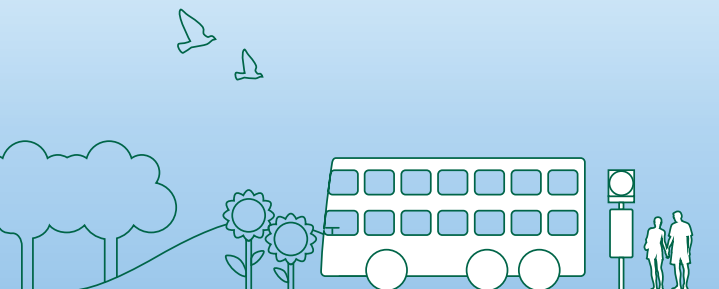
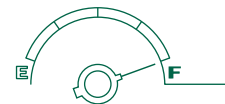


# CONVERSATION WITH THE MANAGING DIRECTOR

“ In terms of the effectiveness of the service that KMB provides for the community, continued bus route reorganisation that optimises network efficiency can help ensure that the upcoming large-scale population intake in new development areas in Kowloon and the New Territories enjoys the benefits of improved, faster and more direct bus services. ”



**Edmond HO Tat Man**  
Managing Director



**Q** The core business of the Group, KMB, incurred a loss in 2013 despite fares being increased by 4.9% with effect from 17 March. What underlying factors contributed to the loss?

**A** One of the main factors behind the financial performance of KMB in recent times has been the intense competition attributable to the expansion of the railway network in our service area. Another factor which greatly affects KMB's productivity, as well as that of the broader community, is traffic congestion. In fact, the journey time of 99% of KMB's bus routes has increased by an average 17% in the period from 2007 to 2013 as a result of traffic congestion. A further structural problem is presented by the fact that more than two thirds of KMB's routes are currently operating at a loss, which is clearly an unsustainable situation which needs to be addressed expeditiously.

**Q** What is the progress of the district-based route reorganisation plans?

**A** Given the importance of bus route rationalisation as stated in the Chief Executive's 2013 Policy Address, KMB successfully implemented the route reorganisation plans in Tuen Mun and North District by the end of 2013 to benefit passengers in terms of increased connectivity and network coverage. While the results of the exercises have been encouraging, with benefits for both our customers and KMB itself, route reorganisation needs to be implemented on a

broader scale and at an increased pace to effectively address the structural problems of having too many duplicated and circuitous routes. We look forward to further fruitful collaboration with the HKSAR Government and the various communities we serve to bring about solutions that benefit all stakeholders.

**Q** Is the current franchised bus business model sustainable in the long term?

**A** Since road space in Hong Kong is limited, it is important that public transport policy strikes a balance between the franchised operators and other road users. Given that franchised buses are the most efficient road public transport carriers, bus priority schemes which make the best use of road space need to be revisited with a view to expanding their scope and extending their operations. The ramifications of increasing car ownership, which of course has air quality implications owing to worsening traffic congestion, also need to be seriously considered. In terms of the effectiveness of the service that KMB provides for the community, continued bus route reorganisation that optimises network efficiency can help ensure that the upcoming large-scale population intake in new development areas in Kowloon and the New Territories enjoys the benefits of improved, faster and more direct bus services. Such reorganisation would also complement the railway system, which is becoming increasingly congested.

## CONVERSATION WITH THE MANAGING DIRECTOR

**Q** What plans do you have for the implementation of electric buses?

**A** Following a series of trials on the supercapacitor bus ("gBus") in the past three years, KMB successfully introduced Hong Kong's first franchised battery-powered electric bus ("eBus") for passenger services on Route 2 in September 2013. With funding of the capital expenditure from the HKSAR Government, KMB will be purchasing a total of 18 electric buses, comprising ten eBuses and eight gBuses, for trial runs on various routes in late 2014 or early 2015. It is our aim that the trials will help create successful blueprints for sustainable electric bus models in Hong Kong.

**Q** How is the Group's non-franchised bus division performing?

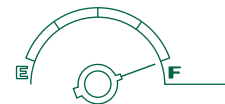
**A** I am pleased that our non-franchised bus business recorded healthy growth in 2013 in spite of the challenges posed by high fuel prices and inflationary pressure. We are proud that Sun Bus Limited, the flagship of our non-franchised bus operations, is the only commercial non-franchised bus company in Hong Kong certified to ISO 9001 quality management standards. Having added 33 new Euro V buses to our fleet in 2013, we have ordered two Euro VI buses for delivery in 2014 and will continue to enhance our coach service quality by buying the latest environment-friendly buses available on the market. We will continue to seek out further business expansion opportunities at a measured pace.

**Q** What are the prospects for the Group's other businesses, for example, its property holdings and development arm?

**A** 99% of the entire lettable area of Manhattan Mid-town shopping mall is leased out to a mix of shops and restaurants, while around 30% of our headquarters building is also leased out to a similar mix of retail outlets. Overall, the Group's portfolio of investment properties continues to generate a satisfactory stream of rental income. The development of the industrial site at 98 How Ming Street, East Kowloon, in which the Group has a 50% interest, is expected to significantly enhance our property rental portfolio upon its completion in the medium term.

**Q** What innovative measures are you introducing as part of your delivery of a new era of services to the community?

**A** The Estimated Time of Arrival ("ETA") display system at the Tuen Mun Road Bus-Bus Interchange is not only the first of its kind in Hong Kong, it was also developed in-house. Using global positioning technology, the ETA system currently notifies passengers of the estimated arrival time of the next bus on eight long-haul routes travelling via the interchange. With a full year's operating experience in 2013, we plan to expand the ETA system to more bus interchanges in phases. In 2013, to tie in with the opening of the new bus interchanges at Tuen Mun Road, Wah Ming and Sheung Shui, KMB upgraded



its passenger waiting areas with additional facilities, including graphic information boards, seating areas and a free WiFi service.

**Q Public expectations about the performance of listed companies in terms of corporate governance and corporate social responsibility continue to grow. What measures is the Company taking to strengthen its performance in these areas?**

**A** We constantly review our Corporate Governance and Corporate Social Responsibility policies to ensure compliance with the latest standards and guidelines. Besides making training and development provision for the Board of Directors, we have also established the “Board Diversity Policy”, which recognises the benefits of having a diverse Board in terms of the quality of its performance. Our commitment to good corporate governance practice was recognised when TIH received a Special Mention in the Non-Hang Seng Index (Large Market Capitalisation) category of the 2013 Best Corporate Governance Disclosure Awards, organised by the Hong Kong Institute of Certified Public Accountants.

**Q What plans do you have for enhancing KMB’s brand image?**

**A** In 2013, KMB celebrated its 80th Anniversary with many events that were well received by the public, such as a celebratory carnival showcasing KMB’s vintage buses, the publication of the “80 Years with

KMB” book, and the “Journey with You: Hong Kong Bus Story” exhibition at the Hong Kong Museum of History. In the coming years, we will continue to organise corporate campaigns and civic activities such as those participated in by our volunteer club, FRIENDS OF KMB, which continues to go from strength to strength, with an enthusiastic membership of about 4,300 volunteers.

**Q Do you believe that Hong Kong is still the most efficient city in terms of its bus operations?**

**A** While Hong Kong is a recognised leader in applying supply-side solutions such as expanding the rail network, many other metropolitan cities have adopted extensive demand-side traffic management practices that we can learn from. These include prioritising mass transport while containing vehicle growth, employing smart technologies to manage traffic flows, and enhancing junctions and pedestrian space. To take one example, investment in smart IT systems would enable surveillance systems to carry out traffic enforcement duties which are currently undertaken manually by enforcement personnel. Although such international best practices would need to be tailored to the local environment, many cities with population densities similar to Hong Kong’s such as London, Seoul and Singapore have rigorously implemented innovative demand-side traffic management practices with noticeable success.