

# Argos

ARGOS ENTERPRISE (HOLDINGS) LIMITED

雅高企業(集團)有限公司

*(Incorporated in Hong Kong with limited liability)*



Annual

**2003**

Report

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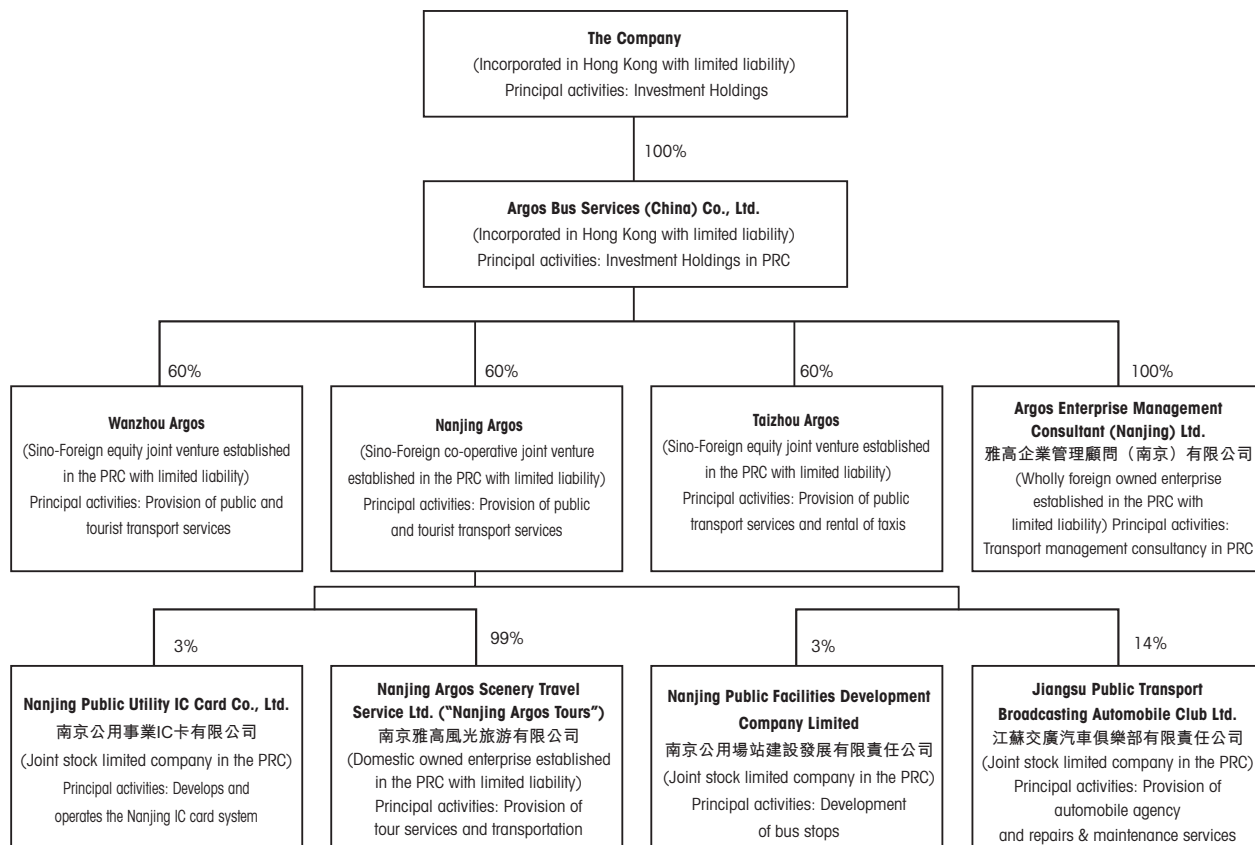
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# Corporate Profile

The following is the organization structure of the Group



## DIRECTORS

### Executive Directors

Mr. Wah Sang WONG, B.H., M.B.E.  
Mr. Wilson WONG  
Mr. Ronnie Man Chiu WONG, J.P., B.Sc., M.B.A.  
Mr. Wai Hung YEUNG

### Independent Non-executive Directors

Mr. Charles Ming Wah NG  
(Resigned on 18th March, 2004)  
Mr. Herman Wai Tak SUNG

## AUDIT COMMITTEE

Mr. Wilson WONG  
Mr. Charles Ming Wah NG  
(Resigned on 18th March, 2004)  
Mr. Herman Wai Tak SUNG

## COMPANY SECRETARY

Mr. Lewis Man Pang KWOK

## COMPLIANCE OFFICER

Mr. Wilson WONG

## QUALIFIED ACCOUNTANT

Mr. Lewis Man Pang KWOK

## SPONSOR

Yu Ming Investment Management Limited  
1001, 10th Floor, Aon China Building  
29 Queen's Road Central  
Hong Kong

## AUDITORS

HLB Hodgson Impey Cheng  
*Chartered Accountants*  
*Certified Public Accountants*  
6th Floor, Wheelock House,  
20 Pedder Street  
Central  
Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICER

Computershare Hong Kong Investor Services Limited  
Room 1901-05  
19th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## REGISTERED OFFICER

Room 1113, 11th Floor  
Block A2, Yau Tong Industrial City  
17 Ko Fai Road  
Kowloon  
Hong Kong

## PRINCIPAL BANKER

Bank of Communications  
Hong Kong Branch  
Ground Floor, 1-3 Wo Yi Hop Road  
Kwai Sing Centre  
Kwai Chung  
New Territories  
Hong Kong

## STOCK CODE

8022



# Chairman's Statement

## HIGHLIGHTS

- Turnover of the Group for the year ended 31st December, 2003 increased by 12.8% to approximately HK\$98.2 million when compared to turnover of approximately HK\$87.1 million in the previous year.
- The Group suffered a short term set back in the second quarter of the year 2003, due to the outbreak of SARS although the management had taken prudent steps to minimize its impact. Business activities resumed to normal and saw an alleviation of impacts of SARS in the second half of 2003. Profit for the year ended 31st December, 2003 decreased by HK\$2.9 million (95.2%) to HK\$0.1 million.
- Earning per share was approximately 0.08 HK cent, for the year ended 31st December, 2003 as compared with earning per share of approximately 1.70 HK cents recorded in last year.
- The directors do not recommend the payment of any dividend in respect of the year (2002: HK\$ Nil).

During the year under review, the relatively stable public transportation market in Mainland China was suddenly adversely affected by the outbreak of SARS in the second quarter of the year. Patronage in Nanjing Argos during the year was dropped and had decreased the demand for both the passengers in tourist routes and customers in planned travels. Despite such a difficult and challenging operating environment, the Group recorded a turnover of approximately HK\$98.2 million, representing an increase of 12.8% when compared to HK\$87.1 million in the previous year. However, the profit attributable to shareholders decreased HK\$2.9 million or 95.2% when compared to HK\$3.0 million in the previous year. Accordingly, the Group's earnings decreased sharply to 0.08 HK cent per share from 1.70 HK cents per share. The directors do not recommend the payment of any dividend for the year under review.

The decrease in profit from ordinary activities before taxation was mainly due to the increase in cost of services rendered and decreased in the other revenue. For the year ended 31st December, 2003, the Group's cost of services rendered increased by 17.8% or HK\$12.4 million was mainly due to the high fuel cost, higher maintenance cost and the additional cost incurred on undertaking the preventive measures on intensified disinfections. The Group's other revenue decreased by 32.3% or HK\$3.4 million was mainly due to the result of a falling level of subsidies from local government in term of sales tax rebate and income tax rebates.

The operating environment for public transport operators in Mainland China is expected to remain highly competitive and challenging. The Group will continue to focus on pursuing the stated business strategies of continuous growth through expansion of the current operating networks and formation of new joint ventures for the provision of public transport and related services. Ultimately, the Group is expected to become one of the prominent and influential operators in the transportation industry of the Mainland China.

On behalf of the Board of Directors, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance. On behalf of the management and staff of the Group, I also wish to express my sincere thanks to the customers and suppliers for their invaluable patronage and the shareholders for their continued confidence and support to the Group.

**Wong Wah Sang**

*Chairman*

Hong Kong, 29th March, 2004



# Management Discussion and Analysis

The Group experienced a year of acute challenges. The outbreak of SARS (Severe Acute Respiratory Syndrome) in the first half of the year hit the Group's performance significantly especially during the second quarter. Revenue has been adversely affected as the general public avoided travels on public transport. The cancellation of planned travels during the SARS period also dampened business in tourist bus routes, chartered bus services and tour services. Fortunately, with the impacts of SARS subsiding in the second half of the year, the business activities of the Group returned to normal.

The Group recorded a turnover of HK\$98.2 million for 2003, and increase of 12.8% over 2002. Net profit for the year, on the other hand, decreased by 95.2% to HK\$0.1 million. The drop in profit is principally due to the adverse effects of SARS, the high fuel cost, higher maintenance costs and the intensifying competition in the market. The directors believe the worst commercial condition has already come to an end. Taking into account of the continuing economic growth in Mainland China and particularly in the public transportation industry, rising living standards, the growing recognition of the importance of high quality of transportation services, provide a strong foundation for the development of the industry and the Group. Management is optimistic about the future of the public transport market.

## **Nanjing Argos**

The business of Nanjing Argos has experienced a more challenging year in 2003. Firstly, the roadworks and the construction project of Nanjing Metro has disrupted road traffic and caused re-routing in seven of the Public Routes that Nanjing Argos operates. Secondly, the outbreak of SARS, the revenue has been adversely affected thereby causing patronage on the public bus routes and tourist bus routes have fallen significantly as passengers became wary of visiting crowded places and the cancellation of planned travels has further dampened business in tourist bus routes, chartered bus services and tour services. On the contrary, cost of services rendered has been increased due to undertaking the preventive measures on intensified disinfections of bus fleet. Thirdly, the high fuel cost as a result of the war in Iraq and post-war market fluctuation throughout the year causing a big rise of cost of services rendered. Lastly, the adoption of IC Cards as a fare payment during the year has lowered the average fare registered by local public bus operators. Nevertheless, Nanjing Argos succeeded to explore new areas in public transport. During the year, Nanjing Argos set up a business development department targeting chartered bus services in order to increase the chartering rate and bargaining good prices.



# Management Discussion and Analysis

In 2003, Nanjing Argos launched route Y5, a new Tourist Route of Nanjing Argos for the purpose of expanding market share. Fleet size of Nanjing Argos increased from 312 to 327. We present below selected operating statistics of Nanjing Argos:

	<b>2003</b>	2002	2001	2000	1999	1998
Routes operated	<b>15</b>	14	13	12	9	8
Number of employees	<b>962</b>	988	968	900	699	532
Fleet size	<b>327</b>	312	283	238	189	152
Total mileage operated (million km)	<b>21.11</b>	21.31	20.43	17.00	12.86	5.55
Total passenger trip (million trip)	<b>67.88</b>	80.64	76.26	116.4	44.55	34.09

## Outlook for Nanjing Argos

Nanjing Argos will carry on to enhance market share in chartered bus services, increase focus on value creation on ancillary services to customers, particularly the after sale services, delivering efficiency and flexibility in technology and operations.

Nanjing Argos has applied for the introduction of two Public Routes and Tourist Route Y6. The applications are awaiting for approval by the relevant local government authorities.

A fare increase application has already lodged into the local government authorities for their consideration.





# Management Discussion and Analysis

## Wanzhou Argos

Wanzhou Argos has not been affected by SARS in any material way. But the prolonged high oil price, increase in operating costs for undertaking and the keen competition caused by the sole proprietary midi-bus operators in Wanzhou Argos thereby making it to confront an extremely difficult operating environment during the year.

Nevertheless, in 2003, Wanzhou Argos launched a 6W route , a new Public Route of Wanzhou Argos for the purpose of increase revenue and fully utilized the fleet.

We present below operating statistics for Wanzhou Argos:

	<b>2003</b>	2002	2001
Routes operated	<b>5</b>	4	2
Number of employees	<b>366</b>	360	316
Fleet size	<b>90</b>	97	87
Total mileage operated (million km)	<b>5.50</b>	5.04	2.92
Total passenger trip (million trip)	<b>9.83</b>	8.59	5.05

## Outlook for Wanzhou Argos

The local government has committed to retire most of the proprietary midi-buses and we are of confidence that the subsequent completion of the Three Gorges Flood Control Program, Wanzhou Argos will present superb development potentials, thus to push up the passenger demand for high quality bus services.

Wanzhou Argos has undertaken a plan to devise a feasible way to change the mode of operations in order to reduce costs, but on the other hand, increase revenue and operational effectiveness as well as efficiency.

Wanzhou Argos will undertake a merge with the Chongqing Wanzhou Public Transport Company, the state-owned enterprise and joint venture partner in order to eliminating wastage, reducing operation costs and lowering down the burden of the retired personnel costs when great part of the retired personnel in the original state-owned enterprise were released, through the resulting merge of business. This merger will be completed in late March 2004.



# Management Discussion and Analysis

## Taizhou Argos

Taizhou Argos has been operating for two and half years and the results are satisfactory. Currently, Taizhou Argos operates and sub-contracts approximately 198 buses and 283 taxis.

In 2003, Taizhou Argos purchased 38 new buses, while one new public route was launched and six routes were adjusted and extended to meet the local government requirement and market demand.

During the year 2003, the profitability of Taizhou Argos has been reduced due to the prolonged high oil price and increase in operating costs for undertaking. However, through the re-organization of the route network and initiating for the development of a bus depot, then the revenue would be increased and costs be reduced in 2004.

We present below selected operating statistics of Taizhou Argos:

	<b>2003</b>	2002
Routes operated	<b>22</b>	21
Number of employees	<b>495</b>	433
Fleet size (buses and taxis)	<b>481</b>	442
Total mileage operated (million km)	<b>7.21</b>	15.59
Total passenger trip (million trip)	<b>9.2</b>	9

## Outlook for Taizhou

In Taizhou Argos, its route network will be extended to sub-urban areas in order to cover wider areas and seizing more patronage, whereas, the revenue will be increased.

Taizhou Argos will establish a travel company and will provide tour services to the local residents in Sundays and holidays as well as providing travel and tour services for local government departments upon their meeting purpose.

Taizhou Argos will set up a repairs and maintenance factory for providing repairs and maintenance services to other customers in order to expand and explore revenue sources.



# Management Discussion and Analysis

## Financial Position

### The Group

As at 31st December, 2003, the total assets of the Group was approximately HK\$173.0 million (2002: HK\$166.5 million), including cash and bank balances and deposits of approximately HK\$48.5 million (2002: HK\$35.7 million) of which HK\$24 million (2002: HK\$27.6 million) were pledged to secure banking facilities.

Balance of bank loans, overdrafts and other loans as at 31st December, 2003 was approximately HK\$39.3 million (2002: HK\$49.0 million) of which HK\$29.5 million (2002: HK\$35.4 million) are due within one year. The borrowings are secured by bank deposits and motor vehicles amounting to approximately HK\$24 million and HK\$17 million respectively and by guarantee of certain directors of the Company. Bank loans of the Group are denominated in both Hong Kong Dollar and Renminbi bearing variable rates of interest.

### The Company

At 31st December, 2003, the Company also pledged its fixed deposit of HK\$10 million (2002: HK\$10 million) to secure banking facilities to the Company. Motor vehicles of the Group with carrying value of approximately HK\$17 million (HK\$7million) have also been pledged to banks to secure banking facilities granted to the Group.

The Board believes the subsidiaries of the Group can generate sufficient funds to meet the ongoing obligations. Currently, the Group has no significant new acquisition plan except the acquisition of a state-owned enterprise in the PRC by Argos Bus Services (China) Co. Ltd., a wholly owned subsidiary of the Company taken place at 4th March, 2004, whereas an announcement has been made on 17th March, 2004 accordingly. Investors will be kept fully informed of any changes in investment plan.

The gearing ratio of the Group expressed in total debt as a percentage of net assets was 82% (2002: 102%).

## FOREIGN CURRENCY RISK

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

## CONTINGENT LIABILITY

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, 2003, the Group had 1,829 (2002: 1,713) full-time employees. The total of employee remuneration, including that of the directors of the Company, for the year ended 31st December, 2003 amounted to approximately HK\$22,747,000 (2002: HK\$31,626,000). The 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. As of 31st December, 2003, no options were granted under the share option scheme.



# Profiles of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Wah Sang WONG, B.H., M.B.E.**, aged 78, is the chairman of the Company and is also the chairman of Wong's Investments (Holdings) Co., Ltd. Mr. Wong has been the co-founder and chairman 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. Mr. Wong Wah Sang is the father of Mr. Wong Man Chiu, Ronnie, one of the executive directors of the Company and is 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 a director of Sino Market Enterprises Limited, the controlling shareholder of the Company.

**Mr. Wilson WONG**, aged 64, the managing director of the Company, is the co-founder and has been the managing director of Argos Hong Kong since 1981. Mr. Wong Wilson is a brother of Mr. Wong Wah Sang. Apart from Argos Hong Kong, he is also the co-founder of Chung Wah Shipbuilding & Engineering (Holdings) Co., Ltd., Argos Engineering & Heavy Industries Co., Ltd. and Goldford Engineering Limited. 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 a director of Sino Market Enterprises Limited, the controlling shareholder of the Company.

**Mr. Ronnie Man Chiu WONG, J.P., B.Sc., M.B.A.**, aged 51, a son of Mr. Wong Wah Sang. Mr. Ronnie Wong 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. Mr. Ronnie Wong's experience covers areas including shipbuilding, engineering, property development, transportation, tourism and entertainment. Mr. Ronnie Wong is a very prominent figure in the community services arena, for instance, he was a member of the Basic Law Consultative Committee and an elected Urban Councillor. Mr. Wong Man Chiu, Ronnie, is a director of Sino Market Enterprises Limited, the controlling shareholder of the Company.

**Mr. Wai Hung YEUNG**, aged 54, has been involved in the management of Argos Hong Kong since its incorporation and was appointed the general manager in 1988. With his long reaching experience and connection in the public transport sector of Hong Kong, Mr. Yeung is one of the most prominent figures in the industry. He is currently the chairman 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 a director of Sino Market Enterprises Limited, the controlling shareholder of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Charles Ming Wah NG, B.Sc., M.B.A.**, aged 54, 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



# Profiles of Directors and Senior Management

Limited, an exempt dealer and an exempt investment adviser under the Securities Ordinance of Hong Kong, and has over twenty seven years of experience in corporate finance and investment banking in Hong Kong. Mr. Ng resigned as an independent non-executive director on 18th March, 2004.

**Mr. Herman Wai Tak SUNG, B.A. (Hons.), L.L.B. (Hons.), L.L.M.,** aged 45, 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. Dao Lin ZHANG, B.Eng.,** aged 39, has been the General Manager of Nanjing Argos since its inception. Mr. Zhang has approximately 19 years of managerial experience in the bus industry of PRC, started as a vehicle structural engineering consultant, and served 16 years in Nanjing Public Transport Corporation before taking up the leading role in Nanjing Argos. His major strength is the formulation 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. Lewis Man Pang KWOK, A.C.M.A., F.H.K.S.A.,** aged 50, is the financial controller and company secretary of the Group and is responsible for the financial management and 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-nine years of experience in auditing, finance and administration.

**Mr. Jie WANG,** aged 51, is the Assistant General Manager of Nanjing Argos. He has experience in the PRC bus industry for over 23 years, focusing on general administration and human resources management, serving the Nanjing Public Transport Corporation before joining Nanjing Argos in early 2000.

**Ms. Xiu Ying ZHU,** aged 57, has been the Manager (Finance) of Nanjing Argos since its inception in 1997. Ms. Zhu served in the finance department of Nanjing Public Transport Corporation for 37 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.

**Mr. Xiang Dong LU,** aged 52, the Assistant General Manager of Taizhou Argos. Mr. Lu has served in both Nanjing Argos and Wanzhou Argos. Mr. Lu served in Nanjing Public Transport Corporation for 23 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. Guang Jun WU, B.Eng.,** aged 39, has been the Assistant General Manager of Wanzhou Argos. Mr. Wu joined Nanjing Argos in 1998 and was the Manager for Administration and Human Resources in Nanjing Argos prior to assumption of his duty in Wanzhou Argos. Mr. Wu has over 18 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 Objective with Actual Business Progress

The following is a summary of the actual business progress of the Group compared with the business objectives set out in the prospectus of the Company dated 31st July, 2001 (the "Prospectus")

	<b>Business objectives for the period from 1st January, to 31st December, 2003 as disclosed in the Prospectus</b>	<b>Actual business progress for the year ended 31st December, 2003</b>
General	To invest 25 to 40 new buses in Nanjing alone	25, 26 and 38 New buses have been purchased by Nanjing Argos, Wanzhou Argos and Taizhou Argos respectively.
	To seek opportunities in the provision of inner-city public bus and coach services	The Group is still exploring the feasibility of establishing such services.
Tourist Routes	To apply further tourist routes in the city and maintain its status as the sole tourist route operator in Nanjing	Approval documents has not yet received from the relevant authorities but the leadership status is maintained.
	To launch the same services in Wanzhou and Taizhou	Plan for tourist services in Wanzhou and Taizhou is being Actively considered.
Public Routes	To introduce one Public Routes in Nanjing Argos	Not yet approved by the relevant authorities.
	To introduce various service upgrades and alterations subject to passenger demand in Chongqing Wanzhou Argos	Flexible scheduling and routing has been put in place for the convenience of passengers in Wanzhou.
	To implement one-man operation on all buses	Implementation is underway.



# Comparison of Business Objective with Actual Business Progress

	<b>Business objectives for the period from 1st January, to 31st December, 2003 as disclosed in the Prospectus</b>	<b>Actual business progress for the year ended 31st December, 2003</b>
"Hire-a-Bus" & Employee Service	To raise the utilization rate of the fleet to the highest possible limit in Nanjing Argos, Wanzhou Argos and Taizhou Argos	"Hire-a-bus" has become one of the key development areas for Nanjing Argos. A business development department has been set up for chartered services
Sightseeing Ticket Sales & Tours	To remain as as value-adding auxiliary services to the tourist routes	5 New air-conditioning buses Have been purchased in Nanjing in anticipation for the peak tourism season
	To explore the synergy presented by the combination of the Nanjing and Wanzhou markets.	Under development.
	Nanjing Argos Tour Service will offer more tours	Additional tourists destinations have been offered.



## Use of Proceeds from the Issuance of New Shares

The Company obtained net proceeds, after deducting related expenses, of approximately HK\$25,000,000 from the new issue of shares by way of placing. During the period from 13th August, 2001 (the date of listing of the Company's shares) to 31st December, 2003, the Group has applied the net proceeds as follows:

Business scope	Project	Notes	Budget amount	Actual amount
			to be used up to 31st December, 2003 as extracted from the Prospectus	used up to 31st December, 2003
			HK\$million	HK\$million
Joint venture partnership	Investment in Taizhou	1	6.00	9.05
	Investment in Wuhu	2	6.00	–
Repayment of shareholders loan	To Argos Hong Kong	3	3.30	3.30
	To other shareholders	4	6.70	6.70
Working capital Purposes	For daily operations	5	3.00	5.95
Total			25.00	25.00

### Notes:

- The additional investment is attributed to the Group's commercial decision to enhance and strengthen the asset base of the Taizhou joint venture, thus, the setting up period for this joint venture could be shortened and the generation of revenue and profit could be speed.
- The Group had originally planned to invest in Wuhu public bus transportation market that could enhance our business growth by geographic expansion. However, the Group has not able to finalize the prolonged negotiable process with the relevant party on certain terms and conditions that are fundamental to us. The Group decided to suspense this project to later date. As a result, HK\$3,050,000 was reallocated to enlarge the joint venture project in Taizhou and the balance of HK\$2,950,000 was temporarily used as general working capital.
- With regard to the aforesaid HK\$3,300,000 of the net proceeds allocated for repayment of shareholders loan to Argos Hong Kong, the amount had been applied for such intended purpose during the period.
- With regard to the aforesaid HK\$6,700,000 of the net proceeds allocated for repayment of other shareholders loan, the amount had been applied for such intended purpose during the period.
- The excess utilization is attributable to additional amount of approximately HK\$2,950,000 was added to the general working capital of the Group for enhancement of Group operational and administrative systems and ancillary equipment as well as for repayment of outstanding bank loan.





# Report of the Directors

The directors have pleasure in submitting their report together with the audited financial statements of Argos Enterprise (Holdings) Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st December, 2003.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in Note 16 to the financial statements. There was no significant change in its activities during the year.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to profit from operations by principal activities for the year ended 31st December, 2003 is as follows:

	2003		2002	
	Turnover	Segment Results	Turnover	Segment Results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Public Routes	<b>66,323</b>	<b>346</b>	57,575	2,817
Tourist Routes	<b>6,638</b>	<b>162</b>	7,253	(4,261)
"Hire-a-Bus" and Employee Services	<b>12,542</b>	<b>955</b>	10,225	1,650
Sightseeing Tickets Sales and Touring	<b>1,494</b>	<b>241</b>	1,636	191
Sub-contracting	<b>10,651</b>	<b>994</b>	9,538	2,980
Rental Income	<b>528</b>	<b>49</b>	709	433
Management Fee	<b>2</b>	<b>2</b>	132	31
	<b>98,178</b>	<b>2,749</b>	87,068	3,841
Other Revenue		<b>7,174</b>		10,599
Administrative Expenses		<b>(4,024)</b>		(3,039)
Profit from Operations		<b>5,899</b>		11,401

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



# Report of the Directors

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31st December 2003 are set out in the consolidated income statement on Page 25.

The states of affairs of the Group and of the Company as at 31st December, 2003 are set out in the balance sheets on pages 26 and 28 respectively.

The cashflows of the Group are set out in the statement on Page 30.

## DIVIDENDS

The directors do not recommend a payment of dividend nor transfer of any amount to reserves for the year (2002: Nil).

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below:

	<b>For the year ended 31st December,</b>				
	<b>2003</b>	2002	2001	2000	1999
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>98,178</b>	87,068	61,938	41,977	33,894
Profit before tax	<b>4,267</b>	9,792	13,704	11,797	11,872
Tax	<b>(1,113)</b>	(2,379)	(3,157)	(2,995)	(2,969)
Profit before minority interests	<b>3,154</b>	7,413	10,547	8,802	8,903
Minority interests	<b>(3,006)</b>	(4,357)	(5,638)	(4,521)	(4,184)
Net profit from ordinary activities attributable to shareholders	<b>148</b>	3,056	4,909	4,281	4,719
	<b>As at 31st December,</b>				
	<b>2003</b>	2002	2001	2000	1999
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	<b>172,986</b>	166,483	137,155	70,347	61,399
Total liabilities	<b>(107,760)</b>	(101,092)	(77,263)	(55,998)	(52,731)
Minority interests	<b>(17,173)</b>	(17,451)	(15,034)	(4,840)	(3,441)
Net assets	<b>48,053</b>	47,940	44,858	9,509	5,227



## **FIXED ASSETS**

Details of the movements in fixed assets of the Group during the year are set out in Note 14 to the financial statements.

## **DISTRIBUTABLE RESERVES**

As at 31st December, 2003, the Company has no distributable reserve calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year (2002: Nil).

## **DONATIONS**

Charitable donations made by the Group during the year amounted to HK\$10,000 (2002: Nil).

## **DIRECTORS**

The directors during the financial year and up to the date of this report were:

### **Executive Directors**

Mr. Wah Sang Wong

Mr. Wilson Wong

Mr. Ronnie Man Chiu Wong

Mr. Wai Hung Yeung

### **Independent non-executive Directors**

Mr. Herman Wai Tak Sung

Mr. Charles Ming Wah Ng (Resigned on 18th March, 2004)

In accordance with Articles 121 of the Company's Articles of Association, Mr. Yeung Wai Hung retires by rotation and, being eligible, offer himself for re-election.

The independent non-executive directors are not appointed for a specific term and are subject to retirement by rotation in accordance with the above Articles.



# Report of the Directors

## DIRECTORS' SERVICES 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' INTERESTS 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.

## DIRECTORS' INTERESTS IN SHARES

As at the 31st December, 2003, the following Directors have the following interests in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Section 347 of the SFO (including interests which they were taken or deemed to have under Section 344 of the SFO), or which required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 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 and 2)
Mr. Yeung Wai Hung	Corporate	1,400,000 (Note 5)

As at 31st December, 2003, none of the Directors held any long or short positions in the share capital of the Company or (in respect of positions held pursuant to equity derivatives) underlying shares or in debentures of the Company or its associated corporations.

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 Part XV of the SFO.



# Report of the Directors

3. Under Part XV of the SFO, 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 and Goldspark HK Tours Limited.
4. Under Part XV of the SFO, Mr. Yeung Wai Hung is personally interested in 20 per cent. of the issued capital of Sinoman International Limited and 150 shares in Metro Line Tours Limited
5. By virtue of Part XV of the SFO, Mr. Yeung Wai Hung is deemed to be interested in the entire issued capital of Cherikoff Bakery & Confections Limited which is interested in 1,400,000 shares in the Company.

## 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 year ended 31st December, 2003, no option has been granted or agreed to be granted to the Directors under the scheme.

At no time during the year ended 31st December, 2003 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 be granted) referred to above, at no time during the year ended 31st December, 2003 was any of the Company or any associated corporation 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 Directors, or their spouses or children under the age of the 18, had any right to subscribe for the Shares in the Company, or had exercised any such rights.



# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 31st December, 2003, the register of substantial shareholders (other than a Director) maintained under section 336 of the SFO showed that the Company had been notified of substantial shareholding interests, being 5% or more of the Company's issued share capital, as follows:

Name	Notes	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%
Chiu Gee Chai	3	126,000,000	70%

As at 31st December, 2003 none of the above-listed substantial shareholders held any long or short positions in the share capital of the Company or (in respect of positions held pursuant to equity derivatives) underlying shares or in debentures of the Company or its associated corporations.

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, and as to 50 per cent. by Madam Chiu Gee Chai, the wife of Mr. Wong, Wilson.
3. By virtue of Part XV of the SFO, Madam Chiu Gee Chai is deemed to be interested in 126,000,000 shares.
4. By virtue of Part XV of the SFO, each of Sino Market Enterprises Limited, Sinoman International Limited, Kenworth Enterprises Limited, Twilight Enterprises Limited and Madam 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.



# Report of the Directors

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.

Save as disclosed above, no person had registered an interest or short position in the share capital of the Company that was required under Section 324 of the SFO.

## 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, 2003, 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. Following the expiry of the sponsorship agreement entered between Yu Ming and the Company, Yu Ming ceased to act as the Company's continuing sponsor with effect from 1st January, 2004.

## 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 (resigned on 18th March, 2004) and Mr. Sung Wai Tak, Herman. In connection with Mr. Ng Ming Wah, Charles' resignation, the Company has obtained a waiver in connection with compliance of Rules 5.23 of the GEM Listing Rules of the Stock Exchange. The Company has made announcement that Rules 5.23 of the GEM Listing Rules of the Stock Exchange would be complied with on or before 17th April, 2004.

The audit committee has reviewed with management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statements for the year ended 31st December, 2003.



# Report of the Directors

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 10% of the Group's services were rendered by the 5 largest customers.

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

### Purchases

– the largest supplier	23%
– five largest suppliers combined	100%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

## BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

## FOREIGN CURRENCY RISK

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

## 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. Such operations in Hong Kong are mainly 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.

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.





# Report of the Directors

## **SUBSEQUENT EVENTS**

Details of the significant subsequent events of the Group are set out in note 35 to the financial statements.

## **AUDITORS**

Messrs. HLB Hodgson Impey Cheng having been appointed by the Board of Directors on 8 January 2004 to act as auditors of the Company to fill the casual vacancy arising from the resignation of Messrs. Charles Chan, Ip & Fung CPA Ltd., retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. HLB Hodgson Impey Cheng as auditors of the Company.

On Behalf of the Board

**Wah Sang Wong**

*Chairman*

Hong Kong, 29th March, 2004



# Report of the Auditors



國衛會計師事務所  
**Hodgson Impey Cheng**

Chartered Accountants  
Certified Public Accountants

6/F, Wheelock House  
20 Pedder Street  
Central  
Hong Kong

## **AUDITORS' REPORT TO THE MEMBERS OF ARGOS ENTERPRISE (HOLDINGS) LIMITED**

*(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)*

We have audited the financial statements on pages 25 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Hong Kong Companies Ordinance requires the directors to prepare 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 financial 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, 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 the Group's and of the Company's affairs as at 31st December, 2003 and of the profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

### **HLB Hodgson Impey Cheng**

*Chartered Accountants  
Certified Public Accountants*

Hong Kong, 29th March, 2004



# Consolidated Income Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	4	<b>98,178</b>	87,068
Cost of Sales		<b>(81,928)</b>	(69,553)
Gross Profit		<b>16,250</b>	17,515
Other Revenue	4	<b>7,174</b>	10,599
Administrative Expenses		<b>(17,525)</b>	(16,713)
Profit from Operations		<b>5,899</b>	11,401
Interest Income		<b>443</b>	637
Finance Costs	7	<b>(2,075)</b>	(2,246)
Profit from Ordinary Activities before Taxation		<b>4,267</b>	9,792
Taxation	8	<b>(1,113)</b>	(2,379)
Profit before Minority Interests		<b>3,154</b>	7,413
Minority Interests		<b>(3,006)</b>	(4,357)
Profit attributable to Shareholders		<b>148</b>	3,056
Dividends	11	–	–
Profit per Ordinary Share			
– Basic	10	<b>0.08 cents</b>	1.70 cents

All of the Company's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.



# Consolidated Balance Sheet

AT 31ST DECEMBER, 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Non-Current Assets</b>			
Fixed assets	14	<b>107,369</b>	107,392
Intangible assets	15	<b>1,586</b>	1,565
Investments in securities	18	<b>1,237</b>	1,018
Deferred tax asset	17	<b>3,842</b>	4,057
		<b>114,034</b>	114,032
<b>Current Assets</b>			
Trade receivables	19	<b>3,702</b>	1,636
Inventories	20	<b>1,253</b>	1,302
Amount due by a fellow subsidiary		–	4,337
Amounts due by related companies	21	<b>10</b>	1,770
Amount due by a minority shareholder	22	<b>22</b>	660
Prepayments, deposits and other receivables		<b>5,466</b>	6,824
Tax recoverable		–	240
Fixed deposits		<b>20,057</b>	27,134
Cash and bank balances		<b>28,442</b>	8,548
		<b>58,952</b>	52,451
<b>Less: Current Liabilities</b>			
Bank overdraft, secured		<b>8,225</b>	6,157
Current portion of interest-bearing borrowings	29	<b>21,320</b>	29,249
Bills payable		<b>2,156</b>	3,566
Trade payables		<b>3,979</b>	4,034
Advertising income on fleet body receipt in advance	23	<b>2,025</b>	2,025
Other payables and accruals	24	<b>51,004</b>	37,969
Tax payable		<b>794</b>	–
Amount due to a related company	25	<b>377</b>	377
Amounts due to fellow subsidiaries	26	<b>2,780</b>	–
Amounts due to minority shareholders	27	<b>2,160</b>	797
		<b>94,820</b>	84,174
<b>Net Current Liabilities</b>		<b>(35,868)</b>	(31,723)
<b>Total Assets Less Current Liabilities</b>		<b>78,166</b>	82,309



# Consolidated Balance Sheet *(Continued)*

AT 31 DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Non-Current Liabilities</b>			
Interest-bearing borrowings	29	<b>9,843</b>	13,601
Advertising income on fleet body receipt in advance	23	<b>3,097</b>	3,317
		<b>12,940</b>	16,918
<b>Minority Interests</b>			
		<b>17,173</b>	17,451
<b>Net Assets</b>			
		<b>48,053</b>	47,940
<i>Represented by:</i>			
<b>Share Capital</b>	28	<b>1,800</b>	1,800
<b>Reserves</b>	30	<b>46,253</b>	46,140
<b>Shareholders' Funds</b>			
		<b>48,053</b>	47,940

Approved by the Board of Directors on 29th March, 2004 and signed on its behalf by:

**Ronnie Man Chiu Wong**  
*Director*

**Wai Hung Yeung**  
*Director*

The accompanying notes form an integral part of these financial statements.



# Balance Sheet

AT 31ST DECEMBER, 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Non-Current Assets</b>			
Interests in subsidiaries	16	27,065	20,691
<b>Current Assets</b>			
Amount due from a fellow subsidiary		–	4,005
Prepayments, deposits and other receivables		137	204
Fixed deposit		10,000	10,000
Bank balances		1	1
		<b>10,138</b>	14,210
<b>Less: Current Liabilities</b>			
Bank overdraft, secured		8,199	6,157
Other payables and accruals	24	502	537
Amounts due to fellow subsidiaries		2,718	–
		<b>11,419</b>	6,694
<b>Net (Current Liabilities)/Current Assets</b>		<b>(1,281)</b>	7,516
<b>Net Assets</b>		<b>25,784</b>	28,207
<i>Represented by:</i>			
<b>Share Capital</b>	28	<b>1,800</b>	1,800
<b>Reserves</b>	30	<b>23,984</b>	26,407
<b>Shareholders' Funds</b>		<b>25,784</b>	28,207

Approved by the Board of Directors on 29th March, 2004 and signed on its behalf by:

**Ronnie Man Chiu Wong**

*Director*

**Wai Hung Yeung**

*Director*

The accompanying notes form an integral part of these financial statements.



# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Total equity as at 1st January</b>		<b>47,940</b>	44,858
Exchange differences arising on translation of the financial statements of foreign subsidiaries	30	<b>(35)</b>	26
Net profit for the year	30	<b>148</b>	3,056
<b>Total equity as at 31st December</b>		<b>48,053</b>	47,940

The accompanying notes form an integral part of these financial statements.



# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
<b>Cash flows from operating activities</b>		
Profit before taxation	<b>4,267</b>	9,792
<i>Adjustment for:</i>		
Amortisation of intangible assets	<b>228</b>	209
Depreciation	<b>12,558</b>	10,410
Negative goodwill released to income	–	(14)
Loss on disposal of fixed assets	<b>811</b>	423
Interest income	<b>(443)</b>	(637)
Interest expense	<b>2,075</b>	2,246
Operating profit before working capital changes	<b>19,496</b>	22,429
Decrease/(increase) in amount due by a fellow subsidiary	<b>4,337</b>	(288)
Decrease/(increase) in amounts due by related companies	<b>1,760</b>	(1,481)
Decrease/(increase) in amount due by a minority shareholder	<b>638</b>	(660)
Decrease/(increase) in prepayments, deposits and other receivables	<b>1,358</b>	(3,146)
Decrease/(increase) in inventories	<b>49</b>	(92)
Increase in trade receivables	<b>(2,066)</b>	(549)
(Decrease)/increase in bills payable	<b>(1,410)</b>	3,566
(Decrease)/increase in trade payables	<b>(55)</b>	2,913
Increase in other payables and accruals	<b>13,035</b>	3,636
(Decrease)/increase in advertising income on fleet body receipt in advance	<b>(220)</b>	83
Increase in amounts due to fellow subsidiaries	<b>2,780</b>	–
Increase in amount due to a related company	–	361
Increase/(decrease) in amounts due to minority shareholders	<b>1,363</b>	(1,523)
Cash generated from operations	<b>41,065</b>	25,249
Interest paid	<b>(2,075)</b>	(2,246)
PRC income tax paid	<b>(3,402)</b>	(3,472)
<i>Net cash generated from operating activities</i>	<b>35,588</b>	19,531





# Consolidated Cash Flow Statement *(Continued)*

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
<i>Net cash generated from operating activities</i>	<b>35,588</b>	19,531
<b>Cash flows from investing activities</b>		
Payment of intangible assets	–	(718)
Acquisition of fixed assets	<b>(17,272)</b>	(35,415)
Acquisition of investments in securities	<b>(219)</b>	(317)
Proceeds on disposals of fixed assets	<b>3,931</b>	110
Decrease in fixed deposits	<b>7,077</b>	4,251
Interest received	<b>443</b>	637
<i>Net cash used in investing activities</i>	<b>(6,040)</b>	(31,452)
<b>Cash flows from financing activities</b>		
New loans raised	<b>14,057</b>	67,104
Repayment of loans	<b>(25,744)</b>	(57,570)
Dividends paid to minority shareholders	–	(1,797)
<i>Net cash (used in)/generated from financing activities</i>	<b>(11,687)</b>	7,737
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>17,861</b>	(4,184)
<b>Effect of foreign exchange rate changes</b>	<b>(35)</b>	26
<b>Cash and cash equivalents at the beginning of the year</b>	<b>2,391</b>	6,549
<b>Cash and cash equivalents at the end of the year</b>	<b>20,217</b>	2,391
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	<b>28,442</b>	8,548
Bank overdraft, secured	<b>(8,225)</b>	(6,157)
	<b>20,217</b>	2,391

The accompanying notes on pages 32 to 59 form an integral part of these financial statements.



# Notes to Financial Statements

31ST DECEMBER, 2003

## 1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong on 13th October, 2000 as a limited liability company under the Hong Kong Companies Ordinance and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Room 1113, 11th Floor, Block A2, Yau Tong Industrial City, 17 Ko Fai Road, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in Note 16 to the financial statements.

The directors consider the Company's ultimate holding company to be Twilight Enterprises Limited, which is incorporated in the British Virgin Islands.

## 2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

In the current year, the Group adopted the following revised SSAP issued by the Hong Kong Society of Accountants (the "HKSA") which is effective for the first time for the financial statements of periods beginning on or after 1st January, 2003:

SSAP 12 (revised) : Income taxes

This SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting this SSAP, which have had a significant effect on the financial statements, are summarised as follows:

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively.

The adoption of SSAP 12 (revised) has no material impact on the Company's financial statements in prior years and comparative figures have not been restated.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

### (a) Basis of Preparation

The measurement basis used in the preparation of the financial statements is historical cost convention.

### (b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, control more than half of the voting power or holds more than half of the issued share capital.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

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

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Fixed Assets and Depreciation

#### 1. Valuation

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs bringing the asset to its present working condition and location for its intended use. Subsequent expenditure relating to a tangible fixed asset that has already recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the year which it is incurred.

#### 2. Depreciation

Depreciation is provided on the straight line method so as to write down the cost of tangible fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:

Leasehold improvement	:	5%
Furniture, fixtures and equipment	:	20%
Motor vehicles	:	10%

#### 3. Cost of restoring and improving fixed assets

Major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall asset are capitalised and depreciated over their expected useful lives. Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### 4. Gain or loss on disposal

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

### (d) Intangible assets

(i) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.



## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Revenue Recognition

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

### (f) Inventories

Inventories, which represent spare parts for repairs of motor vehicles, are stated at the lower of cost and net realisable value. Cost, calculated on a weighted average basis, comprises all costs of purchase and, where applicable, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated recoverable value in the ordinary course of business less the estimated costs necessary to make the sale.

The amount of any write-down of consumables to net realisable value and all losses of inventories recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories as an expense in the period in which the reversal occurs.

### (g) Translation of Foreign Currencies

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

On consolidation, the balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income and expenses items are translated at an average rate. Exchange differences are dealt with as a movement in reserves.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Current Assets and Current Liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Company's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Company's operating cycle.

### (i) Operating Leases

Leases where substantially all the risk and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the leased periods.

### (j) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available which deductible temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that effects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.



## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessary takes a substantial period of time to get ready for its intended use of sales 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.

### (l) Provisions

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

### (m) Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Employee Benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Group's contributions to the Hong Kong Mandatory Provident Fund 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.

- (iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

### (o) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that assets may be impaired.

If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

- (i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risks specific to the asset. Where there are assets that do not generate cash flows largely independent of those from other assets, recoverable amounts are determined for the smallest group of asset that generates cash flows independently (i.e. a cash-generating unit).

- (ii) Reversal of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.





## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents of the purpose of the cash flow statement.

### (q) Related Party Transactions

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. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### (r) Investments in Securities

Security is a bond or share or other negotiable instrument evidencing debts or ownership which is distinguished between equity and debt securities, is classified as held-to-maturity securities, investment securities and other investments.

Debt securities intended to be held-to-maturity are stated at amortised cost, less provision for impairment losses. Investments in other than held-to-maturity debt securities are accounted for using the benchmark treatment. Long-term investment securities are stated at cost less any provision for impairment losses. Investments in other than held-to-maturity debt securities and long-term investment securities are accounted for as other investments and are stated at fair values with unrealised gains or losses included in the income statement.

Gain or loss on disposal of investments in securities, representing the difference between the net sale proceeds and the carrying amount of the securities, is recognised in the income statement in the period in which the disposal occurs.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 4. TURNOVER AND REVENUES

The principal activities of the Group are the provision of public bus transportation and related services in the PRC.

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Turnover:		
Related bus services – Public routes	<b>66,323</b>	57,575
– Tourist routes	<b>6,638</b>	7,253
– “Hire a bus” and employee services	<b>12,542</b>	10,225
Sub-contracting	<b>10,651</b>	9,538
Rental income	<b>528</b>	709
Sightseeing ticket sales and touring	<b>1,494</b>	1,636
Management fee	<b>2</b>	132
	<b>98,178</b>	87,068
Other Revenues:		
Advertising income on fleet body	<b>2,541</b>	3,275
Negative goodwill released to consolidated income statement	–	14
Subsidies from local authorities	<b>3,988</b>	6,699
Sundry income	<b>645</b>	611
	<b>7,174</b>	10,599
	<b>105,352</b>	97,667



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 5. SEGMENT INFORMATION

	2003							
	Public routes HK\$'000	Tourist routes HK\$'000	"Hire a bus" and employee services HK\$'000	Sightseeing ticket sales and touring HK\$'000	Sub - contracting HK\$'000	Rental income HK\$'000	Management fee HK\$'000	Total HK\$'000
Turnover	66,323	6,638	12,542	1,494	10,651	528	2	98,178
Cost of bus services rendered	(56,360)	(5,667)	(10,222)	(1,135)	(8,140)	(404)	-	(81,928)
Gross profit	9,963	971	2,320	359	2,511	124	2	16,250
Administrative expenses	(9,617)	(809)	(1,365)	(118)	(1,517)	(75)	-	(13,501)
Segment results	346	162	955	241	994	49	2	2,749
Unallocated items:								
Other revenue								7,174
Administrative expenses								(4,024)
Profit from operations								5,899
Interest income								443
Finance costs								(2,075)
Profit from ordinary activities before taxation								4,267
Taxation								(1,113)
Profit before minority interests								3,154
Minority interests								(3,006)
Profit attributable to shareholders								148
Depreciation and amortisation for the year	8,298	916	1,469	-	2,103	-	-	12,786
Segment assets								
Trade receivables	2,501	461	695	-	45	-	-	3,702
Capital expenditure incurred during the year	10,674	1,141	2,723	-	2,734	-	-	17,272



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 5. SEGMENT INFORMATION (Continued)

	2002							
	Public routes HK\$'000	Tourist routes HK\$'000	"Hire a bus" and employee services HK\$'000	Sightseeing ticket sales and touring HK\$'000	Sub – contracting HK\$'000	Rental income HK\$'000	Management fee HK\$'000	Total HK\$'000
Turnover	57,575	7,253	10,225	1,636	9,538	709	132	87,068
Cost of bus services rendered	(45,755)	(10,469)	(7,161)	(1,254)	(4,768)	(146)	–	(69,553)
Gross profit	11,820	(3,216)	3,064	382	4,770	563	132	17,515
Administrative expenses	(9,003)	(1,045)	(1,414)	(191)	(1,790)	(130)	(101)	(13,674)
Segment results	2,817	(4,261)	1,650	191	2,980	433	31	3,841
Unallocated items:								
Other revenue								10,599
Administrative expenses								(3,039)
Profit from operations								11,401
Interest income								637
Finance costs								(2,246)
Profit from ordinary activities before taxation								9,792
Taxation								(2,379)
Profit before minority interests								7,413
Minority interests								(4,357)
Profit attributable to shareholders								3,056
Depreciation and amortisation for the year	5,201	2,335	985	–	2,094	–	4	10,619
Segment assets								
Trade receivables	146	–	1,355	–	135	–	–	1,636
Capital expenditure incurred during the year	13,884	3,073	6,528	–	11,911	–	19	35,415



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 6. PROFIT FROM OPERATING ACTIVITIES

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Profit from operating activities is stated after charging the following:		
Amortisation of intangible assets	<b>228</b>	209
Auditors' remuneration	<b>130</b>	200
Depreciation	<b>12,558</b>	10,410
Loss on disposal of fixed assets	<b>811</b>	423
Net exchange loss	–	13
Operating leases rentals in respect of rented premises	<b>298</b>	476
Staff costs	<b>22,747</b>	31,626

## 7. FINANCE COSTS

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Borrowing costs		
Interest expenses on bank loans, overdrafts and other loans wholly repayable within 5 years	<b>2,075</b>	2,246

## 8. TAXATION

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 (2002: Nil). Taxation on PRC profits/revenue has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC.

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Current taxation</b>		
PRC income tax provided for the year	<b>898</b>	2,204
<b>Deferred taxation</b>		
Charge for the year (Note 17)	<b>215</b>	175
Tax expenses	<b>1,113</b>	2,379

Deferred taxation charge represents the tax 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.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 8. TAXATION (Continued)

The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2003		2002	
	HK\$'000		HK\$'000	
Profit before tax	<b>4,267</b>		9,792	
Tax at Hong Kong profit tax rate of 17.5% (2002: 16%)	<b>747</b>	<b>17.5%</b>	1,567	16%
Estimated tax effect of expenses that are not deductible for tax in determining taxable profit	<b>790</b>	<b>18.5%</b>	1,313	13.4%
Estimated tax effect on income that are not taxable in determining taxable profit	<b>(424)</b>	<b>(10%)</b>	(501)	(5.1%)
Tax expenses and effective tax rate for the year	<b>1,113</b>	<b>26%</b>	2,379	24.3%

## 9. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit for the year attributable to shareholders includes a loss of HK\$2,423,000 (2002: HK\$2,031,000) which has been dealt with in the financial statements of the Company.

## 10. PROFIT PER SHARE

The calculation of basic profit per share is based on the Group's net profit for the year of HK\$148,000 (2002: HK\$3,056,000) and the weighted average of 180,000,000 and 180,000,000 ordinary shares in issue during the years ended 31st December, 2003 and 2002, respectively.

No diluted profit per share has been presented as there was no dilutive potential ordinary share during the year.

## 11. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31st December, 2003 (2002: Nil).



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 12. DIRECTORS' AND SENIOR MANAGEMENT' EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments paid or payable to directors of the Group during the year are as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Directors' fees		
Independent non-executive directors	<b>100</b>	100
Other emoluments		
– Basic salaries, allowances and benefits in kind	<b>185</b>	185
– Contribution to provident fund	<b>9</b>	9
	<b>294</b>	294

One executive directors received individual emoluments of approximately HK\$185,000 (2002: HK\$185,000).

No directors of the Company waived any emoluments during the year ended 31st December, 2003 and 2002.

During the year ended 31st December, 2003 and 2002, no emoluments were paid by the Group to the directors as inducement to join or upon joining the Group, or as compensation for loss of office.

During the year, no options were granted to the executive directors under the share option scheme approved by the shareholders of the Company on 30th July, 2001. Details of the share option scheme were set out in Note 13 to the financial statements.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 12. DIRECTORS' AND SENIOR MANAGEMENT' EMOLUMENTS (Continued)

### (b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2002: one) directors of the Company, details of whose emoluments are set out above. The emoluments payable to the remaining four (2002: four) individuals (the "Employees") during the year are as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Basic salaries and benefits	<b>562</b>	530
Bonuses	<b>46</b>	–
Contribution to provident fund	<b>34</b>	31
	<b>642</b>	561

During the years ended 31st December, 2003 and 2002, no emoluments were paid by the Group to any of the Employees as inducement to join or upon joining the Group.

The number of the Employees whose emoluments fell within the following bands:

	<b>Number of employees</b>	
	<b>2003</b>	2002
Nil to HK\$1,000,000	<b>4</b>	4





## 13. EMPLOYEE BENEFITS

### Retirement Benefit Scheme

Effective from 1st December, 2000, the Group joined the Mandatory Provident Fund Scheme (the "MPF Scheme") for all of its employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is registered with the Mandatory Provident Fund Authority under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. No forfeited contribution is available to reduce the contribution payable in the future years. Contributions to the scheme vest immediately.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31st December, 2003 in respect of the retirement of its employees.

### Equity Compensation Benefits

#### *Share Option*

On 30th July, 2001, the shareholders of the Company approved a share option scheme (the "Scheme") under which its board of directors may, at its discretion, invite full-time employees of the Company or any of its subsidiaries, including directors, to take up options to subscribe for ordinary shares in the Company. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. No employee can be granted an option under the Scheme which, if exercised in full, would result in such an employee becoming entitled to subscribe for such number of shares that would exceed 30% of the aggregate number of shares for the time being issued and issuable under the Scheme. The subscription price will be determined by the Company's board of directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the trade day immediately preceding the date of offer of the options, and (iii) the average of the quoted closing price of the Company's shares on the five trading days immediately preceding the date of offer of the options.

During the year ended 31st December, 2003, no option has been granted or agreed to be granted to the directors of the Company under the scheme.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 14. FIXED ASSETS

	<b>Leasehold improvements</b>	<b>Furniture, fixtures and office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Group</b>				
<i>Cost:</i>				
At 1st January, 2003	2,581	3,176	126,248	132,005
Additions	512	473	16,287	17,272
Disposals	–	–	(5,819)	(5,819)
At 31st December, 2003	3,093	3,649	136,716	143,458
<i>Accumulated depreciation:</i>				
At 1st January, 2003	700	1,362	22,551	24,613
Charge for the year	21	440	12,097	12,558
Disposals	–	–	(1,082)	(1,082)
At 31st December, 2003	721	1,802	33,566	36,089
<i>Net book value:</i>				
At 31st December, 2003	2,372	1,847	103,150	107,369
At 31st December, 2002	1,881	1,814	103,697	107,392



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 15. INTANGIBLE ASSETS

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Group</b>		
<i>Cost:</i>		
At 1st January	<b>1,798</b>	1,080
Additions	<b>249</b>	718
At 31st December	<b>2,047</b>	1,798
<i>Amortisation:</i>		
At 1st January	<b>233</b>	24
Amortisation for the year	<b>228</b>	209
At 31st December	<b>461</b>	233
<i>Net book value:</i>		
At 31st December	<b>1,586</b>	1,565

This cost represents one hundred and thirty eight (2002: one hundred and thirty seven) obsolete motor vehicles purchased by Taizhou Argos Public Transport Bus Company Limited, one of the subsidiaries of the Group, together with licences renewable for eight years. As at 31st December 2003 and up to the date of this report, there are ninety six (2002: eighty one) licences renewed.

## 16. SUBSIDIARIES

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>990</b>	990
Amount due by a subsidiary	<b>26,075</b>	19,701
	<b>27,065</b>	20,691

The amount due by a subsidiary is unsecured and interest free.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 16. SUBSIDIARIES (Continued)

The following is a list of the subsidiaries as at 31st December, 2003:

Name	Place/country of incorporation establishment and operation	Principal activities	Particulars of issued/ registered capital	Interests held		Note
				Directly %	Indirectly %	
Argos Bus Services (China) Company Limited ("Argos China")	Hong Kong	Investment holding	500,000 ordinary shares	100	–	
Argos Enterprise Management Consultant (Nanjing) Limited	PRC	Management	RMB1,000,000	–	100	(i)
Nanjing Public Transport Argos Bus Company Limited	PRC	Bus operation	RMB31,442,272	–	60	(ii)
Chongqing Wanzhou Area Argos Public Transport Bus Company Limited	PRC	Bus operation	RMB10,000,000	–	60	(iii)
Taizhou Argos Public Transport Bus Company Limited	PRC	Bus operation	RMB16,000,000	–	60	(iv)
Nanjing Argos Scenery Travel Service Limited	PRC	City touring and sightseeing agent	RMB2,500,000	–	59.4	(v)

Notes:

- (i) Argos Enterprise Management Consultant (Nanjing) Limited is a wholly foreign owned enterprise established in the PRC for a term of 30 years up to December 2031.
- (ii) Nanjing Public Transport Argos Bus Company Limited is a Sino-foreign co-operative enterprise established in the PRC for a term of 19 years up to September 2016.
- (iii) Chongqing Wanzhou Area Argos Public Transport Bus Company Limited is a Sino-foreign equity enterprise established in the PRC for a term of 30 years up to December 2030.
- (iv) Taizhou Argos Public Transport Bus Company Limited is a Sino-foreign equity enterprise established in the PRC for a term of 30 years up to September 2031.
- (v) Nanjing Argos Scenery Travel Service Limited is a domestic owned enterprise established in the PRC for a term of 19 years up to January 2018.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 17. DEFERRED TAX ASSET

	Group	
	2003 HK\$'000	2002 HK\$'000
Deferred tax asset at the beginning of the year	4,057	4,232
Charge to income statement for the year (Note 8)	(215)	(175)
Deferred tax asset at the end of the year	3,842	4,057

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.

## 18. INVESTMENTS IN SECURITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity securities, at cost	1,237	1,018

## 19. TRADE RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade receivables (Note a)	3,702	1,636	-	-

(a) As at 31st December, 2003, the aging analysis of the trade receivables was as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Current	3,155	879	-	-
31 – 60 days	160	193	-	-
61 – 90 days	74	126	-	-
Over 90 days	313	438	-	-
	3,702	1,636	-	-



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 20. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Spare parts of motor vehicles	1,253	1,302

## 21. AMOUNTS DUE BY RELATED COMPANIES

The amounts due are unsecured, interest free and recoverable on demand.

## 22. AMOUNT DUE BY A MINORITY SHAREHOLDER

The amount due is unsecured, interest free and recoverable on demand.

## 23. ADVERTISING INCOME ON FLEET BODY RECEIPT IN ADVANCE

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	2,025	2,025
In second to fifth year inclusive	3,097	3,317
	5,122	5,342
Less: Amount due within one year included in current liabilities	(2,025)	(2,025)
Amount due after one year	3,097	3,317



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Purchase of motor vehicles	<b>4,661</b>	11,061	-	-
Security deposits received from drivers (note)	<b>26,122</b>	13,131	-	-
Others deposits and accruals	<b>20,221</b>	13,777	<b>502</b>	537
	<b>51,004</b>	37,969	<b>502</b>	537

Note: The amount represents security deposits received from drivers as compensation for any loss in case of accidents and will be repaid to drivers only when they resign.

## 25. AMOUNT DUE TO A RELATED COMPANY

The amount due is unsecured, bearing interest of 5.31% per annum and repayable on demand.

## 26. AMOUNTS DUE TO FELLOW SUBSIDIARIES

The amounts due are unsecured, interest free and repayable on demand.

## 27. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts due are unsecured, interest free and repayable on demand.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 28. SHARE CAPITAL

	<b>Ordinary shares</b>	
	No. of shares	HK\$'000
Authorised:		
At 1st January, 2003 and 31st December, 2003, ordinary shares of HK\$0.01 each	10,000,000,000	100,000
	<b>Ordinary shares</b>	
	No. of shares	HK\$'000
Issued and fully paid:		
At 1st January, 2003 and 31st December, 2003, ordinary shares of HK\$0.01 each	180,000,000	1,800

### Share Options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Equity Compensation Benefits" in Note 13 to the financial statements.





# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 29. INTEREST-BEARING BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdraft	<b>8,225</b>	6,157	<b>8,225</b>	6,157
Bank loans	<b>31,163</b>	31,002	–	–
Others loans	–	11,848	–	–
	<b>39,388</b>	49,007	<b>8,225</b>	6,157
Analysed as:				
Secured	<b>39,388</b>	41,877	<b>8,225</b>	6,157
Unsecured	–	7,130	–	–
	<b>39,388</b>	49,007	<b>8,225</b>	6,157
The terms of repayment of the borrowings are analysed as follows:				
Within one year	<b>29,545</b>	35,406	<b>8,225</b>	6,157
One to two years	<b>9,843</b>	8,828	–	–
Two to five years	–	4,773	–	–
	<b>39,388</b>	49,007	<b>8,225</b>	6,157
Less: Amount due within one year included in current liabilities	<b>(29,545)</b>	(35,406)	<b>(8,225)</b>	(6,157)
Amount due after one year	<b>9,843</b>	13,601	–	–

At 31st December, 2003, the borrowings were secured by fixed deposits and bank balances of approximately HK\$23 million (2002: HK\$27 million) and HK\$955,000 (2002: HK\$640,000) respectively, motor vehicles with carrying amount of approximately HK\$17 million (2002: HK\$7 million) and personal guarantees executed by certain directors of the Group. At 31st December, 2003, the borrowings were also secured by a fixed deposit of HK\$10 million (2002: HK\$10 million) of the Company.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 30. RESERVES

	Issued capital HK\$'000	Exchange reserve HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	General reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
<b>Group</b>							
At 1st January, 2002	1,800	430	29,200	(490)	2,434	11,484	44,858
Net profit for the year	-	-	-	-	-	3,056	3,056
Transfer	-	-	-	-	396	(396)	-
Translation of financial statements of overseas subsidiaries	-	26	-	-	-	-	26
At 31st December, 2002 and 1st January, 2003	1,800	456	29,200	(490)	2,830	14,144	47,940
Net profit for the year	-	-	-	-	-	148	148
Transfer	-	-	-	-	165	(165)	-
Translation of financial statements of overseas subsidiaries	-	(35)	-	-	-	-	(35)
At 31st December, 2003	1,800	421	29,200	(490)	2,995	14,127	48,053
			Issued capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000		Total HK\$'000
<b>Company</b>							
At 1st January, 2002			1,800	29,200	(762)		30,238
Net loss for the year			-	-	(2,031)		(2,031)
At 31st December, 2002 and 1st January, 2003			1,800	29,200	(2,793)		28,207
Net loss for the year			-	-	(2,423)		(2,423)
At 31st December, 2003			1,800	29,200	(5,216)		25,784

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 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 reserves are non-distributable and calculated by reference to the PRC statutory financial statements of these subsidiaries.

In the opinion of the directors, there is no reserve available for distribution to shareholders of the Company.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 31. COMMITMENTS UNDER OPERATING LEASES

As at 31st December, 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Within one year	<b>94</b>	101
In the second to fifth year inclusive	<b>377</b>	408
After the fifth year	<b>2,747</b>	2,800
	<b>3,218</b>	3,309

Operating lease payments represent rentals payable by the Group for its office located in the People's Republic of China. Leases and rentals were negotiated and fixed for a term of 30 years.

## 32. RELATED PARTY TRANSACTIONS

Apart from those disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year, which were carried out in the normal course of the Group's business:

<b>Name of related parties</b>	<b>Nature of related party relationship</b>	<b>Nature of transactions</b>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000	Note
Nanjing Public Transport Company	Minority shareholder	Salaries paid	<b>2,302</b>	2,615	(i)
		Sightseeing ticket sales and touring	-	139	
Argos Bus Services Company, Limited ("Argos Hong Kong")	Fellow subsidiary	Rental paid	<b>26</b>	17	(ii)
Nanjing IC Cards	Investee Company	Purchase of property, plant and equipment	-	151	(iii)
		Service charge	<b>525</b>	547	(iii)
Wanzhou Public Transport Company	Minority shareholder	Operating leases	<b>263</b>	-	(iv)



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 32. RELATED PARTY TRANSACTIONS (Continued)

Name of related parties	Nature of related party relationship	Nature of transactions	2003 HK\$'000	2002 HK\$'000	Note
Always Earn Investments Limited ("Always Earn")	Related company	Service fee	–	63	(v)
Taizhou Public Transport Company	Minority shareholder	Interest income	–	16	(vi)
		Advertising income on fleet body	–	684	
		"Hire a bus" and employee services	–	73	

Banking facilities granted by banks have been secured by personal guarantees executed by certain directors of the Group.

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) Rental expenses were determined in accordance with the tenancy agreement entered into between Argos Hong Kong and Argos China.
- (iii) 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% was charged by Nanjing IC Cards which acted as a collecting agent and reimbursed the fare to Nanjing Argos on a monthly basis.
- (iv) The amount represents rentals for an office provided by Wanzhou Public Transport Company.
- (v) Mr. Wing 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 service fee of using its property to secure the facility granted to the Group. The security was discharged in 2002.
- (vi) Interest income was charged at prime rate plus 2% per annum on the outstanding balance. The advance was fully settled in April 2001.



# Notes to Financial Statements (Continued)

31ST DECEMBER, 2003

## 33. CAPITAL COMMITMENTS

	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for		
– Purchase of property, plant and equipment	–	3,198

## 34. CHARGES ON ASSETS

Fixed deposits and bank balances of approximately HK\$23 million (2002: HK\$27 million) and HK\$955,000 (2002: HK\$640,000) respectively have been pledged by the Group to banks to secure banking facilities granted by the Group. At 31st December, 2003, the Company had pledged its fixed deposit of HK\$10 million (2002: HK\$10 million) to a bank to secure banking facilities granted to the Company.

## 35. SUBSEQUENT EVENTS

### Acquisition of a State-Owned Enterprise in the PRC

On 4th March, 2004, an agreement was entered into between Argos China, a wholly-owned subsidiary of the Company and Chongqing Wanzhou Area Transport Committee, pursuant to which Argos China agreed to acquire 100% interest of the Chongqing Wanzhou Public Transport Company, a state-owned enterprise, of which owned 40% interest in one of the Group's sino-foreign equity joint venture company, Chongqing Wanzhou Argos in Chongqing Wanzhou, the PRC, at the consideration of approximately HK\$9,434,000. Pursuant to the sale and purchase agreement, Chongqing Wanzhou Argos will become 100% fully owned by Argos China upon the completion of the acquisition.

### Disposal of motor vehicles

Subsequent to the balance sheet date, the Group disposed of motor vehicles with carrying value of approximately HK\$8 million at a consideration of approximately HK\$12.6 million.

Save as aforesaid, no other significant events took place subsequent to 31st December, 2003.

## 36. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29th March, 2004.



# 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 the Function Room, Kowloon Bowling Green Club, 123 Austin Road, Kowloon, Hong Kong on Friday, 30th April, 2004 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 31st December, 2003;
- (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 no. 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 such general mandate referred to in the above resolution no. 4 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, 30th March, 2004

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, Computershare Hong Kong Investor Services Limited, Room 1901-05, 19/F., Hopewell Centre, 183 Queen's Road East, 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. 4 to 6 above will be sent to shareholders shortly together with the 2003 Annual Report.

