

Management Discussion and Analysis

Business Review

Benefited from the economic recovery in Hong Kong, the local GMB industry continued to grow stably. The number of passengers carried by the GMB sector grew by 8.4% for the year ended 31 March 2005, compared with the same period in 2004. As a leading GMB routes operator capturing 10.3% market share (in terms of number of passengers carried) of the sector, the Group enjoyed a mild growth in turnover during the year under review.

Extensive service network

To cope with the increasing passenger demand in Southern District and the Mid-Levels of Hong Kong Island, four new routes 51A (Wah Kwai Estate – Tin Wan Estate), 56A (Mid-Levels (Robinson Road) – Causeway Bay), 69A (Cyberport – Aberdeen Centre) and 69X (Cyberport to Causeway Bay) were introduced during the year. The number of routes operated by the Group increased from 40 in 2004 to 44 at present. Meanwhile, in order to increase the fleet's capacity to meet the demand of the above new routes and other existing routes, the fleet size expanded to 285 GMBs during financial year 2005, the historical highest (2004: 278 GMBs).

During the year, through continuous routes restructuring, introduction of supplementary routes and deployment of extra minibuses, the patronage grew by 6.8% to 46.9 million (2004: 43.9 million), whilst the total mileage traveled increased by 2.1% to 34.9 million kilometers (2004: 34.2 million kilometers). The figures reflected the Group's restless effort to improve the efficiency of the fleet.

Advanced operations facilities

As a leading GMB routes operator, the Group continued its focus on providing quality and valued-added services to its passengers. Several programs were launched in financial year 2005 for the convenience and comfort of our passengers.

In order to monitor the instantaneous road traffic conditions at major areas, six depots are equipped with remote surveillance system. Riding on the advancement of technology and the increasing road traffic, the Group is currently assessing the feasibility of deploying the more sophisticated global positioning system ("GPS"), which enables the operation management team to monitor the minibuses flow and the operating schedule on a real time basis as well as collect other useful operational datum. The management believes the GPS would not only be a valuable asset for the Group to enhance the operating efficiency and cost effectiveness, but also a breakthrough in the minibus industry.

The Group is committed to render safe and comfortable transport services to the passengers. As at 31 March 2005, 76 long-wheel base minibuses came into service which offer extra seating space to passengers and are equipped with state-of-the-art facilities, such as LED destination displays, speed display units, high-backed seats, stop signal bells, luggage racks and anti-slip floors etc. Our average fleet age reduced to 7.3 years as compared with 8.7 years as at 31 March 2004.

The Group is dedicated to improve the efficiency of the fleet.

Management Discussion and Analysis (continued)

The Group will continually improve productivity and effectiveness through adopting advanced technology.

Safety commitment

The Group's core value of safety is well communicated internally. As a responsible public transport service provider, the management recognises safety as the key to business success. In addition to the commitment in upgrading vehicle quality, the Group has implemented comprehensive maintenance programs to ensure proper checking and maintenance of the GMBs. Furthermore, in order to keep the drivers and passengers alert to the minibus speed, speed display units have been installed in 212 minibuses and will extend to the rest of the minibuses gradually.

The Group held courses and seminars on road safety and driving, with guest speakers from the Traffic Division of the Hong Kong Police Force, to raise staff awareness and improve work practices in these areas. Stringent safety measures were also implemented to minimise the accident rate, which has been maintained at a low level over the years. For financial year 2005, the accident rate was 2.0 per million kilometers (2004: 2.2 per million kilometers).

"GREEN" minibuses

The Group is always dedicated to safeguard the environment and to build a better world for our next generation. Since 2002, the Group has started to deploy Euro III engine or LPG minibuses. Both Euro III engine and LPG minibuses emit less hydrocarbon and nitrogen oxide; LPG minibuses even further reduce black smoke and suspended particle emissions. To further improve the air quality, drivers are also required to switch off the engines whenever the minibuses (except when boarding) are queuing in the depots.

In addition, the Group also promotes a "Green" concept in the administrative office. Staff is encouraged to minimise paper and electricity consumption, reuse and recycle used paper and collect plastic cartridges used in copying machines and printers for recycling. Green plants are also grown in different corners of the office to offer greenery to the staff.

Serving the community

Over the years, the Group has been enthusiastically involving in different charitable community services. The Group has sponsored some community activities on a yearly basis for several years. The sponsorships cover, the "Solar Project", organised by Radio Television Hong Kong, and "Southern District's Road Safety Campaign" organised by The Hong Kong Police Force (Western District). During the reporting year, the Group also made donation to the Community Chest and the South Asia Tsunamis Catastrophe.

The Group always encourages the staff's involvement in community services and has received great internal responses throughout the years. The Group is looking forward to gaining more support from the staff and the community.

Management Discussion and Analysis (continued)

Financial Review

Consolidated results for the year

The Group's profit attributable to shareholders for the year ended 31 March 2005 was HK\$32.0 million (2004: HK\$31.6 million), representing a 1.3% increment over the last fiscal year. Earnings per share for the year were HK15.0 cents per ordinary share (2004: HK21.0 cents per share). The decrease in earnings per share was due to the dilution effect brought by the issuances of 77,500,000 new shares during the year, pursuant to the initial public offering and private placement upon the listing on the Main Board in April 2004 and new shares subscription by VPL in November 2004.

Revenue

The Group's turnover increased by 7.1% or HK\$16.8 million to HK\$254.9 million (2004: HK\$238.1 million) for the year ended 31 March 2005. GMB and residents' bus service income represented 98.8% of the total turnover and increased by 7.0% to HK\$252.0 million (2004: HK\$235.5 million).

The Group enjoyed the benefit brought by the economic recovery in Hong Kong and its GMB services business continued to grow stably. The passengers demand increased on most of the routes, resulting an average growth of 6.8% in patronage to 46.9 million (2004: 43.9 million) during the reporting year. Among the routes, those running in Cyberport (Route 69 and its supplementary routes) and Tai Po (Route 20 and its supplementary routes) have particularly outperformed the others. Through the continuous routes restructure, introduction of supplementary routes and deployment of extra minibuses, the turnover derived from the Cyberport and Tai Po routes increased by HK\$3.4 million and HK\$4.3 million and representing growth of 70.4% and 14.9% respectively. Combined with the aforesaid effect and further efforts put in improving service quality, the Group managed to achieve a satisfactory growth of 7.1% in turnover during the year without any fare increment.



Management Discussion and Analysis (continued)



Gross profit

The Group's gross profit increased by 10.8% or HK\$6.1 million to HK\$62.4 million (2004: HK\$56.3 million), and its gross profit margin slightly improved to 24.5% as compared with 23.7% in previous year. Same as other transport operators, the Group was facing the pressure from the surging fuel price in the domestic market during this financial year. Nevertheless, the Group's continuous stringent cost control, especially on the repair and maintenance expenses via improving the fleet age, effectively offset the negative effect brought by the fuel price and consequently, improvement in the profit margin resulted as compared with the last fiscal year.

Other revenue

Without significant change in non-principal activities, other revenue for the year ended 31 March 2005 maintained at HK\$4.0 million (2004: HK\$4.0 million), mainly comprising HK\$2.4 million (2004: HK\$2.4 million) of agency fee income received from the PLB lessors, HK\$0.4 million (2004: HK\$0.3 million) of advertising income and HK\$0.3 million of bank interest income (2004: HK\$0.01 million).

The Group recorded a growth of 1.3% in its net profit for the year to HK\$32.0 million (2004: HK\$31.6 million), despite the increased administrative costs (mainly listing compliance and directors' remuneration costs) following the Company's listing on the Main Board. The management believes the Group is experiencing the same stage as other newly listed companies and anticipates that effect from compliance and directors' costs will be faded out while the Group grows and obtains the economy of scale in the near future.

Finance cost

Finance costs increased by HK\$0.4 million to HK\$0.9 million for the financial year 2005 (2004: HK\$0.5 million). The increase was mainly the result of the full year effect of the interest expenses on secured bank loans, which were incepted in the last quarter of last fiscal year.

Taxation

Taxation for the year was HK\$6.5 million (2004: HK\$7.6 million), representing a decrease of 14.5% or HK\$1.1 million as compared with last financial year. The effective tax rate for the year was 16.8% (2004: 19.5%) and it was lower than the standard rate of 17.5% (2004: 17.5%) because there was a write-back of HK\$0.3 million profits tax overprovision brought forward from the year of assessment 2003/04.

Dividends

The Directors recommended the payment of a final dividend of HK12.0 cents per ordinary share (2004: final dividend of HK\$5.0 cents and special dividend of HK\$6.0 cents) for the year ended 31 March 2005 totaling HK\$27.3 million (2004: HK\$22.8 million) to the shareholders whose names registered in the Company's register of members as at the close of business on 25 July 2005.

Management Discussion and Analysis (continued)

Cash Flow

The net cash inflow from operating activities of the Group in financial year 2005 was HK\$23.5 million (2004: HK\$54.1 million). The net cash outflow from investing activities was HK\$2.0 million (2004: HK\$44.1 million) and it was mainly for purchases of fixed assets (see “Capital Expenditure and Commitment” for details). The net cash inflow from financing activities for the year was HK\$52.7 million (2004: outflow of HK\$2.2 million), which was a result of HK\$77.7 million net proceeds of the issuance of 77,500,000 new shares received, net of the dividend of HK\$22.8 million paid during the year. The consolidated cash flow statement of the Group for the year ended 31 March 2005 is set out on page 38 of this annual report.

Capital Expenditure and Commitment

During the year, the total capital expenditure incurred by the Group was HK\$2.4 million (2004: HK\$58.9 million). The amount was mainly for the replacement of three PLBs of HK\$1.3 million (2004: HK\$4.7 million) and purchase of a motor vehicle of HK\$0.7 million (2004: Nil). Capital commitment contracted and not provided for was HK\$0.2 million (2004: Nil) as at 31 March 2005.

Capital Structure, Liquidity and Financial Resources

Liquidity and financial resources

The Group’s operations were mainly financed by proceeds from operation in this financial year.

The gearing ratio (defined as the ratio of total debts to shareholders’ equity) of the Group was 21.0% as at 31 March 2005 (2004: 51.6%). The significant improvement in gearing ratio was explained by the increase in shareholder’s equity by HK\$113.8 million to HK\$231.0 million (2004: HK\$117.2 million). During the financial year 2005, the capital base of the Company was broadened through the issuance of 57,500,000 shares at HK\$1.07 per share upon the listing of the Company on the Main Board of the

Stock Exchange on 15 April 2004 and the subscription of 20,000,000 new shares at HK\$1.15 per share by VPL on 5 November 2004. Other than that, the PLB revaluation for the year also contributed HK\$26.9 million to the increment in equity and the related reserve balance reached HK\$54.7 million (2004: HK\$27.8 million) as at 31 March 2005.

Liquidity ratio (defined as the ratio of current assets to current liabilities) also further improved from 0.9 in the last fiscal year end to 6.7 as at 31 March 2005. The significant improvement was mainly attributable to the increase in cash and bank deposits by HK\$74.4 million to HK\$93.7 million (2004: HK\$19.3 million) as a result of the net proceeds received from the share issuances mentioned above.

Leveraging on the management expertise and experiences, the Group is confident of capturing future growth opportunities to bring fruitful returns to our shareholders.

Bank loans and overdrafts

As at 31 March 2005, the Group has bank loans and overdrafts totaling HK\$34.8 million (2004: HK\$36.8 million), representing a decrease of 5.4% or HK\$2 million compared with last financial year end. There was no loan inception, nor early redemption during the year and the decrease in the loan balances was solely due to the scheduled loans repayment.

Management Discussion and Analysis (continued)

Cash and bank deposits

As at 31 March 2005, the cash and bank deposits of the Group increased by 385.5% or HK\$74.4 million to HK\$93.7 million (2004: HK\$19.3 million) as a result of the net proceeds received from the share issuances as mentioned above.

All cash and bank deposits as at 31 March 2004 and 2005 were denominated in Hong Kong dollars.

Banking facilities

As at 31 March 2005, the Group had banking facilities totaling HK\$43.2 million (2004: HK\$45.3 million) of which HK\$34.8 million (2004: HK\$36.8 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 operating activities.

As for financing activities, all borrowings for the financial year ended 31 March 2005 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 2005, certain land and buildings of the Group with net book value of HK\$18.0 million (2004: HK\$18.5 million) and eight PLB licences with carrying value of HK\$53.4 million (2004: HK\$43.2 million) together with their PLB bodies with net book value of HK\$1.4 million (2004: HK\$1.8 million) were pledged under the banking facilities as mentioned above.

Contingent Liabilities

The Group had no material contingent liabilities as at both financial years ended 31 March 2005 and 2004.

Use of Proceeds from Listing

In April 2005, the Company issued 57,500,000 shares at HK\$1.07 per share through a public offering and private placement. The net proceeds after deducting the relevant expenses were approximately HK\$47.6 million.

Up to 31 March 2005, the use of net proceeds was as follows:

As at 31 March 2005	
<i>(in HK\$ million)</i>	
Upgrade of information technology infrastructure	0.5
General working capital purposes	13.6
Proceeds not yet utilised	33.5
Total net proceeds raised	47.6

The proceeds not yet utilised were placed in banks as short-term fixed deposits and will be used for the purposes as described in the Company's prospectus dated 30 March 2004.

Employees and Remuneration Policies

Since the minibus industry is labour intensive in nature, staff costs accounted for a substantial part of the total operating costs of the Group. Staff costs incurred for the year were HK\$97.7 million (2004: HK\$90.8 million), which represented 44.4% (2004: 44.7%) of the total costs. 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 share option scheme, retirement and training schemes.

The headcounts of the Group are as follows:

	As at	As at
	31 March 2005	31 March 2004
Drivers	768	769
Administrative staff	90	86
Technicians	40	32
Total	898	887