

## MANAGEMENT DISCUSSION AND ANALYSIS

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### ***Business Review***

For the six months ended 30 June 2001, the Group achieved a profit after taxation of HK\$33.7 million, as compared to a net loss of HK\$22.9 million recorded in the previous corresponding period. The turnaround of the Group to profitability was mainly attributed to higher contributions from commission income, significant reduction in finance costs as a result of declining bank borrowings and lower cost of borrowings, and decrease in loan loss provisions.

Commission income from referral of taxi financing loans to the Group's panel of financiers during the period under review was HK\$13.6 million, significantly higher than HK\$2.1 million recorded in the previous corresponding period. Lower market interest rates coupled with reduction in bank borrowings have contributed to the reduction in finance costs by HK\$20.5 million or 44.9% to HK\$25.2 million from HK\$45.7 million for the previous corresponding period. In the first half of 2001, loan loss provision arising from defaulted taxi loans had further declined to HK\$17.8 million from HK\$42.9 million in the same period in the previous year due to an overall improvement in the taxi licence price and market sentiment. Amortisation of commission expense had also dropped significantly by HK\$9.20 million to HK\$0.01 million from HK\$9.21 million in the same period in the previous year.

In the period under review, the Group recorded a higher turnover in taxi trading activity as sales of new taxi cabs increased following the conversion of diesel taxis to liquefied petroleum gas taxis by taxi owners in line with the Government's initiatives to promote a cleaner environment.

The competitive taxi financing packages offered by banks to taxi purchasers and hirers have also provided an avenue for the Group to continue to refer taxi financing loans to its panel of financiers. Refinancing of taxi financing loans by hirers has resulted in a higher level of early settlement of the Group's taxi financing loans. Consequently, the taxi loans instalment receivables of the Group fell to HK\$773.8 million as at end of June 2001 from HK\$1,142.9 million as at end of December 2000. Funds generated from loan repayments and early settlements were used to reduce bank borrowings. At the end of June 2001, the Group's bank borrowings declined to HK\$350.0 million from HK\$764.9 million as at end of the previous year.

### ***Liquidity and Capital Expenditures***

The Group's gearing ratio, based on total bank borrowings to shareholders' funds, had further improved to 0.35 at 30 June 2001 when compared to 0.78 at end of the previous year.

The Group's principal businesses are conducted and recorded in Hong Kong dollars. During the first half of 2001, the Group did not engage in any derivative activities nor commit to any hedging instruments.

The Group also did not incur any material capital expenditure commitment during the period under review. Investments in properties, which were held by the Group for more than five years, have been rented out as at 30 June 2001.

Other than the release of fixed charges over certain of the Group's loan instalment receivables, the Group did not create new charges on its assets during the period under review. The existing

charges on the Group's properties were created to secure general banking facilities which were not utilised as at end of June 2001.

### ***Human Resources***

The Group's remuneration package and benefits for its employees are essentially the same as that disclosed in the Company's 2000 Annual Report. For the period under review, the number of employees of the Group remained stable.

### ***Contingent Liabilities***

Under the co-financing arrangements entered into between the Group and the co-financing banks, the Group had provided guarantees to these banks for certain taxi financing loans. At the end of June 2001, the outstanding guarantees given to these co-financing banks decreased to HK\$4.3 million from HK\$10.0 million as at end of 2000.

As at 30 June 2001, the Company's corporate guarantees extended to certain banks for banking facilities granted to the Group was reduced to HK\$44.9 million. During the period under review, the Company did not execute any new guarantees for the Group.

On 10 July 2001, at the hearing of the summonses filed by some ex-employees of restaurants formerly operated by four subsidiaries of the Group, the High Court has dismissed the ex-employees' applications for representative action. Consequently, the ex-employees will have to file their statements of claim separately if they wish to proceed with their claims. Three of the four subsidiaries were under liquidation, and any claim will be only against the remaining subsidiary. Based on legal advice, such claims will be defended.

In a legal action brought by an individual who sustained injuries in a traffic accident involving a taxi owned and leased by a subsidiary of the Group to a taxi hirer at the time of the accident, the High Court has entered judgment against the taxi hirer with damages to be assessed at the next hearing, while the action against the said subsidiary was stayed pending outcome of the said hearing. The taxi was covered under a third party insurance policy. Accordingly, no provision in respect of the claim by the injured party has been made.

### ***Prospect***

With a steady growth in tourist arrivals in Hong Kong, the taxi industry will continue to play an important role as one of the primary transport service providers in the city.

The price of taxi licence has risen steadily in the past year, up from around HK\$2.2 million recorded in June 2000 to around HK\$2.8 million in June 2001. The volume of taxi trading activities in the market has also improved as many taxi owners and hirers are beginning to convert their diesel taxis to liquefied petroleum gas taxis. The decline in interest rate has also boosted the taxi trading and taxi financing activities.

In the light of the said factors and an improved market sentiment in the taxi industry, the Group will gradually increase its taxi financing business whilst adopting a prudent and conservative approach in its financing activities. It is also expected that the level of defaults in the Group's taxi financing loan will continue to improve in the second half of the year.