

Conversation with the Managing Director

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Edmond HO Tat Man
Managing Director



Q How did Transport International Holdings Limited perform in 2010 compared with your expectations?

A 2010 was a satisfactory year overall for Transport International Holdings Limited ("TIH") in spite of the fact that our franchised bus businesses faced considerable challenges such as a shift of passengers to the expanded rail network and the significant rise in fuel prices. What we did to mitigate these challenges was to increase productivity and efficiency, exploring viable means for increasing revenue and controlling costs. In respect of our franchised bus businesses, we enhanced our marketing efforts to attract new passengers while containing our operating costs wherever possible. Regarding our non-franchised bus businesses, we focused on business development and won new contracts to expand our portfolio. As for property, we continued to build up our asset portfolio for generating more rental income, while achieving good profit through property sales.

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Q How do you plan to overcome the main challenges facing the Group's franchised bus businesses in 2011?

A The two major challenges for us are more intense competition in the Hong Kong public transport market and rising operating costs.

Faced with the expanded rail network, we need to continue monitoring the efficiency of our franchised bus network and seeking opportunities to reorganise our services. Rationalisation of underutilised routes is one avenue we will continue to explore to improve our cost efficiency. In addition, we will aim to provide improved services on routes with growing demand by using the buses saved from our rationalisation efforts.

In terms of cost escalation, we anticipate that high fuel prices and the inflationary pressures which both Hong Kong and China Mainland are experiencing will continue in 2011. Our response will be to continue to improve our operating efficiency and productivity. If fuel prices continue to rise, we will have to seriously consider applying for appropriate fare adjustments after having exhausted other possible means to maintain our financial viability. As a medium- or long-term solution, we strongly believe in alternative energy technologies that are greener and less susceptible to short-term energy price fluctuations. We will also be discussing with the HKSAR Government the concept of establishing a fuel price stabilisation fund.

Q KMB and LWB have submitted applications to the HKSAR Government for a fare increase. To what extent would this help improve the financial performance of the companies?

A KMB and LWB submitted applications to the Government on 30 July 2010 for fare increases of 8.6% and 7.4% respectively. These applications are still being considered by the Government.



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Fuel constitutes about 18% of the operating costs of our franchised bus businesses in 2010 and the price of Singapore 0.5% Sulphur Gasoil, on which the cost of near-zero sulphur diesel used by KMB and LWB is based, has continued to rise dramatically. In 2010, the average price was US\$89.6 per barrel, up 29.7% compared to the average price of US\$69.1 in 2009. In fact, since we applied for a fare increase in July 2010, the price of Gasoil had surged to US\$130 per barrel as at 17 March 2011, 51% higher than the Gasoil price of US\$86 per barrel at the time we submitted the fare increase application. If fuel prices continuously stay at a high level and the expected fare increase magnitude and timing are insufficient to mitigate the escalating costs, this will put tremendous financial pressure on KMB and LWB. While we will continue to look for cost savings and enhance efficiency in our operations wherever possible, we will monitor the situation and take appropriate action as necessary.

Q KMB has been trialling a supercapacitor bus for several months. What are your expectations of electric bus technologies?

A The zero-emission supercapacitor bus (or "gBus") has successfully completed several months of trials, achieving a satisfactory operational record and reliability under fully air-conditioned and fully-laden conditions. We are keen to take the gBus to the next, wider level of implementation and are working closely with our suppliers and the HKSAR Government in that regard.

Q With ever increasing public expectations in terms of environmental performance, has the Group taken any other steps in respect of the adoption of green technologies?

A In addition to the supercapacitor bus, KMB is exploring other zero-emission technologies, and

one focus area is the battery-electric bus which has recently made breakthroughs in extending its operating range. We are also planning to introduce diesel-electric hybrid double-deck buses with the funding support of the HKSAR Government, whose continued financial backing is critical as we continue to pioneer the introduction of alternative technologies.

Q What business opportunities would green bus technologies bring to TIH?

A We are very keen to continue to work with the HKSAR Government to explore the feasibility of implementing green bus technologies in areas that are especially suited to such services, such as the Kai Tak Redevelopment. With zero-emission buses being more operationally flexible and requiring significantly less capital investment than other zero-emission mass transport solutions such as railways, we strongly believe that the adoption of zero-emission buses will be a key way of driving value for the communities we serve in the future.

Q What has been done to enhance safety for the Group, especially KMB?

A Safety remains our top priority in everything we do, as reflected in the active adoption of a Safety Policy by all Group employees, which represents the safety culture we have instilled in all our staff. In 2010, KMB's commitment to enhanced safety was demonstrated by the establishment of its Safety and Service Quality Department, which is driving our safety practices towards internationally recognised standards. In addition, KMB has created a new database of "Driving Tips in Special Attention Areas", the first of its kind in Hong Kong. The database provides structured instructions and tips on best driving practices for all bus captains driving on particular routes, so that the expertise and

knowledge of the most experienced bus captains can be effectively transferred to all others. Through the concerted efforts of all colleagues at KMB, there was a 15.8% reduction in the number of liable accidents in 2010.

Q What other advances were made in 2010?

A Customers continue to be the focus of all our enhancements, whether on buses, at termini or online. Besides the introduction of more super-low floor double-deck buses equipped with the Euro V engine, more user-friendly signage is being progressively introduced at our bus termini. This year also saw the award-winning KMB website break new ground with the introduction of the "Street View" function, which gives passengers a 360-degree photo tour of the street at their chosen bus stops, allowing them to familiarise themselves with their points of boarding and alighting.

We are also actively exploring enhanced technology for improving our bus operations. The on-bus monitoring system, which delivers better monitoring of real-time performance on board buses, is currently being tested on various routes across our bus network.

Q Did the Group's non-franchised transport operations perform well in 2010?

A Our non-franchised bus operations continued to provide high quality services in their respective markets and were able to achieve profit growth in 2010. During the year, Sun Bus Holdings Limited and its subsidiaries (the "SBH Group") strengthened its market share in the residential service segment, adding eleven residential estate services to its portfolio. In addition to serving housing estates, the SBH Group also provides tailor-made coach services for shopping malls, major employers, schools and hotels.

Q You mentioned that the Group would continue to build up its property portfolio for rental income. Do you have any ongoing development projects?

A Jointly with Turbo Result Limited, a wholly-owned subsidiary of Sun Hung Kai Properties Limited, we are currently developing a site at How Ming Street, Kwun Tong, Kowloon, into a commercial building for long-term investment purposes. Apart from bringing in steady rental income, this world-class building in East Kowloon will enhance the Group's rental property portfolio, which now comprises the Manhattan Mid-town shopping mall and our Headquarters Building at Lai Chi Kok. Besides this, the Group's industrial building at Kin Fung Circuit, Tuen Mun, has been let to generate additional rental income from March 2011.

Q Did 2010 see the launch of any initiatives in the Group's China Mainland transport operations?

A The Shenzhen Bus Group Company Limited, in which the Group holds a 35% stake, formed a joint venture with a renowned electric car producer to trial 100 battery-electric taxis as a pioneering move towards a greener environment. Already well established on the Mainland through our joint venture companies in Shenzhen and Beijing, the Group will continue its efforts to seek suitable investment opportunities there.

Q Finally, what about the Group's media sales business?

A RoadShow continues to consolidate its position as a leader in the media sales business in the Greater China region, having completed the installation of the new, improved Multi-media On-board system on close to 3,000 buses. The new system allows the provision of instant news in text format and possesses the potential for location-specific advertising as well as other creative formats at some stage in the future.