

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30th June, 2003.

GROUP'S ACTIVITIES AND OPERATIONS

The principal activities of the company and the group are property development and investment. The principal activities and other particulars of the subsidiaries are set out in note 13 on the financial statements.

The geographical analysis of the group's turnover and operating profit is set out in note 2 on the financial statements.

JOINTLY CONTROLLED ENTITIES

Particulars of jointly controlled entities at 30th June, 2003 are set out in note 14 on the financial statements.

FINANCIAL STATEMENTS

The profit of the group for the year ended 30th June, 2003 and the state of affairs of the company and of the group at that date are set out in the financial statements on pages 14 to 42.

A first interim dividend of HK\$0.10 per share and a special dividend of HK\$0.40 per share were paid on 10th April, 2003. A second interim dividend of HK\$0.30 per share is payable on 13th October, 2003. The directors now recommend that a final dividend of HK\$0.10 per share and a special dividend of HK\$1.10 per share be paid in respect of the year ended 30th June, 2003 and that HK\$10,000,000 be transferred to general reserve.

FIXED ASSETS

Movements in fixed assets during the year are set out in note 12 on the financial statements.

DIRECTORS

The directors during the year and up to the date of this report are given on page 2 and further information regarding directors is given on page 12.

In accordance with articles 120A and 122 of the company's articles of association, Dr. Henry Ngan, Messrs. Liu Lit-mo, Fritz Helmreich and Anthony Grahame Stott retire from the board and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN SHARES

At 30th June, 2003, the directors and their associates had the following interests in the issued share capital of the company as recorded in the register of directors' share interests:

	Ordinary shares of HK\$2 each		
	Personal interests	Family interests	Other interests
Ngan Kit-ling	4,578,799	—	842,105 (Note 2)
Ngan Kit-keung	6,671,468	1,250	33,468 (Note 1)
Dr. Henry Ngan	6,903,579	250	842,105 (Note 2)
Liu Lit-mo	62,250	—	—
Fritz Helmreich	50,000	—	—
Anthony Grahame Stott	600	—	—

Note 1: The 33,468 shares in the company are included in the estate of the late Madam Wong Yick-mui.

Note 2: Represented by (a) 33,468 shares in the company included in the estate of the late Madam Wong Yick-mui and (b) 808,637 shares in the company included in the estate of the late Mr. Ngan Shing-kwan (in respect of which probate was granted to Dr. Henry Ngan and Ngan Kit-ling jointly).

Report of the Directors (Continued)

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

During the year under review, the company did not grant to any director or chief executive or to the spouse or children under 18 years of age of any such director or chief executive any right to subscribe for shares of the company.

At no time during the year was the company or any of its subsidiaries a party to any arrangements to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

On 3rd June, 2002, the company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") were notified that Chan Kwan Shat and his spouse, Wong Wai Gin Lydia, held a family interest in the shares of the company amounting in aggregate to 5,553,200 shares, representing 12.18% of the company's issued share capital. So far as the directors are aware, as at 30th June, 2003, the family interest of Mr. Chan and his spouse in the shares of the company remained that notified on 3rd June, 2002. On 8th April, 2003, the company and the Stock Exchange were notified that Chee Ying Cheung and his spouse, Ching Yung Yu, held a family interest in the shares of the company amounting in aggregate to 4,474,600 shares, representing 9.81% of the company's issued share capital. So far as the directors are aware, as at 30th June, 2003, the family interest of Mr. Chee and his spouse in the shares of the company remained that notified on 8th April, 2003. Save for the family interest of Mr. Chan and his spouse and the family interest of Mr. Chee and his spouse, so far as the directors are aware no shareholder of the company who is not a director of the company was directly or indirectly interested in 5% or more of the issued share capital of the company as at 30th June, 2003.

DIRECTORS' INTEREST IN CONTRACTS

Madam Ngan Kit-ling is the sole proprietor of Ngan & Co., one of the company's solicitors, and as such has an interest in legal fees and expenses paid by the company to that firm.

Apart from the foregoing, no contract of significance, to which the company or any of its subsidiaries was a party and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming ordinary yearly meeting has an unexpired service contract with the company which is not determinable by the company within one year without payment of compensation, other than normal statutory obligations.

Report of the Directors (Continued)

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

(a) Directors

(i) Aggregate emoluments

Details of emoluments of directors of the company are set out in note 5 on the financial statements.

(ii) Bandings

The emoluments in respect of the year ended 30th June, 2003 of all the directors of the company in office during the year were in the following ranges:-

<u>Bands (in HK\$)</u>	<u>Number</u>
(1) \$ Nil – \$1,000,000	5
(2) \$1,500,001 – \$2,000,000	1
(3) \$3,000,001 – \$3,500,000	1
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(b) Employees

Set out below are analyses of the emoluments for the year ended 30th June, 2003 of one employee (2002: Two) of the group who, not being a director of the company, is among the top five highest paid individuals (including directors of the company and other employees of the group) employed by the group.

(i) Aggregate emoluments	HK\$000's
Basic salary, housing allowance and other benefits	788
Retirement scheme contribution	—
	<u>788</u>
(ii) Bandings	
<u>Bands (in HK\$)</u>	<u>Number</u>
(1) \$ Nil – \$1,000,000	1

Report of the Directors (Continued)

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The company periodically repurchases its ordinary shares when they are significantly undervalued in order to enhance shareholder value. During the year, the company repurchased a total of 146,200 ordinary shares of the company on The Stock Exchange of Hong Kong Limited, details of which are shown in note 20 on the financial statements. All of these ordinary shares had been cancelled by the company upon repurchase.

Save as aforesaid, the company and its subsidiaries had not purchased, sold or redeemed any of the company's listed securities during the year.

SHARE CAPITAL

Particulars of the movements in the share capital of the company during the year are set out in note 20 on the financial statements.

EMPLOYEES' RETIREMENT SCHEMES

During the year, the company operated two separate non-contributory defined benefit retirement schemes, namely, "China Motor Bus General Monthly Rated Staff Retirement Scheme" and "China Motor Bus Senior Executive Retirement Scheme" for its monthly rated and daily rated staff and senior executives respectively. Both schemes are formally established under trust and registered with the Registrar of Occupational Retirement Schemes. The assets of the schemes are held by an independent trustee, HSBC International Trustee Limited. The members' benefits are determined based on their final remuneration and length of service. The company's contributions to the schemes are made in accordance with the recommendations of independent actuaries who carry out actuarial valuations of the schemes at regular intervals, currently annually.

The actuarial valuation of the two defined benefit retirement schemes as at 30th June, 2003 showed that there were sufficient assets in each of the two schemes to cover the on-going liabilities of the schemes. The actuary of these schemes is Watson Wyatt Hong Kong Limited. In the actuarial valuations, the aggregate cost valuation method was used. The major assumptions used in these valuations were: Investment Return at 3% per annum; Salary Escalation at 2.5% per annum; and Normal Retirement Age 65. Other relevant information extracted from the valuations pertaining to these schemes is set out below:-

- (a) China Motor Bus General Monthly Rated Staff Retirement Scheme
 - (i) The market value of the scheme assets as at 30th June, 2003 was HK\$2,295,000.
 - (ii) The on-going funding level of the scheme was 154%.
 - (iii) The on-going basis funding surplus in the scheme was HK\$807,000.

- (b) China Motor Bus Senior Executive Retirement Scheme
 - (i) The market value of the scheme assets as at 30th June, 2003 was HK\$10,515,000.
 - (ii) The on-going funding level of the scheme was 118%.
 - (iii) The on-going basis funding surplus in the scheme was HK\$1,578,000.

Note: The obligations in respect of defined benefit retirement schemes in the financial statements are calculated using the projected unit credit method (see note 1(l)(iii) on the financial statements).

As from 1st December, 2000, the group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement schemes. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000.

For the defined contribution retirement scheme, the contributions are expensed as incurred and may be reduced by contributions forfeited by those employees who have left the scheme prior to vesting fully in the contributions.

Report of the Directors (Continued)

COMMENTARY ON ANNUAL RESULTS

Revenue and Operating Profit

Turnover of the Group for the year under review increased to HK\$88 million from HK\$72 million in the previous year. The main cause of this increase was the increase in rental income from the investment properties held by the Group. The profit after taxation attributable to shareholders for the year under review decreased to HK\$111 million from HK\$114 million in the previous year. The reduction in profit was mainly due to the decrease in the sales of properties by the group's jointly controlled entities and the decrease in interest rates on the group's bank deposits, although the reduction has been offset by the increase in turnover and other income.

Liquidity and Financial Resources

For the year under review, net cash inflow from operating activities was HK\$30 million (2002 restated: HK\$37 million). Payment for capital investment amounted to HK\$211 million (2002: HK\$2 million). Repayment of loans by jointly controlled entities amounted to HK\$26 million (2002: HK\$346 million). The consolidated cash flow statement for the Group for the year ended 30th June, 2003 is set out on pages 18 and 19 of this annual report.

At 30th June, 2003, the Group had no bank borrowing and had cash and cash equivalents of HK\$1,635 million which were held in the form of short term deposits or cash at banks and in hand.

Capital Expenditure and Commitments

Capital expenditure incurred during the year amounted to HK\$211 million.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's turnover and purchases attributable to the major customers and suppliers during the financial year is as follows:

	<i>Percentage of the Group's total</i>	
	<i>Turnover</i>	<i>Purchases</i>
The largest customer	34%	
Five largest customers in aggregate	85%	
The largest supplier		57%
Five largest suppliers in aggregate		84%

So far as the directors are aware, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

SUMMARY OF FINANCIAL DATA

A summary of the Group's financial data for the last five years is shown on page 43.

Report of the Directors (Continued)

PROPERTIES

Particulars of the properties and property interests of the Group are shown on page 44.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Ordinary Yearly Meeting.

By order of the board

NGAN Kit-ling
Chairman

Hong Kong, 10th October, 2003