



OPERATIONAL REVIEW CHINA MAINLAND

OVERVIEW AND STRATEGIES

In line with the Group's commitment to diversified business growth, we continue to target the potential of the public transport markets on the China Mainland. Despite growing competition, rising fuel prices and cost inflation, TIH is committed to building its Mainland business portfolio based on strong productivity and a reputation for high quality, safety, environmental awareness and efficiency.

Leveraging on our experience as a world-leading public transport operator, as well as China's robust economic growth and the 2008 Olympics, we are confident that our public bus, taxi and car rental operations in the major cities of the China Mainland will make significant progress over the next decade.



The Group will seek to explore further business opportunities on the China Mainland

OVER

10,000

VEHICLES

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COVERAGE

MAINLAND TRANSPORT OPERATIONS

- Shenzhen Bus Group Company Limited
- Wuxi Kowloon Public Transport Company Limited
- Beijing Beiqi Kowloon Taxi Company Limited
- Dalian Co-operative Joint Venture

MAINLAND TRANSPORT OPERATIONS

The Group currently operates a range of transport businesses in Beijing (北京), Shenzhen (深圳), Wuxi (無錫) and Dalian (大連). Diversification of our business into the China Mainland is part of the Group's business strategy. We will continue to build on our experience as a world-leading public transport operator to explore investment opportunities on the Mainland.

SHENZHEN BUS GROUP COMPANY LIMITED (深圳巴士集團股份有限公司) ("SBG")

SBG is a Sino-foreign joint stock company formed by KMB (Shenzhen) Transport Investment Limited (九巴(深圳)交通投資有限公司), a wholly-owned subsidiary of the Group, with four other Mainland investors. The Group has invested RMB387 million (HK\$364 million), representing a 35% stake, in SBG.

SBG mainly provides public bus, minibus and taxi services in Shenzhen City (深圳市), which includes the Shenzhen Special Economic Zone and the Bao-an (寶安) and Longgang (龍崗) areas. Commencing operation on 1 January 2005, SBG currently has about 4,248 vehicles serving some 175 routes. In 2007, it recorded a ridership of 748.2 million passenger trips, representing an increase of 8% compared with 691.5 million passenger trips for 2006.

In 2007, SBG faced intense competition from the underground railway at Shenzhen as well as a heavier cost burden resulting from the continuous upsurge in fuel prices. In response to these challenges, SBG introduced a number of new feeder bus routes connecting to the Shenzhen underground railway stations, while constantly upgrading its vehicles and rationalising its bus route network to increase productivity. It also implemented



SBG has launched a number of feeder routes in Shenzhen City

stringent budgetary measures to mitigate the adverse impact of cost escalation. In order to promote environmental protection, SBG upgraded most of the engines in its bus fleet and adopted the use of environment-friendly fuel that meets the Euro III emission standards. SBG will continue to enhance its services, sharpen its competitiveness and enlarge its market share in the public transport sector of Shenzhen and other markets.

WUXI KOWLOON PUBLIC TRANSPORT COMPANY LIMITED (無錫九龍公共交通 股份有限公司) (“WKPT”)

WKPT is a Sino-foreign joint stock company established in Wuxi City, Jiangsu Province (江蘇省無錫市) in February 2004. The Group

has invested RMB135 million (HK\$127 million), representing a 45% equity interest, in WKPT along with three other Mainland shareholders.

WKPT is the only franchised bus operator in Wuxi City. Currently, WKPT operates about 1,859 public buses serving some 128 routes. In 2007, it continued to make steady progress and recorded a ridership of 277.8 million passenger trips, representing an increase of 2% compared with 273.6 million passenger trips for 2006. Due to the rapid growth of the city's economy, it is expected that WKPT's bus patronage will continue to rise steadily over the coming years, especially in the countryside and newly developing areas. As a major strategic move to secure the potential markets of the surrounding districts of Wuxi City, WKPT successfully

participated in the setting up of two new public bus companies in 2007 to serve the two major suburban districts, namely Xishan (錫山) and Huishan (惠山).

Nevertheless, the challenges for WKPT remain significant. Facing the surging fuel prices and interest rates as well as relatively high inflation on the Mainland, WKPT has made every effort to control costs and improve efficiency without sacrificing service quality. There has been keen competition for patronage from different modes of transportation, such as non-franchised coach services. In response, WKPT continues to extend and rationalise its public bus network, to tailor its services to the specific travel demands of commuters, and to constantly improve the quality of its bus services. Since 2005, WKPT has been certified for ISO 9001:2000 and ISO 14001:2004 for the provision of transportation services, transit designs and support services in Wuxi City. During 2007, WKPT replaced 180 buses as part of a bus enhancement programme and increased the proportion of air-conditioned buses from 43% to 47%.



WKPT has deployed more air-conditioned buses

BEIJING BEIQI KOWLOON TAXI COMPANY LIMITED (北京北汽九龍出租汽車 股份有限公司) (“BBKT”)

BBKT, established in Beijing in 2003, was the first Sino-foreign joint stock company in the taxi hire and car



BBKT is well prepared to serve the upcoming 2008 Beijing Olympics

rental business sectors of China Mainland. TIH has invested RMB80 million (HK\$76 million) in BBKT, representing an equity interest of 31.38%. Shareholders of BBKT include KMB (Beijing) Taxi Investment Limited (九巴(北京)出租汽車投資有限公司), a wholly-owned subsidiary of the Group, Beijing Beiqi Municipal Taxi Group Company Limited (北京北汽出租汽車集團有限責任公司) and three other Mainland investors.

Currently, BBKT operates a fleet of about 4,307 vehicles, and is one of the leading operators in the taxi hire and car rental business sectors in Beijing City. Operating in a market characterised by robust economic growth and the continuous pursuit of rising living standards, BBKT is committed to providing its customers with a high standard of service. This

is demonstrated by its success in achieving ISO 9001:2000 certification for its quality management system in taxi service since 2006. With the 2008 Beijing Olympic Games due to be held in Beijing this August, BBKT is well positioned to benefit from the business opportunities that will arise from the influx of visitors to the capital city. In order to support the long term development of its business, BBKT implemented a systematic vehicle replacement programme in 2007 pursuant to which about 963 new taxis in gold and white livery and rental cars have already been purchased and more than 215 new taxis and rental cars are planned to be introduced in 2008.

Beginning in the second quarter of 2007, the municipal authorities in Beijing City have conducted a

quarterly customer satisfaction survey on the quality of taxi services in the city. In each of the surveys commissioned during the year, BBKT was ranked first among more than 130 Beijing taxi operators. This was the direct result of BBKT's ongoing efforts to create a reputation and brand name as Beijing's leading taxi service provider.

The 2008 Beijing Olympic Games will be a golden opportunity for BBKT to demonstrate its high quality of services to visitors from all over the world, which will further support BBKT's industry-leading position in Beijing City. Despite ongoing cost challenges, BBKT's excellent reputation will enable it to explore more business opportunities during and after the 2008 Beijing Olympic Games.

DALIAN CO-OPERATIVE JOINT VENTURE (大連合作合營企業) ("DCJV")

DCJV is the Group's first co-operative PRC joint venture, and was formed between a 60% owned subsidiary of the Group and Dalian City No. 1 Bus Company (大連市第一公共汽車公司) in Dalian City, Liaoning Province (遼寧省大連市) in 1997. It currently has a fleet of about 84 single-deck buses operating on three routes serving Dalian City. In 2007, it recorded a ridership of 19.5 million passenger trips and made steady progress.