

# **Argos**

**ARGOS ENTERPRISE (HOLDINGS) LIMITED**

**雅高企業(集團)有限公司**

*(Incorporated in Hong Kong with limited liability)*



Interim Report

**2004**

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability.

Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

*INTERIM RESULTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004*

**HIGHLIGHTS**

- Achieved a turnover of approximately HK\$49,678,000 the six months ended 30th June, 2004, representing an approximately 17.2% increase as compared with the turnover for the corresponding period in 2003.
- Accomplished a net profit from ordinary activities attributable to shareholders of approximately HK\$1,176,000 for the six months ended 30th June, 2004, representing an approximately 140% increase as compared with the net profit from ordinary activities attributable to shareholders for the corresponding period in 2003.
- Earnings per share was approximately HK0.65 cents.
- The directors do not recommend payment of an interim dividend for the six months ended 30th June, 2004.
- The Group will lay a solid foundation and pave the way for the future growth.



## INTERIM RESULTS (UNAUDITED)

The Board is pleased to announce the unaudited consolidated results of the Group for the six months and three months ended 30th June, 2004 together with comparative unaudited figures for the corresponding periods in 2003 (the "Relevant Periods") as follows:

|   | Note | Six months ended<br>30th June, |                  | Three months ended<br>30th June, |                  |
|---|------|--------------------------------|------------------|----------------------------------|------------------|
|   |      | 2004<br>HK\$'000               | 2003<br>HK\$'000 | 2004<br>HK\$'000                 | 2003<br>HK\$'000 |
| TURNOVER                                      | 2    | 49,678                         | 42,376           | 25,096                           | 19,691           |
| COST OF BUS<br>SERVICES RENDERED              |      | (41,450)                       | (36,879)         | (21,056)                         | (17,794)         |
| GROSS PROFIT                                  |      | 8,228                          | 5,497            | 4,040                            | 1,897            |
| OTHER REVENUE                                 | 2    | 5,454                          | 5,972            | 2,617                            | 3,443            |
| ADMINISTRATIVE EXPENSES                       |      | (8,909)                        | (8,257)          | (4,307)                          | (4,536)          |
| PROFIT FROM OPERATIONS                        |      | 4,773                          | 3,212            | 2,350                            | 804              |
| INTEREST INCOME                               |      | 14                             | 85               | 1                                | 38               |
| FINANCE COSTS                                 | 4    | (1,194)                        | (1,076)          | (560)                            | (594)            |
| PROFIT BEFORE TAXATION                        |      | 3,593                          | 2,221            | 1,791                            | 248              |
| TAXATION                                      | 5    | (353)                          | (32)             | (119)                            | 65               |
| PROFIT BEFORE MINORITY<br>INTERESTS           |      | 3,240                          | 2,189            | 1,672                            | 313              |
| MINORITY INTERESTS                            |      | (2,064)                        | (1,698)          | (1,035)                          | (719)            |
| PROFIT (LOSS) ATTRIBUTABLE<br>TO SHAREHOLDERS |      | <u>1,176</u>                   | <u>491</u>       | <u>637</u>                       | <u>(406)</u>     |
| EARNINGS (LOSS) PER SHARE<br>– BASIC (CENTS)  | 6    | <u>0.65</u>                    | <u>0.27</u>      | <u>0.35</u>                      | <u>(0.23)</u>    |



CONSOLIDATED BALANCE SHEET

|   | (Unaudited)<br>As at<br>30th June,<br>2004<br>HK\$'000 | (Audited)<br>As at<br>31st Dec.,<br>2003<br>HK\$'000 |
|---|--|--|
|   | <i>Note</i>  |  |
| <b>ASSETS</b>                                       |  |  |
| <b>Non-current assets</b>                           |  |  |
| Intangible assets                                   | 1,461  | 1,586  |
| Property, plant and equipment                       | 119,766  | 107,369  |
| Investments in securities                           | 1,237  | 1,237  |
| Deferred tax asset                                  | 3,453  | 3,842  |
|   | 125,917  | 114,034  |
| <b>Current assets</b>                               |  |  |
| Due from related companies                          | –  | 10   |
| Amount due from a minority shareholder              | –  | 22   |
| Prepayments, deposits and other receivables         | 7 7,315  | 5,466  |
| Consumables   | 2,708  | 1,253  |
| Trade receivables                                   | 7 3,696  | 3,702  |
| Fixed deposits                                      | 18,643   | 20,057   |
| Cash and bank balances                              | 10,708   | 28,442   |
|   | 43,070   | 58,952   |
| <b>LIABILITIES</b>                                  |  |  |
| <b>Current liabilities</b>                          |  |  |
| Bank overdraft, secured                             | 9,110  | 8,225  |
| Current portion of interest-bearing borrowings      | 26,242   | 21,320   |
| Bills Payable                                       | –  | 2,156  |
| Trade payables                                      | 2,996  | 3,979  |
| Advertising income on fleet body receipt in advance | 2,025  | 2,025  |
| Other payables and accruals                         | 52,340   | 51,004   |
| Taxation payable                                    | 215  | 794  |
| Amount due to a related company                     | 2,000  | 377  |
| Amount due to a fellow subsidiaries                 | 4,395  | 2,780  |
| Amount due to minority shareholders                 | 1,646  | 2,160  |
|   | 100,969  | 94,820   |
| <b>Net current liabilities</b>                      | (57,899)   | (35,868)   |
| <b>Total assets less current liabilities</b>        | 68,018   | 78,166   |



|  | (Unaudited)<br>As at<br>30th June,<br>2004<br>HK\$'000 | (Audited)<br>As at<br>31st Dec.,<br>2003<br>HK\$'000 |
|--|--|--|
| <b>Non-current liabilities</b>                         |  |  |
| Interest-bearing borrowings                            | 5,496  | 9,843  |
| Advertising income on fleet body receipt<br>in advance | 1,918  | 3,097  |
|  | <u>7,414</u>   | <u>12,940</u>  |
| <b>MINORITY INTERESTS</b>                              | 11,375   | 17,173   |
| <b>NET ASSETS</b>                                      | <u>49,229</u>  | <u>48,053</u>  |
| <b>CAPITAL AND RESERVES</b>                            |  |  |
| Issued capital   | 1,800  | 1,800  |
| Reserves   | 47,429   | 46,253   |
|  | <u>49,229</u>  | <u>48,053</u>  |

Note

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UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

For the six months period ended 30th June, 2004

|  | For the six months<br>ended 30th June, |                |
|--|--|----------------|
|  | 2004                                   | 2003           |
|  | HK\$'000                               | HK\$'000       |
| Net cash (outflow) from operating activities             | (741)                                  | (794)          |
| Net cash (outflow)/inflow from investing activities      | (17,303)                               | 120            |
| Net cash (outflow) before financing                      | (18,044)                               | (674)          |
| Net cash (outflow) from financing                        | (575)                                  | (5,470)        |
| Decrease in cash and cash equivalents                    | (18,619)                               | (6,144)        |
| Cash and cash equivalents at the beginning of the period | 20,217                                 | 2,391          |
| Cash and cash equivalent at the end of the period        | <u>1,598</u>                           | <u>(3,753)</u> |
| Analysis of balances of cash and cash equivalents:       |  |                |
| Bank balances and cash                                   | 10,708                                 | 5,183          |
| Bank overdrafts  | (9,110)                                | (8,936)        |
|  | <u>1,598</u>                           | <u>(3,753)</u> |



*Notes:***1. Group reorganization, basis of presentation and principal accounting policies**

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

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

The Group financial statements include the financial statements of the Company and its subsidiaries made up to 30th June, 2004. The Group Reorganisation above has been accounted for by using merger accounting. Apart from the Group Reorganisation, the results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effect date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances within the Group have been eliminated on consolidation.

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

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The condensed consolidated interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended 31st December, 2003.

The condensed consolidated interim financial statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.





2. **Turnover and revenue**

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

|  | Six months ended<br>30th June, |                      | Three months ended<br>30th June, |                      |
|--|--------------------------------|----------------------|----------------------------------|----------------------|
|  | 2004<br>HK\$'000               | 2003<br>HK\$'000     | 2004<br>HK\$'000                 | 2003<br>HK\$'000     |
| Turnover                               |                                |                      |                                  |                      |
| Related bus services                   |                                |                      |                                  |                      |
| – Public routes                        | 29,315                         | 28,927               | 14,697                           | 13,110               |
| – Tourist routes                       | 4,772                          | 1,761                | 2,016                            | 840                  |
| – “Hire a bus” and<br>employee service | 4,177                          | 3,472                | 2,221                            | 1,777                |
| Sub-contracting                        | 8,714                          | 7,069                | 4,358                            | 3,390                |
| Rental                                 | 987                            | 479                  | 432                              | 241                  |
| Sightseeing ticket sales               | 717                            | 600                  | 376                              | 284                  |
| Management fee                         | 996                            | 68                   | 996                              | 49                   |
|  | <u>49,678</u>                  | <u>42,376</u>        | <u>25,096</u>                    | <u>19,691</u>        |
| Other revenue                          |                                |                      |                                  |                      |
| Advertising income on fleet body       | 1,534                          | 1,857                | 762                              | 1,094                |
| Subsidy from local authority           | 3,428                          | 3,469                | 1,905                            | 2,021                |
| Sundries                               | 492                            | 646                  | 245                              | 328                  |
|  | <u>5,454</u>                   | <u>5,972</u>         | <u>2,912</u>                     | <u>3,443</u>         |
| Total revenue                          | <u><u>55,132</u></u>           | <u><u>48,348</u></u> | <u><u>28,008</u></u>             | <u><u>23,134</u></u> |



**3. Segmental information**

An analysis of the Group's revenues and results for the period by business segments is as follows:

**(i) Six months ended 30th June, 2004**

|   | Public routes<br>HK\$'000 | Tourist routes<br>HK\$'000 | "Hire a bus"<br>and<br>employee<br>service<br>HK\$'000 | Sightseeing<br>ticket sales<br>and touring<br>HK\$'000 | Sub-<br>contracting<br>HK\$'000 | Rental<br>income<br>HK\$'000 | Management<br>fee<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------|----------------------------|--|--|---------------------------------|------------------------------|-------------------------------|-------------------|
| Turnover  | 29,315                    | 4,772                      | 4,177  | 717  | 8,714                           | 987                          | 996                           | 49,678            |
| Cost of bus<br>services<br>rendered                   | (25,797)                  | (4,199)                    | (3,676)  | (358)  | (6,828)                         | (592)                        | -                             | (41,450)          |
| Gross profit  | 3,518                     | 573                        | 501  | 359  | 1,886                           | 395                          | 996                           | 8,228             |
| Administrative<br>expenses                            | (3,225)                   | (524)                      | (452)  | (143)  | (1,676)                         | (201)                        | (499)                         | (6,720)           |
| Segment results                                       | 293                       | 49                         | 49   | 216  | 210                             | 194                          | 497                           | 1,508             |
| Unallocated items:                                    |                           |                            |  |  |                                 |                              |                               |                   |
| Other revenue   |                           |                            |  |  |                                 |                              |                               | 5,454             |
| Administrative<br>expenses                            |                           |                            |  |  |                                 |                              |                               | (2,189)           |
| Profit from operations                                |                           |                            |  |  |                                 |                              |                               | 4,773             |
| Interest income                                       |                           |                            |  |  |                                 |                              |                               | 14                |
| Finance costs   |                           |                            |  |  |                                 |                              |                               | (1,194)           |
| Profit from ordinary<br>activities before<br>taxation |                           |                            |  |  |                                 |                              |                               | 3,593             |
| Taxation  |                           |                            |  |  |                                 |                              |                               | (353)             |
| Profit before<br>minority interests                   |                           |                            |  |  |                                 |                              |                               | 3,240             |
| Minority interests                                    |                           |                            |  |  |                                 |                              |                               | (2,064)           |
| Profit attributable<br>to shareholders                |                           |                            |  |  |                                 |                              |                               | <u>1,176</u>      |
| Depreciation and<br>amortisation<br>for the period    | 4,073                     | 439                        | 721  | -  | 1,033                           | -                            | -                             | 6,266             |
| Segment assets  |                           |                            |  |  |                                 |                              |                               |                   |
| Trade receivables                                     | 2,495                     | 462                        | 695  | -  | 44                              | -                            | -                             | 3,696             |
| Capital expenditure<br>incurred during<br>the period  | 6,714                     | 717                        | 1,717  | -  | 1,717                           | -                            | -                             | 10,865            |



(ii) Six months ended 30th June 2003

|   | Public routes<br>HK\$'000 | Tourist routes<br>HK\$'000 | "Hire a bus"<br>and<br>employee<br>service<br>HK\$'000 | Sightseeing<br>ticket sales<br>and touring<br>HK\$'000 | Sub-<br>contracting<br>HK\$'000 | Rental<br>income<br>HK\$'000 | Management<br>fee<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------|----------------------------|--|--|---------------------------------|------------------------------|-------------------------------|-------------------|
| Turnover  | 28,927                    | 1,761                      | 3,472  | 600  | 7,069                           | 479                          | 68                            | 42,376            |
| Cost of bus<br>services<br>rendered                   | (25,867)                  | (1,532)                    | (3,021)  | (450)  | (5,655)                         | (335)                        | (19)                          | (36,879)          |
| Gross profit  | 3,060                     | 229                        | 451  | 150  | 1,414                           | 144                          | 49                            | 5,497             |
| Administrative<br>expenses                            | (2,958)                   | (207)                      | (416)  | (114)  | (1,127)                         | (115)                        | (17)                          | (4,954)           |
| Segment results                                       | 102                       | 22                         | 35   | 36   | 287                             | 29                           | 32                            | 543               |
| Unallocated items:                                    |                           |                            |  |  |                                 |                              |                               |                   |
| Other revenue   |                           |                            |  |  |                                 |                              |                               | 5,972             |
| Administrative<br>expenses                            |                           |                            |  |  |                                 |                              |                               | (3,303)           |
| Profit from<br>operations                             |                           |                            |  |  |                                 |                              |                               | 3,212             |
| Interest income                                       |                           |                            |  |  |                                 |                              |                               | 85                |
| Finance costs   |                           |                            |  |  |                                 |                              |                               | (1,076)           |
| Profit from ordinary<br>activities before<br>taxation |                           |                            |  |  |                                 |                              |                               | 2,221             |
| Taxation  |                           |                            |  |  |                                 |                              |                               | (32)              |
| Profit before<br>minority interests                   |                           |                            |  |  |                                 |                              |                               | 2,189             |
| Minority interests                                    |                           |                            |  |  |                                 |                              |                               | (1,698)           |
| Profit attributable<br>to shareholders                |                           |                            |  |  |                                 |                              |                               | <u>491</u>        |
| Depreciation and<br>amortisation<br>for the year      | 4,219                     | 511                        | 671  | -  | 992                             | -                            | -                             | 6,393             |
| Segment assets  |                           |                            |  |  |                                 |                              |                               |                   |
| Trade receivables                                     | 923                       | 171                        | 198  | -  | 26                              | -                            | -                             | 1,318             |
| Capital expenditure<br>incurred during<br>the year    | 1,195                     | 190                        | 247  | -  | 266                             | -                            | -                             | 1,898             |



4. Finance costs

|                                       | Six months ended |          | Three months ended |          |
|---------------------------------------|------------------|----------|--------------------|----------|
|                                       | 30th June,       |          | 30th June,         |          |
|                                       | 2004             | 2003     | 2004               | 2003     |
|                                       | HK\$'000         | HK\$'000 | HK\$'000           | HK\$'000 |
| Interest on bank loans and overdrafts | 1,194            | 1,076    | 560                | 594      |

5. Taxation

The taxation charge comprises:

|                       | Note | Six months ended |          | Three months ended |          |
|-----------------------|------|------------------|----------|--------------------|----------|
|                       |      | 30th June,       |          | 30th June,         |          |
|                       |      | 2004             | 2003     | 2004               | 2003     |
|                       |      | HK\$'000         | HK\$'000 | HK\$'000           | HK\$'000 |
| Hong Kong profits tax | (i)  | -                | -        | -                  | -        |
| Overseas taxation     | (ii) | 353              | 32       | 119                | (65)     |
|                       |      | 353              | 32       | 119                | (65)     |

(i) No provision for Hong Kong profits tax has been made as the Group did not have assessable profit subject to Hong Kong Profits Tax during the relevant periods.

(ii) Taxation arising in other jurisdiction is calculated at the rates prevailing in the respective jurisdiction.

6. Earnings per share

The calculation of the basic earnings per share is based on profit/(loss) from the ordinary activities attributable to shareholders for the six months and three months ended 30th June, 2004 of HK\$1,176,000,000 and HK\$637,000 respectively (2003: HK\$491,000 and (HK\$406,000)) and on 180,000,000 (2003: 180,000,000) shares in issue during the periods.

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

7. Trade and other receivables

|                            | (Unaudited) | (Audited)  |
|----------------------------|-------------|------------|
|                            | As at       | As at      |
|                            | 30th June,  | 31st Dec., |
|                            | 2004        | 2003       |
|                            | HK\$'000    | HK\$'000   |
| Trade receivables (note a) | 3,696       | 3,702      |
| Prepayments and deposit    | 7,315       | 5,466      |
|                            | 11,011      | 9,168      |



(a) The aging analysis of the trade receivables was as follows:

|              | (Unaudited)<br>As at<br>30th June,<br>2004<br>HK\$'000 | (Audited)<br>As at<br>31st Dec.,<br>2003<br>HK\$'000 |
|--------------|--|--|
| Current      | 3,037  | 3,155  |
| 31 – 60 days | 227  | 160  |
| 61 – 90 days | 131  | 74   |
| Over 90 days | 301  | 313  |
|              | <u>3,696</u>   | <u>3,702</u>   |

8. Reserves

|                           | Exchange<br>reserve<br>HK\$'000 | Share<br>premium<br>HK\$'000 | Merger<br>reserve<br>HK\$'000 | General<br>reserve<br>HK\$'000 | Retained<br>earnings<br>HK\$'000 | Total<br>HK\$'000 |
|---------------------------|---------------------------------|------------------------------|-------------------------------|--------------------------------|----------------------------------|-------------------|
| As at 1st January, 2004   | 421                             | 29,200                       | (490)                         | 2,995                          | 14,127                           | 46,253            |
| Net profit for the period | –                               | –                            | –                             | –                              | 1,176                            | 1,176             |
| As at 30th June, 2004     | <u>421</u>                      | <u>29,200</u>                | <u>(490)</u>                  | <u>2,995</u>                   | <u>15,303</u>                    | <u>47,429</u>     |

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 reserve which comprise of the statutory reserve and the enterprise expansion fund. The percentage of the transfer is determined by the board of directors of the subsidiaries.

The above reserve is non-distributable and calculated based on the PRC statutory financial statements of these subsidiaries.

## INTERIM DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30th June, 2004 (2003: Nil).

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June, 2004, neither the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## BOARD PRACTICES AND PROCEDURES

During the six months ended 30th June, 2004, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of GEM Listing Rules.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The Group's financial performance for the first half of 2004 was encouraging. Turnover of the Group grew by 17.2% from HK\$42,376,000 during the first half of 2003 to HK\$49,678,000 for the same period in 2004. For the six months ended 30th June 2004, the Group's profit attributable to shareholders improved significantly to HK\$1,176,000, as compared to HK\$491,000 for the same period in 2003. For the three months ended 30th June 2004, the Group recorded a profit attributable to shareholders of HK\$637,000 (2003: loss of HK\$406,000). Despite of high fuel cost and keen competitive environment, the focus and directions undertaken by the Group have yielded results. This was reflected in the improved sales performance and significant improvement of profit attributable to shareholders for the first half of 2004.

For the six months ended 30th June, 2004, earnings per share is approximately HK0.65 cents.

The unaudited revenue of the Group for the three months ended 30th June, 2004 was HK\$25,096,000, representing an increase of approximately 27.4% to the last corresponding period. Besides, the profit attributable to shareholders for the three months ended 30th June, 2004 was HK\$637,000, comparing to a loss of HK\$406,000 for the last corresponding period.

As at 30th June, 2004, shareholders' funds of the Group amounted to approximately HK\$49,229,000. Current assets amounted to approximately HK\$43,070,000, of which approximately HK\$29,351,000 were cash and bank deposits. The Group had long-term liabilities amounting to approximately HK\$7,414,000 and its current liabilities amounted to approximately HK\$100,969,000, trade payables, other payables, accruals and provisions amounting to HK\$55,336,000. The Group expresses its gearing ratio as a percentage of interest-bearing borrowings over total assets. As at 30th June, 2004, the Group had a gearing ratio of 18.8% (2003: 24%).

During the six months ended 30th June, 2004, all the Group's revenue and supplies were substantially denominated in Renminbi, the Board considers that potential foreign exchange exposure of the Group is limited.

During the six months ended 30th June, 2004, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies, saved as disclosed in the Announcement and Circular made on 17th March, 2004 and 8th April, 2004 respectively in relation to a discloseable transaction for the acquisition of a State Owned Enterprise in the PRC.

As at 30th June, 2004, the Group had no future plans for material investments except that capital assets will be purchased in accordance with normal replacement plan.

As at 30th June, 2004, the Group had no material contingent liabilities which also applied to 30th June, 2003.



### Operational Review

During the period under review, the overall operation cost was gradually reduced to a competitive level. The Group achieved satisfactory operating results for the first half of the year due to its adherence to the hard working attitude and innovative and creative ideas as well as the exercise of teamwork and flexible response to the market trend. The Group showed good operating status and maintained stable development momentum for the first half of 2004.

#### *Nanjing Argos*

2004 is a crucial year for Nanjing Argos' continuing development. In the first half year, Nanjing Argos still obtained satisfactory achievement though the keen competition on the market of high quality transportation services was intensified and the production capacity was insufficient. As the roadworks and the construction project of Nanjing Metro and infrastructure developments for the Olympic Games and the Tenth Athletic Champion as well as removal of bus terminals, has disrupted road traffic and caused re-routing and adjust-routing in fourteen of the Public and Tourist Routes that Nanjing Argos operates. While the high fuel cost as a result of market fluctuation in the world oil market and the government imposed mandatory employees medical benefits and raising up the social insurance base figures causing a big rise of cost of services rendered. Moreover, the fleet ages made the normal operational efficiency under performed and, on the other hand, higher maintenance cost is required to upgrade them in order to meet new environment regulations.

The following table depicts certain operating statistics of Nanjing Argos for the first half of the year:

|                                 | Jan-Jun 2004 | Jan-Jun 2003 |
|---------------------------------|--------------|--------------|
| Routes operated                 | 15           | 14           |
| Number of employees             | 993          | 1,016        |
| Fleet size                      | 330          | 312          |
| Total mileage ('000 km)         | 11,163       | 10,221       |
| Total patronage (million trips) | 36.708       | 33.293       |

#### *Wanzhou Argos*

Wanzhou Argos has achieved steadily improvement in its profitability, however the higher fuel oil cost and the keen competition with the proprietary midi-operators providing similar services in one of our public routes that has caused dropping to our patronage, thus, affected our business and services incomes.



The following table depicts certain operating statistics of Wanzhou Argos for the first half of the year:

|                                 | Jan-Jun 2004 | Jan-Jun 2003 |
|---------------------------------|--------------|--------------|
| Routes operated                 | 3            | 3            |
| Number of employees             | 292          | 357          |
| Fleet size                      | 52           | 84           |
| Total mileage ('000 km)         | 1,840        | 2,697        |
| Total patronage (million trips) | 3.830        | 4.471        |

*Taizhou Argos*

In the first half of the year Taizhou Argos added 9 buses and 20 taxis to its fleet. For the sake of improving operational effectiveness, Route 36 has been merged with Route 6 while Route 8 and 26 have their routes adjusted. High fuel oil cost and maintenance cost were their main operational problems.

The following table depicts certain operating statistics of Taizhou Argos for the first half of the year:

|                                 | Jan-Jun 2004 | Jan-Jun 2003 |
|---------------------------------|--------------|--------------|
| Routes operated                 | 22           | 22           |
| Number of employees             | 498          | 490          |
| Fleet size (excluding taxis)    | 522          | 119          |
| Total mileage ('000 km)         | 2,937        | 3,087        |
| Total patronage (million trips) | 9.219        | 4.210        |

**Outlook**

The management has executed tight measures in cost control with a view to ensuring that all facets of the operations are cost effective. The management will continue to implement control measures to reduce its operational costs as far as practicable and is of confident that the cost control practices will lay a solid foundation and pave the way for the future growth of the Group.

The management believes that the growth of the economy in the PRC will maintain at a stable and moderate pace in the coming years which will drive the future growth of the public transportation industry.

As the growth momentum in the macro economy in Mainland China is expected to remain strong. With the robust economy growth, the strong demand for high quality transportation services is anticipated to continue in the next few years. However, the high fuel cost, keen competition in the transportation market and high fleet maintenance cost, the Group is expected to face with a tougher and more challenging operating environment in the years ahead. Nevertheless, the Group is confident that it has the well built up competitive strengths to march into this challenging arena.





*Nanjing Argos*

In the second half of the year, Nanjing Argos will continue focusing on the following tasks in order to reach the goal of sustainable development and reach each of the economic targets under the annual plan:

To achieve stable organization growth and development through the setting up and enhancement of staff performance appraisal concepts.

To implement management by objectives policy to all department and section heads in order to enhance clear responsibility and accountability, thus, to appraise their respective performance.

To provide more evident operational cost figures to the Bureau of Consumer Prices of Nanjing for their review and making approval on our application for raise of fare.

*Wanzhou Argos*

Subsequent to the acquisition of Chongqing Wanzhou Public Transport Company, which is a state owned enterprise and would be merged with Wanzhou Argos, then their resources will be consolidated, wastage will be eliminated, operating costs will be reduced and the burden of the retired personnel costs will be lowered when great part of the retired personnel in the original state-owned enterprise were released. Their effects will soon commence to contribute profitability to Wanzhou Argos and when its land and properties will be redeveloped (after the completion of the feasibility study on 30th June, 2005), their potential value will be explored and made greater contribution to Wanzhou Argos,

*Taizhou Argos*

In the second half of the year, Taizhou, Argos will expand its repairs and maintenance services to outsiders in order to generate more income. It will also plan to set up a travel company for developing travel business whereas to diversify its business, thus to generate more revenue.

**DIRECTORS' INTERESTS IN THE COMPANY**

As at 30th June, 2004, 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:

| <b>Name</b>        | <b>Type of interest</b> | <b>Number of issued share held</b> |
|--------------------|-------------------------|------------------------------------|
| Mr. Wilson Wong    | Corporate               | 126,000,000<br>(Notes 1 and 2)     |
| Mr. Yeung Wai Hung | Corporate               | 1,400,000<br>(Note 5)              |



As at 30th June, 2004 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. Wilson Wong, the managing Director of the Group and as to 50 per cent. by Madam Chiu Gee Chai, the wife of Mr. Wilson Wong.
2. Mr. Wilson Wong is deemed to be interested in 126,000,000 shares under Part XV of the SFO.
3. Under Part XV of the SFO, Mr. Wilson Wong 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 period from 13th August, 2001 to 30th June, 2004, no option has been granted or agreed to be granted to the Directors under the scheme.

At no time during the six months ended 30th June, 2004 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 six months ended 30th June, 2004 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.



## SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 30th June, 2004, 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 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 30th June, 2004, 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:

- 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.
- 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. Wilson Wong, the managing Director, and as to 50 per cent. by Madam Chiu Gee Chai, the wife of Mr. Wong, Wilson.
- By virtue of Part XV of the SFO, Madam Chiu Gee Chai is deemed to be interested in 126,000,000 shares.
- 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.
- 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. Wilson Wong, 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.



## 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. Wilson Wong, an executive Director and two independent non-executive Directors of the Company, namely Mr. Sung Wai Tak, Herman and Mr. Cheung Man Yau, Timothy.

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 unaudited consolidated interim financial statements for the six months ended 30th June, 2004.

## 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.

By order of the Board  
**Wong Wah Sang**  
Chairman

Hong Kong, 12th August, 2004

*As of the date hereof, the executive directors are Mr. Wong Wah Sang (Chairman), Mr. Wilson Wong, Mr. Wong Man Chiu, Ronnie and Mr. Yeung Wai Hung, while the independent non-executive directors are Messrs. Sung Wai Tak, Herman and Cheung Man Yau, Timothy.*

