

Argos

ARGOS ENTERPRISE (HOLDINGS) LIMITED

雅高企業(集團)有限公司

(Incorporated in Hong Kong with limited liability)



ANNUAL REPORT
2001

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This report, for which the directors of ARGOS ENTERPRISE (HOLDINGS) LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to ARGOS ENTERPRISE (HOLDINGS) LIMITED. The directors of ARGOS ENTERPRISE (HOLDINGS) LIMITED, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Profile

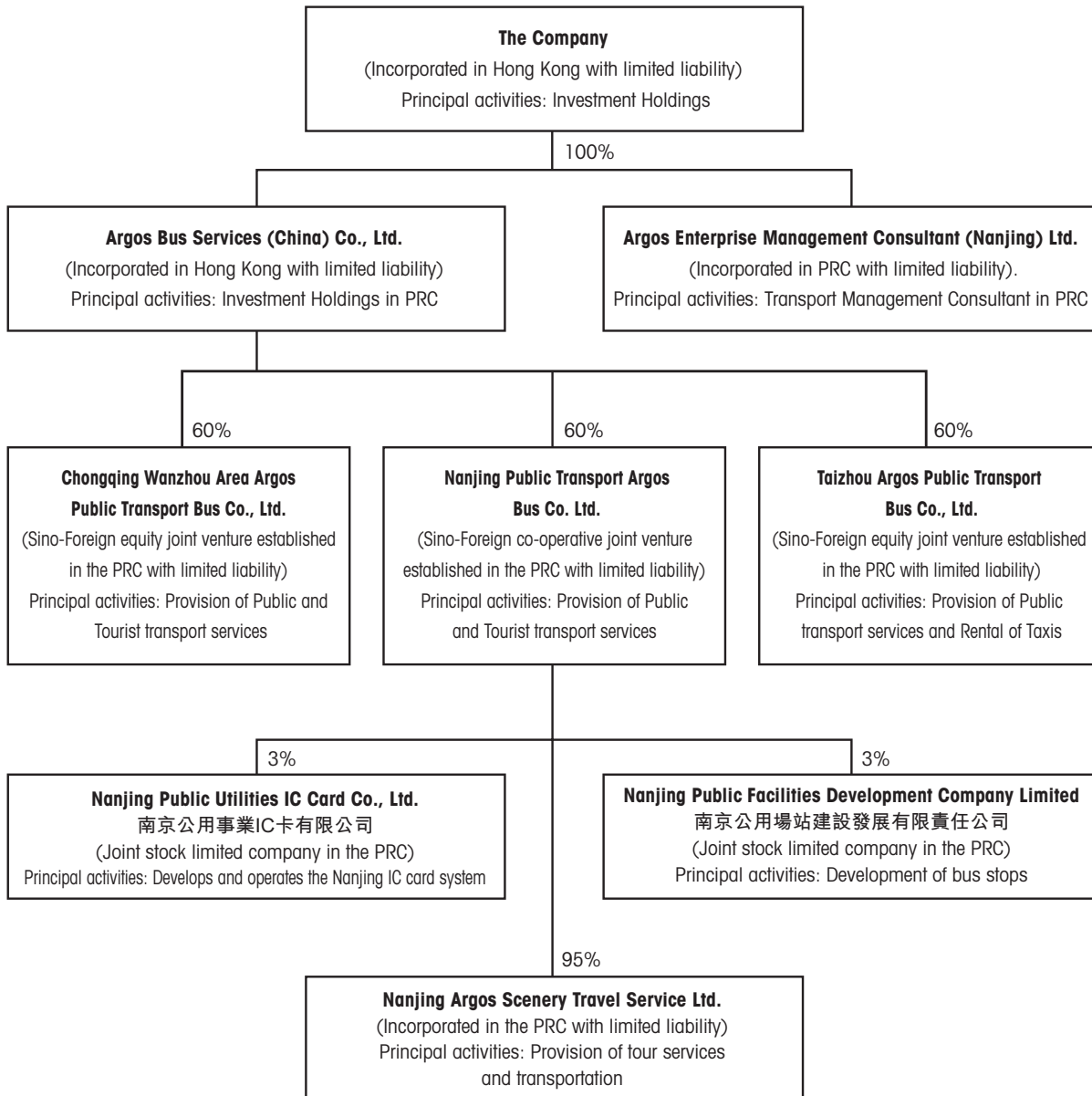
Argos Enterprise (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Argos Group") is principally engaged in the provision of public bus transportation and related services in the mainland China. The public bus transportation and related services provided by the Argos Group may be broadly divided into six main categories, namely (i) public routes services, (ii) tourist routes services, (iii) "Hire-a-Bus" and employee services, (iv) subcontracting of midi-buses and taxis, (v) rental of midi-buses and taxis, and (vi) sightseeing ticket sales and tours.

On 13th August, 2001, the Company was successfully listed on GEM, its ordinary shares are traded under the stock code 8022. The successful listing of the Company represented a milestone in the development of Argos Group.

Currently, Argos Group has three major operating subsidiaries under its brand name of Argos Bus in different cities (namely Nanjing Public Transport Argos Bus Company, Limited, Chongqing Wanzhou Area Argos Public Transport Bus Company Limited and Taizhou Argos Public Transport Bus Company Limited) of the mainland China rendering public bus transportation and related services.

Corporate Profile

The following is the organization structure of Argos Group



Corporate Information

EXECUTIVE DIRECTORS

Wong Wah Sang, M.B.E.
Wong, Wilson
Wong Man Chiu, Ronnie, J.P.
Yeung Wai Hung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ng Ming Wah, Charles
Sung Wai Tak, Her man

AUDIT COMMITTEE

Wong, Wilson
Ng Ming Wah, Charles
Sung Wai Tak, Her man

COMPANY SECRETARY

Kwok Man Pang, Lewis ACMA, FHKSA

COMPLIANCE OFFICER

Wong, Wilson

QUALIFIED ACCOUNTANT

Kwok Man Pang, Lewis ACMA, FHKSA

SPONSOR

Yu Ming Investment Management Limited
Suite 51, 5th Floor, New Henry House,
10 Ice House Street,
Central,
Hong Kong.

AUDITORS

Charles Chan, Ip & Fung CP A Ltd.
Certified Public Accountants,
37th Floor, Hennessy Centre,
500 Hennessy Road,
Causeway Bay,
Hong Kong.

SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
2nd Floor, Vicwood Plaza,
199 Des Voeux Road,
Central,
Hong Kong.

REGISTERED OFFICE

Room 1113, 13th Floor,
Block A2, Yau Tong Industrial City,
17 Ko Fai Road,
Kowloon,
Hong Kong.

PRINCIPAL BANKER

Bank of China (Hong Kong) Ltd.
Hong Kong Branch
1 Garden Road,
Hong Kong.

STOCK CODE

8022

Chairman's Statement

HIGHLIGHTS

Successfully listed on GEM on 13th August, 2001

Turnover for the financial year ended 31st December , 2001 was approximately HK\$61,938,000, representing an increase of approximately 47.55%, as compared with the previous year

Profit for the financial year ended 31st December , 2001 was approximately HK\$4,909,000, representing an increase of approximately 14.7%, as compared with the previous year

As at 31st December , 2001 Argos Enterprise (Holdings) Limited and its subsidiaries had approximately HK\$37,934,000 in cash and bank balance with HK\$33,316,000 of interest-bearing borrowings

The board of directors of the Company (the "Board") does not recommend the payment of any dividend

BUSINESS REVIEW

On behalf of the Board, I am pleased to present the first annual results for the year ended 31st December 2001, which follows our successful listing on GEM on 13th August 2001.

Argos Group is principally engaged in the provision of public bus transportation and related services in various cities of the mainland China. The public bus transportation and related services provided by the Argos Group may be broadly divided into six main categories, namely (i) public routes services, (ii) tourist routes services, (iii) "Hire-a-Bus" and employee services, (iv) subcontracting of midi-buses and taxis, (v) rental of midi-buses and taxis, and (vi) sightseeing ticket sales and tours. Argos Group is committed to provide a high quality of passenger services and has made significant effort to the continuation of public transport reform in the mainland China. Argos Group is currently in negotiation with government officials in selected cities in mainland China to set up joint ventures to operate high quality and comprehensive services under the brand name of Argos Bus.

During the year ended 31st December 2001, the economy of mainland China continued to grow at a steady pace. The Chinese domestic market was further improved and inflation was under control. Argos Group largely completed the business objectives and operational targets set out in the prospectus, resulting in substantial development and growth being attained. All of the operating subsidiaries of the Company have achieved the target production output, and have effectively expanded operational scope through bus fleet improvement. The market share of bus operation of Argos Group increased steadily, and enjoyed increasing recognition and reputation in the industry. The cost control programme has achieved encouraging results, with substantial progress being made in reducing the operating costs. The combination of the above factors has helped the Company to effectively managed the increasing scale of operation. In summary, through the effort made during the year, the operations of the three major subsidiaries have progressed steadily.

Chairman's Statement

During the year under review, turnover of Argos Group grew by approximately 47.55% to HK\$61,938,000, while the profit after tax but before minority interest has risen to HK\$10,547,000. Net profit attributable to shareholders for the year increased to HK\$4,909,000, representing a growth of approximately 14.7% over the last corresponding period.

Basic earnings per share for the year under review increased to approximately HK\$3.04 cents from approximately HK\$2.85 cents in the last corresponding period.

The Board will continue to pursue the business objectives and implement its business plans as stated in its prospectus issued on 31st July 2001 to the best possible extent, so as to accomplish its mission to become a provider of high quality, generally affordable and comfortable bus services and in return, generates a satisfactory and reasonable return on investment for shareholders from a long term perspective. The Board is actively exploring strategic locations for setting up new joint ventures and would continue to exercise prudence and diligence in taking up new joint ventures in mainland China. With our strong management team, the Board believes that Argos Group will be able to meet the challenge ahead and will become one of the leading bus operators in mainland China.

As at 31st December 2001, Argos Group comprised three major subsidiaries under its trade name of Argos Bus in various cities in mainland China, they are:

1. Nanjing Argos, Jiangsu Province, services commenced in September 1997;
2. Wanzhou Argos, Chongqing, services commenced in March 2001; and
3. Taizhou Argos, Jiangsu Province, services commenced in September, 2001.

On behalf of the Board, I wish to share with every employee the spirit of "Saving for survival, and Working hard for growth". Also, I would like to extend my full-hearted appreciation to various business partners, banks, customers and suppliers for the enthusiasm and support, and to every employee for their effort 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 Wah Sang

Chairman

Hong Kong, 26th March 2002

Management Discussion and Analysis

Operations in Review

Year 2001 marked a milestone period in the development of Argos Group. The successful listing of the shares of the Company on 13th August 2001 signified a major leap forward in our corporate status and provided additional impetus for our business expansion and development. The last twelve months also evidenced Argos Group maintaining a policy of expansion, adapting comfortably to external environmental changes, enhancing market competitiveness and making improvements towards sustainable growth. As we believe that the rise in living standard in mainland China will spring demand for quality bus services, this has provided a driving force for our business growth and expansion. With the effective execution of our business and investment strategies, we believe that Argos Group is well-positioned in the public transportation industry and be ahead of our competitors.

Financial Review

During the year ended 31st December 2001, Argos Group achieved a turnover of approximately HK\$61.9 million, representing an increase of 47.6% over the last corresponding period. Profit attributable to shareholders amounted to approximately HK\$4.9 million, representing a year-on-year growth of close to 15%. Nevertheless, since Argos Group is still assessing the feasibility of establishing new joint ventures, therefore, the Directors do not recommend the payment of any dividend for the year ended 31st December, 2001.

As Argos Group was undergoing a period of development and investment during the period under review, especially the new joint ventures of Chongqing Wanzhon Argos and Taizhou Argos were in the early stage of the operation cycle, an increase in operating costs and associated fixed costs was inevitable. Argos Group will continue to review the performance of each new joint venture and will implement a stringent cost control programme to monitor and maximize their returns. The Directors believe that effective cost control on operating activities will be beneficial to the operating results of Argos Group. With such cost control programme in place, we are optimistic on Argos Group's growth in the coming years.

Having successfully listed the Company's shares on GEM, Argos Group obtained net proceeds of approximately HK\$25 million. As at 31st December 2001, the cash and bank balance of Argos Group was to approximately HK\$37.9 million.

Management Discussion and Analysis

Financial Position

As at 31st December 2001, the total assets of Argos Group amounted to approximately HK\$137.6 million (2000: HK\$70.3 million) including cash and bank balances of approximately HK\$37.9 million (2000: HK\$16.2 million). Approximately HK\$19.6 million (2000: HK\$13.0 million) of such cash and bank balances were pledged to secure banking facilities. Balance of bank loans as at 31st December 2001 was approximately HK\$33.3 million. Major part the bank borrowings was secured by the aforesaid cash deposits of approximately HK\$18.7 million with no fixed term of repayment, the balance of approximately HK\$12.8 million, repayable semi-annually and to be matured within five years, is secured by a corporate guarantee given by one of the Company's subsidiaries and a legal charge on a property held by Always Earn Investments Limited, a company controlled by the directors and management shareholders of the Company, and personal guarantees executed by Mr. Wong Man Chiu, Ronnie and Mr. Yeung Wai Hung, who are both directors of the Company, and a corporate guarantee executed by a fellow subsidiary. Up to the date of this report, the release of the above mortgage, personal guarantees executed by Mr. Wong Man Chiu, Ronnie and Mr. Yeung Wai Hung and corporate guarantee executed by the fellow subsidiary was not yet finalized due to the time required for finalizing certain terms for the release and pending the relevant bank's review of the results of Argos Group for the year ended 31st December 2001. It is currently expected that such release would be completed by April 2002.

The Board believes subsidiaries of Argos Group would generate funds sufficient to meet the ongoing operating and investment requirements. Apart from normal fleet replacement and upgrade, which can be met with by internally generated funds from the respective subsidiary and investment in new joint ventures stated in the prospectus of the Company dated 31st July, 2001 (the "Prospectus"), which is going to be met with by proceeds from the listing, Argos Group has no other planned significant acquisition. Investors will be kept fully informed if there are any changes in investment plan.

The gearing ratio expressed in the total debts as a percentage of net assets of Argos Group as at 31st December 2001 was 73.5% (2000: 238.5%).

Contingent Liabilities

As of the date of this report, the Directors are not aware of any material contingent liabilities.

Employees and Remuneration Policy

As at 31st December 2001, Argos Group had 1,624 (2000: 900) full-time employees. The total of employee remuneration, including that of the Directors, for the year ended 31st December 2001 amounted to approximately HK\$21,501,000 (2000: HK\$16,037,000). Argos Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Share Option Scheme

On 31st July 2001, a share option scheme of the Company was approved by the shareholders of the Company. The summary of the terms of the share option scheme has been set out in the Appendix IV of the Prospectus under the section headed "Share Option Scheme".

As at 31st December 2001, no options were granted under the Share Option Scheme.

Management Discussion and Analysis

Future Plans and Prospects

In view of mainland China accession into the World Trade Organization (the "WTO"), the Mega Development Project of the Western Region and the 2008 Olympics, all of which are expected to generate ample business opportunities, which is attractive to both local and international investors. The anticipated active economic activities in various sectors, in turn, are expected to translate into greater demand for public bus transportation and related services. The Board anticipates that our proven result in the provision of public and tourist transportation services is in well position to capture these market growth and opportunities.

Nevertheless, the Board also anticipates that there may be new competitors, both local and foreign, entering the market in the near future, which is in line with local economic reform in mainland China and the gradual reduction of tariffs and other trade restrictions as a result of the terms of WTO coming into effect. As a result, competition might become very keen which in turn might put pressure on our gross profit margin. With such uncertainty, it is essential to reduce operating and production costs to sustain profitability through potentially turbulent times. Therefore, the Group has formulated numerous prudent operating strategies and will focus in operation cost control, with an aim to achieve steady development. We will stay with our prudent approach in expanding the scale of public and tourist routes operations in mainland China.

It is Argos Group's intention to expand operations both in terms of scale and scope of business in order to achieve rapid growth. Moreover, Argos Group aims to become one of the leading public transportation services providers in mainland China. In order to realize such objectives, the following plans will be undertaken:

Expansion of public routes operations

To expand on profitable public bus routes of the business, Argos Group will continue negotiations with the relevant authorities for establishing new public routes as well as extending the existing routes in Nanjing, Wanzhou and Taizhou.

Provision of comprehensive tour services

Recognizing the increasing demand for tour services, Argos Group will continue to identify new scenery spots in Nanjing, Wanzhou and Taizhou and negotiate with the relevant authorities to set up tourist routes in the respective city and to provide such comprehensive one-stop services such as arranging and organizing tours and tickets sales, etc.

Further improve on the quality of services

Argos Group understands that quality services is crucial for our long-term success. Therefore, Argos Group will implement a series of training programs (including in-house training and external training) to improve the standard of customer services across business activities.

Management Discussion and Analysis

Promote the corporate image and strengthen brand loyalty

To maintain a competitive advantage over competitors in the public transportation industry, Argos Group believes that it is vital to cultivate strong brand loyalty and recognition of Argos Group. As such, it is intended excellent services will be offered to passengers and customers in order to meet their satisfaction. Argos Group will also participate in public functions to promote the corporate image of the Argos Group as a leading provider of public transportation services.

Strengthen the overall operational and administrative management

The original management style of both Wenzhou and Taizhou Argos were inefficient and unsystematic. Argos Group is implementing changes in order to enhance operational and administrative management. This is being achieved by the implementation of stringent internal control, setting up targets on productivity enhancement, diversification of services and certainly, continuous development and upgrade of human capital, being the most important resources of the Group. Furthermore, the setting up of a management consultant company to oversee all the operation units in mainland China also enhances effectiveness in managing a growing number of subsidiaries.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Wah Sang, BH, MBE, aged 76, the chair man of the Company, is currently the chair man of Wong's Investments (Holdings) Co., Ltd., a private company, and has been the co-founder and chair man of Argos Bus Services Company, Limited (hereinafter defined as "Argos Hong Kong"). He is also the co-founder of Chung Wah Shipbuilding & Engineering (Holdings) Co., Ltd. and Argos Engineering & Heavy Industries Co., Ltd. Both companies are privately held companies, not competing with the Group. Mr. Wong Wah Sang, the father of Wong Man Chiu, Ronnie, one of the executive directors of the Company and an elder brother of Mr. Wong, Wilson, one of the executive directors of the Company. Mr. Wong's experience in the engineering and shipbuilding business spans across Asia in that he was the chairman of Sabah Shipbuilding, Ship-repairing Sdn. Bhd of Malaysia and Euro-Asia Rig Construction Yard in the 1970s. Engineering projects completed by Mr. Wong include the marine works of the Eastern and the Western Harbour Tunnels in Hong Kong and the 12,000 tonnes structural steel erection of the Treasury Building and United Overseas Bank Building in Singapore. Mr. Wong Wah Sang is also a director of Moving Step Limited and Ming Tak Transportation Service Company, Limited.

Mr. Wong, Wilson, aged 62, being a brother of Mr. Wong Wah Sang, one of the executive directors of the Company, the managing director of the Company, has been the co-founder and managing director of Argos Hong Kong since 1981. He is also the co-founder of Chung Wah Shipbuilding & Engineering (Holdings) Co., Ltd., Argos Engineering & Heavy Industries Co., Ltd. and Goldford Engineering Limited. The three companies are not competing with the Group. Apart from the operation of a bus company, Mr. Wong, Wilson has extensive engineering experience in infrastructure and utilities projects both in Hong Kong and across the Southeast Asia. Mr. Wong Wilson is also a director of Argos Hong Kong, Metro Line Tour Limited, Ming Tak Transportation Service Company Limited and Moving Step Limited.

Mr. Wong Man Chiu, Ronnie, J.P., B.Sc., M.B.A, aged 49, a son of Mr. Wong Wah Sang, one of the executive directors of the Company, has been appointed the deputy managing director of Argos Hong Kong since 1992 and he is currently an executive director in Wong's Investment (Holdings) Co., Ltd. The company is not competing with the Group. Mr. Ronnie Wong's experience covers areas including shipbuilding, engineering, property development, transportation, tourism and entertainment. He is also an active participant in various community services, for instance, he was a member of the Basic Law Consultative Committee and an elected Urban Councillor. Mr. Ronnie Wong is also a director in Goldspark HK Tours Limited, Moving Step Limited, Ming Tak Transportation Service Company Limited and CLK Bus Company Limited.

Mr. Yeung Wai Hung, aged 52, has involved in the management of Argos Hong Kong since its incorporation and was appointed the general manager in 1988. He specializes in the area of human resources management for 30 years. With his long reaching experience and connection in the public bus industry of Hong Kong, Mr. Yeung is one of the most prominent figures in the industry. He is currently the chair man of the Public Omnibus Operators Association Ltd., the most respected organization in the private bus operation sector of Hong Kong. Mr. Yeung Wai Hung is also a director of Argos Hong Kong, Goldspark HK Tours Limited, Metro Line Tour Limited, Moving Step Limited, Ming Tak Transportation Service Company Limited and CLK Bus Company Limited.

Profiles of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Ming Wah, Charles, B.Sc., M.B.A., aged 52, was appointed an independent non-executive director of the Company on 2nd January 2001. Mr. Ng graduated from the London Graduate School of Business Studies in England in 1974 with a Master degree in Business Administration. He is the managing director of Equitas Capital Limited, an exempt dealer and an exempt investment adviser under the Securities Ordinance of Hong Kong, and has over twenty five years of experience in corporate finance and investment banking in Hong Kong.

Mr. Sung Wai Tak, Herman, B.A. (Hons), LL.B. (Hons.), LL.M., aged 43, Mr. Sung was appointed an independent non-executive director of the Company on 2nd January 2001. Mr. Sung is a solicitor of the High Court of the Hong Kong Special Administrative Region and the Supreme Court of New South Wales in Australia. Mr. Sung has extensive experience in the legal arena both in Hong Kong and Australia.

SENIOR MANAGEMENT

Mr. Zhang Dao Lin, B.Eng., aged 37, has been the general manager of Nanjing Argos since inception. Mr. Zhang has over 18 years of managerial experience in the bus industry of PRC, started as a vehicle structural engineering consultant, and served 15 years in Nanjing Public Transport Company before taking up the leading role in Nanjing Argos. His major strength is the formulating and the implementation of scientific and modern management policies. Under his leadership, Nanjing Argos has successfully changed the competitive landscape of the public bus industry in Nanjing.

Mr. Kwok Man Pang, Lewis, A.C.M.A., EH.K.S.A., aged 48, is the financial controller and company secretary of the Group and is responsible for the financial management and company secretarial functions of the Group. Mr. Kwok holds a diploma in administrative management from the Institute of Administrative Management in the United Kingdom. Mr. Kwok had over twenty-seven years of experience in auditing, finance and administration, prior to joining the Group on 2nd April 2001.

Mr. Wang Jie, aged 49, is the assistant general manager of Nanjing Argos. He has experience in the PRC bus industry for over 22 years, focusing on general administration and human resources management, serving the Nanjing Public Transport Company before joining Nanjing Argos in early 2000.

Ms. Zhu Xiu Ying, aged 55, has been the Manager (Finance) of Nanjing Argos since its inception in 1997. Ms. Zhu served in the finance department of Nanjing Public Transport Company for 36 years before joining Nanjing Argos. Her skills and experience in financial management of a public bus company is crucial in Nanjing Argos' success in cost control.

Profiles of Directors and Senior Management

Mr. Lu Xiang Dong, aged 50, has been the Manager (Operation) of Nanjing Argos since inception. Mr. Lu served in Nanjing Public Transport Company for 22 years, before which he was a navy officer, beginning as a bus captain before joining Nanjing Argos. Mr. Lu has extensive experience in every aspect of operation in a public bus company, his experience is in the area of safety and operational management. Mr. Lu is currently heading the operation in Wanzhou subsequent to the establishment of Chongqing Wanzhou Argos.

Mr. Wu Guang Jun, B. Eng., aged 37, has been the Manager (Administration and Human Resources) of Nanjing Argos since 1998. Mr. Wu has over 17 years of experience in the administration of public utility companies. He specializes in the formulation of ISO 9002 work procedures and staff training.

Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual business progress in the comparison with the business objectives set out in the Prospectus of the Company .

	Business objectives for the period of 31st July to 31st December 2001 as disclosed in the Prospectus	Actual business progress up to the period of 31st July 2001 to 31st December 2001
General	To apply for fare increase	Fare adjustment report submitted to the relevant authorities, fare increase expected during year 2002-2003
	Increase of market share & contributions as a result of full implementation of IC cards	Full implementation of IC cards in Nanjing market share of Nanjing Argos increase from 8% to 9.4%
	To purchase an additional 80 buses in the year in Nanjing Argos	34 buses were purchased during the year by Nanjing Argos. Out of the 34 buses 30 buses were purchased in the second half of the year
Tourist Routes	Alternation of services and allocation of vehicles	The network of tourist routes was adjusted to interconnect from east to west and from north to south
	Monthly tickets to be used in the tourist routes	Presently , the IC card monthly tickets can be used in the tourist routes, thus to enhance passenger sources
	Bulk-buy discount on tourist routes tickets	As IC card monthly tickets can be used in the tourist routes, the plan was discarded
	Set up the "Public Tourist Route network"	Nanjing Argos has set up the Y3 tourist route inter -connected the public route
	Launch tourist routes services in Wanzhou	The services has not yet commenced due to immatured tourist market

Comparison of Business Objectives with Actual Business Progress

	Business objectives for the period of 31st July to 31st December 2001 as disclosed in the Prospectus	Actual business progress up to the period of 31st July 2001 to 31st December 2001
Public Routes	To acquire 40 new buses	20 new buses was acquired and allocated to various routes, including the new route 93W
	Monitor closely the patronage of individual routes	Buses were re-allocated from time to time among the 13 public and tourist routes in order to enhance service quality
	Extension of routes 20W and 23W	20W not yet extended pending approval, but 23W was extended as plan
	Establishment of overnight services	As the revenue may not cover the cost, the Directors have to suspend the plan
	Acquiring further public routes	A comprehensive plan has not yet formulated, due to expansion in Taizhou & Wanzhou, it will be followed in Year 2002
	Feasibility of a fully air conditioned fleet	Y4 Tourist Route was a fully air-conditioned fleet and highly appraised by the passengers, while other routes were pending renovation
	Improvement and alternation of existing services	The bus fleet operation management was improved and enhanced, and unified with the Group management guidelines
	Launch of public routes service in Wanzhou	Public routes services was launched in Wanzhou as from late March 2001
	Launch of public routes services in Taizhou and Wuhu	Public routes services were launched in Taizhou as from late September 2001, while the project in Wuhu has not yet been finalized due to unfavourable investment terms
	Negotiations to set up services in other cities of the PRC	Negotiations was still going on, but no new joint venture has been finalized

Comparison of Business Objectives with Actual Business Progress

	Business objectives for the period of 31st July to 31st December 2001 as disclosed in the Prospectus	Actual business progress up to the period of 31st July 2001 to 31st December 2001
"Hire-a-Bus" and Employee Services	To secure events transportation	Great effort spent to seize events transportation business in order to gain more revenue, resulting in a 15% contribution to the total revenue of the year
	Establishment of inner-city shopping lines	Inner-city shopping lines were successfully set up, the results were remarkable
	To promote "Hire-a-Bus" service to school and college	Service contracts were signed with schools and colleges for the provision transportation services to their students
	Maintaining current market share in the employee services sector	The income from these services was increased slightly over last year with a slight increase in market share
Sightseeing ticket sales and tour	Introduction of such services in other cities	Such services were gradually introduced to Wanzhou and Taizhou Argos
	Sale of tickets on the buses serving the tourist routes	Tickets of more than 20 scenery points were being sold on the buses serving the tourist routes
	Establishing a tourist centre In Nanjing Railway Station	Application was in progress, once approval obtained from the relevant authority, the centre will be opened.
	Establishing one-day tour service for Nanjing citizens and capture a larger share of the market	This kind of tour services has been well organized and will be enhance in Year 2002, in order to generate more income
	Plans to promote its recently established tour destinations	May 1 Spring Tours has attracted many external and internal provincial residents to joined the tours organized by Nanjing Argos
	Launching of "Commercial Excursion" and leisure tours	This kind of tours was being negotiated, once mutual agreement made with other travel companies, the tours will be put in service

Use of net proceeds from the issuing of the new shares

Business scope	Project	Amount used for the period from 13th August 2001 to 31st December 2001 as disclosed in the Prospectus (HK\$/million)	Actual amount used for the period from 13th August 2001 to 31st December 2001 (HK\$/million)
Joint venture partnership	Investment in T aizhou	6.00	4.49
	Investment in Wuhu	6.00	–
Repayment of Shareholders' loan	To Argos Hong Kong	3.30	3.30
	To other shareholders	6.70	6.70
Working Capital	For daily operations	3.00	3.00

According to the Prospectus of the Company, the Group planned to use a total of approximately HK\$22.0 million of the net proceeds of the Share Offer during the relevant period, and particularly (i) approximately HK\$6.0 million for investment in T aizhou, (ii) approximately HK\$6.0 million for investment in Wuhu, (iii) approximately HK\$10.0 for the repayment of Shareholders' loan. As at the date of this report, none of the net proceed of the Share Offer has been spent for item (ii) referred above.

Following the listing of the shares of the Company on 13th August 2001, the Company invested approximately HK\$4.5 million for establishment of T aizhou Argos Public Transport Bus Company, Limited as stated in the Prospectus, 60% of the issued share capital of which is owned by the Group. During the year, the Group also utilized approximately HK\$10.0 million for repayment of shareholders' loan. The remaining balance of the proceeds have been deposited at the licensed banks as preparation for future use as set out in the business development plan in the Prospectus.

During the year, the Group was actively in negotiation with certain state owned corporations for the establishment of new joint ventures, and also explored a number of potential investment opportunities in companies in mainland China that are complementary to the core business of the Group, however subject to further negotiation, there is no agreement reached yet.

For the forward looking period, the Company will continue to further apply the remaining balance of approximately HK\$1.51 million of the planned investment amount of approximately HK\$1.51 million for the balance payment of the joint venture in Taizhou.

Report of the Directors

The directors present their report and the audited financial statement of the Company for the period from 13th October 2000 (date of incorporation) to 31st December 2001 and of the Group for the year ended 31st December, 2001.

GROUP REORGANISATION

The Company was incorporated in Hong Kong with limited liability on 13th October, 2000 under the Companies Ordinance (Cap 32 of the Laws of Hong Kong). In preparing for the listing of the shares of the Company on the GEM, Argos Group underwent a reorganization (the "Reorganization") on 30th July 2001, as further detailed in the Prospectus of the Company. As a result of the Reorganization, the Company became the holding company of Argos Group on 30th July 2001. Further details of the Reorganization are set out in note (1) to the financial statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note (2) to the financial statements.

SEGMENTAL INFORMATION

An analysis of Argos Group's turnover and contribution to profit from operating activities by principal activity for the year ended 31st December 2001 is as follow:

	2001		2000	
	Gross Profit/ (Loss) from operating		Gross Profit/ (Loss) from operating	
	Turnover	activities	Turnover	activities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Public Routes	46,095	9,263	31,288	8,938
Tourist Routes	9,942	1,135	4,174	1,193
"Hire-a-Bus" and Employee Services	1,549	482	6,359	1,735
Sightseeing Tickets Sales	1,558	781	156	85
Sub-contracting	2,141	1,306	-	-
Rental	653	540	-	-
	<u>61,938</u>	<u>13,507</u>	<u>41,977</u>	<u>11,951</u>
Other Revenue		12,009		8,970
Administrative Expenses		<u>(10,747)</u>		<u>(7,851)</u>
		<u>14,769</u>		<u>13,070</u>

No geographical analysis of Argos Group's turnover and their respective gross profit/(loss) is presented as all the turnover is attributable to services rendered in PRC.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 7% of Argos Group's services were rendered by the five largest customers.

In the year under review, purchases from the Group's five largest suppliers accounted for 34.7% of the total purchase for the year and purchases from the largest supplier included therein amounted to 22.7%.

None of the directors of the Company or any of their associates or any shareholders who, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest suppliers noted above.

RESULTS AND APPROPRIATIONS

The results of Argos Group for the year ended 31st December 2001 are set out in the consolidated income statement on page 29 of the annual report.

The Directors do not recommend the payment of a dividend.

Report of the Directors

FINANCIAL SUMMARY

A summary of the result and the assets and liabilities of the Group prepared on the basis set out in the notes below. This summary is not part of the audited financial statements.

RESULTS

	Year ended 31 December 2001	Year ended 31 December 2000
	HK\$'000	HK\$'000
Turnover	61,938	41,977
PROFIT BEFORE TAX	13,704	11,797
Tax	(3,157)	(2,995)
PROFIT BEFORE MINORITY INTERESTS	10,547	8,802
Minority interests	(5,638)	(4,521)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	4,909	4,281
	31 December	
	2001	2000
	HK\$'000	HK\$'000
TOTAL ASSETS	137,620	70,347
TOTAL LIABILITIES	(77,263)	(55,998)
MINORITY INTERESTS	(15,034)	(4,840)
NET ASSETS	45,323	9,509

- Notes:
- The results of the Group for the year ended 31 December 2001 have been prepared on a combined basis as if the current group structure had been in existence throughout the period and have been extracted from the Company's prospectus dated 31 July 2001. The result of the Group for the year ended 31 December 2001 are those set out on page 29 of the financial statement.
 - Since the reorganisation of the Group was completed in July 2001, the only audited consolidated balance sheets for the Group that have been prepared are those set out on pages 30 to 31 of the financial statement.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are set out in note 13 to the financial statements.

AMOUNT DUE FROM A FELLOW SUBSIDIARY

It represents the proportional allocation of floatation expenses to be borne by the management shareholders. The amount is unsecured, non-interest bearing and is repayable on demand.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 19 to the financial statements.

ISSUED CAPITAL AND SHARE OPTIONS

Details of the movements in issued capital and share options of the Company during the year are set out in note 21, respectively, to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 22 to the financial statements.

DONATIONS

During the year, charitable and other donations of approximately HK\$189,000 (2000: HK\$Nil) were made.

Report of the Directors

DIRECTORS

The directors of the Company during the year are:

Executive directors

Wong Wah Sang, M.B.E.

Wong, Wilson

Wong Man Chiu, Ronnie, J.P.

Yeung Wai Hung

Independent non-executive directors

Ng Ming Wah, Charles

(appointed on 2nd January 2001)

Sung Wai Tak, Her man

(appointed on 2nd January 2001)

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13 of the annual report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in note 10 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company on 30th July 2001 for an initial term of three years commencing on 30th July 2001 until 30th July 2004 and thereafter renewable automatically for successive terms of one year each commencing from the day immediately after the expiry of the then current of the Director's appointment, unless and until terminated by not less than three months' notice in writing served by either party on the other.

DIRECTORS' INTEREST IN CONTRACTS

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2001, the interests of the directors in the shares of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name	Type of interest	Number of issued share held
Mr. Wilson Wong	Corporate	126,000,000 (notes 1 to 2)

Notes:

1. These 126,000,000 shares are held by Sino Market Enterprises Limited which is beneficially owned as to 61.03 per cent. by Sinoman International Limited. Sinoman International Limited is in turn beneficially owned as to 80 per cent. by Twilight Enterprises Limited which is beneficially owned as to 50 per cent. by Mr. Wong, Wilson and as to 50 per cent. by Ms. Chiu Gee Chai, the wife of Mr. Wong, Wilson.
2. Mr. Wong, Wilson is deemed to be interested in 126,000,000 shares by virtue of the SDI Ordinance.
3. By virtue of the SDI Ordinance, Mr. Wong, Wilson is deemed to be interested in the entire issued share capital of Argos Hong Kong, Argos Bus Services (China) Company Limited, Moving Step Limited and Ming Tak Transportation Service Co., Limited, 80 per cent. of the issued share capital of Sinoman International Limited and 50 per cent of the issued share capital of each of Twilight Enterprises Limited, Ringloma Limited, Metro Line Tours Limited, CLK Bus Company Limited and Goldspark HK Tours Limited.
4. By virtue of the SDI Ordinance, Mr. Yeung Wai Hung is personally interested in 2,000 shares in Sinoman International Limited and 150 shares in Metro Line Tours Limited.

Report of the Directors

SHARE OPTION SCHEME

On 31 July 2001, a share option scheme was approved by a written resolution of all the shareholders of the Company under which the executive directors may, at their discretion, grant options to themselves and the full-time employees of Argos Group entitling them to subscribe for shares representing up to a maximum of 10 per cent, of the shares in issue from time to time (excluding shares which have been allotted and issued pursuant to the share option scheme). During the period from 13th August, 2001 to 31st December, 2001, no option has been granted or agreed to be granted to the directors under the scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Except the share option disclosed above, at no time during the year ended 31st December, 2001 was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors to acquire benefits by means of the acquisition of shares in, of the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the Shares of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31st December, 2001, the register of substantial shareholders (other than a director) maintained by the Company under section 16(1) of the SDI Ordinance shows that the Company had been notified of substantial shareholders' interests, being 10% or more of the Company's issued share capital, as follows :

Name	Note	Number of Shares	Percentage of issued share capital
Sino Market Enterprises Limited	1	126,000,000	70%
Sinoman International Limited	2	126,000,000	70%
Twilight Enterprises Limited	3	126,000,000	70%
Kenworth Enterprises Limited	5	126,000,000	70%
Chiu Gee Chai	3	126,000,000	70%

Notes:

1. These 126,000,000 shares are held by Sino Market Enterprises Limited which is beneficially owned as to 61.03 per cent. by Sinoman International Limited and as to 34.97 per cent. by Kenworth Enterprises Limited.

Report of the Directors

2. Sinoman International Limited is beneficially owned as to 80 per cent. by Twilight Enterprises Limited which is beneficially owned as to 50 per cent. by Mr. Wong, Wilson, an executive director, and as to 50 per cent. by Ms. Chiu Gee Chai, the wife of Mr. Wong, Wilson.
3. By virtue of the SDI Ordinance, Ms Chiu Gee Chai is deemed to be interested in 126,000,000 shares.
4. By virtue of the SDI Ordinance, each of Sino Market Enterprises Limited, Sinoman International Limited, Kenworth Enterprises Limited, Twilight Enterprises Limited and Ms. Chiu Gee Chai is deemed to be interested in 500,000 ordinary shares in Argos Bus Services (China) Company Limited, a subsidiary of the Company.
5. The issued share capital of Kenworth Enterprises Limited is beneficially owned by Mr. Wong Wah Sang, an executive director and chairman of the Company, as to 22.23 per cent., Mr. Wong Man Fung, Anthony as to 11.11 per cent., Mr. Wong Man Che, Edward as to 11.11 per cent., Mr. Wong Man Ka, Stephen as to 11.11 per cent., Ms. Wong Man Hing, Alice, the wife of Mr. Kwan Yan Ming, as to 11.11 per cent., Mr. Wong Man Chiu, Ronnie, an executive director, as to 11.11 per cent., Mr. Wong Man Kon, John as to 11.11 per cent. and Mr. Wong Man Kong, Peter as to 11.11 per cent.. Mr. Wong Wah Sang is the father of the other shareholders mentioned above and is also the elder brother of Mr. Wong, Wilson, an executive director.

Saved as disclosed above, no person had registered an interest in the share capital of the Company that was required under Section 16(1) of the SDI Ordinance.

STAFF RETIREMENT SCHEME

Details of the staff retirement scheme of the Group and the employer's staff retirement costs charged to the profit and loss account for the year are set out in note 10 to the financial statements, respectively.

SPONSOR'S INTEREST

Pursuant to the agreement dated 30th July 2001 entered into between the Company and Yu Ming Investment Management Limited ("Yu Ming"), Yu Ming will receive a fee for acting as the Company's retained sponsor for the period commencing 13th August 2001 and expires on 31st December 2003 (being the last day of the second full financial year of the Company after its listing on the GEM). As at 31st December 2001, none of Yu Ming, its directors, employees and their associates had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are the review and supervision of the Company's financial reporting process and internal control systems. The audit committee comprised Mr. Wong, Wilson, an executive director and two independent non-executive directors of the Company, namely Mr. Ng Ming Wah, Charles and Mr. Sung Wai Tak, Herman.

Report of the Directors

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 13th August 2001.

CHARGE ON ASSETS

As at 31st December 2001, fixed deposits of HK\$19,699,665 and HK\$402,977 have been pledged by the Group to banks to secure banking facilities granted to Argos Group and Argos Hong Kong respectively.

Six motor vehicles have been pledged to a bank to secure banking facilities granted to Argos Group.

FOREIGN CURRENCY RISK

Since most of the transactions of the Group are dominated in Renminbi Yuan, no hedging or other arrangements to reduce the currency risk have been implemented.

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

From 13th August, 2001 to 31st December, 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

The directors of the Company have substantial experience in the operation of transportation companies especially bus services, with over 20 years of experience in the operation of such services in Hong Kong. As at 31st December, 2001, such operations in Hong Kong are trading under the names of Argos Hong Kong, a fellow subsidiary of the Company, Goldspark HK Tours Limited, a 50 per cent. indirectly owned subsidiary of Argos Hong Kong, and Metro Line Tour Limited, owned 50 per cent. by Twilight Enterprises Limited and 15 per cent. by Mr . Yeung Wai Hung. Argos Hong Kong is one of the most established private bus operators in Hong Kong with over 120 buses in service and a fully-equipped repairs and maintenance depot. Goldspark HK Tours Limited provides tour service in Hong Kong with one open-top double-decker. It also provides other services for outbound tours from Hong Kong to Shenzhen including tour guides, tour and hotel packages. Metro Line Tour Limited provides employee services in Hong Kong with three single-decker buses.

Argos Hong Kong also have two wholly-owned subsidiaries namely, Ming Tak Transportation Service Company Limited and Moving Step Limited, which are engaged in fleet purchases and lease back to Argos Hong Kong. The two companies are essentially the financing arms of Argos Hong Kong.

Report of the Directors

Argos Hong Kong and Kwong Chung Bus Holdings Limited, a company listed on the main board of the Stock Exchange, co-invested in a 50:50 joint venture named CLK Bus Company Limited for the provision of employee services in the Chek Lap Kok area when the Hong Kong International Airport was under construction. Operations have been ceased subsequent to the completion of construction of the Hong Kong International Airport.

All of Argos Hong Kong, Goldspark HK Tours Limited, Metro Line Tour Limited, Moving Step Limited, Ming Tak Transportation Service Company Limited and CLK Bus Company Limited are not subsidiaries of the Company. Distinct from the Company, all six companies derive income from business originated in Hong Kong and therefore is not going to compete, whether directly or indirectly, with the operations of the Group, which derives income from business originated in the PRC as a result of the different geographical delineation. Nevertheless, it is agreed amongst the Group and the six companies that any cross-border routes between Hong Kong and the PRC will not be operated by the Group.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of Argos Group.

AUDITORS

The financial statements of Argos Group were audited by Charles Chan, Ip & Fung CPA Ltd. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wong Wah Sang

Chairman

Hong Kong, 26th March 2002

Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF ARGOS ENTERPRISE (HOLDINGS) LIMITED

(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)

We have audited the financial statements on pages 29 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Hong Kong, 26 March, 2002

Chan Wai Dune, Charles

Practising Certificate Number P00712

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 HK\$'000	2000 HK\$'000
TURNOVER	4	61,938	41,977
COST OF BUS SERVICES RENDERED	4	(48,431)	(30,026)
GROSS PROFIT	4	13,507	11,951
OTHER REVENUE	4	12,009	8,970
ADMINISTRATIVE EXPENSES		(10,747)	(7,851)
PROFIT FROM OPERATIONS	5	14,769	13,070
INTEREST INCOME		1,202	729
FINANCE COSTS	6	(2,267)	(2,002)
PROFIT BEFORE TAXATION		13,704	11,797
TAXATION	7	(3,157)	(2,995)
PROFIT BEFORE MINORITY INTERESTS		10,547	8,802
MINORITY INTERESTS		(5,638)	(4,521)
NET PROFIT FOR THE YEAR		4,909	4,281
DIVIDENDS	8	-	-
EARNINGS PER SHARE	9	3.04 cents	2.85 cents

ARGOS ENTERPRISE (HOLDINGS) LIMITED

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Net profit for the year is the sole component of the total recognised gains and losses.

The notes on pages 35 to 59 form an integral part of these financial statements.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2001

	Note	2001 HK\$'000	2000 HK\$'000
ASSETS			
Non-current assets			
Goodwill	11	465	–
Intangible assets	12	1,056	–
Property, plant and equipment	13	82,920	42,593
Investments in securities	15	701	701
Deferred tax asset	16	4,231	4,244
		89,373	47,538
Current assets			
Due from a fellow subsidiary	17	4,049	–
Due from related companies	18	289	209
Due from a minority shareholder		–	1,401
Prepayments, deposits and other receivables		3,678	3,740
Consumables		1,210	490
Trade receivables		1,087	781
Fixed deposits		31,385	12,963
Cash and bank balances		6,549	3,225
		48,247	22,809
LIABILITIES			
Current liabilities			
Current portion of interest-bearing borrowings	19	23,566	9,929
Trade payables		1,121	1,396
Advertising income on fleet body receipt in advance		783	1,664
Other payables and accruals		34,204	11,085
Taxation payable		1,027	8,272
Due to a fellow subsidiary		–	7,216
Due to a related company	20	16	–
Due to minority shareholders		2,320	–
		63,037	39,562
Net current liabilities		(14,790)	(16,753)
Total assets less current liabilities		74,583	30,785

Consolidated Balance Sheet *(Continued)*

AS AT 31 DECEMBER 2001

	Note	2001 HK\$'000	2000 HK\$'000
Non-current liabilities			
Interest-bearing borrowings	19	9,750	12,750
Advertising income on fleet body receipt in advance		4,476	3,686
		14,226	16,436
MINORITY INTERESTS			
		15,034	4,840
NET ASSETS			
		45,323	9,509
CAPITAL AND RESERVES			
Issued capital	21	1,800	500
Reserves	22	43,523	9,009
		45,323	9,509

Approved by the board of directors on 26 March, 2002.

On behalf of the board

Wong Man Chiu, Ronnie
Director

Yeung Wai Hung
Director

The notes on pages 35 to 59 form an integral part of these financial statements.

Balance Sheet

AS AT 31 DECEMBER 2001

	Note	2001 HK\$'000	2000 HK\$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	14	990	–
Due from a subsidiary	14	13,567	–
		14,557	–
Current assets			
Due from immediate parent enterprise		–	10
Due from a fellow subsidiary		4,898	–
Prepayments, deposits and other receivables		14	–
Fixed deposits		11,282	–
Cash and bank balances		41	–
		16,235	10
LIABILITIES			
Current liabilities			
Other payables and accruals		554	–
		15,681	10
NET ASSETS			
		30,238	10
CAPITAL AND RESERVES			
Issued capital	21	1,800	10
Reserves	22	28,438	–
		30,238	10

Approved by the board of directors on 26 March, 2002.

On behalf of the board

Wong Man Chiu, Ronnie
Director

Yeung Wai Hung
Director

The notes on pages 35 to 59 form an integral part of these financial statements.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 HK\$'000	2000 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	23	28,848	17,129
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,202	729
Interest paid		(2,267)	(2,002)
Dividend paid to a minority shareholder		(3,442)	-
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(4,507)	(1,273)
TAXATION			
PRC income tax (paid)/refunded		(5,587)	756
INVESTING ACTIVITIES			
Payment of intangible assets		(1,080)	-
Purchase of property, plant and equipment		(46,417)	(15,287)
Purchase of investment securities		-	(280)
Sale of property, plant and equipment		26	-
(Increase)/decrease in fixed deposits		(18,422)	996
Purchase of a subsidiary		(990)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(66,883)	(14,571)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(48,129)	2,041

Consolidated Cash Flow Statement *(Continued)*

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 HK\$'000	2000 HK\$'000
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(48,129)	2,041
FINANCING			
New bank loans raised	23	26,002	9,346
Proceeds from issue of new shares		36,000	–
Issuing expenses		(5,000)	–
Repayment of bank loans	23	(15,427)	(4,470)
Repayment to immediate parent enterprise		–	(7,624)
Receipt from/(payment to) minority shareholders		9,878	(3,123)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING		51,453	(5,871)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,324	(3,830)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		3,225	7,055
CASH AND CASH EQUIVALENTS AT END OF YEAR		6,549	3,225
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		6,549	3,225

The notes on pages 35 to 59 form an integral part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

1. GROUP REORGANIZATION

The Company was incorporated in Hong Kong on 13 October 2000 as a private limited company under the Companies Ordinance.

The companies in the Group underwent a Reorganization to rationalise the Group's structure in preparation for the listing of Shares on the Growth Enterprise Market under which on 30 July 2001 the Company acquired the entire issued share capital of Argos Bus Services (China) Company Limited ("Argos China") from Argos Bus Services Company Limited ("Argos Hong Kong") and the setting-off of an indebtedness owed by the Company to Argos Hong Kong, the Company was allotted, through issued an aggregate of 149,000,000 shares, credited as fully paid, to Sino Market Enterprises Limited ("Sino Market") as directed by Argos Hong Kong in consideration thereof.

The Company's shares were listed on the Stock Exchange on 13 August 2001.

2. BASIS OF PREPARATION

a) PRINCIPAL ACTIVITIES

The principal business of the Group is the provision of public bus transportation and related services in the People's Republic of China (the "PRC").

b) GROUP FINANCIAL STATEMENTS

The Group financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. The Reorganization referred to in note 1 above has been accounted for by using merger accounting. Apart from the Reorganization, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with SSAP issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention. Principal accounting policies are summarised below:

a) REVENUE RECOGNITION

- i) Revenue from bus operations is recognised when the related bus services are rendered.
- ii) Revenue of sub-contracting and rental from public transport is recognised on a straight-line basis over the period of the respective leases.
- iii) Revenue from sightseeing ticket sales is recognised when the tickets are sold.
- iv) Advertising income on fleet body, including revenue invoiced in advance, is recognised over the terms of the relevant agreements.
- v) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- vi) Rental income from equipment rented out under operating leases is recognised on a straight-line basis over the period of the respective leases.

b) BORROWING COSTS

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. The borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

c) GOODWILL

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries acquired at the date of acquisition, is stated at cost and amortized by equal annual instalments over its estimated useful economic life of twenty years. Negative goodwill is credited directly to reserves.

d) INTANGIBLE ASSETS

Intangible assets, which represent obsolete motor vehicles together with licence renewable for eight years, are stated at cost less aggregate amortization. Amortization is calculated on a straight-line basis to write off their costs over a period of eight years.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

e) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation.

Property, plant and equipment are depreciated at rates sufficient to write off their cost over their estimated useful lives after taking into account their estimated residual value on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	5%
Motor vehicles	10%
Furniture, fixtures and office equipment	20%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the company.

The carrying amount of property, plant and equipment are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

f) OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals receivables/payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

g) SUBSIDIARIES

A subsidiary is a company in which the company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board.

Investments in subsidiaries in the balance sheet are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted to the extent of dividends received and receivable.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

h) INVESTMENTS IN SECURITIES

All of the Group's investments in securities are investment securities. Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost, as reduced by any impairment loss that is other than temporary.

i) RELATED PARTIES

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

j) CONSUMABLES

Consumables, which represent spare parts for repairs of motor vehicles, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the consumables to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated recoverable value in the ordinary course of business less the estimated costs necessary to make the sale.

k) CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

l) DEFERRED TAXATION

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realization is assured beyond reasonable doubt.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

m) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The financial statements of subsidiaries, expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as movement in exchange fluctuation reserves.

n) RETIREMENT BENEFIT COSTS

The Group's contributions to the Hong Kong Mandatory Provident Fund ("MPF") Scheme are expensed as incurred.

The Group's contributions to the defined contribution retirement benefit scheme of the subsidiaries are expensed as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

4. TURNOVER, REVENUES AND SEGMENT INFORMATION

	2001 HK\$'000	2000 HK\$'000
Turnover		
Related bus services		
– Public routes	46,095	31,288
– Tourist routes	9,942	4,174
– 'Hire a bus' and employee service	1,549	6,359
Sub-contracting	2,141	–
Rental	653	–
Sightseeing ticket sales	1,558	156
	61,938	41,977
Other revenue		
Advertising income on fleet body	2,123	1,712
Rental income from equipment	–	42
Subsidy from local authority	9,406	6,039
Sundries	480	1,177
	12,009	8,970
Total revenue	73,947	50,947

Subsidy from local authority represents cash incentive received from local authority in Nanjing, which is calculated on the full amount of sales tax and income tax paid by Nanjing Public Transport Argos Bus Company Limited (the "Nanjing Argos") and 南京雅高風光旅游有限公司 (the "Nanjing Argos Tours") in the first year of net profit counted. This subsidy will continue for the full amount of sales tax and half of the income tax paid by Nanjing Argos and Nanjing Argos Tours for each of the following two years. No further subsidy will be entitled by Nanjing Argos for the period after 31 December 2001.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

4. TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

The results of the major business activities for the year ended 31 December 2001 and 2000 are summarised below:

i) Year ended 31 December 2001

	2001						
	Public routes	Tourist routes	'Hire a bus' and employee service	Sightseeing ticket sales	Sub-contracting	Rental	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	46,095	9,942	1,549	1,558	2,141	653	61,938
Cost of bus services rendered	(36,832)	(8,807)	(1,067)	(777)	(835)	(113)	(48,431)
Gross profit	9,263	1,135	482	781	1,306	540	13,507
Unallocated items:-							
Other revenue							12,009
Administrative expenses							(10,747)
Profit from operations							14,769
Interest income							1,202
Finance costs							(2,267)
Profit before taxation							13,704
Taxation							(3,157)
Profit before minority interests							10,547
Minority interests							(5,638)
Net profit for the year							4,909

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

4. TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

ii) Year ended 31 December 2000

	2000				Total HK\$'000
	Public routes HK\$'000	Tourist routes HK\$'000	'Hire a bus' and employee service HK\$'000	Sightseeing ticket sales HK\$'000	
Turnover	31,288	4,174	6,359	156	41,977
Cost of bus services rendered	(22,350)	(2,981)	(4,624)	(71)	(30,026)
Gross profit	8,938	1,193	1,735	85	11,951
Unallocated items: –					
Other revenue					8,970
Administrative expenses					(7,851)
Profit from operations					13,070
Interest income					729
Finance costs					(2,002)
Profit before taxation					11,797
Taxation					(2,995)
Profit before minority interests					8,802
Minority interests					(4,521)
Net profit for the year					4,281

iii) The Group's operations are primarily in the PRC. Consequently, no geographical segment analysis is presented.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

5. PROFIT FROM OPERATIONS

Profit from operations is stated after charging the following:

	2001	2000
	HK\$'000	HK\$'000
Amortization of goodwill arising from the Reorganization	25	–
Amortization of intangible assets	24	–
Auditors' remuneration	220	13
Depreciation	6,457	3,914
Loss on disposal of property, plant and equipment	7	–
Operating leases rentals in respect of rented premises	8	44
Staff costs	21,501	16,037

6. FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
Borrowing costs		
Interest expenses on bank loans, overdrafts and other loans wholly repayable within 5 years	(2,267)	(351)
Interest expenses on bank loans and other loans wholly repayable after 5 years	–	(1,651)
	(2,267)	(2,002)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

7. TAXATION

The amount of taxation charged to the consolidated income statement represents:

	2001	2000
	HK\$'000	HK\$'000
PRC income tax		
— provided for the year	(3,144)	(4,780)
— deferred taxation (charge)/credit	(13)	1,785
	(3,157)	(2,995)

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdiction.

Deferred taxation (charge)/credit represents the effect of timing differences arising from the recognition of advertising income on fleet body in the year of receipt for the PRC income tax purpose whilst such advertising income is to be recognised in the income statement of the Group over the period of the agreements.

8. DIVIDENDS

The directors do not recommend the payment of a dividend.

9. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$4,909,000 (2000: HK\$4,281,000) and on the weighted average number of 161,589,041 (2000: 150,000,000) shares in issue during the year.

In determining the number of shares in issue for the year ended 31 December 2000, a total of 150,000,000 shares issued pursuant to the group Reorganisation as mentioned in note 1 are deemed to have been in issue throughout the year ended 31 December 2000, representing the shares issued for the group Reorganisation during the year ended 31 December 2001.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

10. STAFF COSTS

	2001	2000
	HK\$'000	HK\$'000
The amounts comprise:		
Directors' remuneration	375	513
Retirement benefit scheme contributions	3,732	1,074
Other staff costs	17,394	14,450
	21,501	16,037

Directors' remuneration:

	2001	2000
	HK\$'000	HK\$'000
Fees	-	-
Other emoluments		
Salaries and other benefits-in-kind		
– Executive directors	275	513
– Independent non-executive directors	100	-
Retirement benefit costs		
– Executive directors	9	-
– Independent non-executive directors	-	-
	384	513

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

10. STAFF COSTS (Continued)

Employees' emoluments:

The five individuals with the highest emoluments in the Group for the year ended 31 December 2001 included two directors of the Company. The emoluments of the remaining individuals, are all below HK\$1,000,000 and are analysed as follows:

	2001	2000
	HK\$'000	HK\$'000
Salaries and other benefits	672	164
Bonuses	-	4
Performance related incentive payments	-	-
Retirement benefit scheme contributions	25	10
	697	178

Retirement benefit scheme:

The Group operates retirement benefit scheme for its directors and employees in Hong Kong. Moreover, pursuant to the PRC Government regulations, the Group is required to contribute to a central pension scheme in respect of certain of the Group's employees in the PRC based on 16% to 30% of the salaries of those employees and there is no forfeited contributions under the central pension scheme.

11. GOODWILL

	2001	2000
	HK\$'000	HK\$'000
Goodwill arising from Reorganization	490	-
Less: Aggregate amortization	(25)	-
	465	-

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

12. INTANGIBLE ASSETS

	2001 HK\$'000	2000 HK\$'000
Cost	1,080	–
Less: Aggregate amortization	(24)	–
	1,056	–

This cost represents 88 obsolete motor vehicles purchased by Taizhou Argos Public Transport Bus Company Limited together with licence renewable for eight years. As at 31 December 2001, there are five licenses renewed. Up to the date of this report, further 23 licenses have been renewed.

13. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and office equipment HK\$'000	Total HK\$'000
Cost				
At 1/1/2001	1,389	47,684	1,290	50,363
Additions	1,057	43,814	1,546	46,417
Disposals	–	(36)	–	(36)
Exchange adjustments	13	449	12	474
At 31/12/2001	2,459	91,911	2,848	97,218
Accumulated depreciation				
At 1/1/2001	299	7,043	428	7,770
Charge for the year	287	5,741	429	6,457
Disposals	–	(3)	–	(3)
Exchange adjustments	3	67	4	74
At 31/12/2001	589	12,848	861	14,298
Net book value				
At 31/12/2001	1,870	79,063	1,987	82,920
At 31/12/2000	1,090	40,641	862	42,593

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

14. INVESTMENTS IN SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Investments at cost:		
Unlisted shares	990	–
Due from a subsidiary	13,567	–
	14,557	–

The amount is interest free, unsecured and there are no fixed repayment terms.

The following is a list of the subsidiaries at 31 December 2001:

Name	Place of incorporation	Principal activities	Particulars of issued/registered capital	Interests held	
				Directly %	Indirectly %
Argos Bus Services (China) Company Limited	Hong Kong	Investment holding	500,000 ordinary shares of HK\$1 each	100	–
雅高(南京)企業管理顧問有限公司	PRC	Management	RMB1,000,000	100	–
Nanjing Public Transport Argos Bus Company Limited	PRC	Bus operation	RMB31,442,272	–	60
Chongqing Wanzhou Area Argos Public Transport Bus Company Limited	PRC	Bus operation	RMB10,000,000	–	60
Taizhou Argos Public Transport Bus Company Limited	PRC	Bus operation	RMB16,000,000	–	60
南京雅高風光旅游有限公司	PRC	City touring and sightseeing agent	RMB500,000	–	57

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

15. INVESTMENTS IN SECURITIES

Under benchmark treatment:

	2001 HK\$'000	2000 HK\$'000
Unlisted, at cost	701	701

The amount represents the Group's 3% equity interest in two unlisted companies established in PRC, which are engaged in the business of development of bus stops and issue of IC cards respectively.

16. DEFERRED TAX ASSET

Deferred tax asset represents principally the tax effect of timing differences attributable to the recognition of advertising income on fleet body in the year of receipt for the PRC income tax purposes whilst such income is to be recognised in the income statement of the Group over the period of the agreements.

At 31 December 2001, the Group did not have any significant unprovided deferred tax balances.

17. DUE FROM A FELLOW SUBSIDIARY

It represents the proportional allocation of floatation expenses to be borne by the Management Shareholders. The amount is unsecured, non-interest bearing and is repayable on demand.

18. DUE FROM RELATED COMPANIES

Name	Connected parties/ relationship	Balance at end of year HK\$'000	Balance at beginning of year HK\$'000	Maximum outstanding balance during the year		Note
				2001 HK\$'000	2000 HK\$'000	
東莞沙田游艇俱樂部 有限公司	Mr. Wong Man Chiu, Ronnie	-	209	209	209	(i)
Nanjing Public Utility IC Cards Company Limited ("Nanjing IC Cards")	Investee company	289	-	289	-	(ii)
		289	209			

i) This represents an amount due from 東莞沙田游艇俱樂部有限公司 of which Mr. Wong Man Chiu, Ronnie, is also a director. The amount is unsecured, bears interest at prime rate plus 2% p.a. and repayable on demand. At 31 December 2001 and 31 December 2000, there was no outstanding overdue interest and provision has not been made for the amount due.

ii) Nanjing IC Cards is an unlisted company established in PRC in which the Group holds 3% equity interest. The amount represents bus fare collected by it on behalf of Nanjing Argos and reimbursement has been made in January 2002.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

19. BORROWINGS

	2001	2000
	HK\$'000	HK\$'000
The terms of repayment of the borrowings are analysed as follows:		
Bank loans		
Within one year	23,566	9,929
One to two years	3,000	3,000
Two to five years	6,750	9,750
	33,316	22,679
Less: Amounts due within one year included in current liabilities	(23,566)	(9,929)
Amount due after one year	9,750	12,750

At 31 December 2001, the bank borrowings were secured by bank deposits amounting to approximately HK\$20 million (2000: HK\$13 million), personal guarantees executed by certain directors of the Company and the pledge of a property held by a related company.

20. DUE TO A RELATED COMPANY

The amount is unsecured, interest free and there is no fixed repayment term.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

21. ISSUED CAPITAL

	Note	Authorised	
		Ordinary shares of HK\$0.01 each	
		No. of shares	HK\$'000
At 1 January 2000		–	–
Upon incorporation of the Company	(a)	100,000,000	1,000
At 31 December 2000		100,000,000	1,000
Increase of authorised share capital	(b)	9,900,000,000	99,000
At 31 December 2001		10,000,000,000	100,000
	Note	Issued and fully paid	
		Ordinary shares of HK\$0.01 each	
		No. of shares	HK\$'000
At 1 January 2000		–	–
Issued upon incorporation of the Company	(c)	2	–
Additional issue of shares	(d)	999,998	10
At 31 December 2000		1,000,000	10
Acquisition of subsidiaries	(e)	99,000,000	990
Setting-off of an indebtedness	(f)	50,000,000	500
Issue of shares upon listing	(g)	30,000,000	300
At 31 December 2001		180,000,000	1,800

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

21. ISSUED CAPITAL (Continued)

- (a) The Company was incorporated on 13 October 2000 with an authorised share capital of HK\$1,000,000 divided into 100,000,000 shares of HK\$0.01 each.
- (b) On 30 July 2001 the authorised share capital of the Company was increased from HK\$1,000,000 to HK\$100,000,000 by the creation of an additional 9,900,000,000 new shares.
- (c) Upon its incorporation, the Company allotted and issued 2 shares at par which were credited as fully paid.
- (d) On 23 October 2000, the Company further allotted 999,998 shares at par which were credited as fully paid.
- (e) Pursuant to the Reorganization, the Company issued 99,000,000 shares to acquire 100% shareholdings of Argos China, the Group's former parent enterprise, from its then existing shareholders.
- (f) On 30 July 2001, the Company issued 50,000,000 shares at an agreed price of HK\$0.1 per share in consideration of the setting off of an indebtedness of HK\$5,000,000 owing from the Company to Argos Hong Kong.
- (g) The Company issued 30,000,000 ordinary shares of HK\$0.01 each at a subscription price of HK\$1.00 per share upon the listing of the Company's shares on the Stock Exchange. The Group raised approximately HK\$25 million net of related expenses by way of this placing and public offering.
- (h) The share capital in the consolidated balance sheet as at 31 December 2000 represents the share capital of Argos China, the former parent enterprise of the Group.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

22. RESERVES

	Note	Exchange reserve HK\$'000	Share premium HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
i) Group						
At 1/1/2000		–	–	835	3,893	4,728
Net profit for the year		–	–	–	4,281	4,281
Transfer		–	–	1,097	(1,097)	–
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At 31/12/2000		–	–	1,932	7,077	9,009
<hr/>						
At 1/1/2001		–	–	1,932	7,077	9,009
Goodwill arising from the Reorganization		–	–	–	(25)	(25)
Setting-off of an indebtedness	18(g)	–	4,500	–	–	4,500
Issue of shares upon listing	18(g)	–	29,700	–	–	29,700
Issuing expenses	18(g)	–	(5,000)	–	–	(5,000)
Net profit for the year		–	–	–	4,909	4,909
Transfer		–	–	502	(502)	–
Translation of financial statements of overseas subsidiaries		430	–	–	–	430
<hr/>						
At 31/12/2001		430	29,200	2,434	11,459	43,523
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ii) Company						
At 13 October 2000		–	–	–	–	–
Setting-off of an indebtedness	18(f)	–	4,500	–	–	4,500
Issue of shares upon listing	18(g)	–	29,700	–	–	29,700
Issuing expenses	18(g)	–	(5,000)	–	–	(5,000)
Net loss for the year		–	–	–	(762)	(762)
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At 31/12/2001		–	29,200	–	(762)	28,438

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

22. RESERVES (Continued)

In accordance with the relevant PRC regulations, subsidiaries of the Company established in the PRC are required to transfer a certain percentage of their profit after taxation, if any, to the general reserves which comprise of the statutory reserve and the enterprise expansion fund. The percentage of the transfer is determined by the board of directors of the subsidiaries.

The above reserve is non-distributable and calculated by reference to the PRC statutory financial statements of these subsidiaries.

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	13,704	11,797
Amortization of intangible assets	24	–
Depreciation	6,457	3,914
Interest income	(1,202)	(729)
Interest expenses	2,267	2,002
Loss on disposal of property, plant and equipment	7	–
Increase in amount due from a fellow subsidiary	(4,049)	–
Increase in amount due from related companies	(80)	–
Decrease/(increase) in amount due from a minority shareholder	1,401	(1,021)
Decrease/(increase) in prepayments, deposits and other receivables	62	(2,519)
Increase in consumables	(720)	(148)
Decrease in amounts due from related parties	–	3,353
Increase in trade receivables	(306)	–
Decrease in trade payables	(275)	–
Increase/(decrease) in other payables and accruals	16,529	(424)
(Decrease)/increase in advertising income receipt in advance	(91)	904
Decrease in amount due to a fellow subsidiary	(7,216)	–
Increase in amount due to a related company	16	–
Increase in amount due to minority shareholders	2,320	–
Net cash inflow from operating activities	28,848	17,129

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Bank borrowings HK\$'000
At 1 January 2000	17,804
New bank loans raised	9,345
Repayment during the year	(4,470)
<hr/>	
At 31 December 2000	22,679
<hr/>	
At 1 January 2001	22,679
New bank loans raised	26,002
Repayment during the year	(15,427)
Exchange adjustments	62
<hr/>	
At 31 December 2001	33,316

24. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

Name of related parties	Nature of related party relationship	Nature of transactions	Amount paid/ (received)		Note
			2001 HK\$'000	2000 HK\$'000	
Nanjing Public Transport Company	Minority shareholder	Salaries paid	1,598	1,583	(i)
		Share of fare receipts	-	(16,892)	(ii)
Argos Bus Services Company Limited ('Argos Hong Kong')	Fellow subsidiary	Rental paid	8	44	(iii)
		Handling income	(2)	-	(iv)
Kenworth Enterprises Limited ("Kenworth")	Related company	Interest income	-	(34)	(v)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

24. RELATED PARTY TRANSACTIONS (Continued)

Name of related parties	Nature of related party relationship	Nature of transactions	Amount paid/ (received)		Note
			2001	2000	
			HK\$'000	HK\$'000	
Mr. Wong Man Kon	Related party	Interest income	–	(65)	(vi)
Ms. Wong Man Hing	Related party	Interest income	–	(65)	(vi)
Nanjing Public Utility IC Cards Company Limited (“Nanjing IC Cards”)	Investee company	Purchase of property, plant and equipment	1,015	–	(vii)
		Service charge	492	–	(vii)
Wanzhou Public Transport Company	Minority shareholder	Purchase of consumables	379	–	(viii)
Always Earn Investments Limited (“Always Earn”)	Related company	Annual fee	156	–	(ix)
Constant Success Limited (“Constant Success”)	Related company	Interest paid	87	–	(x)
Metro Line Tours Limited (“Metro Line”)	Related company	Interest paid	29	–	(xi)
東莞沙田游艇俱樂部有限公司	Related company	Interest income	(10)	–	(xii)
Taizhou Public Transport Company	Minority shareholder	Purchase of property, plant and equipment	9,497	–	(xiii)
		Interest income	(48)	–	(xiv)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

24. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (i) Nanjing Argos agreed to bear some of the surplus staff cost of Nanjing Public Transport Company. The salaries paid were determined in accordance with the terms contained in the agreement.
- (ii) Fare receipts were calculated by reference to the mileages run by Nanjing Argos for each month in proportion to the total mileages run by the other bus companies in Nanjing, the PRC. Nanjing Public Transport Company acted as a collecting agent and reimbursed the fare to Nanjing Argos on a monthly basis.
- (iii) Rental expenses were determined in accordance with the tenancy agreement entered into between Argos Hong Kong and Argos China.
- (iv) Handling income was charged to 1% per annum on the fixed deposit of HK\$400,000 pledged to a bank to secure banking facility granted to Argos Hong Kong.
- (v) Kenworth is a shareholder of the immediate parent enterprise of the Company. Messrs. Wong Man Kon and Wong Man Hing are shareholders of Kenworth. Interest is calculated at prime rate plus 2% per annum on the outstanding balance. The advance was settled in July 2000.
- (vi) Interest income was charged at prime rate plus 2% per annum on the outstanding balance. The advances were settled in July 2000.
- (vii) The amount represents a touchless smart card fare payment system and readers purchased from Nanjing IC Cards. Fares will automatically be deducted when the smart card is presented to the smart card reader installed on the boarding gate of buses. A service charge of 2.5% will be charged by Nanjing IC Cards who acted as a collecting agent and reimbursed the fare to Nanjing Argos on a monthly basis.
- (viii) The amount represents spare parts for repairs of motor vehicles purchased from Wanzhou Public Transport Company.
- (ix) Mr. Wong Man Chiu, Ronnie and Mr. Wong Wah Sang are the shareholders and directors of Always Earn. Mr. Wong Wilson and Mr. Yeung Wai Hung are the directors of Always Earn. The amount represents annual fee of using its property to secure the facility granted to the Group.
- (x) Mr. Wong Wilson is the director of Constant Success. Interest paid was charged at 10% per annum on the outstanding balance. The balance was settled in August 2001.
- (xi) Mr. Wong Wilson is the director of Metro Line. Mr. Yeung Wai Hung is the shareholder and director of Metro Line. Interest paid was charged at 10% per annum on the outstanding balance. The balance was settled in August 2001.
- (xii) Interest income was charged at prime rate plus 2% per annum on the outstanding balance. The advance was settled in April 2001.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

24. RELATED PARTY TRANSACTIONS (Continued)

- (xiii) The amount mainly represents motor vehicles, furniture, fixtures and office equipment purchased from Taizhou Public Transport Company.
- (xiv) Interest income was charged at 5.58% per annum on the outstanding balance. The advance was settled in January 2002.

The directors of the Company have represented that all of the above transactions were carried out in the ordinary course of business of the Group and in accordance with the relevant agreements governing these transactions.

25. COMMITMENTS

(a) Capital commitments

	2001	2000
	HK\$'000	HK\$'000
Contracted but not provided for		
– Purchase of property, plant and equipment	2,042	2,325
– Commitment for contributions to subsidiaries	5,472	5,607
	7,514	7,932

(b) Commitment under operating leases

At 31 December 2001, the company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2001	2000
	HK\$'000	HK\$'000
Within one year	6	–
In the second to fifth years inclusive	–	48
After the fifth year	–	150
	6	198

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

26. CHARGES ON ASSETS

Fixed deposits of HK\$19,699,665 and HK\$402,977 have been pledged by the Group to banks to secure banking facilities granted to the Group and Argos Hong Kong respectively.

Six motor vehicles have been pledged to a bank to secure banking facilities granted to the Group.

27. ULTIMATE PARENT ENTERPRISE

The directors regard Twilight Enterprises Limited, a company incorporated in British Virgin Islands, as the ultimate parent enterprise.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Members of Argos Enterprise (Holdings) Limited will be held at Suite 51, 5th Floor, New Henry House, 10 Ice House Street, Central, Hong Kong on Monday, 22nd April, 2002 at 11:00 a.m. of the following purposes:

- (1) To receive and consider the Audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 December 2001;
- (2) To authorise the Board of Directors to fix the remuneration of the directors of the Company (the "Directors");
- (3) To re-appoint Auditors and to authorise the Board of Directors to fix their remuneration;
- (4) As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"THAT:

- (a) the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares of HK\$0.01 each in the capital of the Company, subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the articles of the Company or any applicable law to be held; or
 - (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting."

Notice of Annual General Meeting

- (5) As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- (a) the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorize the Directors to make or grant offers, agreements and options during the Relevant Period which would or might require the exercise of such powers, after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue or (ii) any scrip dividend or similar arrangement providing with the articles of the Company or (iii) any share option scheme of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of the Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the articles of the Company or any applicable law to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register of members on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”; and

Notice of Annual General Meeting

- (6) As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT** the general mandate referred to in resolution (5) above be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Directors purchased by the Company since the granting of the said general mandate pursuant to the exercise by the Directors of the powers of the Company to purchase such shares provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution."

By order of the Board
Kwok Man Pang, Lewis
Company Secretary

Hong Kong, 26 March, 2002

Notes:

1. A Member may appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a Member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's Share Registrar in Hong Kong, Hong Kong Registrars Limited, 2/F, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong for registration not less than 48 hours before the time appointed for holding the Meeting.
3. An explanatory statement containing further details regarding Resolution Nos. 5 to 6 above will be sent to shareholders shortly together with the 2001 Annual Report.