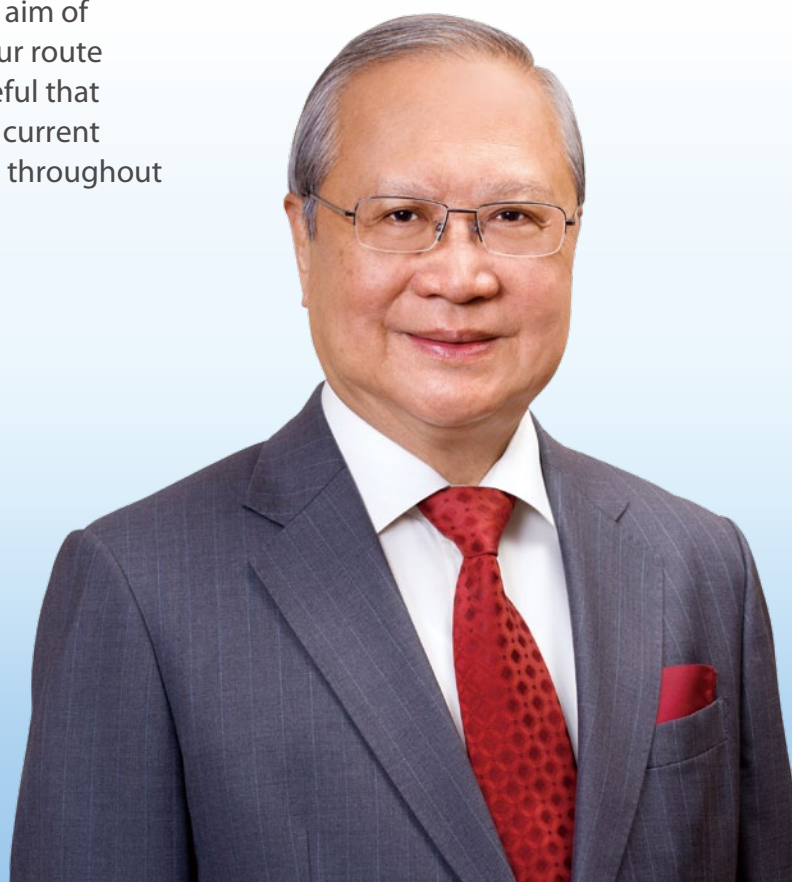


CHAIRMAN'S LETTER

“ In light of the challenges we face, including intense competition from the expanding rail network, high fuel prices, and inflationary pressure on operating costs, we have been working closely with the HKSAR Government with the aim of speeding up the implementation of our route reorganisation programme. I am hopeful that KMB will be enabled to rise above the current challenges in the same way that it has throughout the course of its long history. ”



Norman LEUNG Nai Pang
Chairman





DEAR SHAREHOLDERS AND PARTNERS,

On behalf of the Board, I am glad to report that, in spite of the loss incurred by our flagship subsidiary, The Kowloon Motor Bus Company (1933) Limited ("KMB"), for the year ended 31 December 2013 as a result of the challenging operating environment, Transport International Holdings Limited ("TIH") recorded positive results for 2013. In light of the challenges we face, including intense competition from the expanding rail network, high fuel prices, and inflationary pressure on operating costs, we have been working closely with the HKSAR Government with the aim of speeding up the implementation of our route reorganisation programme. I am hopeful that KMB will be enabled to rise above the current challenges in the same way that it has throughout the course of its long history.

OUR FINANCIAL PERFORMANCE

The Group's profit attributable to equity shareholders for the year ended 31 December 2013 was HK\$371.3 million compared with the restated profit of HK\$165.8 million for 2012. The restatement of the 2012 profit from the previously reported amount of HK\$309.2 million was due to the adoption of the revised Hong Kong Accounting Standard 19, Employee Benefits (the "Revised HKAS 19"), which has become effective for accounting period commencing on 1 January 2013. Earnings per share for 2013 were HK\$0.92 compared with HK\$0.41 (restated) for 2012.

The Group's franchised public bus business operated by KMB and Long Win Bus Company Limited ("LWB") saw very different results in 2013. KMB, although being granted a fare increase of 4.9% with effect from 17 March 2013, recorded a loss after taxation of HK\$21.2 million for 2013. This was the second consecutive year in which KMB incurred a loss from its franchised bus operation. On the other hand, LWB recorded a profit after taxation of HK\$35.4 million for 2013,

an increase of HK\$11.7 million or 49.4% compared with 2012. The increase in LWB's profit was mainly due to the year-on-year growth in ridership by 6.1% as a result of increasing transport demand from international travellers and from construction workers involved in various infrastructural projects at the Airport and in the expanding Hong Kong Disneyland.

The Group's Non-franchised Transport Division, with Sun Bus Limited as its flagship company, reported a profit after taxation of HK\$30.6 million for 2013, a slight increase of 0.3% compared with 2012. Turnover for the year increased by 7.8% as compared to 2012. The increase in turnover was mainly attributed to business growth and additional turnover generated by two cross-boundary non-franchised bus operators which were acquired in the second half of 2012. In respect of our China Mainland Transport Operations Division, our joint ventures in Beijing and Shenzhen were stable in 2013.

Our media sales businesses operated by the RoadShow Group reported a profit attributable to equity shareholders of HK\$104.8 million, an increase of HK\$30 million compared with HK\$74.8 million for 2012. The improvement in the results was mainly due to business growth and the reversal of impairment loss of HK\$25.6 million on a portion of the loans to an investee in Mainland China.

DIVIDENDS

The Board has declared an ordinary final dividend of HK\$0.45 per share (2012: HK\$0.45 per share). Together with the ordinary interim dividend of HK\$0.15 per share (2012: HK\$0.15 per share) paid on 17 October 2013, total dividends for the year will amount to HK\$0.60 per share (2012: HK\$0.60 per share). The total dividend payout for the year will amount to HK\$242.2 million (2012: HK\$242.2 million).

KMB'S 80TH ANNIVERSARY CELEBRATIONS

2013 marked the 80th anniversary of the establishment of KMB, and to celebrate this milestone a number of memorable events were held. To mark the day on which KMB was established, a carnival showcasing vintage KMB buses was held on 13 April 2013 on the rooftop of Sha Tin Depot to coincide with the annual Bus Captain of the Year Competition. We were deeply honoured by the presence on that day of leading figures in the government and the transport field, including Chief Secretary for Administration, the Hon Mrs Carrie LAM CHENG Yuet-ngor; Convenor of the Executive Council, the Hon LAM Woon-kwong; Secretary for Transport and Housing, Prof the Hon Anthony CHEUNG Bing-leung; Legislative Council's Panel on Transport Chairman, the Hon CHAN Kam-lam; and Transport Advisory Committee Chairman, Mr Larry KWOK Lam-kwong. Other anniversary-related events that took place during the course of the year included the launch of our history book "80 Years with KMB", which was one of the bestsellers at the 2013 Hong Kong Book Fair, and Hong Kong's largest ever bus exhibition, "Journey with You: Hong Kong Bus Story", which proved very popular with the public. The opening ceremony of the exhibition held at the Hong Kong Museum of History in September was officiated at by Financial Secretary, the Hon John TSANG Chun-wah.

INNOVATING TO DELIVER A NEW ERA OF SERVICES

In the third quarter of 2013, KMB successfully implemented the first "Area Approach" route reorganisation involving some 200 buses with daily patronage of about 180,000 passenger-trips in North District in the New Territories. The Area Approach is a new concept, whereby the entire route network of a particular district is reviewed with a view to introducing a comprehensive reorganisation package based on sound transport planning principles. By looking at the big picture rather than at the performance of individual routes on an ad-hoc basis, duplication and circuitous routing can be reduced and new express routes that make use of

Hong Kong's highway infrastructure can be introduced. The success of the North District Area Approach may be seen in the improved bus operating efficiency, road traffic condition and air quality.

Similarly, following the commissioning of the second phase of Tuen Mun Road Bus-Bus Interchange ("TMRI") in July 2013, bus routes serving Tuen Mun District have been reorganised for increased connectivity and network coverage. By the end of 2013, a total of 29 bus routes offering Bus-Bus Interchange ("BBI") discounts made use of the TMRI, providing services for around 20,000 passenger-trips per weekday. Besides enabling more efficient use of resources, the TMRI scheme has significantly improved overall network connectivity, providing passengers with faster and more direct bus services at a reasonable fare, a model which can be adopted in other districts within KMB's operating area.

In its pursuit of excellence, the Group has always been committed to introducing the latest technologies. In September 2013, KMB achieved a new milestone by launching Hong Kong's first battery-electric bus for franchised service on its Route 2, which runs via Nathan Road, for a one-month trial. This will pave the way for further development of electric buses which can suit the local operating environment and help improve air quality.

CORPORATE GOVERNANCE PERFORMANCE

The Group operates according to the highest corporate governance standards not only to maintain the confidence of all its stakeholders but also to increase its competitiveness. Over the years, the Company has won widespread recognition for its governance in both local and international award programmes. The Company received a Special Mention in the 2013 Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants. In addition, the Company's 2012 Annual Report won the Gold Award for Traditional Annual Report and the Bronze Award for Written Text in the International ARC Awards.



LOOKING AHEAD

Given that KMB has sustained a loss for two consecutive years, the outlook for the Group's franchised bus operations depends to a large extent on the pace at which KMB is allowed to implement its route reorganisation programme, as well as its extent. While the introduction over the last 11 years of six railway lines within KMB's operating area has led to a decline of more than 500,000 passengers-trips per day, KMB continues to operate with around 70% of its nearly 400 routes making a loss. The situation in which these loss-making routes are being subsidised by the remaining 30% profit-making routes is both unhealthy and unsustainable. To tackle this problem, KMB has been working with the HKSAR Government and District Councils to reorganise obsolete and lowly-utilised routes. Given the successful implementation of the route reorganisation plans for North District and Tuen Mun in the third quarter of 2013, KMB hopes to join hands with the Government and the community to launch route reorganisation programmes at a faster pace in multiple districts simultaneously in 2014 to bring about a win-win situation through the review of outdated bus routes and the introduction of new routes. The expeditious implementation of KMB's route reorganisation programme, which is in line with Government policy on environmental protection, as underlined in the Chief Executive's Policy Address, will help reduce the number of lowly-utilised buses running on the roads, ease traffic congestion, reduce fuel consumption, and improve environmental quality by reducing roadside air pollution.

While KMB has been working hard to implement stringent cost control and revenue improvement measures to counter an operating environment made increasingly difficult by an inefficient route network, high fuel prices and annual wage increase pressures, in order to help restore its financial viability it had little choice but to submit to the Transport Department on 29 November 2013 an application for a fare increase of 4.3%, which is in line with the prevailing

inflation rate. We hope that the application will be approved and come into effect as soon as possible so that sufficient resources can be made available for service improvements and the maintenance of the livelihood of its 12,000 staff members, as well as to cater for the purchase of the latest environment-friendly buses in the next few years.

The Group's non-franchised transport businesses recorded healthy growth in 2013, even though high fuel prices continued to pose significant challenges to their operations. We will continue to improve the service quality of our coaches while exploring business opportunities that can increase our income.

The development of the Kwun Tong Site at No. 98 How Ming Street, Kwun Tong, Kowloon is ongoing. The site, in which the Group has a 50% stake, is planned for development into non-residential (excluding hotel) uses, and once completed will be held by the Group for long-term investment purposes. The Group's Manhattan Mid-town shopping mall with a total area of 50,000 square feet and the shops in our adjacent headquarters building in Lai Chi Kok, along with the industrial property at 1 Kin Fung Circuit, Tuen Mun, are set to continue to provide steady rental revenue for the Group.

ACKNOWLEDGEMENTS

The ongoing development of our portfolio of businesses owes a great deal to the commitment and hard work of the Group's staff members who strive to deliver the highest quality services. I would therefore like to express my gratitude to staff at all levels, as well as to our dedicated management team and my fellow Directors.

Norman LEUNG Nai Pang

Chairman

24 March 2014