

# Chairman's Letter

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**S.Y. CHUNG**  
Chairman



## DEAR SHAREHOLDERS AND PARTNERS,

On behalf of the Board, I am pleased to report that, in spite of sustained and significant challenges, Transport International Holdings Limited ("TIH") was able to deliver positive results for 2011. By combining improved productivity and efficiency with excellent service and innovation geared towards sustainable business development, we spared no effort in order to cope with the inflationary environment. The Group is currently in a net cash position which provides a platform from which we can further strengthen our leadership in transport and related businesses in Hong Kong and China Mainland.

### OUR FINANCIAL PERFORMANCE

The Group's profit attributable to equity shareholders for the year ended 31 December 2011 was HK\$242.4 million, representing a decrease of 72.0% compared to HK\$866.9 million for 2010. Earnings per share for the year decreased correspondingly to HK\$0.60 for 2011 from HK\$2.15 for 2010. The decrease in profit was mainly attributed to the deterioration in the financial performance of The Kowloon Motor Bus Company (1933) Limited ("KMB") in 2011, which was mainly owing to the drastic increase in international fuel oil prices compared with 2010. Another reason for the year-on-year decrease in profit was the one-off, non-recurrent capital gain of HK\$489.1 million arising from the disposal of 50% of the Group's interest in an industrial site at Kwun Tong, which was recognised in 2010.

The Group's franchised public bus business operated by KMB and Long Win Bus Company Limited ("LWB") faced a very challenging operating environment in 2011. Escalating international fuel oil prices resulted in a substantial increase of HK\$374.7 million in KMB's fuel costs to HK\$1,403.4 million in 2011, a 36.4% increase compared to 2010. This increase in fuel costs, coupled with increases in KMB's other operating expenses, including staff costs and toll charges, far exceeded the increase in fare revenue resulting from the implementation of the 3.6% fare increase which took effect on 15 May 2011. Furthermore, KMB recorded a year-on-year decline in patronage of 1.1% for 2011, mainly due to continuing passenger shift to rail. These adverse factors resulted in KMB reporting a significant decrease in profit in 2011.

As for LWB, its total ridership in 2011 increased by 2.9% compared to that of 2010. The increase was attributable to the increased demand for transport generated by travellers from China Mainland and by construction workers involved in new developments at the airport in the first half of the year, although this growth was dampened in the second half of the year by the impact of the financial uncertainty in the United States and Europe. LWB's fare increase of 3.2%, which took effect on 15 May 2011, also helped boost its fare revenue. However, these positive factors were unable to counterbalance the upsurge in fuel prices, increases in staff costs, toll charges and other operating expenses, resulting in LWB reporting a decrease in profit in 2011.

The performance of the Group's non-franchised transport businesses in 2011 was also adversely affected by the rise in fuel prices. With Sun Bus Limited as the flagship company, our Non-franchised Transport Operations Division continued to implement its prudent expansion strategy for cross-boundary passenger services in 2011 to cater for the growth in the number of visitors from the Mainland. During the year, it also adjusted coach hiring charges to meet increased operating costs. As to our China Mainland Transport Operations Division, our joint ventures in Beijing and Shenzhen were stable in 2011. The Group's media businesses operated by the RoadShow Group reported a loss of HK\$48.6 million in 2011 mainly as a result of an impairment loss provision of HK\$109.6 million made on an unlisted investment in the Mainland.

### DIVIDENDS

The Board has declared an ordinary final dividend of HK\$0.45 per share (2010: HK\$1.05 per share). Together with the ordinary interim dividend of HK\$0.15 per share (2010: HK\$0.30 per share) paid on 17 October 2011, total dividends for the year will amount to HK\$0.60 per share (2010: HK\$1.35 per share). The total dividend payout for the year will amount to HK\$242.2 million (2010: HK\$544.9 million).

### COMMITTED TO EXCELLENCE THROUGH INNOVATION

Constant innovation leading to ever improving service delivery is one of the major priorities for the Group. In 2011, KMB was the first franchised public bus company in Hong Kong to launch user-friendly smartphone apps which make the search for bus information easier and quicker. By the end of 2011, more than 700,000 iPhone, iPad and iPod Touch users had downloaded the KMB smartphone apps. As a caring employer, the Group is attentive to the needs of all of its nearly 12,900 employees and is committed to staff development through comprehensive training and recognition programmes. During the course of the year, a series of safety management training courses was arranged to equip selected staff members with a thorough knowledge of safety management systems as part of the implementation of Occupational Health and Safety Assessment Series ("OHSAS") 18001 safety management systems within KMB's Operations Division.

Our firm commitment to service excellence and continuous improvement has been recognised by ISO 9001 certification across the entire organisation of KMB since 1999. In addition to quality management, we have adopted a proactive approach that emphasises risk management as a key element in all safety management activities. A fit-for-purpose safety management system, based on OHSAS 18001, was fully implemented by KMB in January 2012. KMB aims to execute effective risk control systems which ensure that safety risks are maintained at levels appropriate to the nature of its operations.

### COMMITTED TO CORPORATE SOCIAL RESPONSIBILITY

TIH takes its corporate social responsibility very seriously, as is only fitting for a Group with a long term outlook and a commitment to sustainable business practices. By formulating and implementing sound policies and procedures, we are able to ensure that accountability, transparency and integrity are the foundation on which all our business operations are based. KMB's commitment to responsible corporate citizenship was reaffirmed in 2011 when it was named Caring Company for the tenth consecutive year by the Hong Kong Council of Social

Service. FRIENDS OF KMB, our volunteer club of some 3,350 members who participate in a variety of community building, educational and environmental protection activities, has been dedicated to serving our community since its establishment in 1995. The club's sterling work was recognised by being awarded first runner-up in the Highest Service Hour Award (Private Organisation – Best Customer Participation) organised by the Social Welfare Department.

To further enhance environmental protection, we continue to explore the most advanced zero- and low-emission bus technologies. Having introduced the zero-emission supercapacitor bus (the "gBus") to Hong Kong for an eight-month trial which ended in April 2011, we are working closely with potential suppliers and the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") to put right hand drive electric buses into service. Given their greater operational flexibility and significantly lower capital investment requirement as compared to rail, zero-emission bus deployment in new development areas is a Group priority and we remain committed to working with the HKSAR Government towards bringing electric buses to Hong Kong.

Ongoing fleet upgrade which utilises the latest technological developments is a core part of the Group's service enhancement programme. To this end, we made great strides in 2011, with KMB and LWB introducing 235 Euro V buses, bringing the total number of such buses in their fleets to 324.

### COMMITTED TO EVER HIGHER CORPORATE GOVERNANCE

The Group believes that sound corporate governance is essential for maintaining stakeholder confidence and furthering our competitiveness. I am therefore especially pleased that TIH's 2010 Annual Report won the "Gold Award" in the Non-Hang Seng Index (Large Market Capitalisation) Category of the 2011 Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants, as well as the Bronze Award for Financial Data in the 2011 International ARC Awards.

## LOOKING AHEAD

Continued high fuel oil prices, an expanding rail network and further increases in wages and other operating expenses due to inflationary pressure mean that we expect the Group's operating environment to become increasingly challenging in 2012. We will respond to these challenges by seeking to improve KMB's network efficiency by engaging with the HKSAR Government and the District Councils on improving the efficiency of our bus network by reorganising routes with low demand and increasing the service on routes with growing demand.

Given the recent adverse changes in the operating environment, it is increasingly challenging to achieve our dual objective of maintaining high service standards while safeguarding the financial viability of our franchised bus operations under the existing regulatory framework. While further route rationalisation and efficiency enhancement measures are one response to these challenges, other means should be explored with the HKSAR Government with a view to easing fare increase pressures. If the current trend of high fuel prices persists and other mitigation measures cannot effectively alleviate the cost escalation problem, we will have little choice under the existing mechanism but to apply for fare adjustments in order to restore our financial viability and maintain the existing service standards.

Regarding our non-franchised transport businesses, we will continue to enhance the quality of our services for both local and cross-boundary services and to explore business opportunities that will increase our income. The Group will also continue to seek out business growth in China Mainland when good investment opportunities arise.

The development of the industrial site at 98 How Ming Street, East Kowloon, in which the Group has a 50% stake, is ongoing. The site is set for development into non-residential (excluding hotel) uses. Upon completion, the property will generate rental income for the Group. The sale of residential flats and car parking spaces at

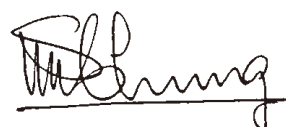
Manhattan Hill is almost complete. The entire Manhattan Mid-town shopping mall with a total area of 50,000 square feet and the shops in our headquarters building at 9 Po Lun Street, Lai Chi Kok, are leased out and will continue to provide steady revenue for the Group.

In spite of the significant challenges to our franchised public bus business posed by high fuel prices and the expansion of the rail network, the Group remains in good shape in respect of its various businesses and is well placed to take advantage of viable opportunities in the future. We are confident that we will be able to overcome the challenges that lie ahead by continuing to leverage our core competence to deliver significant value in the businesses that we operate.

## ACKNOWLEDGEMENTS

This will be my last Chairman's Letter to TIH shareholders and partners following my decision, announced on 14 April 2011, not to offer myself for re-election at the Company's upcoming Annual General Meeting. I would like to put on record my pleasure in having been accorded the privilege of serving as Independent Non-executive Director and Chairman of the Company and its subsidiaries, KMB and LWB, since 12 August 1999. I would also like to wish my successor in the post, Dr Norman LEUNG Nai Pang, and the other Directors all the very best in the years ahead.

Lastly, I would like to sincerely thank all my fellow Directors and the Group's management and staff for their dedication and contributions towards the success of the Group.



**S.Y. CHUNG**

Chairman

15 March 2012