AMS 進智公交

# AMS PUBLIC TRANSPORT HOLDINGS LIMITED
# 進智公共交通控股有限公司

(Stock Code 股份代號：77)


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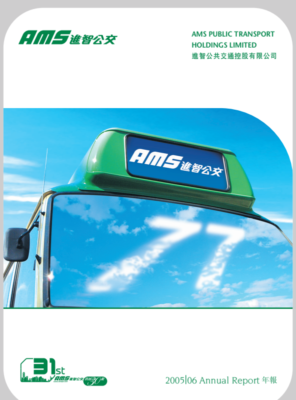
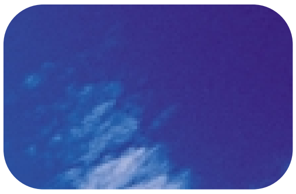
www.amspt.com

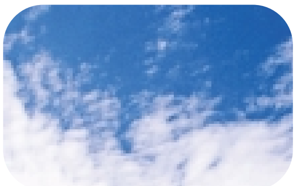
2005|06 Annual Report 年報




## Cover Story

As a pioneer in the green minibus industry, AMS proudly strode across 3 decades. We will capitalise on our success and go much further, so as to play a more important role in the local transportation network.





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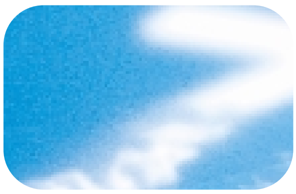
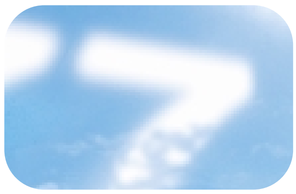
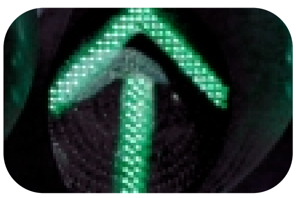






# Corporation Information

## Board of Directors

Mr. Wong Man Kit *Chairman*
Ms. Ng Sui Chun
Mr. Chan Man Chun
Mr. Wong Ling Sun, Vincent
Dr. Leung Chi Keung*
Dr. Lee Peng Fei, Allen*
Mr. Lam Wai Keung*

* *Independent non-executive Directors*

## Company Secretary

Miss Wong Ka Yan

## Authorised Representatives

Mr. Wong Man Kit
Mr. Chan Man Chun

## Audit Committee

Dr. Leung Chi Keung
Dr. Lee Peng Fei, Allen
Mr. Lam Wai Keung

## Registered Office

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

# Corporation Information (continued)

## Head office and principal place of business in Hong Kong

11th-12th Floor, Abba Commercial Building
223 Aberdeen Main Road
Aberdeen
Hong Kong

## Hong Kong share registrar and transfer office

Union Registrars Limited,
311–312 Two Exchange Square,
Central,
Hong Kong

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

## Legal Advisers

As to Hong Kong Law:
A.M. Mui & Kwan

As to Cayman Islands Law:
Conyers Dill & Pearman

## Auditors

PricewaterhouseCoopers
Certified Public Accountants

AMS is confident that its road ahead will remain smooth and promising, while it remains committed to providing the travelling public with improving green minibus transport services.

# Corporate Profile

AMS Public Transport Holdings Limited (the "Company") and its subsidiaries (the "Group") principally engage in the operation of green minibus ("GMB") routes and the provision of public light bus ("PLB") related services in Hong Kong. GMB are those PLBs that provide scheduled services with fixed routes, fares, vehicle allocation, frequency and service hours stipulated by the Transport Department of the Government of the Hong Kong Special Administrative Region ("HKSAR"). GMB routes must be operated by qualified GMB routes operators and are generally offered through open tender by the Transport Department. The Group is one of the leading GMB routes operators in Hong Kong. Currently, the Group operates 31 GMB routes on Hong Kong Islands, 15 GMB routes in the New Territories, and 2 residents' bus routes to supplement the GMB services.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 April 2004.

The Group is one of the leading GMB routes operators in Hong Kong.

The Group initiated a number of strategic moves to generate returns and results proved to be promising.

# FINANCIAL AND OPERATING HIGHLIGHTS

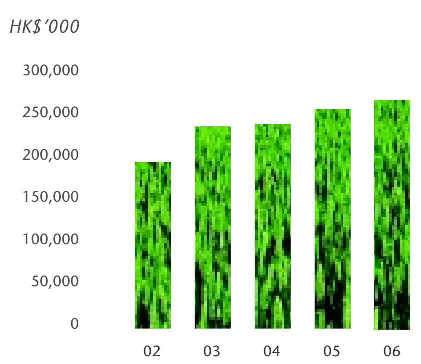
# Financial and Operating Highlights

## Financial Highlights (in HK$'000)

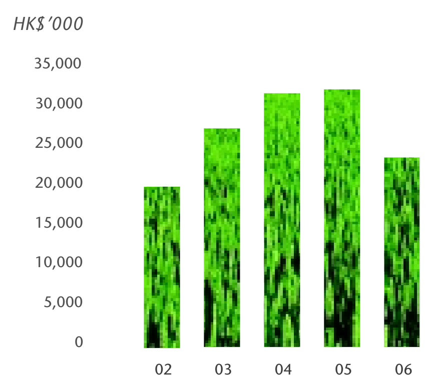
| | Year ended 31 March 2006 | 2005 (Restated) |
|---|---|---|
| Turnover | | |
| – PLB and residents' bus services income | **263,224** | 251,976 |
| – PLB rental income | **2,094** | 2,937 |
| | **265,318** | 254,913 |
| Operating profit | **29,920** | 39,369 |
| Finance costs | **(1,352)** | (859) |
| Profit attributable to equity holders of the Company | **23,532** | 32,064 |
| Total assets | **250,192** | 273,909 |
| Bank loans and overdrafts | **32,050** | 34,791 |
| Total equity | **204,445** | 226,503 |
| Net cash inflow from operating activities | **30,638** | 23,837 |
| Basic earnings per share (in HK cents) | **10.34** | 15.02 |
| Diluted earnings per share (in HK cents) | **10.33** | N/A |
| Proposed final dividend per ordinary share (in HK cents) | **9.0** | 12.0 |
| Proposed special dividend per ordinary share (in HK cents) | **4.0** | – |

## Financial Highlights

| Turnover |




| Net profit attributable to equity holders |



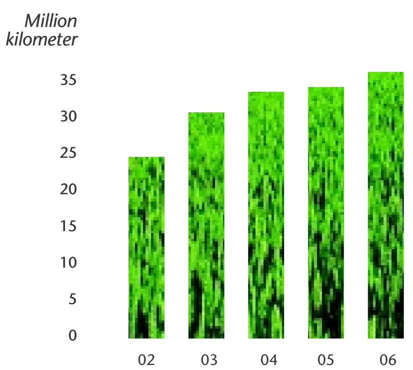
# Financial and Operating Highlights (continued)

## Financial ratios (in %)

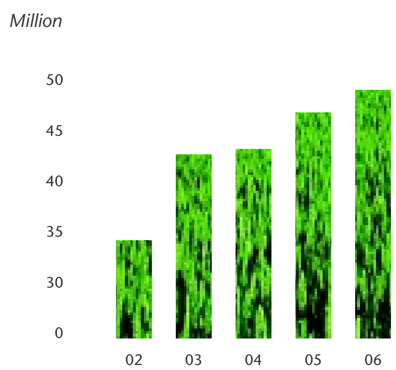
| | Year ended 31 March | |
|---|---|---|
| | **2006** | 2005 (Restated) |
| Gross profit margin | **20.3** | 24.5 |
| Net profit margin | **8.9** | 12.6 |
| Liquidity ratio (current assets/current liabilities) | **5.9** | 6.7 |
| Gearing ratio (total liabilities/shareholders' equity) | **22.4** | 20.9 |
| Return on equity (net profit/shareholders' equity) | **11.5** | 14.2 |
| Interest cover (in times) (Operating profit/Finance costs) | **22.1** | 45.8 |

## Operating Highlights

### | Total mileage operated |




### | Number of passengers carried |



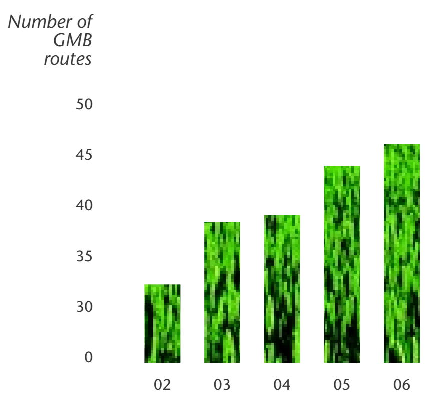
# Financial and Operating Highlights (continued)

## Operating highlights (in unit)

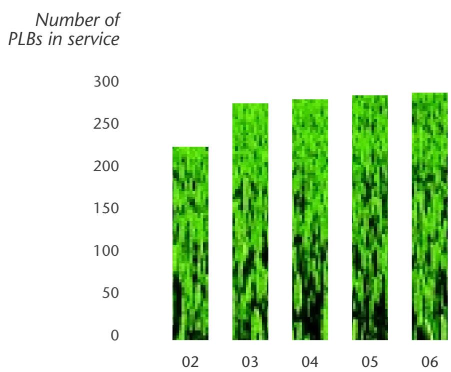
| | Year ended 31 March | |
|---|---|---|
| | **2006** | 2005 |
| Number of PLBs in service | **291** | 285 |
| Number of GMB routes | **46** | 44 |
| Number of journeys travelled | **3.7 million** | 3.5 million |
| – % of the journeys travelled surpassing the total number of scheduled journeys required by Transport Department | **39.1%** | 39.5% |
| Number of passengers carried | **49.2 million** | 46.9 million |
| Number of accidents per million kilometers* | **2.2** | 2.0 |
| Total mileage operated (in kilometers) | **35.4 million** | 34.9 million |
| Average fleet age (in years) | **6.6** | 7.3 |

* The rate refers to the accidents involved injury or death.

| Number of GMB routes |




| Fleet size |



As one of the leading GMB routes operators in Hong Kong, we are looking forward to business opportunities to expand our GMB services, providing feeder services to railway stations. We continue to put emphasis on improving our GMB fleet operating efficiency and productivity, as well as our service quality.

# CHAIRMAN'S STATEMENT

# Chairman's Statement

I am pleased to present to you the results of AMS Public Transport Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the financial year ended 31 March 2006.

## Financial and Business Review

The continued strength in Hong Kong economy undoubtedly boosted the growth of all sectors during the year. The green minibus ("GMB") industry has well benefited from the economic upswing and the Group recorded a growth in turnover of 4.1%. As at 31 March 2006, the Group operated 46 routes and the fleet size expanded alongside with the organic growth in passenger demand and rose to 291 GMBs. The Group also recorded 3.7 million GMB journeys, surpassed the requirement of Transport Department by approximately 39.1%.

The Group is glad to see an increase in total patronage by approximately 4.9% to 49.2 million. We believe the sustainable growth is a result from the Group's persistent efforts to uplift service quality and efficiency.

The past year was a difficult year for the transportation industry in terms of increase in fuel price, insurance premiums, etc. However, the Group decided not to increase fare in consideration of public acceptance and affordability. Instead, the Group undertook stringent cost-control measures to relieve the impact from rising operation costs. Nevertheless, the Group's net profit was inevitably adversely affected by the fluctuation in fuel price.

The Group is determined to put every effort possible into promoting the overall standard of the GMB industry. The Group kept deploying environmentally friendly Euro III diesel (or LPG) GMBs to replace aged GMBs. The new GMBs helped the Group to reduce costs of repair and maintenance and improve fleet image, and more importantly they are beneficial to the community by improving gas emission quality, promoting road safety as well as travelling comfort. Moreover, we are devoted to promote safety, the core value of the Group. During the year, the Group extended the installation of speed display units to all GMBs, provided regular training courses to drivers, conducted surprise-checking and secret checking, etc, with a view to keep road safety rooted among our staff. We believe our efforts will set an excellent exemplar to the GMB industry.

## Major Transaction

On 9 January 2006, the Group entered into a Share Transfer Agreement to acquire 80% equity share in Chinalink Express Holdings Limited ("Chinalink') with a total consideration of HK$120,000,200. Chinalink is principally engaged in the provision of cross-border coach services between Hong Kong and Guangdong province. The Group is optimistic that the cross-border coach service market is poised to boom given the closer connection between Hong Kong and China nowadays. Riding on our experience and commitment in local public transport service, we will strive to develop public transport services in Mainland China in the future.

Our initiatives reflect our relentless commitment to become a significant public transport service provider in Hong Kong.

## Corporate Social Responsibility

As a successful and responsible corporate citizen, we are fully aware of our responsibility to serve the community, to protect the environment, and to be concerned about current affairs.

Highlights of our involvement in community included our proactive participation in the 'Let's beat the flu' Launching Ceremony organised by the Hospital Authority in November 2005, and the 'PLB Safety Campaign' organised by the Transport Department and Road Safety Council in January 2006. The Group also continued to support the community through expanding the coverage of our GMB-GMB Interchange (GGI) schemes and offering fare concessions for passengers travelling on relatively long distance routes. On the other hand, our effort in replacing aged GMBs with environmentally friendly Euro III diesel (or LPG) GMBs to improve gas emission quality, and our dedication to carry out 3R-Reuse, Recycle, Reduce at our administrative office, are well communicated internally to promote environmental protection.

We pledge to improve our services and vehicle quality continuously, and provide the public with comprehensive PLB related services.

## Prospects

The transportation network in Hong Kong is getting more and more comprehensive, especially with more railway lines launching. As a leading GMB routes operator, we see this as a great opportunity for our business expansion instead of direct competition. We will leverage our strength to provide feeder service and point to point service to supplement the railway services, and grow along with the development of local transportation network.

It is predicted that the fuel price will not abate in the short term, and we expect another challenging year coming. Yet, we possess an experienced management team which will closely monitor the effects from high fuel costs and realign corporate strategy accordingly. We are confident to keep the fuel price impact minimal and maintain profitability of the Group.

The close connection between Hong Kong and China nowadays does not only benefit trade and tourism, but also the transportation industry. The Group successfully grasped an investment opportunity in the cross-border coach service in May 2006, enabling the Group to expand its operation to other road transportation business which has enormous room for development. We are excited to see the contributions made by this new business segment in the coming year.

We will continue to deliver quality services to our passengers by providing a fast, reliable and comfortable mode of transport. The Group will also make every effort to improve its management and enhance its efficiency, with a view to enlarging its market share and improving its earnings. Having established our foothold in China, the Group will identify more favourable investment opportunities. We pledge to maintain high standards in our transportation businesses and to generate more returns to our shareholders.

## Appreciation

On behalf of the board, I would like to express my gratitude to our passengers, business partners, associates as well as our shareholders for their continuous support. Our employees also continued to demonstrate their dedication and high level of performance in the past year. The Board would like to thank all of them for their invaluable contributions and we look forward to their continued support moving forward.

**Wong Man Kit**
**Chairman**
Hong Kong, 12 July 2006

# Management Discussion and Analysis

## 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

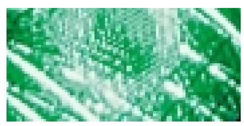
Income tax expense for the year was HK$5,036,000 (restated 2005: HK$6,446,000), representing a decrease of 21.9% or HK$1,410,000 as compared with last financial year. The effective tax rate for the year was 17.6% (2005: 16.7%).

## 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.

AMS Public Transport Holdings Limited is committed to maintaining a high standard of corporate governance and devotes considerable effort to identifying and formalising best practices of corporate governance. The Company has complied with the all the code provisions set out in Appendix 14 "Code on Corporate Governance Practices" ("the Code") of the Listing Rules for the year ended 31 March 2006. The Company has also set up corporate governance practices to meeting some of the recommended best practices in the Code. This report describes how the Company has applied the principles of the Code.

## The Board of Directors

The Board is chaired by Mr. Wong Man Kit (the "Chairman"). The Board comprises three Independent Non-executive Directors and four Executive Directors. All Independent Non-executive Directors bring a variety of experience and expertise to the Company. The Board has appointed four Board Committees, namely Executive Committee, Remuneration Committee, Audit Committee and Nomination Committee, to oversee different areas of the Company's affairs. The composition of the Board and the Board Committees are given below and their respective responsibilities are discussed in this report.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to an Executive Committee. The Executive Committee comprises the four Executive Directors and is fully accountable to the Board. The Company maintains appropriate directors' and officers' liabilities insurance.

The members of the Board are responsible for preparing the financial statements of the Company and of the Group. The financial statements are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006, and of the Group's profit and cash flow for the year then ended. In preparing the financial statements for the year ended 31 March 2006, the members of the Board have made reasonable judgments and estimates and selected appropriate accounting policies and, apart from those new and revised accounting policies as disclosed in the notes to the financial statements ended 31 March 2006, have applied the policies consistently with previous financial year.

Regular Board meetings are scheduled in advance to facilitate fullest possible attendance. The Company Secretary assists the Chairman in setting the agenda of Board meetings. Notices of Board meetings, including proposed agenda, are sent to the Directors at least 14 days before the meeting date and each Director is invited to present any businesses that he wishes to discuss or propose at such meetings. Finalised agenda and Board papers are normally circulated to all Directors 7 days before the Board meetings to ensure timely access to relevant information. The Board agreed to seek independent professional advice at the expense of the Company, upon reasonable request and the approval from all independent non-executive directors. Draft and final versions of minutes are circulated to all Directors for comments. The Company held 4 regular full Board meetings in financial year 2005/06. Attendance of the regular full Board meetings are as follows:

| | Attendance of Board meetings in 2005/06 | Attendance rate |
|---|---|---|
| **Executive Directors:** | | |
| Mr. Wong Man Kit, Chairman | 4/4 | 100% |
| Ms. Ng Sui Chun | 4/4 | 100% |
| Mr. Chan Man Chun, Chief Executive Officer | 4/4 | 100% |
| Mr. Wong Ling Sun, Vincent | 4/4 | 100% |
| **Independent Non-Executive Directors:** | | |
| Dr. Lee Peng Fei, Allen | 4/4 | 100% |
| Dr. Leung Chi Keung | 4/4 | 100% |
| Mr. Lam Wai Keung | 4/4 | 100% |

The Board members have no financial, business, family or other material/ relevant relationships with each other save that Ms. Ng Sui Chun is the spouse of the Chairman and Mr. Wong Ling Sun, Vincent is the son of the Chairman and Ms. Ng Sui Chun. When the Board considers any proposal or transaction in which a Director has a conflict of interest, he declares his interest and is required to abstain from voting. Each of the Independent Non-executive Directors has confirmed in writing his independence from the Company in accordance with the guidelines on director independence of the Listing Rules. On this basis, the Company considers all Independent Non-executive Directors to be independent. All Directors disclose to the Board on their first appointment their interests as director or otherwise in other companies or organisations and such declarations of interests are updated semi-annually. Biographical details of the Directors of the Company as at the date of this report are set out on pages 24 to 25 of this annual report.

Given the composition of the Board and the skills, knowledge and expertise that each Director brings to bear in its deliberations, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Company.

## Appointment and Re-election of Directors

The Nomination Committee regularly reviews the structure, size and composition of the Board to ensure its expertise and independence are maintained. A person may be appointed as a Member of the Board at any time either by the shareholders in general meeting or by the Board upon recommendation by the Nomination Committee of the Company. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment. At each annual general meeting of the Company, one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation.

Currently, all Executive Directors and Independent Non-Executive Directors are appointed on a term of three years.

## Chairman and Chief Executive Officer

To ensure a balance of power and authority, the role of the Chairman is separate from that of the Chief Executive Officer ("CEO"). The current CEO is Mr. Chan Man Chun. Mr. Chan Man Chun is also an Executive Director of the Board.

The posts of Chairman and Chief Executive Officer are distinct and separate. The Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the CEO and other Executive Directors. Apart from ensuring that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman also ensures that the Independent Non-Executive Directors make an effective contribution at Board meetings. The CEO is responsible to the Board for managing the business of the Company.

## Executive Committee

The Executive Committee is chaired by the CEO and comprises other three Executive Directors. It meets monthly and is responsible to the Board for overseeing and setting the strategic direction of the Company.

## Remuneration Committee

The Remuneration Committee is chaired by an Independent Non-Executive Director, Dr. Lee Peng Fei, Allen and comprises two Independent Non-Executive Directors, Dr. Leung Chi Keung and Mr. Lam Wai Keung.

The principal responsibilities of Remuneration Committee include formulating a remuneration policy and practices that facilitate the employment of top quality personnel, recommending to the Board on the policy and structure for all remuneration of Directors and senior management and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives. No directors or any of his associates is involved in deciding his own remuneration. The remuneration package of the Directors includes salary, bonus, pensions, medical and life insurance benefit. The remuneration level is determined by reference to the expertise, performance and experience possessed by each Director. Bonus is on a discretionary basis except for a fixed bonus payable to an executive Director Mr. Chan Man Chun pursuant to the service agreement entered on 22 March 2004. Please refer to note 15 to the financial statements for the emoluments of each Director.

In the financial year 2005/06, the Remuneration Committee held one meeting. In accordance with its terms of reference, the Remuneration Committee performed the following work during the year:

- Reviewed the Company's policy and structure for all remuneration of Directors and senior management and made recommendation;
- Reviewed and approved the remuneration packages of Directors and senior management;
- Reviewed and approved performance-based remuneration by reference to corporate goals and objectives resolved by the Board; and
- Reviewed the transactions between the Company and the Directors, or any interest associated with the Directors, to ensure the structure and the terms of the transactions comply with the relevant law and are appropriately disclosed.

The attendance of the meeting was as follows: Dr. Lee Peng Fei, Allen (1/1), Dr. Leung Chi Keung (1/1) and Mr. Lam Wai Keung (1/1).

## Audit Committee

The Audit Committee is responsible to the Board and consists of three Independent Non-Executive Directors, Dr. Lee Peng Fei, Allen, Dr. Leung Chi Keung, and Mr. Lam Wai Keung. The Audit Committee is chaired by Mr. Lam Wai Keung.

The Committee reviewed the completeness, accuracy and fairness of the Company's reports and financial statements and provided assurance to the Board that these comply with accounting standards, stock exchange and legal requirements. The Committee also reviewed the adequacy and effectiveness of the internal control and risk management systems. It reviewed the work done by the internal and external auditors, the relevant fees and terms, results of audits performed by the external auditors and appropriate actions required on significant control weaknesses. The Executive Directors, the external and internal auditors may also attend these meetings.

The Audit Committee held three meetings during the year, the attendance of which was as follows: Mr. Lam Wai Keung (3/3), Dr. Lee Peng Fei, Allen (3/3) and Dr. Leung Chi Keung (3/3).

## Nomination Committee

The Nomination Committee is chaired by an Independent Non-Executive Director, Dr. Leung Chi Keung and comprises two Independent Non-Executive Directors, Dr. Lee Peng Fei, Allen and Mr. Lam Wai Keung. The Nomination Committee nominates and recommends to the Board candidates for filling vacancies on the Board. It also identifies and nominates qualified individuals, who are expected to have such expertise to make a positive contribution to the performance of the Board, to be additional Directors or fill Board vacancies as and when they arise.

Even though there was no new Director appointed, the Nomination Committee held a meeting during the financial year to review the structure, size and composition of the Board. The attendance of which was as follows: Dr. Leung Chi Keung (1/1), Dr. Lee Peng Fei, Allen (1/1) and Mr. Lam Wai Keung (1/1).

## External Auditors

The external auditors are primarily responsible for auditing and reporting on the annual financial statements. For the financial year ended 31 March 2006, the total remuneration paid or payable to the external auditors was HK$750,000, being HK$690,000 for audit and HK$60,000 for tax related services.

## Internal Control and Internal Audit

The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives. The Group does not have internal audit department. The internal audit function has been outsourced to a professional accountancy firm (the "Internal Auditor") as selected by the Audit Committee. The Internal Auditor is independent to the Group and it conducts special audits of areas of concern identified by the Audit Committee annually. The Internal Auditor reports to the Audit Committee directly and the members of the Audit Committee have free and direct access to the Head of the Internal Auditor without reference to the Chairman or Management.

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. For the year under review, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the code provisions on the internal controls of the Code.

## Securities Transactions

The Company has adopted codes of conduct regarding securities transactions by Directors (the "Securities Code") and relevant employees (as defined in the Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. A copy of the Securities Code has been sent to each Director of the Company. Also, formal written notices are sent to the Directors one month before the date of the board meeting to approve the Company's half-year result and annual result, as a reminder that the Directors cannot deal in the securities and derivatives of the Company until after such results have been published.

Under the Securities Code, Directors of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Board and receive a dated written acknowledgement before any dealing.

Having made specific enquiries, all Directors have confirmed that they have complied with the required standard set out in the Securities Code and Model Code throughout the accounting year under review.

Directors' interests as at 31 March 2006 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on pages 28 to 30.

## Investor Relations

The Company continues to enhance relationships and communication with its investors. Detailed information about the Company's performance and activities is provided in the Annual Report and the Interim Report which are sent to shareholders. The Company maintains close communications with investors, analysts, fund managers and the media by individual interviews and meetings. The Group also responds to requests for information and queries from the investors in an informative and timely manner. The Board also welcomes the views of shareholders on matters affecting the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or senior management directly.

In order to promote effective communication, the Company maintains its website at www.amspt.com on which financial and other information relating to the Company and its business are disclosed.

# Directors and Senior Management Profile

## Directors

### Executive Directors

**Mr. Wong Man Kit**, MH, FCILT, aged 64, is one of the founders of the Group and the chairman of the Board of Directors. Mr. Wong has over 31 years' experience in the operation of public transport business in Hong Kong and is responsible for formulating the overall business strategies and corporate development of the Group. Mr. Wong has been a fellow member of Chartered Institute of Transport in Hong Kong since 2000, and is the chairman of the Hong Kong Scheduled (GMB) Licensee Association, a member of The Chinese General Chamber of Commerce and a member of Southern District Board. Mr. Wong is also the honorary president of The University of Hong Kong Foundation for Educational Development and Research. Mr. Wong has been granted the awards of "Medal of Honour" by the HKSAR in 2000 and "Ten Outstanding Young Person Award" by The Hong Kong Junior Chamber of Commerce Ten Outstanding Young Persons Selection in 1981, both in recognition of his outstanding performance and contribution.

**Mr. Chan Man Chun**, MBA, aged 42, is the Chief Executive Officer of the Group. Mr. Chan is actively involved in the overall business operations and is responsible for the implementation of the corporate strategy of the Group. He graduated from the Hong Kong Polytechnic University with a Professional Diploma in Business Studies (Transport) and holds an MBA degree from Brighton University. Mr. Chan is currently a co-opted member of the Southern District Board and a member of the Transport Department Public Light Bus Customer Facilities and Information Group. He is also a spokesperson of the Environmental Light Bus Alliance and the Hong Kong Scheduled (GMB) Licensee Association. Mr. Chan is the Chairman of the Southern District Football Team and Ap Lei Chau Area Community Hall/Centre Management Committee. He joined the Group in July 1989 and he was appointed as Chief Executive Officer of the Group on 1 April 2005.

**Ms. Ng Sui Chun**, aged 55, the wife of Mr. Wong Man Kit, is one of the founders and the finance director of the Group. Ms. Ng has been actively involved in the management of daily operations of the Group for over 24 years and is responsible for the implementation of corporate policy, particularly in the area of finance and administration of the Group. Ms. Ng actively participates in charity activities, including being a committee member of the Association for the Elders of Aberdeen, a member of Zhongshan Overseas Women Association and a committee member of The Tung Wah Group of Hospitals Aberdeen District Committee.

**Mr. Wong Ling Sun**, **Vincent,** aged 31, is the son of Mr. Wong Man Kit and the business development manager of the Group. Mr. Vincent Wong graduated from the University of Winnipeg with a bachelor of arts degree in economics. Prior to joining the Group, Mr. Vincent Wong worked for a large smart card system provider company in Hong Kong. He worked for the Group since 2002 and was responsible for monitoring the operation and internal control of the Group. He was appointed as the executive director on 16 October 2004. Before that, he was the non-executive director of the Group.

### Independent non-executive Directors

**Dr. Leung Chi Keung**, FCILT, OBE, JP, aged 71, is currently the Executive President of the University of Hong Kong Space Global College Suzhou and an Honorary Professor of the University of Hong Kong. He is also the past President and Council Member of the Chartered Institute of Logistics and Transport in Hong Kong. Dr. Leung is also a Research Supervisor of the Master of Arts in Transport Policy and Planning in the University of Hong Kong. Dr. Leung was formerly Director of the Hong Kong Institute of Education, Dean of the Faculty of Arts of the University of Hong Kong, Professor and Head of the Department of Geography and Geology in the University of Hong Kong, Chairman of the Transport Advisory Committee, a Vice President of the Chartered Institute of Logistics and Transport International (London) and President of the Chartered Institute of Transport in Hong Kong. Dr. Leung was also a member of the Town Planning Board, the Boundary and Elections Commission and the Land Auction Panel. He was appointed as an independent non-executive Director in March 2004.

**Dr. Lee Peng Fei**, **Allen**, CBE, BS, FHKIE, JP, aged 66, holds an honorary doctoral degree in engineering from the Hong Kong Polytechnic University and an honorary doctoral degree in laws from the Chinese University of Hong Kong. He was formerly a member of the Hong Kong Legislative Council from 1978 to 1997 and a senior member of the Hong Kong Legislative Council from 1988 to 1991. Dr. Lee was also a member of the Hong Kong Executive Council from 1985 to 1992. He was appointed as an independent non-executive Director in March 2004.

**Mr. Lam Wai Keung**, MA, FCCA, HKICPA, aged 36, is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants. He holds a bachelor degree in social sciences from the University of Hong Kong and a masters degree in international business management from the City University of Hong Kong. Mr. Lam is currently an executive director of a listed company on The London Stock Exchange's Alternative Investment Market. Mr. Lam has over 10 years working experience in accounting and finance, and had worked as a financial controller of two listed companies. He was appointed as an independent non-executive Director in March 2004.

## Senior management of the Group

**Mr. Wong Man Chiu**, MSc, aged 43, has been the engineering manager of the Group since 1993. He is responsible for the management of the Group's repair and maintenance centres. He holds a masters degree in computer science from the University of Manchester in England and a bachelor of engineering degree in mechanical engineering with vehicle option from the Hatfield Polytechnic in England. He also obtained a higher certificate in mechanical engineering from the Hong Kong Polytechnic University. He joined the Group in 1993 and is the brother of Mr. Wong Man Kit.

**Miss Wong Ka Yan**, HKICPA, aged 29, is the qualified accountant, company secretary and accounting manager of the Group. She joined the Group in January 2003 and is responsible for the financial control, management accounting, and financial functions of the Group. She graduated from The Chinese University of Hong Kong with a bachelor degree in business administration (concentrated in general finance) and is an associate member of The Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, she worked for three years for KPMG in auditing. She was appointed as company secretary on 26 July 2005.

**Mr. Wong Yu Fung**, aged 28, is the operation manager of the Group. He holds a bachelor degree in transport and logistics management from RMIT University and a higher diploma in transport studies from the Hong Kong Institute of Vocational Education. Mr. Wong joined the Group in June 2000.

# Directors' Report

The Board of directors (the "Board") of AMS Public Transport Holdings Limited (the "Company") is pleased to present their annual report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") to the shareholders for the year ended 31 March 2006.

## Principal activities

The Company is an investment holding company and its subsidiaries are principally engaged in the operation of green minibus routes and the provision of public light bus ("PLB") related services in Hong Kong. Particulars of the Company's subsidiaries are set out in note 20 to the financial statements.

## Results and dividends

The results of the Group for the year are set out in the consolidated income statement on page 37. The Directors recommend 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 HK12.0 cents) in respect of the year, to shareholders on the register of members on 17 August 2006.

## Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 28 to the financial statements.

## Donations

Charitable donations made by the Group during the year amounted to HK$72,000 (2005: HK$436,000).

## Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

## Principal subsidiaries

Particulars of the Company's principal subsidiaries as at 31 March 2006 are set out in note 20 to the financial statements.

## Bank loans and overdrafts

The bank loans and overdrafts of the Company are shown in notes 23 to the financial statements.

## Share capital

Details of the movements in share capital of the Company are set out in note 26 to the financial statements.

## Distributable reserves

Distributable reserves of the Company at 31 March 2006 amounted to HK$127,933,000 (2005: HK$127,730,000).

## Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 66.

## Directors

The directors during the year and up to the date of this report are:

**Executive Directors:**

Mr. Wong Man Kit
Ms. Ng Sui Chun
Mr. Chan Man Chun
Mr. Wong Ling Sun, Vincent

**Independent non-executive Directors:**

Dr. Leung Chi Keung
Dr. Lee Peng Fei, Allen
Mr. Lam Wai Keung

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Chan Man Chun, Mr. Wong Ling Sun, Vincent, Dr. Leung Chi Keung, Dr. Lee Peng Fei, Allen and Mr. Lam Wai Keung retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The three Independent Non-Executive Directors of the Company were appointed for periods of three years starting from 2004. Pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company had received the annual confirmation of the independence from the three Independent Non-Executive Directors and the Company considered the Independent Non-Executive Directors to be independent.

## Directors' service contracts

Except for the service contract of Mr. Wong Ling Sun, Vincent which commenced from 16 October 2004, each of the Executive Directors has a service contract with the Company commencing from 22 March 2004. All of these contracts cover an initial term of three years, and will continue thereafter until terminated by either party giving to the other not less than six month's written notice expiring not earlier than the date of expiry of the initial term. All Independent Non-Executive Directors are appointed on a term of three years.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

The remuneration of the Directors and the details of the five highest-paid individuals of the Company are set out in note 15 to the financial statements.

## Directors' interests in contracts

For the year ended 31 March 2006, some of the Directors had interests in the following contracts with the Group:

(i) Mr. Wong Man Kit, Ms. Ng Sui Chun and Mr. Wong Ling Sun, Vincent, all being executive Directors, were indirectly interested in a minibus leasing agreement entered between Gurnard Holdings Limited, a wholly owned subsidiary of the Company, as lessee and Maxson Transportation Limited ("Maxson"), Hong Kong & China Transportation Consultants Limited ("HKCT") and Glory Success Transportation Limited ("Glory Success") as lessors. The lessors are beneficially owned and controlled by the major shareholders, the Wong Family;

(ii) A subsidiary of the Company entered a contract with Mr. Chan Man Chun, an executive Director of the Company, to purchase a motor vehicle at a consideration of HK$17,000; and

(iii) A subsidiary of the Company entered a contract with a related company owned by Mr. Wong Man Kit and Ms. Ng Sui Chun to dispose a motor vehicle at a consideration of HK$170,000.

Save as aforesaid, none of the Directors had any material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

## Directors' interests in shares

### Directors' interests in the shares and underlying shares of the Company and its associated corporations

As at 31 March 2006, the interests and short positions of the Directors in the shares and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which as recorded in the register required to be kept under Section 352 of Part XV of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

| | Name of Director | Long position/ Short position | Capacity | Nature of interest | Number of ordinary shares held | Approximate Percentage of share holding |
|---|---|---|---|---|---|---|
| **(1)** | **AMS Public Transport Holdings Limited** | | | | | |
| | Mr. Wong Man Kit (Note a) | Long position | Founder of a discretionary trust | Other | 146,070,000 | 64.21% |
| | | Long position | Beneficial owner | Personal | 2,000,000 | 0.88% |
| | | Long position | Spouse of Ms. Ng Sui Chun | Family | 8,324,000 | 3.66% |
| | Ms. Ng Sui Chun (Notes a & b) | Long position | Beneficiary of a discretionary trust | Other | 146,070,000 | 64.21% |
| | | Long position | Beneficial owner | Personal | 8,324,000 | 3.66% |
| | | Long position | Spouse of Mr. Wong Man Kit | Family | 2,000,000 | 0.88% |
| | Mr. Wong Ling Sun, Vincent (Note a) | Long position | Beneficiary of a discretionary trust | Other | 146,070,000 | 64.21% |
| | | Long position | Beneficial owner | Personal | 2,000,000 | 0.88% |
| | Mr. Chan Man Chun | Long position | Beneficial owner | Personal | 3,320,000 | 1.46% |
| | | Long position | Spouse of Ms. Chan Lai Ling | Family | 200,000 | 0.09% |
| | Dr. Lee Peng Feng, Allen | Long position | Beneficial owner | Personal | 300,000 | 0.13% |
| | Dr. Leung Chi Keung | Long position | Beneficial owner | Personal | 300,000 | 0.13% |
| **(2)** | **Skyblue Group Limited** | | | | | |
| | Mr. Wong Man Kit (Note a) | Long position | Founder of a discretionary trust | Other | 2 | 100% |
| | Ms. Ng Sui Chun (Notes a & b) | Long position | Beneficiary of a discretionary trust | Other | 2 | 100% |
| | Mr. Wong Ling Sun, Vincent (Note a) | Long position | Beneficiary of a discretionary trust | Other | 2 | 100% |
| **(3)** | **Metro Success Investments Limited** | | | | | |
| | Mr. Wong Man Kit (Note a) | Long position | Founder of a discretionary trust | Other | 100 | 100% |
| | Ms. Ng Sui Chun (Notes a & b) | Long position | Beneficiary of a discretionary trust | Other | 100 | 100% |
| | Mr. Wong Ling Sun, Vincent (Note a) | Long position | Beneficiary of a discretionary trust | Other | 100 | 100% |

## Directors' interests in shares (continued)

### Directors' interests in the shares and underlying shares of the Company and its associated corporations (continued)

| | Name of Director | Long position/ Short position | Capacity | Nature of interest | Number of ordinary shares held | Approximate Percentage of share holding |
|---|---|---|---|---|---|---|
| **(4)** | **All Wealth Limited** | | | | | |
| | Mr. Wong Man Kit (Note c) | Long position | Founder of a discretionary trust | Other | 1 | 100% |
| | Ms. Ng Sui Chun (Note b & c) | Long position | Beneficiary of a discretionary trust | Other | 1 | 100% |
| | Mr. Wong Ling Sun, Vincent (Note c) | Long position | Beneficiary of a discretionary trust | Other | 1 | 100% |
| **(5)** | **A.I. International Holdings Limited** | | | | | |
| | Mr. Wong Man Kit (Note c) | Long position | Founder of a discretionary trust | Other | 6 | 100% |
| | Ms. Ng Sui Chun (Note b & c) | Long position | Beneficiary of a discretionary trust | Other | 6 | 100% |
| | Mr. Wong Ling Sun, Vincent (Note c) | Long position | Beneficiary of a discretionary trust | Other | 6 | 100% |
| **(6)** | **Maxson Transportation Limited** | | | | | |
| | Mr. Wong Man Kit (Note c) | Long position | Founder of a discretionary trust | Other | 180,000 | 60% |
| | | Long position | Spouse of Ms. Ng Sui Chun | Family | 30,000 | 10% |
| | Ms. Ng Sui Chun (Notes b & c) | Long position | Beneficiary of a discretionary trust | Other | 180,000 | 60% |
| | | Long position | Beneficial owner | Personal | 30,000 | 10% |
| | Mr. Wong Ling Sun, Vincent (Note c) | Long position | Beneficiary of a discretionary trust | Other | 180,000 | 60% |
| | | Long position | Beneficial owner | Personal | 45,000 | 15% |
| **(7)** | **Hong Kong & China Transportation Consultants Limited** | | | | | |
| | Mr. Wong Man Kit (Note c) | Long position | Founder of a discretionary trust | Other | 6,000 | 60% |
| | | Long position | Spouse of Ms. Ng Sui Chun | Family | 1,000 | 10% |
| | Ms. Ng Sui Chun (Notes b & c) | Long position | Beneficiary of a discretionary trust | Other | 6,000 | 60% |
| | | Long position | Beneficial owner | Personal | 1,000 | 10% |
| | Mr. Wong Ling Sun, Vincent (Note c) | Long position | Beneficiary of a discretionary trust | Other | 6,000 | 60% |
| | | Long position | Beneficial owner | Personal | 1,500 | 15% |

Notes:

(a) As at 31 March 2006, a total of 146,070,000 shares of the Company were held by Skyblue Group Limited ("Skyblue"), which is a wholly owned subsidiary of Metro Success Investments Limited ("Metro Success"). Metro Success is a wholly owned subsidiary of JETSUN UT CO. LTD. ("JETSUN"), which is the trustee of The JetSun Unit Trust, of which 9,999 units are owned by HSBC International Trustee Limited ("HSBCITL") as the trustee of The JetSun Trust and the remaining 1 unit is owned by Mr. Wong Ling Sun, Vincent. The entire issued share capital of JETSUN is owned by HSBCITL. Mr. Wong Man Kit is the settlor of The JetSun Trust, which is a discretionary trust and its discretionary objects include Mr. Wong Ling Sun, Vincent and Ms. Ng Sui Chun.

(b) Ms. Ng Sui Chun is one of the discretionary objects of the discretionary trust as mentioned in Note (a) above and she personally held long position of 8,324,000 shares of the Company as at 31 March 2006.

(c) All Wealth Limited ("All Wealth"), A.I. International Holdings Limited ("AIIH"), Maxson and HKCT (collectively "Associated Corporations") are associated corporations within the meaning of Part XV of the SFO of the Company by virtue of Metro Success's interests in the entire issued share capital of each of the Associated Corporations. Mr. Wong Man Kit, being the settlor of The JetSun Trust, and Ms. Ng Sui Chun and Mr. Wong Ling Sun, Vincent, being the discretionary objects of The JetSun Trust, are deemed to be interested in all the Associated Corporations.

## Directors' interests in shares (continued)

### Directors' interests in the shares and underlying shares of the Company and its associated corporations (continued)

Save as disclosed herein and other than certain shares in subsidiaries held as nominees by certain directors of the Group, none of the directors and their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on page 24 to 25.

## Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Share option scheme

Pursuant to the written resolution passed by all shareholders of the Company on 22 March 2004, the share option scheme ("Share Option Scheme") was adopted by the Company.

### Summary of the Share Option Scheme

(a) *Purpose of the Share Option Scheme*
The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives for their contribution to the Group.

(b) *Participants of the Share Option Scheme*
Pursuant to the Share Option Scheme, the Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(i) any employee or proposed employee (whether full-time or part-time and including any executive director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity,

and for the purpose of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the relevant participants' contribution to the development and growth of the Group.

## Share options scheme (continued)

**Summary of the share option scheme** (continued)

(c) *Total number of shares available for issue under the Share Option Scheme*

The total number of Shares which may be issued upon exercise of all outstanding options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of the approval of the limit. The Scheme Mandate Limit under the Share Option Scheme was refreshed and renewed by ordinary resolution passed by the shareholders at an extraordinary general meeting held on 25 July 2005 which enabled the grant of further share options to subscribe up to 22,750,000 shares (the "Scheme Mandate Limit") representing 10% of the shares in issue as at the said date and at the date of this report.

The Company may seek approval of its shareholders in general meeting to refresh the Scheme Mandate Limit subject to requirements under Chapter 17 of the Listing Rules provided that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme under the limit as "refreshed" must not exceed 10% of the shares in issue as at the date of approval of the limit. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time.

(d) *Maximum entitlement of each participant*

Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue.

(e) *Time of exercise of options*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination set out in the Share Option Scheme.

(f) *Minimum period for which an option must be held before it can be exercised*

The Directors will have the absolute discretion to fix the minimum period for which an option must be held before it can be exercised.

(g) *Payment on acceptance of option*

Pursuant to the Share Option Scheme, a nominal consideration of HK$1.00 is payable on acceptance of the grant of an option.

(h) *Basis of determining the subscription price*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the nominal value of the Shares, (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five consecutive trading days immediately preceding the date of grant of the option; and (iii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a trading day).

(i) *Remaining life of the Share Option Scheme*

The Share Option Scheme will continue to be in full force and effect until 14 April 2014 (i.e. 10 years commencing on the date on which the Share Option Scheme becomes unconditional) unless terminated by the Company by resolution in general meeting. After termination, no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

## Outstanding share options

Details of the outstanding options of the Company as at 31 March 2006 which have been granted under the Share Option Scheme are as follows:

| Name of Directors | Outstanding at 1 April 2005 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options lapsed during the year | Outstanding at 31 March 2006 |
|---|---|---|---|---|---|
| *Category 1: Directors* (Note 1) | | | | | |
| Mr. Wong Man Kit | 2,000,000 | – | – | – | 2,000,000 |
| Ms. Ng Sui Chun | 2,000,000 | – | – | – | 2,000,000 |
| Mr. Chan Man Chun | 2,000,000 | – | – | – | 2,000,000 |
| Mr. Wong Ling Sun, Vincent | 2,000,000 | – | – | – | 2,000,000 |
| Dr. Lee Peng Feng, Allen | 300,000 | – | – | – | 300,000 |
| Dr. Leung Chi Keung | 300,000 | – | – | – | 300,000 |
| Total Directors | 8,600,000 | – | – | – | 8,600,000 |
| *Category 2: Employees* (Note 2) | 4,450,000 | – | – | (120,000) | 4,330,000 |
| Total all categories | 13,050,000 | – | – | (120,000) | 12,930,000 |

Notes:

(1) The exercise price is HK$1.57 per share and the option period during which the options may be exercised is from 9 November 2004 to 7 November 2014. The date of grant was 8 November 2004, and the closing price of share immediately before the date of grant was HK$1.56. The options were vested on 8 November 2004 and was exercisable in the next business day on 9 November 2004 and up to 7 November 2014.

(2) A total of 4,450,000 options were granted to employees on 8 November 2004. Out of the balance, 2,450,000 options were to be vested in five equal tranches on 8 November 2004, 2005, 2006, 2007 and 2008. The first tranche vested on 8 November 2004 was exercisable in the next business day on 9 November 2004 and up to 7 November 2014. The second, third, fourth and fifth tranches were exercisable when vested and exercisable up to 7 November 2014. The remaining 2,000,000 options were vested on 8 November 2004 and was exercisable in the next business day on 9 November 2004 and up to 7 November 2014.

(3) The exercise price is HK$1.57 per share and the date of grant was 8 November 2004, and the closing price of share immediately before the date of grant was HK$1.56. No option was exercised during the year ended 31 March 2006 but 120,000 options were lapsed upon the retirement of a grantee who was the employee of the Group.

In respect of the disclosure of value of options and the accounting policy adopted for the options, please refer to the note 27 to the financial statements.

## Major customers and suppliers

The five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year ended 31 March 2006.

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

### Purchases

| | | |
|---|---|---|
| – the largest supplier | 11.7% | (2005: 10%) |
| – five largest suppliers combined | 40.6% | (2005: 39%) |

Mr. Wong Man Kit, Ms. Ng Sui Chun and Mr. Wong Ling Sun, Vincent, the Directors of the Company, are the directors and beneficial shareholders of the Group's second to fourth largest suppliers.

## Connected transactions

Significant related party transactions entered by the Group during the year ended 31 March 2006, which also constitute connected transactions under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), required to be disclosed in accordance with Chapter 14A of the Listing Rules, are as follows:

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Continuing: | | |
| PLB hire charges paid to related companies (note a) | **52,158** | 47,084 |
| Agency fee income received from related companies (note a) | **2,171** | 2,149 |
| Discontinued: | | |
| Purchase of a motor vehicle from a Director (note b) | **17** | – |
| Disposal of a motor vehicle to a related company (note c) | **170** | – |

Notes:

(a) Pursuant to the Minibus Leasing Agreement (the "Original Minibus Leasing Agreement") and Minibus Service Agreement dated 22 March 2004, the public light bus ("PLB") hire charges, after deduction of the agency fee, payable to Maxson, HKCT and Glory Success would constitute continuing connected transactions for the Company.

In compliance with the conditional waivers granted to the Company by the Stock Exchange from strict compliance with the announcement and shareholders' approval requirements under Rule 14A.42(3) of the Listing Rules in respect of the foregoing connected transactions, the directors including the Independent Non-Executive Directors of the Company have reviewed and confirmed that:

1. the foregoing continuing connected transactions with HKCT, Maxson and Glory Success were entered into:

   (a) in the ordinary and usual course of the Group's business;

   (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

   (c) in accordance with the respective agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;

2. the aggregate amount for the year ended 31 March 2006 payable by the Group under the Original Minibus Leasing Agreement, after deduction of the agency fee, did not exceed HK$60,000,000 (the "Cap Amount") in accordance to the waivers previously granted by the Stock Exchange.

In accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings for the selected samples based on the agreed procedures to the Board of Director.

The Original Minibus Leasing Agreement had been expired on 31 March 2006. On 8 February 2006, the Group conditionally entered into a new minibus leasing agreement with HKCT, Maxson and Glory Success ("New Minibus Leasing Agreement") for the further term of three years till 31 March 2009 with the same rental rate as the Original Minibus Leasing Agreement. The new annual cap for total amount rentals payable by the Group to HKCT, Maxson and Glory Success, after deduction of the agency fee, is HK$74,000,000. The transactions under the New Minibus Leasing Agreement constitute non-exempt continuing connected transactions of the Company in accordance with Chapter 14A of the Listing Rules. An extraordinary shareholders' meeting had been held on 21 March 2006 and the resolutions of approving the New Minibus Leasing Agreement and the new cap amount had been passed. An announcement dated 8 February 2006 was published and a circular dated 2 March 2006 was sent to the shareholders.

(b) On 30 November 2005, a subsidiary of the Company entered a contract with Mr. Chan Man Chun, an executive Director of the Company, to purchase a motor vehicle at a consideration of HK$17,000 for the purpose of administrative use. The transaction was entered into in the ordinary and usual course of the Group's business and was at arm's length.

(c) On 7 March 2006, a subsidiary of the Company entered a contract with a related company owned by the executive Directors Mr. Wong Man Kit and Ms. Ng Sui Chun to dispose a motor vehicle at a consideration of HK$170,000. The transaction was entered into in the ordinary and usual course of the Group's business and was at arm's length.

## Major Transaction

The Company entered into a share purchase agreement with Praise Capital International Limited and Excel Strategy Limited on 9 January 2006 for the acquisition of 80% equity interest in Chinalink Express Holdings Limited. The transaction was completed on 30 May 2006. This transaction constituted a major transaction under the Listing Rules of the Stock Exchange in respect of which an announcement dated 11 January 2006 was published and a circular dated 30 May 2006 was sent to shareholders.

## Substantial shareholders

As at 31 March 2006, the following persons (other than the Directors of the Company) who have interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of Shareholder | | Number of shares/ underlying shares held | Percentage |
|---|---|---|---|
| HSBCITL | (Note a) | 160,020,000 | 70.34% |
| JETSUN | (Note a) | 146,070,000 | 64.21% |
| Metro Success | (Note a) | 146,070,000 | 64.21% |
| Skyblue | (Note a) | 146,070,000 | 64.21% |
| Cheah Cheng Hye ("CCH") | (Note c) | 20,612,000 | 9.06% |
| Value Partners Limited ("VPL") | (Note c) | 20,612,000 | 9.06% |
| Value Partners High-Dividend Stocks Fund ("VP-HDSF") | (Note c) | 20,612,000 | 9.06% |
| Bermuda Trust (Cook Islands) Limited ("BTL") | (Note b) | 13,500,000 | 5.93% |
| The Seven International Holdings Limited ("SIHL") | (Note b) | 13,500,000 | 5.93% |
| The Seven Capital Limited ("SCL") | (Note b) | 13,500,000 | 5.93% |

Notes:

(a) As at 31 March 2006, a total of 146,070,000 shares were held by Skyblue, a wholly-owned subsidiary of Metro Success, which in turn is a wholly owned subsidiary of JETSUN. JETSUN is the trustee of The JetSun Unit Trust, of which 9,999 units are owned by HSBCITL as the trustee of The JetSun Trust and the remaining 1 unit is owned by Mr. Wong Ling Sun, Vincent. The entire issued share capital of JETSUN is owned by HSBCITL.

(b) As at 31 March 2006, these shares are held by SCL, a wholly owned subsidiary of SIHL, which in turn is a wholly owned subsidiary of BTL. BTL is accustomed and obliged to act in accordance with the discretions or instructions of HSBCITL.

(c) As at 31 March 2006, these shares are held by VP- HDSF. Its investment manager is VPL, which in turn is controlled by CCH.

All the interests disclosed above represent long position in the shares of the Company.

Save as disclosed herein, the Company has not been notified of any other person (other than a director and chief executive of the Company) who has an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 March 2006.

## Model code for securities transactions by Directors (the "Model Code")

The Company has adopted codes of conduct regarding securities transactions by Directors (the "Securities Code") and relevant employees on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 of the Listing Rules throughout the year ended 31 March 2006. The Company had also made specific enquiries of all Directors and the Company was not aware of any non-compliance with the required standard of dealings set out in the Model Code and its code of conduct regarding securities transactions by Directors.

# Directors' Report (continued)

## Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained the amount of public float as required by the Listing Rules at the date of the annual report.

## Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code and "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The committee comprises the three independent non-executive directors of the Company and one of them possesses professional qualification in accounting. An audit committee meeting has been held on 12 July 2006 to review the Group's annual financial statements and annual results announcement and to provide advice and recommendations to the board of directors of the Company.

## Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Purchase, sale or redemption of the Company's listed securities

During the year ended 31 March 2006, neither the Company nor any of the subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

**Wong Man Kit**
*Chairman*

Hong Kong, 12 July 2006

# Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF
**AMS PUBLIC TRANSPORT HOLDINGS LIMITED**
*(incorporated in Cayman Islands with limited liability)*

We have audited the financial statements on pages 37 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## Respective responsibilities of directors and auditors

The directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 12 July 2006

# Consolidated Income Statement

For the year ended 31 March 2006

| | Note | 2006<br>HK$'000 | 2005<br>(Restated)<br>HK$'000 |
|---|---|---|---|
| Turnover | 6 | **265,318** | 254,913 |
| Direct costs | | **(211,559)** | (192,514) |
| | | **53,759** | 62,399 |
| Other income | 7 | **5,001** | 3,653 |
| Administrative expenses | | **(26,393)** | (25,473) |
| Other operating expenses | | **(2,447)** | (1,210) |
| Operating profit | 8 | **29,920** | 39,369 |
| Finance costs | 9 | **(1,352)** | (859) |
| Profit before income tax | | **28,568** | 38,510 |
| Income tax expense | 10 | **(5,036)** | (6,446) |
| Profit attributable to equity holders of the Company | 11 | **23,532** | 32,064 |
| Dividends | 12 | **29,575** | 27,300 |
| Earnings per share | | | |
| – Basic | 13 | **10.34 cents** | 15.02 cents |
| – Diluted | 13 | **10.33 cents** | N/A |

# Consolidated Balance Sheet

As at 31 March 2006

| | Note | 2006<br>HK$'000 | 2005<br>(Restated)<br>HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **17,572** | 18,615 |
| Leasehold land | 17 | **6,669** | 6,822 |
| PLB licences | 18 | **127,600** | 140,280 |
| Goodwill/PLB operating rights | 19 | **9,118** | 9,118 |
| Deferred income tax assets | 29 | **234** | 162 |
| **Total non-current assets** | | **161,193** | 174,997 |
| **Current assets** | | | |
| Trade and other receivables | 21 | **52,909** | 3,712 |
| Tax recoverable | | **1,732** | 1,544 |
| Cash and bank balances | 22 | **34,358** | 93,656 |
| **Total current assets** | | **88,999** | 98,912 |
| **Total assets** | | **250,192** | 273,909 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the equity holders of the Company** | | | |
| Share capital | 26 | **22,750** | 22,750 |
| Reserves | 28 | **181,695** | 203,753 |
| **Total equity** | | **204,445** | 226,503 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 23 | **29,977** | 31,703 |
| Deferred income tax liabilities | 29 | **650** | 988 |
| **Total non-current liabilities** | | **30,627** | 32,691 |
| **Current liabilities** | | | |
| Borrowings | 23 | **2,073** | 3,088 |
| Trade and other payables | 24 | **12,508** | 11,297 |
| Tax payable | | **539** | 330 |
| **Total current liabilities** | | **15,120** | 14,715 |
| **Total liabilities** | | **45,747** | 47,406 |
| **Total equity and liabilities** | | **250,192** | 273,909 |
| **Net current assets** | | **73,879** | 84,197 |
| **Total assets less current liabilities** | | **235,072** | 259,194 |

On behalf of the Board

**Wong Man Kit**
*Chairman*

**Ng Sui Chun**
*Director*

# Balance Sheet

As at 31 March 2006

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Subsidiaries | 20 | **146,778** | 96,778 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 20 | **35,968** | 28,160 |
| Other receivables | | **109** | 109 |
| Cash and bank balances | 22 | **15,866** | 73,264 |
| **Total current assets** | | **51,943** | 101,533 |
| **Total assets** | | **198,721** | 198,311 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the equity holders of the Company** | | | |
| Share capital | 26 | **22,750** | 22,750 |
| Reserves | 28 | **175,902** | 175,509 |
| **Total equity** | | **198,652** | 198,259 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other payables | | **69** | 52 |
| **Total liabilities** | | **69** | 52 |
| **Total equity and liabilities** | | **198,721** | 198,311 |
| **Net current assets** | | **51,874** | 101,481 |
| **Total assets less current liabilities** | | **198,652** | 198,259 |

On behalf of the Board

**Wong Man Kit**
*Chairman*

**Ng Sui Chun**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

| | HK$'000 |
|---|---|
| At 31 March 2005, as previously reported | 230,992 |
| Effect of adopting HKAS 17 | (4,489) |
| At 31 March 2005, as restated | 226,503 |
| Net losses recognised directly in equity | |
| – Deficit on revaluation of PLB licences | (18,480) |
| Profit for the year | 23,532 |
| Total recognised income for the year | 5,052 |
| Employees share option scheme | |
| – value of employee services | 190 |
| Dividend paid | (27,300) |
| **Total equity at 31 March 2006** | **204,445** |
| At 31 March 2004, as previously reported | 117,240 |
| Effect of adopting HKAS 17 | (4,510) |
| At 31 March 2004, as restated | 112,730 |
| Net gains recognised directly in equity | |
| – Surplus on revaluation of PLB licences | 26,880 |
| Profit for the year, as restated | 32,064 |
| Total recognised income for the year | 58,944 |
| Share issuance costs | (6,871) |
| Issue of shares | 84,525 |
| Dividend paid | (22,825) |
| Total equity at 31 March 2005, as restated | 226,503 |

# Consolidated Cash Flow Statement

For the year ended 31 March 2006

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31(a) | **35,688** | 34,436 |
| Interest received | | **1,727** | 313 |
| Interest paid for bank loans and overdrafts | | **(1,352)** | (826) |
| Hong Kong profits tax paid | | **(5,425)** | (10,086) |
| Net cash generated from operating activities | | **30,638** | 23,837 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(3,506)** | (2,428) |
| Proceeds from disposals of property, plant and equipment | | **191** | 162 |
| Purchase of a PLB licence | | **(6,580)** | – |
| Deposit for acquisition of equity interest of Chinalink | 33 | **(50,000)** | – |
| Net cash used in investing activities | | **(59,895)** | (2,266) |
| **Cash flows from financing activities** | 31(b) | | |
| Proceeds from issue of shares | | **–** | 84,525 |
| Repayment of bank loans | | **(1,972)** | (2,106) |
| Share issuance costs | | **–** | (6,871) |
| Dividends paid | | **(27,300)** | (22,825) |
| Net cash (used in)/generated from financing activities | | **(29,272)** | 52,723 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(58,529)** | 74,294 |
| **Cash and cash equivalents at the beginning of the year** | | **92,737** | 18,443 |
| **Cash and cash equivalents at the end of the year** | | **34,208** | 92,737 |
| **Analysis of cash and cash equivalents** | | | |
| Cash and bank balances | | **34,358** | 93,656 |
| Bank overdrafts | | **(150)** | (919) |
| | | **34,208** | 92,737 |

# Notes to the Financial Statements

## 1. General information

AMS Public Transport Holdings Limited (the "Company") was incorporated in the Cayman Islands on 18 March 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O.Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Main Board") since 15 April 2004.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of franchised public light bus ("PLB") transportation services in Hong Kong.

The financial statements are presented in thousands of Hong Kong ("HK") dollars unless otherwise stated. The financial statements have been approved for issue by the Board of Directors of the Company on 12 July 2006.

## 2. Summary of principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, except for PLB licences which are stated at fair value as disclosed below.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses for the year then ended. Although these estimates are based on management's best knowledge of event and actions, actual results ultimately may differ from those estimates.

### (b) Changes in accounting policies

*The adoption of new/revised HKFRS*

During the year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 (Amendment) | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HK(SIC)-Int 15 | Operating Leases – Incentives |
| HK(SIC)-Int 21 | Income Taxes – Recovery of Revalued Non-Depreciated Assets |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business Combinations |
| HK-Int 4 | Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases |

## 2. Summary of principal accounting policies (continued)

### (b) Changes in accounting policies (continued)

*The adoption of new/revised HKFRS (continued)*

(i) The adoption of new/revised HKASs 1, 7, 8, 10, 16, 21, 23, 24, 27, 32, 33, 36, 37, 39, HK(SIC)-Ints 15, 21 and HK-Int 4 did not result in substantial changes to the Group's accounting policies except for certain changes in presentation of and disclosure in the financial statements.

(ii) The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at directors' valuation made in 1994 or cost less accumulated depreciation and accumulated impairment. HKAS 17 has been applied retrospectively in the consolidated financial statements.

(iii) The adoption of HKAS 38 and HKFRS 3 has resulted in a change in the accounting policy on the PLB operating rights. In prior years, the PLB operating rights, which are with indefinite useful lives, were stated at cost less accumulated amortisation and accumulated impairment losses, and the amortisation was charged to the income statement on a straight-line basis over twenty years. Effective from 1 April 2005, the PLB operating rights were reclassified as goodwill as they did not meet the recognition criteria in HKAS 38. Amortisation of the PLB operating rights ceased on 31 March 2005, and the accumulated amortisation was eliminated against the cost at 1 April 2005. HKAS 38 and HKFRS 3 have been applied prospectively in the consolidated financial statements since the effective date.

(iv) The adoption of HKFRS 2 has resulted in a change in the accounting policy on share-based payments. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement. The Group has applied the transitional provision under HKFRS 2, the cost for the share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was recognised as an expense in the income statement. The impact of this change is not material and therefore a prior period adjustment has not been made.

All changes in these accounting policies have been made in accordance with the transitional provisions in the respective standards.

*Summary of effects of changes in accounting policies*

(i) Consolidated income statement

| **Year ended 31 March 2006** | **Effect of adopting new HKFRS** | | | |
|---|---|---|---|---|
| | **HKAS 17<br>HK$'000** | **HKAS 38<br>& HKFRS 3<br>HK$'000** | **HKFRS 2<br>HK$'000** | **Total<br>HK$'000** |
| Increase/(decrease) in profit attributable to equity holders of the Company: | | | | |
| Direct costs | – | – | (63) | (63) |
| Administrative expenses | 27 | 573 | (127) | 473 |
| Income tax expense | (3) | – | – | (3) |
| Net profit | 24 | 573 | (190) | 407 |
| Earnings per share | | | | |
| – Basic (HK cents) | 0.01 | 0.25 | (0.08) | 0.18 |
| – Diluted (HK cents) | 0.01 | 0.25 | (0.08) | 0.18 |

## 2. Summary of principal accounting policies (continued)

### (b) Changes in accounting policies (continued)

*Summary of effects of changes in accounting policies (continued)*

(i) Consolidated income statement (continued)

| Year ended 31 March 2005 | Effect of adopting new HKFRS HKAS 17 HK$'000 |
|---|---|
| Increase in profit attributable to equity holders of the Company: | |
| Administrative expenses | 27 |
| Income tax expenses | 18 |
| Net profit | 45 |
| Earnings per share – Basic (HK cents) | 0.02 |

(ii) Consolidated balance sheets

| **As at 31 March 2006** | **Effect of adopting new HKFRS** | | | |
|---|---|---|---|---|
| | **HKAS 17 HK$'000** | **HKAS 38 & HKFRS 3 HK$'000** | **HKFRS 2 HK$'000** | **Total HK$'000** |
| Increase/(decrease) in: | | | | |
| ASSETS | | | | |
| Property, plant and equipment | **(12,171)** | **–** | **–** | **(12,171)** |
| Leasehold land | **6,669** | **–** | **–** | **6,669** |
| PLB operating rights | **–** | **(8,545)** | **–** | **(8,545)** |
| Goodwill | **–** | **9,118** | **–** | **9,118** |
| Total assets | **(5,502)** | **573** | **–** | **(4,929)** |
| EQUITY | | | | |
| Retained profits | **1,014** | **573** | **(190)** | **1,397** |
| Fixed assets revaluation reserve | **(5,503)** | **–** | **–** | **(5,503)** |
| Share option reserve | **–** | **–** | **190** | **190** |
| Total equity | **(4,489)** | **573** | **–** | **(3,916)** |
| LIABILITIES | | | | |
| Deferred tax liabilities | **(1,013)** | **–** | **–** | **(1,013)** |
| Total liabilities and equity | **(5,502)** | **573** | **–** | **(4,929)** |

## 2. Summary of principal accounting policies (continued)

### (b) Changes in accounting policies (continued)

*Summary of effects of changes in accounting policies (continued)*

(ii) Consolidated balance sheets (continued)

| As at 31 March 2005 | Effect of adopting new HKFRS<br>HKAS 17<br>HK$'000 |
|---|---|
| Increase/(decrease) in: | |
| ASSETS | |
| Property, plant and equipment | (12,351) |
| Leasehold land | 6,822 |
| Total assets | (5,529) |
| EQUITY | |
| Retained profits | 990 |
| Fixed assets revaluation reserve | (5,479) |
| Total equity | (4,489) |
| LIABILITIES | |
| Deferred tax liabilities | (1,040) |
| Total liabilities and equity | (5,529) |

### (c) Standards, interpretations and amendments to standards that are not yet effective

The HKICPA has issued certain new standards, amendments and interpretations which are not yet effective for the current year. Those which are relevant to the Group's operations are as follows:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKAS 19 (Amendment) | Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures | 1 January 2006 |
| HKAS 39 (Amendment) | Financial Instruments: Recognition and Measurement – The Fair Value Option | 1 January 2006 |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease | 1 January 2006 |
| HKAS 1 (Amendment) | Presentation of Financial Statements: Capital Disclosures | 1 January 2007 |
| HKFRS 7 | Financial Instruments: Disclosures | 1 January 2007 |

The Group has not early adopted the above standards, interpretations and amendments in the financial statements for the year ended 31 March 2006. Management has already commenced an assessment of the related impact but is not yet in a position to analyse the effect of these on the Group's financial statements.

## 2. Summary of principal accounting policies (continued)

### (d) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (e) Segment reporting

A business segment is a group of assets and operation engaged in providing products or services that are subject to risk and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

### (f) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency. All entities within the Group have HK dollars as their functional currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### (g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost less accumulated impairment losses of each asset to its residual value over its estimated useful life, as follows:

| | |
|---|---|
| Buildings | Not more than 50 years |
| Leasehold improvements | 5 years |
| Furniture, fixtures and equipment | 5 years |
| PLBs and public buses | 5 years |
| Motor vehicles | 5 years |

## 2. Summary of principal accounting policies (continued)

### (g) Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Profit or loss on disposal is determined by comparing the net sales proceed and the carrying amount of the relevant asset, and is recognised in the income statement.

### (h) PLB licences

PLB licences, which represent freely-transferable licences to provide PLB transportation services in Hong Kong, are stated in the balance sheet at open market value to be assessed at least annually by the directors and/or independent qualified valuers, less accumulated impairment losses, if any. Changes arising on the revaluation of PLB licences are generally dealt with in reserves, except that (i) when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same licence immediately prior to the revaluation; and (ii) when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same licence had previously been charged to the income statement.

The directors consider that the PLB licences have indefinite useful lives. In addition, there is an active market for PLB licences and the Group does not foresee any indicators that the residual value of each licence will be less than its prevailing market price. Accordingly, PLB licences are not amortised. The useful life of PLB licence is subject to annual assessment to determine whether events and circumstances continue to support an indefinite useful life exist for such asset.

On disposal of PLB licences, the related portion of surpluses previously taken to the PLB licences revaluation reserve is transferred to retained profits and is shown as a movement in reserves.

### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in non-current assets on the consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

### (j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### (k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

## 2. Summary of principal accounting policies (continued)

### (l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (n) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### (o) Employee benefits

*(i) Pension obligations*

The Group contributes to Mandatory Provident Fund Schemes (the "MPF Schemes"), which are defined contribution schemes managed by independent trustees and available to all employees. Contributions to the MPF Schemes by the Group and employees are calculated as defined under the Mandatory Provident Fund legislation.

The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*(ii) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(iii) Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

## 2. Summary of principal accounting policies (continued)

### (p) Revenue recognition

Turnover comprises service income from provision of PLB services and residents' bus services and PLB rental income.

PLB and residents' bus services income is recognised upon provision of the relevant services.

Operating lease rental income from PLB is recognised on a straight-line basis over the lease periods.

Repair and maintenance service income is recognised upon provision of the relevant services.

Interest income is recognised on a time proportion basis using the effective interest rate method.

Agency fee income and advertising income is recognised upon provision of the relevant services.

### (q) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred.

### (r) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

### (s) Dividend distribution

Dividend distribution to the equity holders of the Company is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the equity holders or directors of the Company.

## 3. Financial risk management

### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Foreign exchange risk*

The Group has no significant foreign exchange risk because the Group's operations are based in HK and all income and expenditures derived are denominated in HK dollars.

(b) *Price risk*

The Group is exposed to fuel price risk. As at 31 March 2006, the Group did not have any hedging policies over its anticipated fuel consumption.

(c) *Credit risk*

The Group has no significant concentrations of credit risk because of its diverse customer base.

(d) *Liquidity risk*

The Group aims to maintain liquidity by keeping committed credit lines available.

(e) *Interest rate risk*

The Group's interest rate risk arises from long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk.

## 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Estimate of fair value for PLB licences

The best evidence of fair value is current prices in an active market for similar transactions. The PLB licences were revalued on an open market basis on 31 March 2006 by independent qualified valuers.

### (b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 19).

## 5. Segment reporting

No analysis of the Group's turnover and operating profit by geographical segment or business segment has been presented as over 90% of the turnover and operating profits are attributable to the provision of PLB and residents' bus services in Hong Kong.

## 6. Turnover

| | **2006**<br>**HK$'000** | 2005<br>HK$'000 |
|---|---|---|
| PLB and residents' bus services income | **263,224** | 251,976 |
| PLB rental income | **2,094** | 2,937 |
| | **265,318** | 254,913 |

## 7. Other income

| | **2006**<br>**HK$'000** | 2005<br>HK$'000 |
|---|---|---|
| Agency fee income | **2,364** | 2,345 |
| Interest income | **1,727** | 313 |
| Repair and maintenance service income | **437** | 137 |
| Advertising income | **394** | 402 |
| Sundry income | **79** | 456 |
| | **5,001** | 3,653 |

## 8. Operating profit

Operating profit is stated after charging the following:

| | 2006 HK$'000 | 2005 (Restated) HK$'000 |
|---|---|---|
| Fuel cost | **44,150** | 35,185 |
| Employee benefit expenses (including directors' emoluments) (Note 14) | **104,569** | 97,651 |
| Operating lease rental in respect of | | |
| – land and buildings | **4** | 35 |
| – PLBs | **58,093** | 52,828 |
| Depreciation of property, plant and equipment | **4,270** | 3,770 |
| Amortisation charge of | | |
| – PLB operating rights | **–** | 573 |
| – leasehold land | **153** | 153 |
| Deficit on revaluation of PLB licences | **780** | – |
| Net loss on disposal of property, plant and equipment | **88** | 49 |
| Auditors' remuneration | **690** | 680 |

## 9. Finance costs

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Interest on bank loans and overdrafts | **1,352** | 859 |

## 10. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

The amount of income tax charged to the consolidated income statement represents:

| | 2006 HK$'000 | 2005 (Restated) HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | **5,446** | 6,219 |
| Deferred income tax (Note 29) | **(410)** | 227 |
| | **5,036** | 6,446 |

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

| | 2006 HK$'000 | 2005 (Restated) HK$'000 |
|---|---|---|
| Profit before income tax | **28,568** | 38,510 |
| Tax calculated at 17.5% (2005: 17.5%) | **4,999** | 6,739 |
| Expenses not deductible for tax purpose | **17** | 114 |
| Income not subject to tax | **(303)** | (55) |
| Under/(over) provisions in prior years | **327** | (326) |
| Others | **(4)** | (26) |
| Income tax expense | **5,036** | 6,446 |

## 11. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of HK$27,503,000 (2005: HK$54,035,000).

## 12. Dividends

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Final, proposed, of HK9.0 cents (2005: HK12.0 cents) per ordinary share | **20,475** | 27,300 |
| Special, proposed, of HK4.0 cents (2005: Nil) per ordinary share | **9,100** | – |
| | **29,575** | 27,300 |

At a meeting held on 12 July 2006, the directors proposed a final dividend of HK9.0 cents (2005: HK12.0 cents) and a special dividend of HK4.0 cents (2005: nil) per ordinary share for the year ended 31 March 2006. This proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained profits for the year ending 31 March 2007.

## 13. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 March 2006 is based on the Group's profit attributable to shareholders of HK$23,532,000 (restated 2005: HK$32,064,000) and the weighted average number of ordinary shares in issue of approximately 227,500,000 (2005: 213,507,000) during the year.

### (b) Diluted earnings per share

Diluted earnings per share is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the year, after adjusting for the number of potential dilutive shares deemed to be issued at no considerations as if all outstanding share options granted by the Company had been exercised.

Details of calculation of diluted earnings per share for the year ended 31 March 2006 are shown as follows:

| | |
|---|---|
| Profit attributable to equity holders of the Company for the year (in HK$'000) | **23,532** |
| Weighted average number of ordinary shares in issue (in thousands) | **227,500** |
| Adjustments for the assumed conversion of share options (in thousands) | **164** |
| Weighted average number of shares for diluted earnings per share (in thousands) | **227,664** |
| Diluted earnings per share (in HK cents) | **10.33** |

No diluted earnings per share is presented for the year ended 31 March 2005, as the share options have no dilutive effect on ordinary shares for the year because the exercise prices of the Company's share options were higher than the average market price for shares in the year.

## 14. Employee benefit expenses

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Wages and salaries | **99,996** | 93,500 |
| Pension costs – defined contribution plans | **4,383** | 4,151 |
| Share option expenses | **190** | – |
| | **104,569** | 97,651 |

## 15. Directors' emoluments and five highest paid individuals

### (a) Directors' emoluments

The remuneration of each of the directors is set out below:

| | CASH | | | NON-CASH | | |
|---|---|---|---|---|---|---|
| | Fees HK$'000 | Basic salaries and double pay HK$'000 | Bonus HK$'000 | Pension costs – defined contribution plans HK$'000 | Other benefits HK$'000 | Total HK$'000 |
| For the year ended 31 March 2006: | | | | | | |
| Mr. Wong Man Kit | **–** | **676** | **–** | **12** | **772** | **1,460** |
| Ms. Ng Sui Chun | **–** | **533** | **–** | **12** | **–** | **545** |
| Mr. Chan Man Chun | **240** | **1,299** | **2,300** | **24** | **–** | **3,863** |
| Mr. Wong Ling Sun, Vincent | **–** | **455** | **–** | **12** | **–** | **467** |
| Dr. Leung Chi Keung | **300** | **–** | **–** | **–** | **–** | **300** |
| Dr. Lee Peng Feng, Allen | **300** | **–** | **–** | **–** | **–** | **300** |
| Mr. Lam Wai Keung | **180** | **–** | **–** | **–** | **–** | **180** |
| Total | **1,020** | **2,963** | **2,300** | **60** | **772** | **7,115** |
| For the year ended 31 March 2005: | | | | | | |
| Mr. Wong Man Kit | – | 689 | – | 12 | 784 | 1,485 |
| Ms. Ng Sui Chun | – | 543 | – | 12 | – | 555 |
| Mr. Chan Man Chun | 240 | 1,448 | 2,300 | 24 | – | 4,012 |
| Mr. Wong Ling Sun, Vincent | 162 | 209 | – | 6 | – | 377 |
| Dr. Leung Chi Keung | 300 | – | – | – | – | 300 |
| Dr. Lee Peng Feng, Allen | 300 | – | – | – | – | 300 |
| Mr. Lam Wai Keung | 180 | – | – | – | – | 180 |
| Total | 1,182 | 2,889 | 2,300 | 54 | 784 | 7,209 |

None of the directors has waived the right to receive their emoluments for the year ended 31 March 2006 (2005: Nil). No emoluments were paid to any directors as inducements to join or upon joining the Group or as compensation for loss of office during the year (2005: Nil).

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three ( 2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Basic salaries and allowances | **1,218** | 1,209 |
| Bonuses | **328** | 145 |
| Pension cost – defined contribution plans | **46** | 47 |
| Share options expenses | **41** | – |
| | **1,633** | 1,401 |

The emoluments of each of the two (2005: two) remaining highest paid individuals were below HK$1,000,000.

## 16. Property, plant and equipment

**Group**

| | Buildings HK$'000 | Leasehold improve–ments HK$'000 | Furniture, fixtures and equipment HK$'000 | PLBs and public buses HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2005 | **11,081** | **4,738** | **6,284** | **7,870** | **3,485** | **33,458** |
| Additions | **–** | **608** | **1,217** | **1,159** | **522** | **3,506** |
| Disposals | **–** | **–** | **(86)** | **(104)** | **(427)** | **(617)** |
| **At 31 March 2006** | **11,081** | **5,346** | **7,415** | **8,925** | **3,580** | **36,347** |
| **Accumulated depreciation** | | | | | | |
| At 1 April 2005 | **1,513** | **2,593** | **4,686** | **3,346** | **2,705** | **14,843** |
| Charge for the year | **337** | **1,069** | **909** | **1,682** | **273** | **4,270** |
| Disposals | **–** | **–** | **(26)** | **(54)** | **(258)** | **(338)** |
| **At 31 March 2006** | **1,850** | **3,662** | **5,569** | **4,974** | **2,720** | **18,775** |
| **Net book value** | | | | | | |
| **At 31 March 2006** | **9,231** | **1,684** | **1,846** | **3,951** | **860** | **17,572** |
| Cost | | | | | | |
| At 1 April 2004 | 11,081 | 4,480 | 6,135 | 6,792 | 2,806 | 31,294 |
| Additions | – | 258 | 152 | 1,339 | 679 | 2,428 |
| Disposals | – | – | (3) | (261) | – | (264) |
| At 31 March 2005 | 11,081 | 4,738 | 6,284 | 7,870 | 3,485 | 33,458 |
| Accumulated depreciation | | | | | | |
| At 1 April 2004 | 1,176 | 1,616 | 4,023 | 1,943 | 2,368 | 11,126 |
| Charge for the year | 337 | 977 | 663 | 1,456 | 337 | 3,770 |
| Disposals | – | – | – | (53) | – | (53) |
| At 31 March 2005 | 1,513 | 2,593 | 4,686 | 3,346 | 2,705 | 14,843 |
| Net book value | | | | | | |
| At 31 March 2005 | 9,568 | 2,145 | 1,598 | 4,524 | 780 | 18,615 |

The net book value of assets pledged as security for the Group's banking facilities (Note 25) are as follows:

| | Buildings HK$'000 | PLBs and public buses HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 31 March 2006** | **6,783** | **1,303** | **8,086** |
| At 31 March 2005 | 7,026 | 1,440 | 8,466 |

## 17. Leasehold land

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Cost | **7,466** | 7,466 |
| Accumulated amortisation | **(797)** | (644) |
| Net book value | **6,669** | 6,822 |
| At the beginning of the year | **6,822** | 6,975 |
| Amortisation charge | **(153)** | (153) |
| At the end of the year | **6,669** | 6,822 |

All leasehold land is located in Hong Kong and with lease terms of between 10 to 50 years. The net book value of leasehold land pledged as security for the Group's banking facilities amounted to HK$5,422,000 (2005: HK$5,548,000) (Note 25).

## 18. PLB licences

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| At the beginning of the year | **140,280** | 113,400 |
| Additions | **6,580** | – |
| Deficit on revaluation charged to income statement | **(780)** | – |
| (Deficit)/Surplus on revaluation dealt with in revaluation reserve | **(18,480)** | 26,880 |
| At the end of the year | **127,600** | 140,280 |

PLB licences were revalued by Vigers Appraisal & Consulting Limited ("Vigers"), independent qualified valuers. The valuation is determined based on market approach with reference to recent market transactions. The key assumptions include the continuous existence of an active market for PLB licences and the trends, market conditions and government policies for PLB businesses remain unchanged. Vigers determined these assumptions based on past performance and expectations on market development.

At 31 March 2006, certain PLB licences with a net carrying value of HK$46,400,000 (2005: HK$53,440,000) were pledged as security for the Group's banking facilities (Note 25).

## 19. Goodwill/PLB operating rights

**Group**

| | Goodwill | | PLB operating rights | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At the beginning of the year | **–** | – | **9,118** | 9,691 |
| Reclassification | **9,118** | – | **(9,118)** | – |
| Amortisation | **–** | – | **–** | (573) |
| At end of the year | **9,118** | – | **–** | 9,118 |

Following the adoption of HKFRS 3 "Business Combinations", PLB operating rights acquired in the business combinations before 1 January 2005 were reclassified as goodwill at the beginning of the year ended 31 March 2006 as they do not meet the recognition criteria in HKAS 38 "Intangible assets".

### Impairment test for goodwill

The recoverable amounts of the cash-generating units, to which the goodwill relates to, is determined based on value-in-use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period with key assumptions including revenues, direct costs, staff costs and other operating costs. Management determined these assumptions based on past performance and expectations on market development. Cash flows beyond the five-year period are extrapolated using the estimated growth rates of 0% per annum. The discount rate of 7% is used and it reflects specific risks relating to the business.

Based on the impairment test of goodwill, in the opinion of the directors, no impairment provision against the Group's goodwill as at 31 March 2006 is considered necessary.

## 20. Subsidiaries

| | Company 2006 HK$'000 | Company 2005 HK$'000 |
|---|---|---|
| **Non-current** | | |
| Unlisted shares, at cost | **96,778** | 96,778 |
| Amount due from a subsidiary | **50,000** | – |
| | **146,778** | 96,778 |
| **Current** | | |
| Amounts due from subsidiaries | **35,968** | 28,160 |

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms except for an amount of HK$50,000,000 which is not repayable within the next twelve months. The carrying amount of the receivables approximate their fair values.

Details of the principal subsidiaries of the Company as at 31 March 2006 were as follows:

| Name | Place of incorporation | Issued and fully paid share capital | Percentage of equity interest attributable to the Group | Principal activities and place of operation |
|---|---|---|---|---|
| Interest directly held: | | | | |
| Gurnard Holdings Limited | The British Virgin Islands | 2 ordinary shares of US$1 each | 100% | Investment holding in Hong Kong |
| Elegant Sun Group Limited | The British Virgin Islands | 1 ordinary share of US$1 | 100% | Investment holding in Hong Kong |
| Interest indirectly held: | | | | |
| Aberdeen Maxicab Service Company Limited | Hong Kong | 100 ordinary shares of HK$1 each | 100% | Provision of franchised PLB transportation services, residents' bus services and hiring of PLBs in Hong Kong |
| Capital Star Holdings Limited | Hong Kong | 10,000 ordinary shares of HK$1 each | 100% | Provision of franchised PLB transportation services in Hong Kong |
| Fastlink Transportation Limited | Hong Kong | 5 ordinary shares of HK$1 each | 100% | Provision of franchised PLB transportation services in Hong Kong |
| Kit Kee Transport Company Limited | Hong Kong | 100 ordinary shares of HK$1 each | 100% | Provision of franchised PLB transportation services in Hong Kong |
| Sunning Transportation Limited | Hong Kong | 10,000 ordinary shares of HK$1 each | 100% | Provision of franchised PLB transportation services in Hong Kong |
| Superlong Limited | Hong Kong | 10,000 ordinary shares of HK$1 each | 100% | Provision of franchised PLB transportation services in Hong Kong |
| Southern District Motor Service Centre Limited | Hong Kong | 300,000 ordinary shares of HK$1 each | 100% | Provision of repair and maintenance services for PLBs in Hong Kong |

## 20. Subsidiaries (continued)

| Name | Place of incorporation | Issued and fully paid share capital | Percentage of equity interest attributable to the Group | Principal activities and place of operation |
|---|---|---|---|---|
| Tai Po (Fixed Route) Public Light Bus Co. Limited | Hong Kong | 32,000 ordinary shares of HK$1 each | 100% | Provision of franchised PLB transportation services in Hong Kong |
| Eastern International Transport Engineering Limited | Hong Kong | 5 ordinary shares of HK$1 each | 100% | Hiring of PLBs in Hong Kong |
| Global Win Transportation Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | Hiring of PLBs in Hong Kong |

## 21. Trade and other receivables

| | Group 2006 HK$'000 | Group 2005 HK$'000 |
|---|---|---|
| Trade receivables | **1,083** | 850 |
| Deposit for acquisition of Chinalink (Note 33) | **50,000** | – |
| Other receivables | **1,826** | 2,862 |
| | **52,909** | 3,712 |

Majority of the Group's turnover is attributable to PLB and residents' bus services which are on cash basis or collected on behalf by Octopus Cards Limited and remitted to the Group on the next business day of service rendered. The credit terms granted by the Group for other trade debtors ranges from 14 days to 90 days. The ageing analysis of trade receivables is as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| 0 to 30 days | **991** | 774 |
| 31 to 60 days | **92** | 76 |
| | **1,083** | 850 |

The carrying amounts of trade and other receivables approximate their fair values.

## 22. Cash and bank balances

| | Group 2006 HK$'000 | Group 2005 HK$'000 | Company 2006 HK$'000 | Company 2005 HK$'000 |
|---|---|---|---|---|
| Cash at bank and in hand | **18,494** | 14,347 | **2** | 2,977 |
| Short-term bank deposits | **15,864** | 79,309 | **15,864** | 70,287 |
| | **34,358** | 93,656 | **15,866** | 73,264 |

The effective interest rate on short-term bank deposits for the Group and the Company was 3.69% (2005: 1.96%) and 3.69% (2005: 2.10%) respectively; these deposits have an average maturity of 6 days (2005: 6 days).

## 23. Borrowings

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| **Non-current** | | |
| Secured bank loans | **29,977** | 31,703 |
| **Current** | | |
| Secured bank loans | **1,923** | 2,169 |
| Bank overdrafts, secured | **150** | 919 |
| | **2,073** | 3,088 |
| Total | **32,050** | 34,791 |

The carrying amounts of borrowings approximate their fair values. The interest rates are principally on a floating rate basis and range from 5.00% to 8.25% (2005: 2.25% to 5.50%).

The maturity of borrowings is as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **2,073** | 3,088 |
| In the second year | **1,963** | 2,236 |
| In the third to fifth year | **3,765** | 5,161 |
| After the fifth year | **24,249** | 24,306 |
| | **32,050** | 34,791 |

The details of the Group's banking facilities are set out in note 25 to the financial statements.

## 24. Trade and other payables

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Trade payables | **4,062** | 3,309 |
| Other payables and accruals | **8,446** | 7,988 |
| | **12,508** | 11,297 |

The ageing analysis of trade payables is as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 30 days | **4,062** | 3,299 |
| 31 to 60 days | **–** | 10 |
| | **4,062** | 3,309 |

The carrying amounts of trade and other payables approximate their fair values.

## 25. 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. These facilities were secured by:

(i) pledges of certain buildings of the Group with net book value of HK$6,783,000 (2005: HK$7,026,000) (Note 16);

(ii) pledges of certain leasehold land of the Group with net book value of HK$5,422,000 (2005: HK$5,548,000) (Note 17);

(iii) pledges of certain PLB bodies with carrying value of HK$1,303,000 (2005: HK$1,440,000) (Note 16); and

(iv) pledges of certain PLB licences with carrying value of HK$46,400,000 (2005: HK$53,440,000) (Note 18).

## 26. Share capital

| | No. of shares | Amount HK$'000 |
|---|---|---|
| **Authorised** | | |
| **Ordinary shares of HK$0.10 each** | | |
| At 1 April 2004 | 1,000,000 | 100 |
| Increase in authorised share capital | 999,000,000 | 99,900 |
| **At 31 March 2005 and 2006** | **1,000,000,000** | **100,000** |
| **Issued and fully paid:** | | |
| **Ordinary shares of HK$0.10 each** | | |
| At 1 April 2004 | 1,000,000 | 100 |
| Issue of new shares (note a) | 57,500,000 | 5,750 |
| Capitalisation issue (note b) | 149,000,000 | 14,900 |
| Placement of new shares (note c) | 20,000,000 | 2,000 |
| **At 31 March 2005 and 2006** | **227,500,000** | **22,750** |

Notes:

(a) On 14 April 2004, 57,500,000 shares of the Company were issued at HK$1.07 per share through a public offering and private placement (the "New Issue"), resulting in net proceeds of approximately HK$47,605,000.

(b) Immediately after the New Issue, share premium of approximately HK$14,900,000 was capitalised by the issuance of 149,000,000 shares of HK$0.1 each on a pro-rata basis to the Company's then shareholders before the New Issue.

(c) On 5 November 2004, 20,000,000 new ordinary shares of the Company were issued at HK$1.15 per share, representing approximately 8.79% of the enlarged issued share capital of the Company, through a private placement to an independent third party, resulting in net proceeds of approximately HK$22,824,000.

## 27. Share options

On 22 March 2004, the Company adopted a share option scheme ("Share Option Scheme") pursuant to which the eligible persons may be granted options to subscribe for shares of the Company upon and subject to a maximum number of shares available for issue under options which may be granted thereunder which is 22,750,000, representing 10% of the issued shares of the Company as at the date of this annual report. The subscription price determined by the Board will be at least the higher of (i) the closing price of the Company's share as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's shares. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding during the year are as follows:

| | **2006**<br>**HK$'000** | 2005<br>HK$'000 |
|---|---|---|
| **At beginning of the year** | **13,050,000** | – |
| Granted (Note a) | – | 13,050,000 |
| Lapsed | **(120,000)** | – |
| **At end of the year** | **12,930,000** | 13,050,000 |

Out of the 12,930,000 (2005: 13,050,000 options) outstanding options, 11,580,000 (2005: 11,090,000) options were exercisable. The weighted average remaining contractual life is 8.6 years at end of the year (2005: 9.6 years).

### (a) Options granted

The date of grant was 8 November 2004 and the closing price of share immediately before the date of grant was HK$1.56. The exercise price is HK$1.57 per share.

The options were to be vested with two different terms: a total of 10,600,000 share options were vested on 8 November 2004 and were exercisable in the next business day on 9 November 2004 and up to 7 November 2014. The remaining portion of a total of 2,450,000 options was to be vested in five equal tranches on 8 November 2004, 2005, 2006, 2007 and 2008. The first tranche vested on 8 November 2004 was exercisable in the next business day on 9 November 2004 and up to 7 November 2014. The second, third, fourth and fifth tranches of 490,000 options each were exercisable when vested and exercisable up to 7 November 2014.

### (b) Fair value of options and assumptions

The Group applied the transitional provisions under HKFRS 2 for the 1,960,000 options that had not yet been vested on 1 January 2005. The fair value of these options on the date of grant was determined by the directors of the Company using the Black-Scholes valuation model which was approximately HK$439,000. The significant inputs into the model were share price of HK$1.56 at grant date, exercise price of HK$1.57, standard deviation of expected share price returns of 37.9%, expected life of options of 10 years, expected dividend paid out rate of 8.2% and annual risk-free interest rate of 3.4%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of monthly share prices over the period from the date of initial listing of the Company's shares on the Main Board to the date of grant. The fair value of the options is with subjectivity and uncertainty for the fact that the valuation is subject to a number of assumptions and the limitation of the model.

## 28. Reserves

**Group**

| | Share premium HK$'000 | PLB licences revaluation reserve HK$'000 | Fixed assets revaluation reserve HK$'000 | Share options reserve HK$'000 | Capital reserve HK$'000 | Share issuance costs HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 April 2005, as previously reported | 47,779 | 54,687 | 5,479 | – | 19,296 | – | 81,001 | 208,242 |
| Effect of adopting HKAS 17 | – | – | (5,479) | – | – | – | 990 | (4,489) |
| At 1 April 2005, as restated | 47,779 | 54,687 | – | – | 19,296 | – | 81,991 | 203,753 |
| Deficit on revaluation of PLB licences | – | (18,480) | – | – | – | – | – | (18,480) |
| Employee share option scheme | | | | | | | | |
| – value of employee services | – | – | – | 190 | – | – | – | 190 |
| Profit for the year | – | – | – | – | – | – | 23,532 | 23,532 |
| Dividend paid | – | – | – | – | – | – | (27,300) | (27,300) |
| **At 31 March 2006** | **47,779** | **36,207** | – | **190** | 19,296 | – | **78,223** | **181,695** |
| At 1 April 2004, as previously reported | – | 27,807 | 5,455 | – | 19,296 | (7,225) | 71,807 | 117,140 |
| Effect of adopting HKAS 17 | – | – | (5,455) | – | – | – | 945 | (4,510) |
| At 1 April 2004, as restated | – | 27,807 | – | – | 19,296 | (7,225) | 72,752 | 112,630 |
| Issue of new shares (Note 26) | 55,775 | – | – | – | – | – | – | 55,775 |
| Capitalisation issue (Note 26) | (14,900) | – | – | – | – | – | – | (14,900) |
| Placement of new shares (Note 26) | 21,000 | – | – | – | – | – | – | 21,000 |
| Share issuance costs | – | – | – | – | – | (6,871) | – | (6,871) |
| Transfer from share issuance costs to | | | | | | | | |
| share premium | (14,096) | – | – | – | – | 14,096 | – | – |
| Surplus on revaluation of PLB licences | – | 26,880 | – | – | – | – | – | 26,880 |
| Profit for the year, as restated | – | – | – | – | – | – | 32,064 | 32,064 |
| Dividend paid | – | – | – | – | – | – | (22,825) | (22,825) |
| At 31 March 2005, as restated | 47,779 | 54,687 | – | – | 19,296 | – | 81,991 | 203,753 |

## 28. Reserves (continued)

**Company**

| | Share premium HK$'000 | Contributed surplus HK$'000 | Share options reserve HK$'000 | Share issuance costs HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 31 March 2005 | 47,779 | 96,678 | – | – | 31,052 | 175,509 |
| Employee share option scheme – value of employee services | – | – | 190 | – | – | 190 |
| Profit for the year (Note 11) | – | – | – | – | 27,503 | 27,503 |
| Dividend paid | – | – | – | – | (27,300) | (27,300) |
| **At 31 March 2006** | **47,779** | **96,678** | **190** | **–** | **31,255** | **175,902** |
| At 1 April 2004 | – | 96,678 | – | – | (158) | 96,520 |
| Issue of new shares (Note 26) | 55,775 | – | – | – | – | 55,775 |
| Capitalisation issue (Note 26) | (14,900) | – | – | – | – | (14,900) |
| Placement of new shares (Note 26) | 21,000 | – | – | – | – | 21,000 |
| Share issuance costs | – | – | – | (14,096) | – | (14,096) |
| Transfer from share issuance costs to share premium | (14,096) | – | – | 14,096 | – | – |
| Profit for the year (Note 11) | – | – | – | – | 54,035 | 54,035 |
| Dividend paid | – | – | – | – | (22,825) | (22,825) |
| At 31 March 2005 | 47,779 | 96,678 | – | – | 31,052 | 175,509 |

At 31 March 2006, distributable reserves of the Company amounted to HK$127,933,000 (2005: HK$127,730,000).

## 29. Deferred income tax

Deferred income tax is calculated in full on temporary differences under liability method using a principal rate of 17.5% (2005: 17.5%).

The movement in the net deferred income tax liabilities account is as follows:

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| At the beginning of the year, as previously reported | **1,866** | 1,645 |
| Effect of adoption of HKAS 17 | **(1,040)** | (1,046) |
| At the beginning of the year, as restated | **826** | 599 |
| Amount (credited)/charged to income statement (Note 10) | **(410)** | 227 |
| At the end of the year | **416** | 826 |

There is no offsetting of deferred income tax assets and liabilities with the same tax jurisdiction during the year. The movement in deferred income tax assets and liabilities is as follows:

| | **Deferred tax liabilities Accelerated depreciation allowance** | | **Deferred tax assets Tax losses** | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| At the beginning of the year, as previously reported | **2,028** | 2,080 | **(162)** | (435) |
| Effect of adoption of HKAS 17 | **(1,040)** | (1,046) | **–** | – |
| At the beginning of the year, as restated | **988** | 1,034 | **(162)** | (435) |
| Credited to income statement | **(338)** | (46) | **(72)** | 273 |
| At the end of the year | **650** | 988 | **(234)** | (162) |

## 30. Capital commitments

At 31 March 2006, the Group had the following outstanding capital commitments:

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Contracted but not provided for in relation to: | | |
| – Acquisition of property, plant and equipment | **172** | 224 |
| – Acquisition of equity interest in Chinalink (Note 33) | **70,000** | – |
| | **70,172** | 224 |

## 31. Notes to the consolidated cash flow statement

### (a) Reconciliation of operating profit to cash generated from operations

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Operating profit | **29,920** | 39,369 |
| Adjustment for: | | |
| Depreciation | **4,270** | 3,770 |
| Amortisation of leasehold land | **153** | 153 |
| Amortisation of PLB operating rights | **–** | 573 |
| Net loss on disposals of property, plant and equipment | **88** | 49 |
| Deficit on PLB licence revaluation | **780** | – |
| Interest income | **(1,727)** | (313) |
| Employees share options expenses | **190** | – |
| Operating profit before changes in working capital | **33,674** | 43,601 |
| Changes in working capital: | | |
| Trade and other receivables | **803** | (1,556) |
| Trade and other payables | **1,211** | (7,609) |
| Cash generated from operations | **35,688** | 34,436 |

### (b) Analysis of changes in financing

| | **Share capital** (note 26) HK$'000 | **Share issuance costs** HK$'000 | **Share premium** HK$'000 | **Bank loans** HK$'000 | **Dividend payable** HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2005 | 22,750 | – | 47,779 | 33,872 | – |
| Dividend proposed for 2005 | – | – | – | – | 27,300 |
| Net cash outflow | – | – | – | (1,972) | (27,300) |
| **At 31 March 2006** | **22,750** | **–** | **47,779** | **31,900** | **–** |
| At 1 April 2004 | 100 | (7,225) | – | 35,978 | – |
| Capitalisation issue | 14,900 | – | (14,900) | – | – |
| Dividend proposed for 2004 | – | – | – | – | 22,825 |
| Net cash inflow/(outflow) | 7,750 | (6,871) | 76,775 | (2,106) | (22,825) |
| Share issuance costs offset by share premium | – | 14,096 | (14,096) | – | – |
| At 31 March 2005 | 22,750 | – | 47,779 | 33,872 | – |

## 32. Related party transactions

Significant related party transactions carried out in the ordinary course of business during the year are as follows:

| | | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|---|
| a) | Sale and purchase of services | | |
| | Repair and maintenance service income received from related companies | **268** | 69 |
| | Agency fee income received from related companies | **2,171** | 2,149 |
| | PLB hire charges paid to related companies | **52,158** | 47,172 |
| b) | Key management compensation | | |
| | Fees | **1,020** | 1,182 |
| | Basic salaries, allowances and other benefits | **4,937** | 4,775 |
| | Bonuses | **2,618** | 2,443 |
| | Pension cost – defined contribution plans | **96** | 89 |
| | Share option expenses | **85** | – |
| | | **8,756** | 8,489 |

## 33. Event after the balance sheet date

On 9 January 2006, the Group 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 ("Chinalink"), which engages in the provision of cross-border passenger transportation services between Hong Kong and the People's Republic of China. The total consideration was HK$120,000,200 of which a 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 balance of the consideration of HK$70,000,200 was paid, which was financed by bank loans of HK$70,000,000.

The directors consider that it is impracticable to quantify the actual amount of goodwill because the fair value of Chinalink's assets and liabilities at the completion date have not yet been determined at this stage. The estimated amount of goodwill arising from the acquisition calculated based on the audited net assets value of Chinalink Group as at 31 December 2005 as shown in Appendix II of the Circular dated 30 May 2006 issued to the Company's shareholders, is approximately HK$89,000,000.

According to the shareholders' agreement dated 9 January 2006, entered into between the Company and Mr. Chan Chung Yee, Alan ("Mr. Chan"), who 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 becomes effective on the completion date of the acquisition.

## 34. Holding companies

The directors of the Company regard Skyblue Group Limited, a company incorporated in the British Virgin Islands, as being the immediate holding company of the Company and JETSUN UT CO. LTD., a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Company.

# Group Financial Summary

The following is a summary of the audited financial statements of AMS Public Transport Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the respective years as hereunder stated.

| | **Year ended 31 March** | | | | |
|---|---|---|---|---|---|
| | **2006** | 2005 (Restated) | 2004 | 2003 | 2002 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| Turnover | **265,318** | 254,913 | 238,135 | 234,731 | 197,237 |
| Direct costs | **(211,559)** | (192,514) | (181,805) | (178,965) | (141,805) |
| Gross profit | **53,759** | 62,399 | 56,330 | 55,766 | 55,432 |
| Other income | **5,001** | 3,653 | 3,974 | 10,429 | 5,595 |
| Administrative expenses | **(26,393)** | (25,473) | (19,451) | (18,862) | (18,806) |
| Other operating expenses | **(2,447)** | (1,210) | (1,067) | (829) | (4,934) |
| Operating profit | **29,920** | 39,369 | 39,786 | 46,504 | 37,287 |
| Finance costs | **(1,352)** | (859) | (535) | (11,914) | (11,788) |
| Profit before income tax | **28,568** | 38,510 | 39,251 | 34,590 | 25,499 |
| Income tax expense | **(5,036)** | (6,446) | (7,647) | (6,491) | (4,800) |
| Profit after income tax | **23,532** | 32,064 | 31,604 | 28,099 | 20,699 |
| Minority interests | **–** | – | (30) | (927) | (822) |
| Profit attributable to equity holders of the Company | **23,532** | 32,064 | 31,574 | 27,172 | 19,877 |
| **ASSETS, LIABILITIES AND MINORITY INTERESTS** | | | | | |
| Total assets | **250,192** | 273,909 | 177,754 | 535,517 | 738,015 |
| Total liabilities | **45,747** | 47,406 | 60,514 | 467,059 | 295,030 |
| Minority interests | **–** | – | – | 1,616 | 4,225 |

Notes:

The results of the Group for the three years ended 31 March 2004, 2003 and 2002 and its assets and liabilities as at 31 March 2004, 2003 and 2002 have been extracted from the Company's annual report for the year ended 31 March 2004 and Prospectus dated 30 March 2004, which also set out the details of the basis of preparation of the consolidation. Prior year adjustments were not made for the results extracted for the three years ended 31 March 2004, 2003 and 2002 following the adoption of revised HKFRS effective from 1 January 2005 as they are immaterial. The results of the Group for the year ended 31 March 2006 and 2005 and its assets and liabilities as at 31 March 2006 and 2005 are those set out on page 37 to 38 of the financial statements and are presented on the basis as set out in note 2 to the financial statements.

**AMS Public Transport Holdings Limited**
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Concept & Design by RC Communications Ltd.
Production by iOne Financial Press Limited