Business Review

The local GMB industry continued to grow steadily as the economy of Hong Kong sustained its growth during the year. The number of passengers carried by the GMB sector grew by 6.2% for the year ended 31 March 2006 compared with the financial year 2005. As a leading GMB routes operator in Hong Kong, the Group continued its efforts in raising the standard of GMB industry and enjoyed a mild growth in turnover during the year under review.

Extensive Service Network

In order to provide a better transportation network for the commuters in the Hong Kong Island, two new routes running Aberdeen Centre-Kennedy Town (via Cyberport) and Aldrich Bay-Pamela Youde Nethersole Eastern Hospital were introduced during the year. The number of routes operated by the Group hence increased to 46 (2005: 44). Meanwhile, in order to increase the fleet's capacity to meet the organic growth of passenger demand, the fleet size expanded to 291 GMBs (2005: 285 GMBs) as at 31 March 2006, reaching a historical high of the Group.

Through continuous routes restructuring, introduction of supplementary routes and deployment of extra minibuses, the patronage grew by 4.9% to 49.2 million (2005: 46.9 million), whilst the total mileage travelled increased by 1.4% to 35.4 million kilometers (2005: 34.9 million kilometers) during the year. 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 is committed to render safe and comfortable transport services to our passengers. As at 31 March 2006, 124 long-wheel base minibuses came into service which offered extra seating space to passengers. These long-wheel base minibuses were equipped with state-of-the-art facilities, such as LED destination displays, speed display units, high-backed seats, stop signal bells, luggage racks, anti-slip floors, etc. Our average fleet age was further reduced to 6.6 years as compared with 7.3 years as at 31 March 2005.

Safety Commitment

Safety is always the core value of the Group. As a responsible public transport service provider, the management believes that safety is the cornerstone 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 were extended in all minibuses during the year.

To raise staff awareness and improve work practices, the Group continued to hold courses and seminars on road safety and driving, with guest speakers from the Traffic Division of the Hong Kong Police Force. The Group also strictly enforced our safety guidelines by conducting surprise-checking, and arranging secret passengers to make timely reports against any misbehaviour of the drivers. These safety measures helped minimise the accident rate, which has been maintained at a low level over the years. For financial year 2006, the accident rate was 2.2 per million kilometers (2005: 2.0 per million kilometers).

Corporate Social Responsibility and Community Involvement

One of the characteristics of the Group is our enthusiasm in serving the community and protecting the environment. The Group always encourages staff's involvement in community services and environmental protection, and has received overwhelming responses throughout the years.

> The safety of passengers and employees is always of the Group's utmost importance.

The Group will continue to implement cost control measures to enhance productivity and effectiveness.

The Group has been sponsoring 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). In November 2005, we actively participated in the 'Let's beat the flu' Launching Ceremony organized by the Hospital Authority. In addition, to show our enthusiasm in providing quality service, our staff played an active role in the 'PLB Safety Campaign' organised by the Transport Department and Road Safety Council in January 2006.

The Group is dedicated to protect 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, and LPG minibuses can 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. The Group encourages its staff 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.

Financial Review

Consolidated results for the year

The Group's profit attributable to equity holders for the year ended 31 March 2006 was HK$23,532,000 (restated 2005: HK$32,064,000), representing a drop of 26.6% over the last fiscal year. The drop was mainly attributable to the increase in fuel cost by HK$8,965,000 which will be discussed below. Basic earnings per share for the year were HK10.34 cents per ordinary share (restated 2005: HK15.02 cents per ordinary share).

Turnover

The Group's turnover increased by 4.1% or HK$10,405,000 to HK$265,318,000 (2005: HK$254,913,000) for the year ended 31 March 2006. With continuous improvement in the local economy, the GMB and resident's bus services business grew stably and the income from the GMB and resident's bus services, which represented 99.2% of the total turnover, increased by 4.5% to HK$263,224,000 (2005: HK$251,976,000). The passengers demand increased on most of the routes, resulting an average growth of 4.9% in patronage to 49.2 million (2005: 46.9 million) during the reporting year. Among all routes, those running Cyberport and Tai Po have particularly outperformed the others. Through continuous routes restructure, introduction of supplementary routes and deployment of extra minibuses, the turnover derived from the Cyberport and Tai Po routes increased by 40.7% and 8.9% respectively. Combined with the aforesaid effect and further efforts put in improving service quality, the Group managed to achieve a growth of 4.5% in turnover during the year without any fare increment.

Gross profit

The Group's gross profit reduced by 13.8% or HK$8,640,000 to HK$53,759,000 (2005: HK$62,399,000). The gross profit margin was down to 20.3%, compared with 24.5% for the corresponding period in last year. The decrease was mainly attributable to the dramatic increase in global fuel prices during the year. With the significant increase in unit fuel cost, the expenditure on diesel and LPG for the year surged by HK$8,965,000 or 25.5% to HK$44,150,000 (2005: HK$35,185,000) compared with the last financial year.

Management Discussion and Analysis (continued)

Other income

Benefiting from the global trend of growing interest rate, other income for the year increased by HK$1,348,000 or 36.9% to HK$5,001,000 (2005: HK$3,653,000). Other income mainly comprised interest income of HK$1,727,000 (2005: HK$313,000) and agency fee income received from the PLB lessors amounted to HK$2,364,000 (2005: HK$2,345,000).

Finance cost

Finance costs increased by HK$493,000 or 57.4% to HK$1,352,000 for the year ended 31 March 2006 (2005: HK$859,000), following the surge in borrowing interest rate over the year under review. The average interest rates on secured loans applicable to the Group for the year was 4.0% per annum (2005: 2.45% per annum).

Income tax expense

Income tax expense for the year was HK$5,036,000 (restated 2005: HK$6,446,000), representing a decrease of 21.9% or HK$1,410,000 as compared with last financial year. The effective tax rate for the year was 17.6% (2005: 16.7%).

Dividends

The Directors recommended the payment of a final dividend of HK9.0 cents per ordinary share and a special dividend of HK4.0 cents per ordinary share (2005: final dividend of HK$12.0 cents) for the year ended 31 March 2006 totaling HK$29,575,000 (2005: HK$27,300,000) to the shareholders whose names registered in the Company's register of members as at the close of business on 17 August 2006.

Cash Flow

The net cash inflow from operating activities of the Group in financial year 2006 was HK$30,638,000 (2005: HK$23,837,000). The net cash outflow from investing activities was HK$59,895,000 (2005: HK$2,266,000) and it was mainly for purchases of a PLB licence amounted to HK$6,580,000 and deposit of HK$50,000,000 placed for the purchase of 80% equity interest of Chinalink Express Holdings Limited ("Chinalink") (see "Major Acquisition" for details). The net cash outflow from financing activities for the year was HK$29,272,000 (2005: net inflow of HK$52,723,000), which was mainly represented the dividend of HK$27,300,000 paid during the year. The consolidated cash flow statement of the Group for the year ended 31 March 2006 is set out on page 41 of this annual report.

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. There was no significant change in the gearing ratio (defined as the ratio of total liabilities to shareholders' equity) and liquidity ratio (defined as the ratio of current assets to current liabilities) of the Group as at 31 March 2006 and the ratios stood at 22.4% (2005: 20.9%) and 5.89 (2005: 6.72) respectively. There was no new borrowing drawn during the year under review.

Bank loans and overdrafts

As at 31 March 2006, the Group had bank loans and overdrafts totalling HK$32,050,000 (2005: HK$34,791,000), representing a decrease of 7.9% or HK$2,741,000 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.

Cash and bank deposits

As at 31 March 2006, the cash and bank deposits of the Group reduced by 63.3% or HK$59,298,000 to HK$34,358,000 (2005: HK$93,656,000) as a result of the deposit of HK$50,000,000 paid for an acquisition as mentioned above (see "Major Acquisition" for details). All cash and bank deposits as at 31 March 2006 and 2005 were denominated in Hong Kong dollars.

Banking facilities

As at 31 March 2006, the Group had banking facilities totalling HK$41,200,000 (2005: HK$43,172,000), of which approximately HK$32,050,000 (2005: HK$34,791,000) were utilised.

Credit, Currency and Interest Rate Risk Management

As the PLB and resident's bus services income is received on cash basis or collected on behalf by Octopus Cards Limited and remitted to the Group on the next business day, the Group does not have any significant credit risk.

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

As for financing activities, all borrowings for the financial year ended 31 March 2006 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 2006, certain leasehold land and buildings of the Group with net book value of HK$12,205,000 (restated 2005: HK$12,574,000) and eight PLB licences with total carrying value of HK$46,400,000 (2005: HK$53,440,000) together with their PLB bodies with net book value of HK$1,303,000 (2005: HK$1,440,000) were pledged under the banking facilities as mentioned above.

Capital Expenditure and Commitment

During the year, the total capital expenditure incurred by the Group was HK$10,086,000 (2005: HK$2,428,000). The amount was mainly for the replacement of two PLB bodies of HK$814,000 (2005:

HK$1,339,000), purchase of a PLB licence of HK$6,580,000 with the corresponding PLB body of HK$345,000 (2005: Nil) and installation of luggage racks of HK$1,005,000 (2005: Nil). Capital commitment contracted and not provided for was HK$70,172,000 (2005: HK$224,000) as at 31 March 2006. Among the sum, HK$70,000,000 was contracted for the purchase of 80% equity interest of Chinalink (see "Major Acquisition" for details).

Contingent Liabilities

The Group had no material contingent liabilities as at both financial years ended 31 March 2006 and 2005.

Major Acquisition

On 9 January 2006, the Company entered into a share purchase agreement with two BVI companies (the "Vendors") to acquire 80% equity interest and the corresponding shareholders' loans in Chinalink Express Holdings Limited (the "Acquisition"), which engages in the provision of cross-border coach services between Hong Kong and Guangdong province. The consideration of the Acquisition is HK$120,000,200 of which the total sum of HK$50,000,000 was paid by the Group to the Vendors on 12 January 2006 as a deposit. The acquisition was completed on 30 May 2006 and the remaining HK$70,000,200 was financed by a term loan of HK$70,000,000 and paid to the Vendors on the completion date. The estimated goodwill on acquisition of the non-wholly owned subsidiary was approximately HK$89,075,000.

According to a shareholders' agreement dated 9 January 2006, entered into between the Company and Mr. Chan Chung Yee, Alan ("Mr. Chan"), who is a director of Chinalink and beneficially owns 20% equity interest in Chinalink, the Company has granted an option to Mr. Chan and pursuant to which Mr. Chan may exercise his right to purchase from the Company its 10% shareholding in Chinalink within 10 years from the date of signing of the shareholders' agreement at a price of HK$15,000,000. The option granted to Mr. Chan became effective on the completion date of the Acquisition.

Use of Proceeds from Listing

On 30 May 2006, the Company announced that due to changing market condition and to better utilise the cashflow of the Company, the use of unused net proceeds received by the Company from the initial public offering and private placement on 15 April 2004 ("Share Offer") will be changed into funding for the Acquisition.

Set out below is a summary of the uses of proceeds from the Share Offer as disclosed in the prospectus dated 30 March 2004 of the Company ("Prospectus") and their respective actual uses:

	As stated in Prospectus (in HK$ million)	**Actual use** (in HK$ million)
Acquisition of other GMB routes operators	22.0	Nil
As deposits and working capital for new GMB routes that may be tendered by the Group	10.0	Nil
Upgrade of information technology infrastructure	2.0	0.6
As general working capital of the Group	13.6	13.6
Acquisition of 80% equity interest and the corresponding shareholders' loans in Chinalink	Nil	33.4
Total	47.6	47.6

The Group is confident to leverage its expertise in transportation business, and explore acquisition opportunities to expand its services scope and revenue growth.

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$104,569,000 (2005: HK$97,651,000), which represented 42.4% (2005: 43.1%) of the total costs. Apart from the basic remuneration, double pay and discretionary bonus might be granted to eligible employees by reference to the Group's performance and the individual's contribution. Other benefits included share option scheme, retirement and training schemes.

The headcounts of the Group are as follows:

	As at 31 March 2006	As at 31 March 2005
Drivers	**797**	768
Administrative staff	**85**	90
Technicians	**38**	40
Total	**920**	898

Outlook

Looking ahead, the Group is confident that the patronage will maintain sustainable growth. Apart from the general growth in passenger demand, the GMB business has been benefiting from the momentum of population growth in Shek Pai Wan Estate and we expect the project will bring significant increase in passenger flow in the future.

On the other hand, the Group will keep on equipping the fleet with new GMBs from which we have received positive feedback from the community. The Group's expertise will also keep improving our operation by route restructuring and resources rationalisation. The management believes our devotion on quality and safety will improve the general public's perception on the minibus industry and enhance the popularity of our minibus service.

In regard to the importance of road safety, the Group will make every effort to improve our drivers' driving attitude and enhance their road safety awareness. The Group will continue to hold road safety and driving skills improvement courses and seminars.

In facing the challenges arising from the surge in fuel price, the Group will continue to implement stringent cost control measures to relieve the pressure. The Group will closely monitor the effects from high fuel costs and realign corporate strategy accordingly. The Group, as an experienced transportation business operator, will remain flexible to minimise the impact from fuel price fluctuation and maintain profitability.

On the other hand, the Group believes that the acquisition of cross border coach service business during the year will enable the Group to expand its operation to other road transportation business. Given the close connection between Hong Kong and China nowadays, and the growing need for convenient and cheap transport across the border, the Group is confident that this new business segment will flourish and bring favourable returns to the Group.

As one of the leading GMB routes operators in Hong Kong, the Group will continue our quality service and pledge to raise the standard of GMB business, as well as continue to identify more investment opportunities, with a view to maximise returns to our shareholders.