

I am pleased to present to the shareholders the Group's annual report for the year ended 31 March 2001.

### RESULTS

The consolidated profit attributable to shareholders for the year ended 31 March 2001 was approximately HK\$20.4 million. This is a decrease of approximately 59.3% from that for the year ended 31 March 2000 of approximately HK\$50.1 million. The financial results were below our expectations mainly due to the relatively unexpectedly disappointing performance of franchised as well as the continuing keen competition of non-franchised bus operations in Hong Kong. The continuing rise in fuel costs in Hong Kong and Mainland China has also increased substantially the operating cost of the Group's services. Some provisions have also been made on a prudent basis for the respective projects as described below under "Review of Operations".

### DIVIDENDS

The Directors recommend a final dividend of HK1 cent (2000: HK4 cents) per share.

### REVIEW OF OPERATIONS

#### 1. Non-franchised Bus Services in Hong Kong

The principal non-franchised bus services provided by the Group include student, employee, resident, tour, Mainland China/Hong Kong cross-border and contract hire services.

The Group continued, in terms of the size of the bus fleet, to be the largest non-franchised bus operator in Hong Kong and as at 31 March 2001, was operating a fleet of 587 (2000: 587) licensed buses. The total turnover and gross profit margin have declined mainly because of the keen competition within the industry and that the overall economy of Hong Kong has not yet recovered.

#### 2. Franchised Bus Services in Lantau Island

The franchised bus services of the Group in Hong Kong are provided by New Lantao Bus Company (1973) Limited ("NLB"), a 99.99% owned subsidiary of the Group, which, as at 31 March 2001, was operating 24 (2000: 23) franchised bus routes in Lantau with a fleet of 84 (2000: 85) buses. For the year ended 31 March 2001, the total turnover of NLB was approximately HK\$61.8 million (2000: HK\$60.7 million). NLB recorded a loss of approximately HK\$1.6 million for the year ended 31 March 2001 (2000: HK\$4.6 million). The loss has been reduced due to some effective cost-cutting measures. The patronage of the year was still not satisfactory partly because of the continuous weakening of the novelty effect of the Grand Buddha at Ngong Ping and some visitors might have gone to Mainland China instead, especially during long weekends and public holidays.

**REVIEW OF OPERATIONS** *(continued)***3. Other Operations in Hong Kong**

Since the opening of the new airport at Chek Lap Kok, the Group has lined up with Dah Chong Hong (Motor Leasing) Limited to provide a door-to-door limousine service to users travelling between the new airport and other urban locations. Due to keen and, to a certain extent, unhealthy competition, as well as some idle trips owing to bigger demand for outbound trips from the airport than inbound trips to the airport, the Group's investment in this venture has been partially impaired which loss has been provided on a prudent basis during the year.

The Group invested approximately HK\$2.7 million and held 18% equity interest in Asia Auto Body Engineering Limited. The synergy is to explore the feasibility of vertical integration, which has been revealed in the Group's previous annual reports. No dividend (2000: dividend of HK\$675,000) was received from this investment during the year.

**4. Bus Services in Mainland China***a. Co-operative Joint Ventures ("CJVs") in Mainland China*

As at 31 March 2001, through its joint venture companies, the Group was operating:

- 6 routes in Guangzhou with a fleet of 121 buses
- 5 routes in Shantou with a fleet of 50 buses
- 4 routes in Dalian with a fleet of 144 buses
- 4 routes in Harbin with a fleet of 166 buses
- 4 routes in Anshan with a fleet of 100 buses

The share of profits from these jointly-controlled entities for the year amounted to approximately HK\$15.5 million, representing a decrease of about 33.5% as compared with that of approximately HK\$23.3 million in the preceding year. The decrease in share of profits was mainly due to the cessation of CJV in Jieyang. The related loss on disposal of the CJV amounted to HK\$3.9 million has been provided in the accounts.

### REVIEW OF OPERATIONS *(continued)*

#### 4. Bus Services in Mainland China *(continued)*

##### *b. Equity Joint Venture ("EJVs") in Mainland China*

##### *i. Shanghai Pudong Kwoon Chung Public Transport Co., Ltd.*

As at 31 March 2001, this Group's 51.5% owned subsidiary was operating 32 routes with a fleet of 685 buses and a fleet of 25 taxies in Shanghai, mainly in Pudong area. The share of profit attributable to the Group for the year ended 31 March 2001 was approximately HK\$6.4 million (2000: HK\$3.7 million). The increase in share of profit was mainly due to expanded economy of scale by the addition of about 100 buses during the year.

##### *ii. Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd.*

As at 31 March 2001, this 50.09% owned subsidiary was operating 37 routes with a fleet of 1,029 buses and a fleet of 81 taxies in Shanghai, mainly in Puxi area. The share of profit attributable to the Group for the year ended 31 March 2001 was approximately HK\$6.6 million (2000: HK\$11.9 million). The decrease in share of profit was mainly due to substantial replacement of old buses resulting in loss on disposal of buses during the year.

##### *iii. Jieyang Guanyun Transportation Co., Ltd.*

As at 31 March 2001, this 70% owned subsidiary was operating 4 routes with a fleet of 58 buses. The share of loss attributable to the Group for the year ended 31 March 2001 was approximately HK\$2.4 million (2000: loss of HK\$145,000).

##### *iv. Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd.*

As at 31 March 2001, this subsidiary, owned as to 55% by a joint venture company of the Group and Stagecoach Holding Plc., was operating 53 routes with a fleet of 633 buses in Chongqing. The share of loss attributable to the Group for the year ended 31 March 2001 was approximately HK\$1.0 million (2000: profit of HK\$1.2 million).

**REVIEW OF OPERATIONS** *(continued)***4. Bus Services in Mainland China** *(continued)**b. Equity Joint Venture ("EJVs") in Mainland China (continued)*

## v. Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd.

As at 31 March 2001, this subsidiary, owned as to 76.64% by a joint venture company of the Group and Stagecoach Holding Plc., was operating 9 routes with a fleet of 208 buses. The share of profit attributable to the Group was approximately HK\$336,000 (2000: HK\$619,000).

## vi. King Chau Keung Tat Transportation Co., Ltd.

As at 31 March 2001, this Group's 51% owned subsidiary was operating 1 route with a fleet of 10 buses. The share of loss attributable to the Group was approximately HK\$457,000 (2000: loss of HK\$363,000).

**5. Other Transportation Services in Mainland China***Chongqing Kwoon Chung Ferry Co., Ltd.*

As at 31 March 2001, this associated company, owned as to 45% by a joint venture company of the Group and Stagecoach Holding Plc., was operating 1 ferry route with a fleet of 6 ferries. The share of loss attributable to the Group was approximately HK\$1.7 million (2000: loss of HK\$340,000).

**6. Travel and Tourism Business in Mainland China**

During the year, the Group acquired 60% equity interest in Chongqing Tourism (Group) Co., Ltd., which holds investments in a hotel, a travel agency company, a tour bus company and a hydro-electric power plant. The share of profit attributable to the Group for the 10 months' operations was approximately HK\$10.1 million which included a gain on waived bank borrowing attributable to the Group of HK\$13.3 million.

**LIQUIDITY AND FINANCIAL RESOURCES**

Funding for the Group's operations during the year mainly came from internally generated cash flows. Any shortfall was financed by term loans and leases from the banks and other non-bank financial institutions. The total indebtedness outstanding at 31 March 2001 was approximately HK\$288 million which comprised mainly bank loans and leases and was deployed mainly for purchases of buses and investments in Hong Kong and Mainland China. The leverage was approximately 37.0%.

### FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy towards its overall business operations with an aim to minimise financial risks. All future projects will be financed by cash flows from operations or banking facilities or any viable forms of financing in Hong Kong and/or in Mainland China.

Substantially, the income and expenditure of the Group for its Hong Kong operations are denominated in Hong Kong Dollars ("HKD"). For its investments in Mainland China, the major sources of income are in Renminbi ("RMB"). Regardless of the relative stableness of RMB against HKD, the Group has been cautiously observing the trend and will formulate plans in hedging the risks of currency exchange rate fluctuations as and when it is necessary, such as raising funds in RMB from the local capital market or local banking sector if feasible. The Group is also cautious about the risk of interest rate fluctuations as the current bank loans of the Group carry floating interest rates. Appropriate measures in minimising such risks will be duly executed by the Group as and when it is necessary.

### REMUNERATION POLICY

The Group recruits, employs, promotes and remunerates its employees based on their qualifications, experience, skills, performances and contributions. Remuneration is also fixed at competitive market rates.

In-house orientation and training courses are arranged for the staff both in Hong Kong and Mainland China. The staff are also encouraged to attend seminars and courses of job-related nature that are organised by professional or educational institutions.

### FUTURE PROSPECTS

In view of current market trends of non-franchised bus services in Hong Kong, and prospective development in Lantau for the Group's franchised bus services, coupled with PRC's impending entry into the World Trade Organization ("WTO"), the Group has contemplated to devise its overall strategy in consolidating the existing operations both in Hong Kong and Mainland China in preparation for the prospects that would become available from the outcome of these trends and development.

#### 1. Non-franchised Bus Services in Hong Kong

As demand from the market has revealed that more customized services in the non-franchised bus sector would become a preference from the Group's clientele, the Group would adhere to this development and design such services that could satisfy individual customer's needs. On the other hand, the Group would continue to endeavour in various cost-saving measures. Salary scale of drivers from the Group's non-franchised operations in Hong Kong would be re-structured to become in line with but not below the existing market rate. The above exercise has been completed with encouraging results subsequent to the financial year end.

**FUTURE PROSPECTS** *(continued)***2. Franchised Bus Services in Hong Kong**

NLB has been actively working with the Transport Department and local elected representatives from Lantau in putting forward cost-effective measures such as route rationalization programmes. These programmes have been in progress and would be accomplished by stages and reduce the pressure on upward fare revision. To this effect, NLB would tender its application for fare increase at a later stage upon full review of the implementation and results of the above route rationalization programmes.

**3. Bus Services in Mainland China**

Mainland China remains an important market sector for the Group's major business which is to provide quality bus services for a satisfactory and reasonable return on investment from a long term perspective. The favourable factors for the Group's investment in Mainland China which were unfolded in the Group's previous annual report of the financial year 1999/2000 remain veritable at this moment. With PRC's impending membership to WTO, the market in Mainland China would become more accessible.

While the Group would continue to exercise prudence and diligence in taking up new ventures in Mainland China, the Group has also prepared to engage in a series of exercises to augment efficiency and productivity.

**4. Bus Related Businesses***a. Travel and Tourism Related Business*

The Group's 60% owned subsidiary Chongqing Tourism (Group) Co., Ltd. has continued its business in the investment and operation of a hotel, a travel agency company, a tour bus company and a hydro-electric power plant in Chongqing and its vicinity. Domestic travels in Mainland China has continued to evolve with more local visitors travelling to other parts of the country for leisure and holidays. Operation for domestic travels could be less stringently controlled by the respective authorities in Mainland China. On the other hand, upon PRC's entry into WTO, there may be ample opportunities for the travel agency companies to take up outbound travel business from Mainland China to Hong Kong and other parts of the world.

### **FUTURE PROSPECTS** *(continued)*

#### **4. Bus Related Businesses** *(continued)*

##### *b. Bus Manufacturing Business*

Development on the South African Taxi Recapitalization Project, since the Group's Interim Report for the six months ended 30 September 2000, has been amicable. The respective government authority of the South African Government continued to scrutinize proposals from contenders. The Group, as a lead member of the consortium bidding for this project, remains in the selected list of prospective contenders. Official announcement of the project's outcome, however, remains at the pleasure of the South African Government.

### **CONCLUSION**

On behalf of our shareholders, I would like to thank all our customers and business associates in Hong Kong, Mainland China and other countries for their support and cooperation, and to all of our management and operation staff for their untiring contribution and competent performance during the past hectic year. We look forward to seeing their continuous devotion to the Group in the coming years.

While the road ahead may remain rough and tough, with courage and unity, we shall overcome the obstacles.

**Wong Chung Pak, Thomas**

*Chairman*

Hong Kong  
26 July 2001