

# Argos

ARGOS ENTERPRISE (HOLDINGS) LIMITED

雅高企業(集團)有限公司

*(Incorporated in Hong Kong with limited liability)*



ANNUAL REPORT **2005**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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



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# CORPORATE PROFILE

Argos Enterprise (Holdings) Limited (the "Company") 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")
- Xuzhou China International Travel Service Limited

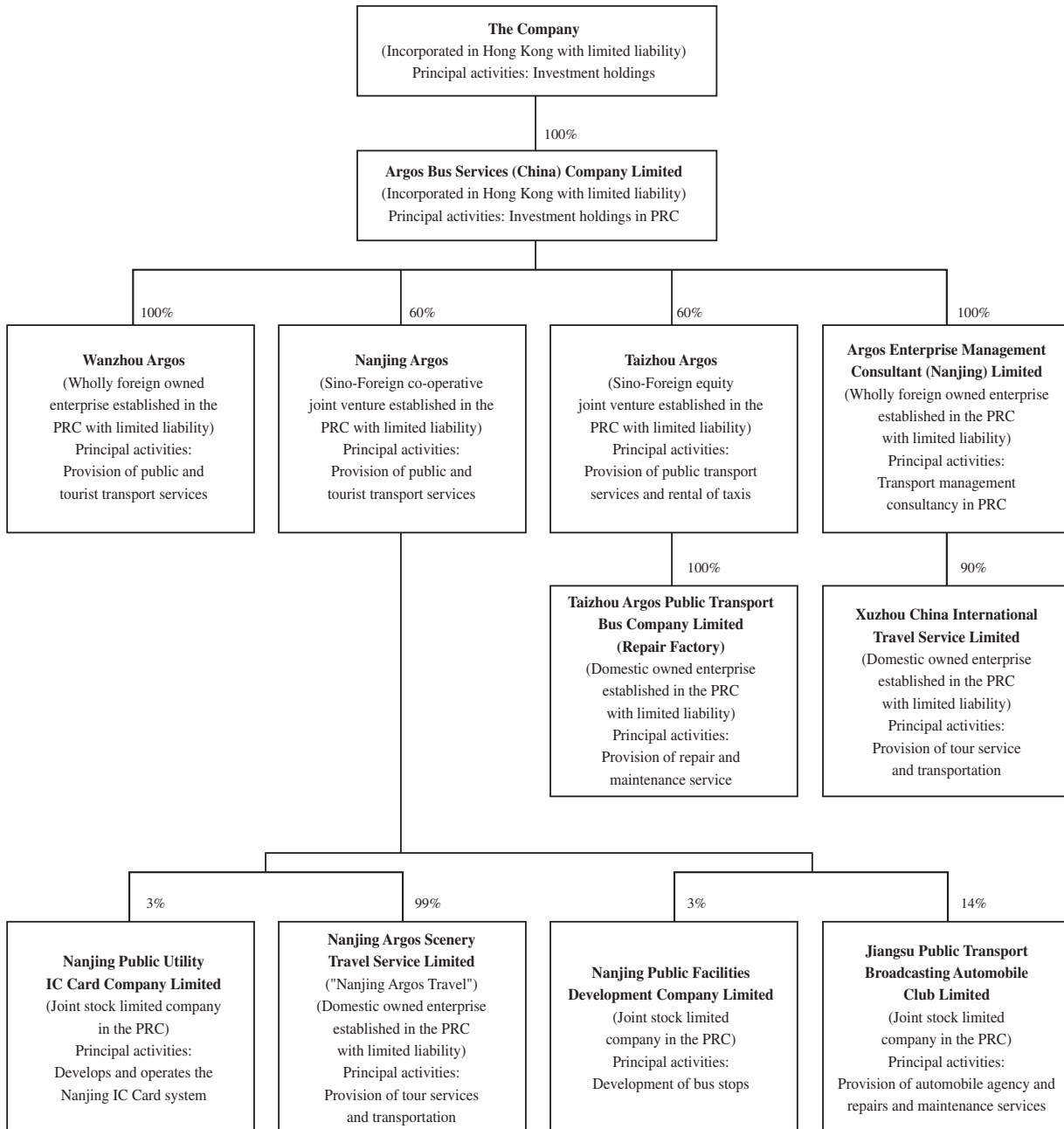
Through the above subsidiaries, the Group provides various forms of public transport services in the PRC including (1) public routes and tourist routes bus services with fixed fares, schedules and routes; (2) taxi services; (3) private bus chartered services, (4) tour services and (5) travel agents services.

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. CHOI Kie Chung

## **COMPLIANCE OFFICER**

Mr. YEUNG Wai Hung

## **QUALIFIED ACCOUNTANT**

Mr. CHOI Kie Chung

## **AUDITORS**

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

31st Floor, Gloucester Tower

The Landmark

11 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 2005 increased by HK\$17.1 million to approximately HK\$136.5 million when compared to turnover of approximately HK\$119.4 million in the previous year.
- Profit for the year ended 31 December 2005 decreased by HK\$4.3 million to HK\$0.4 million.
- Earnings per share was approximately 0.01 HK cents for the year ended 31 December 2005 as compared with earnings per share of approximately 0.96 HK cents recorded in last year.
- The directors do not recommend the payment any dividend in respect of the year (2004 HK\$Nil).

The performance of the Company's core business in public bus transportation in 2005 was good and a sustained growth trend has been continuously maintained. The Group's turnover for the year ended 31 December 2005 amounted to approximately HK\$136.5 million, representing an increase of approximately 14% as compared with previous year. The profit attributable to shareholders amounted to approximately HK\$0.4 million. Earnings per share for the year ended 31 December 2005 was 0.01 HK cents per share. The directors do not recommend the payment of any dividend for the year under review.

The year 2005 was a year of hardship and consolidation for the Company. Despite fierce market competition, the Company still reported exciting results in aspect of its turnover amount 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 2006.

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.



## CHAIRMAN'S STATEMENT

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 2005.

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 2006





Following a strong rebound at the end of the year in 2004, the economy in the Mainland China continued to recover quickly in the first half of 2005 and consumer confidence continued to hold up extremely well.

The Group recorded a turnover of HK\$136.5 million for 2005, and increase of 14% over 2004. Net profit for the year, decreased by HK\$1.7 million to HK\$0.02 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 2005 has proven to be a challenging year for Nanjing Argos. Firstly, we concentrate on the company production and management policy to §§ the needs of passengers and to achieve the goal. We based on the peak season hours and festival to set out different planning schedules for the passengers. 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. We launched three routes # 115, 133, 125, increasing from original 15 routes to 18 routes.



# MANAGEMENT DISCUSSION AND ANALYSIS

There were 30 new buses purchased during the year. Fleet size of Nanjing Argos increased from 339 to 369. We present below selected operating statistics of Nanjing Argos:

	2005	2004	2003
Routes operated	18	15	15
Number of employees	1,053	1,007	962
Fleet size	369	339	327
Total mileage operated (million km)	22.84	22.53	21.11
Total passenger trip (million trip)	78.08	98.94	67.88

## Outlook for Nanjing Argos

In the late December 2005, the Central government has made announcement for subsidy and privilege for transport entity. Then from 30 December 2005 Nanjing Argos has increase fare for IC card from RMB 0.7 per route to RMB 0.8 per route for each passenger. This can set off partially for rise of oil cost. We believe in the time to come traffic entity will rise from the bottom of poor economy.

Nanjing Argos has established 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. We have implemented the procedures for comprehensive and rigorous budgetary control on those controllable expenses.

## Wanzhou Argos

Wanzhou Argos has implemented different modes for controlling its bus service and repaired factory. Firstly, we concentrated on subcontracting management, enforcing bus service, patrolling safety and inspection on vehicles' engines. Secondly, we concentrate on target responsibility, ensuring prompt monthly fees received and concern for high quality service to passengers and safety. We concentrated on safety, service, repaired workshop for public bus and good material for bus repaired. For negotiation with the local authority we ensure that new routes will be given to us.

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

	2005	2004	2003
Routes operated	6	6	5
Number of employees	271	276	366
Fleet size	57	52	90
Total mileage operated (million km)	3.65	3.09	5.50
Total passenger trip (million trip)	7.88	6.58	9.83



## 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 2005, Taizhou Argos has enforced to negotiate with local government and got public bus subsidy. We concentrated on reducing operational cost and controlling of oil consumption. A new route # 19 has operated from High Harbour to Taizhou. This can be ensured for the need of morning, noon and night in the peak hours. We can reduce endless mileage and increasing operational efficiency. At the same time we increase the service of subcontracting for the return for handsome subcontracting revenue.

There were totally 20 buses and taxis purchased during the year. We present below selected operating statistics of Taizhou Argos:

	2005	2004	2003
Routes operated	22	21	22
Number of employees	767	745	495
Fleet size (buses and taxis)	528	516	481
Total mileage operated (million km)	58.30	12.83	7.21
Total passenger trip (million trip)	20.60	15.25	9.2

## Outlook for Taizhou

Taizhou Argos expects to get revenue over RMB 30,000,000 annually by established tourist company and formed new economy growth area.

We concentrated on potential for vehicles repaired workshop. We extended our business activity and increased economic efficiency. We will introduce two double deck bus on the road. We concentrated on more bus on the road for increasing fare revenue and management enforcement in the organization to ensure to get ISO 9002 certificate in the near future.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Xuzhou China International Travel

The year 2005 is a difficult one. The local government do not provide the uniform system. We have faced the problem of moving, labour turnover and other problem in the first half of the year. This caused the the efficiency of our travel agent. However, we have set up four centers namely,arrival and departure,mainland,reception and shop. We employ university graduates in different department. We give the job training to the staff. We have succeeded in 2005.However, the undergoing in the result for 2004 and 2005:

	2005	2004
Turnover	12,356,000	5,796,000
Cost	11,325,000	5,403,000
Business tax	57,000	22,000
Gross Profit	974,000	371,000
Employee	26	30
Gross profit %	7.88%	6.4%

## Outlook for Xuzhou China International Travel

2006 we shall concentrate on Hong Kong, Macau and Korea tourist center. We shall cooperate with large to small size touring firm in Xuzhou.

Moreover, we shall pay attention to door to door retail customers. We wish to operate inexpensive customers base and then to operate large touring for Hong Kong, Macau and Korea.

## FINANCIAL POSITION

### The Group

As at 31 December 2005, the total assets of the Group was approximately HK\$160 million (2004: HK\$159 million), including cash and bank balances and deposits of approximately HK\$39 million (2004: HK\$33 million) of which HK\$13 million (2004: HK\$13 million) were pledged to secure banking facilities.

Balance of bank loans, overdrafts and other loans as at 31 December 2005 was approximately HK\$21.3 million (2004: HK\$29.8 million) of which HK\$20.8 million (2004: HK\$29.5 million) are due within one year. The borrowings are secured by bank deposits and motor vehicles amounting to approximately HK\$10 million and HK\$1.8 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 2005, the Company also pledged its fixed deposit of HK\$10 million (2004: HK\$10 million) to secure banking facilities to the Company. Motor vehicles of the Group with carrying value of approximately HK\$Nil million (2004: HK\$ 15 million) have also been pledged to banks to secure banking facilities granted to the Group.



The gearing ratio of the Group expressed in total debt as a percentage of net assets was 43% (2004: 60%).

### **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 2005, the Group had 2,378 (2004:2,050) full-time employees. The total of employee remuneration, including that of the directors of the Company, for the year ended 31 December 2005 amounted to approximately HK\$27,288,000 (2004:HK\$22,388,000). 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 2005, no option was granted under the share option scheme.



## CORPORATE GOVERNANCE

The Group is committed to maintain a high standard of corporate governance and enhancing transparency. Through continuing education of its employees and engaging the expertise of outside consultants, we shall strive to raise the bar when it comes to formalizing the best practices of corporate governance. Being a company that measures such by profit, not only by overall sales, we believe that it has everything to gain by improving its transparency and communication with investors.

Corporate governance refers to the system by which corporate affairs are directed and managed. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and clearly defines the rules and procedures for making decisions on corporate affairs and through monitoring performance to attain the company's objectives. Fundamentals of good corporate governance includes timely and reliable financial reporting, transparent and efficient management.

The Board of Directors (the "Board") and the management team are committed to high standards of corporate governance.

### Board of Directors

The primary role of the Board is to protect and enhance long term shareholder value. The Board is responsible for setting overall strategy for the group and monitoring the performance of the management.

<b>Name of Director</b>	<b>Position</b>
<b><i>Executive Directors</i></b>	
Mr. Wong Wah Sang	Chairman
Mr. Wong Man Chiu, Ronnie	Executive Director
Mr. Yeung Wai Hung	Executive Director
<b><i>Non-executive Director</i></b>	
Mr. Wilkie Wong	Non-executive Director
<b><i>Independent Non-Executive Directors</i></b>	
Mr. Sung Wai Tak, Herman	Independent non-executive
Mr. Cheung Man Yau, Timothy	Independent non-executive
Mr. Wong Lit Chor, Alexis	Independent non-executive



The attendance of directors at the board meetings for the year ended 31 DEC 2005 are set out as follows.

	1st QTR Report	2nd QTR Report	3rd QTR Report	Annual Report	Total
<b>Executive Director</b>					
Mr. Wong Wah Sang	1	1	1	1	4
Mr. Wong Man Chiu, Ronnie	1	1	1	1	4
Mr. Yeung Wai Hung	1	1	1	1	4
<b>Non-executive Director</b>					
Mr. Wilkie Wong	1	1	0	0	2
<b>Independent non-executive Directors</b>					
Mr. Sung Wai Tak, Herman	1	1	1	1	4
Mr. Cheung Man Yau, Timothy	1	1	1	1	4
Mr. Wong Lit Chor, Alexis	1	1	1	1	4

#### **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 committees 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. Mr. Cheung is the chairman of the audit committee and applies his professional qualifications in accounting and financial expertise in directing the audit committee.



# CORPORATE GOVERNANCE REPORT

The attendance of independent non-executive directors at audit committee meeting for the year is set out as follows.

	1st QTR Report	2nd QTR Report	3rd QTR Report	Annual Report	Total
<b>Independent non-executive Directors</b>					
Mr. Sung Wai Tak, Herman	1	1	1	1	4
Mr. Cheung Man Yau, Timothy	1	1	1	1	4
Mr. Wong Lit Chor, Alexis	1	1	1	1	4

## Remuneration Committee

The company has not established a Remuneration Committee. The Board is responsible for determine the company's policy on remuneration of directors and reviewing all remuneration packages of directors and senior management. The company currently does not have any plan to set up a Remuneration Committee considering the small size of the Board. The principle elements of the company's remuneration policy for directors and senior management are:

- (1) No individual should determine his or her own remuneration package
- (2) Remuneration packages should be on a par with companies with whom the company competes for human resources.
- (3) Remuneration packages should reflect the performance and responsibility of an individual, as well as the complexity of work
- (4) Remuneration packages should be structured in such a way that can provide incentives to directors and senior management to improve their individual performance.

## Nomination of directors

The Board is responsible for considering the suitability of an individual to act as a Director and approving and terminating the appointment of a Director. The Company has not established a Nomination Committee. The Company currently does not have any plans to set up a Nomination Committee considering the small size of the Board.

The Chairman is responsible for identifying suitable candidates for member of the Board when there is a vacancy or an additional director is considered necessary. The Chairman proposes the appointment of such candidates to each member of the Board for consideration. Each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background.



**Confirmation of compliance with model code**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions. The directors have confirmed, following specific inquiry by the Company that they have complied with the required standard set out in the Model Code during the year under review.

**Auditors' remuneration**

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay any aggregate of approximately HK\$180,000 to the external auditors. During the year, the auditors only perform the work of statutory audit and do not involved any non-audit assignment of the Group.

**Respective responsibilities of Directors and auditors**

The Directors are responsible for the preparation of the financial statements, which give a true and fair view. The auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

**Looking forward**

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavors to take the necessary actions to ensure the compliance with the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.



# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. WONG Wah Sang, B.H., M.B.E.**, aged 80, 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. WONG Man Chiu, Ronnie, J.P., B.Sc., M.B.A.**, aged 53 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 56, 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 32, 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. SUNG Wai Tak, Herman, B.A. (Hons.), L.L.B. (Hons.), L.L.M.**, aged 47, 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 47, 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 47, 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 41, 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. WONG Kwong Yiu, Bono, F.C.C.A., H.K.I.C.P.A., C.P.A., A.C.M.A.**, aged 37, 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. Wong has resigned the qualified accountant and company secretary of the Group on 25 October 2005.

**Mr. CHOI Kie Chung, A.C.C.A., F.H.K.I.C.P.A.**, aged 53, 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. Choi had over thirty years of experience in finance, accounting and administration. Mr. Choi has been appointed as the qualified accountant and company secretary of the Group on 25 October 2005.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. ZHU Xiu Ying**, aged 59, 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 56, the General Manager of Wanzhou 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.

**Ms. TIN Lin**, aged 60, the financial controller of Wanzhou Argo since 2001. Before she joined our company, she has worked with Nanjing public bus company for over 30 years in finance field. She has wide knowledge in public finance and management skill. For our Wanzhou she has exercised a lead in cost control and management decision.

**Mr. ZHU Wing Wah**, aged 61, university degree, had many years experience in large public bus enterprises. He worked as safety controller in public bus enterprises and the principal of large driving college. He worked with us in Wanzhou Argo as Assistant General Manager in 2004. He was promoted to General manager in January 2005. He was involved in all operation and planning for the whole company. He contributed in enterprise' production and development.

**Ms. HO Ka Mei**, aged 42, the financial controller of the company, university undergraduate. She had worked in the field of financial management for many years, extensive experience in financial management and cost control. She has sound knowledge in financial system and legal system. She had tactful knowledge in human relationship inside and outside the organization. She is aggressive in work and faced difficulty without fear.



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 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in Note 11 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 2005 is as follows:

	2005		2004	
	Turnover HK\$'000	Segment Results HK\$'000	Turnover HK\$'000	Segment Results HK\$'000
Public Routes	94,123	(4,904)	83,386	240
Tourist Routes	15,122	109	10,080	734
"Hire-a-Bus" Services	10,882	872	9,542	873
Sightseeing Tickets Sales and Touring	223	162	326	237
Taxi rental	13,478	800	13,591	1,805
Rental Income	895	139	571	77
Management Fee	1,824	8	1,868	191
	<b>136,547</b>	<b>(2,814)</b>	119,364	4,157
Other Revenue		12,550		9,570
Other Income		23		3,328
Administrative Expenses		(6,025)		(7,229)
Profit from Operations		<b>3,734</b>		9,826

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



# REPORT OF THE DIRECTORS

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on Page 32.

The states of affairs of the Group and of the Company as at 31 December 2005 are set out in the balance sheets on pages 29 and 31 respectively.

The cashflows of the Group are set out in the statement on Page 34.

## DIVIDENDS

The directors do not recommend a payment of dividend nor transfer of any amount to reserves for the year (2004: 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 31 December				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	136,547	119,364	98,178	87,068	61,938
Profit before tax	1,256	7,540	4,267	9,792	13,704
Tax	(886)	(2,868)	(1,113)	(2,379)	(3,157)
Profit before minority interests	370	4,672	3,154	7,413	10,547
Minority interests	(355)	(2,949)	(3,006)	(4,357)	(5,638)
Net profit from ordinary activities attributable to shareholders	15	1,723	148	3,056	4,909
	As at 31 December				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	160,199	158,523	172,986	166,483	137,155
Total liabilities	(90,073)	(88,481)	(107,760)	(101,092)	(77,263)
Minority interests	(20,670)	(20,310)	(17,173)	(17,451)	(15,034)
Net assets	49,456	49,732	48,053	47,940	44,858



## **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 6 to the financial statements.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2005, 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 (2004: Nil).

## **DONATIONS**

No charitable donations made by the Group during the year (2004: Nil).

## **DIRECTORS**

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

### ***Executive Directors***

Mr. Wong Wah Sang  
Mr. Wong Man Chiu, Ronnie  
Mr. Yeung Wai Hung

### ***Non-executive Directors***

Mr. Wilkie Wong

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

Mr. Sung Wai Tak, Herman  
Mr. Cheung Man Yau, Timothy  
Mr. Wong Lit Chor, Alexis

In accordance with Articles 121 of the Company's Articles of Association, Mr. Wong Man Chiu, Ronnie 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 38 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 2005, 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 2005, 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 2005, 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 2005 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 2005 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 2005, 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	3	126,000,000	70%
Chiu Gee Chai	4	126,000,000	70%

As at 31 December 2005 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.



# REPORT OF THE DIRECTORS

## 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. 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.
4. By virtue of Part XV of the SFO, Madam Chiu Gee Chai is deemed to be interested in 126,000,000 shares.
5. 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.

Same 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.



## **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 2005.

## **FOREIGN CURRENCY RISK**

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

## **COMPETING INTERESTS**

The Directors have substantial experience in the operation of transportation companies especially bus services, with over 20 years of experience in the operation of such services in Hong Kong. Such operations in Hong Kong are mainly trading under the names of Argos Bus Services Co., Ltd. ("Argos Hong Kong"), a fellow subsidiary of the Company, 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 41 to the financial statements.



# REPORT OF THE DIRECTORS

## **AUDITORS**

Messrs. HLB Hodgson Impey Cheng have been the auditors of the Company for the past three years ended 31 December 2005.

The accompanying financial statements were audited by Messrs. HLB Hodgson Impey Cheng. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

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 2006



Chartered Accountants  
Certified Public Accountants

31/F Gloucester Tower  
The Landmark  
11 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 29 to 84 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, consistently applied and adequately disclosed.



# REPORT OF THE AUDITORS

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

## Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning preparation of the financial statements under the going concern basis. The basis may not be appropriate because the Group incurred net current liabilities of approximately HK\$33,563,000 as at 31 December 2005. Further details relating to this fundamental uncertainty are described in Note 2(a) financial statements. We consider that appropriate disclosures have been made and our opinion is not qualified in this aspect.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 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 2006

# CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2005



	Note	2005 HK\$'000	2004 HK\$'000 (Restated)
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	6	<b>95,531</b>	98,052
Investment properties	7	<b>1,029</b>	2,820
Land use rights	8	<b>4,600</b>	4,704
Intangible assets	10	<b>1,722</b>	2,479
Available-for-sale financial assets	12	<b>1,024</b>	1,024
Deferred tax asset	13	<b>334</b>	1,022
		<b>104,240</b>	110,101
<b>Current Assets</b>			
Properties held for sale	9	<b>1,773</b>	–
Trade receivables	14	<b>4,211</b>	3,930
Inventories	15	<b>1,364</b>	1,289
Amount due by a fellow subsidiary	16	–	321
Amount due by a minority shareholder	17	<b>678</b>	519
Prepayments, deposits and other receivables		<b>8,947</b>	9,391
Fixed deposits		<b>15,096</b>	20,148
Cash and bank balances		<b>23,890</b>	12,824
		<b>55,959</b>	48,422
<b>Total Assets</b>		<b>160,199</b>	158,523
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	18	<b>1,800</b>	1,800
Reserves	19	<b>47,656</b>	47,932
		<b>49,456</b>	49,732
<b>Minority interests</b>		<b>20,670</b>	20,310
<b>Total equity</b>		<b>70,126</b>	70,042



# CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2005

	Note	2005 HK\$'000	2004 HK\$'000 (Restated)
<b>LIABILITIES</b>			
<b>Non Current Liabilities</b>			
Interest-bearing borrowings	20	551	332
Long term payables		–	143
Advertising income on fleet body receipt in advance	21	–	1,072
		<b>551</b>	1,547
<b>Current Liabilities</b>			
Bank overdraft, secured	20	10,468	10,428
Current portion of interest-bearing borrowings	20	10,307	19,071
Trade payables		3,880	3,288
Advertising income on fleet body receipt in advance	21	1,072	2,025
Other payables and accruals	22	52,360	44,851
Taxation		59	132
Amounts due to fellow subsidiaries	23	2,431	–
Amounts due to minority shareholders	24	8,253	6,596
Amount due to a director	25	692	543
		<b>89,522</b>	86,934
<b>Total Liabilities</b>		<b>90,073</b>	88,481
<b>Total Equity and Liabilities</b>		<b>160,199</b>	158,523
<b>Net Current Liabilities</b>		<b>33,563</b>	38,512
<b>Total Assets Less Current Liabilities</b>		<b>70,677</b>	71,589

Approved by the Board of Directors on 31 March 2006 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.





	Note	2005 HK\$'000	2004 HK\$'000 (Restated)
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Interests in subsidiaries	11	<b>28,543</b>	28,156
Property, plant and equipment	6	<b>118</b>	–
		<b>28,661</b>	28,156
<b>Current Assets</b>			
Prepayments, deposits and other receivables		<b>12</b>	2
Fixed deposit		<b>10,000</b>	10,000
		<b>10,012</b>	10,002
<b>Total Assets</b>		<b>38,673</b>	38,158
<b>EQUITY</b>			
<b>Capital and Reserves Attributable to the Company's Equity Holders</b>			
Share capital	18	<b>1,800</b>	1,800
Reserves	19	<b>18,909</b>	22,086
<b>Total Equity</b>		<b>20,709</b>	23,886
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Bank overdraft, secured	20	<b>10,465</b>	10,428
Other payables and accruals	22	<b>1,621</b>	315
Amounts due to subsidiaries		<b>3,530</b>	3,529
Amounts due to fellow subsidiaries	23	<b>2,348</b>	–
		<b>17,964</b>	14,272
<b>Total Liabilities</b>		<b>17,964</b>	14,272
<b>Total Equity and Liabilities</b>		<b>38,673</b>	38,158
<b>Net Current Liabilities</b>		<b>7,952</b>	4,270
<b>Total Assets Less Current Liabilities</b>		<b>20,709</b>	23,886

Approved by the Board of Directors on 31 March 2006 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 INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 HK\$'000	2004 HK\$'000 (Restated)
Turnover	5	<b>136,547</b>	119,364
Cost of Sales	5	<b>(123,577)</b>	(104,514)
Gross Profit		<b>12,970</b>	14,850
Other Revenue	26	<b>12,550</b>	9,570
Other Income	27	<b>23</b>	3,328
Administrative Expenses		<b>(21,809)</b>	(17,922)
Operations Profit	28	<b>3,734</b>	9,826
Finance Costs	30	<b>(2,478)</b>	(2,286)
Profit Before Income Tax		<b>1,256</b>	7,540
Income Tax Expenses	31	<b>(886)</b>	(2,868)
Profit for the Year		<b>370</b>	4,672
<b>Attributable to:</b>			
Equity holders of the Company	34	<b>15</b>	1,723
Minority Interest		<b>355</b>	2,949
		<b>370</b>	4,672
<b>Earnings per Share for Profit Attributable to the equity holders of the Company during the Year</b>			
– Basic	34	<b>0.01 cents</b>	0.96 cents
– Diluted		<b>N/A</b>	N/A

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

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

# CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005



	Attributable to equity holders of the Company								Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Merger reserve HK\$'000	General reserve HK\$'000	Revaluation reserve HK\$'000	Retained earnings HK\$'000	Minority interest HK\$'000	
Balance at 1 January 2004, as previously reported as equity	1,800	29,200	421	(490)	2,995	–	14,127	–	48,053
Balance at 1 January 2004, as previously separately reported as minority interest	–	–	–	–	–	–	–	17,173	17,173
Balance at 1 January 2004, as restated	1,800	29,200	421	(490)	2,995	–	14,127	17,173	65,226
Net profit for the year	–	–	–	–	–	–	1,723	2,949	4,672
Transfer to reserve	–	–	–	–	232	–	(232)	–	–
Translation of financial statements of overseas subsidiaries	–	–	(44)	–	–	–	–	188	144
Balance at 31 December 2004, as restated	1,800	29,200	377	(490)	3,227	–	15,618	20,310	70,042
Balance at 1 January 2005	1,800	29,200	377	(490)	3,227	–	15,618	20,310	70,042
Net profit for the year	–	–	–	–	–	–	15	355	370
Surplus on revaluation	–	–	–	–	–	412	–	–	412
Translation of financial statements of overseas subsidiaries	–	–	(801)	–	98	–	–	5	(698)
<b>At 31 December 2005</b>	<b>1,800</b>	<b>29,200</b>	<b>(424)</b>	<b>(490)</b>	<b>3,325</b>	<b>412</b>	<b>15,633</b>	<b>20,670</b>	<b>70,126</b>

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



# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 HK\$'000	2004 HK\$'000 (Restated)
<b>Cash flows from operating activities</b>			
Profit before taxation		<b>1,256</b>	7,540
Adjustments for:			
Amortisation of land	8	<b>104</b>	–
Amortisation of intangible assets	10	<b>498</b>	298
Depreciation of property, plant & equipment	6	<b>15,094</b>	14,304
Gain on disposal of fixed assets	6	<b>(23)</b>	(3,328)
Impairment of goodwill	10	<b>370</b>	–
Impairment of investment properties	7	<b>18</b>	–
Interest income		<b>(692)</b>	(208)
Interest expense	30	<b>2,478</b>	2,286
Provision for doubtful debt	28	<b>1,197</b>	–
Operating profit before working capital changes		<b>20,300</b>	20,892
Decrease/(increase) in amount due by a fellow subsidiary		<b>321</b>	(321)
Decrease in amounts due by related companies		–	10
Increase in amount due by a minority shareholder		<b>(159)</b>	(497)
Increase in prepayments, deposits and other receivables		<b>(753)</b>	(457)
(Increase)/decrease in inventories		<b>(75)</b>	15
Increase in trade receivables		<b>(281)</b>	(135)
Decrease in bills payable		–	(2,156)
Increase/(decrease) in trade payables		<b>592</b>	(716)
Increase/(decrease) in other payables and accruals		<b>7,509</b>	(5,336)
Decrease in advertising income on fleet body receipt in advance		<b>(2,025)</b>	(2,025)
Increase/(decrease) in amounts due to fellow subsidiaries		<b>2,431</b>	(2,780)
Decrease in amount due to a related company		–	(377)
Increase/(decrease) in amounts due to minority shareholders		<b>1,657</b>	(134)
Increase in amount due to a director		<b>149</b>	543
Cash generated from operations		<b>29,666</b>	6,526
Interest paid	30	<b>(2,478)</b>	(2,286)
PRC income tax paid	31	<b>(271)</b>	(864)
Net cash generated from operating activities		<b>26,917</b>	3,376

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005



	Note	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000 (Restated)
Net cash generated from operating activities		<b>26,917</b>	3,376
<b>Cash flows from investing activities</b>			
Acquisition of Intangible assets	10	<b>(111)</b>	(98)
Acquisition of fixed assets	6	<b>(13,167)</b>	(11,618)
Proceeds on disposals of fixed assets		<b>1,029</b>	11,425
Acquisition of interest of subsidiaries		-	(9,173)
Decrease/(increase) in fixed deposits		<b>5,052</b>	(91)
Interest received		<b>692</b>	208
Net cash used in investing activities		<b>(6,505)</b>	(9,347)
<b>Cash flows from financing activities</b>			
New loans raised		<b>10,704</b>	14,623
Repayment of loans		<b>(19,249)</b>	(26,382)
Decrease in long term payable		<b>(143)</b>	(47)
Net cash used in financing activities		<b>(8,688)</b>	(11,806)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>11,724</b>	(17,777)
<b>Effect of foreign exchange rate changes</b>		<b>(698)</b>	(44)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>2,396</b>	20,217
<b>Cash and cash equivalents at the end of the year</b>		<b>13,422</b>	2,396
<b>Analysis of the balances of cash and cash equivalents</b>			
Cash and bank balances		<b>23,890</b>	12,824
Bank overdraft, secured		<b>(10,468)</b>	(10,428)
		<b>13,422</b>	2,396

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



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 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 11 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 ("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 adopted these new/revised Standards and interpretations of HKFRSs in the financial statements, which are relevant to its operations. The financial statements for the year ended 2004 have been restated in accordance with the relevant requirements.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of changes in Foreign Exchange Rates



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

HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27 and 33 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to reclassification of leasehold land and land use rights from property, plant and equipment to operation leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

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

Until 31 December 2004, investments in unlisted shares of the Group were classified into long term investments which were stated in the balance sheet at cost less any accumulated impairment losses and any impairment losses on long term investments was recognised in the profit and loss account in the period in which they arise.

In accordance with the provisions of HKAS 39, the investments in unlisted shares have been classified as available-for-sale financial assets. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight line basis over a period ranging from 5 to 20 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.





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

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The adoption of revised HKAS 17 and HKAS 40 resulted in

	<b>2005</b>	2004
	<b>HK'000</b>	HK'000
Decrease in property, plant and equipment	<b>(5,629)</b>	(7,524)
Increase in land use rights	<b>4,600</b>	4,704
Increase in investment properties	<b>1,029</b>	2,820

### (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 on buildings.

The financial statements have been prepared on a going concern basis. The Group and the Company had net current liabilities of HK\$33,563,000 (2004:HK\$38,512,000) and HK\$7,952,000 (2004:HK\$4,270,000) respectively as at 31 December 2005 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. Moreover, the ultimate holding company, Twilight Enterprise 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.

### (b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2005. 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.



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

### (b) Basis of Consolidation (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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) Intangible Assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

#### (ii) Trademarks and licences

Trademarks and licences are shown at historical cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives 8 years for taxi licence and 10 years for travel agent licence.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(d) Property, Plant and Equipment**

#### 1. Valuation

Property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment to their estimated realisable value over their anticipated useful lives at the following annual rates:

Buildings	:	50 years
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 or retirement of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

### **(e) Properties Held for Sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.



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

### (f) Land Use Rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised on a straight line basis over the period of the right.

### (g) Turnover

Turnover represents the net of value added tax income from bus operation and its related bus services are rendered.

### (h) Investment Properties

Investment properties are properties held for long-term rental yields or for capital appreciation or both, and that are not occupied by Group.

Investment properties comprise of land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment properties when the rest of the definition of investment properties is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are measured initially at its cost, including related transaction costs.

After initial recognition, investment properties are carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment properties that are being redeveloped for continuing use as investment properties, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment properties; others, including contingent rent payments, are not recognised in the financial statements.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(h) Investment Properties (Continued)**

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment properties become owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment properties are classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment properties.

### **(i) 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.
- (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.

### **(j) 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.



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

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

### (j) Inventories (Continued)

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.

### (k) Translation of Foreign Currencies

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

#### (ii) Transactions and balances

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.

### (l) 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.

### (m) 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.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(n) 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.

### **(o) 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.



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

### (p) 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.

### (q) 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.

### (r) 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.





## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(r) Employee Benefits (Continued)**

- (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.

### **(s) Impairment of Assets**

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

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

- (i) Calculation of recoverable amount

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

- (ii) Reversal of impairment losses

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

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



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

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

### (t) 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.

### (u) Available for Sale Financial Assets

From 1 January 2004 to 31 December 2004

The Group classified its investments as other investments and carried at fair value in accordance with Statement of Standard Accounting Practice 24 Accounting for Investments in Securities ("SSAP 24"). At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profit or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arised.

From 1 January 2005 onwards:

The Group reclassifies its other investments as available-for-sale financial assets in accordance with HKAS 39. Available-for-sale financial assets are investments in listed and unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any accumulated impairment losses.

In respect of available-for-sale financial assets carried at fair value, the gains or losses arising from changes in the fair value, the gains or losses arising from changes in the fair value of an investment are dealt with as movements in the investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, when the cumulative gain or loss derived from the investment recognized in the investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the profit and loss account in the period in which it arises. Any impairment losses recognised shall not be reversed.



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

### (v) Government Grants

Government grants are recognised as income over the periods necessary to match with them with the related costs. Grant related to expense items are recognized in the same period as those expenses are charged in the income statement.

### (w) 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.

### (x) Related Parties

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. Related parties may be individuals (being member of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

Transactions with related parties are classified Related Parties Transactions.



## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### (a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Most of the Group's monetary assets and liabilities are also denominated in RMB. Therefore, the Group considers it has no significant foreign exchange risk.

#### (b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of cash and bank balances, fixed deposits, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group also has credit policies in place and exposures to credit risks regards trade receivables and other receivables are mentioned on an ongoing basis.

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding through an adequate amount of committed credit facilities. The Group also aims to maintain flexibility in funding by keeping committed credit lines available.

#### (d) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank overdraft and interest-bearing borrowings. Bank overdraft and interest-bearing borrowings at variable rates expose the Group to cash flow interest rate risk. Interest-bearing borrowings at fixed rates expose the Group to fair value interest rate risk. At the year end, HK\$743,000 of interest-bearing borrowings were at fixed rates. Details of the Group's bank overdraft and interest-bearing borrowings have been disclosed in Note 20 to financial statements.



### **3. FINANCIAL RISK MANAGEMENT (Continued)**

#### **3.2 Fair value estimation**

The carrying amounts of the Group's financial assets which mainly include cash and bank balances, fixed deposits, amount due by a fellow subsidiary, amount due by a minority shareholder, trade receivables, other receivables; and financial liabilities, which mainly include bank overdraft, trade payables, amount due to fellow subsidiaries, amount due to minority shareholders, other payables, current portion of interest-bearing borrowings, approximate their fair values due to their short maturities.

The fair value of financial liabilities for disclosure purposes is estimated by discounts the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values for non-current interest-bearing borrowings are disclosed in Note 20 to financial statements.

### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **(a) Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group's management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is HK\$Nil. Details of the recoverable amount calculation are disclosed in Note 10 to financial statements.

#### **(b) Impairment of trade receivables**

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for of trade receivable are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (c) Useful lives of Property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives of property, plant and equipment are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives property, plant and equipment continue to be valid.

### (d) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.



## 5. SEGMENT INFORMATION

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

### (a) Business segments

	2005							Total HK\$'000
	Public routes HK\$'000	Tourist routes HK\$'000	"Hire a bus" services HK\$'000	Sightseeing ticket sales and touring HK\$'000	Taxi rental HK\$'000	Rental income HK\$'000	Management fee HK\$'000	
Turnover	94,123	15,122	10,882	223	13,478	895	1,824	136,547
Cost of bus services rendered	(88,027)	(13,723)	(9,466)	(44)	(10,185)	(674)	(1,458)	(123,577)
Gross profit	6,096	1,399	1,416	179	3,293	221	366	12,970
Administrative expenses	(11,000)	(1,290)	(544)	(17)	(2,493)	(82)	(358)	(15,784)
Segment results	(4,904)	109	872	162	800	139	8	(2,814)
Unallocated items:								
Other Revenue								12,550
Other Income								23
Administrative expenses								(6,025)
Profit from operations								3,734
Finance costs								(2,478)
Profit from ordinary activities before taxation								1,256
Taxation								(886)
Profit before minority interests								370
Minority interests								(355)
Profit attributable to shareholders								15



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 5. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

	Public routes HK\$'000 Dr/(Cr)	Tourist routes HK\$'000 Dr/(Cr)	"Hire a bus" services HK\$'000 Dr/(Cr)	Sightseeing ticket sales and touring HK\$'000 Dr/(Cr)	Taxi rental HK\$'000 Dr/(Cr)	Management fee Co-operative business HK\$'000 Dr/(Cr)	Rental income HK\$'000 Dr/(Cr)	Total HK\$'000 Dr/(Cr)
<b>Assets</b>								
Segment Assets	66,424	5,995	11,020	-	16,535	1,387	1,019	102,380
Investment in subsidiaries								1,024
Unallocated corporate assets								56,795
<hr/>								
Consolidated total assets								160,199
<b>LIABILITIES</b>								
Segment Liabilities	32,785	1,573	568	757	8,915	42	1,425	46,065
Unallocated corporate liabilities								44,008
<hr/>								
Consolidated total liabilities								90,073

	Public routes HK\$'000 Dr/(Cr)	Tourist routes HK\$'000 Dr/(Cr)	"Hire a bus" services HK\$'000 Dr/(Cr)	Sightseeing ticket sales and touring HK\$'000 Dr/(Cr)	Taxi rental HK\$'000 Dr/(Cr)	Management fee Co-operative business HK\$'000 Dr/(Cr)	Rental income HK\$'000 Dr/(Cr)	Unallocated HK\$'000 Dr/(Cr)	Total HK\$'000 Dr/(Cr)
<b>Other information:</b>									
Depreciation and amortization for the year	10,323	571	1,623	-	2,754	-	156	269	15,696
<b>Segment assets</b>									
Trade receivables	3,454	57	639	-	50	-	11	-	4,211
<b>Capital expenditure incurred during the year</b>									
	9,634	-	2,095	-	781	-	-	768	13,278
<b>Impairment loss in respect of - goodwill of a subsidiary</b>									
	-	370	-	-	-	-	-	-	370





## 5. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

	2004							
	Public routes HK\$'000	Tourist routes HK\$'000	"Hire a bus" services HK\$'000	Sightseeing ticket sales and touring HK\$'000	Taxi rental 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								9,570
Other Income								3,328
Administrative expenses								(7,229)
Profit from operations								9,826
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



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 5. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

	Public routes	Tourist routes	"Hire a bus" services	Sightseeing ticket sales and touring	Taxi rental	Management fee Co-operative business	Rental income	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	
<b>Assets</b>									
Segment Assets	68,231	5,103	9,443	–	19,353	1,509	879	104,518	
Investment in subsidiaries								1,024	
Unallocated corporate assets								52,981	
<hr/>									
Consolidated total assets								158,523	
<b>LIABILITIES</b>									
Segment Liabilities	22,601	2,066	1,205	552	8,453	783	344	36,004	
Unallocated corporate liabilities								52,477	
<hr/>									
Consolidated total liabilities								88,481	
<hr/>									
	Public routes	Tourist routes	"Hire a bus" services	Sightseeing ticket sales and touring	Taxi rental	Management fee Co-operative business	Rental income	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)	Dr/(Cr)
<b>Other information:</b>									
Depreciation and amortization for the year	9,931	1,654	252	–	2,666	–	99	–	14,602
<b>Segment assets</b>									
Trade receivables	3,318	56	469	–	66	–	21	–	3,930
<b>Capital expenditure incurred during the year</b>									
	9,659	1,556	403	–	–	–	–	–	11,618



## 5. 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.

## 6. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>(a) Group</b>					
<b>At 1 January 2004</b>					
At Cost	335	2,527	3,649	136,716	143,227
Accumulated depreciation	(75)	(644)	(1,802)	(33,566)	(36,087)
Net book amount	260	1,883	1,847	103,150	107,140
<b>Year ended 31 December 2004</b>					
Opening net book amount	260	1,883	1,847	103,150	107,140
Acquisition of subsidiaries	1,473	–	138	–	1,611
Additions	–	18	507	11,093	11,618
Disposals	–	–	–	(8,098)	(8,098)
Depreciation	(40)	(91)	(805)	(13,283)	(14,219)
Closing net book amount	1,693	1,810	1,687	92,862	98,052
<b>At 31 December 2004</b>					
At Cost	1,808	2,544	4,294	139,711	148,357
Accumulated depreciation	(115)	(734)	(2,607)	(46,849)	(50,305)
Net book amount	1,693	1,810	1,687	92,862	98,052
<b>Year ended 31 December 2005</b>					
Opening net book amount	<b>1,693</b>	<b>1,810</b>	<b>1,687</b>	<b>92,862</b>	<b>98,052</b>
Additions	<b>183</b>	<b>243</b>	<b>342</b>	<b>12,399</b>	<b>13,167</b>
Surplus on revaluation	<b>412</b>	–	–	–	<b>412</b>
Disposals	–	–	(16)	(990)	(1,006)
Depreciation	<b>(68)</b>	<b>(134)</b>	<b>(462)</b>	<b>(14,430)</b>	<b>(15,094)</b>
Closing net book amount	<b>2,220</b>	<b>1,919</b>	<b>1,551</b>	<b>89,841</b>	<b>95,531</b>
<b>At 31 December 2005</b>					
At Cost	–	<b>2,788</b>	<b>4,619</b>	<b>151,120</b>	<b>158,527</b>
At valuation	<b>2,402</b>	–	–	–	<b>2,402</b>
Accumulated depreciation	<b>(182)</b>	<b>(869)</b>	<b>(3,068)</b>	<b>(61,279)</b>	<b>(65,398)</b>
Net book amount	<b>2,220</b>	<b>1,919</b>	<b>1,551</b>	<b>89,841</b>	<b>95,531</b>



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 6. PROPERTY, PLANT AND EQUIPMENT – GROUP (Continued)

(i) The total cost of fixed assets disposed of or written off during 2005 was HK\$1,483,000 (2004:HK\$10,519,000).

(ii) The Group's leasehold buildings were valued at 31 December 2005 by independent valuers, Messrs Pan China (Chongqing) Certified Public Accountants, Messrs Jiangsu Zhongxing Certified Public Accountants and Messrs Xuzhou Huaxing Certified Public Accountants, on an open market value basis.

(a) The leasehold buildings included above are held under the following lease terms:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Medium term leases	<b>2,220</b>	1,693

The Group's leasehold buildings are all situated in the PRC.

Bank borrowings are secured on building for the carrying amount of HK\$395,000 (2004:Nil)

### (b) Company

	<b>Leasehold improvements</b> HK\$'000	<b>Furniture &amp; fixtures</b> HK\$'000	<b>Total</b> HK\$'000
<b>Year ended 31 December 2005</b>			
Additions	<b>108</b>	<b>19</b>	<b>127</b>
Depreciation	<b>(5)</b>	<b>(4)</b>	<b>(9)</b>
Net book value	<b>103</b>	<b>15</b>	<b>118</b>
<b>At 31 December 2005</b>			
Cost	<b>108</b>	<b>19</b>	<b>127</b>
Accumulated depreciation	<b>(5)</b>	<b>(4)</b>	<b>(9)</b>
Net book value	<b>103</b>	<b>15</b>	<b>118</b>



## 7. INVESTMENT PROPERTIES – GROUP

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Beginning of the year	<b>2,820</b>	–
Acquisition of a subsidiary	–	2,820
Re-classification to properties held for sales	<b>(1,773)</b>	–
Impairment of investments properties	<b>(18)</b>	–
End of the year	<b>1,029</b>	2,820

The Group's investment properties are all situated in the PRC. The cost of investment properties were HK\$2,820,000 (2004:HK\$2,820,000). The Group's investment properties were valued at 31 December 2005 by independent valuers, Messrs Pan China (Chongqing) Certified Public Accountants, on an open market value basis. The fair value loss during the year amounted HK\$18,000 (2004:Nil) and was debited to the income statement under administrative expenses (Note 28).

(a) The investment properties included above are held under the following lease terms:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Medium term leases	<b>1,029</b>	2,820

(b) The investment properties are leased to third parties under operating leases, further summary details of which are included in Note 37(a) to financial statements. The gross rental income received and receivable by the Group and the Company and related expenses in respect of these investment properties are summarised as follows:

Group

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Gross rental income	<b>72</b>	–
Direct expenses	–	–
Net rental income	<b>72</b>	–



# NOTES TO FINANCIAL STATEMENTS

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## 8. LAND USE RIGHTS – GROUP

	HK\$'000
<b>Cost:</b>	
At 1 January 2004	233
Acquisition of a subsidiary	4,558
<hr/>	
At 31 December 2004 and 1 January 2005	4,791
Additions	–
<hr/>	
At 31 December 2005	<b>4,791</b>
<hr/>	
<b>Amortisation:</b>	
At 1 January 2004	2
Amortisation	85
<hr/>	
At 31 December 2004 and 1 January 2005	87
Amortisation	104
<hr/>	
At 31 December 2005	<b>191</b>
<hr/>	
<b>Net book value:</b>	
At 31 December 2005	<b>4,600</b>
<hr/>	
At 31 December 2004	4,704
<hr/>	

All of the Group's land use rights are located in Xuzhou, Taizhou and Wanzhou, the PRC and are held on lease of 50 years from the date of acquisition.

As at 31 December 2005, the land use rights of approximately HK\$697,000 (2004:Nil) has been pledged as collateral for Group's bank loan (Note 20)

## 9. PROPERTIES HELD FOR SALE

The carrying amount of the Group's properties held for sales that are carried at net realisable value was HK\$1,773,000 (2004:Nil) as at the balance sheet date.



## 10. INTANGIBLE ASSETS

### Group

	<b>Goodwill</b> HK\$'000	<b>Travel agent licences</b> HK\$'000	<b>Taxi licences</b> HK\$'000	<b>Total</b> HK\$'000
<b>Cost:</b>				
At 1 January 2004	–	–	2,047	2,047
Acquisition of a subsidiary	370	723	–	1,093
Additions	–	–	98	98
At 31 December 2004 and 1 January 2005	370	723	2,145	3,238
Additions	–	–	111	111
At 31 December 2005	<b>370</b>	<b>723</b>	<b>2,256</b>	<b>3,349</b>
<b>Impairment/Amortisation:</b>				
At 1 January 2004	–	–	461	461
Impairment	–	–	–	–
Amortisation	–	–	298	298
At 31 December 2004 and 1 January 2005	–	–	759	759
Impairment	370	–	–	370
Amortisation	–	73	425	498
At 31 December 2005	<b>370</b>	<b>73</b>	<b>1,184</b>	<b>1,627</b>
<b>Net book value:</b>				
At 31 December 2005	–	<b>650</b>	<b>1,072</b>	<b>1,722</b>
At 31 December 2004	370	723	1,386	2,479



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 10. INTANGIBLE ASSETS (Continued)

(i) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the location of operation and business segment.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

- Average gross margin
- Average growth rate
- Discount rate

The recoverable amount of the goodwill is lower than their carrying amount based on the value-in-use calculation. Accordingly, full amount of impairment loss has been recognised during the year.

(ii) Taxi licences

The taxi licence represents 148 (2004: 137) licence purchased by Taizhou Argos, one of the subsidiaries of the Group, and it had been renewable for eight years. As at 31 December 2005, the net book value of taxi licence amounts to HK\$1,072,000 (2004:HK\$1,386,000) and there are 5 (2004: 5) licences renewed.

(iii) Travel agent licence

The travel agent 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 2005, the net book value of the travel licence amounts to HK\$650,000 (2004: HK\$723,000).

The Company has no intangible assets as at 31 December 2005 (2004: Nil).





## 11. SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	990	990
Amount due by a subsidiary	27,553	27,166
	<b>28,543</b>	28,156

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

The following is a list of the subsidiaries as at 31 December 2005:

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 ("Nanjing Argos")	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)



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 11. SUBSIDIARIES (Continued)

Name	Place/country of incorporation establishment and operation	Principal activities	Particulars of issued/ registered capital	Interests held		Note
				Directly	Indirectly	
				%	%	
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)

*Notes:*

- i) Argos Enterprise Management Consultant (Nanjing) Limited is a wholly foreign owned enterprise established in the PRC for a term of 30 years up to December 2031.
- ii) Nanjing Public Transport Argos Bus Company Limited is a Sino-foreign co-operative enterprise established in the PRC for a term of 19 years up to September 2016.
- iii) Chongqing Wanzhou Area Argos Public Transport Bus Company Limited is a wholly foreign owned enterprise established in the PRC for a term of 41 years up to December 2045.
- 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.



## 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>GROUP</b>	
	<b>2005 HK\$'000</b>	2004 HK\$'000
Unlisted equity securities, at cost	<b>1,024</b>	1,024

The above amount is unlisted equity investments of the Group and the Company are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

## 13. DEFERRED TAX ASSET

	<b>GROUP</b>	
	<b>2005 HK\$'000</b>	2004 HK\$'000
Deferred tax asset at the beginning of the year	<b>1,022</b>	3,842
Charge to income statement for the year (Note 31)	<b>(688)</b>	(2,820)
Deferred tax asset at the end of the year	<b>334</b>	1,022

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.

## 14. TRADE AND OTHER RECEIVABLES

	<b>Group</b>		<b>Company</b>	
	<b>2005 HK\$'000</b>	2004 HK\$'000	<b>2005 HK\$'000</b>	2004 HK\$'000
Trade receivables (Note (a))	<b>4,211</b>	3,930	-	-



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 14. TRADE AND OTHER RECEIVABLES (Continued)

- (a) General credit terms granted by the Group to its customers ranged from 0-30 days (2004:0-30 days).  
As at 31 December 2005, the aging analysis of the trade receivables was as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Current	<b>3,678</b>	3,006	–	–
31 – 60 days	<b>222</b>	526	–	–
61 – 90 days	<b>81</b>	166	–	–
Over 90 days	<b>230</b>	232	–	–
	<b>4,211</b>	3,930	–	–

## 15. INVENTORIES

	GROUP	
	2005 HK\$'000	2004 HK\$'000
Spare parts of motor vehicles	<b>1,364</b>	1,289

## 16. AMOUNT DUE BY A FELLOW SUBSIDIARY

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

## 17. AMOUNT DUE BY A MINORITY SHAREHOLDER

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



## 18. SHARE CAPITAL

	2005		2004	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares at HK\$0.01 each	<b>10,000,000</b>	<b>100,000</b>	10,000,000	100,000
Issued and fully paid:				
Ordinary shares at HK\$0.01 each	<b>180,000</b>	<b>1,800</b>	180,000	1,800

### Share Options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Equity Compensation Benefits" in Note 35 to financial statements.

## 19. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Merger reserve HK\$'000 (note (a))	General reserves HK\$'000 (note (b))	Revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
<b>Group</b>							
At 1 January 2004	29,200	421	(490)	2,995	–	14,127	46,253
Net profit for the year	–	–	–	–	–	1,723	1,723
Transfer to reserve	–	–	–	232	–	(232)	–
Translation of financial statements of overseas subsidiaries	–	(44)	–	–	–	–	(44)
At 31 December 2004	29,200	377	(490)	3,227	–	15,618	47,932
Net profit for the year	–	–	–	–	–	15	15
Surplus on revaluation	–	–	–	–	412	–	412
Translation of financial statements of overseas subsidiaries	–	(801)	–	98	–	–	(703)
<b>At 31 December 2005</b>	<b>29,200</b>	<b>(424)</b>	<b>(490)</b>	<b>3,325</b>	<b>412</b>	<b>15,633</b>	<b>47,656</b>



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 19. RESERVES (Continued)

Note: (a) The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance.

(b) 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.

	<b>Share premium</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
<b>Company</b>			
At 1 January 2004	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
Net loss for the year	–	(3,177)	(3,177)
<b>At 31 December 2005</b>	<b>29,200</b>	<b>(10,291)</b>	<b>18,909</b>

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



## 20. INTEREST-BEARING BORROWINGS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bank overdraft	<b>10,468</b>	10,428	<b>10,465</b>	10,428
Bank loans	<b>10,858</b>	19,403	-	-
	<b>21,326</b>	29,831	<b>10,465</b>	10,428
Analysed as:				
Secured	<b>21,326</b>	28,129	<b>10,465</b>	10,428
Unsecured	-	1,702	-	-
	<b>21,326</b>	29,831	<b>10,465</b>	10,428
The terms of repayment of the borrowings are analysed as follows:				
Within one year	<b>20,775</b>	29,499	<b>10,465</b>	10,428
One to two years	<b>87</b>	284	-	-
Two to five years	<b>150</b>	48	-	-
Over five years	<b>314</b>	-	-	-
	<b>21,326</b>	29,831	<b>10,465</b>	10,428
Less: Amount due within one year included in current liabilities	<b>(20,775)</b>	(29,499)	<b>(10,465)</b>	(10,428)
Amount due after one year	<b>551</b>	332	-	-

At 31 December 2005, the borrowings were secured by fixed deposits and bank balances of approximately HK\$10 million (2004: HK\$17 million) and HK\$3,000,000 (2004: HK\$768,000) respectively, leasehold property with carrying amount of approximately HK\$1,777,000 (2004: HK\$15,000,000) of the Group. At 31 December 2005, the borrowings were also secured by a fixed deposit of HK\$10 million (2004: HK\$10 million) of the Company.



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 20. INTEREST-BEARING BORROWINGS (Continued)

The fair value of the non-current borrowings are HK\$414,000 (2004: HK\$310,000). The fair values are based on cash flows discounted using a rate based on the borrowings rate of 6.12% (2004: 3.98%).

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

	<b>GROUP</b>	
	<b>2005</b> HK\$'000	2004 HK\$'000
Within one year	<b>1,072</b>	2,025
In second to fifth year inclusive	–	1,072
	<b>1,072</b>	3,097
Less: Amount due within one year included in current liabilities	<b>(1,072)</b>	(2,025)
Amount due after one year	–	1,072

## 22. OTHER PAYABLES AND ACCRUALS

	<b>Group</b>		<b>Company</b>	
	<b>2005</b> HK\$'000	2004 HK\$'000	<b>2005</b> HK\$'000	2004 HK\$'000
Purchase of motor vehicles	<b>5,793</b>	899	–	–
Security deposits received from drivers (Note (a))	<b>21,469</b>	17,311	–	–
Deposits received (Note (b))	<b>1,700</b>	–	–	–
Accrued staff salary	<b>3,422</b>	–	–	–
Advance from customers	<b>4,627</b>	–	–	–
Others deposits and accruals	<b>15,349</b>	26,641	<b>1,621</b>	315
	<b>52,360</b>	44,851	<b>1,621</b>	315

Note (a): 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.

Note (b): The amount represents deposits received in connect to the disposal of properties held for sales in Note 9.





### 23. AMOUNTS DUE TO FELLOW SUBSIDIARIES

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

### 24. AMOUNTS DUE TO MINORITY SHAREHOLDERS

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

### 25. AMOUNT DUE TO A DIRECTOR

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

### 26. OTHER REVENUE

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Advertising income on fleet body	<b>3,172</b>	4,134
Subsidies from local authorities	<b>6,371</b>	3,730
Repair service income	<b>371</b>	333
Sundry income	<b>1,944</b>	1,165
Interest income	<b>692</b>	208
	<b>12,550</b>	9,570

### 27. OTHER INCOME

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Gain on disposal of motor vehicles	<b>23</b>	3,328



# NOTES TO FINANCIAL STATEMENTS

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## 28. EXPENSES BY NATURE

Expenses included in cost of sales and administrative expenses are analysed as follows:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000 (restated)
Impairment of goodwill (note 10)	<b>370</b>	–
Amortisation of intangible assets (note 10)	<b>498</b>	298
Impairment of investment properties (note 7)	<b>18</b>	–
Auditors' remuneration	<b>180</b>	145
Depreciation of property, plant and equipment (note 6)	<b>15,094</b>	14,219
Amortisation of land use rights (note 8)	<b>104</b>	85
Provision of doubtful debt	<b>1,197</b>	–
Operating leases rentals in respect of rented premises	<b>89</b>	26
Employee benefit expenses (note 29)	<b>27,288</b>	22,388

## 29. EMPLOYEE BENEFIT EXPENSES

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Salaries and other short-term employee benefits	<b>25,894</b>	21,185
Retirement benefits scheme contributions	<b>1,394</b>	1,203
	<b>27,288</b>	22,388



## 29. EMPLOYEE BENEFIT EXPENSES (Continued)

### (a) Directors' and senior management's emolument

The remuneration of every Director for the year ended 31 December 2005 is set out below:

	Fee HK\$'000	Salary HK\$'000	Other benefits HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Wong Wah Sang	-	-	-	-	-
Wong Man Chiu Ronnie	-	-	-	-	-
Wilson Wong (note 1)	-	-	-	-	-
Yeung Wai Hung	-	185	360	9	554
Wong Wilkie (note 2)	-	-	-	-	-
Sung Wai Tak Herman	50	-	-	-	50
Cheung Man Yau Timothy (note 3)	50	-	-	-	50
Wong Lit Chor Alexis (note 4)	63	-	-	-	63
Ng Ming Wah Charles (note 5)	-	-	-	-	-
	<b>163</b>	<b>185</b>	<b>360</b>	<b>9</b>	<b>717</b>

The remuneration of every Director for the year ended 31 December 2004 is set out below:

	Fee HK\$'000	Salary HK\$'000	Other benefits HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Wong Wah Sang	-	-	-	-	-
Wong Man Chiu Ronnie	-	-	-	-	-
Wilson Wong (note 1)	-	-	-	-	-
Yeung Wai Hung	-	174	-	9	183
Wong Wilkie (note 2)	-	-	-	-	-
Sung Wai Tak Herman	94	-	-	-	94
Cheung Man Yau Timothy (note 3)	29	-	-	-	29
Wong Lit Chor Alexis (note 4)	-	-	-	-	-
Ng Ming Wah Charles (note 5)	29	-	-	-	29
	<b>152</b>	<b>174</b>	<b>-</b>	<b>9</b>	<b>335</b>



## 29. EMPLOYEE BENEFIT EXPENSES (Continued)

### (a) Directors' and senior management's emolument (Continued)

Notes:

1. Resigned on 6 September 2004
2. Appointed on 30 December 2004
3. Appointed on 16 April 2004
4. Appointed on 24 September 2004
5. Resigned on 18 March 2004

One executive director received individual emoluments of approximately HK\$185,000 (2004:HK\$174,000)

No directors of the Company waived any emoluments during the year ended 31 December 2005 and 2004.

During the year ended 31 December 2005 and 2004, 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 35 to the financial statements.

### (b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2004: one) directors of the Company, details of whose emoluments are set out above. The emoluments payable to the remaining four (2004: four) individuals (the "Employees") during the year are as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Basic salaries and benefits	<b>867</b>	663
Contribution to provident fund	<b>33</b>	42
	<b>900</b>	705



## 29. EMPLOYEE BENEFIT EXPENSES (Continued)

### (b) Five Highest Paid Individuals (Continued)

During the year ended 31 December 2005 and 2004, 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	
	2005	2004
Nil to HK\$1,000,000	4	4

## 30. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Borrowing costs:		
Interest expenses on bank loans, overdrafts and other loans wholly repayable within 5 years	2,478	2,286

## 31. INCOME TAX EXPENSES

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 (2004: 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.

	2005 HK\$'000	2004 HK\$'000
<b>Current taxation</b>		
PRC income tax provided for the year	198	48
<b>Deferred taxation</b>		
Charge for the year (Note 13)	688	2,820
Tax expenses	886	2,868

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.



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 31. INCOME TAX EXPENSES (Continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/(income) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

### Group – 2005

	Hong Kong		The PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
(Loss)/profit before tax	<b>(4,282)</b>		<b>5,538</b>		<b>1,256</b>	
Tax at the statutory tax rate	<b>(749)</b>	<b>(17.5)</b>	<b>1,828</b>	<b>33.0</b>	<b>1,079</b>	<b>85.9</b>
Income not subject to tax	<b>(48)</b>	<b>(1.1)</b>	<b>(2,578)</b>	<b>(46.6)</b>	<b>(2,626)</b>	<b>(209.1)</b>
Expenses not deductible for tax	<b>797</b>	<b>18.6</b>	<b>1,215</b>	<b>22.0</b>	<b>2,012</b>	<b>160.2</b>
Deferred tax recognized	–	–	<b>687</b>	<b>12.4</b>	<b>687</b>	<b>54.7</b>
Tax losses utilised from previous periods	–	–	<b>(266)</b>	<b>(4.8)</b>	<b>(266)</b>	<b>(21.2)</b>
Tax charge at the Group's effective rate	–	–	<b>886</b>	<b>16.0</b>	<b>886</b>	<b>70.5</b>

### Group – 2004

	Hong Kong		The PRC		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
(Loss)/profit before tax	(2,287)		9,827		7,540	
Tax at the statutory tax rate	(400)	(17.5)	3,243	33.0	2,843	37.7
Income not subject to tax	(20)	(0.9)	(5,709)	(58.1)	(5,729)	(76.0)
Expenses not deductible for tax	420	18.4	2,514	25.6	2,934	38.9
Deferred tax recognized	–	–	2,820	28.7	2,820	37.4
Tax losses utilised from previous periods	–	–	–	–	–	–
Tax charge at the Group's effective rate	–	–	2,868	29.2	2,868	38.0

## 32. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005 (2004: Nil).



### **33. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS**

The consolidated profit for the year attributable to shareholders includes a loss of HK\$3,178,000 (2004: HK\$1,898,000) which has been dealt with in the financial statements of the Company.

### **34. 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\$15,000 (2004: HK\$1,723,000) and on the number of 180,000,000 (2004: 180,000,000) shares in issue during the years ended 31 December 2005 and 2004, respectively.

No diluted earnings per share has been presented as there was no dilutive potential ordinary share during the year ended 31 December 2005 (2004: Nil).

### **35. 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.

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.



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 35. EMPLOYEE BENEFITS (Continued)

### Equity Compensation Benefits (Continued)

#### Share Option (Continued)

During the year ended 31 December 2005, no option has been granted or agreed to be granted to the directors of the Company under the scheme.

## 36. 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 International Travel Service Limited at the consideration of HK\$1,604,000.

	2005 HK\$'000	2004 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

There was no acquisition of subsidiary during the year ended 31 December 2005.





### 37. COMMITMENTS UNDER OPERATING LEASES

**(a) As Lessor**

As at 31 December 2005, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	<b>Group</b>	
	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Within one year	<b>37</b>	–
In the second to fifth year inclusive	<b>3</b>	–
	<b>40</b>	–

**(b) As Lessee**

The Group leases office under non-cancellable operating lease agreement. The future aggregate minimum lease payments under non-cancellable operating lease are as follows::

	<b>Group</b>	
	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Within one year	<b>147</b>	–
In the second to fifth year inclusive	<b>604</b>	–
More than five year	<b>1,804</b>	–
	<b>2,555</b>	–



# NOTES TO FINANCIAL STATEMENTS

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## 38. MATERIAL RELATED PARTY TRANSACTIONS

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

Name of related parties	Note	Nature of related party relationship	Nature of transactions	2005 HK\$'000	2004 HK\$'000
Nanjing Public Transport Company	(i)	Minority shareholder	Salaries paid	<b>2,208</b>	2,146
Argos Bus Services Company Limited ("Argos Hong Kong")	(ii)	Fellow subsidiary	Rental expenses paid	<b>89</b>	26
	(iii)		Cash advance from	<b>5,765</b>	–
Nanjing IC Cards	(iv)	Investee Company	Service charge	<b>508</b>	442
	(v)		Dividend income	<b>30</b>	–
Constant Success Limited	(vi)	Fellow subsidiary	Loan from	–	300
			Interest payment	<b>30</b>	25
Metro Line Tours Limited	(vii)	Fellow subsidiary	Loan from	–	200
			Interest payment	<b>20</b>	17
Faithway Development Limited	(viii)	Fellow subsidiary	Loan from	–	500
			Interest payment	<b>50</b>	42
Argos Recreation and Sport (Nanjing) Company Limited	(ix)	Fellow subsidiary	Loan to	<b>1,456</b>	–
			Interest received	<b>95</b>	–



### 38. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Name of related parties	Note	Nature of related party relationship	Nature of transactions	2005 HK\$'000	2004 HK\$'000
Taizhou Public Transport Authority	(x)	Minority Shareholder	Loan to Interest received	128 20	– –
Argos R&S Development Limited	(xi)	Fellow subsidiary	Cash advance from	7,540	–

#### Key management compensation

	2005 HK\$'000	2004 HK\$'000
Salaries and other short-term employee benefits	867	663
Employer contribution to pension scheme	33	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 advance from Argos Hong Kong was unsecured, but interest levied at P+2%.
- (iv) 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.
- (v) During the year, Nanjing IC cards paid dividend of \$30,000 to Nanjing Argos.



# NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2005

## 38. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

- (vi) The advance from Constant Success Limited was unsecured, but interest levied at 10% per annum from the Group.
- (vii) The advance from Metro Line Tours Limited was unsecured, but interest levied at 10% per annum from the Group.
- (viii) The advance from Faithway Development Limited was unsecured, but interest levied at 10% per annum from the Group.
- (ix) The advance to Argos Recreation and Sport (Nanjing) Company Limited was unsecured, but interest levied at 6.13% per annum to the Group.
- (x) The advance to Taizhou Public Transport Authority was unsecured, but interest levied at 6.13% per annum to the Group.
- (xi) The advance from Argos R&S Development Limited was unsecured, interest free and repayable on demand.

## 39. CAPITAL COMMITMENTS

	<b>GROUP</b>	
	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Contracted but not provided for		
– Purchase of motor vehicles	–	486

As at 31 December 2005, the Company has no capital commitments.



#### **40. IMPACT OF ISSUE BUT NOT YET EFFECTIVE HKFRSS**

The Group has not applied for the following new and revised HKFRSSs that have been issued but are not yet effective to these financial statements. Unless otherwise stated, these HKFRSSs are effective for accounting period commencing on or after 1 January 2006:

HKAS 1 Amendment	Capital disclosures
HKAS 19 Amendment	Actuarial gains and losses, group plans and disclosures
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 & HKFRS4 Amendments	Financial guarantee contracts
HKFRSs 1 & 6 Amendments	First-time adoption of Hong Kong Financial Reporting Standards and exploration for and evaluation of mineral resources
HKFRS 6	Exploration for and evaluation of mineral resources
HK (IFRIC)-Int 4	Determining whether an arrangement contains a lease
HK (IFRIC)-Int 5	Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds
HK (IFRIC)-Int 6 (effective for accounting periods on or after 1 December 2005)	Liabilities arising from participating in a special market – waste electrical and electronic equipment

The HKAS 1 Amendment shall be effective for accounting periods commencing on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be effective for accounting periods commencing on or after 1 January 2007.

The Group is in the process of making an assessment of what the impact of the new and revised HKFRSSs is expected to be in the period of initial application. So far it has concluded that the HKAS 19 Amendment, HKAS 39 Amendments, HKFRSs 1 & 6 Amendments, HKFRS 6, HK (IFRIC) Int 5 & 6 do not apply to the activities of the Group. The Group expects that the adoption of the rest of them will not have any significant impact on the Group's results of operation and financial position.



# NOTES TO FINANCIAL STATEMENTS

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## 41. SUBSEQUENT EVENTS

### Disposal of properties held for sale

Subsequent to the balance sheet date, the Group had disposed of its properties held for sale with carrying value of approximately HK\$1,773,000 at a consideration of approximately HK\$1,773,000.

### Acquire of motor vehicles

Subsequent to the balance sheet date, the Group has acquired motor vehicles for a total consideration of HK\$583,000.

Save as aforesaid, the Group had no other significant event took place subsequent to 31 December 2005.

Subsequent to the balance sheet date, the Company has no significant event taken place.

## 42. COMPARATIVE FIGURES

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

## 43. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2006.



## INVESTMENT PROPERTIES

Particulars of investment properties as at 31 December 2005 are as follows:

Address	Area	Type	Group's Tenure	Interest
中國重慶市萬州區 五橋萬順路42,44 46及48號	165.09 m <sup>2</sup>	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 <sup>2</sup>	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 <sup>2</sup>	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 <sup>2</sup>	Commercial	Medium-term lease	100%



# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the annual general meeting of China Advance Holdings Limited (the "Company") will be held at 10:00 a.m. on 29 April 2006 (Saturday) at the Function Room, Kowloon Bowling Green Club, 123 Austin Road, Kowloon, Hong Kong to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors (the "Directors") of the Company and auditors for the year ended 31 December 2005;
2. to re-elect Directors and to authorise the board of Directors to fix the Directors' remuneration;
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, passing the following resolutions (the "Resolution(s)") as ordinary Resolutions:

A. **THAT:**

- (a) subject to paragraph (c) below, pursuant to the Rules (the "GEM Listing Rules") Governing the Listing of Securities on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors during the Relevant Period (as herein defined) of all the powers of the Company to allot, issue and deal with unissued shares (each a "Share") of HK\$0.01 each in the share capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which 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 (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to:
  - (i) a Rights Issue (as herein defined); or
  - (ii) the exercise of any options granted under the share option scheme of the Company; or
  - (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or





(iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

(bb) (if the Directors are so authorised by a separate ordinary Resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of that Resolution),

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purposes of this Resolution:

**“Relevant Period”** means the period from the date of the passing of this Resolution until whichever is the earliest 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 association of the Company or any applicable laws to be held; and

(iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution;

**“Rights Issue”** means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion 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, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”



# NOTICE OF ANNUAL GENERAL MEETING

B. **`THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as herein defined) of all powers of the Company to repurchase the Shares on the Stock Exchange or any other stock exchange on which the Shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the GEM Listing Rules and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be repurchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purposes of this Resolution, **"Relevant Period"** means the period from the date of the passing of this Resolution until whichever is the earliest 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 association of the Company or any applicable laws to be held; and
  - (iii) the passing of an ordinary Resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution."

- C. **`THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 4A above in respect of the share capital of the Company referred to in subparagraph (bb) of paragraph (c) of such Resolution."; and

5. as special business, to consider and, if thought fit, passing the following resolution as a special resolution:—

**`THAT** the articles of association of the Company be and are amended in the following manner:—

(a) **Article 66**

- (a) By inserting the words "voting by way of a poll is required by the rules of the Designated Stock Exchange or" immediately after the words "A resolution put to the vote of a meeting shall be decided on a show of hands unless" in the first paragraph of the existing article 66;



- (b) Deleting the full stop at the end of Article 66(d) and replacing it with a “; or” and adding the following new Article 66(e) immediately after the existing Article 66(d):

“66(e) if required by the rules of the Designated Stock Exchange, by the chairman of the meeting or any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.”

**(b) Article 68**

By deleting the sentence “There shall be no requirement for the chairman to disclose the voting figures on a poll” in the existing article 68 in its entirety and substituting thereof with a new sentence “The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange”.

**(c) Article 86(3)**

By deleting the existing Article 86(3) in its entirety and substituting therefor the following new Article 86(3):—

“86(3) The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a causal vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election.”

**(d) Article 86(5)**

By deleting the existing Article 86(5) in its entirety and substituting therefore the following new Article 86(5):—

“86(5) The Members may, at any general meeting convened and held in accordance with these Articles, by ordinary resolution remove a Director at any time before the expiration of his period of office notwithstanding anything to the contrary in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement).”



# NOTICE OF ANNUAL GENERAL MEETING

**(e) Article 87(1)**

By deleting the existing Article 87(1) in its entirety and substituting therefore the following new Article 87(1):-

“87(1) Notwithstanding any other provisions in the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specified term or holding office as chairman of the Board and/or the managing director of the Company) shall be subject to retirement by rotation at least once every three years or within such other period as the Designated Stock Exchange may from time to time prescribe or within such other period as the laws of such jurisdiction applicable to the Company.”

**(f) Article 87(2)**

By deleting the first sentence “A retiring Director shall be eligible for re-election.” in the existing article 87(2) and substituting thereof with a new sentence “A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires.”

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  
**Choi Kie Chung**  
*Company Secretary*

Hong Kong, 7 April 2006

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 2005 Annual Report.