

Chairman's Letter

“ With our commitment to introducing innovations and to developing and implementing the most environment-friendly solutions as strong as ever, we can look back across the long history of our flagship subsidiary, The Kowloon Motor Bus Company (1933) Limited, from today's perspective and truly say that we have been contributing to the growth of Hong Kong for 80 years. ”

Norman LEUNG Nai Pang
Chairman



DEAR SHAREHOLDERS AND PARTNERS,

On behalf of the Board, I am pleased to report that, although the financial performance of our transport businesses reflected the effects of high fuel oil prices and spiralling costs brought about by inflationary pressure, Transport International Holdings Limited ("TIH") was able to achieve satisfactory results in 2012. With our commitment to introducing innovations and to developing and implementing the most environment-friendly solutions as strong as ever, we can look back across the long history of our flagship subsidiary, The Kowloon Motor Bus Company (1933) Limited ("KMB"), from today's perspective and truly say that we have been contributing to the growth of Hong Kong for 80 years.

OUR FINANCIAL PERFORMANCE

The Group's profit attributable to equity shareholders for the year ended 31 December 2012 was HK\$309.2 million, representing an increase of HK\$66.8 million or 27.6% compared to HK\$242.4 million for 2011. Earnings per share increased correspondingly from HK\$0.60 for 2011 to HK\$0.77 for 2012. The increase in profit was mainly due to the fact that no further provision for impairment loss (2011: HK\$109.6 million) was made by the RoadShow Group on an investment in Mainland China in 2012. When excluding the impairment loss provision made by the RoadShow Group in 2011, the Group's profit attributable to equity shareholders for 2012 represents a 4.1% decrease compared with that for 2011. The decrease was mainly due to the deterioration in the financial performance of the Group's core franchised public bus business operated by KMB, which, having posted a profit after taxation of HK\$51.4 million in 2011, recorded a loss after taxation of HK\$51.5 million in 2012, mainly as a result of high fuel prices and a significant increase in wages and other operating expenses, but without having a corresponding reasonable adjustment to its bus fares in 2012.

KMB continued to face a very challenging operating environment in 2012. Despite the fact that KMB's fare revenue for 2012 increased by 2.1% from HK\$5,822.8 million for 2011 to HK\$5,942.7 million for 2012 as a result of the implementation of the 3.6% fare increase which took effect on 15 May 2011 and a slight year-on-year increase in ridership of 0.7%, these increases were insufficient to offset the increase in staff costs of HK\$138.9 million, which was mainly attributable to the annual pay rise of 5%, which took effect for KMB's operations and maintenance staff on 1 June 2012 and for other staff on 1 September 2012, and the cost of hiring additional bus captains for service enhancement. In addition, fuel costs increased by HK\$41.8 million as international fuel prices remained at high levels in 2012

and there was an increase in the number of bus-kilometres travelled as service levels were further enhanced. This, together with the increase in toll charges and other operating expenses arising from inflation, further adversely affected the financial performance of KMB and resulted in it reporting a post-tax loss of HK\$51.5 million for 2012.

As for Long Win Bus Company Limited ("LWB"), its fare revenue for 2012 increased by 5.1% to HK\$372.5 million as compared with HK\$354.4 million for 2011. This increase was mainly due to the fare increase of 3.2%, which took effect on 15 May 2011, and an increase in the average daily ridership of 3.3% as compared with 2011 as a result of increasing transport demand from international travellers, and construction workers involved in various infrastructural projects at the airport and the expanding Hong Kong Disneyland. These positive factors were partially offset by the increase in staff costs resulting from the annual pay rise, and the increase in international fuel prices and other operating expenses. LWB reported a post-tax profit of HK\$26.3 million for 2012, an increase of 48.6% compared with HK\$17.7 million in 2011.

With Sun Bus Limited as the flagship company, the Group's non-franchised transport businesses performed strongly in 2012 with turnover and profit after taxation rising by 13.8% and 74.3% year-on-year, respectively. These increases were mainly due to business growth, in particular on cross-boundary passenger services, and an upward adjustment in coach hiring charges upon contract renewal in line with rising fuel and other operating costs. In respect of our China Mainland Transport Operations Division, our joint ventures in Beijing and Shenzhen were stable in 2012.

The results of the Group's media businesses operated by the RoadShow Group improved in 2012, reflected in its post-tax profit of HK\$74.8 million, representing a favourable change of HK\$123.4 million compared with a post-tax loss of HK\$48.6 million for 2011. The loss for 2011 was mainly due to an impairment loss of HK\$109.6 million made by the RoadShow Group on an investment in the Mainland, whereas no such provision was made in 2012.

DIVIDENDS

The Board has declared an ordinary final dividend of HK\$0.45 per share (2011: HK\$0.45 per share). Together with the ordinary interim dividend of HK\$0.15 per share (2011: HK\$0.15 per share) paid on 16 October 2012, total dividends for the year will amount to HK\$0.60 per share (2011: HK\$0.60 per share). The total dividend payout for the year will amount to HK\$242.2 million (2011: HK\$242.2 million).

Chairman's Letter

80 YEARS OF CONTRIBUTION TO THE GROWTH OF HONG KONG

KMB has come a long way since it was established in 1933 and commenced operations running services in Kowloon and the New Territories with a fleet of 106 small single-deck buses operating on 18 routes. After operations came to a virtual standstill during the war years in the early 1940s, KMB worked hard to resume services and introduced its first double-deck buses in 1949 to meet the needs of Kowloon's booming population. Indeed, KMB's growth has mirrored that of Hong Kong, with services being added and strengthened to meet the needs of the residents of Kowloon's first public housing estates in the 1960s and the burgeoning development of new towns such as Sha Tin and Tuen Mun in the New Territories in the 1970s and 1980s.

Mindful of the need for passengers to have a more comfortable form of transportation in Hong Kong's steamy summers, KMB overcame a series of obstacles with regard to identifying a suitably robust air-conditioning system to introduce air-conditioned double-deck buses in 1988, opening the way for the eventual implementation of a full air-conditioned service on 8 May 2012.

In 1997, KMB introduced the world's first super-low floor, wheelchair accessible double-deck bus, providing a model which other bus operators globally were to adopt to better serve the disabled, the elderly and those in need. As to bus emission standards, KMB has always taken the lead to introduce buses equipped with the latest generation of Euro standard engines. For instance, Hong Kong's first Euro V double-deck bus was launched by KMB in February 2009 when legislation, which is still effective today, required only that newly-registered diesel vehicles meet Euro IV emission standards. KMB's commitment to continuous improvement was further evidenced in 2012 by the launch of the KMB Smartphone App Version 2 in September and the opening of the Tuen Mun Road Bus-Bus Interchange in December. This interchange is set to be the first of a series in Hong Kong which will allow residents faster and more direct access to and from the urban areas.

A SOCIALLY RESPONSIBLE CORPORATION

The Group fully understands its responsibility for providing its customers with the best possible service while fulfilling its social responsibilities in respect of core aspects such as safety and environmental performance. As it enters its ninth decade of operations, KMB does so with its efforts to enhance performance in key areas such as safety and reliability recognised by the award of Occupational Health

and Safety Assessment Series (OHSAS) 18001 certification for its fit-for-purpose safety management system, having become the first local public bus operator to obtain this distinction in August 2012.

KMB will continue to upgrade its bus fleet with the latest technologies while also exploring and trialling different zero-emission bus technologies. We are currently undertaking a substantial investment programme for the purchase of environment-friendly buses equipped with engines of Euro V or higher standard. As well as being equipped with a host of safety features, these buses feature new driveline technology, new air-conditioning systems, and a lighter build, which reduces fuel consumption and results in 10% lower emissions. In addition, their chassis design is compatible with future Euro VI engine development and even hybrid technologies. In terms of zero-emission solutions, KMB hopes to work with the HKSAR Government to progressively introduce supercapacitor buses (gBuses) and battery-powered electric buses (eBuses) upon completion of satisfactory testing and trialling.

CORPORATE GOVERNANCE ATTAINMENT

The Group is committed to achieving the highest corporate governance standards in its operations in line with international developments. We recognise that sound corporate governance is an element that is central to the maintenance of stakeholder confidence and the furtherance of our competitiveness. I am particularly pleased to report that our constant quest for corporate governance excellence has been recognised by prestigious organisations. The Company won the 2012 Hong Kong Corporate Governance Excellence Award in the category "Other Main Board and GEM Board Companies" in the annual awards organised by the Chamber of Hong Kong Listed Companies. The award is a tribute to the Company's excellence in the application of best corporate governance practices, particularly in areas relating to outstanding commitment to shareholder rights, compliance, integrity, accountability, transparency, board independence and leadership, and corporate social responsibility. In addition, the Company's 2011 annual report received the Bronze Award in the Hong Kong Management Association's Best Annual Reports Awards.

LOOKING AHEAD

With an expanding rail network in Hong Kong, high fuel prices and continuous increases in staff costs and other operating expenses, it is inevitable that the Group's franchised public bus operations will continue to face significant financial and operational challenges. The

response of our flagship, KMB, to these changes in market conditions is founded in constant review of the viability of bus routes that have been adversely affected as a result of railway expansion. Route reorganisation and the benefits it brings will enable passengers to arrive at their destinations more quickly, while reducing the number of empty buses running on the roads, easing traffic congestion, enhancing the environment, raising the productivity of the city and easing the pressure for a fare increase through improved resource utilisation.

Although we have submitted various bus service reorganisation proposals to the HKSAR Government in a bid to improve resource utilisation and secure the financial viability of our operations, progress has been rather slow and limited. Since piecemeal route-level service reorganisation has had a minimal impact on reshaping the bus network and enabling us to deliver the best services to our customers, we have adopted an 'area approach' to review and reorganise bus services on a district basis. By considering the demand for bus transport across a wider area, rather than focusing on individual routes, it is expected that changes can be made more speedily and effectively.

We welcome the Chief Executive's words in his 2013 Policy Address about the importance of bus route reorganisation. We hope that, with the support of the Government, we will be better positioned to communicate our plans for consultation with the District Councils so that bus route reorganisation can be successfully implemented. Through the adoption of the area approach, incorporating bus-bus interchange schemes such as that already adopted in Tuen Mun, our objective of improving the efficiency of our bus network by reorganising routes with low demand, increasing the service on routes with growing demand and introducing new express routes can be achieved.

In the meantime, in view of the losses incurred by KMB due to factors beyond its control and for the purpose of restoring its financial viability for the provision of sustainable quality services, on 29 November 2012, KMB submitted to the Transport Department an application for a fare increase of 8.5%. On 19 February 2013, the HKSAR Government announced that an approved average rate of increase of 4.9% would take effect on 17 March 2013. Given the tough operating conditions currently faced by KMB, such a rate of increase is insufficient to offset the high operating costs generated by surging fuel prices, wages, toll charges and other operating expenses, and therefore route reorganisation must be implemented on a large scale and at a faster pace to enable us to make better use of our limited resources to meet our customers' needs and expectations.

It is gratifying to report that our non-franchised transport businesses saw strong profit growth in 2012, in large part owing to improved economies of scale. We will continue to enhance the service quality of our local and cross-boundary coach services and explore business opportunities in both Hong Kong and the Mainland.

The development of the industrial site at 98 How Ming Street, East Kowloon, in which the Group has a 50% stake, is under way. The site is set for development for non-residential (excluding hotel) use, and upon completion it will be held by the Group for long-term investment purposes. The Group's Manhattan Mid-town shopping mall at 1 Po Lun Street, Lai Chi Kok, with a total area of 50,000 square feet, and the shops in our headquarters building at 9 Po Lun Street, Lai Chi Kok, together with the industrial property at 1 Kin Fung Circuit, Tuen Mun, have been leased out and will continue to provide steady rental income for the Group.

ACKNOWLEDGEMENTS

Having had the privilege of being appointed Chairman of the Company and its subsidiaries, KMB and LWB, on 17 May 2012, I would like to express my sincere thanks to my predecessor, The Hon Sir Sze-yuen Chung, under whose leadership the Group has taken many great strides forward over the past 13 years.

In closing this letter, my first one to our shareholders and partners as Chairman of the Board, I wish to sincerely thank my fellow Directors, our management team and staff at all levels for their dedication and contributions to the Group over the years. With their continued support, in tandem with the support of all our stakeholders in the larger Hong Kong community, I am confident that we will be able to ride out the challenges that face us today, just as KMB has overcome the many obstacles of the past 80 years to take its place as one of Hong Kong's leading public transport carriers.

Norman LEUNG Nai Pang

Chairman

21 March 2013