

Argos

ARGOS ENTERPRISE (HOLDINGS) LIMITED

雅高企業(集團)有限公司

(Incorporated in Hong Kong with limited liability)

Argos



ANNUAL
REPORT
2004

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

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Argos Enterprise (Holdings) Limited (the "Company") is principally engaged in investment holdings. The subsidiaries of the Company (together with the Company, the "Group") carry out public transportation business in various cities of the People's Republic of China (the "PRC").

The Company has the following principal subsidiaries:

- Nanjing Public Transport Argos Bus Company Limited ("Nanjing Argos")
- Chongqing Wanzhou Area Argos Public Transport Bus Company Limited ("Wanzhou Argos")
- Taizhou Argos Public Transport Bus Company Limited ("Taizhou Argos")

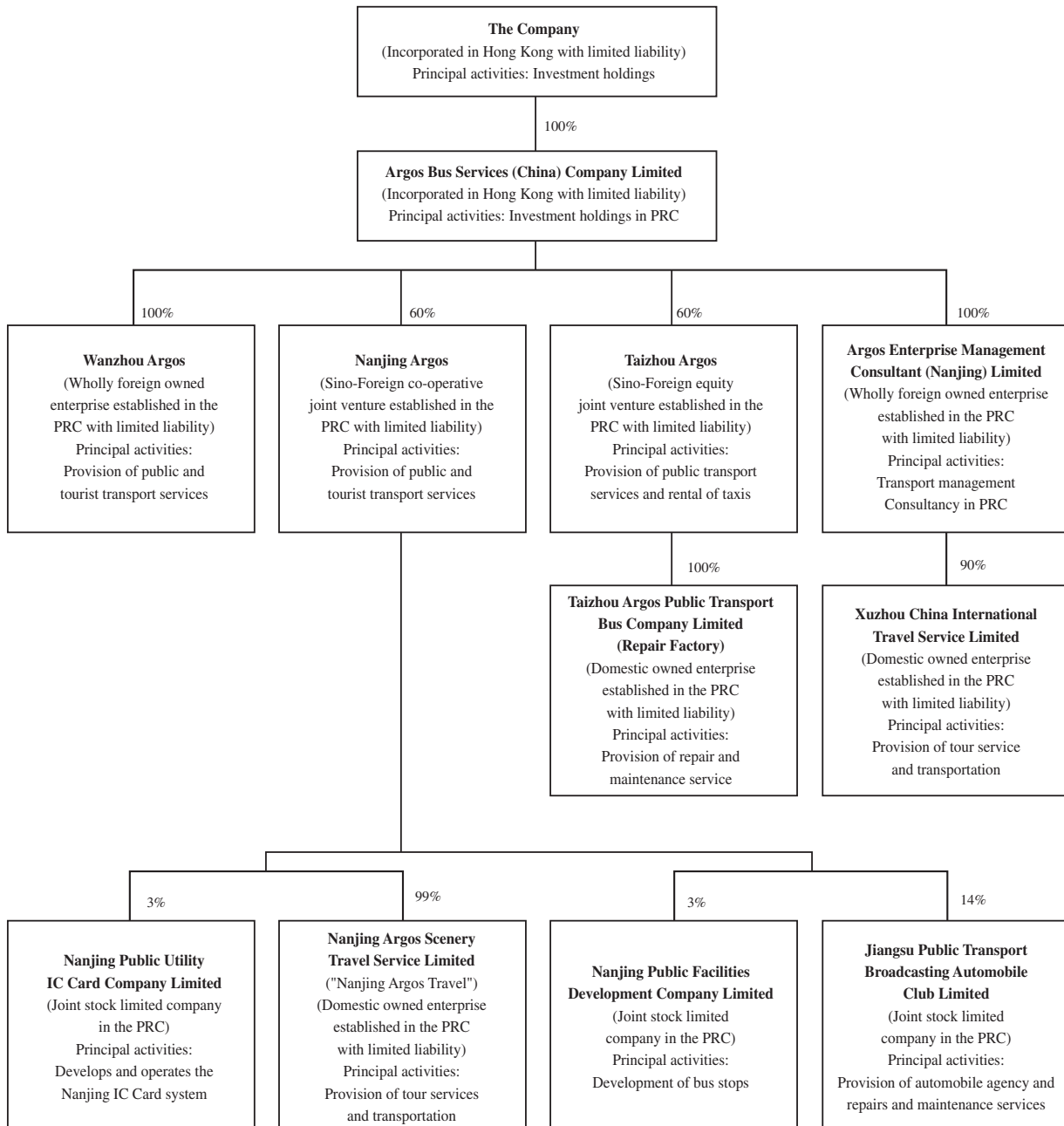
Through the above subsidiaries, the Group provides various forms of public transport services in the PRC including (1) public routes and tourist routes bus services with fixed fares, schedules and routes; (2) taxi services; (3) private bus chartered services and (4) tour services.

Major Corporate Milestones:

- September 1997 – Tourists route service launched in Nanjing
- June 1998 – Public routes service launched in Nanjing, the fleet size of the Group surpassed 100
- March 2001 – Public routes service launched in Wanzhou, the fleet size of the Group surpassed 300
- August 2001 – Shares in the Company listed on the GEM
- September 2001 – Public routes and taxi services were launched in Taizhou, the fleet size of the Group surpassed 500
- December 2001 – Total assets of the Group exceeded HK\$100 million
- September 2002 – The fifth anniversary of Nanjing Argos
- December 2002 – Total fixed assets and assets of the Group exceeded HK\$100 million and HK\$150 million respectively.



The following is the organisation structure of the Group



DIRECTORS

Executive Directors

Mr. WONG Wah Sang, B.H., M.B.E. (*Chairman*)

Mr. WONG Man Chiu, Ronnie

J.P., B.Sc, M.B.A.

Mr. YEUNG Wai Hung

Non-executive Director

Mr. Wilkie WONG, MSc, M.B.A.

Independent Non-executive Directors

Mr. SUNG Wai Tak, Herman

Mr. CHEUNG Man Yau, Timothy

Mr. WONG Lit Chor, Alexis

AUDIT COMMITTEE

Mr. SUNG Wai Tak, Herman

Mr. CHEUNG Man Yau, Timothy

Mr. WONG Lit Chor, Alexis

COMPANY SECRETARY

Mr. WONG Kwong Yiu, Bono

COMPLIANCE OFFICER

Mr. YEUNG Wai Hung

QUALIFIED ACCOUNTANT

Mr. WONG Kwong Yiu, Bono

AUDITORS

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

6th Floor, Wheelock House

20 Pedder Street

Central

Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor

Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

REGISTERED OFFICE

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

G/F, 1-3 Wo Yi Hop Road

Kwai Chung

New Territories

Hong Kong

STOCK CODE

8022



HIGHLIGHTS

- Turnover of the Group for the year ended 31 December 2004 increased by HK\$21.2 million to approximately HK\$119.4 million when compared to turnover of approximately HK\$98.2 million in the previous year.
- Profit for the year ended 31 December 2004 increased by HK\$1.6 million to HK\$1.7 million.
- Earnings per share was approximately 0.96 HK cents for the year ended 31 December 2004 as compared with earnings per share of approximately 0.08 HK cents recorded in last year.
- The directors do not recommend the payment any dividend in respect of the year (2003: HK\$Nil).

The performance of the Company's core business in public bus transportation in 2004 was good and a sustained growth trend has been continuously maintained with a stable increase in profit. The Group's turnover for the year ended 31 December 2004 amounted to approximately HK\$119.4 million, representing an increase of approximately 22% as compared with previous year. The profit attributable to shareholders amounted to approximately HK\$1.7 million representing an increase of approximately HK\$1.6 million as compared with previous year. Earnings per share for the year ended 31 December 2004 was 0.96 HK cents per share. The directors do not recommend the payment of any dividend for the year under review.

The year 2004 was a year of hardship and consolidation for the Company. Despite fierce market competition, the Company still reported exciting results in various aspects: both its turnover amount and net profits saw stable growth. For the year under review, the Company has successfully completed several missions, paving a solid foundation for its sustainable business development.

The Group dedicates itself to become the most prominent and influential operators of the transportation industry in the Mainland China. By carrying out development strategy designed to maximize its advantages, the Group expects to maintain a continuous growth in its principal business and operating results, so as to achieve its operating goal targeted for 2005.

While the price of crude oil has come down from its historical peak during last year, conditions remain volatile and fuel prices will possibly maintain at a high level and thus resulting an increase in the operating costs of the Group's public bus transportation business.

The Group has taken steps to diversify its business portfolio, expanding into the travel business in the Xuzhou China International Travel Service Limited. This is for the first time for the Group entering into in and out bound travel businesses in the Mainland China.



As the prospect for the regional economy looks upbeat and we expect strong demands for the public bus transportation business for the coming year, we remain optimistic and hope to achieve better result for the Group. The Group will continue to take proactive marketing and operational measures with the aim of ensuring future profitability and positive returns for our shareholders. We believe that the growth and future of the Group very much depends on the prosperity and growth trends in Mainland China, in which we have full and utmost confidence.

Needless to say, the impressive achievements would not be possible without competent staff and management. On behalf of the Board of Directors, I would like to express my appreciation to the staff and the management for their continue dedication and commitment that contributed to success in an improving, but volatile economy and business environment in 2004.

Lastly, we would like to thank our valuable shareholders, customers and suppliers for their valuable support and encouragement and, more importantly, we would like to share with you our success in the years to come.

Wong Wah Sang

Chairman

Hong Kong, 31 March 2005



Following a strong rebound at the end of the year in 2003, the economy in the Mainland China continued to recover quickly in the first half of 2004 and consumer confidence continued to hold up extremely well.

According to MasterIndes of Consumer Confidence (as presented by MasterCard International on 6 January 2005) for the Mainland China, high index scores of over 80 was maintained throughout 2004 even after the Government's austere measures to cool down economic growth and the spiking of world oil price to record highs in the second half of the year and a high GDP growth of 9.5% for the year, still exceeding expectations.

The Group recorded a turnover of HK\$119.4 million for 2004, and increase of 22% over 2003. Net profit for the year, increased by HK\$1.6 million to HK\$1.7 million.

We remain confident in the long-term prospect and growth potential of the public transportation industry based on the significant improvement in living standards and average income of the people in the Mainland China. The management will continue to pursue investment opportunities associated with our existing core business. On the other hand, the Group will strive to further strengthen and explore the growth potential of existing operations as and when they arise.

It is the Group's operation policy to insist on "integrity and faith", to be market-oriented and customer-based, to create higher value for the customers with high quality and efficient services, and to achieve self-enhancement. With modern management principles, well-established operating mechanism and extraordinary core strength, the ability to continuously create and utilize its competitive edges, in the course of intense market competition, the Group is to enhance its regional profile and take on a leading position in the domestic public transportation industry, hence becoming a prominent and influential operator in the transportation industry of the Mainland China.

Since economic indicators in the Mainland China is showing an upward trend, consumer confidence will remain optimistic in the foreseeable future. The challenge for the Group is how to capitalize on the buoyancy of the economy in the coming years.

The only threat to the successful achievement of the Group's business goals in the coming years will be the downturn in the marco economy as a result of changes in Government regulations, major epidemic outbreaks or any other forms of natural disasters. Potential operational issues such as increased competition, high fuel oil cost and cost of operation will be addressed by management initiatives including aggressive marketing, tighter cost control and customized transportation modes.

Nanjing Argos

Financial year 2004 has proven to be a challenging year for Nanjing Argos. Firstly, the roadworks and the construction project for urban planning and new public routes launched and extended by other public bus operators has disrupted road traffic and caused re-routing in seven of the Public Routes that Nanjing Argos operates. Secondly, the high fuel cost caused by the world crude oil scaling new historical highs from time to time throughout the year causing a big rise of operating cost of services rendered. Thirdly, the regulatory authority imposed mandatory employees medical benefits and social security insurance causing additional operating costs. Lastly, the higher maintenance cost to upgrade the operational efficiency of the bus fleets.



However, Nanjing Argos made a breakthrough on its routes operational right by obtaining a separate legal entity status for direct application for new routes from the regulatory authority, rather than through its JV partner previously.

Nanjing Argos launched three new routes including 6W, 2W and Y1 with theme concepts for each of them, such as health route, civilized route and environmental protection routes respectively, thus to make a breakthrough on service management as well as welcoming the Tenth National Games to be held in Nanjing. Furthermore, Route 93 has been extended during the year.

There were 10 air-conditioned buses and 2 double-deck buses purchased during the year. Fleet size of Nanjing Argos increased from 327 to 339. We present below selected operating statistics of Nanjing Argos:

| | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|--|--------------|-------|-------|-------|--------|-------|-------|
| Routes operated | 15 | 15 | 14 | 13 | 12 | 9 | 8 |
| Number of employees | 1,007 | 962 | 988 | 968 | 900 | 699 | 532 |
| Fleet size | 339 | 327 | 312 | 283 | 238 | 189 | 152 |
| Total mileage operated (million km) | 22.53 | 21.11 | 21.31 | 20.43 | 17.00 | 12.86 | 5.55 |
| Total passenger trip (million trip) | 98.94 | 67.88 | 80.64 | 76.26 | 116.40 | 44.55 | 34.09 |

Outlook for Nanjing Argos

Looking ahead, the operating environment is not expected to improve as competition on the overall operations is becoming increasingly keen. Nanjing Argos will continue to increase its revenue by enhancing its public bus services with the addition of more adjusted public routes and to improve the performance of its hire-a-bus services for seizing the business opportunities of the Tenth National Games to be held in Nanjing in 2005 while at the same time, exercise tighter control on other operating costs to offset the unavoidable increase in fuel oil costs.

Based on the implementation plan of the Enterprise Resources Management on Operation Automation and Human Resources Management, Nanjing Argos will further rationalize the flow of management information and enhance management efficiency; strengthen staff recruitment and training to install the sense of belonging of our staff, laying a sound foundation of human resources to facilitate the Group's further development.

Nanjing Argos will establish a system of training and lifelong education for the staff. According to the needs of development and new business, position trainings will be provided to enhance the staff's competence.

Nanjing Argos will continue to improve their safety management system and strengthen safety supervision. Decisions on the adjustment of transportation capacity will be made on the basis of route profitability. It will strictly implement its procedures for comprehensive and rigorous budgetary control on those controllable expenses.



Nanjing Argos will seek to capitalize on its extensive public bus transportation and related services operation and operational expertise to pursue appropriate expansion opportunities, while remaining focused on maintaining a high quality standard in its existing public transport business.

Also, in order to strengthen its competitiveness in the public transportation industry, Nanjing Argos will, from time to time, exercise appropriate control on its costs and improve its management efficiency so as to assure and enhance our Group's profitability in the long run.

Wanzhou Argos

Wanzhou Argos has devised and implemented a new mode of operation in one of its public routes by selling all its 40 buses to certain proprietary operators and thereupon entered into co-operative agreements with them at early January 2004. Whereas Wanzhou Argos will monitor the operation of the proprietary operators upon their running of buses in assigned public routes in return for a management fee. Thus, Wanzhou Argos will reduce the risk on its own operation, but it can ensure to receive the management fee from the proprietary operators and made an extraordinary profit on the disposal of fixed assets during the year. The decisive action by the management for strategic repositioning shows effect and of utmost importance, this has broken our pattern of loss in Wanzhou Argos operation in the past years. It is important that this turnaround and the new foundation has effectively put the Group in a healthy position for both cost control and operational efficiency.

Performance of Wanzhou Argos has continued its recovery due the above mentioned changing mode of operation and they will continue to expand its operation, enhance its service quality, and introduce more value-added services in order to seek more contribution to the Group's profitability.

On 4 March 2004, the Company entered into a sale and purchase agreement with the Chongqing Wanzhou Area Transport Committee to acquire 100% interest of the Chongqing Wanzhou Public Transport Company, a state-owned enterprise, of which owned 40% interest in Wanzhou Argos. It is expected that the acquisition would provide an opportunity for the Group to consolidate its resources, eliminating wastage, reducing operation costs and lowering down the burden of retired personnel costs through the resulting merger of business.

There were 6 new buses purchased during the year. We present below operating statistics for Wanzhou Argos:

| | 2004 | 2003 | 2002 | 2001 |
|-------------------------------------|-------------|------|------|------|
| Routes operated | 6 | 5 | 4 | 2 |
| Number of employees | 276 | 366 | 360 | 316 |
| Fleet size | 52 | 90 | 97 | 87 |
| Total mileage operated (million km) | 3.09 | 5.50 | 5.04 | 2.92 |
| Total passenger trip (million trip) | 6.58 | 9.83 | 8.59 | 5.05 |



Outlook for Wanzhou Argos

Wanzhou Argos has to devise and implement tighter control on the proprietary operators in order to enforce their close adherence to the operation agreement previously made as well as resolving the conflict of interest existed between us. Thus, those expense paid on their behalf could to be repaid to Wanzhou Argos on time, so as their management fees to be paid to us on time, then the revenue can be increased.

Wanzhou Argos will apply to the regulatory authority for extension some of the public routes in order to increase its revenue and improve the operational efficiency.

Wanzhou Argos will proceed to finding ways and means to disposing those non-productive fixed assets, especially those land and buildings acquired from the former state-owned enterprise, if they are not suitable for redevelopment.

Taizhou Argos

During the year 2004, Taizhou Argos has only made slight improvement on its profitability due to relatively low in revenue per thousand passengers trip owing to insufficient passengers, high fuel oil cost and increase in operating and maintenance costs for undertaking.

Taizhou Argos has adjusted Route 8, extended the one-man operation Route 26 and re-arranged the Route 4 and 6, in order to improve operational efficiency.

During the year, Taizhou Argos has developed the hire-a-bus and providing school bus services in order to increase revenue income, thus to improve its overall revenue income.

There were totally 34 buses and taxis purchased during the year. We present below selected operating statistics of Taizhou Argos:

| | 2004 | 2003 | 2002 |
|-------------------------------------|--------------|------|-------|
| Routes operated | 21 | 22 | 21 |
| Number of employees | 745 | 495 | 433 |
| Fleet size (buses and taxis) | 516 | 481 | 442 |
| Total mileage operated (million km) | 12.83 | 7.21 | 15.59 |
| Total passenger trip (million trip) | 15.25 | 9.2 | 9 |

Outlook for Taizhou

Taizhou Argos expects to improve its operating results by various initiatives, such as, to devise and implementation of the operational management system on one-man-operation, sub-contracting and renting of buses, hire-a-bus services and fleet body advertising.

Taizhou Argos also expects to devise and implementation of the operational and sales management system on vehicle repairing and maintenance factory, including spare parts sales.

Taizhou Argos will enhance its service quality, continue to tap it brand advantage, and introduce cost-effective means to improve profitability.



FINANCIAL POSITION

The Group

As at 31 December 2004, the total assets of the Group was approximately HK\$159 million (2003: HK\$173 million), including cash and bank balances and deposits of approximately HK\$33 million (2003: HK\$48.5 million) of which HK\$13 million (2003:HK\$15 million) were pledged to secure banking facilities.

Balance of bank loans, overdrafts and other loans as at 31 December 2004 was approximately HK\$29.8 million (2003: HK\$39.3 million) of which HK\$29.5 million (2003: HK\$29.5 million) are due within one year. The borrowings are secured by bank deposits and motor vehicles amounting to approximately HK\$17 million and HK\$15 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 31 December 2004, the Company also pledged its fixed deposit of HK\$10 million (2003: HK\$10 million) to secure banking facilities to the Company. Motor vehicles of the Group with carrying value of approximately HK\$15 million (2003: HK\$ 17 million) 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 travel company in the PRC by Argos Enterprise Management Consultant (Nanjing) Ltd., a wholly owned subsidiary of Argos Bus Service (China) Company Limited, of which is a wholly owned subsidiary of the Company taken place at 18 August 2004. 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 60% (2003: 82%).

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 31 December 2004, the Group had 2,050 (2003:1,829) full-time employees. The total of employee remuneration, including that of the directors of the Company, for the year ended 31 December 2004 amounted to approximately HK\$22,388,000 (2003:HK\$22,747,000). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Share option scheme

On 31 July 2001, a share option scheme of the Company was approved by the shareholders of the Company. As at 31 December 2004, no option was granted under the share option scheme.



EXECUTIVE DIRECTORS

Mr. WONG Wah Sang, B.H., M.B.E., aged 79, 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 65, the managing director of the Company, is the co-founder and has been the managing director of Argos Hong Kong since 1981. Mr. Wilson Wong 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. Wilson Wong has extensive engineering experience in infrastructure and utilities projects both in Hong Kong and across the Southeast Asia. Mr. Wilson Wong is a director of Sino Market Enterprises Limited, the controlling shareholder of the Company. Mr. Wilson Wong resigned as an executive director and compliance officer on 6 September 2004.

Mr. WONG Man Chiu, Ronnie, J.P., B.Sc., M.B.A., aged 52, 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. YEUNG Wai Hung, aged 55, 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.



NON-EXECUTIVE DIRECTORS

Mr. Wilkie WONG, B.Sc., M.Sc., M.B.A., aged 31, was appointed a non-executive director of the Company on 30 December 2004. He has over 5 years of management consultancy experience gained at McKinsey & Company, a world renowned management consulting firm on advising senior executives in leading companies in Greater China. Mr. Wong is currently working as a senior manager in a private company. Mr. Wong is a director of Seabasin Limited and Twilight Enterprises Limited, the ultimate holding company of the Company, of which both are private limited companies. Mr. Wong is the son of the former Executive Director, Mr. Wilson Wong and Madam Chiu Gee Chai, the Substantial Shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG Ming Wah, Charles, B.Sc., M.B.A., aged 55, was appointed an independent non-executive director of the Company on 2 January 2001. Mr. Ng graduated from the London Graduate School of Business Studies in England in 1974 with a Master degree in Business Administration. He is the managing director of Equitas Capital Limited, an exempt dealer and an exempt investment adviser under the Securities Ordinance of Hong Kong, and has over twenty six years of experience in corporate finance and investment banking in Hong Kong. Mr. Ng resigned as an independent non-executive director on 18 March 2004.

Mr. SUNG Wai Tak, Herman, B.A. (Hons.), L.L.B. (Hons.), L.L.M., aged 46, was appointed an independent non-executive director of the Company on 2 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.

Mr. CHEUNG Man Yau, Timothy, B.A., F.C.C.A, A.H.K.I.C.P.A, C.P.A., aged 46, was appointed an independent non-executive director of the Company on 16 April 2004. He has more than 20 years of extensive experience in the finance field and previously worked in a number of international accounting firms and listed companies in Hong Kong. He is currently a practicing certified public accountant.

Mr. WONG Lit Chor, Alexis, B.A., M.B.A., aged 46, was appointed an independent non-executive director of the Company on 24 September 2004. He has over 20 years of banking, investment, corporate finance and securities dealing experience gained from working as a senior executive in a number of listed local and PRC financial services companies. He is currently a director of Quam Capital (Holdings) Limited, a subsidiary of Quam Limited. He is also an independent non-executive director of Lang Chao International Limited and CIG-WH International (Holdings) Limited, which are companies listed on GEM Board and Main Board of The Stock Exchange of Hong Kong respectively.



SENIOR MANAGEMENT

Mr. ZHANG Dao Lin, B.Eng., aged 40, has been the General Manager of Nanjing Argos since its inception. Mr. Zhang has approximately 20 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. KWOK Man Pang, Lewis, A.C.M.A., F.H.K.I.C.P.A., aged 51, 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 and completed a Master of Professional Accounting course in The Hong Kong Polytechnic University in 2004. Mr. Kwok had over thirty years of experience in auditing, finance and administration. Mr. Kwok has resigned the qualified accountant and company secretary of the Group on 21 March 2005.

Mr. WONG Kwong Yiu, Bono, F.C.C.A., H.K.I.C.P.A., C.P.A., A.C.M.A., aged 36, is the accounting manager and company secretary of the Group and is responsible for the financial management and company secretarial functions of the Group. Mr. Wong had over ten years of experience in finance, accounting and administration. Mr. Wong has been appointed as the qualified accountant and company secretary of the Group on 21 March 2005.

Mr. WANG Jie, aged 52, is the Assistant General Manager of Nanjing Argos. He has experience in the PRC bus industry for over 24 years, focusing on general administration and human resources management, serving the Nanjing Public Transport Corporation before joining Nanjing Argos in early 2000.

Ms. ZHU Xiu Ying, aged 58, 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. LU Xiang Dong, aged 53, 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. WU Guang Jun, B.Eng., aged 40, has been the Human Resources Manager of Nanjing Argos Scenery Travel. 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 Nanjing Argos Scenery Travel. Mr. Wu has over 19 years of experience in the administration of public utility companies. He specializes in the formulation of ISO 9002 work procedures and staff training.



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 31 December 2004.

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 31 December 2004 is as follows:

| | 2004 | | 2003 | |
|---------------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|
| | Turnover HK\$'000 | Segment Results HK\$'000 | Turnover HK\$'000 | Segment Results HK\$'000 |
| Public Routes | 83,386 | 240 | 66,323 | 346 |
| Tourist Routes | 10,080 | 734 | 6,638 | 162 |
| "Hire-a-Bus" and Employee Services | 9,542 | 873 | 12,542 | 955 |
| Sightseeing Tickets Sales and Touring | 326 | 237 | 1,494 | 241 |
| Sub-contracting | 13,591 | 1,805 | 10,651 | 994 |
| Rental Income | 571 | 77 | 528 | 49 |
| Management Fee | 1,868 | 191 | 2 | 2 |
| | 119,364 | 4,157 | 98,178 | 2,749 |
| Other Revenue | | 9,362 | | 7,174 |
| Other Income | | 3,328 | | - |
| Administrative Expenses | | (7,229) | | (4,024) |
| Profit from Operations | | 9,618 | | 5,899 |

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.



FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on Page 25.

The states of affairs of the Group and of the Company as at 31 December 2004 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 (2003: 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:

| | For the year ended 31st December | | | | |
|---|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Turnover | 119,364 | 98,178 | 87,068 | 61,938 | 41,977 |
| Profit before tax | 7,540 | 4,267 | 9,792 | 13,704 | 11,797 |
| Tax | (2,868) | (1,113) | (2,379) | (3,157) | (2,995) |
| Profit before minority interests | 4,672 | 3,154 | 7,413 | 10,547 | 8,802 |
| Minority interests | (2,949) | (3,006) | (4,357) | (5,638) | (4,521) |
| Net profit from ordinary activities attributable to shareholders | 1,723 | 148 | 3,056 | 4,909 | 4,281 |
| | As at 31 December | | | | |
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Total assets | 158,523 | 172,986 | 166,483 | 137,155 | 70,347 |
| Total liabilities | (88,481) | (107,760) | (101,092) | (77,263) | (55,998) |
| Minority interests | (20,310) | (17,173) | (17,451) | (15,034) | (4,840) |
| Net assets | 49,732 | 48,053 | 47,940 | 44,858 | 9,509 |



FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in Note 13 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2004, 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 (2003: Nil).

DONATIONS

No charitable donations made by the Group during the year (2003: HK\$10,000).

DIRECTORS

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

Executive Directors

Mr. Wong Wah Sang
 Mr. Wilson Wong (Resigned on 6 September 2004)
 Mr. Wong Man Chiu, Ronnie
 Mr. Yeung Wai Hung

Non-executive Directors

Mr. Wilkie Wong (Appointed on 30 December 2004)

Independent non-executive Directors

Mr. Sung Wai Tak, Herman
 Mr. Ng Ming Wah, Charles (Resigned on 18 March 2004)
 Mr. Cheung Man Yau, Timothy (Appointed on 16 April 2004)
 Mr. Wong Lit Chor, Alexis (Appointed on 24 September 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.



DIRECTORS' SERVICES CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable within one year without payment of compensation, other than the statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

The directors' interests in contracts are set out in Note 33 to the financial statements. Apart from the foregoing, no other contracts of significance in relation to the Group's business to which the Company, its holding companies or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 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:

The Company:

| Name of director | Note | Number of ordinary shares | |
|--------------------|--------|---------------------------|------------------------------------|
| | | Corporate interests | Percentage of issued share capital |
| Mr. Yeung Wai Hung | 1 to 2 | 1,400,000 | 1% |

At 31 December 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 companies.

Notes:

- Under Part XV of the SFO, Mr. Yeung Wai Hung is personally interested in 2,000 shares in Sinoman International Limited and 150 shares in Metro Line Tours Limited.
- By virtue of Part XV of the SFO, Mr. Yeung Wai Hung is deemed to be interested in the entire issued capital Cherikoff Bakery & Confections Limited which is interested in 1,400,000 shares in the Company.



SHARE OPTION SCHEME

On 31 July 2001, a share option scheme was approved by a written resolution of all the shareholders of the Company under which the 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 13 August 2001 to 31 December 2004, no option has been granted or agreed to be granted to the Directors under the scheme.

At no time during the year ended 31 December 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 year ended 31 December 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 18, had any right to subscribe for the Shares in the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDER OF THE COMPANY

As at 31 December 2004, the register of substantial shareholders (other than 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 | Note | Number of Shares | Percentage of issued share capital |
|---------------------------------|-------------|-------------------------|---|
| Sino Market Enterprises Limited | 1 | 126,000,000 | 70% |
| Sinoman International Limited | 1 | 126,000,000 | 70% |
| Twilight Enterprises Limited | 2 | 126,000,000 | 70% |
| Kenworth Enterprises Limited | 7 | 126,000,000 | 70% |
| Wilson Wong | 3-4 | 126,000,000 | 70% |
| Chiu Gee Chai | 5 | 126,000,000 | 70% |

As at 31 December 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:

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. Wilson Wong, the former Managing Director, and as to 50 per cent. by Ms. Chiu Gee Chai, the wife of Mr. Wilson Wong.
3. Mr. Wilson Wong is deemed to be interested in 126,000,000 shares under Part XV of the SFO.
4. 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.
5. By virtue of Part XV of the SFO, Madam Chiu Gee Chai is deemed to be interested in 126,000,000 shares.
6. 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.
7. 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, the former executive Director.

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

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 to 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 | 27% |
| – 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

During the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ending 31 December 2005.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public 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 three independent non-executive Directors of the Company, namely Mr. Sung Wai Tak, Herman, Mr. Cheung Man Yau, Timothy and Mr. Wong Lit Chor, Alexis.

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 31 December 2004.

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. ("Arogs Hong Kong"), a fellow subsidiary of the Company, and Goldspark HK Tours Limited, indirectly owned subsidiary of Argos Hong Kong, and Metro Line Tours 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.

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in note 36 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 for the re-appointment of HLB Hodgson Impey Cheng as auditors of the Group will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

Wong Wah Sang

Chairman

Hong Kong, 31 March 2005





Chartered Accountants
Certified Public Accountants

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

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

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 25 to 64 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 solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

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 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.



QUALIFIED OPINION ARISING FROM NON-COMPLIANCE OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

In accordance with Chapter 19 of The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules of GEM"), the Company was required to disclose its acquisition of a subsidiary company, Xuzhou China International Travel Service Limited, in the People's Republic of China on 18 August 2004, but no such disclosure was made by the Company. Such non-disclosure may constitute to a breach of the Listing Rules of GEM. Further details relating to the acquisition of the subsidiary company in the PRC are described in Note 16(vii) to financial statements.

Except for that the Company did not comply with the disclosure requirement of the Listing Rules of GEM, 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 31 December 2004 and of the Group's 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, 31 March 2005



Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------|-------------------|------------------|
| Turnover | 3 | 119,364 | 98,178 |
| Cost of Sales | | (104,514) | (81,928) |
| Gross Profit | | 14,850 | 16,250 |
| Other Revenue | 3 | 9,362 | 7,174 |
| Other Income | 5 | 3,328 | – |
| Administrative Expenses | | (17,922) | (17,525) |
| Profit from Operations | 5 | 9,618 | 5,899 |
| Interest Income | | 208 | 443 |
| Finance Costs | 6 | (2,286) | (2,075) |
| Profit from Ordinary Activities before Taxation | | 7,540 | 4,267 |
| Taxation | 7 | (2,868) | (1,113) |
| Profit before Minority Interests | | 4,672 | 3,154 |
| Minority Interests | | (2,949) | (3,006) |
| Profit attributable to Shareholders | | 1,723 | 148 |
| Earnings per Share | | | |
| – Basic | 10 | 0.96 cents | 0.08 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 31 DECEMBER 2004

ANNUAL REPORT 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------|------------------|------------------|
| Non-Current Assets | | | |
| Fixed assets | 13 | 105,576 | 107,369 |
| Intangible assets | 14 | 2,109 | 1,586 |
| Goodwill | 15 | 370 | – |
| Investments in securities | 18 | 1,024 | 1,237 |
| Deferred tax asset | 17 | 1,022 | 3,842 |
| | | 110,101 | 114,034 |
| Current Assets | | | |
| Trade receivables | 19 | 3,930 | 3,702 |
| Inventories | 20 | 1,289 | 1,253 |
| Amount due by a fellow subsidiary | 21 | 321 | – |
| Amount due by a related company | 22 | – | 10 |
| Amount due by a minority shareholder | 23 | 519 | 22 |
| Prepayments, deposits and other receivables | | 9,391 | 5,466 |
| Fixed deposits | | 20,148 | 20,057 |
| Cash and bank balances | | 12,824 | 28,442 |
| | | 48,422 | 58,952 |
| Less: Current Liabilities | | | |
| Bank overdraft, secured | 29 | 10,428 | 8,225 |
| Current portion of interest-bearing borrowings | 29 | 19,071 | 21,320 |
| Bills payable | | – | 2,156 |
| Trade payables | | 3,288 | 3,979 |
| Advertising income on fleet body receipt in advance | 24 | 2,025 | 2,025 |
| Other payables and accruals | 25 | 44,851 | 46,434 |
| Taxation | | 132 | 794 |
| Amounts due to related companies | | – | 377 |
| Amounts due to fellow subsidiaries | | – | 2,780 |
| Amounts due to minority shareholders | 26 | 6,596 | 6,730 |
| Amount due to a director | 27 | 543 | – |
| | | 86,934 | 94,820 |
| Net Current Liabilities | | (38,512) | (35,868) |
| Total Assets Less Current Liabilities | | 71,589 | 78,166 |



| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------|------------------|------------------|
| Non-Current Liabilities | | | |
| Interest-bearing borrowings | 29 | 332 | 9,843 |
| Long term payables | | 143 | – |
| Advertising income on fleet body receipt in advance | 24 | 1,072 | 3,097 |
| | | 1,547 | 12,940 |
| Minority Interests | | 20,310 | 17,173 |
| Net Assets | | 49,732 | 48,053 |
| Represented by: | | | |
| Share Capital | 28 | 1,800 | 1,800 |
| Reserves | 30 | 47,932 | 46,253 |
| Shareholders' Funds | | 49,732 | 48,053 |

Approved by the Board of Directors on 31 March 2005 and signed on its behalf by:

Wong Man Chiu, Ronnie

Director

Yeung Wai Hung

Director

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



Balance Sheet

AT 31 DECEMBER 2004

ANNUAL REPORT 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------|------------------|------------------|
| Non-Current Assets | | | |
| Interests in subsidiaries | 16 | 28,156 | 27,065 |
| Current Assets | | | |
| Prepayments, deposits and other receivables | | 2 | 137 |
| Fixed deposit | | 10,000 | 10,000 |
| Bank balances | | - | 1 |
| | | 10,002 | 10,138 |
| Less: Current Liabilities | | | |
| Bank overdraft, secured | | 10,428 | 8,199 |
| Other payables and accruals | 25 | 315 | 502 |
| Amounts due to fellow subsidiaries | | - | 2,718 |
| Amounts due to subsidiaries | 16 | 3,529 | - |
| | | 14,272 | 11,419 |
| Net Current Liabilities | | (4,270) | (1,281) |
| Net Assets | | 23,886 | 25,784 |
| Represented by: | | | |
| Share Capital | 28 | 1,800 | 1,800 |
| Reserves | 30 | 22,086 | 23,984 |
| Shareholders' Funds | | 23,886 | 25,784 |

Approved by the Board of Directors on 31 March 2005 and signed on its behalf by:

Wong Man Chiu, Ronnie

Director

Yeung Wai Hung

Director

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



Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------|------------------|------------------|
| Total equity as at 1 January | | 48,053 | 47,940 |
| Exchange differences arising on translation of the financial statements of foreign subsidiaries | 30 | (44) | (35) |
| Net profit for the year | 30 | 1,723 | 148 |
| Total equity as at 31 December | | 49,732 | 48,053 |

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



Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2004

ANNUAL REPORT 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------|------------------|------------------|
| Cash flows from operating activities | | | |
| Profit before taxation | | 7,540 | 4,267 |
| Adjustments for: | | | |
| Amortisation of intangible assets | 14 | 298 | 228 |
| Depreciation | 13 | 14,304 | 12,558 |
| (Gain)/loss on disposal of fixed assets | 5 | (3,328) | 811 |
| Interest income | | (208) | (443) |
| Interest expense | 6 | 2,286 | 2,075 |
| Operating profit before working capital changes | | 20,892 | 19,496 |
| (Increase)/decrease in amount due by a fellow subsidiary | | (321) | 4,337 |
| Decrease in amounts due by related companies | | 10 | 1,760 |
| (Increase)/decrease in amount due by a minority shareholder | | (497) | 638 |
| (Increase)/decrease in prepayments, deposits and other receivables | | (457) | 1,358 |
| Decrease in inventories | | 15 | 49 |
| Increase in trade receivables | | (135) | (2,066) |
| Decrease in bills payable | | (2,156) | (1,410) |
| Decrease in trade payables | | (716) | (55) |
| (Decrease)/increase in other payables and accruals | | (5,336) | 8,465 |
| Decrease in advertising income on fleet body receipt in advance | | (2,025) | (220) |
| (Decrease)/increase in amounts due to fellow subsidiaries | | (2,780) | 2,780 |
| Decrease in amount due to a related company | | (377) | – |
| (Decrease)/increase in amounts due to minority shareholders | | (134) | 5,933 |
| Increase in amount due to a director | | 543 | – |
| Cash generated from operations | | 6,526 | 41,065 |
| Interest paid | 6 | (2,286) | (2,075) |
| PRC income tax paid | | (864) | (3,402) |
| Net cash generated from operating activities | | 3,376 | 35,588 |



Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------|------------------|------------------|
| Net cash generated from operating activities | | 3,376 | 35,588 |
| Cash flows from investing activities | | | |
| Acquisition of intangible assets | 14 | (98) | – |
| Acquisition of fixed assets | 13 | (11,618) | (17,272) |
| Proceeds on disposals of fixed assets | | 11,425 | 3,931 |
| Acquisition of investments in securities | | – | (219) |
| Acquisition of interest of subsidiaries | 31 | (9,173) | – |
| (Increase)/decrease in fixed deposits | | (91) | 7,077 |
| Interest received | | 208 | 443 |
| Net cash used in investing activities | | (9,347) | (6,040) |
| Cash flows from financing activities | | | |
| New loans raised | | 14,623 | 14,057 |
| Repayment of loans | | (26,382) | (25,744) |
| Repayment in long term payable | | (47) | – |
| Net cash used in financing activities | | (11,806) | (11,687) |
| Net (decrease)/increase in cash and cash equivalents | | (17,777) | 17,861 |
| Effect of foreign exchange rate changes | | (44) | (35) |
| Cash and cash equivalents at the beginning of the year | | 20,217 | 2,391 |
| Cash and cash equivalents at the end of the year | | 2,396 | 20,217 |
| Analysis of the balances of cash and cash equivalents | | | |
| Cash and bank balances | | 12,824 | 28,442 |
| Bank overdraft, secured | | (10,428) | (8,225) |
| | | 2,396 | 20,217 |

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



1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong on 13 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("collectively referred to as the "new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Listing Rules of GEM of the Stock Exchange. A summary of significant accounting policies followed by the Group and the Company 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 as modified by the revaluation of certain investment properties and land and buildings.

The financial statements have been prepared on a going concern basis. The Group and the Company had net current liabilities of HK\$38,512,000 and HK\$4,270,000 respectively as at 31 December 2004 and its continuance in business as a going concern is dependent upon the Group maintaining future profitable operations and the financial support from its ultimate holding company. In the opinion of directors, the Group has been generating profit and moreover, the ultimate holding company, Twilight Enterprises Limited, has confirmed to provide continuing financial support, if required, to the Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Consolidation

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

All significant inter-company 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.

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(d) 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 land and building | : | unexpired lease term |
| 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.

(e) Turnover

Turnover represents income from bus operation and its related bus services are rendered.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties credited or charged to the investment property valuation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property valuation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property valuation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

(g) Intangible assets

- (i) Other intangible assets that are acquired by the Group are stated in the consolidated 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.

(h) 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 and repair services is recognised upon provision of services.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue Recognition (continued)

- (v) Advertising income on fleet body, including revenue invoiced in advance, is recognised over the terms of the relevant agreements.
- (vi) Subsidy from local authority is recognised when the entitlement is established.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(i) 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 are 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.

(j) 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.

(k) 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.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) 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.

(m) 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.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

(o) 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.

(p) 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.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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 scheme 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.

(r) 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).



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Impairment of assets (continued)

(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.

(s) 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.

(t) 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.

(u) 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.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segment.

In accordance with Group's internal financial reporting system, the Group has determined that business segments as the primary reporting format and geographical segment information as secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.



3. TURNOVER AND REVENUE

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

| | 2004 | 2003 |
|--------------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Turnover: | | |
| Related bus services – Public routes | 83,386 | 66,323 |
| – Tourist routes | 10,080 | 6,638 |
| – “Hire a bus” and employee services | 9,542 | 12,542 |
| Sub-contracting | 13,591 | 10,651 |
| Rental income | 571 | 528 |
| Sightseeing ticket sales and touring | 326 | 1,494 |
| Management fee | 1,868 | 2 |
| | 119,364 | 98,178 |
| Other Revenue: | | |
| Advertising income on fleet body | 4,134 | 2,541 |
| Subsidies from local authorities | 3,730 | 3,988 |
| Repair service income | 333 | – |
| Sundry income | 1,165 | 645 |
| | 9,362 | 7,174 |
| Total Revenue | 128,726 | 105,352 |



4. SEGMENT INFORMATION

(a) Business segments

| | 2004 | | | | | | | |
|--|---------------------------|----------------------------|---|--|----------------------------------|------------------------------|-------------------------------|-------------------|
| | 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 | 83,386 | 10,080 | 9,542 | 326 | 13,591 | 571 | 1,868 | 119,364 |
| Cost of bus services rendered | (74,839) | (9,038) | (8,232) | (62) | (10,453) | (438) | (1,452) | (104,514) |
| Gross profit | 8,547 | 1,042 | 1,310 | 264 | 3,138 | 133 | 416 | 14,850 |
| Administrative expenses | (8,307) | (308) | (437) | (27) | (1,333) | (56) | (225) | (10,693) |
| Segment results | 240 | 734 | 873 | 237 | 1,805 | 77 | 191 | 4,157 |
| Unallocated items: | | | | | | | | |
| Other revenue | | | | | | | | 9,362 |
| Other income | | | | | | | | 3,328 |
| Administrative expenses | | | | | | | | (7,229) |
| Profit from operations | | | | | | | | 9,618 |
| Interest income | | | | | | | | 208 |
| Finance costs | | | | | | | | (2,286) |
| Profit from ordinary activities before taxation | | | | | | | | 7,540 |
| Taxation | | | | | | | | (2,868) |
| Profit before minority interests | | | | | | | | 4,672 |
| Minority interests | | | | | | | | (2,949) |
| Profit attributable to shareholders | | | | | | | | 1,723 |
| Depreciation and amortisation for the year | 9,931 | 1,654 | 252 | - | 2,666 | 99 | - | 14,602 |
| Segment assets | | | | | | | | |
| Trade receivables | 3,318 | 56 | 469 | - | 66 | 21 | - | 3,930 |
| Capital expenditure incurred during the year | 9,659 | 1,556 | 403 | - | - | - | - | 11,618 |



4. SEGMENT INFORMATION (Continued)**(a) Business segments (continued)**

| | 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 |



4. SEGMENT INFORMATION (Continued)**(b) Geographical segments**

No geographical segment analysis of the Group's performance for the year is provided as all of the turnover and contribution to operating results of the Group are attributable in the PRC.

5. PROFIT FROM OPERATIONS

| | 2004 | 2003 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Profit from operating activities is stated after charging the following: | | |
| Amortisation of intangible assets | 298 | 228 |
| Auditors' remuneration | 145 | 130 |
| Depreciation | 14,304 | 12,558 |
| Loss on disposal of fixed assets | – | 811 |
| Operating leases rentals in respect of rented premises | 26 | 298 |
| Staff costs (including directors' and senior management emoluments (Note 11)) | 22,388 | 22,747 |
| and after crediting: | | |
| Other income: | | |
| Gain on disposal of motor vehicles | 3,328 | – |

6. FINANCE COSTS

| | 2004 | 2003 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Borrowing costs: | | |
| Interest expenses on bank loans, overdrafts and other loans wholly repayable within 5 years | 2,286 | 2,075 |



7. 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 (2003: 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.

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--------------------------------------|--------------------------------|------------------|
| Current taxation | | |
| PRC income tax provided for the year | 48 | 898 |
| Deferred taxation | | |
| Charge for the year (Note 17) | 2,820 | 215 |
| Tax expenses | 2,868 | 1,113 |

Deferred taxation charge represents the tax effect of temporary 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.



7. TAXATION (Continued)

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

| | 2004 | | 2003 | |
|--|-----------------|----------------|----------|---------|
| | HK\$'000 | | HK\$'000 | |
| Profit before tax | 7,540 | | 4,267 | |
| Tax at Hong Kong profit tax rate of 17.5% (2003: 17.5%) | 1,320 | 17.5% | 747 | 17.5% |
| Estimated tax effect of deferred income arising from advertising income | 2,820 | 37.4% | 215 | 5.0% |
| Estimated tax effect of expenses that are not deductible for tax in determining taxable profit | 334 | 4.4% | 575 | 13.5% |
| Estimated tax effect on income that are not taxable in determining taxable profit | (1,885) | (25.0%) | (424) | (10.0%) |
| Estimated tax effect of different tax rates in other jurisdictions | 279 | 3.7% | – | – |
| Tax expenses and effective tax rate for the year | 2,868 | 38.0% | 1,113 | 26.0% |

8. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2004 (2003: Nil).

9. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit for the year attributable to shareholders includes a loss of HK\$1,898,000 (2003: HK\$2,423,000) which has been dealt with in the financial statements of the Company.



10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders for the year of HK\$1,723,000 (2003: HK\$148,000) and on the weighted average number of 180,000,000 (2003: 180,000,000) shares in issue during the years ended 31 December 2004 and 2003, respectively.

No diluted earnings per share has been presented as there was no dilutive potential ordinary share during the year ended 31 December 2004 (2003: Nil).

11. 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:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|--------------------------------|------------------|
| Directors' fees | | |
| Independent non-executive directors | 152 | 100 |
| Other emoluments | | |
| – Basic salaries, allowances and benefits in kind | 174 | 185 |
| – Contribution to provident fund | 9 | 9 |
| | 335 | 294 |

One executive director received individual emoluments of approximately HK\$174,000 (2003: HK\$185,000).

No directors of the Company waived any emoluments during the year ended 31 December 2004 and 2003.

During the year ended 31 December 2004 and 2003, 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 30 July 2001. Details of the share option scheme were set out in Note 12 to the financial statements.



11. 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 (2003: one) directors of the Company, details of whose emoluments are set out above. The emoluments payable to the remaining four (2003: four) individuals (the "Employees") during the year are as follows:

| | 2004 | 2003 |
|--------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Basic salaries and benefits | 611 | 562 |
| Bonuses | 52 | 46 |
| Contribution to provident fund | 42 | 34 |
| | 705 | 642 |

During the years ended 31 December 2004 and 2003, 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:

| | Number of employees | |
|----------------------|----------------------------|------|
| | 2004 | 2003 |
| Nil to HK\$1,000,000 | 4 | 4 |

12. EMPLOYEE BENEFITS

Retirement Benefit Scheme

Effective from 1 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.



12. EMPLOYEE BENEFITS (Continued)

Retirement Benefit Scheme (continued)

In pursuit to the PRC Government regulations, the Group is required to contribute to a central pension scheme in respect of certain of the Group's employees in the PRC based on 33% of the salaries of those employees and there is no forfeited contributions under the central pension scheme.

Equity Compensation Benefits

Share Option

On 30 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 31 December 2004, no option has been granted or agreed to be granted to the directors of the Company under the scheme.



13. FIXED ASSETS

| | Investment properties | Leasehold land and buildings | Leasehold improvements | Furniture, fixtures and office equipment | Motor vehicles | Total |
|-----------------------------|----------------------------------|---|-----------------------------------|---|---------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Group | | | | | | |
| Cost: | | | | | | |
| At 1 January 2004 | - | - | 3,093 | 3,649 | 136,716 | 143,458 |
| Acquisition of subsidiaries | 2,820 | 7,227 | - | 290 | - | 10,337 |
| Additions | - | - | 18 | 507 | 11,093 | 11,618 |
| Disposals | - | - | - | (28) | (10,491) | (10,519) |
| At 31 December 2004 | 2,820 | 7,227 | 3,111 | 4,418 | 137,318 | 154,894 |
| Accumulated depreciation: | | | | | | |
| At 1 January 2004 | - | - | 721 | 1,802 | 33,566 | 36,089 |
| Acquisition of subsidiaries | - | 1,195 | - | 152 | - | 1,347 |
| Charge for the year | - | 124 | 91 | 805 | 13,284 | 14,304 |
| On disposals written back | - | - | - | (28) | (2,394) | (2,422) |
| At 31 December 2004 | - | 1,319 | 812 | 2,731 | 44,456 | 49,318 |
| Net book value: | | | | | | |
| At 31 December 2004 | 2,820 | 5,908 | 2,299 | 1,687 | 92,862 | 105,576 |
| At 31 December 2003 | - | - | 2,372 | 1,847 | 103,150 | 107,369 |

The Group's investment properties were valued at 31 December 2004 by an independent valuers, Messrs Pan China (Chongqing) Certified Public Accountants, on an open market value basis. The open market value is the same as the carrying amount of the investment properties as at 31 December 2004.

The investment properties and the leasehold land and buildings are under medium-term lease in the PRC.



14. INTANGIBLE ASSETS

| Group | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------------------|--------------------------------|------------------|
| Cost: | | |
| At 1 January | 2,047 | 1,798 |
| Acquisition of a subsidiary | 723 | – |
| Additions | 98 | 249 |
| At 31 December | 2,868 | 2,047 |
| Amortisation: | | |
| At 1 January | 461 | 233 |
| Amortisation for the year | 298 | 228 |
| At 31 December | 759 | 461 |
| Net book value: | | |
| At 31 December | 2,109 | 1,586 |

The taxi licence represents 137 (2003: 138) licences purchased by Taizhou Argos, one of the subsidiaries of the Group, and it had been renewable for eight years. As at 31 December 2004, the net book value of taxi licence amounts to HK\$1,386,000 (2003: HK\$1,586,000) and there are 5 (2003: 96) licences renewed.

The travel licence arising from the acquisition of Xuzhou China International Travel Service Limited represents the right to operate as a travel agent inside and outside the PRC. As at 31 December 2004, the net book value of the travel licence amounts to HK\$723,000 (2003: Nil).

The Company has no intangible assets as at 31 December 2004 (2003: Nil).



15. GOODWILL

| | 2004 |
|---|-----------------|
| | HK\$'000 |
| Group | |
| Cost: | |
| Arising from acquisition during the year and at 31 December | 370 |
| Amortisation: | |
| Charge for the year and at 31 December | - |
| Net book value: | |
| At 31 December | 370 |

16. SUBSIDIARIES

| | Company | |
|----------------------------|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 990 | 990 |
| Amount due by a subsidiary | 27,166 | 26,075 |
| | 28,156 | 27,065 |

The amount due by/(to) subsidiaries are unsecured, interest free and have no fixed term of repayment.



16. SUBSIDIARIES (Continued)

The following is a list of the subsidiaries as at 31 December 2004:

| 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 ("Argos Management") | PRC | Management | RMB4,000,000 | – | 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 ("Wanzhou Argos") | PRC | Bus operation | RMB10,000,000 | – | 100 | (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) |
| Taizhou Argos Public Transport Bus Company Limited (Repair Factory) | PRC | Provision of repair service | RMB200,000 | – | 60 | (vi) |
| Xuzhou China International Travel Service Limited ("Xuzhou China") | PRC | International and local travel agent | RMB1,500,000 | – | 90 | (vii) |



16. SUBSIDIARIES (Continued)

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. On 21 July 2004, it has increased the share capital from RMB1,000,000 to RMB4,000,000.
- (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 wholly foreign owned enterprise established in the PRC for a term of 41 years up to December 2045. The Group's interest has increased from 60% to 100% after the Group's acquisition of Wanzhou Public Transport Company ("Wanzhou PTC") on 30 June 2004.
- (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.
- (vi) Taizhou Argos Public Transport Bus Company Limited (Repair Factory) is a domestic owned enterprise established on 28 January 2003, in the PRC for a term of 28 years up to September 2031.
- (vii) Xuzhou China International Travel Services Limited is a domestic owned enterprise established in the PRC on 9 March 1994 for a term of 30 years up to September 2024. In accordance with Chapter 19 of the Listing Rules of GEM, the Company was required to disclose its acquisition of this subsidiary company in the PRC, which took place on 18 August 2004, but no such disclosure was made by the Company. Such non-disclosure may constitute to a breach of the Listing Rules of GEM.

17. DEFERRED TAX ASSET

| | Group | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Deferred tax asset at the beginning of the year | 3,842 | 4,057 |
| Charge to income statement for the year (Note 7) | (2,820) | (215) |
| Deferred tax asset at the end of the year | 1,022 | 3,842 |

Deferred tax asset represents principally the tax effect of temporary 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 | |
|-------------------------------------|--------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Unlisted equity securities, at cost | 1,024 | 1,237 |

19. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|----------------------------|--------------------------------|------------------|--------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Trade receivables (Note a) | 3,930 | 3,702 | - | - |

(a) As at 31 December 2004, the aging analysis of the trade receivables was as follows:

| | Group | | Company | |
|--------------|--------------------------------|------------------|--------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Current | 3,006 | 3,155 | - | - |
| 31 – 60 days | 526 | 160 | - | - |
| 61 – 90 days | 166 | 74 | - | - |
| Over 90 days | 232 | 313 | - | - |
| | 3,930 | 3,702 | - | - |

20. INVENTORIES

| | Group | |
|-------------------------------|--------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Spare parts of motor vehicles | 1,289 | 1,253 |

21. AMOUNT DUE BY A FELLOW SUBSIDIARY

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



22. AMOUNT DUE BY A RELATED COMPANY

| Name of company | Name of director having interest | Highest balance during the year HK\$'000 | 2004 HK'000 | 2003 HK\$'000 |
|---|---|---|------------------------|--------------------------|
| Argos Recreation & Sports (Nanjing) Limited | Wong Man Chiu | 10 | - | 10 |

The amount due was unsecured, interest free and fully repaid during the year.

23. AMOUNT DUE BY A MINORITY SHAREHOLDER

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

24. ADVERTISING INCOME ON FLEET BODY RECEIPT IN ADVANCE

| | Group | |
|--|--------------------------|--------------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Within one year | 2,025 | 2,025 |
| In second to fifth year inclusive | 1,072 | 3,097 |
| | 3,097 | 5,122 |
| Less: Amount due within one year included in current liabilities | (2,025) | (2,025) |
| Amount due after one year | 1,072 | 3,097 |



25. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Purchase of motor vehicles | 899 | 4,661 | - | - |
| Security deposits received from drivers (Note) | 17,311 | 26,122 | - | - |
| Other deposits and accruals | 26,641 | 15,651 | 315 | 502 |
| | 44,851 | 46,434 | 315 | 502 |

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.

26. AMOUNTS DUE TO MINORITY SHAREHOLDERS

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

27. AMOUNT DUE TO A DIRECTOR

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

28. SHARE CAPITAL

| | Ordinary shares No. of shares | HK\$'000 |
|---|----------------------------------|----------|
| Authorised: At 1 January 2004 and 31 December 2004, ordinary shares of HK\$0.01 each | 10,000,000,000 | 100,000 |
| Issued and fully paid: At 1 January 2004 and 31 December 2004, ordinary shares of HK\$0.01 each | 180,000,000 | 1,800 |



28. SHARE CAPITAL (Continued)**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 12 to the financial statements.

29. INTEREST-BEARING BORROWINGS

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Bank overdraft | 10,428 | 8,225 | 10,428 | 8,225 |
| Bank loans | 19,403 | 31,163 | – | – |
| | 29,831 | 39,388 | 10,428 | 8,225 |
| Analysed as: | | | | |
| Secured | 28,129 | 39,388 | 10,428 | 8,225 |
| Unsecured | 1,702 | – | – | – |
| | 29,831 | 39,388 | 10,428 | 8,225 |
| The terms of repayment of the borrowings are analysed as follows: | | | | |
| Within one year | 29,499 | 29,545 | 10,428 | 8,225 |
| One to two years | 284 | 9,843 | – | – |
| Two to five years | 48 | – | – | – |
| | 29,831 | 39,388 | 10,428 | 8,225 |
| Less: Amount due within one year included in current liabilities | (29,499) | (29,545) | (10,428) | (8,225) |
| Amount due after one year | 332 | 9,843 | – | – |

At 31 December 2004, the borrowings were secured by fixed deposits and bank balances of approximately HK\$17 million (2003: HK\$23 million) and HK\$768,000 (2003: HK\$955,000) respectively, motor vehicles with carrying amount of approximately HK\$15 million (2003: HK\$17 million) and personal guarantees executed by certain directors of the Group. At 31 December 2004, the Company's borrowings were secured by a fixed deposit of HK\$10 million (2003: HK\$10 million) of the Company.



30. RESERVES

| | Exchange reserve | Share premium | Merger reserve | General reserves | Retained earnings | Total |
|--|-----------------------------|--------------------------|---------------------------|-----------------------------|------------------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$000 | HK\$'000 | HK\$'000 |
| Group | | | | | | |
| At 1 January 2003 | 456 | 29,200 | (490) | 2,830 | 14,144 | 46,140 |
| Net profit for the year | – | – | – | – | 148 | 148 |
| Transfer | – | – | – | 165 | (165) | – |
| Translation of financial statements of overseas subsidiaries | (35) | – | – | – | – | (35) |
| At 31 December 2003 | 421 | 29,200 | (490) | 2,995 | 14,127 | 46,253 |
| Net profit for the year | – | – | – | – | 1,723 | 1,723 |
| Transfer | – | – | – | 232 | (232) | – |
| Translation of financial statements of overseas subsidiaries | (44) | – | – | – | – | (44) |
| At 31 December 2004 | 377 | 29,200 | (490) | 3,227 | 15,618 | 47,932 |

| | Share premium | Accumulated losses | Total |
|----------------------------|--------------------------|-------------------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Company | | | |
| At 1 January 2003 | 29,200 | (2,793) | 26,407 |
| Net loss for the year | – | (2,423) | (2,423) |
| At 31 December 2003 | 29,200 | (5,216) | 23,984 |
| Net loss for the year | – | (1,898) | (1,898) |
| At 31 December 2004 | 29,200 | (7,114) | 22,086 |



30. RESERVES (Continued)

In accordance with the relevant PRC regulations, subsidiaries of the Company established in the PRC are required to transfer a certain percentage of their profit after taxation, if any, to the general reserves which comprise 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.

31. ACQUISITION OF SUBSIDIARIES

On 30 June 2004, the Group acquired 100% interest in Wanzhou PTC, which owned 40% interest in the Group's subsidiary, Wanzhou Argos at the consideration of HK\$9,434,000. Subsequent to the acquisition, Wanzhou PTC ceased its business, and all assets and liabilities were transferred to Wanzhou Argos.

On 18 August 2004, the Group acquired 90% interest in Xuzhou China at the consideration of HK\$1,604,000.

| | Group | |
|---|--------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Net assets acquired: | | |
| Fixed assets | 8,990 | – |
| Intangible assets | 723 | – |
| Trade receivables | 93 | – |
| Inventory | 51 | – |
| Prepayments, deposits and other receivables | 3,799 | – |
| Cash and bank balance | 1,865 | – |
| Short term loan | (471) | – |
| Trade payable | (25) | – |
| Other payables and accruals | (3,613) | – |
| Tax payable | (554) | – |
| Long term payable | (190) | – |
| Net identifiable assets and liabilities | 10,668 | – |
| Goodwill arising on consolidation | 370 | – |
| Total purchase price paid, satisfied in cash | 11,038 | – |
| Less : cash of the subsidiary acquired | (1,865) | – |
| Net cash outflow in respect of the purchase of subsidiaries | 9,173 | – |



32. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | Group | |
|---------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Within one year | – | 94 |
| In the second to fifth year inclusive | – | 377 |
| After the fifth year | – | 2,747 |
| | – | 3,218 |

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

As at 31 December 2004, the Company has no commitments under operating leases (2003: Nil).

33. MATERIAL RELATED PARTY TRANSACTIONS

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

| Name of related parties | Note | Nature of related party relationship | Nature of transactions | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-------|--|---------------------------|------------------|------------------|
| Nanjing Public Transport Company | (i) | Minority shareholder | Salaries paid | 2,146 | 2,302 |
| Argos Bus Services Company Limited ("Argos Hong Kong") | (ii) | Fellow subsidiary | Rental expenses paid | 26 | 26 |
| Nanjing IC Cards | (iii) | Investee company | Service charge | 442 | 525 |
| Wanzhou Public Transport Company | (iv) | Minority shareholder | Operating leases | – | 263 |



33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

| Name of related parties | Note | Nature of related party relationship | Nature of transactions | 2004 | 2003 |
|------------------------------|-------|--------------------------------------|-----------------------------|-------------------------|----------|
| | | | | HK\$'000 | HK\$'000 |
| Constant Success Limited | (v) | Fellow subsidiary | Advance Interest payment | 300 25 | – – |
| Metro Line Tours Limited | (vi) | Fellow subsidiary | Advance Interest payment | 200 17 | – – |
| Faithway Development Limited | (vii) | Fellow subsidiary | Advance Interest payment | 500 42 | – – |

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) The advance from Constant Success Limited was unsecured, but interest leived at 10% per annum from the Group.
- (vi) The advance from Metro Line Tours Limited was unsecured, but interest leived at 10% per annum from the Group.
- (vii) The advance from Faithway Development Limited was unsecured, but interest leived at 10% per annum from the Group.



34. CAPITAL COMMITMENTS

| | Group | |
|---------------------------------|--------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Contracted but not provided for | | |
| – Purchase of motor vehicles | 486 | – |

As at 31 December 2004, the Company has no capital commitments (2003: Nil).

35. CHARGES ON ASSETS

Fixed deposits and bank balances of approximately HK\$17 million (2003: HK\$23 million) and HK\$768,000 (2003: HK\$955,000) respectively have been pledged by the Group to banks to secure banking facilities granted to the Group. At 31 December 2004, the Company had pledged its fixed deposit of HK\$10 million (2003: HK\$10 million) to a bank to secure banking facilities granted to the Company.

36. SUBSEQUENT EVENTS**Disposal of investment properties**

Subsequent to the balance sheet date, the Group had disposed of its investment properties with carrying value of approximately HK\$1,723,000 at a consideration of approximately HK\$1,723,000.

Disposal of motor vehicles

Subsequent to the balance sheet date, the Group had disposed of its motor vehicles with carrying value of approximately HK\$751,000 at a consideration of approximately HK\$1,237,000.

Save as aforesaid, the Group had no other significant event took place subsequent to 31 December 2004.

The Company has no significant event took place subsequent to the balance sheet date.

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

38. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2005.



Investment properties

Particulars of investment properties as at 31 December 2004 are as follows:

| Address | Area | Type | Tenure | Group's interest |
|---|-------------------------|-------------|----------------------|-------------------------|
| 中國重慶市萬州區 紅光路14號 | 173.84 m ² | Commercial | Medium-term lease | 100% |
| 中國重慶市萬州區 五橋萬順路42,44 46及48號 | 165.09 m ² | Commercial | Medium-term lease | 100% |
| 中國重慶市萬州區 五橋百安商業街2,4,6號 附5,7,10號 | 213.87 m ² | Commercial | Medium-term lease | 100% |
| 中國重慶市萬州區 五橋百安商業街6號 附6號2-1號,附11號2-1號, 附1號3-1號 | 815.36 m ² | Commercial | Medium-term lease | 100% |
| 中國重慶市萬州區 五橋百安商業街6號 附1號5-1號,附6號7-1號, 附6號7-2號 | 494.44 m ² | Commercial | Medium-term lease | 100% |
| 中國重慶市萬州區 五橋百安商業街8號 附9,10,11,12及13號 | 195.49 m ² | Commercial | Medium-term lease | 100% |
| 中國重慶市萬州區 五橋百安商業街18號 附10,11,12,13及14號 | 228.99 m ² | Commercial | Medium-term lease | 100% |
| 中國重慶市萬州區 五橋長嶺鎮梨樹村 | 5,336.43 m ² | Commercial | Medium-term lease | 100% |



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 Thursday, 28th April, 2005 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, 2004;
- (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."



- (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



- (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".

As of the date hereof, the executive directors are Mr. Wong Wah Sang (Chairman), Mr. Wong Man Chiu, Ronnie, and Mr. Yeung Wai Hung; (the non-executive director is Mr. Wilkie Wong;) while the independent non-executive director are Messrs. Sung Wai Tak, Herman, Cheung Man Yau, Timothy and Mr. Wong Lit Chor, Alexis.

By order of the Board
Wong Kwong Yiu, Bono
Company Secretary

Hong Kong, 4th April, 2005

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, 46/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 2004 Annual Report.

