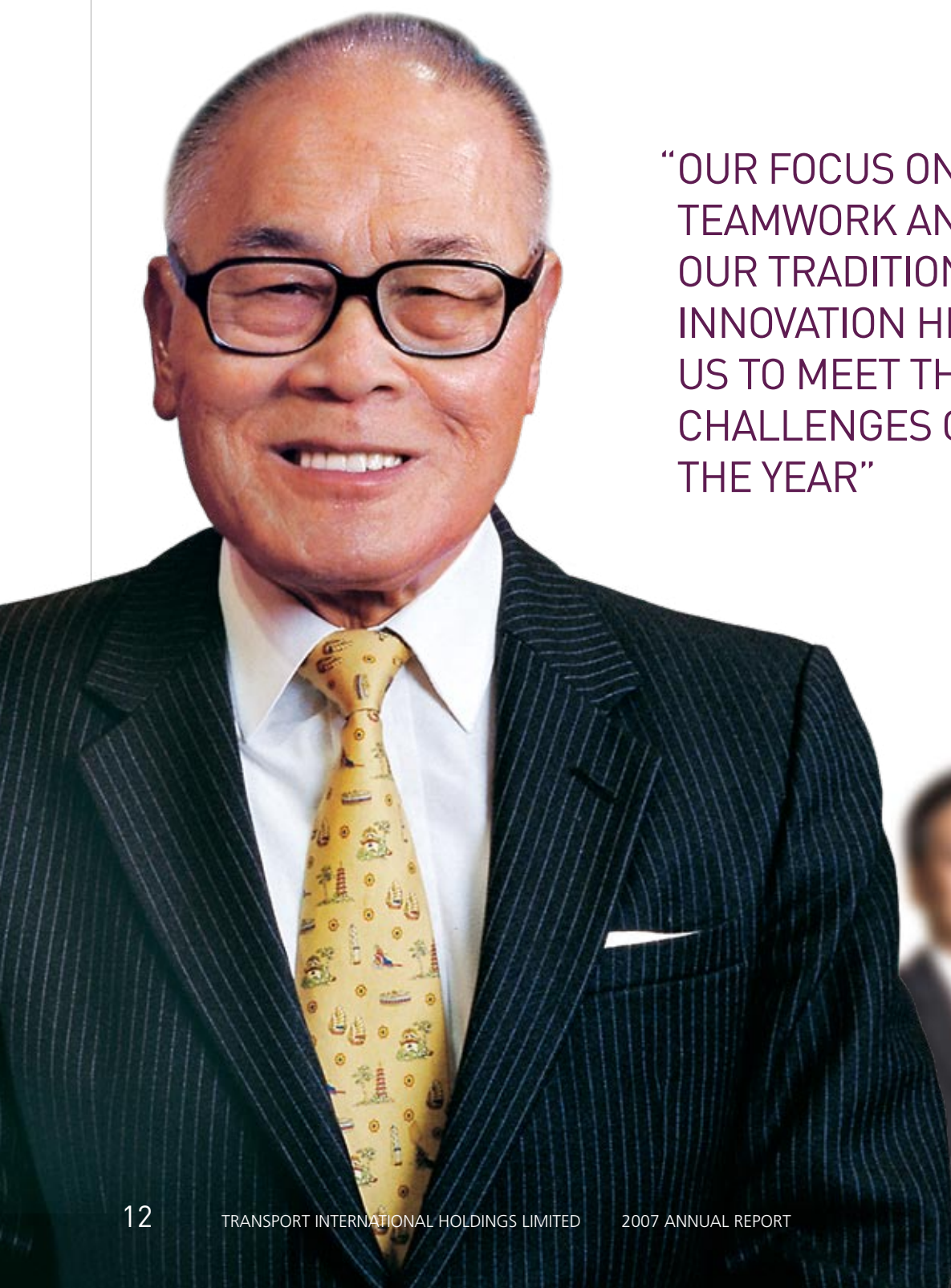




# CHAIRMAN'S LETTER

**S. Y. CHUNG**

Chairman



“OUR FOCUS ON  
TEAMWORK AND ON  
OUR TRADITION OF  
INNOVATION HELPED  
US TO MEET THE  
CHALLENGES OF  
THE YEAR”

TIH as a whole achieved a record high profit in 2007 due mainly to the sales of Manhattan Hill residential units

**Dear Shareholders and Partners,**

On behalf of the Board, I am pleased to report that, although our franchised public bus business has faced intensifying competition from the railways and soaring fuel prices, Transport International Holdings Limited ("TIH") as a whole achieved a record high profit in 2007 due mainly to the sales of Manhattan Hill residential units. Our focus on teamwork and on our tradition of innovation helped us to meet the challenges of the year while driving increased service excellence, greater efficiency and more measures to enhance environment protection. While franchised bus operations have remained our core business, we continued to build on our experience to diversify our portfolio into related business areas, including those outside Hong Kong. We are pleased that these other businesses saw various levels of progress during the year.

**OUR FINANCIAL PERFORMANCE**

The Group's profit attributable to equity shareholders for 2007 amounted to HK\$3,847.7 million, an increase of 109.3% compared with HK\$1,838.0 million for 2006. Earnings per share rose correspondingly from HK\$4.55 for 2006 to HK\$9.53 for 2007. The increase in earnings was mainly attributable to the non-recurrent profit of HK\$3,507.7 million arising from the further sales of 835 residential units of Manhattan Hill during the year by Lai Chi Kok Properties Investment Limited, a wholly-owned subsidiary within the Group's Property Holdings and Development Division.

# ONE TEAM



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In marked contrast to the outstanding results achieved from property sales, the operating environment for our franchised public bus operations was extremely challenging. Following the rising trend in 2006, international fuel oil prices continued to surge in 2007 and resulted in a further drastic increase in the total fuel costs of our franchised public bus operations by 9.3% to the historically high level of HK\$1,111.8 million, representing approximately 18.8% of the total operating expenses of the Group's Franchised Public Bus Operations Division. It should be remembered that when The Kowloon Motor Bus Company (1933) Limited ("KMB") had its last fare increase in 1997, the average price of Singapore 0.5% Sulphur Gas Oil ("Gasoil"), on which the prices of ultra-low-sulphur diesel used by our franchised public buses are based, was only US\$24.2 per barrel. For 2007, the average price of Gasoil was US\$85.1 per barrel, representing an increase of 251.7% compared to 1997. This upsurge, coupled with increased staff salaries, tunnel tolls and insurance costs, as well as intensifying competition from the railways, caused KMB, the Group's major wholly-owned subsidiary, to register its third consecutive year of decline in profit. In addition, Long Win Bus Company Limited ("LWB"), despite benefiting from rising population intake at Tung Chung New Town and the growth in travel demand to and from Hong Kong International Airport (including the newly opened Sky Plaza at Terminal 2) and AsiaWorld-Expo, also reported a decrease in profit for 2007 due mainly to the rise in fuel prices. In order to maintain the financial viability and the existing service levels of our franchised bus operations against the largely uncontrollable trend of rising costs, KMB and LWB submitted applications to the Transport Department of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") on 7 September 2007 for a fare increase of 9.0% and 5.9% respectively.

On the back of a strong economy and property market, our non-franchised transport businesses in Hong Kong operated under the Sun Bus Holdings ("SBH") Group, continued to show healthy growth in revenue and earnings. Through organic growth and acquisition, the fleet size of the SBH Group grew to 360 buses at the end of 2007. In 2008, the SBH Group will take delivery of not less than 30 new buses for fleet upgrade, reflecting our ongoing commitment to strengthening our services. The financial performance of our joint venture transportation operations in the Mainland cities of Beijing, Shenzhen, Wuxi and Dalian was also impacted by the high oil prices and increase in staff costs, resulting in a decrease in profit for 2007. As for the RoadShow Holdings Group, its net profit attributable to shareholders for 2007 increased by 61% compared to that for the previous year.

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## DIVIDENDS

The Directors have proposed a final dividend for 2007 of HK\$1.58 per share (2006: HK\$1.58 per share). The Directors have further proposed a special final dividend of HK\$2.00 per share to be paid out of the profits from the sales of the Manhattan Hill residential units. Together with the interim dividend of HK\$0.45 per share and the special interim dividend of HK\$1.50 per share paid on 17 October 2007, total dividends for the year will amount to HK\$5.53 per share (2006: HK\$2.03 per share). The total dividend payout for the year will amount to HK\$2,232.1 million (2006: HK\$819.4 million).

## RESPONDING THROUGH TEAMWORK

The Group faced some significant challenges during the year. The railways launched in recent years 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) stimulated intense competition for patronage with KMB. This competition is set to grow further following the formal merger of the two rail networks together with the offer of rail fare discounts starting from December 2007 and the new rail infrastructural projects to be implemented in the years ahead. Our response to this challenge has been to continue the timely rationalisation of our franchised public bus services network and to find innovative ways to stimulate growth, efficiency and performance quality. However, it is likely that we will continue to be faced with the pressure of high oil prices and inflation in the foreseeable future.

During the year, we continued to make vigorous efforts to enhance productivity and to maintain the competitive edge of our bus operations. For instance, we established a state-of-the-art bus simulator centre at our Sha Tin Depot for bus captain training. Stringent cost control measures were implemented to reduce controllable operating costs wherever feasible without compromising the quality of our services. Fleet utilisation was improved and benchmarking was conducted to search for industry best practise in work procedures. As a result, the total operating costs of our franchised bus operations for 2007 were contained at about the same level as that for the previous year even though fuel costs alone had risen by HK\$94.7 million during the year.

With a workforce of more than 13,000, TIH is among the top employers in Hong Kong. Teamwork is therefore of the utmost importance to us. It enhances the standards of safety, efficiency and service that have always been the Group's hallmarks. From scheduling to maintenance and carriage, everything we do is part of a chain and each member of our staff is delivering quality service to our customers. The actions of each work unit and individual staff member within the Group are coordinated effectively and efficiently by sound management systems that meet the relevant ISO 9001 and ISO 14001 standards. In addition, in order

We continued to implement numerous environmental measures to the benefit of our passengers and of society

to enhance cooperation and mutual understanding within the Group, we have established a sustained programme of intensive front line and management training, such as team-building workshops, sharing meetings and workshops on innovation, which is a distinguishing feature of our concerted effort over the years.

### ENVIRONMENTAL AWARENESS

Teamwork and innovation have allowed us to benefit the community in ways that are not always visible, but that are nevertheless highly effective. During the year, we continued to implement numerous environmental measures to the benefit of our passengers and of society. We continued with the introduction of a new generation of Euro IV environment-friendly and technologically advanced buses to provide greater customer comfort, as well as the re-treading of scrapped tyres, the recycling of fluorescent tubes and the use of Eco-Driveline to reduce fuel consumption and exhaust emission. In addition, since December 2007, KMB and LWB have been adopting a newly introduced "Euro V Diesel" which only contains 0.001% sulphur content. This new type of near-zero sulphur diesel can make a further contribution to improving the environment through cleaner emissions.

### LOOKING TO THE FUTURE

Our entry into the China Mainland market has not gone unnoticed. In June 2007, the Beijing Beiqi Kowloon Taxi Company Limited, one of the Group's joint ventures on the China Mainland, was ranked first among 132 Beijing taxi operators in a government survey of taxi service performance. In the same month, KMB won the "PRC Consumers' Most Favourable Hong Kong Brands 2007" Gold Award in the Transportation and Travel category, an award jointly organised by the China Enterprise Reputation and Credibility Association (Overseas) Limited and JUST Events Limited.

Although sales of the luxury residential flats at Manhattan Hill are nearly coming to a close, this does not mean the end of our involvement in the development. We will retain the two-level retail podium of Manhattan Hill with a total area of around 50,000 square feet for rental income.

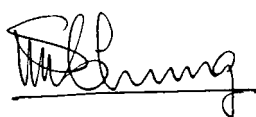
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Despite a background of intensifying competition and rising operating costs, we are maintaining our vision of being an innovative and international Group seeking opportunities across the Greater China region. We believe that teamwork and innovation will continue to lead us to greater efficiency, cost effectiveness, service excellence and preservation of the environment, which in turn will allow TIH to remain a world-class provider of public transport and related services.

## ACKNOWLEDGEMENT

On reaching the retirement age of 65 in April 2008, Mr John Chan Cho Chak will retire from his current executive position as the Managing Director of TIH and Senior Executive Director of KMB and LWB. Mr Chan will remain as a Non-executive Director of TIH, KMB and LWB, as well as Chairman and Non-executive Director of RoadShow Holdings Limited. On behalf of the Board, I would like to place on record our sincere appreciation of the outstanding service and invaluable contribution that Mr Chan has made to the Group since he first joined KMB in 1993. I would also like to announce that the current Deputy Managing Director of TIH, Mr Edmond Ho Tat Man, will succeed Mr Chan as the Managing Director of TIH in April 2008.

The successes we have achieved, and those of the future, rely on the commitment and concerted teamwork of everyone in the Group, at whatever point in the chain of responsibility: Board members and management team, as well as our highly committed staff. To each and every one of them, I would like to express my heartfelt thanks for their inspiring contribution. As the Group moves forward with strategies at various levels of implementation, I am confident that we will continue to deliver value for shareholders, becoming a stronger and more diversified organisation with each passing year.



**S.Y. CHUNG**

Chairman

20 March 2008