



ARGOS ENTERPRISE (HOLDINGS) LIMITED

雅高企業(集團)有限公司

(Incorporated in Hong Kong with limited liability)



First Quarterly Report
2002

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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.

CHAIRMAN'S STATEMENT

I am pleased to announce the results of Argos Enterprise (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") for the three months ended 31st March, 2002.

Group turnover was approximately HK\$19,840,000 for the three months ended 31st March, 2002 representing a 66.36% increase over the same period last year. Profit attributable to shareholders for the three months ended 31st March, 2002 was approximately HK\$1,505,000 representing a 41.76% decrease against the profit of approximately HK\$2,584,000 for the same period a year ago.

The bus operations in Nanjing Argos continued to be the main source of revenue and profit for the Group, while the bus operations in both Wanzhou Argos and Taizhou Argos have commenced to contribute a significant portion of revenue and generated a moderate profit to the Group during the first quarter. Despite the substantial increase in turnover, the Group posted a drop in profit of HK\$1,079,000, representing a decrease of 41.76%, as compared to the profit of approximately HK\$2,584,000 for the same period last year, the reduction of net profit in the first quarter was caused by the late receipt of a proportion of the subsidies from local authority. Other factors that impact on the Group's performance included a fall in interest rate which lowered interest income, short-term increase in administrative expenses as a result of the launches of cost-reduction programs in Wanzhou and Taizhou and the finance cost associated with capital investments. A review on the cost structure of all the major operating subsidiaries (i.e. Nanjing Argos, Wanzhou Argos and Taizhou Argos) in Mainland China is underway which is part of the cost reduction program. In addition, all labour intensive administrative functions will be computerised as much as possible, with the objective of reducing operating cost and improving efficiency.

On behalf of the Board of Directors, I would like to express my gratitude to staff for their support and diligence during the period. I would also like to tender my appreciation towards to our shareholders, our business partners and our customers for their loyalty and support to the Group during the period.

THREE-MONTH RESULTS (UNAUDITED)

The Board of Directors of the Company is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 2002 together with comparative unaudited figures for the corresponding period in 2001 (the "Relevant Period"), as follows:

	Note	Three months ended 31 March	
		2002 HK\$'000	2001 HK\$'000
TURNOVER	2	19,840	11,926
COST OF BUS SERVICES RENDERED		<u>(14,640)</u>	<u>(9,443)</u>
GROSS PROFIT		5,200	2,483
OTHER REVENUE	2	2,581	5,751
ADMINISTRATIVE EXPENSES		<u>(3,579)</u>	<u>(1,685)</u>
PROFIT FROM OPERATIONS		4,202	6,549
INTEREST INCOME		65	299
FINANCE COSTS	3	<u>(470)</u>	<u>(162)</u>
PROFIT BEFORE TAXATION		3,797	6,686
TAXATION	4	<u>(737)</u>	<u>(2,259)</u>
PROFIT BEFORE MINORITY INTERESTS		3,060	4,427
MINORITY INTERESTS		<u>(1,555)</u>	<u>(1,843)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>1,505</u>	<u>2,584</u>
EARNINGS PER SHARE – BASIC (CENTS)	5	<u>0.84</u>	<u>1.72</u>

Notes:

1. Group reorganization and basis of presentation

The Company was incorporated in Hong Kong on 13th October, 2000 as a limited liability company under the Hong Kong Companies Ordinance, Pursuant to a group reorganization scheme (the "Group Reorganization") to rationalize the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange on 13th August 2001, the Company became the holding company of the Group on 30th July, 2001. Further details of the Reorganization are set out in the prospectus of the Company dated 31st July 2001 (the "Prospectus").

The Group's financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

The combined results of the Group for the Relevant Period has been prepared as if the current group structure had been in existence throughout the Relevant Period, or since their respective dates of incorporation or registration to 31st March, 2002, whichever is the shorter. On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganization.

All significant intra-group transactions and balances have been eliminated on combination.

2. Turnover and revenue

The Group is engaged in the rendering of bus services through public routes, tourist routes, hire-a-bus and employee services, sub-contracting, rental as well as sightseeing ticket sales and tours. Revenue recognized during the Relevant Period is as follows:

	Three months ended	
	31 March	
	2002	2001
	HK\$'000	HK\$'000
Turnover		
Related bus services		
– Public routes	13,531	8,780
– Tourist routes	1,615	1,448
– 'Hire a bus' and employee service	1,308	1,227
Sub-contracting	2,951	–
Rental	239	–
Sightseeing ticket sales	196	471
	19,840	11,926
Other revenue		
Advertising income on fleet body	469	420
Subsidy from local authority	1,661	4,794
Sundries	451	537
	<u>2,581</u>	<u>5,751</u>
Total revenue	<u>22,421</u>	<u>17,677</u>

3. Finance costs

	Three months ended	
	31 March	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	<u>470</u>	<u>162</u>

4. Taxation

The taxation charge comprises:

	Note	Three months ended 31 March	
		2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	(i)	–	–
Overseas taxation	(ii)	<u>737</u>	<u>2,259</u>
		<u><u>737</u></u>	<u><u>2,259</u></u>

- (i) No provision for Hong Kong profits tax has been made in the accounts as the Group has no estimated assessable profit for the relevant period.
- (ii) Overseas taxation represents tax charges on the assessable profits of the subsidiaries operating in the Mainland of the People's Republic of China (the "Mainland China") calculated at the applicable rates.

5. Earnings per share

The calculation of the basic earnings per share is based on profit from the ordinary activities attributable to shareholders for the three months ended 31st March, 2002 of HK\$1,505,000 (31st March, 2001: HK\$2,584,000) and on 180,000,000 (2001: 150,000,000) shares in issue during the period.

There were no potentially dilutive shares outstanding during the Relevant Period. No dilutive earnings per share is presented.

6. Reserves

There has been no movement of reserves, other than retained earnings, during the period (2001: Nil).

INTERIM DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31st March, 2002 (2001: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, neither the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BUSINESS REVIEW

During the first quarter, the Group exerted great efforts to carry out its development initiatives to strengthen its core business in the provision of public bus transportation services and related services in Mainland China. In addition, the Group put great effort on developing new routes in new cities, and actively negotiating new joint ventures. The Group continued working closely with our joint venture partner in Nanjing to enhance and expand our market share by acquiring more public routes, in order to boost revenue and profit under a well familiarized operation environment. The Group continued to achieve satisfactory performance in the first quarter this year which resulted mainly from increasing income generated from Nanjing Argos, Wanzhou Argos and Taizhou Argos. For the three months ended 31st March, 2002, the unaudited turnover of the Group was approximately HK\$19,840,000, representing an increase of 66.36 per cent. over the corresponding period in 2001, while the profit attributable to shareholders was approximately HK\$1,505,000 as compared to HK\$2,584,000 over the corresponding period in 2001, representing a decrease of 41.76 per cent. The reduction of net profit in the first quarter was caused by the late receipt of a proportion of the subsidies from local authority. Other factors that impact on the Group's performance included a fall in interest rate which lowered interest income, short-term increase in administrative expenses as a result of the launches of cost-reduction program in Wanzhou and Taizhou and the finance cost associated with capital investments. A review on the cost structure of all the major operating subsidiaries (i.e. the Nanjing Argos, Wanzhou Argos and Taizhou Argos) in Mainland China is underway which is part of the cost reduction program. In addition, all labour intensive administrative functions will be computerised as much as possible, with the objective of reducing operating cost and improving efficiency.

The directors of the Company (the "Directors") are satisfied with the performance of the Group during the three months ended 31st March, 2002. The Directors believe the implementation of the cost reduction program on major operating subsidiaries (i.e. the Nanjing Argos, Wanzhou Argos and Taizhou Argos), will reduce operational and administrative expenses in the coming quarters, with the result that the Group's profits will likely be improved.

FUTURE PROSPECTS

With enhanced cost reduction and efficiency improvement program, the Directors expect the performance of the Group to improve during the second half of 2002. The current growth strategy is to aggressively seeking cooperation opportunities with other state-owned public transport corporations in Mainland China, especially in Jiangsu Province, and consolidate its management resources, with an aim to become one of the leading operators in the public bus transportation industry in Mainland China. Continual effort have to be put into new joint venture in order to unify with the successful Nanjing Argos management model in order to reduce the operational cost and maximize operational efficiency and effectiveness. The public bus transportation sector in the Mainland China is in the phase of expansion and further development, and market demand of safety and comfortable bus journeys is still enormous. Moreover, as the PRC joined the World Trade Organization, it offers grounds of optimism and opportunities for the Group's business in Mainland China. The Directors believe that our current efforts to strengthen our long-term competitiveness will pay off and will better equip the Group to meet future challenges.

As the Group will continue to promote its hire-a-bus services, advertising and vehicles rental services to prospective customers in both Wanzhou Argos and Taizhou Argos. The number of customers employing our service will continue to rise.

Looking ahead, the Group is expecting a period of gradual expansion and corporate brand enhancement, which is in accordance with its objective to become one of the leading operators in the public bus transportation industry in Mainland China.

DIRECTORS' SHAREHOLDING INTERESTS IN THE COMPANY

As at the Latest Practical Date, the following Director(s) have the following interests in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were 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, the Managing Director of the Group, and as to 50 per cent. by Madam Chiu Gee Chai, the wife of Mr. Wong, Wilson.
2. Mr. Wong, Wilson is deemed to be interested in 126,000,000 shares under the SDI Ordinance.
3. Under the SDI Ordinance, Mr. Wong, Wilson is deemed to be interested in the entire issued share capital of Argos Bus Services Company Limited, 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. Under the SDI Ordinance, Mr. Yeung Wai Hung is personally interested in 20 per cent. of the issued capital of Sinoman International Limited.

SHARE OPTION SCHEME

On 31st July, 2001, a share option scheme was approved by a written resolution of all the shareholders of the Company under which the Directors may, at their discretion, grant options to themselves and the full-time employees of the Group entitling them to subscribe for shares representing up to a maximum of 10 per cent., of the shares in the Company 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 March, 2002, no option has been granted or agreed to be granted to the directors under the scheme.

At no time during the three months ended 31st March, 2002 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire the benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from the share option scheme (under which no option has yet been granted or agreed to grant) referred to above, at no time during the three months ended 31st March, 2002 was the Company, any of its holding companies, fellow subsidiaries and subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in the Company or any other body corporate and none of the Director, or their spouses or children under the age of 18 had any right to subscribe for the Shares in the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31st March, 2002, the register of substantial shareholders (other than a Director) maintained under section 16(1) of the SDI Ordinance showed that the Company had been notified of substantial shareholding 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	4	126,000,000	70%
Kenworth Enterprises Limited	5	126,000,000	70%
Madam 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.

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, the Managing Director of the Company and as to 50 per cent. by Madam Chiu Gee Chai, the wife of Mr. Wong, Wilson.
3. Under the SDI Ordinance, Madam Chiu Gee Chai is deemed to be interested in 126,000,000 shares.
4. Under 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.

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 March, 2002, 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.

COMPETING INTERESTS

The Directors 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 March, 2002, such operations in Hong Kong are trading under the names of Argos Bus Services Co., Ltd. ("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 a great number of buses in service and a fully-equipped repairs and maintenance depot. Goldspark HK Tours Limited provides tour service in Hong Kong and 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.

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.

Argos Hong Kong and Kwong Chung Bus Holdings Limited, a company listed on the mainboard 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 Mainland China 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 the Group.

By order of the Board
Wong Wah Sang
Chairman

Hong Kong, 13th May, 2002