

Chairman's Letter



“Over the past year,
we met significant
challenges with
innovations, gains in
efficiency and further
expansion”

S. Y. CHUNG
Chairman

Dear Shareholders and Partners,

On behalf of the Board, I am pleased to report that 2006 – the second year of our re-branding under the new name of Transport International Holdings Limited (“TIH”) – witnessed the further successful implementation of our vision: to be an innovative and international Group seeking opportunities across the Greater China region. That is what our new identity and name represent. This past year, we have been focusing even more intensely on two aspects of our vision: innovation in order to manage change; and expansion of our operations. Naturally, franchised public bus operations in Hong Kong remain the core of our business but we continue to build on our experience to diversify our portfolio into related areas or outside Hong Kong.

Results for the Year

The Group’s profit attributable to equity shareholders for 2006 amounted to HK\$1,838.0 million, an increase of 214.6% compared to HK\$584.2 million for 2005. Earnings per share increased correspondingly from HK\$1.45 for 2005 to HK\$4.55 for 2006. The increase in profit for 2006 was mainly attributable to the sales of 245 residential units of Manhattan Hill, an upscale luxurious residential and commercial complex owned and developed by our Group’s wholly-owned subsidiary, Lai Chi Kok Properties Investment Limited. In sharp contrast to the encouraging results of these property sales, the operating environment for our franchised public bus operations was the most difficult that we have experienced in the past decade. In 2006, the surge in international fuel oil prices to a historically high level resulted in a drastic increase in our total fuel and oil costs by 20.3% and 63.4% as compared with 2005 and 2004 respectively. This, coupled with increased tunnel tolls, staff salaries and interest costs, and the continued loss of patronage due to intense competition from the railways, gave rise to a significant decrease in the profit of our major wholly-owned subsidiary, The Kowloon Motor Bus Company (1933) Limited (“KMB”), for the year 2006. KMB’s profit for 2006 decreased by 54.5% to HK\$216.3 million as compared to HK\$475.5 million for 2005 which included a one-off capital gain of HK\$90.5 million arising from the disposal of the obsolete Kwai Chung Depot.

On a more positive note, the Sun Bus Holdings Group, our non-franchised transport operations in Hong Kong, continued to show steady growth both in revenue and earnings during the year. In 2006, the Sun Bus Group expanded its market share in Hong Kong through the acquisition of a major local non-franchised bus operator with a fleet of some 60 buses. Both our Mainland transport operations, comprising passenger public transport services in Dalian, Shenzhen and Wuxi as well as taxi and car rental services in Beijing, and our media sales business, operated by our listed subsidiary, RoadShow Holdings Limited (“RoadShow”), reported an increase in profit of 8.7% and 17.1% respectively as compared to the previous year.

Dividends

Under the principle of prudent financial management, the Board has decided that proceeds arising from the sales of residential units of Manhattan Hill should first be applied towards the repayment of bank loans obtained for financing the construction costs of the development. The Directors therefore have proposed to maintain the final dividend for 2006 at the same amount as that for 2005 of HK\$1.58 per share. Together with the interim dividend of HK\$0.45 per share paid on 13 October 2006, total dividends for the year 2006 will amount to HK\$2.03 per share (2005: HK\$2.03 per share) or HK\$819.4 million in total. Barring unforeseen circumstances and taking into

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account the likely proceeds from further sales of the residential flats of our Manhattan Hill development, the Board will consider proposing a special dividend or dividends for the year ending 31 December 2007.

Managing Challenges

The challenges for the Group's core franchised public bus operations over the past year were significant. KMB, the Group's flagship company providing franchised public bus services in Hong Kong, continued to face intense competition for patronage from those new railways launched by the Kowloon Canton Railway Corporation (West Rail, Ma On Shan Rail and Tsim Sha Tsui Extension) and the MTR Corporation Limited (Tseung Kwan O Line). Our response to this challenge was to continue the timely rationalisation of our franchised public bus services network, and to press on with our innovative approach to enhancing the quality of our services and efficiency that has become our hallmark over the past years. Since no new major railway is scheduled to open in our operating area in the near future, we are confident that our patronage will continue to prove resilient, growing in tandem with the marked improvement in the local economy.

The significant decrease in the earnings of our franchised public bus operations was mainly attributable to the escalation of operating costs. These ongoing cost challenges, in particular the rise in oil prices, interest rates and tunnel toll charges, were largely beyond the control of management. And yet, as a responsible corporate citizen, we have continued to offer three fare concession schemes that focus on long and medium distance travellers and the elderly throughout the year. In response to these challenges, management made every effort to control costs and raise efficiency in order to avoid fare increases, but without compromising the quality of our services. For example, fleet utilisation was improved through the implementation of various bus network rationalisation programmes. Benchmarking was conducted to search for industry best practice while work procedures, sourcing and vendor management were enhanced.

On the positive side, there were several encouraging factors during the year. KMB successfully renewed its franchise for operating franchised public bus services in Hong Kong until 1 July 2017. Long Win Bus Company Limited ("LWB") continued to benefit from ongoing population growth at Tung Chung New Town, as well as the increasing number of passengers travelling to and from Hong Kong International Airport, the new AsiaWorld-Expo and Hong Kong Disneyland. Our non-franchised operations also continued to grow in 2006. The extension of the Individual Visit Scheme to additional Mainland cities boosted the performance of our cross-boundary shuttle bus service. Results of the media advertising business of the RoadShow Group also showed improved net profits and revenues as a result of business growth in Hong Kong and key Mainland cities, while our Mainland transport operations, particularly those in Shenzhen, reported increased profits in 2006.

Positioning for the Future

As the Group moves forward, its achievements in the enhancement of service standards through innovation and the management of change have become increasingly recognised. During the year, we continued to receive international quality management recognition through our ISO certification. According to statistical measurements, both our mechanical and operational performance remained high. We continued with the introduction of the latest generation of environment-friendly and technologically

advanced buses to provide greater passenger comfort while launching other new environmental initiatives. All these efforts helped TIH to maintain its industry-leading position and competitiveness.

In comparison with the relatively mature Hong Kong market, the China Mainland continues to offer opportunities that represent greater business potential, albeit building from a lower base. Our experience in public transportation and widely recognised reputation of service excellence allowed us to enter successfully into joint venture operations in taxi and hire car businesses in Beijing, as well as public bus operations in Shenzhen, Wuxi and Dalian. In addition, the Group is well positioned to deploy its resources and expertise to cope with and explore the business opportunities arising from the 2008 Olympic Games in Beijing.

The first phase of the sales campaign for the residential flats of the Manhattan Hill development began in November 2006. The market response to the initial sales launch was encouraging. With the continuing growth of the local economy and barring unforeseeable circumstances, we expect this luxury development will continue to generate considerable profit and cash flow for the Group.

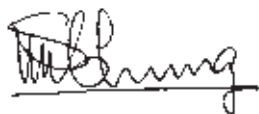
Through continuing investment comes continuous improvement. The Group's levels of service, efficiency and environment-friendly technologies continue to benefit society wherever we operate. As the Group moves forward with strategies at various levels of implementation, I am confident that we will continue to deliver value for our shareholders and other stakeholders, and become a stronger and more diversified organisation with each passing year.

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Acknowledgement

To pave the way for his retirement in 2008, Mr John Chan Cho Chak handed over the position of Managing Director of KMB and LWB to Mr Edmond Ho Tat Man with effect from 1 January 2007. Mr Chan remains as Managing Director of TIH and Chairman and Non-executive Director of RoadShow. Since 1 January 2007, Mr Chan has also served concurrently as Senior Executive Director of KMB and LWB. On behalf of the Board, I would like to pay a special tribute to Mr Chan for his dedication and invaluable contribution to KMB and LWB in his capacity as Managing Director of those companies since 1993 and 1997 respectively.

It was only through the most concerted and vigorous team efforts that these successes were achieved: team efforts not only of the Board members and management team, but also of our highly committed staff at all levels and within all companies in the Group. Everyone, whatever position he holds, has contributed to TIH's performance over the years and has enabled TIH to remain a world-class provider of public transport and related services. On behalf of the Board, I would like to thank each and every one of the team for his or her outstanding contribution.



S. Y. CHUNG

Chairman

22 March 2007