



CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders the Group's annual report for the year ended 31 March 2003.



CHAIRMAN'S STATEMENT

RESULTS

The consolidated net profit from ordinary activities attributable to shareholders for the year ended 31 March 2003 was approximately HK\$24.6 million. This represents an increase of approximately 208% from that for the year ended 31 March 2002 of approximately HK\$8.0 million. The business of the Group has recovered, may be from the worst it has experienced since 1996, the year that the Group was listed on The Stock Exchange of Hong Kong. The Group's operation has regained its competitiveness due to the success in various cost efficiency measures and the overall expansion in turnover.



An NLB driver was given the Gold Prize of "Model Driver Award 2002" organized by the Transport Department

In the first quarter of 2003, in particular, the second half of March 2003, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong and later in Mainland China had created negative impacts towards the Group's operations in these areas. The adverse results would be protracted in the Group's performance in the second quarter of 2003, which would fall under the performance for the year ending 31 March 2004.

During the year, market situation of non-franchised bus operations in Hong Kong remained highly competitive, the military activities in Iraq had created more uncertainties on the movement of fuel oil prices. The management of the Group continued to act prudently in evaluating market opportunities and made provisions, whenever necessary, for the respective sectors of operation as described below.

DIVIDENDS

The Directors recommend a final dividend of HK2.5 cents (2002: HK2 cents) 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 total turnover of this sector for the year ended 31 March 2003 was approximately HK\$341.7 million (2002: HK\$336.3 million), representing a slight increase of approximately 1.6% from that of prior year. The net profit derived from the above services was approximately HK\$15.0 million (2002: HK\$9.9 million), representing an increase of approximately 51.5% from that of prior year. The rebound in profit is mainly due to the fact that in prior year the sector had to absorb substantial payments for a human resources retrenchment exercise amounting to approximately HK\$12.5 million.



Employee bus is an important sector of the Group's non-franchised bus services



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The new double decker and single decker of NLB

REVIEW OF OPERATIONS (Continued)

1. Non-franchised Bus Services in Hong Kong (Continued)

The Group continued, in term of size of bus fleet, to be the largest non-franchised bus operator in Hong Kong and as at 31 March 2003, was operating a fleet of 605 (2002: 581) licensed buses. The overall business environment for this sector is still very competitive, but with cost control measures successfully implemented, the Group expected a stable gross profit margin.

Regrettably, the outbreak of SARS in Hong Kong by mid-March 2003 had adversely affected almost all sectors of the Group's non-franchised bus services in Hong Kong, in particular, student, tour and cross-border services. The ultimate results are yet to be seen, since it was until early June 2003 that the World Health Organization had lifted Hong Kong from their Travel Advisory List and in the later part of June 2003 Hong Kong was taken away from the List of Infected Areas.

2. Franchised Bus Services in Hong Kong

The franchised bus services 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 2003, was operating 24 (2002: 21) franchised bus routes in Lantau Island with a fleet of 80 (2002: 76) buses.

For the year ended 31 March 2003, the total turnover of NLB was approximately HK\$69.2 million (2002: HK\$68.3 million). NLB recorded a net profit of approximately HK\$6.3 million (2002: HK\$0.4 million).

NLB had maintained the established cost-control measures. The gradual increase in the intake of population for the Tung Chung New Town and a higher number of visitors to Lantau Island (especially those from Mainland China) had enhanced both the turnover and profit of NLB. New vehicles, mainly low-floor buses, had been procured to provide more comfort and convenience to passengers.



The "Lantau Explorer Bus" of Lantau Tours Ltd, the Group's travel agency company specialising in tours at Lantau Island

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The new bus fleet of Guangzhou Kwoon Chung



A route 65 bus of Shanghai Wu Qi Kwoon Chung was leaving a bus stop at the bund

REVIEW OF OPERATIONS (Continued)

3. Other Operations in Hong Kong

The Group's subsidiary, Trade Travel (Hong Kong) Limited, has been licensed to operate an airport service counter at the Arrival Level of the Hong Kong International Airport. Services offered at the counter include airport transfer for tour groups and individual international visitors with pre-arranged bookings.

In order to allow Asia Auto Body Engineering Limited ("Asia Auto") unconfined access to the vehicle body works market in Hong Kong, the Group had disposed of its holdings of 18% equity interest in Asia Auto, so that Asia Auto could secure business from other non-franchised bus operators in Hong Kong who are also the Group's competitors. The Group received dividend from this investee company of approximately HK\$302,000 for the year ended 31 March 2003 (2002: HK\$135,000).

Lantau Tours Limited continued to provide individual and group tours services for itineraries mainly originated for Lantau Island.

4. Bus Services in Mainland China

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

As at 31 March 2003, through its CJVs, the Group was operating the following number of routes and buses in the following major cities of Mainland China:

| | Number of Routes | | Number of Buses | |
|-----------|------------------|-----------|-----------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Guangzhou | 6 | 6 | 150 | 150 |
| Shantou | 6 | 5 | 62 | 56 |
| Dalian | 5 | 5 | 149 | 149 |
| Harbin | 3 | 4 | 136 | 166 |
| Anshan | 4 | 4 | 100 | 100 |
| | 24 | 24 | 597 | 621 |



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The senior management and the customer executives of Chongqing Koon Chung (No. 3) were performing customer satisfaction survey at the bus depot

REVIEW OF OPERATIONS *(Continued)*

4. Bus Services in Mainland China *(Continued)*

a. Co-operative Joint Ventures ("CJVs") in Mainland China *(Continued)*

The share of losses from these CJVs for the year amounted to approximately HK\$1.2 million as compared with that of a share of profit of approximately HK\$3.4 million in the preceding year. As the return on investment in these entities attributable to the Group is accounted for in accordance with a "guaranteed income" (usually amounted to a sum equivalent to a yearly depreciation amount of the investment in 5 years) and an agreed percentage of share of net profit, against a respective amortization of the investment which is calculated on the basis of the useful live of the buses (8 to 12 years) or valid length of the joint venture contract. As the "guaranteed income" of most CJVs had gradually expired, the gross income contributed to the Group from these entities had been diminishing accordingly.

The businesses of these entities themselves had been stable. However, it is not known at this moment how the impact of SARS would become unfavourable to these companies subsequent to the current financial year under review.

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

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

As at 31 March 2003, this Group's 90% (2002: 61%) owned subsidiary was operating 31 (2002: 32) routes with a fleet of 741 (2002: 711) buses and a fleet of 25 (2002: 25) taxis in Shanghai, mainly in Pudong area. This subsidiary is also the first of the Group's operation in Mainland China since 1992. In September 2002, this subsidiary had celebrated its 10th Anniversary in Shanghai. The share of profit attributable to the Group for the year ended 31 March 2003 was approximately HK\$10.8 million (2002: HK\$8.5 million). The moderate increase in profit attributable to the Group was mainly due to the increased stake of our Group in this EJV since January 2003.

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The new bus fleet of Chongqing Kwoon Chung (No. 3)

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 2003, this 52.4% (2002: 50.66%) owned subsidiary was operating 38 (2002: 38) routes with a fleet of 1,015 (2002: 1,023) buses and

a fleet of 81 (2002: 81) taxis in Shanghai, mainly in Puxi area. The share of profit attributable to the Group for the year ended 31 March 2003 was approximately HK\$9.1 million (2002: HK\$5.9 million). Certain preferential policies of the Shanghai Municipal Government, including the increase in grant of government subsidies and the waiver of road toll, had helped this subsidiary to realise a bigger profit.

iii. Jieyang Guanyuan Transport Co., Ltd.

As at 31 March 2003, this 91.5% (2002: 91.5%) owned subsidiary was operating 3 (2002: 3) routes with a fleet of 30 (2002: 33) buses. The share of loss attributable to the Group for the year ended 31 March 2003 was approximately HK\$4.0 million (2002: HK\$4.8 million). The economic downturn of the Jieyang city in recent years had led to the significant loss in patronage of this subsidiary. Upon acquiring the fleet of buses from Jieyang Kwoon Chung Public Transport Co., Ltd., a former CJV, this subsidiary had consolidated the additional resources by selling some of the buses to other CJVs, namely Guangzhou Kwoon Chung Bus Co., Ltd. and Shantou Kwoon Chung Bus Co., Ltd.

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

As at 31 March 2003, this subsidiary, owned as to 55% by a joint venture company of the Group and Stagecoach Group plc., was operating 54 (2002: 54) routes with a fleet of 686 (2002: 621) buses in Chongqing. The share of profit attributable to the Group for the year ended 31 March 2003 was approximately HK\$1.4 million (2002: HK\$1.3 million). The gradual development of the southern coast of Chongqing had contributed to a stable income for this subsidiary.



Fleet 608 of Chongqing Kwoon Chung (New Town) was given the "Civilized Youth Award" by the Chongqing Communications Committee



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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.

As at 31 March 2003, this subsidiary, owned as to 76.64% by a joint venture company of the

Group and Stagecoach Group plc., was operating 10 (2002: 10) routes with a fleet of 252 (2002: 234) buses. The share of profit attributable to the Group for the year was approximately HK\$0.1 million (2002: HK\$1.3 million). The write-off of part of a receivable from the sale of a piece of land on which its previous headquarter was located had dampened the performance of this subsidiary in the year.

vi. King Chau Keung Tat Transport Co., Ltd.

As at 31 March 2003, this Group's 51% owned subsidiary was operating 2 (2002: 2) routes with a fleet of 35 (2002: 25) buses. The share of loss attributable to the Group for the year was approximately HK\$0.8 million (2002: HK\$1.6 million). The gradual rise in patronage had created a bigger revenue and the increase in size of its bus fleet had brought about certain economies of scale to this subsidiary.

vii. Acquisition of New Bus Operations

On 1 October 2002, through its wholly-owned subsidiary, Kwoon Chung Travel Company Limited, the Group acquired 75% shareholdings of Top China International Investment Holdings Limited, which is in turn a 70% shareholder of three operating entities ("Xing Hua Group"), namely GFTZ Xing Hua International Transport Ltd. ("Xing Hua Transport"), GFTZ Xing Hua Tourism Bus Co., Ltd. ("Xing Hua Bus") and GFTZ Guang Bao Transport Co., Ltd ("Guang Bao"). Xing Hua Transport is an operator of city-to-city transport in Guangdong Province and inner-city transport in Guangzhou Municipal, with 8 routes and a fleet of 115 buses. As at 31 March 2003, Xing Hua Bus owned 50 taxi licences and it derived income from rental of these licences. Guang Bao owned 1 route operated by chartered buses and it also held a number of cross-border lorry licences.

A bigger cost had been incurred for the establishment of the operation and a new inter-city route between Guangzhou and Dongguan had not commenced services as scheduled. The fuel prices also rose much higher than expected. Thus, operating loss had been recorded for the period from 1 October 2002 to 31 March 2003. The share of loss of these subsidiaries attributable to the Group for the period was approximately HK\$1.3 million.



The drivers of Chongqing Kwoon Chung (New Town) were attending lessons on accident prevention

CHAIRMAN'S STATEMENT

REVIEW OF OPERATIONS *(Continued)*

5. Travel and Tourism Business in Mainland China

As at 31 March 2003, 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 2003 was approximately HK\$2.3 million (2002: HK\$4.0 million). The reduction in loss was the result of the Group's effort in improving the performance of this tourism group, in particular the hotel. Firstly, the local management team had been restructured in order to enhance its internal controls and reduce its unwarranted salary burden. Secondly, certain renovation of hotel rooms and restaurants had been carrying on to enable the increase in charge rates and patronage. Furthermore, the hotel had exercised tighter controls on costs such as various purchases, energy consumption and human resources.

The inbound and outbound businesses of the travel agency company had been expanding fast to get a bigger market share in Chongqing Municipal for the first step with the next step to get profits from increase in economies of scale.

The management of this tourism group had aimed at efficient utilisation of the existing resources as well as tightening of cost controls for increasing its revenue and lowering of operating costs to enable a turnaround of its current loss situation in a very near future.

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 2003 was approximately HK\$361 million (2002: HK\$274 million), of which HK\$218 million (2002: HK\$158 million) is repayable within one year and comprised mainly bank loans and was deployed mainly for purchases of buses and investments in Hong Kong and Mainland China. The leverage was approximately 45.3% (2002: 35.1%) and the increase from prior year was mainly due to the extra borrowing of a bank loan amounting to approximately HK\$41.5 million for the acquisition of additional 29% equity interest in Shanghai Pudong Kwoon Chung.



The staff of Chongqing Kwoon Chung (New Town) were attending a talk on human resources management

As at 31 March 2003, fixed assets and time deposits amounting to HK\$335 million (2002: HK\$350 million) and all issued shares of NLB were pledged in favour of banks as security for banking facilities.



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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 Mainland China.

Subsequently, 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 stableness 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.

FUTURE PROSPECTS

With the transformation of Hong Kong's economy in progress, the Group's non-franchised public bus services in Hong Kong have to adopt a renewed model in operation, including competitive pricing policy, more flexible deployment and an improved system in recruitment, training and remuneration.

Mainland China's entry to the World Trade Organization ("WTO") has provided opportunities for China to congregate with the rest of the world in trade. At the time of this report, Hong Kong and Mainland China have also confirmed a much closer economic relation by way of the Closer Economic Partnership Arrangement ("CEPA"). Through CEPA, the servicing industries of Hong Kong, including bus services, could have ample opportunities in developing their businesses in Mainland China.

1. Non-franchised Bus Services in Hong Kong

Due to the outbreak of SARS in March 2003, the Group envisaged that income from this sector would be detrimentally affected; hotel and tour services would be most severely hit by an abrupt drop in patronage. While student service could return to normal after all schools in Hong Kong have resumed classes, the tourism industry of Hong Kong would require a much longer period of time to recuperate. To this effect, the Group has received the support from all levels of staff in Hong Kong to have their monthly remuneration reduced by about 10% from June 2003 to December 2003, and their annual bonus to be awarded on a discretionary basis on account of their individual performance, subject to review of business performance for the last quarter of 2003 for reinstatement.

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FUTURE PROSPECTS *(Continued)*

2. Franchised Bus Services in Hong Kong

NLB has continued to work closely with the Transport Department in achieving route rationalization in order to economize at minimal inconvenience to passengers. The District Council (Islands) has been reasonable and considerate to have approved the above programme in June 2003.

As the construction of the Tung Chung – Ngong Ping Cable Car Link has been approved by the Legislative Council, it will be inevitable, that upon the completion of this project in 2005, NLB's Route 23, which is the most profitable route of NLB's network, will be adversely affected. NLB has been working vigorously in seeking new routes to compensate this foreseeable decline in revenue.

From another angle, enhancement in arrivals at Ngong Ping, though not beneficial to NLB under the above scenario, may draw a higher number of visitors to other parts of Lantau Island by using NLB's Ngong Ping routes to South Lantau and Tai O. This is an opportunity that NLB would endeavour to develop.

The Hong Kong Disney Theme Park is also going to open by 2005, and NLB has already submitted its intention to operate theme park routes to the Transport Department in its Forward Planning Programme.

3. Bus Services in Mainland China

Bus services in Mainland China will continue to become one of the Group's essential businesses. As the per capita income of Mainland China will rise, in line with the country's economic development, requirement in better passenger comfort during bus journeys would become the trend. The Group's EJVs and CJVs in Mainland China would have to gear to this development in order to maintain its market position.

The Group's major operations in Shanghai will have to seize the opportunities from Shanghai's success in hosting the 2010 EXPO, and the various EJVs in Chongqing will continue to consolidate their positions in one of the most populated cities in China.

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. It is commonly known that Chongqing city would benefit the most from the "Go West" policy of the central government of Mainland China. The Group's investment in travel and tourism business should be prosperous in the long run.



The newly acquired bus fleet of Shanghai Pudong Kwoon Chung



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FUTURE PROSPECTS *(Continued)*

4. Bus-related Business *(Continued)*

a. *Travel and Tourism Business (Continued)*

The outbreak of SARS in Hong Kong and Mainland China had caused to halt the inbound and outbound travel development plan of this subsidiary for the second and possibly also the third quarter of 2003. However, with the situation under control, the above programme will be rejuvenated for the later part of 2003.

The Group's tourism-related subsidiaries both in Hong Kong and Mainland China have prepared to take advantage of this new challenge.

b. *Bus Manufacturing Business*

The year under review had been uneventful in the Group's venture in South Africa. There was no revelation of a definite date for the announcement of a decision regarding the re-tender process, which would involve the supplement of an electronic fleet management system to the existing tender.

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 year of 2002/2003, in particular, their sacrifice and loyalty during the SARS crisis. We would appreciate very much their continuous devotion to the Group in the coming year.

Wong Chung Pak, Thomas

Chairman

Hong Kong
23 July 2003