



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's net profit for the year ended 30 June 2004 increased to approximately HK\$22.8 million compared to approximately HK\$15.9 million for the year ended 30 June 2003, representing an increase of 42.9%.

The turnover of the Group for the year ended 30 June 2004 decreased to approximately HK\$136.9 million compared to approximately HK\$141.2 million for the last year, representing a decrease of approximately 3.0%. The decrease in turnover was mainly attributable to the decrease in passengers.

The gross profit of the Group for the year ended 30 June 2004 decreased to approximately HK\$72.0 million compared to approximately HK\$77.0 million for the last year. The gross profit margin of the Group for the year ended 30 June 2004 slightly dropped to approximately 52.6%, compared with approximately 54.5% of the last year. The decrease of the gross profit was mainly due to the increase in fuel cost.

The general and administrative expenses for the year ended 30 June 2004 increased by approximately 28.7% to approximately HK\$19.9 million compared to approximately HK\$15.5 million for the last year. The increase was mainly due to the increase in salary expenses.

The finance costs for the year ended 30 June 2004 decreased by approximately 90.5% to approximately HK\$0.5 million compared to approximately HK\$5.3 million for the last year. The decrease was mainly attributable to the reduction of long-term loan.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the amount of the net current assets and net assets of the Group increased by HK\$14.0 million and HK\$22.8 million respectively to HK\$43.6 million and HK\$172.5 million respectively. The gearing ratio, which is found by dividing the financial indebtedness by the shareholders' equity, stood at approximately 18.3% as at 30 June 2004 (30 June 2003: 8.0%).

On 20 January 2004, the Company issued the Secured Guaranteed Floating Rate Notes due 2006 in the principal amount of US\$10,000,000 (the "Floating Rate Notes"). The Floating Rate Notes carry interest at the rate equivalent to LIBOR for deposits in US Dollars for one month plus a margin of 1.5% per annum and are repayable on 20 January 2006.

As at 30 June 2004, the outstanding principal amount of the Floating Rate Notes was US\$4,037,500. The Floating Rate Notes are guaranteed by certain executive directors and are also secured by certain assets of the Group as detailed in note 20 of the notes to the accompanying financial statements.

As at 30 June 2004, the Company had 409,222,500 shares in issue with total shareholders' funds of the Group amounting to approximately HK\$172.5 million (2003: HK\$149.7 million).



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES *(continued)*

With respect to foreign exchange exposure, as the Group's earnings are primarily denominated in Renminbi and the exchange fluctuation between Renminbi and Hong Kong dollar was relatively stable during the year under review, the Group has no significant exposure to the foreign exchange rate fluctuations. During the year under review, the Group has not used any financial instruments for hedging purposes.

There were no significant capital commitments as at 30 June 2004 which would require a substantial use of the Group's present cash resources or external funding. The management believes that the existing financial resources will be sufficient to meet the future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable terms.

HUMAN RESOURCES

As at 30 June 2004, the Group employed 356 (2003: 401) full-time employees, of which 343 (2003: 392) were based in the People's Republic of China (the "PRC"). The Group remunerates employees based on their duties, performance, experience and prevailing industry practices.

DISPOSAL OF SUBSIDIARIES

The Group have not acquired or disposed any of its subsidiaries and associated companies during the year ended 30 June 2004.

BANKING FACILITIES

As at 30 June 2004, the Group had no outstanding banking facilities.