

A CONVERSATION WITH THE MANAGING DIRECTOR

JOHN CHAN CHO CHAK

Managing Director



“OUR TRADITIONS OF
TEAMWORK AND
INNOVATION WILL
ENABLE US TO REMAIN
AT THE FOREFRONT OF
THE PUBLIC TRANSPORT
INDUSTRY WORLDWIDE”



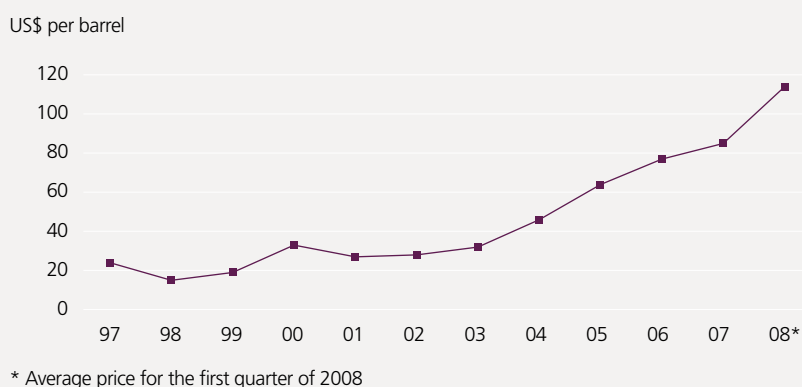
Q

In a challenging year, particularly for core operations, what were the key factors influencing the 2007 performance?

A

At the Group level, there were sharply contrasting factors. The main item was the performance of Manhattan Hill, where the sale of a further 835 units of the luxury flats in 2007 yielded a post-tax profit of about HK\$3.5 billion. This non-recurrent item marked an all-time high profit for the Group. On the other hand, our core franchised public bus operations suffered from the oil price escalation. The prices of Singapore 0.5% Sulphur Gasoil ("Gasoil"), on which the prices of ultra low sulphur diesel used by our franchised buses are based, have increased significantly in recent years. Gasoil is more costly than the light sweet crude oil quoted on the New York Mercantile Exchange (NYMEX). As an approximate indication, every US\$1 increase in the price of Gasoil per barrel would increase the fuel costs of KMB by approximately HK\$1 million per month. In 1997, the year in which KMB had its last fare increase, the total fuel costs of our franchised bus operations were HK\$256.5 million, representing 5.9% of our total operating costs for that year. In 2007, they rose to about HK\$1.1 billion, representing approximately 18.8% of the total operating costs of our franchised bus operations. In a normal commercial situation, this change in costs would have to be reflected in the fares that KMB charged. But we have not done so, mainly because of strict government control on fares. One of the most important events in 2007 was our application for a fare increase of 9.0% for KMB and 5.9% for LWB, the first fare increase application by KMB since 1 December 1997 and by LWB since its commencement of operations on 1 June 1997. This application is still under government consideration.

Average price of Singapore 0.5% Sulphur Gasoil



Q

What were the positive factors of 2007 in regard to results and future operations?

A

Factors largely beyond our control were responsible for the downward trend in profits of our franchised public bus business: increases in oil prices, staff costs and toll charges, as well as increasing competition from the vastly expanded railway network. But in areas that we could control, we performed well: expansion of our non-franchised bus operations and fleet, new passenger streams to North Lantau, property development, continued efficiency and innovation, continued investment in environmental performance, as well as a further improvement in the quality of our operations on the Mainland.

Q

What part does teamwork play in the KMB culture for building success?

A

Team building has been very important in KMB. Nearly two-thirds of our staff are bus captains who are almost always working alone at the front line, directly interfacing on their own with customers. In order to serve the public well, they must feel that they are part of a team and therefore building teamwork and togetherness is vital. Running a network of about 400 routes and 4,000 buses requires the cohesion of everyone in KMB. For example, a maintenance worker at our Tuen Mun Depot must understand why it is vital that he finishes the repair of a motor part for use in a bus on Hong Kong Island by early morning tomorrow. In addition to ISO benchmarks, our employees fully understand the significance of their jobs in the process chain for achieving service excellence and maintaining the culture of innovation that is part of the KMB tradition. The same cooperative working culture has also been applied across all businesses of the TIH Group.

Q

When you say that innovation is part of the KMB tradition, what do you mean?

A

For many years, we have led the industry in terms of seeking out the most environmentally friendly and technologically advanced products worldwide to meet our customers' needs and the demands of the Hong Kong operating environment. We were the first bus company in the world to introduce super-low floor wheelchair accessible double-deck buses, and we continue to launch innovations to our fleet such as the introduction of Euro IV buses and the use of new "Euro V Diesel" with 0.001% sulphur content.

Q

How will the completion of the sales of Manhattan Hill impact the profitability of the Group?

A

The Manhattan Hill development is a one-off project that is entirely separate from our bus operations. Nevertheless, we are expecting an ongoing income stream from commercial premises because we shall retain the 50,000 square feet of commercial space at Manhattan Hill for rental purposes. However, profits derived from property development projects cannot be used to subsidise franchised bus operations, just as profits from franchised bus operations cannot be used to finance property development.

Q

What part do competition and the merger of the rail companies play in TIH's positioning for the future?

A

The merger of the Mass Transit Railway and Kowloon-Canton Railway systems on 2 December 2007 is impactful in the sense that more synergies will enable the rail companies to reduce fares, but the full effect of this on our ridership has yet to be ascertained. Since KMB's fares are controlled, the rail merger is likely to mean additional competition although we believe that the majority of our customers will continue to choose us for our point-to-point convenience, high quality and efficiency, and competitive pricing. In his October 2007 Policy Address, the Chief Executive of the Hong Kong SAR declared the Government's support for four new rail projects in the coming years. Going forward, TIH will take a long strategic look at our positioning vis-à-vis the expanded railways, and our part in the integrated transport system of Hong Kong. Our network has been built up over 75 years, with changes and adjustments, but many routes are decades old. It is often politically difficult to remove older routes when local populations move. As a Group, we have to consider feeder routes and our interchange role, but still give the public a convenient service despite a smaller population in some areas. The society is dynamic. There is no need to keep older services/empty buses simply for tradition's sake. As Hong Kong moves forward, we must think of providing more convenience and services to the overall community.

Q

How do you see this strategic positioning in terms of fare increases and/or decreases and the Government's fare adjustment arrangement?

A

Of course, the greater efficiency we are seeking will especially relieve the pressure for fare increases. The more efficient we are in using resources, the less need to increase fares.

Q

What is the vision and strategy of the Group for the future?

A

The public transport market in Hong Kong is mature, which means that we must aim at sustainable, albeit perhaps only moderate, growth of our core bus operations in Hong Kong, while seeking further expansion of our non-franchised and other businesses. The rapid economic development of the Mainland will continue to offer us opportunities for diversifying our business portfolio and leveraging on our hard-earned expertise to develop the markets of Mainland cities. The 2008 Olympic Games in Beijing, and other major international events in Mainland China that are in the pipeline, will bring good opportunities for further business expansion, while our traditions of teamwork and innovation will enable us to remain at the forefront of the public transport industry worldwide.

ONE GOAL