

# Management Discussion and Analysis

## Business Review

During the financial year under review, the performance of the Group's GMB and residents' bus service was affected by the outbreak of SARS to a certain extent in March 2003 because the general public highly reduced their social activities during this critical period. However, the Hong Kong economy rebound in the last three quarters which offset the impact and the Group recorded a moderate growth in its revenue.

As a leading public transport operator, the Group continued to focus on providing quality and valued-added services to its passengers. Several programs were launched during the financial year 2004 to improve its services both in safety and convenience.

The Group deployed new model of minibuses which is long wheel based or operates with liquefied petroleum gas. The Group also implemented comprehensive maintenance programs to ensure proper checking and maintenance of our GMBs. In addition, a sophisticated remote surveillance system was installed to monitor the operation of the Group's GMB routes and the traffic flow. The safety of passengers and employees is always the Group's main concern. Efforts have been put on improving operation safety and the Group is pleased that the accident rate has been maintained a low level in both years of 2003 and 2004.

The Group's GMBs are all equipped with Octopus card readers to provide convenience to passengers, and some of the GMBs are also equipped with the latest features such as luggage racks, anti-slip floors, automatic sliding doors and particulate reduction device to provide a more comfortable traveling environment. The launch of Roadshow in the Group's GMBs also provides information and entertainment to the passengers.

In addition to these equipment improvements, the Group continued to rationalise the GMB route networking in order to provide better quality services for the passengers. In the financial year 2004, the Group successfully applied for route restructuring of the Tai Po routes, and also the terminal of route 63A had been relocated from South Horizons to Aberdeen Centre.

## Financial Performance

### Consolidated results for the year

The Group's profit attributable to shareholders for the year ended 31 March 2004 was HK\$31.6 million. This represents an increase of 16.2% or HK\$4.4 million compared with HK\$27.2 million of the previous financial year. Earnings per share for the year were HK21.0 cents per share as compared with HK18.1 cents per share for last year.

### Revenue

Despite the outbreak of SARS in Hong Kong and the discontinuation of property leasing business, the Group's turnover for the year ended 31 March 2004 increased moderately by 1.5% or HK\$3.4 million from HK\$234.7 million in 2003 to HK\$238.1 million in 2004. The growth was mainly attributable to the growth in fare revenue by 2.0% or HK\$4.7 million from HK\$230.8 million to HK\$235.5 million during the financial year 2004.

The performance of GMB and residents' bus service was affected by the outbreak of SARS in the first quarter of the financial year 2004, but the strong economic recovery in the following three quarters helped to diminish the impact. To cope with the increasing demand from the passengers, the Group enlarged the PLB fleet size and reached 278 (2003: 273), the historical highest, as at 31 March 2004.

The safety of passengers and employees is always the Group's main concern.

# Management Discussion and Analysis

Most of the routes recorded growth throughout the financial year 2004, particularly the newly operated and reconstructed routes. The full year effect of Cyberport and Tai Po routes, which gradually commenced services during last financial year, and the restructuring of route 63A improved the fare revenue by HK\$10.8 million in year 2004. All these factors outweighed the impact from cessation of two routes during the year, which reduced the fare revenue by HK\$6.2 million. As a result, the total fare revenue increased by 2.0% or HK\$4.7 million from HK\$230.8 million to HK\$235.5 million.

## Gross profit

The Group's gross profit increased by 0.9% or HK\$0.5 million from HK\$55.8 million to HK\$56.3 million and its gross profit margin remained relatively stable at 23.7% compared with 23.8% in previous year. The Group will continually implement cost control measures to improve the productivity and effectiveness.

## Other revenues

For the year ended 31 March 2004, other revenues reached HK\$4.0 million (2003: HK\$10.4 million), mainly comprising HK\$2.4 million of agency fee income received from the PLB owners and HK\$0.6 million of repairing and maintenance income. The substantial drop primarily a result of the significant decrease of HK\$8.4 million in repair and maintenance income from HK\$9.0 million in 2003 to HK\$0.6 million in 2004. However, the loss was offset by the introduction of the agency fee income which amounted to HK\$2.4 million, of which HK\$2.2 million was received from Maxson Transportation Limited ("Maxson"), Hong Kong & China Transportation Consultants Company Limited ("HKCT") and Glory Success Transportation Limited ("Glory Success"), pursuant to the Minibus Service Agreement entered into by the Group with effective from 1 April 2003. In the meantime, owing to the Minibus Leasing Agreement entered into between the Group, Maxson, HKCT and Glory Success which was also effective as from 1 April 2003, the Group was

responsible for the repair and maintenance expenses in relation to the GMBs leased under the Minibus Leasing Agreement. As a result, the repair and maintenance income diminished during the financial year 2004.

With the impact brought by the other revenue as stated above, the operating profit decreased by 14.4% or HK\$6.7 million from HK\$46.5 million to HK\$39.8 million.

## Finance cost

Following the transfer of all investment properties and all but 13 PLBs out of the Group as a part of group reorganisation during the last financial year, the Group saved HK\$11.4 million of interest expenses

The Group will continually implement cost control measures to improve the productivity and effectiveness.

from settling the underlying properties mortgages, PLB licenses secured loans and finance leases. Thus, finance costs decreased from HK\$11.9 million to HK\$0.5 million during the year ended 31 March 2004.

## Taxation

Taxation for the year was HK\$7.6 million, representing an increase of 16.9% or HK\$1.1 million as compared with HK\$6.5 million in the previous year. The increase was mainly due to the increase of profit tax rate from 16% to 17.5% announced by the HKSAR in March 2003 and the increase in profit before taxation.



## Dividend

The Directors recommended the payment of a final dividend of HK5.0 cents (2003: Nil) and a special dividend of HK6.0 cents per share (2003: Nil) for the year ended 31 March 2004 totaling HK\$22.8 million to the shareholders whose names registered in the Company's register of members as at the close of business on 23 August 2004.

## Cash Flow

The net cash inflow from operating activities of the Group increased from HK\$50.7 million in 2003 to HK\$54.1 million in 2004, which was mainly due to the decrease in interest paid for bank loans and overdrafts. The net cash outflow from investing activities increased by HK\$18.2 million, which resulted from the purchase of PLB licenses during the year, from HK\$25.9 million to HK\$44.1 million in 2004. The net cashflow from financing activities, as a result to decrease in fund raised from related companies, dropped from the HK\$10.5 million net inflow last year to HK\$2.2 million net outflow in 2004. The consolidated cashflow statement of the Group for the year ended 31 March 2004 is set out on page 39 of this annual report.

## Capital Expenditure and Commitment

During the year, the total capital expenditure incurred by the Group was HK\$58.9 million (2003: HK\$66.5 million) mainly for the acquisition of PLB licences with PLB bodies of HK\$49.5 million, purchase of land and buildings of HK\$4.7 million and expenditure on leasehold improvement of HK\$2.7 million. There was no significant capital commitment outstanding and not provided for as at 31 March 2004.

## Capital Structure, Liquidity and Financial Resources

### Liquidity and financial resources

The Group's operations were mainly financed by proceeds from operation, bank loans and overdraft in this financial year.

The gearing ratio (defined as the ratio of total debts to shareholders' equity) of the Group was 51.6% as at 31 March 2004 while that for 2003 was 698.8%. The significant improvement in gearing ratio was due to the fact that the dividends totaling HK\$401.0 million declared for the year ended 31 March 2003 have been settled during the financial year 2004. As a result, the level of debt decreased dramatically.

Liquidity ratio (defined as the ratio of current assets to current liabilities) changed slightly from 1.0 in the last financial year to 0.9 as at 31 March 2004.

# Management Discussion and Analysis

## Bank loans and overdrafts

As at 31 March 2004, the Group has bank loans and overdrafts totaling HK\$36.8 million, representing an increase of 50.2% or 12.3 million as compared with that of HK\$24.5 million as at 31 March 2003. The change was mainly attributable to the settlement of property mortgages that amounted to HK\$20.0 million as at 31 March 2003, and offset by HK\$33.0 million of PLB licences secured loans newly drawn during the year. The new secured loans were drawn mainly for the purpose of refinancing the purchase of 10 PLB licences in August 2003.

## Cash and bank deposits

As at 31 March 2004, the Group's cash and bank deposit was HK\$19.3 million, representing a rise of HK\$8.2 million as compared with HK\$11.1 million as at 31 March 2003. All cash and bank deposits as at 31 March 2003 and 2004 were denominated in Hong Kong dollars.

## Banking facilities

As at 31 March 2004, the Group had banking facilities totaling HK\$45.3 million (2003: HK\$45.9 million) of which HK\$36.8 million (2003: HK\$24.5 million) had been utilised.

## Currency and Interest Rate Risk Management

Since the income and expenditures of the Group are denominated in Hong Kong dollars, the Group does not anticipate any significant currency risk derived from the Group's operation activities.

As for financing activities, all borrowings for the financial year ended 31 March 2004 were denominated in Hong Kong dollars and on floating interest rate basis. The practice effectively eliminated the currency risk and the management is of the view that the Group is not subject to any significant interest rate risk.

## Pledges of Assets

As at 31 March 2004, certain land and buildings of the Group with net book value of HK\$18.5 million (2003: HK\$16.2 million) and eight PLB licences with carrying value of HK\$43.2 million (2003: Nil) together with their PLB bodies with net book value of HK\$1.8 million (2003: Nil) were pledged under the banking facilities as mentioned above.

## Contingent Liabilities

The Group had no material contingent liabilities as at 31 March 2004. In the last financial year, the Group had contingent liabilities of HK\$165.0 million which arised from the corporate guarantees given to financial institutions for finance lease contracts and bank borrowings to two related companies.

## Employees and Remuneration Policies

Staff costs were HK\$91.3 million and HK\$90.8 million for the years ended 31 March 2003 and 2004, which represented 43.3% and 44.7% of the total costs respectively. As at 31 March 2004, the Group had approximately 887 employees (2003: 749), including 769 drivers and 118 administrative staff. Apart from the basic remuneration, double pay and discretionary bonus may be granted to eligible employees by reference to the Group's performance and the individual's contribution. Other benefits include retirement and training schemes.



The Group will leverage their expertise prudently and selectively pursue acquisition opportunities to expand its services scope and revenue growth.

### Prospects

Statistics from the Annual Transport Digest 2003 by the Transport Department and the December 2003 Monthly Traffic and Transport Digest indicated that GMB and RMB services were the third most popular mode of public transport in Hong Kong, representing 15.1% of the total public transport passenger journeys in 2003. During the decade from 1993 to 2003, the number of passenger journeys by PLBs remained fairly stable, at an aggregate of approximately 1.6 million passenger journeys per day. Most importantly, thanks to the transport policy by the HKSAR that encourages the conversion of RMBs to GMBs, the market share of GMB services has demonstrated steady growth, from 9.5% in 1999 to approximately 10.6% in 2003.

### Growing Alongside with Hong Kong's Transportation Network

As Asia's financial hub and a city that never sleeps, Hong Kong continues to leap forward in the 21st century. The transport network is set to further expand to complement the continuous advancement and enhancement infrastructure. The Group aims to play a bigger role in providing point-to-point transport services as well as complementing other mass carriers to provide greater convenience for the traveling public. Looking ahead in the foreseeable future, the Group is confident that the market share of GMB service will maintain its steady growth momentum.

### Tendering for New GMB Routes

The Directors consider that expansion of the railway networks will offer promising opportunities for the Group by providing feeder services between railway stations and areas which do not justify the cost of running franchised bus services. The Government of the Hong Kong Special Administrative Region is also considering the establishment of new public transport interchanges. More highways will also be built by the Government, and such infrastructure projects are likely to generate demand for new GMB routes, in which the Group will be able to tender to maximise the utilities of its GMBs and residents' bus services.

### Acquisition of GMB Route Operators

In addition to tendering new GMB routes, the Directors also expect that the Group will continue to expand its GMB route network through the acquisition of other GMB route operators. According to the statistics of the Transport Department, as at 31 October 2003, there were 348 GMB routes. At present, the Group operates 40 GMB routes, in which 25 GMB routes are on the Hong Kong Island and 15 GMB routes are in the New Territories. In the coming future, the Group will leverage their expertise prudently and selectively pursue acquisition opportunities to expand its services scope and revenue growth.

### Upgrade of the Group's Technology Infrastructure

The Group has always invested in the use of information technology and related equipment with the view of enhancing the operating efficiency of its GMB services and the management of its repair and maintenance services. With the aim of further improving the efficiency of vehicle deployment and facilitating its overall fleet management, the Group looks forward to maximising the safety and quality of its services to achieve further business heights.