



To the shareholders of Transport International Holdings Limited

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Transport International Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 132 to 207, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Assessing the carrying value of buses and other motor vehicles

Refer to note 13 to the consolidated financial statements and the accounting policies on pages 143 and 147.

The Key Audit Matter	How the matter was addressed in our audit
<p>The carrying value of the Group's buses and other motor vehicles as at 31 December 2016 totalled HK\$5,465 million which accounted for 41% of the Group's total assets as at that date. Buses and other motor vehicles mainly represent the bus fleet employed in the Group's franchised bus operations.</p> <p>The estimated useful lives and residual values of buses and other motor vehicles are reviewed annually by management taking into consideration factors which include bus deployment and scrapping plans and technological changes which may affect the useful life expectancy of the assets and, therefore, could have a material impact on any impairment charge or the depreciation charge for the year.</p> <p>Internal and external information is reviewed by management annually to determine whether there are any indicators that the buses and other motor vehicles may be impaired.</p> <p>We identified assessing the carrying value of buses and other motor vehicles as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves the exercise of judgement by management, in particular in considering the nature, timing and likelihood of changes to factors such as bus deployment and scrapping plans and technological developments which may affect the carrying value of buses and other motor vehicles.</p>	<p>Our audit procedures to assess the carrying value of buses and other motor vehicles included the following:</p> <ul style="list-style-type: none"> — assessing the design, implementation and operating effectiveness of key internal controls over the preparation and monitoring of bus deployment and scrapping plans; — assessing the estimated useful lives and residual values of buses and other motor vehicles with reference to the Group's historical experience, laws and regulations relating to the deployment of buses and bus deployment and scrapping plans; — discussing with management their assessment of whether any indicators of potential impairment of buses and other motor vehicles existed at the reporting date; — challenging management's assertion that no indicators of potential impairment of buses and other motor vehicles existed at the reporting date by comparing management's assessment of the indicators of potential impairment in the prior year with actual results for the current year and by comparing the bases of management's current year's assertions with our understanding of the latest developments in the franchised bus industry and market conditions.

Key audit matters (continued)

Assessing the contingency provision for insurance

Refer to note 26 to the consolidated financial statements and the accounting policies on page 149.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group is involved from time to time in litigation and claims in connection with its franchised bus operations. The contingency provision for insurance, which totalled HK\$436 million as at 31 December 2016, has been set aside by management to meet the liabilities which are expected to arise from third party claims for incidents which have occurred in connection with the Group's franchised bus operations. Management assessed the provision based on an independent valuation performed by a qualified external actuary.</p> <p>The assessment of the provision involves estimates based on past claims experience and recent claims developments. The ultimate claim amount is dependent on future external events which are inherently uncertain and actual claims may therefore deviate from management estimations.</p> <p>We identified the assessment of the contingency provision for insurance as a key audit matter because of the level of management judgement required in assessing the variable factors and assumptions in order to estimate the potential costs of settlement of claims.</p>	<p>Our audit procedures to assess the contingency provision for insurance included the following:</p> <ul style="list-style-type: none"> — assessing the design, implementation and operating effectiveness of key internal controls over management's maintenance of claims records and the assessment of related provision; — assessing the independence, qualifications and expertise of the external actuary engaged by management and evaluating whether a consistent methodology had been applied in determining the amount of the provision; — with the assistance of our internal actuarial specialists, assessing the valuation methodology adopted by the external actuary and comparing the key estimates and assumptions adopted in the actuarial valuation with past claims experience; — comparing the claims details provided by management to the external actuary with the claims records maintained by the management, on a sample basis.

Information other than the consolidated financial statements and auditor's report thereon

The Directors are responsible for the other information. The other information comprises all the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit and Risk Management Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Management Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit and Risk Management Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Sze Kit, Roy.

KPMG

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23 March 2017