

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, 2004.

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 14 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, 2004 are set out in note 15 on the financial statements.

FINANCIAL STATEMENTS

The profit of the group for the year ended 30th June, 2004 and the state of affairs of the company and of the group at that date are set out in the financial statements on pages 18 to 48.

A first interim dividend of HK\$0.10 per share and a special dividend of HK\$0.40 per share were paid on 17th May, 2004. A second interim dividend of HK\$0.30 per share was paid on 28th September, 2004. The directors now recommend that a final dividend of HK\$0.10 per share and a special dividend of HK\$1.80 per share be paid in respect of the year ended 30th June, 2004 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 13 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 16.

Mr. Tse Yiu-wah has been appointed to be an independent non-executive director with effect from 20th September, 2004.

The company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and still considers the independent non-executive directors to be independent.

In accordance with article 122 of the company's articles of association, Dr. Henry Ngan, Messrs. Liu Lit-mo, Fritz Helmreich, Anthony Grahame Stott and Tse Yiu-wah retire from the board and, being eligible, offer themselves for re-election (for details of directors, see Appendix A).

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2004, the interests and short positions of the directors and chief executive of the company in the shares, underlying shares and debentures of the company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by directors of listed companies were as follows:

	Ordinary shares of HK\$2 each				Percentage of total issued shares
	Personal interests	Family interests	Other interests	Total ordinary shares held	
NGAN Kit-ling	4,848,345	–	33,468 (Note)	4,881,813	10.71%
NGAN Kit-keung	6,941,013	1,250	33,468 (Note)	6,975,731	15.30%
Dr. Henry NGAN	7,173,125	250	33,468 (Note)	7,206,843	15.81%
LIU Lit-mo	62,250	–	–	62,250	0.14%
Fritz HELMREICH	50,000	–	–	50,000	0.11%
Anthony Grahame STOTT	600	–	–	600	–

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

All the interests disclosed above represent long positions as at 30th June, 2004.

Save as disclosed above, as at 30th June, 2004, none of the directors or chief executive of the company or any of their spouses or children under 18 years of age had held any interests or short positions in the shares, underlying shares or debentures of the company or any of its associated corporations as defined in the SFO.

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 SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The company has been notified of the following interests in the company's issued shares at 30th June, 2004, amounting to 5% or more of the shares in issue:

<u>Substantial shareholders</u>	<u>Ordinary shares held</u>	<u>Percentage of total issued shares</u>
NGAN Kit-ling	4,881,813(note)	10.71%
NGAN Kit-keung	6,975,731(note)	15.30%
Dr. Henry NGAN	7,206,843(note)	15.81%
CHAN Kwan Shat & WONG Wai Gin	5,553,200	12.18%
<u>Other persons</u>		
CHEE Ying Cheung & CHING Yung Yu	4,474,600	9.81%

Note : There is a duplication of 33,468 shares which are included in the estate of the late Madam WONG Yick-mui.

All the interests disclosed above represent long positions as at 30th June, 2004.

Save as disclosed above, so far as the directors are aware, as at 30th June, 2004, none of the above shareholders had held any interests or short positions in the shares, underlying shares or debentures of the company or any of its associated corporations as defined in the SFO.

Apart from the foregoing, as at 30th June, 2004, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the company.

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 6 on the financial statements.

(ii) Bandings

The emoluments in respect of the year ended 30th June, 2004 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	4
(2) \$1,000,001 – \$1,500,000	1
(3) \$2,500,001 – \$3,000,000	1
	<u>6</u>

(b) Employees

Set out below are analyses of the emoluments for the year ended 30th June, 2004 of three employees (2003: One) of the group who, not being directors of the company, are 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	1,799
Retirement scheme contribution	24
	<u>1,823</u>
(ii) Bandings	
<u>Bands (in HK\$)</u>	<u>Number</u>
(1) \$ Nil – \$1,000,000	3

Report of the Directors (Continued)

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

During the year, neither the company nor any of its subsidiaries has purchased, sold or redeemed any of the company's listed securities.

SHARE CAPITAL

Particulars of the movements in the share capital of the company during the year are set out in note 22 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, 2004 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 3.5% 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, 2004 was HK\$2,017,000.
 - (ii) The on-going funding level of the scheme was 160%.
 - (iii) The on-going basis funding surplus in the scheme was HK\$761,000.

- (b) China Motor Bus Senior Executive Retirement Scheme
 - (i) The market value of the scheme assets as at 30th June, 2004 was HK\$10,468,000.
 - (ii) The on-going funding level of the scheme was 115%.
 - (iii) The on-going basis funding surplus in the scheme was HK\$1,367,000.

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 not be reduced by contributions forfeited by those employees who have left the scheme as all would be fully vested 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\$94 million from HK\$88 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 increased to HK\$241 million from HK\$101 million (restated) in the previous year. The increase in profit reflects a substantial write-back of revaluation deficit as a consequence of the revaluation of the group's investment properties as at 30th June, 2004, partially offset by lower finance income.

Liquidity and Financial Resources

For the year under review, net cash inflow from operating activities was HK\$75 million (2003: HK\$30 million). Payment for capital investment amounted to HK\$30 million (2003: HK\$211 million). Repayment of loans by and dividends from jointly controlled entities amounted to HK\$15 million and HK\$121 million respectively (2003: HK\$26 million and HK\$88 million respectively). The consolidated cash flow statement for the group for the year ended 30th June, 2004 is set out on pages 22 and 23 of this annual report.

At 30th June, 2004, the group had no bank borrowing and had cash and cash equivalents of HK\$1,737 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\$30 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:

	Percentage of the Group's total	
	Turnover	Purchases
The largest customer	33%	
Five largest customers in aggregate	86%	
The largest supplier		68%
Five largest suppliers in aggregate		99%

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.

DISCLOSURE PURSUANT TO LISTING RULE 13.22

At 30th June 2004, the group had the following loans to its affiliated companies (as defined by the Listing Rules):

	Note	Amount HK\$000's	Type	Tenure
Island Land Development Ltd		562,850	Interest free, unsecured loan	No fixed terms of repayment
Hareton Ltd		208,057	Interest free, unsecured loan	No fixed terms of repayment
	15	<u>770,907</u>		

Report of the Directors (Continued)

DISCLOSURE PURSUANT TO LISTING RULE 13.22 (CONTINUED)

Proforma combined balance sheet of the above affiliated companies at 30th June, 2004 is as follows:

	HK\$000's
Fixed assets	600,000
Deferred expenditure	706
Retirement benefit assets	<u>52</u>
	<u>600,758</u>
Current assets	109,759
Current liabilities	<u>(14,517)</u>
	<u>95,242</u>
Non-current liabilities	<u>(23,102)</u>
	<u>672,898</u>

Attributable interest to the group at 30th June, 2004 in the above affiliated companies amounted to HK\$336,449,000 (2003: HK\$319,394,000).

SUMMARY OF FINANCIAL DATA

A summary of the group's financial data for the last five years is shown on page 49.

PROPERTIES

Particulars of the properties and property interests of the group are shown on page 50.

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, 8th October, 2004