



Norman LEUNG Nai Pang
Chairman

Dear Shareholders,

I am very happy to announce, on behalf of the Board of Directors, that for the year ended 31 December 2016, the Group's profit attributable to equity shareholders was HK\$830.9 million, an increase of 32.2% compared to HK\$628.7 million for 2015. The increase in profit was due to the improvement in financial performance of the transport-related businesses, in particular the franchised bus operation of the Group's flagship company, The Kowloon Motor Bus Company (1933) Limited ("KMB").

Dividends

The Board of Directors has proposed an ordinary final dividend of HK\$0.90 per share to be paid on 30 June 2017. In addition to the ordinary interim dividend of HK\$0.35 per share paid on 18 October 2016, the total dividend for the year will be HK\$1.25 per share, an increase of 4.2% compared to 2015.

Financial Performance in 2016

KMB's profit after taxation was HK\$617.7 million, representing an increase of 26.5% compared to HK\$488.2 million in 2015. The improvement in results was mainly due to the increase in fare revenue as well as the decrease in operating expenses. The increase in fare revenue was mainly attributable to enhancement in bus service reliability and efficiency which led to a patronage growth of 2.2%. While the decrease in operating expenses was mainly attributable to the reduction in fuel costs resulting from the fall in international fuel prices and the decrease in fuel consumption through the continuous improvement in operating efficiency which more than compensated for the effects of annual pay rise along with general inflation.

The after-tax profit of Long Win Bus Company Limited ("LWB") in 2016 was HK\$31.2 million, a decrease of 45.3% compared to HK\$57.0 million in 2015. For 2016, LWB's patronage continued to improve which led to an increase in fare revenue by 4.6% compared to 2015. In order to capture the business growth opportunities arising from the development of Lantau Island and the northern New Territories, service enhancements along with investment in new buses were made. Although this contributed to an increase in operating costs for 2016, such improvements will enhance LWB's performance in the years to come.

Our Non-franchised Transport Division, with Sun Bus Limited as its flagship company, saw continued improvement in its financial performance in 2016, reporting a profit after taxation of HK\$55.4 million, representing an increase of 12.6% compared to 2015. Benefiting from rent increase and an increase in the floor area leased out, the Group's Property Holdings and Development Division reported a profit after taxation of HK\$45.6 million, representing an increase of 19.4% compared to 2015. In respect of the redevelopment project at 98 How Ming Street, Kwun Tong, Kowloon, in which the Group owns a 50% interest, the land premium for rezoning from industrial use to non-residential use was settled in 2016. The site will be developed into an office and retail complex, and is expected to generate additional rental income for the Group in the future years. In the China Mainland Transport Operations Division, the Group's joint ventures in Beijing and Shenzhen remained profitable in 2016. The media sales businesses operated by the RoadShow Group, however, recorded a loss attributable to shareholders of HK\$45.3 million in 2016, mainly attributable to recognition of an impairment loss on property, plant and equipment of HK\$22.9 million.

Innovative Development

In 2016, the Group adopted an innovative approach as it continued to explore new possibilities in bus service operations and passenger service, with the aim of opening up more business opportunities for shareholders. These innovations included the launch of the unprecedented bus-bus interchange concession scheme between LWB's A-routes and KMB's bus routes thereby offering benefits and convenience to the passenger of these two bus networks.

The Group's flagship KMB implemented many new initiatives in the reporting year, including organising the lucky draw for passengers to encourage the public to take KMB, as well as LWB buses. New concepts were also applied to existing bus routes, such as promoting Route 6 as a special route for tourists. Encouraging visitors to take the bus not only boosts KMB's ridership, it also enables those from overseas to experience Hong Kong's charm and dynamism from a double-deck bus. We hope that these special bus routes will become a preferred favourite to the tourists visiting Hong Kong.

The Group also launched the new version of the smartphone app App 1933, which features enhanced bus estimated time of arrival and route finder functions, as well as new functions such as live chat between passengers and customer service representatives, real-time passenger capacity display, nearby bus stops display, and bus alighting alert. The utilisation rate of the app is encouraging and the Group is developing more functions for passengers' convenience. It is hoped that App 1933 will become an indispensable app on everybody's smartphone as part of our contribution to Hong Kong's smart city aspirations.

Enhancing the Experience

As a significant public transport company serving 2.8 million passenger trips a day, the Group's primary concern is the quality of the entire travel experience, from planning the journey and waiting at the bus stop to the actual journey on the bus. Since the beginning of 2016, the Group has installed seats and monitors for indicating bus arrival times at hundreds of bus stops all over Hong Kong for the comfort and ease of planning to our passengers.

One of the most significant enhancement initiatives launched in 2016 was the introduction of LWB's new Airbuses, built with a luxurious design and upgraded facilities. The provision of free Wi-Fi and USB charging stations represents a breakthrough in Hong Kong's bus services. KMB will also start installing free Wi-Fi on its fleet in 2017 to meet the needs of the many passengers who use their mobile phones regularly for information and entertainment. The move will also make KMB bus routes more attractive to new passengers.

With the bus being an important means of transport in Hong Kong, service reliability plays a key role in attracting passengers to our services. To this end, throughout 2016, KMB implemented a series of measures to keep the annual lost trip rate at an acceptable low level.

Care for Employees

We appreciate that having staff of a high calibre plays a crucial role in business success, and we are committed to a people-oriented business philosophy, whereby we take an active interest in the welfare of our employees. The Group continued to invest handsomely in staff salaries and their welfare, health and wellbeing in 2016. This year, the Group gave festive gifts, such as rice dumplings and mooncakes, to all employees. The Group's care for its staff also extends to their family members through the presentation of scholarships to employees' children. To strengthen the bond between current and retired employees and boost the esprit de corps of the Transport International family, in 2016 the Group set up the TIH Retiree Association.

In recognition of the contributions of our outstanding employees, the Group presented the Star Bus Captain Award for the first time in the reporting year to commend employees who demonstrated an excellent work attitude. It is hoped that the award will boost staff morale and encourage everyone to provide service of the highest order.

Care for the Community

Bus services are inextricably linked to the community, and it is in such public spirit that KMB actively participates in and supports various community activities. In the reporting year employees and members of KMB's volunteer club FRIENDS OF KMB presented festive gifts such as mooncakes to our senior citizens across Hong Kong Island, Kowloon, and the New Territories. Through its affection for the community, the Group contributes to maintaining a harmonious and caring society in Hong Kong.

Helping to bring about a cleaner environment is one of Transport International's pledges to the community. In this spirit, in 2016 the Group continued to order environment-friendly Euro V double-deck air-conditioned buses that meet exhaust emission standards set by the European Union. As part of our commitment to further improving Hong Kong's air quality, we plan to order Euro VI double-deck air-conditioned buses in coming years.

The Opportunities Ahead

Although the global economy is facing challenging uncertainties, Hong Kong's new town developments and major infrastructural projects continue to forge ahead. The constant movement of people and buoyant commercial activity within Hong Kong, and between Hong Kong and mainland hubs, provide opportunities for the Group's future growth. Earlier on, KMB won the bid for bus routes serving the Development at Anderson Road, and with people moving into this new housing area, the routes are proving to be profitable. Potential for future growth can be found in the Hong Kong-Zhuhai-Macao Bridge, the land reclamation off Tung Chung East, and the Kai Tak Development. The Group aims to provide residents in these new areas and those using the new Bridge with a comprehensive transport network, while offering reasonable returns to our shareholders.

The MTR's Kwun Tong Line Extension opened in 2016, resulting in some passengers switching from road-based public transport to trains. Faced with this loss of passengers, KMB is working hard with its stakeholders to reorganise routes and transfer resources to other routes to improve efficiency so as to ensure the sustained development and financial stability of our bus network. The Group will work hard to improve the efficiency of the entire bus network through route reorganisation and bus-bus interchange concession schemes. The aim is to provide the people of Hong Kong with ever more convenient, efficient and comfortable bus services.

In respect of the current franchise of KMB, which will expire on 1 July 2017, the Group is confident that a new 10-year franchise will be granted. We will continue to work diligently in the next ten years to improve our service quality and to maintain comfortable and reliable bus services for our passengers. The Group will strive for further innovation in providing transport services to the public as we enter a new era.

Acknowledgements

Our continued success depends on all of us in the Group working as a team and also on the support of our passengers. I wish to express my heartfelt gratitude to my fellow Directors of the Board, to every staff member of the big Transport International family, and to our manufacturers and suppliers, as well as to every citizen in Hong Kong and every visitor to Hong Kong who patronize our bus services.

Norman LEUNG Nai Pang

Chairman

23 March 2017