



I am pleased to present to the shareholders the Group's annual report for the year ended 31 March 2002.

RESULTS

The consolidated net profit from ordinary activities attributable to shareholders for the year ended 31 March 2002 was approximately HK\$8.0 million. This represented a decrease of approximately 60.7% from that for the year ended 31 March 2001 of approximately HK\$20.4 million. The financial results were within our expectations mainly due to substantial payments for human resources retrenchment exercise conducted in July 2001 on drivers of our non-franchised bus services and in January 2002 on drivers, conductors and cleaning workers of our franchised bus services in Hong Kong, which amounted to approximately HK\$14.5 million. The objective of such retrenchment was to align our labour costs at the current market rate to improve our competitiveness for survival in the industry.

Competition of non-franchised bus operations in Hong Kong remained intense during the year, though fuel costs in Hong Kong and Mainland China have been relatively stable as compared to the same period of last year. The management of the Group has continued to scrutinize and make provisions on a prudent basis for the respective projects as described below under "Review of Operations".

DIVIDENDS

The Directors recommend a final dividend of HK2 cents (2001: HK1 cent) per share.

REVIEW OF OPERATIONS

1. Non-franchised Bus Services in Hong Kong

The principal non-franchised bus services provided by the Group include student, employee, resident, tour, Mainland China/Hong Kong cross-border and contract hire services.

The Group continued, in terms of size of bus fleet, to be the largest non-franchised bus operator in Hong Kong and as at 31 March 2002, was operating a fleet of 581 (2001: 587) licensed buses. The total turnover has slightly declined because of the unalleviated weak business environment; however, the gross profit margin has improved by the successful implementation of cost control measures which include the above-mentioned human resources retrenchment exercise.



Students of SKH St. Michael Primary School are going home by our school bus



REVIEW OF OPERATIONS *(continued)***2. Franchised Bus Services in Hong Kong**

The franchised bus services of the Group in Hong Kong are provided by New Lantao Bus Company (1973) Limited ("NLB"), a 99.99% owned subsidiary of the Group, which, as at 31 March 2002, was operating 21 (2001: 24) franchised routes in Lantau with a fleet of 76 (2001: 84) buses.

For the year ended 31 March 2002, the total turnover of NLB was approximately HK\$68.3 million (2001: HK\$61.8 million). NLB recorded a slight profit of HK\$0.4 million for the year ended 31 March 2002 (2001: loss of approximately HK\$1.6 million).

Patronage of South Lantau routes remained stable as compared to the same period of last year. The slight profit was due to effective cost-control measures, the moderate increase of patronage due to increased intake for residents of Tung Chung New Town, relatively fine weather during the year and the occurrence of the Easter Holidays in March 2002 falling within this financial year.

3. Other Operations in Hong Kong

The accord with Dah Chong Hong (Motor Leasing) Limited to provide a door-to-door limousine service to users travelling between the Hong Kong International Airport and other urban locations had been terminated and substituted by a new arrangement with a contractor, Vigor Airport Shuttle Services Limited ("Vigor") after year end. A provision for such investment amounting to approximately HK\$0.9 million had been made during the year.

Vigor offered by proposal a new mode of cooperation with the Group, covering, in addition to the limousine service, other airport-related transport and tour services. The management of the Group considered this proposal viable as it would lead to an enhancement of the Group's exposure in this sector of the market and thereon hopefully recovering the loss incurred in the previous years.



Non-franchised Bus Service: Free Shuttle to Airport Express MTR



Route 38 is one of the highest patronage bus routes of NLB



REVIEW OF OPERATIONS (continued)

4. Bus Services in Mainland China

a. Co-operative Joint Ventures ("CJV") in Mainland China

As at 31 March 2002, through its joint venture companies, the Group was operating the following number of routes and buses in the following cities of Mainland China:

	Number of routes		Number of buses	
	2002	2001	2002	2001
Guangzhou	6	6	150	121
Shantou	5	5	56	50
Dalian	5	4	149	144
Harbin	4	4	166	166
Anshan	4	4	100	100

The share of profits from these jointly-controlled entities for the year amounted to approximately HK\$3.4 million, representing a decrease of about 78% as compared with that of approximately HK\$15.5 million in the preceding year. The decrease in share of profits was mainly because of fierce competition, aging of bus fleets and increased repair and maintenance costs. Therefore, the Group has continued to engage in the restructuring and merger of some of these entities in order to better utilize the assets and existing routes for improvement of performance in the coming years.

b. Equity Joint Ventures ("EJVs") in Mainland China

i. Shanghai Pudong Kwoon Chung Public Transport Co., Ltd

As at 31 March 2002, this Group's 61% (2001: 51.5%) owned subsidiary was operating 32 (2001: 32) routes with a fleet of 711 (2001: 685) buses and a fleet of 25 (2001: 25) taxis in Shanghai, mainly in Pudong area. The share of profit attributable to the Group for the year ended 31 March 2002 was approximately HK\$8.5 million (2001: HK\$6.4 million). The effect of the net increase in bus fleet of about 30 buses during the year has provided additional income for this subsidiary.



Route 576 is one of the routes of Shanghai Pudong Kwoon Chung with the highest patronage



REVIEW OF OPERATIONS (continued)

4. Bus Services in Mainland China (continued)

b. Equity Joint Ventures ("EJVs") in Mainland China (continued)

ii. Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd

As at 31 March 2002, this 50.66% (2001: 50.09%) owned subsidiary was operating 38 (2001: 37) routes with a fleet of 1,023 (2001: 1,029) buses and a fleet of 81 (2001:81) taxis in Shanghai, mainly in Puxi area. The share of profit attributable to the Group for the year ended 31 March 2002



The Deputy Mayor (now the Mayor) accompanied by Shanghai Wu Qi Kwoon Chung General Manager inspected our bus fleet with satisfactory comments.

was approximately HK\$5.9 million (2001: HK\$6.6 million). The decrease in profit was due to the construction for the extension of Shanghai's subway system into the routing network of this subsidiary, creating unanticipated traffic congestions not to the favour of bus operators.

iii. Jieyang Guanyun Transportation Co., Ltd

As at 31 March 2002, this 91.5% (2001: 70%) owned subsidiary was operating 3 (2001: 4) routes with a fleet of 33 (2001: 58) buses. The share of loss attributable to the Group for the year ended 31 March 2002 was approximately HK\$4.8 million (2001: HK\$2.4 million). This subsidiary acquired the fleet of buses from Jieyang Kwoon Chung Public Transport Company, Limited, a former CJV, and had to shoulder additional overheads due to under-utilisation. Subsequently, 19 units and 6 units of these buses were sold to Guangzhou Kwoon Chung Bus Co., Ltd., and Shantou Kwoon Chung Bus Co., Ltd respectively for their expansion of operation.



REVIEW OF OPERATIONS (continued)

4. Bus Services in Mainland China (continued)

b. Equity Joint Ventures ("EJVs") in Mainland China (continued)

iv. Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd

As at 31 March 2002, this subsidiary, owned as to 55% by a joint venture company of the Group and Stagecoach Group plc., was operating 54 (2001: 53) routes with a fleet of 621 (2001: 633) buses in Chongqing. The share of profit attributable to the Group for the year ended 31 March 2002 was approximately HK\$1.3 million (2001: loss of approximately HK\$1.0 million). The turnaround was mainly due to the restructuring of local management and fare increase in certain bus routes during the year.



The General Manager of Chongqing Kwoon Chung (No.3) hosted a ceremony in respect of a promotional activity for public transportation of western cities of Mainland China



REVIEW OF OPERATIONS (continued)

4. Bus Services in Mainland China (continued)

b. Equity Joint Ventures ("EJVs") in Mainland China (continued)

v. Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd



The management of Chongqing Kwoon Chung (New Town) inspected and received the newly acquired bus route with a fleet of 22 buses.

As at 31 March 2002, this subsidiary, owned as to 76.64% by a joint venture company of the Group and Stagecoach Group Plc., was operating 10 (2001: 9) routes with a fleet of 234 (2001: 208) buses. The share of profit attributable to the group for the year was approximately HK\$1.3 million (2001: HK\$336,000). The increase in profit was due to fare

increase in certain bus routes and expansion of bus fleet during the year.

vi. King Chau Keung Tat Transportation Co., Ltd

As at 31 March 2002, this Group's 51% owned subsidiary was operating 2 (2001: 1) routes with a fleet of 25 (2001: 10) buses. The share of loss attributable to the Group for the year was approximately HK\$1.6 million. (2001: loss of approximately HK\$457,000). The



The long distance bus fleet of King Chau Keung Tat

increase in loss was mainly due to the loss on replacement of buses during the year.



REVIEW OF OPERATIONS (continued)**5. Other Transportation Services in Mainland China***Chongqing Kwoon Chung Ferry Co., Ltd*

This associate, owned as to 45% by a joint venture company of the Group and Stagecoach Group Plc., was operating 1 (2001: 1) ferry route with a fleet of 6 (2001: 6) ferries. As ferry service is not our core business and there had been fierce competition from road transport service parallel to this ferry route, this associate was disposed of during the year resulting in a loss of approximately HK\$2.7 million attributable to the Group. In the previous years, this associate had accumulated loss attributable to the Group of approximately HK\$1.7 million.

6. Travel and Tourism Business in Mainland China

As at 31 March 2002, the Group's 60% owned subsidiary Chongqing Tourism (Group) Co., Ltd was holding investments in a hotel, a travel agency company, a tour bus company and a hydro-electric power plant. The share of loss attributable to the Group for the year ended 31 March 2002 was approximately HK\$4.0 million (2001: profit of HK\$10.1 million for 10 months' operation which included a gain on waived bank borrowings attributable to the Group of HK\$13.3 million.)

LIQUIDITY AND FINANCIAL RESOURCES

Funding for the Group's operations during the year mainly came from internally generated cash flows. Any shortfall was financed by term loans and leases from the banks and other non-bank financial institutions. The total indebtedness outstanding as at 31 March 2002 was approximately HK\$275 million (2001: HK\$288 million) which comprised mainly bank loans and leases and was deployed mainly for purchases of buses and investments in Hong Kong and Mainland China. The leverage was approximately 35.1% (2001: 37.0%).

FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy towards its overall business operation with an aim to minimize financial risks. All future projects will be financed by cash flows from operations or banking facilities or any viable forms of financing in Hong Kong and/or in Mainland China.



FUNDING AND TREASURY POLICY *(continued)*

Substantially, the income and expenditure of the Group for its Hong Kong operations are denominated in Hong Kong Dollars ("HKD"). For its investments in Mainland China, the major sources of income are in Renminbi ("RMB"). Regardless of the relative stability of RMB against HKD, the Group has been cautiously observing the trend and will formulate plans in hedging the risks of currency exchange rate fluctuations as and when it is necessary, such as raising funds in RMB from the local capital market or local banking sector if feasible.

The Group is also cautious about the risk of interest rate fluctuations as the current bank loans of the Group carry floating interest rates. Appropriate measures in minimizing such risks will be duly executed by the Group as and when it is necessary.

REMUNERATION POLICY

The Group recruits, employs, promotes and remunerates its employees based on their qualifications, experience, skills, performances and contributions. Remuneration is also fixed at prevailing market rates.

In-house orientation and training courses are arranged for the staff both in Hong Kong and Mainland China. The staff are also encouraged to attend seminars and courses of job-related nature that are organized by professional and educational institutions.

In view of the restructuring of Hong Kong's labour market, the Group has envisaged that demand on workplace performance would be regarded with higher significance. To this effect, the Group has appointed the Hong Kong Management Association to organize a course on Workplace English for our frontline staff, including drivers and stationmasters. The first batch of 30 employees have been scheduled to attend this course by July 2002.

The Group has also organized a staff medical service scheme, under which all full time employees are compensated according to the level of medical expenses provision, for hospitalisation benefits; and under separate agreements with Quality HealthCare Medical Services Limited and Genetics Biomedical Laboratory Limited, all full time employees and their dependents and all part time employees are able to receive out-patient medical treatment at discounted rates.

FUTURE PROSPECTS

The Group's non-franchised public bus services in Hong Kong have been adapting to new and changing market trends, including more sophisticated methods in marketing, understanding and following closely customers' expectations and competition oriented in implementing marketing strategy.



FUTURE PROSPECTS *(continued)*

Mainland China's entry to the World Trade Organization ("WTO") has been confirmed. The Group is gearing to this development in formulating strategies for operations in Mainland China, in particular, in its travel and tourism related businesses arising from liberalization of trade in service industries under WTO directives.

1. Non-franchised Bus Services in Hong Kong

As reported last year, the Group had implemented a restructuring of salary scale for drivers of non-franchised operations in Hong Kong. The above exercise was carried out in the summer of 2001 with encouraging results. Subsequent savings on staff costs have proved to be enhancing the Group's competitiveness in this market.

2. Franchised Bus Services in Hong Kong

During the year NLB carried out a route rationalization programme with a view to economize without causing much inconvenience to passengers. The human resources retrenchment programme in January 2002 has further enhanced NLB's productivity.

The continuous new residents intake at Tung Chung New Town would augment the passenger journeys in routes catering for this area. However, NLB has to assume a decline in passengers for Route 23, one of the most productive routes operating between Tung Chung and Ngong Ping, upon the completion of the cable car link between these two places by 2005.

In order to lessen the adverse impact of this cable car development, NLB has to look for new route packages to balance the above situation envisaged to be materialized in three years' time.

On the other hand, the development of the Hong Kong Disney theme park may bring more opportunities to NLB as it is expected that there will be franchised routes running between the theme park site and Tung Chung, as well as other parts of Hong Kong.



FUTURE PROSPECTS *(continued)***3. Bus Services in Mainland China**

The Group considers Mainland China an essential market sector of the Group's business. In order to secure confidence from the Group's clientele, the Group's bus services in Mainland China have to maintain its service pledge in providing quality bus services at reasonable fare.

Mainland China's entry into WTO may bring along opportunities as well as competitions, including the participation of foreign bus companies in public bus industry. The Group is a supporter of the free market mechanism and is prepared to encounter new challenges arising from this significant development in modern Mainland China's history.

4. Bus-related Business*a. Travel and Tourism Business*

The Group's 60% owned subsidiary Chongqing Tourism (Group) Company, Limited, has continued to invest and operate a hotel, a travel agency company, a tour bus company and a hydro-electric power plant.

As mentioned above in Corporate Profile of the Group, subsequent to the year end, the travel agency company has been granted an outbound travel business licence by the National Tourism Administration Bureau of China. This success will further enhance the Group's diversification into travel business in Mainland China and internationally, given the enormous population in Mainland China who are ready to go to see the outside world after the success in economic growth of China.

In anticipation of the above, the Group's travel and tourism related subsidiaries both in Hong Kong and Mainland China have been coordinating closely to devise correlated products, such as Hong Kong and overseas tour itineraries for the Mainland China market.



FUTURE PROSPECTS *(continued)*

4. Bus-related Business *(continued)*

b. Bus Manufacturing Business

It is not without vexation for the Group to report on the development of the South African Taxi Recapitalization Project ("the Project"). Since the last report for the year ended 31 March 2001, the Group has been looking forward to seeing the outcome of one of the most enduring tendering procedures that the Group has ever engaged.

However, in the intervening period of the Project's tendering process, the South African Government has introduced an addendum to the requisites of the Project, which is the installation of a sophisticated electronic fleet management system to be acquired under separate tender.

To this effect, all tendering parties put on hold their strategic plan for the Project, pending outcome of the aforesaid separate tender. Within the same period, exchange rate of the South African Rand have oscillated unsteadily, weakening against the US Dollar.

Nonetheless, the Group would observe in patience the ultimate outcome of this Project's tenders and to devise corresponding measures to counterweight any unfavourable elements that may emerge. Meanwhile, for prudence sake, the Group has further made provision of approximately HK\$3.7 million (2001: HK\$9.2 million) against this project development for the year ended 31 March 2002.

CONCLUSION

On behalf of our shareholders, I would like to thank all of our customers and business associates in Hong Kong, Mainland China and other countries for their untiring support and cooperation, and to all of our management and operation staff for their indefatigable contribution and competent performance during the very challenging 2001/2002. We would appreciate very much their continuous devotion to the Group in the coming year.

Wong Chung Pak, Thomas
Chairman

Hong Kong
23 July 2002

