensure its ability to access funding at any time at the best possible rates.

**33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONT'D)**

- (b) Financial risk, management policies and objectives (cont'd)

Fuel price risk management

Fuel, comprising diesel and electricity, is part of the operating cost of the Group. The Group seeks to hedge the price risk associated with its fuel needs and uses hedging instruments, where necessary, to achieve the desired hedge outcome.

Following the transition to the BCM, the fuel indexation in the contracts with LTA provides a natural hedge to the diesel price risk. In view of this, the fuel price risk faced by the Group relates mainly to electricity. Based on sensitivity analysis performed and taking into account the fuel hedges in place, as at end of the reporting period, every one percentage point change in the rates of electricity using the closing rates as at end of the reporting period as a basis will impact the Group's annual electricity costs by \$300,000 (2018 : \$300,000). The sensitivity analysis assumes that consumption is held constant at the same level as in 2019.

Fair values of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other current receivables and payables, short term loans and other liabilities approximate the respective fair values due to the relatively short-term maturity of these financial instruments.

The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to the Financial Statements.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- (i) quoted prices in active markets for identical assets or liabilities (Level 1);
- (ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- (iii) inputs for the asset or liability that are not based on observable market data (Level 3).

The fair values of the Group's investments are classified into Level 1. The Group's hedging instruments are classified into Level 2. None of the fair value of the financial instrument is classified in Level 3. There are also no transfers between Levels 1 and 2 of the fair value hierarchy during the financial year.

### 33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONT'D)

(c) Hedging instruments

	The Group		The Company	
	31 December 2019 \$'000	31 December 2018 \$'000	31 December 2019 \$'000	31 December 2018 \$'000
<b>Financial assets</b>				
At fair values:				
Fuel hedges	843	–	428	–
	843	–	428	–
<b>Financial liabilities</b>				
At fair values:				
Foreign exchange hedges	508	109	404	55
Fuel hedges	–	1,903	–	966
	508	2,012	404	1,021

The Group utilises hedging instruments to hedge significant future transactions and cash flows.

The Group's hedging instruments are measured at fair value whereby future cash flows are estimated based on contracted rates and observable forward rates at the end of the reporting period, discounted at a rate that reflects the credit risk of the various counterparties.

The Group and the Company use fuel hedges contract to hedge against fuel price risks. These arrangements are designed to address fuel price exposure. The fuel hedges are accounted for as cash flow hedges. The fair value of the Group's and the Company's fuel hedging instruments comprised \$843,000 and \$428,000 respectively of assets (2018 : \$1,903,000 and \$966,000 respectively of liabilities) on cash flow hedges in Other Comprehensive Income.

The Group and the Company use forward contracts and options to manage their exposure to foreign exchange risks. These arrangements are designed to address foreign exchange risk on future purchases of goods and are accounted for as cash flow hedges. The fair value of the Group's and the Company's foreign exchange hedging instruments comprised \$508,000 and \$404,000 respectively (2018 : \$109,000 and \$55,000 respectively) of liabilities on cash flow hedges in Other Comprehensive Income.

At the end of the reporting period, the Group has outstanding fuel and foreign exchange hedges with notional amounts totalling \$37,518,000 (2018 : \$29,706,000).

These amounts are based on market prices for equivalent instruments at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONT'D)

(d) Capital risk management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group's capital management objectives are to safeguard its ability to continue as a going concern and to maximise shareholder value. Management monitors the gross and net gearing of the Group and its implication on weighted average cost of capital in deciding the optimal capital structure. These objectives determine the Group's decisions on the amount of dividends to be paid to shareholders and the sources of capital to be raised, be it equity or debt. The Group's debt capital refers to borrowings comprising loans under Note 14 while equity refers to total equity.

No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 2018.

(e) The following are the expected contractual undiscounted cash outflows (including interest payments) of the Group's and the Company's financial liabilities:

	Carrying amount \$'000	Contractual cash flows			Effective interest rate %
		Total \$'000	Within 1 year \$'000	Within 2 to 5 years \$'000	
<b>2019</b>					
Long Term Bank Loans					
– Unsecured	75,000	76,001	76,001	–	–
<b>2018</b>					
Long Term Bank Loans					
– Unsecured	75,000	77,433	1,432	76,001	–



## 34 DIVIDENDS

(a) During the financial year, the Company paid dividends as follows:

	2019 \$'000	2018 \$'000
Tax-exempt one-tier final dividend in respect of the previous financial year: – 7.10 cents (2018 : 3.95 cents) per ordinary share	22,139	12,298
Tax-exempt one-tier interim dividend in respect of the current financial year: – 7.15 cents (2018 : 5.80 cents) per ordinary share	22,298	18,077
<b>Total</b>	<b>44,437</b>	<b>30,375</b>

(b) Subsequent to the end of prior financial year, the Directors of the Company recommended that a tax-exempt one-tier final dividend of 5.90 cents per ordinary share totalling \$18,400,000 (2018 : \$22,139,000) be paid for the financial year ended 31 December 2019. The dividend is subject to approval by shareholders at the forthcoming Annual General Meeting and hence the proposed dividend has not been accrued as a liability for the current financial year.

Together with the tax exempt one-tier interim dividend of 7.15 cents per ordinary share (2018 : 5.80 cents per ordinary share), total distributions paid and proposed in respect of the financial year ended 31 December 2019 will be 13.05 cents per ordinary share (2018 : 12.90 cents per ordinary share).

## 35 LICENCE FOR RAIL SERVICES

### **North-East MRT System, Punggol LRT System and Sengkang LRT System**

#### **Licence Prior To 1 April 2018**

The Company was issued a licence dated 15 January 2003 by the LTA under the Rapid Transit Systems Act to operate the North-East Mass Rapid Transit System and the Sengkang and Punggol Light Rapid Transit Systems (collectively the "Licensed Systems") for an initial period of 30 years, with a possible extension of a further 30 years subject to the approval of the LTA. Under this licence, the LTA funds the first set of the operating assets. The Company has the obligation, to acquire the first set of the operating assets at the net book values as recorded in the latest audited accounts of the LTA, at dates and times determined by the LTA during a joint review of the viability of the Licensed Systems by LTA and the Company. In addition, the Company has to fund all additions, renewals and replacement of operating assets required during the licence period. The Company had surrendered this licence on 31 March 2018 following the transition of the Licenced Systems to the New Rail Financing Framework under which a new licence has been granted with effect from 1 April 2018.

#### **New Licence Under the New Rail Financing Framework ("NRFF")**

With effect from 1 April 2018, the Company has been granted a new licence to operate the Licensed Systems under the NRFF for a period of 15 years. If the Company applies for an extension, LTA may extend the term of the new licence for a further five years subject to terms and conditions as LTA may impose and the Company may accept.

The NRFF is an asset-light model whereby the LTA will make the capital investments in operating assets and thereby retain the ability and flexibility to decide on the additions, renewals and replacements and undertake long term planning for the rapid transit system network. It allows the LTA to respond more promptly to commuter needs, while relieving the Company of the cost of asset renewal and upgrade, and of procuring additional operating assets when ridership demand increases, in order to meet service level and reliability standards. The NRFF was first implemented in 2011 when the Company was awarded the tender for the Downtown Line.

**35 LICENCE FOR RAIL SERVICES (CONT'D)****New Licence Under the New Rail Financing Framework ("NRFF") (cont'd)**

With the transition to the NRFF, the Company will no longer need to buy over the first set of operating assets from the LTA. Going forward, LTA will also own and pay for the operating assets, including additions, renewals and replacements. In conjunction with the transition to the NRFF, the Company had entered into Sale and Purchase Agreements with the LTA on 14 February 2018 for the sale of certain operating assets required for the operation of the Licensed Systems which were purchased by the Company prior to the transition. The aggregate consideration for the sale was based on the respective net book values of such assets on the date of transfer amounted to \$29,210,000.

In exchange for the right to operate, maintain and derive revenue from the Licensed Systems, the Company will pay an annual licence charge to the LTA over the licence period. The licence charge structure under the NRFF provides for some sharing between the Company and the LTA of revenue risks under the Fare Revenue Shortfall Sharing as well as profit sharing via an Earnings Before Interest and Tax Cap/Collar. These are explained below:

(i) Fare Revenue Shortfall Sharing ("FRSS")

The licence charge structure has a FRSS mechanism which offers some level of protection against revenue risks arising from uncertainties in ridership and fares. Under this mechanism, if the actual revenue falls short of the target revenue by 2% to 6%, LTA will share 50% of the shortfall. If the shortfall between the actual revenue and the target revenue exceeds 6%, LTA will bear 75% of the incremental revenue shortfall beyond 6%.

(ii) Earnings Before Interest and Tax ("EBIT") Cap / Collar

The licence charge structure provides for profit sharing via an EBIT cap and collar mechanism whereby LTA shares in the upside of the EBIT above the cap as well as the downside risks below the collar. If the EBIT margin is lower than 3.50%, LTA will share 50% of the shortfall. LTA's sharing of the shortfall is limited by the amount of licence charge payable by the Company for the year. If the EBIT margin exceeds the cap of 5%, the excess will be shared via a tiered structure, whereby 85% to 95% of the incremental EBIT above the 5% cap will be shared with LTA.

LTA's sharing under the FRSS and/or the EBIT Cap/Collar is limited by the amount of licence charge payable by the Company for the year.

In addition, the LTA may reimburse or be reimbursed by the Company when new regulatory changes initiated by LTA after the transition lead to changes in operating costs or revenue. Regulatory changes that may impact operating costs or revenue include modifications to operating performance standards for the rail lines, maintenance performance standards for the operating assets, key performance indicators or codes of practice and changes in rentable and advertising spaces available for generating non-fare revenue.

## **35 LICENCE FOR RAIL SERVICES (CONT'D)**

### **Downtown Line MRT System**

A licence dated 19 December 2013 was issued by LTA to the subsidiary of the Company under which the subsidiary of the Company is licensed to operate the Downtown Line MRT System.

The licence sets out the conditions governing the operation of the Downtown Line MRT System and includes, among others, the following:

- (a) The licence is for a period of 19 years commencing from 20 December 2013. LTA may, if it deems fit, renew the licence for such further period with revised terms and conditions of the renewed licence.
- (b) The licence fee payable to LTA is prescribed under the subsidiary legislation of the Rapid Transit Systems Act during the Licence Term.
- (c) The subsidiary of the Company shall pay LTA a licence charge which consists of Fixed Charge and Revenue Share Charge. A yearly Fixed Charge is payable from financial year 2019 to end of licence period. If the Operating Surplus minus the Fixed Charge for a financial year is more than the Threshold Profit, the subsidiary of the Company shall pay Revenue Share Charge.
- (d) After the commencement of revenue service of the last stage, the subsidiary of the Company shall pay LTA a Cash-Bid Amount if the Net Operating Surplus for a financial year is more than the Threshold Profit.
- (e) All Operating Assets shall remain the property of LTA except for Spares, Special Tools, Non-Proprietary Items and End Devices purchased by the subsidiary of the Company during the Licence Term.

## **36 CONTRACTS UNDER THE BUS CONTRACTING MODEL ("BCM")**

The Company entered into public bus services contracts (collectively known as the "Negotiated Contract") with LTA for the operation of public bus services under the BCM. The Negotiated Contract was effective from 1 September 2016 following the expiry of the Bus Service Operating Licence on 31 August 2016. Under the Negotiated Contract, the Company operates a total of 8 bus packages with an average contract period of 7 years. The respective contracted expiry dates of the 8 bus packages (subject to any further extension that may be granted at the sole discretion of LTA) are as follows: Bukit Merah (2018), Sengkang-Hougang (2021), Bedok (2023), Jurong West (2024), Tampines (2024), Serangoon-Eunos (2025), Clementi (2025) and Bishan-Toa Payoh (2026).

As part of the Negotiated Contract, the Company leases its fleet of close to 2,900 buses to LTA. In consideration of the Company using its fleet for the provision of the bus services, LTA pays a leasing fee based on the depreciation of the buses over the statutory lifespan. LTA also pays a leasing fee for the use of the other existing assets of the Company (bus depot and related equipment) based on the depreciation of such assets.

Subsequent to the Negotiated Contract, the Company was awarded the Seletar Bus Package in April 2017 and the Bukit Merah Bus Package (the first among the 8 bus packages within the Negotiated Contract to expire) in February 2018 respectively through the tender process conducted by LTA. Both bus packages secured through the tender process have a contract period of five years which can be extended by another two years. The Seletar and Bukit Merah Bus Packages had commenced operations from March 2018 and November 2018 respectively.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 36 CONTRACTS UNDER THE BUS CONTRACTING MODEL ("BCM") (CONT'D)

Including the two bus packages secured through tender, the Company operates a total of 9 bus packages which cover a total of 223 bus services, 7 bus depots, 1 bus park, 17 bus interchanges and 14 bus terminals. The fleet size required to operate the 9 packages is around 3,500 buses.

Under the BCM, LTA retains all fare revenue collected from the provision of the bus services. Revenue for the Company is derived from the provision of bus services which comprises service fee and leasing fee. The service fee is indexed to changes in wage levels, inflation and fuel costs. In addition, the Company retains revenue from other commercial services comprising advertising and rental.

In addition to operating and managing bus services to specified performance standards, the Company's responsibilities include the following:

- (a) Operate, manage and maintain the buses and their on-board equipment;
- (b) Operate, and maintain the bus interchanges, bus depots including the equipment and systems therein;
- (c) Charge and collect fares as approved by the Public Transport Council, on behalf of LTA, for travel on the bus services;
- (d) Provide bus service information at all bus stops and bus interchanges served by the bus services; and
- (e) Provide customer management services, such as lost and found service, and a hotline for commuter feedback and enquiries.

### 37 CONTINGENT EVENT

5 Bus Captains commenced legal proceedings against the Company on 20 September 2019, and 3 Bus Captains commenced legal proceedings against the Company on 24 December 2019, disputing the prescribed rest day and overtime. At the date of this report, the Company is in the midst of legal proceedings. As at 31 December 2019, Management is of the view that no provision is required with regards to the above lawsuits.

### 38 SUBSEQUENT EVENT

The Coronavirus outbreak subsequent to the reporting period is expected to impact the business of the Group. As the situation relating to the spread remains uncertain, it is currently not possible to ascertain the full financial impact it may have on the financial performance of the Group in 2020.