

CHAIRMAN'S STATEMENT

PROFESSIONAL Transportation Services



CHAIRMAN'S STATEMENT



I am pleased to present to the shareholders the Group's annual report for the year ended 31 March 2004.

Kwoon Chung Motors Co Ltd, a major subsidiary under the Group's non-franchised bus operations, was awarded "Caring Company 2002-2004" by The Hong Kong Council of Social Service

RESULTS

The consolidated net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 was approximately HK\$22.1 million. This represented an increase of approximately 27% from that for the year ended 31 March 2003 of approximately HK\$17.4 million (as restated). In the financial year under review, the Group encountered some of the worst scenarios in its operations since 1996, when the Group was listed on the Stock Exchange of Hong Kong. These included the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong and Mainland China, the continuous military conflicts in Iraq resulting in the volatility of fuel prices, and the fluctuation in the exchange rates between the US Dollar, which the Hong Kong Dollar has pegged with for over 20 years, and various international hard currencies, in particular the Japanese Yen and Euro, as most of the Group's vehicles in Hong Kong and their parts were imported from these two areas. In fact, the turnover of the Group for the months of April to June 2003 was reduced by about HK\$40 million in aggregate when compared with the corresponding period in prior year.

The operations of non-franchised buses in Hong Kong have been under tremendous pressure from the Government, causing the formation of a Working Group under the Transport Advisory Committee to review the role of non-franchised buses in the provision of road transport. In the Group's opinion, any new measures in restraining the development of non-franchised bus business in Hong Kong will lead to more fierce unhealthy competition among operators and between non-franchised bus services and other transport sectors.



The opening ceremony of "Trans-Island Chinalink"'s Ticketing Office at Mongkok in January 2004

Despite the aforesaid difficulties the turnover of the Group for the year increased by about 11% as compared with prior year. This was due to organic growth of some businesses of the Group and the acquisitions of some new operations.

The management of the Group would continue to monitor the development of this situation, and at the same time explore opportunities for the Group to develop into other transport-related businesses in Hong Kong and Mainland China. Performances of the respective sectors of the Group's businesses are described below.

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DIVIDENDS

The Directors recommended a final dividend of HK1 cent (2003: HK2.5 cents) per share.

REVIEW OF OPERATIONS

1. NON-FRANCHISED BUS SERVICES IN HONG KONG

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

On 1 November 2003, the Group acquired 100% shareholding of Trans-Island Limousine Service Limited ("TIL") and all of its subsidiaries and CJVs in Hong Kong and Mainland China ("TIL Group"). As at 31 March 2004, TIL was a non-franchised bus operator with a fleet of 134 buses, and its subsidiary, Intercontinental Hire Cars Limited, was a limousine services provider with a fleet of 102 limousines. A portion of the above vehicles had Passenger Service Licences for cross-border bus services. In addition, TIL was operating a number of service counters at the Passenger Terminal Buildings of the Hong Kong International Airport and Shenzhen BaoAn International Airport. Synergy could be achieved to strengthen the Group's operations in the provision of non-franchised bus and cross-border bus services both in Hong Kong and Mainland China.



The new bus models of the Group's non-franchised bus operations

The total turnover of this sector for the year ended 31 March 2004 was approximately HK\$423.6 million (2003: HK\$341.7 million), representing an increase of approximately 24% from that of prior year. The net profit derived from the above services was approximately HK\$27.8 million (2003: HK\$15.0 million). The significant growth in profit was due to a number of reasons, including the contribution of TIL Group through operation synergy, downward adjustment for salaries of employees owing to SARS and on a fair market basis, and the open-up of Hong Kong for more visitors from Mainland China through the Closer Economic Partnership Arrangement ("CEPA").

The Group continued, in term of size of bus fleet, to be the largest non-franchised bus operator in Hong Kong, especially after the acquisition of TIL Group, and as at 31 March 2004, was operating a fleet of 714 (2003: 605) licensed non-franchised buses. The Group would aim at achieving greater economies of scale in order to reduce the average operating cost per vehicle enhancing higher rate of return on investment.



As the number of tourists visiting Hong Kong has been increasing after SARS, tour transport services become more and more important among our non-franchised bus operations

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However, the Group perceives that the non-franchised bus services sector in Hong Kong has been under excessive regulation and control from the relevant government authority. While the Group could not speculate the objectives of the relevant authority in doing so, one ascertainable paraphrase could be through observation in recent years that as more railways are introduced, more restraints have been imposed over non-franchised bus services.

The Group has, through its participation as a member of the Public Omnibus Operators Association, continued to express our concern to the relevant authority.



Trans-Island Limousine Service Ltd and China Travel Service (HK) Ltd jointly provide a "24-hour Cross-Border Shuttle" service

2. FRANCHISED BUS SERVICES IN HONG KONG

The franchised bus services in Hong Kong were provided by New Lantao Bus Company (1973) Limited ("NLB"), a 99.99% (2003: 99.99%) owned subsidiary of the Group, which, as at 31 March 2004, was operating 27 (2003: 24) franchised bus routes, mainly in Lantau, with a fleet of 74 (2003: 80) buses.

For the year ended 31 March 2004, the total turnover of NLB was approximately HK\$75.7 million (2003: HK\$69.2 million). NLB recorded a net profit of approximately HK\$2.4 million (2003: HK\$5.3 million).

The reduction in profit was due to the onslaught from SARS during the first and early second quarters of the financial year under review. While passenger journeys had somewhat improved in the later part of the financial year, these encouraging results could only compensate a fraction of revenue lost.

In order to cater for passengers' expectations from different sectors, NLB procured additional low floor buses for services in Tung Chung New Town bus routes. Sophisticated equipment such as electronic "black boxes" and speed limiters were installed in the newer buses to enhance safety and fleet management.

3. OTHER OPERATIONS IN HONG KONG

The Group's subsidiary, Trade Travel (Hong Kong) Limited, had the licence to operate a commercial service counter at the Arrival Hall of the Hong Kong International Airport. Services offered at the counter included airport transfers for tour groups and individual international visitors with pre-arranged bookings.

As mentioned earlier, TIL Group had a fleet of 102 limousines and 24 of these vehicles had cross-border service licences. These limousines were mainly catered for VIP services in respect of airport and local and cross-border transfers, mainly within the Guangdong province.

Lantau Tours Limited continued to provide individual and group tours services for itineraries mainly originated for Lantau Island.

On 3 January 2004, the Group acquired 75% shareholding of Vigor Airport Shuttle Services Limited and Vigor Tours Limited ("Vigor Group"). Vigor Group had strong connections with travel agents in Hong Kong, Mainland China and overseas for the provision of individual or group tours services.

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4. BUS SERVICES IN MAINLAND CHINA

a. Co-operative Joint Ventures ("CJVs") in Mainland China

As at 31 March 2004, through its CJVs, the Group was operating the following number of routes and buses in the major cities in Mainland China:

	Number of Routes		Number of Buses	
	2004	2003	2004	2003
Guangzhou	6	6	160	150
Shantou	6	6	67	62
Dalian	4	5	145	149
Harbin	1	3	136	136
Anshan	3	4	94	100
	20	24	602	597

The share of losses from these CJVs for the year amounted to approximately HK\$4.6 million as compared with that of approximately HK\$1.2 million in prior year.

The return on investment of these CJVs attributable to the Group was recognised in accordance with respective contract terms including a "guarantee income" receivable over five years immediately after respective contract was signed and an agreed percentage of share of net profit, against a respective amortization of the investment over the tenure of the CJV contract.

As the "guarantee income" of most CJVs had gradually expired, the gross income contributed to the Group from these entities had been diminishing accordingly.

In view of the progressively changing investment environment in Mainland China, the Group envisaged that not much investment in CJVs would be contemplated while more emphasis would be put on EJVs.



The new bus model of Guangzhou Kwoon Chung

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b. Equity Joint Ventures ("EJVs") in Mainland China

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

As at 31 March 2004, this Group's 90% (2003: 90%) owned subsidiary was operating 31 (2003: 31) routes with a fleet of 776 (2003: 741) buses and a fleet of 25 (2003: 25) taxis in Shanghai, mainly in Pudong area. This subsidiary was also the first of the Group's operations in Mainland China since 1992. The share of profit attributable to the Group for the year ended 31 March 2004 was approximately HK\$2.5 million (2003: HK\$10.8 million). The impacts of SARS and worldwide increasing fuel costs contributed to a significant decrease in profit attributable to the Group.

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

As at 31 March 2004, this 52.4% (2003: 52.4%) owned subsidiary was operating 38 (2003: 38) routes with a fleet of 1,017 (2003: 1,015) buses and a fleet of 81 (2003: 81) taxis in Shanghai, mainly in Puxi area. The share of profit attributable to the Group for the year ended 31 March 2004 was approximately HK\$122,000 (2003: HK\$9.1 million). The nature of the significant decrease in profit attributable to the Group was similar to that of its fellow subsidiary in Shanghai, Shanghai Pudong Kwoon Chung Public Transport Co., Ltd.

During the year, this subsidiary acquired 90% equity interest in Shanghai Public Transport Hubei Passenger Road Transport Services Company, which was operating 91 buses and 2 routes in Shanghai as at 31 March 2004.



Shanghai Wu Qi Kwoon Chung operates a number of bus routes crossing-over major part of city centre to facilitate the transport of citizens

iii. Jieyang Guanyuan Transport Co., Ltd.

As at 31 March 2004, this 60.6% (2003: 91.5%) owned subsidiary was operating 3 (2003: 3) routes with a fleet of 34 (2003: 30) buses. The change in effective equity interest was due to a transfer of 65% of the shareholding of this subsidiary by HK Kwoon Chung (Jieyang) Bus Investment Limited to GFTZ Xing Hua International Transport Ltd. for intra-group synergy purpose at the beginning of the financial year under review. The share of loss attributable to the Group for the year ended 31 March 2004 was approximately HK\$1.6 million (2003: HK\$4.0 million). By way of chartering its whole bus fleet and disposal of redundant vehicles, this subsidiary had cut down its loss attributable to the Group as compared with prior year.

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

As at 31 March 2004, this subsidiary, owned as to 55% (2003: 55%) by a joint venture company of the Group and Market Giant Limited (a wholly-owned subsidiary of Merryhill Group Limited), was operating 54 (2003: 54) routes with a fleet of 787 (2003: 686) buses in Chongqing. The share of profit attributable to the Group for the year ended 31 March 2004 was approximately HK\$1.5 million (2003: HK\$1.4 million). The steady growth of this most populated city of Mainland China, Chongqing, had attributed its share of contribution to the Group's profit.



Chongqing Kwoon Chung (No. 3) has put a lot of effort in improvement of services and promotion of image with its quality services being widely acknowledged by the public

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

As at 31 March 2004, this subsidiary, owned as to 76.6% (2003: 76.6%) by a joint venture company of the Group and Market Giant Limited, was operating 10 (2003: 10) routes with a fleet of 303 (2003: 252) buses. The share of profit attributable to the Group for the year was approximately HK\$830,000 (2003: HK\$100,000). The result was as anticipated as after the one-off write-off of part of the receivable from the sale of land in prior year, the profit level of this subsidiary had returned to normal.

vi. King Chau Keung Tat Transport Co., Ltd.

As at 31 March 2004, this Group's 84.3% (2003: 51%) owned subsidiary was operating 2 (2003: 2) routes with a fleet of 35 (2003: 35) buses. In order to maintain the going concern of this subsidiary, in February 2004, loans from the Group to this subsidiary amounting to approximately HK\$9.5 million had been converted into additional capital injection in this subsidiary. The share of loss attributable to the Group for the year was approximately HK\$716,000 (2003: HK\$800,000). Effective cost control has compensated higher operating costs mainly arising from worldwide increasing fuel price.

vii. GFTZ Xing Hua Group

As at 31 March 2004, Top China International Investment Holdings Limited, a 75% (2003: 75%) owned subsidiary of the Group was holding 70% (2003: 70%) equity interest in each of GFTZ Xing Hua International Transport Ltd. ("Xing Hua Transport"), GFTZ Xing Hua Tourism Bus Co., Ltd. ("Xing Hua Bus") and GFTZ Guang Bao Transport Co., Ltd. ("Guang Bao").



The new fleet of GFTZ Xing Hua Group have been painted in smart yellow and green

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During the year, Xing Hua Transport was awarded "Grade Two Enterprise" by the relevant transport authority of Guangdong Province which represented a permit for this subsidiary to run certain long-distance bus routes within the province.

As at 31 March 2004, Xing Hua Transport was operating 6 (2003: 8) routes with a fleet of 114 (2003: 115) buses, providing city-to-city transport in Guangdong Province and inner-city transport in Guangzhou Municipal. Guang Bao was operating 1 (2003: 1) chartered bus route and was providing leasing services of cross-border lorry licences. In September 2003, Xing Hua Bus had disposed of its holding of 50 taxi licences. The share of profit attributable to the Group for the period was approximately HK\$3.0 million (2003: loss of HK\$1.3 million).

5. TRAVEL AND TOURISM BUSINESS IN MAINLAND CHINA

As at 31 March 2004, the Group's 60% (2003: 60%) owned subsidiary Chongqing Tourism (Group) Co., Ltd. was holding investments in a hotel, a travel agency company, a tour bus company and a hydro-electric power plant. The share of loss attributable to the Group for the year ended 31 March 2004 was approximately HK\$1.7 million (2003: HK\$2.3 million).



The Group continues to consolidate its position and look for more development opportunities in the tourism business in Chongqing and Mainland China as a whole

The adverse effect of SARS during the early part of the financial year under review was profound for tourism business in Hong Kong as well as in Mainland China. The travel agency company, Chongqing Everbright International Travel Service Co., Ltd. ("Everbright"), together with all other travel agency companies in Chongqing, was ordered by the local Tourism Administration Bureau to close down for three months. Hotel business was devastating during that critical period. With the devotion of the local management and employees,

these companies survived by tight control on all operating costs and their belief on future prospects of tourism businesses. After SARS was over, the business of hotel had been picking up very fast as anticipated by the local management. The renovations in previous years in respect of air-conditioning and water supply system, hotel rooms, restaurants and main lobby and together with particularly improved quality services, contributed to the continuing better results year after year since the acquisition by the Group in 2000.

Everbright, after SARS, had been expanding its inbound and outbound businesses. However, the climate of domestic tourism business in Mainland China was not as good as that before SARS. Therefore, Everbright together with a business associate, a reputable travel agency company in Hong Kong, had organised a promotional tour for Hong Kong major newspaper and magazine reporters covering Chongqing City, Sanxia (三峡) and Jiuzhaigou (九寨沟). This activity was fully supported by Chongqing Tourism Administration Bureau and proved to be successful as there had been increasing number of Hong Kong tours visiting Chongqing City, Sanxia (三峡) and Jiuzhaigou (九寨沟), which were handled jointly by Everbright and the Hong Kong travel agency associate.

The Group's diversification in tourism business and its success could be gradually procured. The Group has confidence in seeing the operations of Chongqing Tourism (Group) Co., Ltd. be profitable in the very near future.

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LIQUIDITY AND FINANCIAL RESOURCES

Funding for the Group's operation during the year mainly came from internally generated cash flows. Any shortfall was financed by loans and leases from banks. The total indebtedness outstanding as at 31 March 2004 was approximately HK\$422 million (2003: HK\$361 million), of which HK\$183 million (2003: HK\$218 million) was repayable/renewable within one year. The indebtedness comprised mainly bank loans and was deployed mainly for purchase of buses and investments in Hong Kong and Mainland China. The leverage was approximately 55.4% (2003 (restated): 47.9%). The increase from prior year was mainly due to the borrowing of a new bank loan amounting to HK\$70 million for the acquisition of TIL Group.

As at 31 March 2004, fixed assets and time deposits amounting to approximately HK\$313 million (2003: HK\$335 million) and all issued shares of NLB and TIL were pledged in favour of banks as security for banking facilities.

FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy towards its overall business operations with an aim to minimize 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 Mainland China.

Subsequently, 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 relatively stableness of RMB against HKD, the Group has been cautiously observing the trend and will formulate plans in hedging the risk 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 from the Group carry floating interest rates. Appropriate measures in minimizing such risks will be duly executed by the Group as and when it is necessary.

HUMAN RESOURCES

The Group recruits, employs, remunerates and promotes its employees based on their qualifications, experience, skills, performances and contributions. Remuneration is also fixed at prevailing market rates. In-house orientation and training 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 organized by professional or educational institutions.

FUTURE PROSPECTS

Hong Kong is entering a prolonged and gradual period of economic recovery. In principle, almost all sectors of our economy could be benefited from it. However, due to the railway-orientation of the Government's transport policy, the Group's non-franchised bus services in Hong Kong have experienced serious constraints in business development.

As Mainland China has commenced its membership in the World Trade Organization and its CEPA with Hong Kong has entered into the second year, the Group envisages more bus and bus-related business and tourism business opportunities in this aspect.

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1. NON-FRANCHISED BUS SERVICES IN HONG KONG

The advantage from CEPA will continue, despite concern on outbreaks of SARS or similar contagious diseases. The Group would strengthen its transportation-services in hotel, tour and cross-border by consolidating the resources of Tai Fung Coach Co. Ltd., TIL Group and Vigor Group.

The Transport Advisory Committee has recently set up a working group to review the operations of non-franchised bus services in Hong Kong and their initial recommendations have led to strong protest from bus operators. The Group would continue to press our case through participation in the Public Omnis Bus Operators Association in protecting our interest and those of the general public in safeguarding their right to choose the most appropriate mode of transportation.

The recent rationalization of cross-border bus services has institutionalised the current short-turn cross-border bus services provided by TIL Group in conjunction with its business partners. The Group would envisage a more stable business environment for this sector.

The Group plans to expand its business by acquisition and/or formation of new joint ventures with strategic partners.

In addition, due to closer economic ties between Hong Kong and the Pearl River Delta region, the Group has commenced negotiation with a number of cross-border bus service companies to form an alliance in order to pool our resources together to maximize output.

2. FRANCHISED BUS SERVICES IN HONG KONG

The construction of the Tung Chung – Ngong Ping cable car link, when completed, will severely erode NLB's revenue from one of its most profitable route running parallel with the future cable car service. NLB has vigorously explore development of more new routes, and develop new initiatives on making Ngong Ping a hopping point for passengers to visit other parts of Lantau Island. The above concept has received positive response from the local community and other related parties.

NLB has also expressed its interest in operating franchised bus services to the Hong Kong Disney Theme Park to be completed in late 2005.

3. BUS SERVICES IN MAINLAND CHINA

Bus services in Mainland China have always been one of the Group's essential businesses. With higher per capita income in major cities like Shanghai, Guangzhou, Chongqing, and etc., where the Group has operations, passenger demand for better quality services would become inevitable. The Group will continue to seek opportunities in enhancing the quality of bus services in these cities in order to maintain a leading edge.

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4. BUS-RELATED BUSINESS

(a) *Travel and Tourism Business in Mainland China*

The Group has continued to invest and operate travel and tourism business through the operations of its subsidiary, Chongqing Tourism (Group) Co., Ltd. The long-term prospect of this sector is encouraging as more overseas and domestic visitors will come to Chongqing and Sichuan Province since this is one of the Central Government's policies in the development of western part of Mainland China. In addition, there will be more visitors from Mainland China going to Hong Kong through the "Free Individual Traveller" scheme. In view of the above, the Group's travel and tourism section has plans to set up representative offices in major cities of Mainland China where the Group has EJVs or CJVs, in order to achieve synergy through co-operation with these entities.

(b) *Bus Manufacturing Business*

The Group has continued to participate in the South Africa Taxi Recapitalization Project. Certain sample vehicles had been delivered to South Africa earlier this year.

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 untiring support and cooperation, and all of our management and operation staff for their indefatigable contribution and competent performance during this challenging year. We look forward to a venturesome year in our operations and shall have much confidence in receiving their support.

Wong Chung Pak, Thomas

Chairman

Hong Kong

22 July 2004