

Argos

ARGOS ENTERPRISE (HOLDINGS) LIMITED

雅高企業(集團)有限公司

(Incorporated in Hong Kong with limited liability)



PLACING

SPONSOR



YU MING INVESTMENT MANAGEMENT LIMITED

LEAD MANAGER AND FINANCIAL ADVISER

CASH

CELESTIAL CAPITAL LIMITED

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



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**LISTING ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

**BY WAY OF PLACING OF
NEW SHARES AND SALE SHARES**

**Number of Placing Shares : 54,000,000 comprising
30,000,000 New Shares and
24,000,000 Sale Shares**
Placing Price : HK\$1.00 per Placing Share
Nominal Value : HK\$0.01 each
Stock Code : 8022

Sponsor



YU MING INVESTMENT MANAGEMENT LIMITED

Lead Manager and Financial Adviser



CELESTIAL CAPITAL LIMITED

Co-Lead Manager

Yu Ming Investment Management Limited

CSC Securities (HK) Limited

JS Cresvale International Limited

Co-Manager

Core Pacific-Yamaichi International (H.K.) Limited

South China Securities Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered and available for inspection" in Appendix V to this prospectus, has been delivered to the Registrar of Companies in Hong Kong for registration as required under Section 38D of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other of the documents referred to above.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" of this prospectus.

IMPORTANT NOTICE

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

2001

Allocation to placees pursuant to the Placing on or before	Monday, 6 August
Announcement of the level of indication of interest of the Placing to be published on the GEM website on	Tuesday, 7 August
Share certificates available on or before (<i>Note 2</i>)	Wednesday, 8 August
Dealings in the Shares on GEM to commence on	Monday, 13 August

Notes:

1. All times refer to Hong Kong local times.
2. The share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on 8 August, 2001 for credit to the respective CCASS participants' stock accounts designated by the Underwriters, the placees or their agents (as the case may be).

Particulars of the Placing, including the conditions thereto, are set forth in the section headed "Structure of the Placing" in this prospectus.

If there is any change in the above timetable, the Company will issue an announcement separately.

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You should rely only on the information contained in this prospectus to make your investment decision. The Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not contained in this prospectus must not be relied on by you as having been authorized by the Company, the Sponsors, the Underwriters, the respective directors of any of them, or any other person involved in the Placing.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Placing Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

BUSINESS, HISTORY AND DEVELOPMENT OF THE GROUP

The principal business of the Group is the provision of public bus transportation and related services in the PRC. The operation of the Group commenced in September 1997 in Nanjing, Jiangsu Province, the PRC. The then operation in Nanjing comprised only one Tourist Route with a fleet size of 10 buses and less than 100 employees. Within three years since the launching of service, the fleet size has grown to 238 buses running on 8 Public Routes and 3 Tourist Routes and the size of work force has reached 900 employees. Passenger volume has surged from approximately 34 million in the year 1998 to approximately 116 million for the year ended 31 December, 2000.

Revenue of the Group is mainly derived from the provision of Public Route services, Tourists Route services, Hire-a-Bus and Employee Services, sightseeing ticket sales and tours and rental of fleet body for advertising. In between 1997 to 2000, the focus of the Group has been on the development of Nanjing Argos. Substantially all current operations are based in Nanjing but it is the objective and strategy of the Group to achieve continuous growth in other cities of the PRC. The Group is actively engaged in negotiations with government officials in a number of cities in the PRC to set up joint ventures to operate similar services. In fact, the Group has set up another subsidiary, Chongqing Wanzhou Argos for the provision of public bus services in Wanzhou, Chongqing. Its operation has commenced in March 2001.

HISTORY OF NANJING ARGOS

Nanjing Argos was established in September 1997 as a co-operative joint venture between Argos China and Nanjing Public Transport Company, in which Argos China holds a 100 per cent. equity interest. It was agreed that Argos China and Nanjing Public Transport Company are entitled to share its net profit at the ratio of 60:40 in accordance with the joint venture contract. Argos China contributed a total of HK\$29.5 million (representing US\$3.8 million) in cash to Nanjing Argos between December 1997 and October 1999, while Nanjing Public Transport Company contributed the routes operating right and all necessary infrastructure. The term of the joint venture contract is 19 years until September 2016 with an option to extend upon expiry by mutual agreement and approval from the parties to the joint venture and the relevant authorities. As at the Latest Practicable Date, its fleet size has grown to 258 buses. Yearly passenger volume increased from approximately 34 million in 1998 to approximately 116 million in 2000.

In its short history, Nanjing Argos has established a brand name in public bus services. Nanjing Argos invested heavily in new vehicles and stressed the importance of quality services with overwhelming response from passengers in Nanjing.

BUSINESS OF NANJING ARGOS

Public Routes services

The Public Routes services of Nanjing Argos comprises eight routes. Flat fares of RMB1 are charged on the routes. Monthly ticket at RMB40 each is also available, which entitles its holder to 120 trips in the month of issue on any Public Routes operated by any public bus company in Nanjing.

In January 2001, a touchless smart card fare payment system, namely the IC card system, for public transport has been introduced. Passengers on selected routes are no longer required to lodge coins into the coin box when boarding the bus.

The routes deploy a maximum of 10 to 42 buses during peak-hours, with 170 buses in total. Services are operated within 2-10 minutes headway depending on the route served.

Tourist Routes services

Nanjing Argos began the Y1 Tourist Route service in September 1997, which was subsequently followed by the introduction of route Y2. Fares charged on the Tourist Routes range from RMB1 to RMB3, subject to the type of fleet deployed. Nanjing Argos introduced air-conditioned fleet in January 1998, non air-conditioned double-decker in September 1999, vintage buses in September 1999 and open-top double decker in January 2000 to Tourist Routes service in addition to the ordinary single-deckers. There are customer service representatives on board of all buses serving Tourist Routes, who will introduce various points of attraction to passengers, sell sightseeing tickets and collect fares.

Sixty-eight vehicles are allocated to the three Tourist Routes, five of which are double-deckers, two being vintage vehicles and one open-top double-decker with the remaining being air-conditioned fleet.

“Hire-a-Bus” and employee services

These two services aim at maximizing the utilization rate of Nanjing Argos fleet. Idle buses are deployed for the provision of Employee Services and re-allocate to the “Hire-a-Bus” business.

Sightseeing ticket sales and tours

Nanjing Argos sells sightseeing points tickets on the Tourist Routes network it operates.

Tours are operated by a subsidiary of Nanjing Argos – Nanjing Argos Tours. Nanjing Argos Tours owns ten coaches for the provision of short destination tours in the vicinity of Nanjing.

Rental of fleet body for advertising

Nanjing Argos generates income from the advertising rights sold to advertising brokers and agents. Nanjing Argos essentially sold the rights of using the fleet exterior to the advertising agents and brokers.

SUMMARY

CHONGQING WANZHOU ARGOS

In September 2000, the Group established an equity joint venture of Chongqing Wanzhou Argos, the term of which lasts for 30 years and is renewable upon expiry. Under the joint venture contract of Chongqing Wanzhou Argos, the Group is to contribute RMB6 million in cash instalments (as at 31 July, 2001, all of RMB6 million has been paid, of which RMB3 million has been verified by an independent certified public accountants) and Chongqing Wanzhou Public Transport Company is to contribute routes, fleet, working capital and other supporting infrastructure it currently owned valued, by an independent certified public accountants firm in the PRC, at RMB4 million. Upon verification of the balance of the RMB3 million cash injection, Argos China will be entitled to 60 per cent. of the profits and equity interest and board control in Chongqing Wanzhou Argos, the operation of which commenced in March 2001.

As at the end of 2000, Chongqing Wanzhou Public Transport Company operated 46 Public Routes in the area with a fleet size of 147 buses (of which 9 are midi buses) and employed 476 staff. In the year 2000, passenger volume was 27.5 million, annual mileage travelled was 6.6 million kilometres and annual turnover was RMB6.9 million. The joint venture will require an extra 30 buses in the first year. Chongqing Wanzhou Argos took over 47 buses and 316 staff of Chongqing Wanzhou Public Transport Company. 160 staff from Chongqing Wanzhou Public Transport Company were classified retired and redundant and therefore were not employed by Chongqing Wanzhou Argos. The maximum liability of the Group to these 160 retired and redundant staff was a monthly payment of maximum RMB8,000 on aggregate during the term of the joint venture contract pay to Chongqing Wanzhou Public Transport Company to take care of the relevant medical expense of the retired and redundant staff.

Chongqing Wanzhou Argos derives income from the operation of Public Routes in three different sources: (1) Direct operation; (2) Sub-contracting; and (3) Rental.

It is the intention of Chongqing Wanzhou Argos to shift towards the mode of direct operations in which Chongqing Wanzhou Argos will bear all the profits and losses from operation for any new routes and to phase out the sub-contracting mode of operation while reducing the scale of rental operation. The Group intends to put 25 to 30 new buses in Wanzhou per annum in the next two to three years. The operation in Wanzhou will bear resemblance to that of Nanjing. In fact, management staff in Nanjing will also be responsible in overseeing the operation in Wanzhou. The Directors believe there is considerable synergy that can be realized.

SUMMARY

REVIEW OF OPERATIONS

The following is a summary of the combined results of the Group for each of the three years ended 31 December, 2000 prepared on the assumption that the current structure of the Group had been in place throughout the periods under review. The summary should be read in conjunction with the Accountants' Report set out in Appendix 1 of this prospectus.

	Year ended 31st December,		
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	14,644	33,894	41,977
Cost of bus services rendered	<u>(9,492)</u>	<u>(20,003)</u>	<u>(30,026)</u>
Gross profit	5,152	13,891	11,951
Other revenue	901	6,230	8,970
Administrative expenses	<u>(2,856)</u>	<u>(7,361)</u>	<u>(7,851)</u>
Profit from operations	3,197	12,760	13,070
Interest income	55	226	729
Finance costs	<u>(898)</u>	<u>(1,114)</u>	<u>(2,002)</u>
Profit before taxation	2,354	11,872	11,797
Taxation	<u>(879)</u>	<u>(2,969)</u>	<u>(2,995)</u>
Profit before minority interests	1,475	8,903	8,802
Minority interests	<u>(1,089)</u>	<u>(4,184)</u>	<u>(4,521)</u>
Profit for the year	<u><u>386</u></u>	<u><u>4,719</u></u>	<u><u>4,281</u></u>
Dividends	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>
Earnings per share	<u><u>0.26 cent</u></u>	<u><u>3.15 cents</u></u>	<u><u>2.85 cents</u></u>

The Company has sought and obtained from the Stock Exchange a waiver from strict compliance with the requirement of Rule 11.11 of the GEM Listing Rules on the basis of a confirmation from the Directors that they have performed sufficient due diligence on the Group to ensure that, save as disclosed in Appendix I to this prospectus, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 31 December, 2000 and there is no event which would materially affect the information shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

SUMMARY

Breakdown of turnover

	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000
Public Routes	11,058	26,036	31,288
Tourist Routes	2,169	3,302	4,174
'Hire-a-Bus' and Employee Service	1,417	4,441	6,359
Sightseeing ticket sales	–	115	156
Total turnover	<u>14,644</u>	<u>33,894</u>	<u>41,977</u>

PLACING STATISTICS

Number of Placing Shares (Note 1)

– New Shares	30,000,000 Shares
– Sale Shares	24,000,000 Shares

Placing Price per Placing Share HK\$1.00

Market capitalisation (Note 2) HK\$180,000,000

Historical price/earnings multiple

(a) fully diluted (Note 3)	42.05 times
(b) weighted average (Note 4)	35.04 times

Adjusted net tangible asset value per Share (Note 5) 23.23 cents

Notes:

1. This represents the total number of Shares being offered under the Placing.
2. The calculation of market capitalisation is based on 180,000,000 Shares expected to be in issue immediately following the Placing and the Capitalization Issue, but takes no account of any Share Transactions.
3. The calculation of the historical price/earnings multiple on a pro forma fully diluted basis is based on the pro forma fully diluted historical earnings per Share of 2.38 cents and on the Placing Price but takes no account of any Share Transactions.
4. The calculation of the historical price/earnings multiple on a weighted average basis is based on the weighted average historical earnings per Share of 2.85 cents and on the Placing Price but takes no account of any Share Transactions.
5. The adjusted net tangible asset value per Share has been arrived at after making the adjustments described under the paragraph headed "Adjusted net tangible assets" in the section headed "Financial information" in this prospectus and on the basis of a total of 180 million Shares in issue immediately following completion of the Placing and the Capitalization Issue.

BUSINESS OBJECTIVES

The overall business objective of the Group is to generate growing recurrent income by repeating its successful public transportation business strategy in Nanjing and other cities in the PRC. The Group has identified three other PRC cities of potential apart from Nanjing. These cities are Wanzhou, Wuhu

SUMMARY

and Taizhou. Operation has already commenced in Wanzhou while the Group is engaging in active negotiations in the remaining two cities. The Group, in achieving its growth, would make every effort to provide a stable, safe and rewarding environment for its employees since the Group believes that the contribution of every employee is essential to the provision of safe, comfortable, frequent and economic services so as to achieve the ultimate goal of full customer satisfaction. Distinct from Argos Hong Kong, a fellow subsidiary of the Company, the Company will only engage in the provision of bus services in the PRC while Argos Hong Kong will only provide such services in Hong Kong.

The Group believes that management capability, apart from employees contribution, is the most valuable asset of the Group and the Group intends to build upon this in its stride onto other sectors of the public transport industry. In the medium term, the Group is exploring opportunities in entering into other transport related operations including inter-city coach transport in the PRC.

In the long term, the Group aims at being a prominent and influential operator in the public transport sector of the PRC, utilizing and synthesizing the managerial experience from Hong Kong and local operational expertise in the PRC.

STRENGTHS

The Board believes that the strengths of the Group lie in:

- the modern management philosophy it has adopted;
- the emphasis on quality of service;
- the reputation in the public transport sector it has gained from the testing ground in Nanjing in terms of employee training, quality orientation and management capability;
- the active discussions it has been engaging in with the relevant authorities of various cities in the PRC for the operation of public bus services;
- the strategic position the PRC market provides, in particular:
 - continuation of public transport reform in the PRC;
 - huge demand and reliance in public transport in the PRC;
 - there is a lack of inner-city railway systems in the PRC;
 - an increasing demand in inter-city transport in the light of economic growth;
 - the pending development of northwestern PRC which presents more opportunities for incumbent operators in other cities; and
 - the first-mover advantage ahead of PRC's entry to the WTO.

STRATEGIES

Tourist routes

- Nanjing Argos intends to become the leading provider of Tourist Routes services, forming a Tourist Route network in Nanjing.
- Nanjing Argos is exploring the opportunity to transform its Tourist Routes network into a hybrid Public Tourist Route Network. Nanjing Argos aims to seize this opportunity to reduce reliance on tourists but towards daily commuters. Nanjing Argos anticipates an eventual amalgamation of the Public and Tourist Routes.
- Chongqing Wanzhou Argos will explore opportunities for the provision of such service in Wanzhou.
- The Group is actively seeking opportunities to offer similar services in other cities of the PRC.

Public routes

- Nanjing Argos will focus on refining and expanding Public Route services based on current network.
- Nanjing Argos will also explore opportunities for launching further Public Routes in development zones around the Nanjing metropolitan area.
- The Group will focus on developing this service in Wanzhou.
- The Group is actively seeking opportunities to offer similar services in other cities of the PRC.

Hire-a-Bus and employee services

- Nanjing Argos works to maintain its current market share in the Employee Services sector.
- Nanjing Argos will actively promote its Hire-a-Bus service in order to boost utilization rate of the fleet.
- Nanjing Argos will actively bid for the provision of transportation services in festivities and events.
- Chongqing Wanzhou Argos will seek business opportunities in this area to boost utilization rate of its fleet.
- The Group is actively seeking opportunities to offer similar service in other cities of the PRC.

SUMMARY

Sightseeing ticket sales and tours

- Nanjing Argos plans to capture a significant proportion of the one-day tour market.
- Nanjing Argos eyes a more prominent stake in the Nanjing tourist market.
- Nanjing Argos Tours is to explore opportunities to offer more choices of tour destinations.
- The Group does not preclude the possibility of setting up tour offices in other cities of the PRC.

Rental of fleet body for advertising

- The Group will enter into fleet body advertising contracts for every vehicle to maximize revenue from the area.
- The Group will work with advertising agents and brokers to explore further opportunities to maximize the income generated from fleet body advertising.

RISK FACTORS

The Directors consider that the operation of the Group is subject to a number of risk factors which can be categorized into (i) risks relating to the Group; (ii) risk relating to the industry; (iii) risk relating to the macro environment; and (iv) risks relating to the Shares, which are summarized as follows:

Risks relating to the Group

- Risk associated with the establishment and non-establishment of new routes
- Risk associated with the ability to form new joint ventures
- Risk associated with existing joint ventures
- Risk associated with the Tourist Routes
- Risk associated with properties interests of the Group
- Not all the proceeds from the Placing will be applied for the implementation of the stated business objectives of the Group
- The Group may experience stoppages or other disruptions to its current operation
- The viability of the Group is subject to the policy from various PRC governmental bodies
- Price control
- Environmental regulations
- Financial position of the Group

SUMMARY

Risks relating to the industry

- The industry is subject to competition from other modes of transport
- The industry is subject to significant influence from price of fuel

Risks relating to the macro environment

- PRC political and economic considerations
- Legal system of the PRC
- Currency conversion and exchange rate risks

Other risks relating to the Shares

- Shareholders' interests in the Group may be diluted in the future
- There may not exist an active market in the future for the Shares and prices are subject to volatility

USE OF PROCEEDS AND PURPOSES OF THE PLACING

The main purposes of the Placing include the establishment of new joint ventures, repayment of shareholders' loans thus reducing the financial support for the Group from existing shareholders, and realization of investments made by the Initial Management Shareholders. The net proceeds from the Placing will be fully applied before the end of 2001 to meet the capital injection required under the proposed joint ventures. Since all projects will be self-funding after the initial capital injection, the Group has no further obligation to supply additional cash.

The net proceeds from the Placing (other than those derived from the sale of the 24,000,000 Sale Shares by the Share Vendor) to be received by the Group, after deducting related expenses and assuming the Placing Price at HK\$1.00 per Placing Share with 30,000,000 New Shares are estimated to be approximately HK\$25,000,000. The Directors at present intend to apply such proceeds as follows:

- Approximately HK\$10 million will be used for the repayment of shareholders' advance of HK\$5.2 million as a result of the launching of services in Wanzhou and an amount due to Argos Hong Kong of HK\$3.3 million and an amount due to Via Roma of HK\$1.5 million for investment in Nanjing Argos and working capital supplied to the Group.
- Approximately HK\$6 million (RMB 6.42 million) will be used for investment in Taizhou for the acquisition of 50 buses.
- Approximately HK\$6 million (RMB 6.42 million) will be used for investment in Wuhu for the acquisition of 80 buses.
- The balance of HK\$3 million will be reserved as general working capital of the Company.

SUMMARY

To the extent that the net proceeds of the Placing (other than those derived from the sale of the 24,000,000 Sale Shares by the Share Vendor) are not required immediately for the above purposes, it is the present intention of the Directors to place such proceeds into fixed deposit accounts with licensed banks and financial institutions in Hong Kong.

The Directors confirm that the net proceeds from the Placing and the internal resources of the Group will be sufficient for the implementation of all stated business objectives up to December 2003.

Details of the various plans stated above, including the expected timing thereof, are set out in the section headed “Statement of business objectives and strategies” in this prospectus.

RESTRICTIONS ON DISPOSAL OF SHARES AND CORPORATE REORGANISATION

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalization Issue, the following persons are considered as initial management shareholders (which term has the meaning ascribed to it in the GEM Listing Rules) of the Company which are subject to the following restrictions on disposal:

Name	Date of becoming shareholder (direct/indirect) of the Company <i>(Note 2)</i>	Number or attributable number of Shares held immediately after the completion of the Placing	Approximate percentage or attributable percentage of shareholding in the Company immediately after the completion of the Placing	Total cost of investment	Cost per share <i>(HK\$)</i>	Lock-up period
Initial Management Shareholders:						
Sino Market <i>(Note 3)</i>	Founder	126,000,000	70	5,500,000	0.04365	12 months
Sinoman International <i>(Note 4)</i>	Founder	76,897,800	42.721	3,369,365	0.04382	12 months
Twilight Enterprises Limited <i>(Note 4)</i>	Founder	61,518,240	34.1768	2,695,492	0.04382	12 months
Kenworth Enterprises <i>(Note 5)</i>	Founder	44,062,200	24.479	1,930,635	0.04382	12 months
Via Roma <i>(Note 6)</i>	10 July, 2000	5,040,000	2.8	200,400	0.03976	12 months

N/A: Not applicable

SUMMARY

Notes:

1. (i) Each of the Initial Management Shareholders has undertaken with the Stock Exchange, the Sponsor, the Company and the Underwriters that each of them will not dispose of (nor enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Securities during the Lock-up Period. Each of the Initial Management Shareholders will place in escrow during the Lock-up Period the Relevant Securities held by it in the Company.
- (ii) The Kenworth Shareholders, Owner of Via Roma, Twilight Shareholders, Sinoman Shareholders and the Sino Market Shareholders, being the shareholders of Sino Market, have undertaken to the Company, the Sponsor, the Underwriters and the Stock Exchange that they will not sell, transfer or otherwise dispose of (nor enter into any agreement to sell, transfer or otherwise dispose of) any of their respective interests in Kenworth Enterprises, Via Roma, Twilight Enterprises Limited, Sinoman International and Sino Market within 12 months from the Listing Date.
2. This represents the actual date on which each party becomes a shareholder, whether direct or indirect, of the members of the Group.
3. (i) Sino Market is the founder of the Company and is the beneficial owner of the two subscriber's shares in the Company of which one subscriber's share was held by Mr. Wong Man Chiu, Ronnie on trust for Sino Market. The Company further allotted 999,998 Shares at par, credited as fully paid in the Company to Sino Market on 23rd October, 2000.
- (ii) On 30 July, 2001, the Company acquired the entire issued share capital of Argos China from Argos Hong Kong for which the Company allotted and issued 99,000,000 Shares at par, credited as fully paid, to Sino Market in consideration thereof. Together with the 50,000,000 Shares allotted, issued and credited as fully paid by the Company in consideration of the setting-off of an indebtedness of HK\$5,000,000 (at an agreed price per Share at HK\$0.10 each) owing from the Company to Argos Hong Kong, Sino Market will, on 30 July, 2001, be allotted and issued, a total of 149,000,000 Shares at par, credited as fully paid.
- (iii) The Shares in the Company are held by the Initial Management Shareholders indirectly through Sino Market.
- (iv) Sino Market is a company incorporated in Hong Kong. The issued share capital of Sino Market are beneficially owned by Sinoman International as to 61.03 per cent., Kenworth Enterprises as to 34.97 per cent., and Via Roma as to 4 per cent.
4. (i) The issued share capital of Sinoman International is beneficially owned by Twilight Enterprises Limited as to 80 per cent., and Mr. Yeung Wai Hung, an executive Director, as to 20 per cent.. Twilight Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability, is beneficially owned by Mr. Wong Wilson, an executive Director, as to 50 per cent. and Ms. Chiu Gee Chai, his wife, as to 50 per cent.. Accordingly, Twilight Enterprises Limited, Mr. Yeung Wai Hung, Mr. Wong, Wilson and Ms. Chiu Gee Chai are considered as Initial Management Shareholders.
- (ii) As Twilight Enterprises Limited indirectly holds 61,518,240 Shares in the Company through Sinoman International and Sino Market and Mr. Wong, Wilson and Ms. Chiu Gee Chai each holds 50 per cent. beneficial interests in Twilight Enterprises Limited, each of Mr. Wong, Wilson and Ms. Chiu Gee Chai is deemed to be interested in 30,759,120 Shares by virtue of the SDI Ordinance.
5. The issued share capital of Kenworth Enterprises is beneficially owned by the following persons:

Name of Shareholders	Percentage of shareholdings in Kenworth Enterprises
Mr. Wong Wah Sang (Executive Director)	22.23%
Mr. Wong Man Fung, Anthony	11.11%
Mr. Wong Man Che, Edward	11.11%
Mr. Wong Man Ka, Stephen	11.11%
Ms. Wong Man Hing, Alice	11.11%
Mr. Wong Man Chiu, Ronnie (Executive Director)	11.11%
Mr. Wong Man Kon, John	11.11%
Mr. Wong Man Kong, Peter	11.11%

SUMMARY

Mr. Wong Wah Sang is the father of the other shareholders of Kenworth Enterprises mentioned above. Mr. Wong Wah Sang is also the elder brother of Mr. Wilson Wong. Accordingly, all the shareholders of Kenworth Enterprises are regarded as an Initial Management Shareholder.

6. (i) The entire issued share capital of Via Roma is beneficially owned by Mr. Kwan Yan Ming. Accordingly, Mr. Kwan Yan Ming is also regarded as an Initial Management Shareholder.
- (ii) As Mr. Kwan Yan Ming indirectly holds 5,040,000 Shares in the Company through Via Roma and Sino Market and his wife, Ms. Wong Man Hing, Alice indirectly holds 4,895,310 Shares in the Company through Kenworth Enterprises and Sino Market, Mr. Kwan Yan Ming and Ms. Wong Man Hing, Alice is deemed to be interested in aggregate 9,935,310 Shares by virtue of the SDI Ordinance.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings:

“Active Business Pursuit”	covers the two years ended 31 December, 1999 and 2000 and the remaining period from 1 January, 2001 up to the Latest Practicable Date
“Argos China”	Argos Bus Services (China) Company Limited (雅高巴士服務(中國)有限公司), a wholly-owned subsidiary of the Company, which owns a 60 per cent. interest in each of Nanjing Argos and Wanzhou Argos
“Argos Hong Kong”	Argos Bus Services Company Limited (雅高巴士服務有限公司), a company incorporated in Hong Kong
“associate(s)”	has the meaning ascribed to it as defined in the GEM Listing Rules
“Bureau of Consumer Prices”	南京市物價局, for details of its functions, please refer to the subsection headed “Regulatory” in the section headed “Business” in page 49
“Bureau of Environmental Protection”	南京市環境保護局, for details of its functions, please refer to the subsection headed “Regulatory” in the section headed “Business” in page 49
“Bureau of Passenger Transport Management”	南京市客運交通管理處, for details of its functions, please refer to the subsection headed “Regulatory” in the section headed “Business” in page 49
“Bureau of Public Utilities”	南京市市政公用局, for details of its functions, please refer to the subsection headed “Regulatory” in the section headed “Business” in page 49
“Bureau of Traffic Management”	南京市公安局－交通管理局, for details of its functions, please refer to the subsection headed “Regulatory” in the section headed “Business” in page 49
“Business”	the business carried on by the Group
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Capitalization Issue”	the issue of Shares to be made upon capitalization of part of the share premium account of the company as referred to in the paragraph headed “Written Resolution of all the shareholders of the Company passed on 30 July, 2001 in Appendix IV of this prospectus.

DEFINITIONS

“Chongqing Wanzhou Argos”	重慶市萬州區雅高公交巴士有限公司, Chongqing Wanzhou Area Argos Public Transport Bus Co., Limited, an equity joint venture in which the Group is interested in 60 per cent. and Chongqing Wanzhou Public Transport Company is interested in 40 per cent.
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Argos Enterprise (Holdings) Limited, a company incorporated in Hong Kong with limited liability
“Covenator(s)”	Initial Management Shareholders, Directors, Argos Hong Kong, Goldspark HK Tours Limited, Metro Line Tour Limited, Moving Step Limited, Ming Tak Transportation Service Company Limited and CLK Bus Company Limited
“Celestial Capital”	Celestial Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Director(s)”	the director(s) of the Company
“Employee”	an employee (whether in full time or part time employment with the Group, including being an executive, non-executive or independent non-executive director of any member of the Group or a consultant or adviser to any member of the Group)
“Financial Adviser”	Celestial Capital
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM website”	the internet website www.hkgem.com operated by the Stock Exchange
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries of the Company, such subsidiaries as if they were the Company’s subsidiaries at that time or the business operated by such subsidiaries or (as the case may be) their predecessor
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“Initial Management Shareholders”	Sino Market, Sinoman International, Twilight Enterprises Limited, Mr. Wong, Wilson, Ms. Chiu Gee Chai, Mr. Yeung Wai Hung, Kenworth Enterprises, Mr. Wong Wah Sang, Mr. Wong Man Fung, Anthony, Mr. Wong Man Che, Edward, Mr. Wong Man Ka, Stephen, Ms. Wong Man Hing, Alice, Mr. Wong Man Chiu, Ronnie, Mr. Wong Man Kon, John, Mr. Wong Man Kong, Peter, Via Roma and Kwan Yan Ming
“Kenworth Enterprises”	Kenworth Enterprises Limited, a company incorporated in Hong Kong with limited liability and one of the Initial Management Shareholders of the Company, the major business of which is investment holding
“Kenworth Shareholders”	Mr. Wong Wah Sang, Mr. Wong Man Fung, Anthony, Mr. Wong Man Che, Edward, Mr. Wong Man Ka, Stephen, Ms. Wong Man Hing, Alice, Mr. Wong Man Chiu, Ronnie, Mr. Wong Man Kon, John, Mr. Wong Man Kong, Peter
“Latest Practicable Date”	27 July, 2001 being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus
“Listing Date”	the date on which dealings in the Shares commence on GEM and is expected to be on 13 August, 2001
“Lock-up Period”	the period of 12 months from the Listing Date
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt, excludes GEM
“Ministry of Foreign Trade & Economics Cooperation”	中華人民共和國對外經濟貿易部, details of its functions are set out in the subsection headed “Regulatory” in the section headed “Business” in page 49
“Nanjing Argos”	「南京公交雅高巴士有限公司」, Nanjing Public Transport Argos Bus Co., Ltd., a sino-foreign co-operative joint venture in which Argos China is interested in 60 per cent. and Nanjing Public Transport Company, an independent party of the Group, is interested in 40 per cent.
“Nanjing Argos Tours”	「南京雅高風光旅游有限公司」, Nanjing Argos Scenery Travel Service Limited, a 95 per cent.-owned subsidiary of Nanjing Argos, the principal business of which is the provision of tour services in Nanjing. The remaining 5 per cent. is owned by Nanjing Public Transport Company, an independent party of the Group

DEFINITIONS

“Nanjing Media”	Nanjing Media Partners Public Transport Advertising Company Limited (「南京梅迪派勒公交廣告有限公司」)
“Nanjing Public Transport Company”	南京市公交總公司, Nanjing Public Transport General Corporation, a company established in the PRC. The business of which is the provision of public bus services in Nanjing.
“Nanjing Sanhe”	Nanjing Sanhe Advertising Consultation Services Company Limited (「南京三禾廣告諮詢服務有限公司」)
“New Shares”	the 30,000,000 Shares being offered by the Company at the Placing Price pursuant to the Placing
“Option Scheme General Mandate Limit”	the limit imposed under Rule 23.03(2) of the GEM Listing Rules whereby the total number of Shares subject to the Share Option Scheme and any other schemes must not, in aggregate, exceed 10 per cent. of the issued share capital of the Company from time to time
“Order 161”	Nanjing Government Order Number 161, the statute governing the operation of public bus companies in Nanjing
“Owner of Via Roma”	Mr. Kwan Yan Ming
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters for cash at the Placing Price with certain institutional and professional investors and other investors and certain employees of Argos Hong Kong and the Company as set out in the section headed “Structure of the Placing” in this prospectus
“Placing Price”	HK\$1.00 per Placing Share
“Placing Shares”	the New Shares and the Sale Shares initially offered for Placing
“PRC”	the People’s Republic of China which, for the purposes of this prospectus, excludes Hong Kong, the Macau Special Administration Region of the PRC and Taiwan
“PRC government”	the central government of the PRC, including the governments of provinces, municipalities, counties and other regions of the PRC and such governmental entities and political sub-divisions thereof
“Relevant Securities”	the meaning as defined in Rule 13.15(4) of the GEM Listing Rule
“Sale Shares”	the 24,000,000 existing Shares offered for sale by the Share Vendor pursuant to the Placing

DEFINITIONS

“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong (as amended))
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“SFC”	the Securities and Futures Commission
“Share(s)”	share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 30 July, 2001, the principal terms of which are summarized in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus
“Share Transactions”	the allotment and issue of Shares upon the exercise of any options which may be granted pursuant to the Share Option Scheme, and the allotment and issue or purchase of Shares by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as set out in paragraphs 3 and 6 respectively in section A of Appendix IV to this prospectus
“Share Vendor”	Sino Market of which details are set out in the paragraph headed “Particulars of the Share Vendor” in Appendix IV to this prospectus
“Sinoman International”	Sinoman International Limited, a company incorporated in Hong Kong with limited liability and one of the Initial Management Shareholders of the Company, the major business of which is investment holding
“Sinoman Shareholders”	Mr. Yeung Wai Hung and the Twilight Enterprises Limited
“Sino Market”	Sino Market Enterprises Limited, a company incorporated in Hong Kong with limited liability and one of the Initial Management Shareholders of the Company, the major business of which is investment holding
“Sino Market Shareholders”	Kenworth Enterprises, Sinoman International and Via Roma
“Sponsor”	Yu Ming
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeover Code”	the Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Twilight Shareholders”	Mr. Wong, Wilson and Ms. Chiu Gee Chai
“Underwriters”	Yu Ming, Celestial Capital Limited, CSC Securities (HK) Limited, JS Cresvale International Limited, Core Pacific – Yamaichi International (H.K.) Limited and South China Securities Limited
“Underwriting Agreement”	the conditional agreement dated 30 July, 2001 relating to the Placing entered into between, <i>inter alia</i> , the Company and the Underwriters as described under the section headed “Underwriting” in this prospectus
“Via Roma”	Via Roma Company Limited, a company incorporated in Hong Kong with limited liability and one of the Initial Management Shareholders of the Company, the major business of which is investment holding
“Yu Ming”	Yu Ming Investment Management Limited, a dealer and an investment adviser registered under the Securities Ordinance and the GEM approved sponsor of this Placing and one of the Underwriters
“Zhongbei Bus”	南京中北巴士有限公司, Nanjing Zhongbei Bus Co., Ltd., a party independent from the Group, the business of which is the provision of public bus services in Nanjing
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States
“sq.m.”	square metres

In this prospectus, for information purposes only, and unless otherwise indicated, amounts quoted in RMB have been converted into Hong Kong dollars at the rate of HK\$1.00 to RMB 1.07 and amounts quoted in U.S. dollars have been converted into Hong Kong dollars at the rate of US\$1.00 to HK\$7.80. Such exchange rate have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts have been, could have been or may be exchanged at that or any other rates.

GLOSSARY OF TECHNICAL TERMS

The glossary contains explanation of certain terms and definitions used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“bus, vehicle and fleet”	any motor vehicles on road for the purpose of carrying more than 40 passengers and their personal effects in the PRC, with a length of over eight metres
“CBD”	the Central Business District
“Employee Service”	one type of non-franchised bus service offered to employers for the carriage of their employees to or from their place of work
“franchise”	exclusive right granted by the relevant authority for the operation of fixed route, fixed schedule and fixed fares passenger transport services
“Hire-a-Bus service”	one type of non-franchised bus service offered for the carriage of members of the public to and/or from designated destinations on a per trip basis with no fixed schedule, route or fares
“IC Card”	a touch-less smart card system in Nanjing for the payment of fares
“inner-city service”	the provision of public bus service within a city
“inter-city service”	the provision of public bus service between cities
“midi bus”	any motor vehicles on road for the purpose of carrying more than 16, but less than 40, passengers and their personal effects in the PRC with a length of less than six metres
“public bus service”	the provision of franchised public transport service through the deployment of buses on Public Routes and/or Tourist Routes
“Public Route(s)” or “Public Route Service(s)”	franchised service targeting daily commuters
“Public Tourist Route Network”	a strategy pursued by Nanjing Argos to make Tourist Routes cater for daily commuters
“Tourist Route(s)” or “Tourist Route Service(s)”	franchised service targeting mainly tourists connecting various sightseeing points and tourist facilities
“W”	a suffix to the Public Routes, meaning that there will no conductor on board. The bus will be solely operated by the bus captain
“WTO”	the World Trade Organization
“Y”	a prefix to the Tourist Routes

RISK FACTORS

RISK RELATING TO THE GROUP

Risk associated with the establishment and non-establishment of new routes

The future growth of the Group lies critically in the ability of the Group to establish new routes and enter into new joint ventures in other cities of the PRC. However, investors should be aware that Nanjing Argos cannot guarantee the establishment of further new routes. As disclosed in the section headed “Business” of this prospectus, the establishment of new routes involves either substantial planning and negotiations with external parties, for instance, governmental bodies or the decision of the Bureau of Passenger Transport Management as to whether to award further routes to Nanjing Argos. Moreover, future new routes are not guaranteed to be awarded to Nanjing Argos. In addition, the Group may be unable to identify further areas in Nanjing in which profitable new routes can be established, or planned viable routes may be objected to by the government or other interested parties. Furthermore, the relevant governmental bodies may, for unforeseeable reasons, decide not to grant further routes to the Group. Moreover, new routes may not be profitable. Nanjing Argos is also facing competitions from other two public bus operators. There is also a possibility that licenses on existing routes may not be renewed upon expiry of the three years term if the Group is in breach of rules and regulations governing the operation of bus services, for example, the Order 161 in Nanjing.

Risk associated with the ability to form new joint ventures

Furthermore, the Group may not be able to enter into new joint ventures in other cities of the PRC. The Group’s policy in entering into new joint ventures not only lies in the profitability of the joint venture but also on the level of control the Group can exert. At this moment, the Group will only enter into joint ventures in which it can control the management. Moreover, given that any joint venture agreements are subject to approval from various level of governmental authorities in the PRC, there is no guarantee that the relevant approval will be granted by other relevant bodies following successful negotiation with one governmental body.

In addition, new joint ventures entered into by the Group, such as Chongqing Wanzhou Argos, may be unprofitable due to factors unforeseeable at the time these joint ventures were established, for instance, lower than expected population growth. Further, such joint ventures can be terminated prior to the expiry of the joint venture contracts either because the obligations of the joint venture contract could not be performed as a result of force majeure, or the business of the joint venture cannot be carried on as a result of continued losses, or the joint ventures cannot carry on its business or attain the objectives set out under the joint venture contract as a result of the default of one of the joint venture partners.

Risk associated with existing joint venture

Nanjing Argos is a cooperative joint venture between the Group and Nanjing Public Transport Company. Nanjing Argos has a joint venture operating term of 19 years. If both the joint venture parties decide not to extend such operating term upon expiry, all assets of Nanjing Argos will be transferred to Nanjing Public Transport Company, which may seriously affect the balance sheet of the Group. Nevertheless, it is the current intention of the Group to extend every joint venture as long as they are profitable.

Risk associated with leased properties interest of the Group

Nanjing Argos entered into lease agreements in relation to certain bus parking facilities. Nevertheless, the Group is unable to ascertain whether the respective landlords have obtained the respective title certificates of the bus parking facilities. Such lease agreements are not effective if the respective landlords do not obtain the respective title certificates. However, the Directors do not expect such lease agreements, or the validity thereof, to affect the operations of Nanjing Argos to any significant extent.

RISK FACTORS

In addition, Nanjing Public Transport Company assigns Nanjing Argos the right to use the depot and termini. Due to various historical reasons, title documents on some of the termini were not obtained by Nanjing Public Transport Company. Nevertheless, the Directors do not expect the operations of Nanjing Argos to be affected by the absence of any title documents on the ownership of the termini by Nanjing Public Transport Company.

Risk associated with Tourist Routes

At the same time, the Group's current strategy in Nanjing is to focus on establishing new Tourist Routes, which may increase the correlation of the Group's financial performance with the general economy of the PRC. Although the contribution of Tourist Routes to current profits is not significant, the strategy may increase the volatility in financial performance of the Group in the long term.

Not all the proceeds from the Placing will be applied for the implementation of the stated business objectives of the Group

Potential investors should note that not all net proceeds from the Placing will be applied to implement the stated business objectives but also for the purpose of repayment of certain shareholders' loans. Approximately HK\$5.2 million of the net proceeds from the Placing will be applied to repay a loan due to an existing shareholder of the Company. The loan was granted by such existing shareholder to the Group for the launch of services in Wanzhou. Approximately HK\$3.3 million of the net proceeds from the Placing will be applied to settle an amount due to Argos Hong Kong, the immediate holding company prior to restructuring, and HK\$1.5 million will be applied to settle an amount due to Via Roma, for operating and investments cash flow advanced to the Company. Therefore, one of the purposes of the Placing is to enable existing shareholders to reduce financial support for the Group.

The Group may experience stoppages or other disruptions to its current operation

In the Group's limited operating history, there have been neither significant stoppages nor disruptions in its operation. Such achievement is mainly attributable to the dedication of the management and the advance operating and human resources policy adopted by the Group. In the public transport industry worldwide, industrial relations have been proven a critical success factor in every operator. Nevertheless, there is no guarantee that good working relationship between front line staff and the management can be sustained and maintained, which may sometimes give rise to lengthy industrial action that can seriously challenge the short-term profitability and the long-term viability of the Group.

The Group relies on its current management team in the PRC for daily operation and the management staff based in Hong Kong play a supervisory role. The Group was accredited with the ISO 9002 certification and the supply of key personnel with the essential experience in managing a public transport corporation with such accreditation is rarely available. Resignation of key management staff may result in unforeseeable disruptions in the daily operations of the Group.

Finally, the weather of Nanjing in winter can be extreme. While the fleet of the Group are all equipped with anti-frost engine coolant, the severity of weather may limit activities in the city in general. As a result, there will be a potential negative impact to the financial performance of the Group.

RISK FACTORS

The viability of the Group is subject to the policy from various PRC governmental bodies

As mentioned in the section headed “Business” of this prospectus, Nanjing Argos is currently one of the three public bus operators in Nanjing while to the best knowledge of the Directors, Chongqing Wanzhou Argos is the sole public bus operator in Wanzhou deploying standard capacity buses. The Group at this stage is not aware of any intention of the respective governmental bodies to bring new public bus operators into the city. However, the relevant governmental bodies of the PRC do have the discretionary power to invite new public bus operators to the market. The impact on the Group in terms of competition can either be direct or indirect. However, the growth opportunity will be significantly reduced in terms of the further award of new routes should new public bus operators be permitted to operate in Nanjing and Wanzhou.

The contract term of Nanjing Argos is 19 years until September 2016 while Chongqing Wanzhou Argos can operate under the current contract for 30 years until December 2030. Both contracts are extendable upon expiry. The Group intends to operate Nanjing Argos on a going concern basis and will apply for extensions as long as the Group still considers the operation viable. Nonetheless, the relevant governmental bodies may consider, for unforeseeable reasons, that granting further operating term is inappropriate.

The Group’s operation is currently subject to various incentives in tax as a result of the PRC government’s policy in attracting foreign investors to invest in the PRC. The long term availability of such incentives is not guaranteed and is subject to revision and cancellation. Any alterations to the incentive, if eventuate, will present negative impact on the Group’s financial performance.

The Group’s growth also rests on the PRC government’s overall objectives to improve the level of public transport service and reduce subsidies to the sector through the model of sino-foreign joint ventures. The continuation of such policy is not guaranteed in the long term for unforeseeable reasons. The growth of the Group can be significantly hampered should the aforesaid policy be changed against the favour of the Group.

Price control

Bus operators in the PRC are not empowered to revise fares at their discretions. In Nanjing, the three bus operators will have to charge the same level of fares in their Public Routes, albeit the Group can charge a higher fare for air-conditioned services provided in Tourist Routes. Fares of Chongqing Wanzhou Argos is also regulated by the government. Furthermore, the ability in revising fares is in the sole discretion of the Bureau of Consumer Prices. In considering the approval the Bureau of Consumer Prices may make reference to the general price level and other factors. Since the provision of a premium service, for instance, with newer fleet, is not associated with the ability to charge a higher fare, the Group’s profit may not be as much as that of the other operators.

Environmental regulations

The industry is also subject to tight control from the Bureau of Environmental Protection. Breach of the applicable laws and standards may cause fines or sanctions or suspension of services. However,

RISK FACTORS

the Group believes the current operation is in compliance with such regulations and standards since the fleet age is very young in comparison with other public bus operators. Nevertheless, it is possible that regulations will be tightened in the future and the Group may become non-compliant with such changes. The Group may have to render additional costs to upgrade the fleet and other infrastructure in order to comply with the revised regulations.

Financial position of the Group

The Group is heavily capitalised as evidenced by the fact that the amounts of its non-current assets are relatively substantial. The Group has financed its operations and capital expenditure requirements primarily through significant borrowings from financial institutions. To the extent that the net proceeds from the Placing and cash flows from operations shall not be sufficient to finance its operations and capital expenditure requirements, the Group may need to raise additional funds from financial institutions. In the event that high interest rates are required to be paid or that the Group cannot obtain such financings, this may have a negative impact on the Group's working capital and the implementation of its business plan and its profitability may be adversely affected.

Nevertheless, Argos Hong Kong undertakes to capitalize a shareholders' loan of HK\$5.0 million and Argos Hong Kong has confirmed that it will not demand repayment of the remaining balance of HK\$5 million as at 31 May, 2001 due to it within the next two years. Sino Market, the Company's immediate holding company after listing, has confirmed that it will continue to provide financial support to the Company.

RISKS RELATING TO THE INDUSTRY

The industry is subject to competition from other modes of transport

The industry can be subject to competitions from other modes of transport, for instance, urban rail system, and may have to face consolidation due to increasing competitions. Construction is under way for an urban rail line in Nanjing which is expected to complete in 2005. The Group is unable to determine the exact effect on its Nanjing operation but the industry as a whole is going to face consolidation and restructuring upon completion of such rail system. The Group anticipates the short-term impact being the worsening of traffic flow and a reduced growth in patronage in the long term. However, the industry has been subject to assistance from the Bureau of Passenger Transport Management in terms of competition. For instance, midi buses were allowed to operate freely in Nanjing but such operators have been banned from entering the CBD of Nanjing recently, thus promoting the business environment for bus operators. However, such assistance is not guaranteed in the future.

Moreover, although the population growth rate is not high in Nanjing, the growing population may on the one hand bring in more patronages but on the other hand worsen traffic congestion. The worsening of traffic conditions may in the long term affect the quality of service and reduce the profitability of the operation.

RISK FACTORS

The industry is subject to significant influence from price of fuel

The cost of fuel accounts for approximately 30 per cent. of the total operating cost incurred by the Group during the financial years of 1999, 2000 and the five months ended 31 May, 2001. As a result, volatility of crude oil price in the world market has significant impact on the Group's financial performance, even though the Group acquires all the fuel from PRC producers, which is less expensive than purchasing from overseas producers and thus reducing the impact on volatile fuel cost. The Group has implemented stringent control, through policies in conjunction with the ISO 9002 accreditation, on the consumption of fuel and have ensured wastage to be cut to a minimum.

RISKS RELATING TO THE MACRO ENVIRONMENT

PRC political and economic considerations

All of the Group's operations are located in the PRC. Potential investors should note that changes in the economic and political situation in the PRC and policies adopted by the PRC government to regulate the PRC economy may affect the Group's operations in the PRC and its performance and profitability.

The PRC economy has traditionally been a centrally planned economy subject to a series of PRC government economic plans adopted by the PRC government. Over the past twenty years, there has been considerable reform in the economic system in the PRC. Such reforms have resulted in significant economic and social advancement. Many of the reforms are unprecedented and are expected to be refined and improved upon while political, economic and social factors may also lead to further adjustment of the reform measures. The reform and readjustment process, however, may not always have a positive effect on the operations of the Group.

There is no assurance that the Group's performance and profitability will not be adversely affected by changes in the political, economic and social conditions in the PRC and by changes in the PRC government's policies such as changes in laws and regulations (or the interpretations thereof), the introduction of measures to control inflation, changes in the rate or method of taxation, and the imposition of additional restrictions on currency conversion and overseas remittances.

Legal system of the PRC

The PRC legal system is a civil law system which is based on codified laws and regulations and in which decided legal cases have little precedential value. Although since 1979, many laws and regulations governing economic matters have been promulgated and amended in the PRC to provide general guidance on economic and business practices, the PRC legal system is still considered to be underdeveloped in comparison with the legal systems of some western countries. The interpretation of the PRC law may be subject to policy changes reflecting domestic political and social changes.

Significant progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. As the legal system keeps evolving, the changes to existing laws and the abrogation of local regulations by national laws may have a negative impact on the business and prospects of the Group's business.

RISK FACTORS

Currency conversion and exchange rate risks

Substantially all the operating revenues of the Group are denominated in RMB. In order to pay dividends to Shareholders outside the PRC, a portion of the Group's RMB revenues must be converted into Hong Kong dollars. The PRC government adopted a unified system which is subject to market mechanism. Under the system, the People's Bank of China quotes a daily exchange rate for RMB to US dollars based on the previous day's dealings in the inter-bank foreign exchange market. Despite such development, the RMB is still not freely convertible.

As the exchange rate based partially on market forces, the exchange rates for RMB against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors and there can be no assurance that RMB will not be subject to devaluation or depreciation due to administrative or legislative intervention by the state or adverse market conditions. Should RMB be devalued, the value of the profit of the Company in terms of Hong Kong dollars will be adversely affected.

OTHER RISKS RELATING TO THE SHARES

Shareholders' interests in the Group may be diluted in the future

The Group may need to raise additional external equity in the future to finance further expansion in Nanjing, Wanzhou and various new joint ventures in other cities. The Group may also grant equity options to management and staff as part of remuneration packages under the Share Option Scheme. Both the raising of new equity other than on a pro-rata basis to the then existing Shareholders and the exercising of equity options may cause existing Shareholders' interest to be diluted correspondingly. However, pursuant to Rule 17.29 of the GEM Listing Rules, no further equity or rights that can be converted into equity can be issued within six months from the Listing Date. As a consequence, potential investor can expect dilution to occur six months after the Listing Date the earliest.

There may not exist an active market in the future for the Shares and prices are subject to volatility

The trading price of the Shares may fluctuate in response to a number of events including quarterly variation in the Group's operating results, new services launched by the Group, its direct competitors or companies listed on GEM, companies listed on the Main Board and/or other stock exchange having comparable business with that of the Group, general performance of the GEM, the Main Board or other equity capital markets, changes in recommendation or financial estimate by analyst and investors general perception on the Group's future prospects.

The trading volume of the Shares subsequent to listing may be low and the price for the Shares may experience significant volatility. The Shares have not been traded previously on the market and as a result the market reaction to the Shares is not known and cannot be accurately anticipated. There is no guarantee that investors are able to sell the Shares above the Placing Price, Furthermore, by no means the Placing Price will be guaranteed an indicative price of which the Shares will be traded at the market subsequent to the Listing Date. In addition, there is no guarantee that there will be a liquid market for the Shares.

WAIVER ON MORATORIUM PERIOD REQUIREMENT

Pursuant to Rule 13.16 of the GEM Listing Rules, the Company shall procure that every Initial Management Shareholder (i) places in escrow, with an escrow agent acceptable to the Stock Exchange his or its Relevant Securities for a period of two years from the Listing Date, on terms acceptable to the Stock Exchange; and (ii) undertakes to the Company and the Stock Exchange that, for a period of two years from the Listing Date, that he or she or it will not dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his or her or its direct or indirect interest in the Relevant Securities.

An application for waiver has been made to the Stock Exchange to waive each of the Initial Management Shareholders from strict compliance with the moratorium period requirement under Rule 13.16 of the GEM Listing Rules. The Stock Exchange has granted a conditional waiver to shorten the two-year moratorium period imposed on the Initial Management Shareholders as required in Rule 13.16 of the GEM Listing Rules to 12 months from the Listing Date.

WAIVER RELATING TO THE SHARE OPTION SCHEME

Share Option Scheme Waiver

The Share Option Scheme was conditionally adopted by a resolution of the Shareholders of the Company on 30 July, 2001. The total number of Shares subject to the Share Option Scheme cannot exceed the Option Scheme General Mandate Limit. The Company has applied for a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules so that the total number of Shares subject to the Share Option Scheme and any other schemes can be increased from 10 per cent. to 30 per cent. of the issued share capital of the Company from time to time. Such waiver has been granted by the Stock Exchange subject to the following conditions:

1. the total number of Shares which may be issued pursuant to the exercise of options under the Share Option Scheme and any other schemes must not, in aggregate, exceed 30 per cent. of the issued share capital of the Company from time to time;
2. subject to (1) above, the Shareholders may authorise the Directors to grant options under the Share Option Scheme and any other schemes entitling participants to subscribe for Shares pursuant to the exercise of options representing up to the Option Scheme General Mandate Limit which may be revised, if approved by Shareholders in general meeting from time to time;
3. subject to (1) above, the Company may seek a separate Shareholder's approval in general meeting to grant options beyond the Option Scheme General Mandate Limit to participants specified by the Company before such approval is sought;

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES

4. any grant of options to a connected person (as such term is defined in the GEM Listing Rules) must be approved by all independent non-executive Directors of the Company;
5. where options are proposed to be granted to a connected person, who is also a substantial shareholder (as such term is defined in the GEM Listing Rules) or any of its associates, and the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12-month period, would entitle him to receive more than 0.1 per cent. of the total number of issued shares for the time being and the value of which is in excess of HK\$5 million, be subject to independent Shareholder's approval at general meeting in which the connected person involved and all other connected persons of the Company must abstain from voting (except where any connected person intends to vote against the proposed grant). A circular explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant must be sent to the Shareholders of the Company; and
6. details of options granted to each Director and all the other participants and a summary of the major terms of each share option scheme approved by the Shareholders must be disclosed in the annual and interim reports of the Company in addition to the disclosures required under Rule 23.08 of the GEM Listing Rules.

WAIVER ON FINANCIAL REPORTING REQUIREMENT SET OUT IN RULE 11.11 OF THE GEM LISTING RULES

The GEM Listing Rules require that the latest financial period reported by the reporting accountants in the listing document of a new issuer must not have ended more than six months before the date of the listing document.

The Company has sought and obtained from the Stock Exchange a waiver from strict compliance with the requirement of Rule 11.11 of the GEM Listing Rules on the basis of a confirmation from the Directors that they have performed sufficient due diligence on the Group to ensure that, save as disclosed in Appendix I to this prospectus, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 31 December, 2000 and there is no event which would materially affect the information shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rule 1989 of Hong Kong and the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing and sets out the terms and conditions of the Placing.

The Placing is sponsored by Yu Ming and is fully underwritten by the Underwriters pursuant to the Underwriting Agreement. Further information regarding the Underwriting Agreement are set out in the section headed "Underwriting" of this prospectus.

PLACING SHARES ARE TO BE OFFERED IN HONG KONG ONLY

No action has been taken in any jurisdiction to permit any offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any circumstances in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an unauthorized offer or invitation. The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus. Any information or representation not contained in this prospectus could not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the Placing.

Each person acquiring the Placing Shares will be required to confirm, or deemed by its acquisition of the Placing Shares to have confirmed, that it is aware of the restrictions on offers and sales of the Placing Shares described in this prospectus.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal in, the Placing Shares and any Shares which may be issued pursuant to the Placing and the exercise of options that may be granted under the Share Option Scheme. Only Shares registered under the Hong Kong register of members may be traded on GEM.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

No part of the Company's share or loan capital is listed or dealt in on the Main Board or any other stock exchange. At present, the Company is not seeking or proposing to seek the listing of, or permission to deal in, the Shares on any other stock exchange.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, the Company is required to maintain in public hands a "minimum prescribed percentage" of 20 per cent. of the issued share capital at the time of listing and at all times thereafter.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the tax implications for subscribing for the Placing Shares, or about the purchasing, holding or disposing of, or dealing in, or the exercise of any rights in relation to the Placing Shares, you should consult an expert.

The Company, the Directors, Yu Ming, the Underwriters, their respective directors, agents and advisers and all other parties involved in the Placing do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, or purchase, holding or disposal of, or dealing in or the exercise of any rights in relation to, the Placing Shares.

STAMP DUTY

The Company's register of members is maintained by Hong Kong Registrars Limited. Only Shares registered on the Company's register of members maintained in Hong Kong may be traded on GEM. Dealings in the Shares registered on the Company's register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

STRUCTURE AND CONDITION OF THE PLACING

Further details of the conditions and structure of the Placing are set out in the section headed "Structure of the Placing" in this prospectus.

DIRECTORS

Executive Directors

Name	Address	Nationality
Mr. Wong Wah Sang, M.B.E.	7A Everwell Garden 1 Sheung Hong Street, Homantin Kowloon Hong Kong	Chinese
Mr. Wong, Wilson	Block 6A 4th Floor Hamburg Villa 8-10 Eastbourne Road Kowloon Hong Kong	Canadian
Mr. Wong Man Chiu, Ronnie, J.P.	DD 369, Lot 930 Off Tai Mong Tsai Road 2nd Floor and Roof Pak Tam Chung Sai Kung, New Territories Hong Kong	Chinese
Mr. Yeung Wai Hung	Flat 6C, Block 4, Balwin Court 154 Argyle Road Kowloon Hong Kong	Chinese

Independent Non-executive Directors

Mr. Ng Ming Wah, Charles	Apartment A, 37th Floor Beauty Court 82 Robinson Road Hong Kong	British
Mr. Sung Wai Tak, Herman	Flat C, 22nd Floor, Block 8 Royal Ascot Shatin New Territories Hong Kong	British

PARTIES INVOLVED IN THE PLACING

Sponsor

Yu Ming Investment Management Limited
Suite 51, 5th Floor
New Henry House
10 Ice House Street
Central
Hong Kong

Lead Manager and Financial Adviser

Celestial Capital Limited
21st Floor, The Centre
99 Queen's Road Central
Hong Kong

Co-Lead Managers

Yu Ming Investment Management Limited
Suite 51, 5th Floor
New Henry House
10 Ice House Street
Central
Hong Kong

CSC Securities (HK) Limited
28th Floor, Cosco Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

JS Cresvale International Limited
6th and 7th Floor, Asia Pacific Finance Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

Co-Managers

South China Securities Limited
28th Floor, Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

Core Pacific – Yamaichi International (H.K.) Limited
30th Floor, Two Pacific Place
88 Queensway
Hong Kong

PARTIES INVOLVED IN THE PLACING

Legal advisers to the Company

Hong Kong Law:
Gallant Y. T. Ho & Co.
4th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

PRC Law:
Pu Dong Law Office
6th Floor
Tomson Financial Building
710 Dong Fang Road
Shanghai 200122
PRC

Legal advisers to the Underwriters

Kwok & Yih
(in association with Andersen Legal)
37th Floor, Gloucester Tower
The Landmark
Central
Hong Kong

Reporting accountants and auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

Property valuer

DTZ Debenham Tie Leung Limited
10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

CORPORATE INFORMATION

Registered office	Room 1113, 11th Floor Block A2, Yau Tong Industrial City 17 Ko Fai Road Kowloon Hong Kong
Compliance Officer	Mr. Wong, Wilson
Authorized representatives	Mr. Wong Man Chiu, Ronnie, J.P. Mr. Yeung Wai Hung
Company secretary	Mr. Kwok Man Pang, Lewis, A.C.M.A., F.H.K.S.A., M.C.I.P.S., M. Inst. A.M. (Dip.), M.I.H.R.M. (H.K.)
Qualified accountant	Mr. Kwok Man Pang, Lewis, A.C.M.A., F.H.K.S.A., M.C.I.P.S., M. Inst. A.M. (Dip.), M.I.H.R.M. (H.K.)
Principal bankers	The China & South Sea Bank, Ltd., Hong Kong Branch 136 Des Voeux Road Central Hong Kong Jian Sing Bank Limited 99-105 Des Voeux Road Central Hong Kong
Share registrar and transfer office	Hong Kong Registrars Limited 2nd Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong
Audit Committee	Mr. Wong, Wilson Mr. Ng Ming Wah, Charles Mr. Sung Wai Tak, Herman

PUBLIC TRANSPORT IN THE PRC

As the PRC is a developing country, most Chinese commuters are unable to afford the luxury of owning a private car. As a result, public transport becomes the primary mode of passenger transportation in the PRC. At the same time, to the best knowledge of the Directors, due to various geographical, historical and economical concerns, inner-city mass railway transportation systems are uncommon in PRC cities. At present, there are only four such railway systems in operation in the PRC. Having said that, only the underground railway systems in Beijing and Shanghai resemble that of a railway network. Even though there are plans to expand inner-city railways, the Directors believe in the short to medium terms, passenger transportation will be dominated by road transport.

Major forms of inner-city road public transport in the PRC include public buses, midi buses and hire cars with the former two categories targeting the same customer sector, which is the day-to-day commuters. Midi buses are a common mode of public transport across cities in the PRC, serving on routes which cannot sustain public bus operations with no fixed stops. This seemingly convenient characteristic has caused a boom in midi bus services. On the other hand, the same characteristic worsens the overall traffic conditions due to the frequent stops midi buses made. At the same time, with the growth in passenger volume in many of the routes, relevant governmental bodies become aware of the fact that midi buses are not the most efficient mode of transport to accommodate such growth. As a consequence, most cities have limited the access of midi buses to the CBD, if not already banned. Therefore, public buses enjoy dominant positions in the populated areas in most PRC cities.

In the past, all public bus companies are state-owned under the centrally planned economy of the PRC. The system has numerous flaws and drawbacks that give rise to hefty losses, unacceptable quality of services and gross inefficiencies. Such system not only gives rise to heavy financial burden to the PRC government in terms of subsidies, but also results in a constant drop in patronage. In view of the problem, the PRC government started inviting foreign operators to invest and participate in the management of public bus companies in mid-90s. Such co-operations involve the foreign operators contributing the necessary capital in upgrading the aging fleet and other facilities, while the incumbent state-owned public bus company contributes the routes operating rights, human resources and other facilities which are already in place. So far as is known to the Directors, most of such foreign operators are either from Hong Kong, Macau or Singapore. Apart from foreign operators, local companies with sufficient capital can also participate in similar joint ventures.

Even though the actual process may vary across provinces, the establishment of a new sino-foreign joint venture in the public transport sector generally involves, amongst other things, the following process. Firstly, the foreign investor, together with the PRC-based party, must submit all relevant documents to the responsible government authorities for application. Such documents include a feasibility study on the proposed joint venture, the memorandum and articles of association of the proposed joint venture and a list of legal representatives and legal and credit certifications of the foreign party. The relevant government authorities will then review the application and then submit the application to the Ministry of Foreign Trade and Economic Cooperation for final review and formal approval. In the case of Nanjing Argos, the process of forming the joint venture included the entering into a joint venture contract between Argos China and Nanjing Public Transport Company. Relevant documents in relation to the application was submitted to the Bureau of Public Utility for initial review, and to the Ministry of Foreign Trade and Economic Cooperation for final review, which then handed down the approved joint venture contract and the memorandum and articles of association to Nanjing Argos. A legal sino-foreign joint venture was then formed.

NANJING OVERVIEW

Nanjing is the state capital of Jiangsu Province, near the eastern coast of the PRC, 300 kilometers to the west of Shanghai. The city is a major river port in the PRC due to its proximity to the East China Sea, and is linked to other major cities and industrial centres by highways. In addition, Nanjing is located at the center of a well-established railway network and is the rail dispatch center of eastern PRC. The city acts as the regional functional center of the Yangxi delta immediately after Shanghai, with a substantially lower standard of living. The population and area of Nanjing are 5.3 million and 6,516 square kilometers respectively, of which 3.6 million of the population are classified as urban population in an area of 1,000 square kilometers.

Industrial production accounted for over 50 per cent. of Nanjing's gross domestic product. Main industrial productions include petrochemical, telecommunication equipments, vehicles production and industrial machines manufacturing. In addition, there are a significant number of co-operative joint ventures established between PRC companies and reputable multinationals including Motorola, Nokia, Philips, BASF and Bosch. Hong Kong-based companies with investments in Nanjing include Citic Pacific and Sun Hung Kai Group. The popularity of Nanjing amongst multinationals reflects the Nanjing government's favourable policy towards foreign enterprises.

Nanjing has experienced rapid urban development in recent years with transportation being its priority. The target of the Nanjing government is to construct a rapid, access-friendly and congestion-free system with maximum coverage. Ten major internal and external road infrastructure projects have been completed in the past decade. The ultimate aims of these infrastructure projects are to facilitate the development and modernization of Nanjing through the redevelopment of the incumbent inner-city area and the establishing of new residential area in suburban districts and to consolidate the industrial and commercial centre status of Nanjing in eastern PRC.

History and Tourism in Nanjing

The origin of Nanjing can be traced back to the third century A.D. Six dynasties have made Nanjing their capital with the most recent one being the Ming Dynasty and the Guomintang government during the second world war.

With the distinctive historical status of Nanjing, the city is a main tourist destination with over 500 tourist attractions. Nanjing is amongst the 24 most famous historical cities in the PRC as well as one of the seven most popular Chinese tourism cities.

One of the most famous tourist attractions in Nanjing is the Dr. Sun Yat-sen Mausoleum, which is a memorial site for Dr. Sun Yat-sen, an important person in modern Chinese history, located in the Purple Gold Mountain area (served by Tourist Routes Y1, Y2 and Y3). Other popular tourist attractions include the Ming Tomb, relics of Heaven King's Palace, ancient city wall, stone carving of Southern Tang Dynasty, Rainflower Terrace, Mural of Tangzi Street as well as scenic natural landscape, such as Qixia Mountain, Xuanwu Lake, Muochou Lake and the Qinhuai River scenic zone.

The Public Transport Policy of Nanjing

The public transport policy of Nanjing is part of the overall town planning and urban development policy. The priority of urban transport development is road public transport, led by service upgrades of current public bus network, supplemented by hire cars and tourist coaches. With the completion of the underground railway in five years' time, a proportion of the current road patronage is expected to be drawn. However, it is anticipated that a significant percentage of patronage will remain with road public transport.

Currently the number of buses in service in Nanjing is over 3,000. In the short term, the Bureau of Passenger Transport Management plans to put 200 to 300 new buses on the road every year to cope with the increasing demand on quality public transport service from different sectors of the passenger market. The sectors include: Public Routes on trunk roads, express routes connecting major suburbs, Tourist Routes connecting major points of attraction, mid-night or overnight services and long distance routes connecting Nanjing city and surrounding country areas.

Public Transport in Nanjing

The primary modes of road public transport in Nanjing city are public buses, midi buses and taxis. In line with the general public transport policy of reducing the role of midi buses in crowded and congested area, the Nanjing Bureau of Passenger Transport Management has imposed restrictions on midi buses from entering the urban area of Nanjing, thus limiting the operations of midi buses to the suburban areas. Consequently, only public buses are permitted to provide mass passenger transport in the Nanjing urban area, resulting in an extremely favourable operating environment for public bus operators. Even though the Nanjing government planned to construct an underground railway line through the centre of Nanjing CBD, the Directors do not anticipate a major impact on the current operations and performance of Nanjing Argos for the following reasons:

- The routing of the proposed railway line is not overlapping with the current network of Nanjing Argos;
- The proposed underground railway line will run north to south. Most Nanjing Argos routes do not serve such direction while others which serve such directions, only overlap with the railway line in a small portion;
- The proposed underground railway line will not be completed for at least another five years; and
- The proposed underground railway line will not form a mature network which can threaten the overall viability of Nanjing public bus transport.

INDUSTRY OVERVIEW

At the moment there are three public bus operators in Nanjing: Nanjing Public Transport Company, Zhongbei Bus and Nanjing Argos. Nanjing Public Transport Company is the incumbent state-owned Public Routes operator in Nanjing, currently owning more than 1,700 buses with 82 routes. In terms of fleet size and number of routes, Nanjing Public Transport Company is the biggest public bus operators in Nanjing. However, consistent with other state-owned enterprises, it has to employ a significant number of surplus staff as well as to support the livelihoods of those who have retired or become redundant, which have significantly suppressed its operating efficiency and profitability.

In 1997, Nanjing Public Transport Company established Nanjing Argos with Argos China to operate Tourist Routes in Nanjing, which marked the quantum leap in public transport reform in Nanjing. In June 1998, a section of the Nanjing Public Transport Company was spun-off and handed over to Zhongbei (Group) Co., Ltd. to form Zhongbei Bus with a fleet size of 672 buses and 21 routes in operation. Management and employees of Zhongbei Bus are mostly ex-staff of Nanjing Public Transport Company. Zhongbei Bus adopted a more advanced management style compared with the state-owned public bus operator and thus becomes more competitive. Nonetheless, as part of the handover agreement with Nanjing Public Transport Company, Zhongbei Bus has to bear the living cost of a number of redundant and retired staff in a higher proportion than that of Nanjing Argos, thereby lowering the competitiveness against the Group. Nanjing Public Transport Company no longer owns any shares in Zhongbei Bus.

Published data from the three public bus operators in 1999/2000

Year	Nanjing Public Transport Company		Central and Northern Bus Company Limited		Nanjing Argos	
	1999	2000	1999	2000	1999	2000
Fleet Size	1,743	2,081	602	742	189	238
Number of Routes	88	115	26	30	9	12
Annual Mileage (<i>million km</i>)	93.5209	120.5797	33.7959	46.2983	12.8767	17.0000
Operating Turnover (<i>RMB million</i>)	287.31	359.15	99.31	132.39	40.53	49.48
Net Profit/(Loss) (<i>RMB million</i>)	(20.81)	–	3.37	–	6.17	–

Note: Public Transport Patronage in Nanjing for 1999: 1.2 billion trips

(*Source:* Bureau of Passenger Transport Management)

With reference to the official statistics regarding the Nanjing transportation sector in 1999, Nanjing Argos, although is the smallest public bus company in Nanjing, operates the most profitable network in Nanjing. The data not only shows Nanjing Argos as the leading public bus service provider in Nanjing but also brings out the fact that the management of the Group is capable of turning a loss making operation into a profitable one.

CHONGQING WANZHOU OVERVIEW

Background of Wanzhou

Wanzhou, in the Sichuen province, is situated approximately 300 kilometres to the east of Chongqing and is at the heart of the Yangxi River Triple Gorges flood control program, with a current population of 1.65 million in an area of 3,457 square kilometers. It is anticipated that after the flooding of the area in the vicinity of the Triple Gorges Dam, urban population will increase by 150,000 due to a major influx of immigrants as a result of the flood control program.

Public Transport in Wanzhou

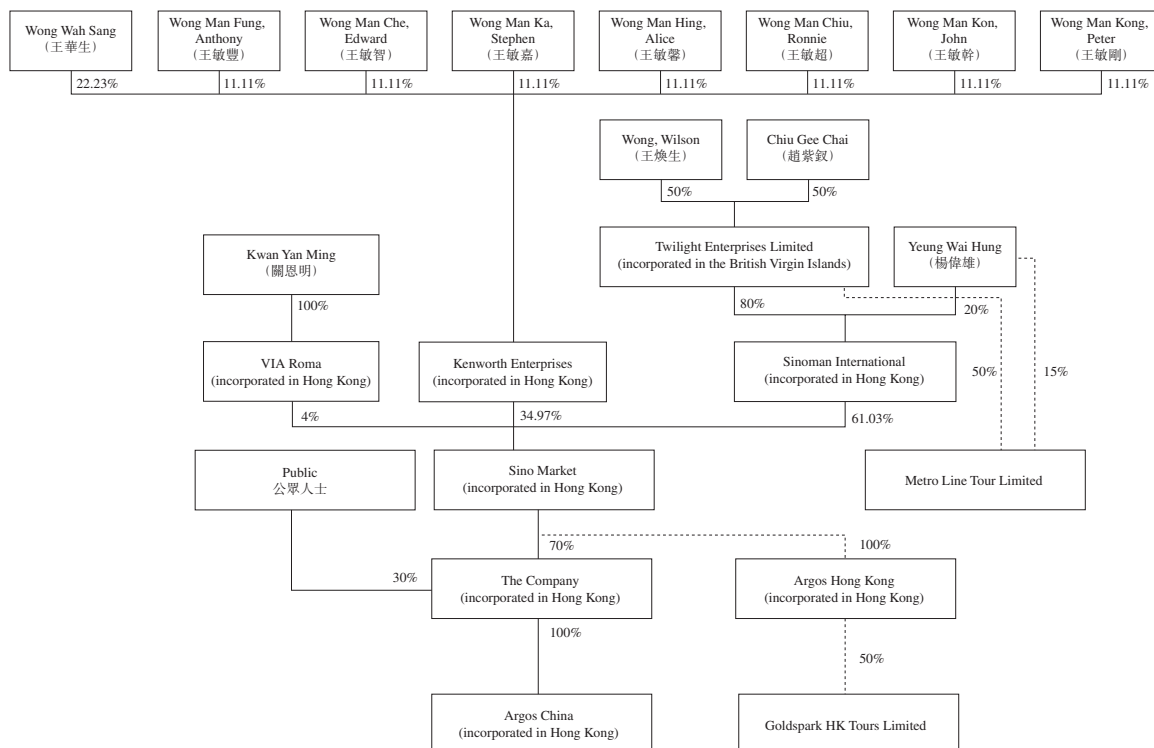
To the best knowledge of the Directors, other competitors in Wanzhou providing general bus services include Wanzhou Hire Cars Corporation (「萬洲出租公司」), Wanzhou No. 2 Transportation Corporation (「萬洲第二運輸公司」), Wanzhou Transportation Corporation (「萬洲運輸公司」) and Wanzhou San Xia Transportation Corporation (「萬洲三峽運輸公司」). These companies operate Public Routes in Wanzhou served only by midi-buses. Collectively they have 300 vehicles in service, in addition to the 800 taxis serving the area. The overlap between these routes and the routes run by Chongqing Wanzhou Argos are considered to be less significant by the Directors as compared to Nanjing Argos. Competition between these operators and Chongqing Wanzhou Argos is considered indirect.

HISTORY OF THE GROUP

The Company was incorporated in Hong Kong under the Companies Ordinance with limited liability on 13 October, 2000 as the holding company of the Group. The Group's business was established in September 1997. Currently, the main operation of the Group is the provision of public transport and related services. In between 1997 to 2000, the focus of the Group has been on the development of Nanjing Argos. The Group is actively engaged in negotiations with government officials in a number of cities in the PRC to set up joint ventures to operate similar services. The Group has set up another subsidiary, Chongqing Wanzhou Argos, the business licence of which was granted in December 2000, for the provision of public bus services in Wanzhou, Chongqing. Its operation has commenced in March 2001. Chongqing Wanzhou Argos is owned as to 60 per cent. by the Group and as to 40 per cent. by Chongqing Wanzhou Public Transport Company, an independent party of the Group. The Directors have substantial experience in the operation of transportation companies especially bus services, details of which have been set out in the paragraph headed "Directors' Interests".

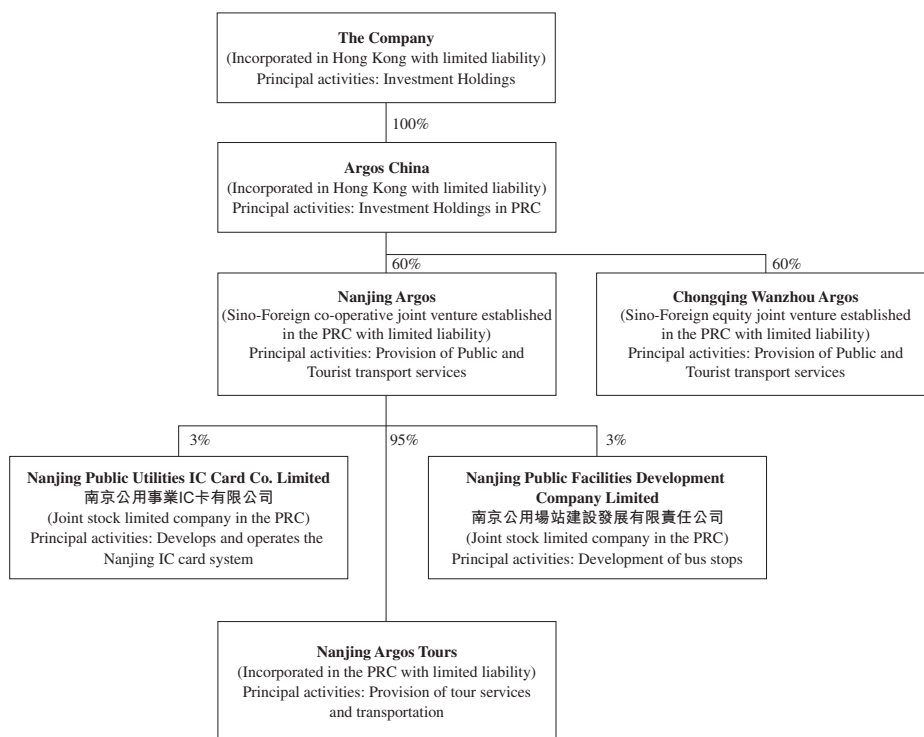
GROUP AND SHAREHOLDING STRUCTURES

The following diagram shows the shareholding structure of the Group immediately following completion of the Placing:



----- Not part of the Group, only fellow subsidiaries shown for indicative purpose only.

The following chart shows the current structure of the Group, the principal operating subsidiaries and investments of the Company and their respective places of incorporation and principal or intended activities are as follows upon the listing of the Shares on GEM.



HISTORY OF NANJING ARGOS

Nanjing Argos was established in September 1997 as a co-operative joint venture between Argos China and Nanjing Public Transport Company, in which it was agreed that Argos China and Nanjing Public Transport Company are entitled to share its profits at the ratio of 60:40 in accordance to the joint venture contract. The equity share of Argos China in Nanjing Argos is 100 per cent. The difference in equity and profit sharing ratios is provided for in the joint venture contract, taking into account the risk perceived by Nanjing Public Transport Company as it had not previously entered into such arrangement. The Directors believed the difference is reasonable given the quality and the growth prospect the network promised. This is also a fundamental difference between a co-operative joint venture and an equity joint venture (as in Chongqing Wanzhou Argos). Argos China controls both the board of directors and management of Nanjing Argos as Argos China holds a majority of seats on the board of directors of Nanjing Argos and has the right to appoint the general manager. There are five members on the board of Nanjing Argos. Mr. Wong Man Chiu, Ronnie, Mr. Yeung Wai Hung and Mr. Lee Kin Chi represent Argos China while Mr. Song Guo Qiang and Mr. Wang Xing Fu represent Nanjing Public Transport Company. Mr. Zhang Dao Lin, the General Manager of Nanjing Argos, is appointed by Argos China.

The total investment and registered capital of the operation amount to US\$5.4 million and US\$3.8 million respectively. Argos China contributed a total of HK\$29.5 million (US\$3.8 million) in cash to Nanjing Argos between December 1997 and October 1999, while Nanjing Public Transport Company contributed the routes operating right and all necessary infrastructure. As part of the agreement with Nanjing Public Transport Company, Nanjing Argos is to bear some of the cost of surplus staff of Nanjing

Public Transport Company, but at a lesser proportion than other operators with a limit of no more than 300 surplus staff. As at the end of 1999, the Group has contributed the full amount of US\$3.8 million in the registered capital. The term of the joint venture contract is 19 years until September 2016 with an option to extend upon expiry by mutual agreement and approval from the parties to the joint venture and the relevant authorities including the Bureau of Public Utilities, the Ministry of Foreign Trade and Economics Cooperation and Nanjing Bureau of Trade and Industry (南京市公商管理局). It is the intention of the Group to apply for extension in the joint venture contract upon expiry as long as its is profitable. The initial operations of Nanjing Argos were limited to Public Routes and Tourist Routes. Operating licenses on individual routes granted for a terms of three years are also renewable upon expiry by mutual agreement and approval from the Bureau of Public Utilities and Bureau of Passenger Transport Management. The operation of Nanjing Argos commenced in September 1997 with one Tourist Route of 10 buses. As at the Latest Practicable Date, its fleet size has grown to 258 buses. Yearly passenger volume increased from approximately 34 million in 1998 to approximately 116 million in 2000. In its short history, Nanjing Argos has established a brand name in public bus services. Nanjing Argos invested heavily in new vehicles and stressed the importance of quality services with overwhelming response from passengers in Nanjing.

Relationship with Nanjing Public Transport Company

Nanjing Argos is a cooperative joint venture between the Group and Nanjing Public Transport Company 100 per cent. owned by the Group through Argos China (profit are shared at 60:40 in favour of the Group). Nanjing Public Transport Company is also a public bus operator in Nanjing. The terms of the joint venture provide that capital commitment of US\$3.8 million be contributed by Argos China while Nanjing Public Transport Company would inject into Nanjing Argos routes operating right, depots (including related facilities) and termini. The board of directors of Nanjing Argos comprises five members. Argos China has the right to appoint three members to the board while Nanjing Public Transport Company has the right to appoint the remaining two. As a result, Argos China controls the board of directors of Nanjing Argos. Argos China also has the right to appoint the general manager of Nanjing Argos, who oversees the general operation of Nanjing Argos.

There are ongoing transactions between Nanjing Argos and Nanjing Public Transport Company. These transactions include the bearing of the living costs of a number of surplus staff of Nanjing Public Transport Company by Nanjing Argos, such number is limited to 300. In addition, Nanjing Argos is reimbursed by Nanjing Public Transport Company of its share of monthly ticket sales. Nanjing Public Transport Company also assigns Nanjing Argos the right to use the depot and termini, Due to various historical reasons, title documents on some of the termini were not obtained by Nanjing Public Transport Company. Nevertheless, the Directors do not expect the operations of Nanjing Argos to be affected by the absence of any title documents on the ownership of the termini by Nanjing Public Transport Company.

The Initial Management Shareholders have provided a deed of indemnity to the Company to indemnify against any liabilities that may arise (up to the Listing Date) from the deficiency of title of Nanjing Public Transport Company or their lack of proof of ownership in respect of any of the termini assigned for the Company's use for the purpose of its businesses operations in Nanjing Argos.

BUSINESS OF NANJING ARGOS

Nanjing Argos derives income from the following sources: Public Routes services, Tourist Routes services, rental of fleet body for advertising, "Hire-a-Bus" and Employee Services and sightseeing ticket sales and tours.

Public Routes services

The Public Routes service of Nanjing Argos commenced in June 1998 with six routes. Flat fares of RMB1 are charged on the routes, which is the standard fare charged across all Public Routes in Nanjing. Monthly ticket at RMB40 each is also available, which entitles its holder to 120 trips in the month of sale on any Public Routes operated by any public bus company. The three public bus operators in Nanjing split the receipts from monthly ticket sales in proportion to the mileage travelled. Nanjing Public Transport Company is responsible for handling the public sale of monthly ticket and reimburses Nanjing Argos and Zhongbei Bus the proportional share of monthly ticket receipts monthly in arrears. Nanjing Argos reported a steady increase in receipts from this category due to the launching of new routes and the extension of routes and service hours of the current network. Nevertheless, the mileage travelled may not be directly proportional to the actual passenger volume.

In January 2001, a touchless smart card fare payment system, namely the IC card system, for public transport has been introduced. Passengers on selected routes are no longer required to lodge coins into the coin box when boarding the bus. All they need is a smart card which carries credits. Fares will automatically be deducted when the smart card is presented to the smart card reader installed on the boarding gate of buses. Fares will subsequently be credited to the account of the relevant bus carrier in accordance with the actual patronage. The Company believes the introduction of such system will not only benefit passengers but also reduce the overheads of Nanjing Argos in relation to coins handling and security. The smart card utilizes a technology similar to the Octopus fare payment system on public transport systems in Hong Kong. The Company expects all buses serving the Public Routes will be installed with a smart card reader during 2001. The system is run by the Nanjing Public Utility IC Cards Company Limited (南京公用事業IC卡有限公司) in which Nanjing Argos holds a three per cent. equity interests. The major shareholder of Nanjing Public Utility IC Cards Company Limited is Nanjing Enterprise (Holdings) Limited (南京公用控股(集團)有限公司) (with a 45 per cent. interests), a quasi governmental body which holds interest in various public projects. Other shareholders include Nanjing Eastde Hi-tech Industry Co., Ltd. (南京－德高科技實業有限公司) (with a 25 per cent. interests), an independent party from the Group, Nanjing Public Transport Company (with a 18 per cent. interests) and Nanjing Zhongbei (Group) Co., Ltd. (南京中北(集團)股份有限公司) (with a 9 per cent. interests). The Company expects all major modes of transport in Nanjing will be installed with the IC card system in the future.

In February 2000, Nanjing Enterprise (Holdings) Limited (with a 47 per cent. interests), Nanjing Public Transport Company (with a 30 per cent. interests), Nanjing Zhongbei (Group) Co., Ltd. (with a 20 per cent. interests) and Nanjing Argos (with the balance of 3 per cent. interests) entered into an agreement to set up the Nanjing Public Facilities Development Company Limited (“Nanjing Development”) (南京公用場站建設發展有限公司). It is intended that Nanjing Development is to take charge of any development relating to bus stops. Nanjing Development is yet to have any operation. The operation of Nanjing Development is immaterial to the Group for the time being and the Directors believe decision made in Nanjing Development will not have impact to any significant extent on the operation of the Group. Most importantly, the operation of Nanjing Development does not concern bus operation.

BUSINESS

The eight Public Routes currently run by Nanjing Argos out of 165 Public Routes in Nanjing as at the Latest Practicable Date are:

2W	Yu Hua Tai (雨花台) – Chang Tu Dong Zhan (長途東站)
6W	Qing Liang Shan Gong Yuan (清涼山公園) – Ying Tuo Hua Yuan (櫻駝花園)
17W	Nanjing Che Zhan (南京車站) – Pai Lou Dong (牌樓東)
20W	Gu Lou Gong Yuan (鼓樓公園) – Hai Di Shi Jie (海底世界)
23W	Qing Liang Shan Gong Yuan (清涼山公園) – Hong Hua Cun (紅花村)
41W	Xin Jie Kou (新街口) – Xing Long Tao Ci Cheng (興隆陶瓷城)
58W	Wang Jia Wan (Wu Liu Zhong Xin) (王家灣(物流中心)) – Hong Hua Cun (紅花村)
91W	Dian Shi Ta (Ke Xue Gong) (電視塔(科學宮)) – 21 Shi Ji Guang Chang (廿一世紀廣場)

The above routes deploy a maximum of 10 to 42 buses during peak-hours, with 170 buses in total. The usual service hours of the routes are from 5:00 a.m to 11:00 p.m. Routes which are classified as developing routes, that is, 20W, 41W, 58W, serve shorter hours and usually cease services before 9:30 p.m. Two of the developing routes serving suburban development districts are expected to experience considerable growth in patronage once those districts are fully developed. With the growth in patronage in route 17W, non-air-conditioned double-deckers have been deployed while most other Public Routes are served by non-air conditioned single-decker. Services are operated within 2-10 minutes headway depending on the route served. The suffix of W represents one-man-operation in which no conductors will be on board. Passengers will have to lodge their fares into the coin box when boarding the bus before the implementation of the IC card system.

Nanjing Argos entered into lease agreements in relation to certain bus parking facilities. Nevertheless, the Group is unable to ascertain whether the respective landlords have obtained the respective title certificates of the bus parking facilities. Such lease agreements are not effective if the respective landlords do not obtain the respective title certificates. However, the Directors do not expect such lease agreements, or the validity thereof, to affect the operations of Nanjing Argos to any significant extent.

The Initial Management Shareholders have provided a deed of indemnity to the Company to indemnify any liabilities that may arise (up to the date of listing) from the deficiency of the landlords' titles in respect of any of the leases entered into by the Company for the purpose of its businesses operations in Nanjing Argos.

Tourist Routes service

The prefix of Y indicates the route being a Tourist Route service. Nanjing Argos began the Y1 Tourist Route service in September 1997, which was subsequently followed by the introduction of route Y2. Fares charged on the Tourist Routes range from RMB1 to RMB3, subject to the type of fleet used. Nanjing Argos introduced air-conditioned fleet in January 1998, non air-conditioned double-decker in September 1999, vintage buses in September 1999 and open-top double decker in January 2000 to Tourist Routes service in addition to the ordinary single-deckers. Passengers are charged RMB2 on air-conditioned or upper-deck seats of non air-conditioned double-decker service and RMB3 on a vintage service. Nanjing

Argos recently introduced a daily ticket system on the Tourist Routes Network. Passengers can purchase such ticket at RMB10, which will entitle them to unlimited travel on all Tourist Routes Nanjing Argos operates on the date of sale. There are customer service representatives on board of all buses serving Tourist Routes, who will introduce various points of attraction to passengers, selling sightseeing tickets and collecting fares.

Sixty-eight vehicles are allocated to the three Tourist Routes, five of which are double-deckers, two being vintage vehicles and one open-top double-decker with the remaining being air-conditioned fleet.

On 30 December, 2000, Nanjing Argos commenced the service of Route Y3, the “Dr. Sun Yat-sen Mausoleum Tourists Shuttle”. The service operates between White Horse Park (白馬公園) and Temple of the Scared Valley (靈谷寺), deploying five newly acquired midi buses. Nanjing Argos launched this shuttle service in association with the Dr. Sun Yat-sen Mausoleum Tours Service Company, an independent party from the Group and the management of Dr. Sun Yat-sen Mausoleum, at an upfront fee covering bus stops and terminus rental, water and electricity charges for five years. By establishing this service, Nanjing Argos has obtained contractual preferential consideration from Dr. Sun Yat-sen Mausoleum Tours Service Company in launching further routes in the Dr. Sun Yat-sen Mausoleum area. Currently, there are three Tourist Routes in the area all of which are operated by Nanjing Argos.

The Tourist Routes currently run by Nanjing Argos are:

- | | | |
|----|---|--|
| Y1 | Nanjing Che Zhan (南京車站) (Nanjing Railway Station) –
Zhong Shan Ling (Dr. Sun Yat-sen, Mausoleum) (中山陵) | |
| Y2 | Yu Hua Tai (Rain Flower Terrace (雨花台)) –
Hai Di Shi Jie (海底世界) (Marine World) | |
| Y3 | Dr. Sun Yat-sen Mausoleum Tourists Shuttle
(中山陵旅遊專線) | White Horse Park (白馬公園) –
Temple of the Scared Valley (靈谷寺) |
| Y4 | Nanjing Gong Ke Yun Zhan (南京港客運站)
(Port Nanjing Passenger Interchange) –
Yu Hua Tai Nan Zhan 雨花台南站
(Rain Flower Terrace South Station) | |

Service hours of the Tourist Routes are from 7:30 a.m. to 5:30 p.m. at 5 to 10 minutes headway. The Tourist Routes network accounted for approximately 9 per cent. of the overall operating turnover of Nanjing Argos for both 1999 and 2000. In 1998, income from Tourists Routes accounted for approximately 15 per cent. of such turnover, when the Public Routes were only in half-a-year of operation.

“Hire-a-Bus” and employee services

These two services aim at maximizing the utilization rate of Nanjing Argos fleet. Firstly, during the morning and evening peak hours, the demand for Tourist Routes services is not as high as in the conventional off-peak hours. The surplus air-conditioned buses are therefore deployed for the provision

of Employee Services in which factories or other institutions enter into contracts with Nanjing Argos for providing transportation service to staff to and from work. Secondly, during the conventional off-peak hours, the demand for Public Routes decreases, the idle bus are then re-allocate to serve the “Hire-a-Bus” business. Nanjing Argos bids for mass transportation service in exhibitions and festivities to further enhance the utilization rate of the fleet. The total revenue generated from the “Hire-a-bus” and Employee Services accounted for approximately 10 per cent. of the aggregate revenue in 1998 and increased to approximately 12 per cent. in 2000. To boost utilization rate, Nanjing Argos recently entered into contracts to run services for property developers connecting property sales office and the site.

Sightseeing ticket sales and tours

Nanjing Argos sells sightseeing points tickets on the Tourist Routes Network it operates. Agreements have been entered into with the management of various points of attraction, who are independent parties of the Group, along the Tourist Routes, at which admission tickets are required, for Nanjing Argos to sell on their behalf, at a commission ranging from 4.5 per cent. to 28 per cent. of the ticket price, those admission tickets on the Tourist Routes. The selling of sightseeing tickets generates a small amount of turnover for Nanjing Argos, but this convenient arrangement does boost the patronage of the Tourist Routes network.

Tours are operated by a subsidiary of Nanjing Argos – Nanjing Argos Tours, in which Nanjing Argos is interested in 95 per cent. and 南京旅遊總公司, an independent party from the Group, is interested in 5 per cent.. As at the Latest Practicable Date, Nanjing Argos Tours owns ten coaches for the provision of short destination tours in the vicinity of Nanjing. Nanjing Argos intends to expand the operation of Nanjing Argos Tours. The plan is outlined in the section headed “Statement of Business Objectives and Strategies” in this prospectus. The sales accounted for approximately 2 per cent. of the total turnover of Nanjing Argos in 1998 and has risen to approximately 4 per cent. in 2000.

Rental of fleet body for advertising

Nanjing Argos generates income from the advertising rights sold to advertising brokers and agents. The arrangement entered into with advertising brokers and agents are in the form that Nanjing Argos essentially sold the rights of using the fleet exterior, usually over ten years, to the advertising agents and brokers in a lump sum payment or installments of significant proportion. The agreements are usually entered into on a route-by-route basis. For instance, half of the fleet in route Y1 are covered by one such agreement and are required to be deployed on route Y1. A majority of buses in Nanjing Argos are covered by various fleet body advertising contracts. Further contracts will be entered into subject to the purchase of new vehicles and the launching of new routes and services. Revenue from advertising accounted for approximately 3.5 per cent. of the total operating revenue for each of the three years ended 1998, 1999 and 2000.

The arrangements with advertising agents involve assigning the exterior, which includes most part of the fleet body except the front windscreen and some proportion of the windows, and the interior of the bus to act as advertising media. Nanjing Argos is required to maintain at least a vehicle deployment rate of 80 per cent. bound by such contracts in normal circumstances. The vehicle deployment rate is determined by the number of buses on the routes over the total number of vehicles available for operation in a year. Apart from the contracted deployment rate, Nanjing Argos is also responsible for keeping the fleet body

clean and making the necessary arrangements for maintenance of the advertisements with the respective advertising brokers. The contract terms last for 10 years whereas the payment terms are usually in installments at a maximum period of four years from the dates of entering into such contracts. Nanjing Argos will have no claims on any profits arising therein from the subsequent re-sales of advertising rights. Prepaid advertising income is amortised over the term of the contracts. The Directors are considering the possibility of shortening the terms of the new contracts.

The Directors realize advertising is classified as a restricted industry in the PRC as stipulated under the “Index and Guideline on Industries subject to Foreign Investments” (外商投資產業指導目錄), accordingly, foreign parties are not permitted to hold controlling interests in any advertising operations. The Directors has obtained a PRC legal opinion which opines by subcontracting the fleet body to advertising brokers, Nanjing Argos is not deemed to be interested in the advertising industry nor does it involve in any advertising operation and therefore is not subject to the restrictions stipulated under the “Index and Guideline on Industries subject to Foreign Investments”.

Competition with Nanjing Public Transport Company and Zhongbei Bus

Both Nanjing Public Transport Company and Zhongbei Bus compete with Nanjing Argos in the Public Routes market of Nanjing. Relationship between Nanjing Argos and Nanjing Public Transport Company has already set out in the paragraph headed “Relationship with Nanjing Public Transport Company in this section”. Certain sections of Public Routes overlap with one another and passengers are free to choose which buses to take if there are more than one operator serving the origin and the destination. However, individual route is granted on an exclusive basis, no identical Public Routes are run by any of the companies. The Directors believe the competitive landscape is similar to that of Hong Kong. Nevertheless, a majority of cross harbour tunnel routes in Hong Kong are jointly operated by two bus companies. No such arrangement exists in Nanjing.

To the best knowledge of the Directors, competition is unavoidable since Nanjing Public Transport Company alone has a 67 per cent. share of the market. There is no measure to absolutely prevent harmful decisions to be made against Nanjing Argos. However, Nanjing Public Transport Company is a 40 per cent. shareholder in Nanjing Argos and making such decisions would not be in its absolute interest. In fact, since Nanjing Argos commenced operation, it has made a reasonable contribution to the profit of Nanjing Public Transport Company that would not be possible without the Nanjing Argos joint venture. Throughout the history of Nanjing Argos, the Directors were not aware of any harmful decisions or acts against Nanjing Argos from its shareholders.

INTERNAL STRUCTURE OF NANJING ARGOS

Headed by the General Manager Office, the internal structure of Nanjing Argos comprises five functional departments: Operations and Safety, Engineering and Supplies, Marketing and Quality Control, Administration and Human Resources and Finance and IT.

The General Manager Office acts as a bridge between the Board and the management, which is responsible for overseeing the operations, implementing the annual operation and investment plans from the Board and for maintaining a systematic operation of Nanjing Argos through close monitoring of compliance with standards set under ISO 9002.

Operations and Safety Department

Being the biggest department of Nanjing Argos in terms of headcount with over 500 staff including bus drivers, the Operations and Safety Department is responsible for overseeing the main operations of Nanjing Argos in both micro and macro scales.

In the macro scale, this department is to implement work plans drawn up by the management, prepare the yearly, quarterly and monthly operation plans of Nanjing Argos, recruit and organize training programs for frontline employees, draw up the five year route development plan in accordance with the requirement under the ISO 9002 accreditation, through continuous passenger surveys and identify further growth corridors in Nanjing city in addition to fare setting. The latest five year route development plan are still being drawn up by the management. However, the development plan up to the end of 2003 has already been completed as disclosed in the section headed “Statement of Business Objectives and Strategies”.

In the micro scale, this department is to control the daily operations in terms of fleet and manpower scheduling, maintain the stop announcement device installed in the fleet, process any administrative work which may arise from traffic incidents, handle and mitigate the negative impact on services which may arise from any contingent traffic conditions, coordinate the passenger liaison group and finally, report any serious incidents and anomalies from daily operations to the General Manger Office.

Engineering and Supplies Department

The Engineering and Supplies Department, apart from overseeing engineering matters, manages all materials flowing in and out of Nanjing Argos. The goal of this department is to:

- administer a world-class maintenance workshop with the highest possible standards; and
- procure the best supplies with the lowest possible pricing while minimizing wastage and misappropriation.

The major responsibilities of this department include preparing maintenance work plans, assuring compliance with governmental fleet maintenance and mechanical standards, drawing up the system of work practices and benchmarks in fleet maintenance and supplies control, monitoring and reporting any breaches of such work practice and failure in meeting such benchmarks and revising such benchmarks where appropriate. This department is also in charge of the acquisition of new vehicles and the licensing matters of all vehicles in service.

Marketing and Quality Control

This department focuses on market development and internal control. In relation to market development, this department identifies potential markets and draws up feasibility studies in accordance with the development plans and operational targets of Nanjing Argos. It is also the responsibility of this department to enhance the corporate image of Nanjing Argos through promotions, handling of passengers’ complaints and liaison with the press and media. In relation to internal control, this department controls a team of inspectors who carry out random surveys on implementation and compliance with working practices and procedures. The department also follows the progress of various departments in meeting the

targets set out in work plans, investigates failure to meet such targets, and handles staff and departments that fail to meet such targets.

Administration and Human Resources

This department carries out labour policies set by the PRC government and Nanjing Argos in addition to other usual human resources functions, including the setting of wages and benefits, reward and sanctions and the compiling of employee statistics for management purposes. This department also draws up yearly, monthly and weekly plans and reviews of the general operations and other specific events as directed by the General Manager Office from time to time. This department is granted the power to supervise the implementation of such plans by the relevant departments. Apart from this human resources and the supervisory roles, the department also looks after the management and maintenance of properties and other possessions held by Nanjing Argos.

Finance and Information Technology

The department prepares financial budgets and management reports for the purpose of expenditure and financial control. Advices and financial reports are also given on proposed investment projects in addition to other routine financial and accounting issues. The day-end collection of fares from the coin boxes is also under the supervision of this department. Moreover, the department takes charge of the management of fleet body advertising and the development of other potential lines of business.

In relation to information technology, the department manages all computer equipments, development of software, hardware and network, as well as the automatic fare collection system under development.

OTHER SIGNIFICANT AREAS OF OPERATIONS

Insurance

All the buses owned by Nanjing Argos are covered by comprehensive and third party insurance. All damages to buses are covered by comprehensive insurance with reference to the damage and loss incurred. The maximum coverage being the written-down value. The maximum third party insurance coverage in any single incident is RMB200,000. The maximum insurance coverage for injuries sustained within each bus compartment ranges from RMB20,000 to 30,000 depending on the number of injured passengers. The Directors consider the insurance coverage adequate.

It is the usual practice in the PRC that for any accidents, if proved to be caused by the negligence of the bus captains, such bus captains are to bear a portion of the costs and expenses arising from the damage and injuries sustained by deductions in their wages and other entitlements. However, if the driver is killed, all such cost will be borne by the insurance companies.

Drivers and tour guides of the Group are covered by insurance for all work-related permanent disabilities and deaths with a maximum coverage of RMB20,000, subject to a maximum of two persons for each bus. The maximum payout would amount to RMB45,000. The Directors consider the insurance coverage adequate.

Chongqing Wanzhou Argos has similar insurance policies to that of Nanjing Argos.

Safety

The Group believes safety is one of the critical factors for the success in the public transport industry. As a consequence, the Group has implemented and observed stringent requirements on operational safety in order to raise the overall employee awareness on such issues and subsequently reduce infringements on traffic regulations and accidents. For instance, all drivers are required to pass an annual review carried out jointly by Nanjing Argos and the Nanjing Police Department. The annual review comprises an educational program on topics covering operations, engineering and administrative issues. In addition, new drivers are required to serve on the same route driving the same vehicle for three years in order to ensure that every new driver is competent in his driving skills.

Table: Safety statistics of Nanjing Argos

	1998	1999	2000
Number of reported accident (<i>note 1</i>)	6	4	7
Mileage (<i>million km</i>)	5.5523	12.8655	17.0000
Safety interval (<i>million km</i>)	0.9254	3.2164	2.4281
Injuries sustained	2	–	4
Deaths associated	2	3	1

Note 1: The definition of a reported accident takes into account the economic damages and personal injuries suffered as defined from time to time by the police department.

The drop in safety interval in 1999 is largely due to the increase in fleet size and the extended level of services as reflected from the mileage travelled. The Directors expect such statistics to fall in the future when drivers are more familiar with the new routes launched and traffic and road conditions are improved in selected areas of the Nanjing city. In fact, for the year 2000, safety interval of Nanjing Argos did improve by 25 per cent..

REGULATORY

This section sets out the relevant government authorities and statutes involved in the operations of Nanjing Argos and their respective powers and responsibilities. For the avoidance of doubt, information provided herein is by no means exhaustive. The Directors consider these government authorities and statutes as most influential and any decisions by such government authorities and any amendments to such statutes would have the biggest impact on the operation of Nanjing Argos. Since the commencement of operation, the Group has never breached any provisions of Order 161.

The relevant section of the statute governing the operations of public transport in Nanjing is Government Order Number 161, which is specific to Nanjing only. Other PRC cities have similar statute and the Directors believe the contents and requirements under such statute will be similar.

Relevant statute – Nanjing Government Order Number 161

The governing principal of Order 161 is to strengthen the management and promote the development of public urban transport in accordance with economic growth, urban development and public demand while protecting the rights of public transport operators, employees and users.

In particular, paragraph five of chapter one of Order 161 sets out the development of mass passenger transport service as the utmost priority of urban transport development.

Other chapters of Order 161 set out the provisions governing the operations and management of public transport operators, monitoring mechanisms and the penalties for breaching such requirement.

Nanjing Argos has incorporated such requirements into the operational procedures manual and strict compliance with such procedures would not, in the opinion of the Directors, cause any penalties laid out to be imposed.

Bureau of Public Utilities and Bureau of Passenger Transport Management

The Bureau of Public Utilities is responsible for the setting of the overall transportation policy of Nanjing and overseeing the operations of public transport operators. In relation to Nanjing Argos, the launching, establishing and alterations of all routes and bus stops, adjustments of the level of service and fare structure are all subject to the final approval of the Bureau of Public Utilities. However, before the final approval is granted, preliminary approval must be obtained from the Bureau of Passenger Transport Management, which is a sub-branch of the Bureau of Public Utilities. The Bureau of Passenger Transport Management is responsible for executing such public transport policies as prescribed from time to time by the Bureau of Public Utilities and monitoring the routine operations of public transport operators.

Whenever there is a proposed permanent change to the service, Nanjing Argos must apply to the Bureau of Public Utilities. The Bureau of Passenger Transport Management will then begin assessing the implications of such change on the overall public transport service in Nanjing. Such assessment may include investigation on the impact on passengers and other operators and consultations with other relevant authorities on the appropriateness of such change. Upon completion of such assessment, the Bureau of Passenger Transport Management will then submit a recommendation to the Bureau of Public Utilities for final approval subject to the outcome of further discussion and investigation with other relevant authorities. There have been instances where fare adjustment application and planned route changes were rejected and such review process have no set timetable. Previous experience of the Nanjing Argos is that it will take at least 3 months.

The Bureau of Consumer Prices

The responsibility of the Bureau of Consumer Prices is to control and co-ordinate the fares charged by Nanjing Argos and other operators. In terms of routine fare revisions, the Bureau of Consumer Prices has the sole discretion to decide if such revisions should be permitted, taking into account various factors such as the general price level and operating statistics supplied by the public bus operators. In contrast, fare structure proposed as a result of new routes and services are decided by the Bureau of Consumer Prices in accordance with the categories of services. Such categories include whether the route is a

Public Route or Tourist Route service, what type of vehicle is to be deployed on such service and the distance of such route. Other fare structure, for instance, packaged tickets, also requires the approval of the Bureau of Consumer Prices before implementation.

The Bureau of Environmental Protection

There are stringent emission standards imposed on the fleet, which are enforced by the Bureau of Environmental Protection. New vehicles are required to install exhaust filter in addition to the passing of the initial emission test before putting into service. Existing vehicles are subjected to annual emission test. Registration will not be extended if such test is failed. Vehicles will be re-registered if subsequent test is passed upon resolving the emission problem. Should the vehicle concerned fails the subsequent test, such vehicle will be deemed to be unroadworthy and scrapping will be required. Moreover, random emission tests on the fleet are carried out throughout the year. In the current financial year up to the Latest Practicable Date, over 10 per cent. of Nanjing Argos' fleet have been subjected to such random tests. The success rate of Nanjing Argos in the most recent test carried out in October 2000 was 99.1 per cent.. Nanjing Argos has never been penalized by the Bureau of Environmental Protection.

Other Relevant Authorities

Ministry of Foreign Trade & Economic Cooperation

- Responsible for the approval of all joint venture contracts in the public transport section.
- Any alterations to the contract are to be filed with and approved by the Ministry of Foreign Trade and Economic Cooperation.
- Act as an arbitrator when disputes arise between the parties to the contract, but the decisions are not binding.

Bureau of Traffic Management

- The bureau is a sub-division of the Nanjing Police Department.
- Conducts annual mechanical test on fleet.
- Deregistration of vehicles which fail to pass the annual mechanical test.
- Licensing of newly acquired vehicles.
- Handles infringements of traffic rules.

CHONGQING WANZHOU ARGOS

In March 1999, the Group entered into a Memorandum of Intention with Chongqing Wanzhou Public Transport Company to set up a joint venture operating public transport and other related services in the area. In September 2000, the parties finalized an equity joint venture to set up Chongqing Wanzhou Argos. Under

the joint venture contract of Chongqing Wanzhou Argos, the Group is to contribute RMB6 million in cash instalments (as at the 31 July, 2001, all of RMB6 million has been paid of which RMB3 million has been verified by an independent certified public accountants) and Chongqing Wanzhou Public Transport Company is to contribute routes, fleet, working capital and other supporting infrastructure it currently owned valued, by an independent certified public accountants firm in the PRC, at RMB4 million. The term of the joint venture contract lasts for 30 years and is renewable upon expiry. The Group will be entitled to 60 per cent. of the profits and board control in Chongqing Wanzhou Argos, the operation of which commenced in March 2001. Chongqing Wanzhou Public Transport Company is a state-owned company which had operated the network before Chongqing Wanzhou Argos took over. As opposed to Nanjing Argos, Chongqing Wanzhou Argos is an equity joint venture in which Argos China holds a 60 per cent. equity interest and is entitled to share the same percentage of profits available for distribution.

As at the end of 2000, Chongqing Wanzhou Public Transport Company operated 46 Public Routes in the area with a fleet size of 147 buses (of which 9 are midi buses) and employed 476 staff. In the year 2000, passenger volume was 27.5 million, annual mileage travelled was 6.6 million kilometres and annual turnover was RMB6.9 million. The joint venture will require an extra 30 buses in the first year. Chongqing Wanzhou Argos took over 47 buses and 316 staff of Chongqing Wanzhou Public Transport Company. 160 staff from Chongqing Wanzhou Public Transport Company were classified retired and redundant and therefore were not employed by Chongqing Wanzhou Argos.

Chongqing Wanzhou Argos derives income from the operation of Public Routes in three different ways:

- (1) Direct operation, in which Chongqing Wanzhou Argos will dispatch buses on the Public Routes and bears all the profits and losses as a result. Currently 38 buses are directly operated by Chongqing Wanzhou Argos;
- (2) Sub-contracting, in which drivers shall pay a fixed sum of between RMB3,000 to 3,500 per month to hire the buses owned by Chongqing Wanzhou Argos and then serve on the Public Routes. The sub-contractors shall bear all the resulting profits and losses over a contract term of five years. Currently 9 buses are subject to this sub-contracting arrangement;
- (3) Rental, in which individuals pay rents of between RMB1,500 to 2,000 per month to Chongqing Wanzhou Argos and then deploy their own vehicles to serve on the Public Routes. The individuals shall bear the resulting profits and losses from the operations over a contract term of three years. Currently 104 midi buses are subject this rental arrangement.

It is the intention of Chongqing Wanzhou Argos to shift towards the mode of direct operation for any new routes and to phase out the sub-contracting mode of operation while reducing the scale of rental operation. The Group intends to put 25 to 30 new buses in Wanzhou per annum in the next two to three years.

Currently in Wanzhou the ratio of staff to bus is higher than that of Nanjing due to the ticket arrangement in which conductors are on board of every bus and the Group is to bear medical expenses of retired staff. Such expense will not exceed RMB8,000 per month on aggregate during the term of the joint venture contract. The Group plans to transform all buses in Wanzhou into one-man-operation to

save staff cost. By implementing the cost control program the Group is going to implement, the Directors believe Chongqing Wanzhou Argos will be a healthy contributor in the long-term.

The operation in Wanzhou will bear resemblance to that of Nanjing. In fact, management staff in Nanjing will also be responsible in overseeing the operation in Wanzhou. Even though the background of and the development in Nanjing and Wanzhou are different, but since the operation and the regulatory environment are similar, the Directors believe there is considerable synergy that can be realized.

The Directors believe Wanzhou has the potential of being developed into a popular tourist site subsequent to the completion of the Triple Gorges Flood Control Program in 2007 due to the creation of islands and lakes. The Group plans to operate Tourist Routes service similar to that currently offered in Nanjing. The Group does not preclude any other investment opportunities which may arise as the development of the area progresses.

Relationship with Chongqing Wanzhou Public Transport Company

Chongqing Wanzhou Public Transport Company, the Group's PRC joint venture partner of Chongqing Wanzhou Argos and an independent party of the Group, was the incumbent sole stated-owned public bus operator in Wanzhou. Effective from the day Chongqing Wanzhou Argos commenced service, the 46 Public Routes owned by Chongqing Wanzhou Public Transport Company were transferred to Chongqing Wanzhou Argos. Chongqing Wanzhou Public Transport Company remains as a shareholder of Chongqing Wanzhou Argos but no longer runs any bus services in Wanzhou subsequent to the formation of the joint venture.

PROPOSED JOINT VENTURES

In entering new joint ventures, the Group will insist on obtaining more than 50 per cent. controlling interests. All proposed joint ventures disclosed below are subject to further negotiations with the relevant authorities. Detail of injections and operation size are subject to revisions. Furthermore, implementation of these joint ventures will be conditional on satisfactory investment terms which are still being negotiated. The Directors will not proceed with these objectives if terms are unfavourable to the Group. Other factors affecting the implementation including the availability of financing and the GEM Listing Rules requirement after listing.

Wuhu

In December 2000, the Group entered into a non-binding Memorandum of Intention with the Wuhu Public Transport Company, an independent party of the Group, to operate part of the Public Routes network in Wuhu City in the form of a joint venture with the respective equity interest yet to be decided. The Group will contribute a sum of working capital while the Wuhu Public Transport Company will contribute part of its mature Public Routes Network and other supporting facilities. There has been no set timetable on the commencement of its operation yet. Wuhu situates in the Anhui province, locates approximately 100 km to the southwest of Nanjing.

As at June 2000, the relevant part of the Public Routes Network were served by 190 buses with 509 staff on 12 routes. Turnover for the 11 months ended November 2000 was RMB15.27 million while

patronage and operating mileage are RMB16.35 million and 10.28 million kilometer respectively. The Group intends to invest HK\$6 million in Wuhu out of the net proceeds from the Placing in this proposed joint venture mainly for the purchase of 80 buses, a majority of which is non-air conditioned. Negotiations are taking place as to the actual size of the operation and the date on which services shall commence.

Taizhou

In March 2001, the Group entered into a non-binding Memorandum of Intention with Taizhou Public Transport Corporation, an independent party of the Group, for the operation of public transport services in Taizhou. The shareholding structure of the joint venture will be identical to Nanjing Argos and Chongqing Wanzhou Argos in that the Group will contribute cash in return for a 60 per cent. interest and Taizhou Public Transport Corporation will contribute assets and operation right in return for the remaining 40 per cent. interest. Investment to be made out of the net proceed of the Placing will be HK\$6 million. Taizhou, situates in central Jiangsu Province, has a total and urban population of 5 million and 300,000 respectively.

Taizhou Public Transport Corporation is currently the only public transport operator in Taizhou City with a fleet size of 192 operating on 25 Public Routes. Taizhou Public Transport Corporation has rental and sub-contracting arrangement with private bus drivers and smaller public bus operators similar to that of Chongqing Wanzhou Argos. Daily mileage traveled is approximately 30,000 kilometers in 2000 with a workforce of 455.

The Directors believe investment in Taizhou will strengthen the Group's strategic position in the Jiangsu Province and generates synergy with operation in Nanjing due to its proximity.

Negotiations

The time it takes to successfully negotiate the establishment of each joint venture is expected to vary significantly. From the experience of the Directors, no practical time limit can be assigned to the negotiation of each joint venture. The Directors confirm that active negotiations with the relevant counter parties in Taizhou and Wuhu are taking place.

The Group has also engaged in negotiations with Wujun City Public Transport Company, Chongqing Hire Cars Company and Jiangxia District Transport Company in Wuhan, all are independent parties of the Group. Nevertheless, the negotiations with these three authorities are considered less mature compared to the two other proposed joint ventures. Size of investments will be similar to the other proposed joint ventures but proceeds from the Placing will not be applied to the potential joint ventures form with Wujun City Public Transport Company, Chongqing Hire Cars Company and Jiangxia District Transport Company.

BUSINESS

REVIEW OF OPERATIONS

	Year ended 31 December,		
	1998 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	14,644	33,894	41,977
Cost of bus services rendered	<u>(9,492)</u>	<u>(20,003)</u>	<u>(30,026)</u>
Gross profit	5,152	13,891	11,951
Other revenue	901	6,230	8,970
Administrative expenses	<u>(2,856)</u>	<u>(7,361)</u>	<u>(7,851)</u>
Profit from operations	3,197	12,760	13,070
Interest income	55	226	729
Finance costs	<u>(898)</u>	<u>(1,114)</u>	<u>(2,002)</u>
Profit before taxation	2,354	11,872	11,797
Taxation	<u>(879)</u>	<u>(2,969)</u>	<u>(2,995)</u>
Profit before minority interests	1,475	8,903	8,802
Minority interests	<u>(1,089)</u>	<u>(4,184)</u>	<u>(4,521)</u>
Profit for the year	<u><u>386</u></u>	<u><u>4,719</u></u>	<u><u>4,281</u></u>
Dividends	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>
Earnings per share	<u><u>0.26 cent</u></u>	<u><u>3.15 cents</u></u>	<u><u>2.85 cents</u></u>

Note: Detailed accounts published in appendix I to this prospectus.

The Company has sought and obtained from the Stock Exchange a waiver from strict compliance with the requirement of Rule 11.11 of the GEM Listing Rules on the basis of a confirmation from the Directors that they have performed sufficient due diligence on the Group to ensure that, save as disclosed in Appendix I to this prospectus, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 31 December, 2000 and there is no event which would materially affect the information shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

BUSINESS

Breakdown of turnover

	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Public Routes	11,058	26,036	31,288
Tourist Routes	2,169	3,302	4,174
'Hire-a-Bus' and Employee Service	1,417	4,441	6,359
Sightseeing ticket sales	–	115	156
	<u> </u>	<u> </u>	<u> </u>
Total turnover	<u>14,644</u>	<u>33,894</u>	<u>41,977</u>

Selected Operating Statistics of Nanjing Argos

	1998	1999	2000
Mileage (<i>million km</i>)	5.55	12.86	17.00
Fleet size	152	189	238
Number of Staff	532	699	900
Patronage (<i>million trips</i>)	34.09	44.55	116.40
Patronage – Public Routes (General Tickets) (<i>million trips</i>)	9.15	18.92	22.60
Patronage – Public Routes (Monthly Tickets) (<i>million trips</i>)	23.63	23.63	90.98
Patronage – Tourist Routes (<i>million trips</i>)	1.31	2.00	2.82

The Group's largest customers and suppliers

For the three years ended 31 December, 1998, 1999 and 2000, the Group's five largest suppliers in aggregate accounted for 33.94 per cent., 32.08 per cent. and 38.54 per cent. respectively of the total cost of bus service rendered. The largest suppliers of the Group include fuel, tyre and parts suppliers. Credit terms obtained from suppliers are in 90 days credit, payments are made by cheques and in RMB.

For the three years ended 31 December, 1998, 1999 and 2000, the single largest supplier of the Group accounted for 26.48 per cent., 26.3 per cent. and 20.73 per cent. respectively of the total cost of bus service rendered.

Due to the nature of the business of the Group, aggregate sales to the five largest customers did not exceed 30 per cent. of the total turnover. Credit terms granted to the customers of the Company are 30 days, settlements are in cheques denominated in RMB.

None of the Directors, their associates and the shareholders who are interested in more than 5 per cent. of the issued capital of the Company has any interests in the aforementioned suppliers.

Financial year 1998

With the launch of the Public Route network in June 1998 in addition to the two Tourist Routes then in service, the operating result of the Group improved markedly. In addition to the revenue from the provision of public bus services, Nanjing Argos explored other sources of revenue, including fleet body advertising, “Hire-a-Bus” and Employee Services and sightseeing ticket sales, thus further strengthened the financial position of both Nanjing Argos and the Group. The provision of Public Routes and Tourist Routes services accounted for approximately 75 per cent. and 15 per cent. respectively of the total revenue before revenue from fleet body advertising. The remaining 10 per cent. of the revenue was contributed by “Hire-a-Bus” and Employee Services. Nevertheless, the Public Route service was only in operation for six months in the year 1998 and the Directors believe a full year operation is required to reflect the true potential of the Nanjing network.

The Group achieved a 35 per cent. gross margin and 8 per cent. net margin on turnover and other revenue respectively.

Financial year 1999

The Nanjing network of the Group was in its first full year operation. Patronage as reflected from general ticket sales and turnover both doubled, representing the potential of the Nanjing network. As a result, revenue from Public Routes increased to approximately 77 per cent. while the contribution from Tourist Routes remained at approximately 10 per cent. before revenue from fleet body advertising. “Hire-a-Bus” and Employee Services experienced a growth in contribution towards turnover before revenue from fleet body advertising to 13 per cent. The remaining turnover was contributed by sightseeing ticket sales. Thirty-seven new buses were put into service during the year to cope with the expansion in services, taking the fleet size to 189 as at the year end.

With the strong growth in fleet size and patronage, the Group achieved a 40 per cent. gross profit margin and 14 per cent. net profit margin. Increase in gross profit margin was a direct consequence of the network and the operation becoming more mature while the surge in net profit margin was as a result of a significant increase in other revenue contributed from fleet body advertising.

Increase in other revenue is due to the increase in rental of fleet body for advertising along with the fleet size and subsidies from a local authority as Nanjing Argos reported a higher profit before taxation. Administrative expenses increased mainly because of the rise in headcount as the size of the operation grew. The growth in administrative expense is roughly in line with the growth in turnover.

Interest income increased as the Group placed a larger amount of Hong Kong dollar deposits in Nanjing to back RMB overdrafts. Since the Hong Kong dollar deposits in Nanjing earned the Group a higher interest rate than the interest cost of the RMB overdrafts, the Group was able to earn the interests differential. On the other hand, finance costs also increase as the Group borrowed funds from banks in Hong Kong for the investment in Nanjing and the general operation of the Group.

Financial year 2000

With the extension and improvement of selected services, the share of monthly ticket sales increased significantly as a result of the strong proportionate growth in mileage. In fact, Nanjing Argos achieved 75 per cent. of the mileage in 1999 and in the seven months ended July 2000 and registered a 32 per cent. growth for the full year. Contribution to total turnover before revenue from fleet body advertising from Public Routes fell to 75 per cent. as contribution from 'Hire-a-Bus' and Employee Service strengthened to 15 per cent.. Revenue from Tourist Routes remained steady at 10 per cent.. Forty-nine new buses were put into service during the year.

The gross profit margin and net profit margin of the Group fell to 28 per cent. and 10 per cent. respectively. The fall in margins were mainly because of the hike in world crude oil price. Increase in fleet age also gave rise to high maintenance expenses.

Administrative expenses did not increase with turnover as the headcount of support staff stabilized. Increase in interest income and finance costs is mainly due to the hike in the then prevailing interest rates.

Taxation

The Group assessable profits, in the financial year 1998, 1999 and 2000, are subject to the nominal tax rate of 33 per cent., which is the prevailing corporate tax rate in the PRC. The effective tax rates are 37 per cent., 25 per cent. and 25 per cent. for financial year 1998, 1999 and 2000 respectively. The fall in effective tax rate was due to the timing difference arose from the differentiation of recognition method of advertising income for PRC tax purposes.

COMPETITIONS AND POTENTIAL COMPETITIONS**Directors' interests**

The Directors have substantial experience in the operation of transportation companies especially bus services, with over 20 years of experience in the operation of such services in Hong Kong, trading under the names of Argos Hong Kong, a fellow subsidiary of the Company, Goldspark HK Tours Limited, a 50 per cent. indirectly owned subsidiary of Argos Hong Kong, and Metro Line Tour Limited, owned 50 per cent. by Twilight Enterprises Limited and 15 per cent. by Mr. Yeung Wai Hung. Argos Hong Kong is one of the most established private bus operators in Hong Kong with over 120 buses in service and a fully-equipped depot. Goldspark HK Tours Limited provides tour service in Hong Kong with one open-top double-decker. It also provides other services for outbound tours from Hong Kong to Shenzhen including tour guides, tour and hotel packages. Metro Line Tour Limited provides employee services in Hong Kong with three single-decker buses. The remaining 50 per cent. shareholdings in Goldspark HK Tours Limited is owned by Mr. Yiu Wai Kwong, an independent party from the Group. While the remaining 35 per cent. equity interest in Metro Line Tour Limited is owned as to 15 per cent. by Giverny Holdings Limited, an independent party from the Group and 20 per cent. by Mr. Yip Wing Kwong, also an independent party from the Group.

BUSINESS

Argos Hong Kong also have two wholly-owned subsidiaries namely, Ming Tak Transportation Service Company Limited and Moving Step Limited, which are engaged in fleet purchases and lease back to Argos Hong Kong. The two companies are essentially the financing arms of Argos Hong Kong.

Argos Hong Kong and Kwoon Chung Bus Holdings Limited, a company listed on the mainboard of the Stock Exchange, co-invested in a 50:50 joint venture named CLK Bus Company Limited for the provision of employee services in the Chek Lap Kok area when the Hong Kong International Airport was under construction. Operations have ceased subsequent to the completion of construction of the Hong Kong International Airport.

All of Argos Hong Kong, Goldspark HK Tours Limited, Metro Line Tour Limited, Moving Step Limited, Ming Tak Transportation Service Company Limited and CLK Bus Company Limited are not subsidiaries of the Company. Distinct from the Company, all six companies derive income from business originated in Hong Kong and therefore is not going to compete, whether directly or indirectly, with the operations of the Group, which derives income from business originated in the PRC as a result of the different geographical delineations. Nevertheless, it is agreed amongst the Group and the six companies that any cross-border routes between Hong Kong and the PRC will not be operated by the Group. There is no intention from the Directors and the Group to inject these six companies or any assets or operations of these six companies into the Group. As at the Latest Practicable Date, these six companies do not operate any Public Routes in Hong Kong and the PRC nor do they operate any cross-border routes between Hong Kong and the PRC.

NON-COMPETITION UNDERTAKINGS

Each of the Covenantor has executed a deed of non-competition (the documents referred to in paragraphs (h) to (l) in the subsection headed “Summary of material contracts” in Appendix IV to this prospectus) in favour of the Company and its subsidiaries, pursuant to which each of the Covenantor has undertaken to and covenanted with the Company that conditional upon the listing of and commencement or dealing in the Shares on GEM and at any time during which securities of the Company are listed on GEM and for so long as:

- (i) the Company is a subsidiary of the Sino Market or Sino Market is a management shareholder (as defined in the GEM Listing Rules) of the Company; and
- (ii) in the case of each of the executive Directors (being Messrs. Wong Wah Sang, Wong Man Chiu, Ronnie, Wong, Wilson and Yeung Wai Hung), Sino Market is a management shareholder (as defined in the GEM Listing Rules) of the Company or the relevant executive Directors is a director of Sino Market and Argos Hong Kong or the relevant executive Directors is an Employee and for a period of six months after the relevant Employee ceases to be an Employee.

he/it shall not, and shall procure that his/its associates shall not, either on his/its own behalf or as agent for any person and either directly or indirectly (whether as a shareholder, partner or otherwise and whether for profit, reward or otherwise):

- (a) carry on, be engaged, concerned or interested in or in any way assist in, or provide support (whether financial, technical or otherwise) to, any business similar to, or which competes (either directly or indirectly) with, the Business carried on by the Group, which comprises the provision of public bus transport services in the PRC, and such other business as the Group shall carry on from time to time;
- (b) in competition with the Group, canvass, solicit or accept orders from or do business with any person with whom the Group has done business or has negotiated in relation to the Business or otherwise endeavour to induce any such person to cease being a customer of the Group;
- (c) do or say anything which may be harmful to the reputation of the Group or which may lead any person to reduce their level of business with the Group or seek to improve their terms of trade with the Group; and
- (d) solicit or entice or endeavour to solicit or entice any of the employees of, or consultants, to, the Group to terminate their employment or appointment with the Group.

Each of the Covenantors further undertakes and covenants with the Company:

- (a) that he/it shall, and shall procure that his/its associates shall, refer to the Company any business opportunities offered to him/it or his/its associates which fall within the scope of the Business and shall use his/its best endeavours to procure that such business opportunities are offered to the Company on terms at least as beneficial as those which are offered to him/it or his/its associates; and
- (b) to give to, and to procure that, the Company and its professional advisers are given, promptly and on request by the Company, and documents and information regarding the business, activities and affairs of him/it or his/its associates as are relevant to the undertakings set out in the relevant deed of non-competition.

All the deeds of non-competition will terminate automatically and cease to have effect forthwith upon the earlier of the date of which the securities of the Company cease to be listed on GEM or:

- (a) in the case of Argos Hong Kong, the date on which it ceases to be a subsidiary of Sino Market or the date on which Sino Market ceases to be a management shareholder of the Company, whichever is the later; or
- (b) in the case of each of the executive Directors, the latest of the date on which Sino Market ceases to be a management shareholder (as defined in the GEM Listing Rules) of the Company, the date falling six months after the date on which he ceases to be an Employee or the date on which he ceases to be a director of Argos Hong Kong or Sino Market.

STATEMENT OF ACTIVE BUSINESS PURSUITS

GENERAL

The Group's business was established on September 1997. Through Argos China, a wholly-owned subsidiary of the Company, the Company is entitled to 60 per cent. of the profits of Nanjing Argos, which has been engaging in the provision of public bus services since September 1997. Nanjing Argos holds a 95 per cent. interest in Nanjing Argos Tours, which engages in the provision of short to medium distance tours in the vicinity of Nanjing since 1999.

ACTIVE BUSINESS PURSUITS

From 1 January, 1999 to 31 December, 1999

Strategy: To further consolidate corporate image, fine-tune the discipline of employees, refine on staff attitude towards service quality and build up a reliable back-end support, especially in maintenance, with an ultimate aim of boosting the level of safety. Alternative revenue opportunities were being actively explored. For the Group, the management should actively seek further opportunities to set up new joint ventures in other cities of the PRC.

Achievements by Nanjing Argos:

- Acquired double-deckers and vintage style vehicles to serve on Tourist Routes, being initiatives which were first in Nanjing;
- Entered into further agreements with various advertising agencies for fleet body advertising rights, maximized the contribution from a new revenue stream;
- Built reputation on the provision of Employee Services, became the preferred Employee Service providers by various companies over the other competitors in this area of service; and
- Launched service on route 58W.

Obstacles encountered by Nanjing Argos:

- The relevant authority did not provide enough parking spaces for the fleet at night. The continued growth in overall fleet size had made the problem more acute. Inadequate parking spaces had not only presented security problem but had also increased overheads of Nanjing Argos by renting spaces for such purpose. The problem was resolved by renting spaces at nearby and neighbour parking areas; and
- The establishment of new routes did not proceed as intended due to lengthy process of approval by the Bureau of Passenger Transport Management, which have delayed the growth of business of Nanjing Argos. The problem was resolved by additional public relation work carried out by Nanjing Argos and its shareholders with the Bureau of Passenger Transport Management.

STATEMENT OF ACTIVE BUSINESS PURSUITS

Financing: Nanjing Argos relied on shareholders' funds and operating cash flow for investing activities.

Major events of Nanjing Argos:

- Nanjing Argos set up a subsidiary company, namely Nanjing Argos Tours, which was responsible for establishing a tour operation in Nanjing, built upon the availability of coaches from Nanjing Argos; and
- Nanjing Argos was awarded a 3 per cent. equity stake in "Nanjing Public Utility IC Card Company Limited", which is responsible for the development of a touchless SIM card for travelling and other payment purposes. The IC card is planned to be introduced towards the beginning of 2001.

Major events of the Group:

- In March 1999, the Group signed a non-binding Memorandum of Intention with Chongqing Wanzhou Public Transport Company Limited to operate public bus services in Wanzhou, Chongqing; and
- In October 1999, the Group signed a non-binding Memorandum of Intention with the Bureau of Transport in Wujun to operate public bus services in Wujun.

From 1 January, 2000 to 31 December, 2000

Strategy: To stress the importance of internal control and further improve the efficiency of operations in accordance with the requirements imposed by ISO 9002. To strengthen the reputation of Nanjing Argos which was built up in the past two years in relation to quality service and profitability and to ride on this reputation in securing further joint ventures in other cities of the PRC. To make Nanjing Argos the leading provider of Tourist Routes through the operation of a mature Tourist Routes network and at the same time continue to expand the current Public Routes Network and other operations. To stress the importance of cost control due to anticipated expansion and rocketing fuel price. To increase revenue flow by exploring the possibility of fare restructuring or bundling of Tourist Routes tickets. Furthermore, to increase utilization rate of buses by promoting the "Hire-a-Bus" service. Finally, considerable effort will be put in expanding Nanjing Argos Tours to cover from local one-day tours to week-long cross-provinces tours. There is also a plan to set up a tourist center in Nanjing for the provision of general tourist services.

Achievements of Nanjing Argos:

- Nanjing Argos was awarded the ISO 9002 accreditation;
- Nanjing Argos secured the approval of operating two additional Tourist Routes: Y3 and Y4, consolidating the status of Nanjing Argos as the sole Tourist Routes operator in Nanjing, with a maturing network for further opportunities;

STATEMENT OF ACTIVE BUSINESS PURSUITS

- The launching of route 91W, which is an auxiliary service to route 6W. The launch is to improve the overall efficiency of service on the original route 6W while raising the overall coverage of the Public Routes network by establishing the new route 91W. The alterations are part of Nanjing Argos' plan to revamp the current Public Route services in order to further raise the efficiency and overall profitability of the network;
- Twenty newly acquired air-conditioned buses have been put into service for the launch of route Y4 and route Y3. With the two additional routes, the Nanjing Tourist Routes network takes shape covering essentially all major sightseeing points of the city;
- The RMB10 daily ticket on Tourist Routes was launched after securing the approval from the Bureau of Consumer Prices. The daily ticket allows unlimited travel on Nanjing Argos Tourist Route network in the day of sale. The launch has already attracted significant publicity and the daily ticket system is expected to boost Nanjing Argos' market share in the tourist market in Nanjing;
- Nanjing Argos has entered into agreements with property developers for the provision of "property site visits" services, thus increasing revenue flow from the Hire-a-Bus sector; and
- Nanjing Argos continues to bid for large-scale transportation service in various functions and events. Nanjing Argos has already entered into agreements to provide such service during the Nanjing fashion festival and the book fair.

Obstacles encountered by Nanjing Argos:

- Increasing competition from private bus companies on Employee Service and "Hire-a-Bus" sectors;
- Significant hike of fuel price; and
- Rising fleet age incurred additional maintenance expenses.

Financing: Nanjing Argos relied on shareholders' funds and operating cash flow for investing activities.

Major events of the Group:

- In January 2000, the Group signed a non-binding Memorandum of Intention with Chongqing Hire Cars Company Limited to operate public bus services in Chongqing;
- Throughout the first half of the year, the Group actively engaged in negotiations with Motor Transport Company Limited of Wuhan Jiangxia District, a state-owned enterprise, for the provision of public bus services;

STATEMENT OF ACTIVE BUSINESS PURSUITS

- Nanjing Argos, together with the two other public bus operators in Nanjing, have applied to the Bureau of Consumer Prices for a price revision in monthly tickets. A 33.33 per cent. fare increase approval was granted and the new ticket price took effective from November 2000;
- In September 2000, the Group signed a joint venture contract with the Chongqing Wanzhou Public Transport Company to operate public bus services in Wanzhou. Limited services are expected to launch in mid-March 2001; and
- In December 2000, the Group signed a non-binding Memorandum of Intention with Wuhu Public Transport Company to operate public bus service in Wuhu.

From 1 January, 2001 to the Latest Practicable Date

Strategy: To allocate substantial management focus and resources to ensure a smooth launching of service in Wanzhou by Chongqing Wanzhou Argos while Nanjing shall follow on the stated business direction and strategies from the year 2000.

Achievement by Nanjing Argos:

- Implementation of the IC Card fare systems;
- Extension of coverage of route 23W across the newly completed Qing Liang Shan Bridge.
- The setting up of a tourist center in Nanjing Railway Station is underway.

Obstacles encountered by Nanjing Argos:

- Fake IC cards and monthly tickets were discovered, slightly affecting the roll out of the IC Card fare system.

Major events of the Group:

- The launch of Chongqing Wanzhou Argos with services on two routes deploying 30 buses.

Achievement of the Group:

- In March 2001, the Group signed a non-binding Memorandum of Intention with Taizhou Public Transport Corporation, an independent party of the Group, for the operation of public bus service in Taizhou.

Financing: Nanjing Argos relied on operating cash flow while Chongqing Wanzhou Argos relied on a shareholders' loan.

BUSINESS OBJECTIVES

Overall Business Objectives

The Group motto is “The customers are always right” and “The market is never sluggish”. The overall business objective of the Group is to generate a growing recurrent return for its shareholders by continuous growth through expansion or other opportunities from the current network and the formation of new joint ventures for the provision of transport related services not only limiting to public bus services in other parts of the PRC. The Group, in achieving its growth, would make every effort to provide a stable, safe and rewarding environment for its employees since the Group believes the contribution of every employee is essential to the provision of safe, comfortable, frequent and economic services so as to achieve the ultimate goal of full customer satisfactions. Distinct from Argos Hong Kong, a fellow subsidiary of the Company, the Company will only engage in the provision of bus services in the PRC while Argos Hong Kong will only provide such services in Hong Kong.

The Group has identified three other PRC cities of potential apart from Nanjing. These cities are Wanzhou, Wuhu and Taizhou. Operation has already commenced in Wanzhou while the Group is engaging in active negotiations in the remaining two cities.

The Group believes that management capability, apart from employees contribution, is the most valuable asset and the Group intends to build upon this in its stride onto other sectors of the public transport industry. In the medium term, the Group is exploring other opportunities in other transport related operations including inter-city coach transport in the PRC.

In the longer-term, the Group aims at being a prominent and influential player in the public transport sector of the PRC, utilizing and synthesizing the managerial experience from Hong Kong and local operational expertise in the PRC.

STRENGTHS

The Board believes that the strengths of the Group lie in:

- the modern management philosophy adopted;
- the emphasis on quality of service;
- the reputation in the public transport sector it has gained from the testing ground in Nanjing in terms of employee training, quality orientation and management capability;
- the active discussions engage with various cities in the PRC for the operation of public bus services;
- the strategic position the PRC market provides, in particular:
 - continuation of public transport reform in the PRC;
 - huge demand and reliance in public transport in the PRC;

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- there is a lack of inner-city railway systems in the PRC;
- there is an increasing demand in inter-city transport in the light of economic growth;
- the pending development of northwestern PRC which presents more opportunities for incumbent operators in other cities; and
- the first-mover advantage ahead of PRC entry to the WTO.

STRATEGIES

Bases and Assumptions

The Directors have carefully reviewed all bases and assumptions made with reference to the current position of the Group in the industry, the past history and the trend in the process of formulating the strategies of the Group. The Directors believe that the strategies can be relied upon to the extent that none of the risks that the Group faces as stated in the section headed “Risk factors” in this prospectus turns into reality or to the extent that the negative impact from such realization can be mitigated to become immaterial.

Tourist routes

- Nanjing Argos intends to become the leading provider of Tourist Routes services, forming a Tourist Route network in Nanjing.
- Nanjing Argos is exploring the opportunity to transform its Tourist Routes network into a hybrid “Public Tourist Routes network” (note 1). Nanjing Argos aims to seize this opportunity to reduce reliance on tourists but towards daily commuters. Nanjing Argos anticipates an eventual amalgamation of the Public and Tourist Routes.
- Chongqing Wanzhou Argos will explore opportunities for the provision of such service in Wanzhou.
- The Group is actively seeking opportunities to offer similar services in other cities of the PRC.

Public routes

- Nanjing Argos will focus on refining and expanding Public Route services based on current network.
- Nanjing Argos will also explore opportunities for launching further Public Routes in development zones around the Nanjing metropolitan area.
- The Group will focus on developing the service in Wanzhou.

Note 1: The Public Tourist Routes network is a strategy pursued by Nanjing Argos to make Tourist Routes cater for not only tourists but also daily commuters. Since Tourist Routes charge RMB 2, the strategy is expected to boost patronage and revenue.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- The Group is actively seeking opportunities to offer similar services in other cities of the PRC.

Hire-a-Bus and employee services

- Nanjing Argos works to maintain its current market share in the Employee Services sector.
- Nanjing Argos will actively promote its Hire-a-Bus service in order to boost utilization rate of the fleet.
- Nanjing Argos will actively bid for the provision of transportation services in festivities and events.
- Chongqing Wanzhou Argos will seek business opportunities in this area to boost utilization rate of its fleet.
- The Group is actively seeking opportunities to offer similar service in other cities of the PRC.

Sightseeing ticket sales and tours

- Nanjing Argos plans to capture a significant proportion of the one-day tour market.
- Nanjing Argos eyes a more prominent stake in the Nanjing tourist market.
- Nanjing Argos Tours is to explore opportunities to offer more choices of tour destinations.
- The Group does not preclude the possibility of setting up tour offices in other cities of the PRC.

Rental of fleet body for advertising

- The Group will enter into fleet body advertising contracts for every vehicle to maximize revenue from the area.
- The Group will work with advertising agents and brokers to explore further opportunities of maximizing the income generated from fleet body advertising.

IMPLEMENTATION SCHEDULE

The Group intends to implement the above strategies in the timetable as stated below. However, potential investors should be aware of the fact that the establishment of new joint ventures and the launching of new services in the PRC depends on the progress of negotiations with the relevant authorities, in which an accurate time frame may not be identifiable. Furthermore, the net proceeds from the Placing will not be sufficient to implement all stated business objectives which means external funding may be required if internal sources are insufficient. The raising of external funding may lengthen the implementation schedule. The Directors intend to implement the above strategies according to the following schedule:

From the Latest Practicable Date to 31 December, 2001

General

Subject to the discussion with other operators in Nanjing, Nanjing Argos expects to lodge an application for fare increase. The Directors anticipate that the full implementation of the IC Card in the year, in addition to the increasing market share, will have positive contributions towards the overall result. Nanjing Argos plans to purchase an additional 80 buses in the year through internal resources of Nanjing Argos.

Tourist Routes

- The focus in Nanjing will be on promoting the two newly established Tourist Routes, namely route Y3 and route Y4 subject to the initial receptions on the routes. The Directors do not preclude the possibility of alteration of services or allocating further vehicles to the routes subject to actual demand.
- Currently monthly ticket holders are not permitted to travel on Tourist Routes. However, in response to customers' demand, Nanjing Argos plans to introduce fare discount to holders of monthly ticket on Tourist Routes. While the plan is subject to approval by the relevant authorities (including the Bureau of Consumer Prices), the implementation of such plan is in line with the aim of Nanjing Argos to transform the Tourist Routes network into a hybrid Public Tourist Routes network. The successful implementation of the plan will bring in additional revenue on Tourist Routes and boost the overall patronage and market share.
- Nanjing Argos intends to introduce "bulk-buy" discount on Tourist Routes tickets as a mean to lock-in customers like daily commuters.
- Nanjing Argos intends to launch at least one more Tourist Route to the network, covering more sightseeing points previously not reached or to connect sightseeing points not previous linked up. In planning such routes, Nanjing Argos will adhere to the strategy of a hybrid "Public Tourist Route network" to raise the potential of such new services.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- The Group will also explore opportunities to launch Tourist Route services in places like Wanzhou in which public bus services should be in operation by the period. The implementation of such services will follow as far as possible the proven successful strategy in Nanjing. The implementation of such strategy is also reliant on the net proceeds raised from the Placing in conjunction with other investment opportunities. HK\$5.2 million has been allocated to repay a shareholder advance for the launch of operation in Wanzhou.

Public Routes

- Forty newly acquired buses will be put into service. The buses will be allocated to the two routes with the highest passenger volume: route 2W and 17W. Surplus buses from the two routes will be re-allocated to other Public Routes in the bid to raise the quality of service in every Public Route which Nanjing Argos operates.
- Nanjing Argos will monitor closely the patronage of individual routes, especially for those which serve new development zones, for instance, route 41W. Services will be altered or improved subject to actual passenger demand. Nanjing Argos also explores opportunities for new Public Routes in new development suburbs to further expand coverage of the Public Route Network.
- The extension on routes 20W and 23W in response to passenger demand and the completion of new road infrastructure.
- Nanjing Argos will study the feasibility of establishing late night or overnight services.
- Nanjing Argos will engage in further negotiations with the relevant authorities in acquiring further Public Routes from the incumbent state-owned bus company.
- Nanjing Argos will investigate in the feasibility of a fully air-conditioned fleet to improve services and enlarge revenue base.
- The Group will set aside resources in analyzing the network which it operates in other parts of the PRC. Improvement and alterations of existing services and the introduction of new services similar to that of Nanjing will be conducted in those cities.
- The Public Route service in Wanzhou will be fully launched, using HK\$5.2 million out of the HK\$25 million proceeds raised from the Placing (Through the repayment of a shareholder advance). One additional route has been planned for the year.
- The Directors expect the Group to launch public bus services in Taizhou and Wuhu subject to the success of the negotiations of terms and conditions with the relevant parties and authorities. Since negotiations are still underway with the relevant authorities, the Directors expected HK\$12 million from the proceeds of the Placing to be allocated to these projects.
- The Group will continue to engage in negotiations to set up services in other cities of the PRC.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

“Hire-a-Bus” and Employee Services

- Nanjing Argos will focus on maintaining relationships with event organizers with an attempt to secure its strong position in the area of events transportation. With the growth in fleet size, the Directors expect Nanjing Argos will be increasingly capable to cater for such events and believe the business in the area will expand.
- Nanjing Argos plans to establish inner-city shopping lines during off-peak hours to test the market reaction on such services and to boost off-peak utilization rate of its fleet.
- Nanjing Argos intends to promote its “Hire-a-Bus” service to schools and colleges, thereby seizing the extra transportation demand during the spring season, when annual picnic of such institutions is usually held.
- Subject to the availability of idle buses during peak hours and the relationship with clients, Nanjing Argos will focus on maintaining current market share in the Employee Services sector.
- Subject to market demand and the availability of idle buses, the Group will introduce such services in cities which public bus operation by the Group have been launched.

Sightseeing ticket sales and tours

- Nanjing Argos targets at having admission tickets from all sightseeing points covered by the Tourist Routes network on sale in the buses that serve such routes by the end of the year, further expanding the revenue sources from this channel and creating a brand name in Nanjing as the service provider for self-serve tourists.
- Establishing a tourist center in Nanjing Railway Station as the point of assistance for interstate tourists in areas like sightseeing points, hotel bookings and other information. The tourist center will also sell tickets of the Tourist Routes Network and admission tickets on other sightseeing points. Furthermore, Nanjing Argos will negotiate with more sightseeing points and hotels for the sale of tickets and provision of booking services at the center for a commission.
- Establishing one-day tour of Nanjing and surrounding currently to capture and reshape the market of the current unregulated market. With the strategic location of the tourist center, Nanjing Argos plans to capture a larger share of the one-day tour market and to work towards being the leader in the sector.
- Nanjing Argos also plans to actively promote its recently established tour destinations especially during the early-May peak travel season.
- Launching of “commercial excursion” as well as leisure tours to Beijing, the “Silk Road” and Huadong. Nanjing Argos will focus on promoting the newly established tourist center at Nanjing Railway Station.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

For the period from 1 January, 2002 to 30 June, 2002

General

The Group intends to invest 25 to 40 new buses in Nanjing alone. Other areas where operations have been launched will also require additional investments in fleet and other supporting infrastructure. The Group will seek opportunities in the PRC government's bid to develop northwestern PRC. Possible opportunities lie in the provision of inner-city public bus services and inner-city coach services.

Tourist Routes

- Nanjing Argos, subject to feasibility, will apply for further Tourist Routes in the city in order to maintain its status as the only operator of Tourist Route in Nanjing (Nevertheless, this status is not protected by law) and to consolidate the current strategy of building a "Public Tourist network".
- Nanjing Argos will continue to identify areas it can improve in the current network.
- Subject to the outcome of the feasibility study on the respective cities in which the Group provides services e.g. Wanzhou, the Group will either launch such service in those cities or to consolidate the services offered following the Nanjing model.

Public Routes

- The growth of Public Routes will base on a radiant model branching from the depot of Nanjing Argos, locating adjacent to the Nanjing Exhibition Centre and the linking of development suburbs.
- Nanjing Argos has planned to introduce two Public Routes.
- Nanjing Argos will continue to explore opportunities in improving the service upon the current network or any new routes approved to operate.
- Chongqing Wanzhou Argos will explore further opportunities to improve the newly launched services, such improvement will include air-conditionalization of fleet and alteration to routing of selected routes. One new routes have been planned for introduction in the year. In addition, one-man-operation will commence on selected routes in order to reduce overheads.
- Services in other cities will largely follow the model of Nanjing.

"Hire-a-Bus" and Employee Service

- With the anticipated expansion in fleet size, Nanjing Argos will intensively promote any services or seize any opportunities that can raise the utilization rate of the fleet during off-peak hours.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- Similar services will be promoted and launched in other cities in which the Group operates, subject to market demand and expansion of the fleet.

Sightseeing ticket sales and tours

- The Group will consider setting up tourist centers in other cities in which the Group operates similar to Nanjing.
- Further destinations will be offered in Nanjing Argos Tour service.
- The Group will consider the possibility and feasibility of establishing such tour service in other parts of the PRC.

For the period from 1 July, 2002 to 31 December, 2002

General

The Group intends to invest 25 to 40 new buses in Nanjing alone. Other areas where operations have been launched will also require additional investments in fleet and other supporting infrastructure. The Group will seek opportunities in the PRC government's bid to develop northwestern PRC. Possible opportunities lie in the provision of inner-city public bus services and inner-city coach services.

Tourist Routes

- Similar to the first half year of 2002, Nanjing Argos, subject to feasibility, will apply for further Tourist Routes in the city in order to maintain its status as the only operator of Tourist Route in Nanjing (Nevertheless this status is not protected by law) and to consolidate the current strategy of building a "Public Tourist Route network".
- Similar to the first half year of 2002, Nanjing Argos will continue to identify areas it can improve in the current network.
- Similar to the first half year of 2002, subject to the outcome of the feasibility studies on the respective cities in which the Group provides services such as Wanzhou, the Group will either launch such service in those cities or to consolidate the services offered following the Nanjing model.

Public Routes

- The growth of Public Routes will base on a radiant model branching from the depot of Nanjing Argos, locating adjacent to the Nanjing Exhibition Centre and the linking of development suburbs.
- Nanjing Argos has planned to introduce three Public Routes deploying standard capacity buses and one Public Route deploying midi-buses.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- Nanjing Argos will continue to explore opportunities in improving the service upon the current network or any new routes approved to operate.
- Chongqing Wanzhou Argos will explore further opportunities to improve the newly launched services, such improvement will include air-conditionalization of fleet and alteration to routing of selected routes. One new routes have been planned for introduction in the year.
- Services in other cities will largely follow the model of Nanjing.

“Hire-a-Bus” and Employee Service

- With the anticipated expansion in fleet size, Nanjing Argos will intensively promote any services or seize any opportunities that can raise the utilization rate of the fleet during off-peak hours.
- Similar services will be promoted and launched in other cities in which the Group operates, subject to market demand and expansion of the fleet.

Sightseeing ticket sales and tours

- The Group will consider setting up tourist centers in other cities in which the Group operates similar to Nanjing.
- Further destinations will be offered in Nanjing Argos Tour service.
- The Group will consider the possibility and feasibility of establishing such tour service in other parts of the PRC.

For the period from 1 January, 2003 to 30 June, 2003

General

The Group will continue to increase the fleet size in Nanjing at a planned rate of 25 to 40 buses per financial year given the equilibrium status of the market while the development in Wanzhou will broadly follow the model of Nanjing. Nevertheless, the status as the only standard capacity bus operator of Public Routes in Wanzhou of Chongqing Wanzhou Argos does present more flexibility in service evolutions and upgrades. The Group shall continue the search for profitable operation for establishing additional joint ventures.

Tourist Routes

- Nanjing Argos will submit its application for the introduction of one additional Tourist Routes, the routing of such services have been planned.
- Wanzhou Argos will launch such service in concert with the opportunities presented as a result of the Yangxi River Triple Gorges flood control program, which is going to transform Wanzhou into a tourist hotspot.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Public Routes

- Nanjing Argos will submit its application for the introduction of one additional Public Routes, the routing of such services have been planned.
- Chongqing Wanzhou Argos will introduce various service upgrades and alterations subject to the then passenger demand and population growth. One of the five Public Routes will cease service due to the anticipated flooding of selected suburbs of Wanzhou served by the route as a result of the Yangxi River Triple Gorges flood control program.
- Chongqing Wanzhou Argos planned to implement one-man-operation on all buses.

“Hire-a-Bus” and Employee Service

- The services will continue to be provided in order to boost utilization rate to the highest possible limit. Subject to fleet size, more focus will be put on promoting the services in both Nanjing, Wanzhou and other places with the Group’s presence.

Sightseeing ticket sales and tours

- Sightseeing ticket sales will remain an value-adding auxiliary services on buses serving the tourist routes.
- With the launch of service in Wanzhou, the Group will explore the synergy presented by combining the operations of the Nanjing and Wanzhou markets.
- More tours will be made available by Nanjing Argos Tours.

For the period from 1 July, 2003 to 31 December, 2003

General

The Group will continue to increase the fleet size in Nanjing at a planned rate of 25 to 40 buses per financial year given the equilibrium status of the market while the development in Wanzhou will broadly follow the model of Nanjing. Nevertheless, the status of Chongqing Wanzhou Argos as the only standard capacity bus operator of Public Route does present more flexibility in service evolutions and upgrades. The Group shall continue the search for profitable operation for establishing additional joint ventures.

Tourist Routes

- Similar to the first half year of 2003, Nanjing Argos will submit its application for the introduction of one additional Tourist Routes, the routing of such services have been planned.
- Similar to the first half year of 2003, Wanzhou Argos will launch such service in concert with the opportunities presented as a result of the Yangxi River Triple Gorges flood control program, which is going to transform Wanzhou into a tourist hotspot.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Public Routes

- Nanjing Argos will submit its application for the introduction of two additional Public Routes, the routing of such services have been planned.
- Chongqing Wanzhou Argos will introduce various service upgrades and alterations subject to the then passenger demand and population growth.

“Hire-a-Bus” and Employee Service

- Similar to the first half year of 2003, the services will continue to be provided in order to boost utilization rate to the highest possible limit. Subject to fleet size, more focus will be put on promoting the services in both Nanjing, Wanzhou and other places with the Group’s presence.

Sightseeing ticket sales and tours

- Sightseeing ticket sales will remain an value-adding auxiliary services on buses serving the tourist routes.
- More tours will be made available by Nanjing Argos Tours.

CONNECTED TRANSACTIONS

The Group has entered into various transactions with parties which are considered as connected persons under Chapter 20 of the GEM Listing Rules. While some of those transactions have been carried out on normal commercial terms in the ordinary and usual course of business and are expected to continue in the foreseeable future, those transactions which are not carried out in the ordinary and usual course of business, even though on arm's length terms, will be discontinued, if not already so.

(1) Exempted Continuing Connected transactions

Expense reimbursement to a fellow subsidiary

On 1 January, 2000, the Group entered into a rental reimbursement agreement with Argos Hong Kong for office space occupied in the Hong Kong office at Yau Tong. For the year ended 31 December, 2000, the total rental expense paid by the Group amounted to HK\$44,000. The rental arrangement with Argos Hong Kong is expected to continue at an annual rate of HK\$30,000, subject to future revision. The expense represents an apportionment to the total rental expense incurred by Argos Hong Kong based on the actual floor space occupied by the Company. The Directors consider such expense is determined on an equitable basis. The transaction is a connected transaction by virtue of Argos Hong Kong being a subsidiary of Sino Market, a shareholder of the Company. However, since the annual rental expense involved does not exceed HK\$1,000,000 pursuant to Rule 20.25(3) of the GEM Listing Rules, such transaction falls under the de minimis category as an exempted continuing connected transaction under the GEM Listing Rules and therefore is not subject to any disclosure requirement. Such rental charge is unlikely to increase substantially in the future as all major operations of the Group will be based in the PRC. The Group must comply with the provisions of Chapter 20 of the GEM Listing Rules governing connected transactions should such rental exceed the amount specified in Rule 20.25(3), or if any terms of transactions as mentioned above are altered or if the Company enters into any new agreements with any connected persons (within the meaning of the GEM Listing Rules) in the future.

(2) Discontinued Connected Transactions

As at the Latest Practicable Date, term loans and advances which constituted connected transaction disclosed below have already been terminated and fully repaid to the Group and the Directors do not expect any such grants and advances to any connected parties in the future.

(A) *Interests received from associates of a Director*

During the track record period, the Group granted term loans and advances to certain associates of a Director and in return derived interests income:

- (1) Mr. Wong Man Kon, John, a brother of Mr. Wong Man Chiu, Ronnie, one of the executive Directors, was granted a term loan facility of HK\$1.5 million by the Group on 1 January, 1999 and the full draw down were made between the year 1999 and 2000. Interest received from Mr. Wong Man Kon, John, for each of the two years ended 31 December, 1999 and 2000 were HK\$61,000 and HK\$65,000 respectively. The term loan was repaid on 31 July, 2000.

CONNECTED TRANSACTIONS

- (2) Ms. Wong Man Hing, Alice, a sister of Mr. Wong Man Chiu, Ronnie, one of the executive Directors, was granted a term loan facility of HK\$1.5 million by the Group on 9 November, 1999 and the full draw down were made between the year 1999 and 2000. Interest received from Ms. Wong Man Hing, Alice, for each of the two years ended 31 December, 1999 and 2000 were HK\$29,000 and HK\$65,000 respectively. The term loan was repaid on 31 July, 2000.
- (3) Kenworth Enterprises was granted a term loan facility of HK\$1.5 million by the Group on 18 August, 1999 and the full draw down were made between the year 1999 and 2000. During the same period, the Group granted advances, which amounted to just over HK\$500,000, to Kenworth Enterprises. Interest received from Kenworth Enterprises for each of the two years ended 31 December, 1999 and 2000 were HK\$33,000 and HK\$34,000 respectively. The term loan was repaid on 31 July, 2000.

The interest rates on such loans and advances were determined with reference to the then prevailing market rate on arm's length terms.

USE OF PROCEEDS

The main purposes of the Placing include the establishment of new joint ventures, repayment of shareholders' loans thus reduce the financial support for the Group from existing shareholders and realization of investments made by the Initial Management Shareholders. The net proceeds from the Placing will be fully applied before the end of 2001 to meet the capital injection required under the proposed joint ventures. Since all projects will be self-funding after the initial injection, the Group has no further obligation to supply additional cash.

The net proceeds from the Placing (other than those derived from the sale of the 24,000,000 Sale Shares by the Share Vendor) to be received by the Group, after deducting related expenses and assuming the Placing Price at HK\$1.00 per Placing Share with 30,000,000 New Shares are estimated to be approximately HK\$25,000,000. The Directors at present intend to apply such proceeds as follows:

- Approximately HK\$10 million will be used for the repayment of shareholders' advance of HK\$5.2 million as a result of the launching of services in Wanzhou and an amount due to Argos Hong Kong of HK\$3.3 million and an amount due to Via Roma of HK\$1.5 million for investment in Nanjing Argos and working capital supplied to the Group.
- Approximately HK\$6 million (RMB 6.42 million) will be used for investment in Taizhou for the acquisition of 50 buses.
- Approximately HK\$6 million (RMB 6.42 million) will be used for investment in Wuhu for the acquisition of 80 buses.
- The balance of HK\$3 million will be reserved as general working capital of the Company.

To the extent that the net proceeds of the Placing are not required immediately for the above purposes, it is the present intention of the Directors to place such proceeds into fixed deposit accounts with licensed banks and financial institutions in Hong Kong.

USE OF PROCEEDS

The table below summarizes the use of proceeds from the Listing Date until 31 December, 2001.

<i>In Millions of HK\$</i>	Latest Practicable Date to 31 December, 2001	Period			
		30 June, 2002	Six months ending 31 December, 2002		30 June, 2003
Investment in Taizhou	6	–	–	–	–
Investment in Wuhu	6	–	–	–	–
Repayment of Shareholders loan					
– to Argos Hong Kong	3.3	–	–	–	–
– to other shareholders	6.7	–	–	–	–
Sub-total	<u>22</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Working capital	<u>3</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<u><u>25</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

Since all joint ventures will be self-funding subsequent to the initial injection of capital and the Group will not be under any obligation to inject further capital. Proceeds from the Placing will be fully applied before the end of 2001 to meet the capital injection required under the proposed joint ventures. **As a result, investors should note that the net proceeds from the Placing will be fully applied before the end of 2001 except the HK\$3 million retained as general working capital of the Group.**

The Directors confirm that the net proceeds from the Placing and the internal resources of the Group will be sufficient for the implementation of all stated business objectives up to December 2003.

INDEBTEDNESS

Borrowings

At the close of business on 31 May, 2001, the Group had outstanding borrowings of approximately HK\$45,462,000 comprising secured bank borrowings of approximately HK\$28,266,000, amounts due to related parties of approximately HK\$3,866,000 and the amount due to Argos Hong Kong of approximately HK\$13,330,000. All outstanding borrowings except a bank facility of HK\$13.5 million are repayable on demand. The HK\$13.5 million bank facility is repayable within five years in half-yearly instalments.

The Group's bank borrowings were secured by bank deposits amounting to approximately HK\$14,766,000, personal guarantees executed by certain directors, pledge of a property held by a related company, and corporate guarantee executed by Argos Hong Kong. Such guarantees and pledge will be released as set out in the paragraph headed "Borrowings and banking facilities" below.

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities and normal trade payables, the Group did not have, at the close of business on 31 May, 2001, any loan capital issued and outstanding or agreed to be issued, any outstanding mortgages, charges, debentures, debt securities, bank loans and overdrafts or other similar indebtedness, liabilities under acceptance or acceptable credits, hire purchase or finance lease commitments, guarantees or any other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 May, 2001.

Contingent liabilities

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 May, 2001.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

DISTRIBUTABLE RESERVES

As at 31 May, 2001, the Company has no reserve available for distribution to the shareholders of the Company. The nature of the statutory reserve in the accounts is for enterprise expansion, non-distributable and calculated based on the statutory financial statements of the subsidiaries. The proportion of profits to be transferred to the statutory reserve is determined by the boards of the subsidiaries of the Group on an annual basis.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL EXPENDITURE

Net current liabilities

As at 31 May, 2001, the Group had net current liabilities of approximately HK\$12,219,000. Current assets comprised bank and cash balances of approximately HK\$26,700,000, trade and other receivables of approximately HK\$12,753,000, amount due from a minority shareholder of approximately HK\$506,000 and consumables of approximately HK\$951,000. Current liabilities of approximately HK\$53,129,000 comprise trade and other payables of approximately HK\$11,481,000, amounts due to related parties approximately HK\$3,866,000 and bank borrowings of approximately HK\$17,016,000, amount due to immediate holding company of approximately HK\$13,330,000, advertising income received in advance of approximately HK\$4,646,000 and taxation payable of approximately HK\$2,790,000.

Working Capital

Taking into account the financial resources available to the Group, including internally generated funds and the estimated net proceeds of the Placing, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

Borrowings and banking facilities

As at 31 May, 2001, the outstanding indebtedness of the Group was approximately HK\$45,462,000 which comprised of secured bank borrowings of approximately HK\$28,266,000, amounts due to related parties of approximately HK\$3,866,000 and the amount of approximately HK\$13,330,000 due to Argos Hong Kong.

A bank borrowing of HK\$13.5 million as at 31 May, 2001 has been secured by (i) a mortgage of the property held by Always Earn Investments Limited, a company controlled by the directors and shareholders of the Company; (ii) and personal guarantees executed by Mr. Wong Man Chiu, Ronnie and Mr. Yeung Wai Hung; and (iii) a corporate guarantee executed by Argos Hong Kong.

The relevant bank has agreed, in principle, to release the above mortgage, personal guarantees executed by Mr. Wong Man Chiu, Ronnie and Mr. Yeung Wai Hung and corporate guarantee executed by Argos Hong Kong upon listing of the Shares on GEM and replace them by a corporate guarantee of the Company and/or other securities provided by members of the Group.

The Company is in the process of releasing such mortgage, personal guarantees and corporate guarantee and the Directors undertake to procure the process to be completed within three months after the listing of the Shares on GEM. The Directors undertake to notify its then shareholders of the Company through public announcement to report the release of guarantees within three months after the listing of the Shares on GEM.

Should the relevant bank refuse to release the aforesaid guarantees in exchange for corporate guarantees provided by the Company or such release is not completed within three months after listing of Shares on GEM, the Company will consider to replace its existing banking facility by new banking

facility which would require corporate guarantee of the Company instead of the mortgage from Always Earn Investment Limited, personal guarantees by the Directors and corporate guarantee from Argos Hong Kong. In addition, the aforesaid Directors, Always Earn Investment Limited and Argos Hong Kong have confirmed that they are willing to continue to provide the mortgage, personal guarantees and corporate guarantees for the existing banking facility until the expiry of them in case the relevant banks refuse to release such mortgage and guarantess.

Capital Commitment

As at 31 May, 2001, the Group authorized capital commitment, but not yet contracted for, in relation to the purchase of motor vehicles amounts to HK\$ nil.

Dividends

No dividends have been declared and paid to any Shareholders since incorporation of the Company and other companies comprising the Group.

Financial and capital resources

Prior to the completion of the Placing, the Group's operations rely on financial assistance from Shareholders and internally generated cashflow. The proceeds from the Placing are expected to be sufficient to satisfy the financial requirements of the planned capital and financial commitment of the Group. Nevertheless, should any future investment opportunities arise, the Directors cannot preclude the possibility of raising new equities and bank borrowings to fund the associated capital and financial requirements.

PROPERTY INTERESTS

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued the property interests of the Group as at 31 May, 2001. The text of the valuation report and the valuation certificate issued by DTZ Debenham Tie Leung Limited are set out in Appendix III to this prospectus.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31 December, 2000 as shown in the accountants' report, the text of which is set out in appendix I to this prospectus, and adjusted as described below:

	<i>HK\$'000</i>
Audited combined net assets of the Group as at 31 December, 2000	9,509
Combined profit attributable to shareholders of the Group for the five months ended 31 May, 2001 as per unaudited management accounts	2,313
Capitalization of an amount due to Argos Hong Kong	5,000
Estimated net proceeds of the Placing	25,000
	<hr/>
Adjusted net tangible assets	41,822
	<hr/> <hr/>
Adjusted net tangible asset value per Share (<i>Note</i>) (based on 180,000,000 Shares in issue and to be issued as mentioned herein)	23.23 cents
	<hr/> <hr/>

Note: The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section, but it takes no account of any Share Transactions.

NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December, 2000 (being the date to which the latest audited combined financial statements of the Group were prepared).

EXECUTIVE DIRECTORS

Mr. Wong Wah Sang, BH, MBE, aged 75, the chairman of the Company, is currently the chairman of Wong's Investments (Holdings) Co. Ltd. a private company, and has been the co-founder and chairman of Argos Hong Kong. He is also the co-founder of Chung Wah Shipbuilding & Engineering (Holdings) Co., Ltd and Argos Engineering & Heavy Industries Co., Ltd. Both companies are privately held companies not competing with the Group. Mr. Wong Wah Sang is the father of Mr. Wong Man Chiu, Ronnie, one of the executive Directors of the Company and an elder brother of Mr. Wong, Wilson, one of the executive Directors of the Company. Mr. Wong's experience in the engineering and shipbuilding business spans across Asia in that he was the chairman of Sabah Shipbuilding, Ship-repairing Sdn Bhd of Malaysia and Euro-Asia Rig Construction Yard in the 1970s. Engineering projects completed by Mr. Wong include the marine works of the Eastern and the Western Harbour Tunnels in Hong Kong and the 12,000 tonnes structural steel erection of the Treasury Building and United Overseas Bank Building in Singapore. Mr. Wong Wah Sang is also a director in Moving Step Limited and Ming Tak Transportation Service Company Limited. Detail of the operations of these companies are set out in the sub-section headed "Directors' interests" in the section headed "Business".

Mr. Wong, Wilson, aged 61, being a brother of Mr. Wong Wah Sang, one of the executive Directors of the Company, the managing director of the Company, has been the co-founder and managing director of Argos Hong Kong since 1981. He is also the co-founder of Chung Wah Shipbuilding & Engineering (Holdings) Co., Ltd, Argos Engineering & Heavy Industries Co., Ltd. and Goldford Engineering Limited. The three companies are not competing with the Group. Apart from the operation of a bus company, Mr. Wong, Wilson has extensive engineering experience in infrastructure and utilities projects both in Hong Kong and across the Southeast Asia. Mr. Wong, Wilson is also a director in Argos Hong Kong, Metro Line Tour Limited, Ming Tak Transportation Service Company Limited and Moving Step Limited. Detail of the operations of these companies are set out in the sub-section headed "Directors' interests" in the section headed "Business".

Mr. Wong Man Chiu, Ronnie, J.P., B.Sc, MBA, aged 48, a son of Mr. Wong Wah Sang, one of the executive Directors of the Company, has been appointed the deputy managing director of Argos Hong Kong since 1992 and he is currently an executive director in Wong's Investment (Holdings) Co. Ltd. The company is not competing with the Group. Mr. Ronnie Wong's experience covers area including shipbuilding, engineering, property development, transportation, tourism and entertainment. He is also an active participant in various community services, for instance, he was a member of the Basic Law Consultative Committee and an elected Urban Councillor. Mr. Ronnie Wong is also a director in Goldspark HK Tours Limited, Moving Step Limited, Ming Tak Transportation Service Company Limited and CLK Bus Company Limited. Detail of the operations of these companies are set out in the sub-section headed "Directors' interests" in the section headed "Business".

Mr. Yeung Wai Hung, aged 51, has involved in the management of Argos Hong Kong since its incorporation and was appointed the general manager in 1988. He specializes in the area of human resources management for 30 years. With his long reaching experience and connections in the public bus industry of Hong Kong, Mr. Yeung is one of the most prominent figures in the industry. He is currently the chairman of the Public Omnibus Operators Association Ltd., the most respected organization in the private bus operation sector of Hong Kong. Mr. Yeung Wai Hung is also a director of Argos Hong Kong, Goldspark HK Tours Limited, Metro Line Tour Limited, Moving Step Limited, Ming Tak Transportation

DIRECTORS, MANAGEMENT AND STAFF

Service Company Limited and CLK Bus Company Limited. Detail of the operations of these companies are set out in the sub-section headed “Directors’ interests” in the section headed “Business”.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Ming Wah, Charles, B.Sc, M.B.A. aged 51, was appointed an independent non-executive director of the Company in 2 January, 2001. Mr. Ng graduated from the London Graduate School of Business Studies in England in 1974 with a Master’s degree in Business Administration. He is the managing director of Equitas Capital Limited, an exempt dealer and an exempt investment advisor under the Securities Ordinance of Hong Kong, and has over twenty years of experience in corporate finance and investment banking in Hong Kong.

Mr. Sung Wai Tak, Herman, B.A.(Hons), LL.B (Hons), LL.M, aged 42, joined and was appointed an independent non-executive director of the Company in 2 January, 2001, is a solicitor of High Court of the Hong Kong Special Administrative Region and the Supreme Court of New South Wales in Australia. Mr. Sung has extensive experience in the legal arena both in Hong Kong and Australia.

AUDIT COMMITTEE

The Company has established an audit committee on 30 July, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee of the Group consists of two independent non-executive Directors, namely Messrs. Ng Ming Wah Charles and Sung Wai Tak Herman and the managing director, Mr. Wong, Wilson.

SENIOR MANAGEMENT

Mr. Zhang Dao Lin, B.Eng., aged 37, has been the general manager of Nanjing Argos since inception. Mr. Zhang has over 18 years of managerial experience in the bus industry of PRC, beginning as a vehicle structural engineering consultant, and served 15 years in Nanjing Public Transport Company before taking up the leading role in Nanjing Argos. His major strength is the formulating and the implementation of scientific and modern management policies. Under his leadership, Nanjing Argos has successfully changed the competitive landscape of the public bus industry in Nanjing.

Mr. Kwok Man Pang, Lewis, A.C.M.A., F.H.K.S.A., M.C.I.P.S., M.Inst. A.M. (Dip.), M.I.H.R.M. (H.K.), aged 48, is the financial controller and company secretary of the Group and is responsible for the financial management and company secretarial functions of the Group. Mr. Kwok holds a diploma in administrative management from the Institute of Administrative Management in the United Kingdom. Prior to joining the Group on 2 April, 2001, Mr. Kwok had over twenty-seven years of experience in auditing, finance and administration.

Mr. Wang Jie, aged 48, is the assistant general manager of Nanjing Argos. He has experience in the PRC bus industry for over 22 years, focusing on general administration and human resources management, serving the Nanjing Public Transport Company before joining Nanjing Argos in early 2000.

DIRECTORS, MANAGEMENT AND STAFF

Ms. Zhu Xiu Ying, aged 55, has been the Manager (Finance) of Nanjing Argos since its inception in 1997. Ms. Zhu served in the finance department of Nanjing Public Transport Company for 36 years before joining Nanjing Argos. Her skills and expertise in financial management of a public bus company is crucial to Nanjing Argos' success in cost control.

Mr. Lu Xiang Dong, aged 50, has been the Manager (Operation) of Nanjing Argos since inception. Mr. Lu served in Nanjing Public Transport Company for 22 years, before which he was a navy officer, beginning as a bus captain before joining Nanjing Argos. Mr. Lu has extensive experience in every aspect of operations in a public bus company, his expertise is in the area of safety and operational management. Mr. Lu is currently heading the operation in Wanzhou subsequent to the establishment of Chongqing Wanzhou Argos.

Mr. Wu Guang Jun, B. Eng., aged 37, has been the Manager (Administration and human resources) of Nanjing Argos since 1998. Mr. Wu has over 17 years of experience in the administration of public utility companies. He specializes in the formulation of ISO 9002 work procedures and staff training.

STAFF

The following table shows the number of staff of the Group in different categories as at the end of December 1999 and December 2000.

	December 1999	December 2000	Latest Practicable Date
Drivers	379	516	620
Tour Guides	54	83	84
Maintenance	109	114	165
Assistants	41	35	174
Management	118	148	196
Directors	4	4	4
	<hr/>	<hr/>	<hr/>
Total	<u>705</u>	<u>900</u>	<u>1,243</u>

The increase in staff number in the past two years is mainly attributable to the increased number of drivers as a result of extension and improvement in the level of services. The Group has a significant growth in headcount in the current financial year with the launch of services in Wanzhou.

Salary of frontline staff is calculated on a daily basis according to the hours worked whereas management and back office staff are on monthly basis. Payment to staff is dispatched on a monthly basis. Apart from the basic salary, there will be financial reward to staff whose performance reaches a certain standard. In contrast, financial penalties, in the form of reduction in salary, will be applied.

The Group works to ensure that every staff is adequately trained before taking up any duties. The target is consistent with both the safety standard and requirements under the ISO 9002 accreditation.

DIRECTORS, MANAGEMENT AND STAFF

The Labour Law of the PRC sets out the amounts every employer must set aside for the benefit of the employees. These amounts include contribution to benefit expenses, retirement fund, housing fund, unemployment fund and workplace injuries fund. The contributions are in proportion to the number of staff of employed and salary expenses.

SHARE OPTION SCHEME

Pursuant to a resolution of all the shareholders of the Company passed on 30 July, 2001, the Company has conditionally approved the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus.

The Share Option Scheme is conditional upon the GEM Listing Committee granting approval of the Share Option Scheme, any options which may be granted thereunder and the listing of, and permission to deal in, any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme. Application has been made to the GEM Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of options under the Share Option Scheme and the listing of, and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the Latest Practicable Date, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

SERVICE AGREEMENTS

Four Executive Directors, namely Mr. Wong Wah Sang, Mr. Wong, Wilson, Mr. Wong Man Chiu, Ronnie and Mr. Yeung Wai Hung have entered into service agreements with the Company respectively. For details of these agreements, please refer to the paragraph headed “Particulars of service agreements” under the section headed “Further information about Directors, senior management and staff” in Appendix IV to this prospectus.

INITIAL MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalization Issue, the following persons are considered as initial management shareholders (which term has the meaning ascribed to it in the GEM Listing Rules) of the Company which are subject to the following restrictions on disposal:

Name	Date of becoming shareholder (direct/indirect) of the Company <i>(Note 2)</i>	Number or attributable number of Shares held immediately after the completion of the Placing	Approximate percentage or attributable percentage of shareholding in the Company immediately after the completion of the Placing	Total cost of investment	Cost per share <i>(HK\$)</i>	Lock-up period
Initial Management Shareholders:						
Sino Market <i>(Note 3)</i>	Founder	126,000,000	70	5,500,000	0.04365	12 months
Sinoman International <i>(Note 4)</i>	Founder	76,897,800	42.721	3,369,365	0.04382	12 months
Twilight Enterprises Limited <i>(Note 4)</i>	Founder	61,518,240	34.1768	1,930,635	0.04382	12 months
Kenworth Enterprises <i>(Note 5)</i>	Founder	44,062,200	24.479	2,695,492	0.04382	12 months
Via Roma <i>(Note 6)</i>	10 July, 2000	5,040,000	2.8	200,400	0.03976	12 months

N/A: Not applicable

Notes:

1. (i) Each of the Initial Management Shareholders has undertaken with the Stock Exchange, the Sponsor, the Company and the Underwriters that each of them will not dispose of (nor enter into agreement to dispose of) any of its direct or indirect interest in the Relevant Securities during the Lock-up Period. Each of the Initial Management Shareholders will place in escrow during the First Relevant Lock-up Period the Relevant Securities held by it in the Company.
- (ii) The Kenworth Shareholders, Owner of Via Roma, Twilight Shareholders, Sinoman Shareholders and the Sino Market Shareholders, being the shareholders of Sino Market, have undertaken to the Company, the Sponsor, the Underwriters and the Stock Exchange that they will not sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any of their respective interests in Kenworth Enterprises, Via Roma, Twilight Enterprises Limited, Sinoman International and Sino Market within 12 months from the Listing Date.

INITIAL MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

2. This represents the actual date on which each party becomes a shareholder, whether direct or indirect, of the members of the Group.
3.
 - (i) Sino Market is the founder of the Company and is the beneficial owner of the two subscriber's shares in the Company of which one subscriber's share was held by Mr. Wong Man Chiu, Ronnie on trust in favour of Sino Market. The Company further allotted 999,998 Shares at par, credited as fully paid in the Company to Sino Market on 23rd October, 2000.
 - (ii) On 30 July, 2001, the Company acquired the entire issued share capital of Argos China from Argos Hong Kong for which the Company allotted and issued 99,000,000 Shares at par, credited as fully paid, to Sino Market in consideration thereof. Together with the 50,000,000 Shares allotted, issued and credited as fully paid by the Company in consideration of the setting-off of an indebtedness of HK\$5,000,000 (at an agreed price per Share at HK\$0.10 each) owing from the Company to Argos Hong Kong, Sino Market will, on 30 July, 2001, be allotted and issued, a total of 149,000,000 Shares at par, credited as fully paid.
 - (iii) The Shares in the Company are held by the Initial Management Shareholders indirectly through Sino Market.
 - (iv) Sino Market is a company incorporated in Hong Kong. The issued share capital of Sino Market are beneficially owned by Sinoman International as to 61.03 per cent., Kenworth Enterprises as to 34.97 per cent., and Via Roma as to 4 per cent.
4.
 - (i) The issued share capital of Sinoman International is beneficially owned by Twilight Enterprises Limited as to 80 per cent., and Mr. Yeung Wai Hung, an executive Director, as to 20 per cent.. Twilight Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability, is beneficially owned by Mr. Wong Wilson, an executive Director, as to 50 per cent. and Ms. Chiu Gee Chai, his wife, as to 50 per cent.. Accordingly, Twilight Enterprises Limited, Mr. Yeung Wai Hung, Mr. Wong, Wilson and Ms. Chiu Gee Chai are considered as Initial Management Shareholders.
 - (ii) As Twilight Enterprises Limited indirectly holds 61,518,240 Shares in the Company through Sinoman International and Sino Market and Mr. Wong, Wilson and Ms. Chiu Gee Chai each holds 50 per cent. beneficial interests in Twilight Enterprises Limited, each of Mr. Wong, Wilson and Ms. Chiu Gee Chai is deemed to be interested in 30,759,120 Shares by virtue of the SDI Ordinance.
5. The issued share capital of Kenworth Enterprises is beneficially owned by the following persons:

Name of Shareholders	Percentage of shareholdings in Kenworth Enterprises
Mr. Wong Wah Sang (Executive Director)	22.23%
Mr. Wong Man Fung, Anthony	11.11%
Mr. Wong Man Che, Edward	11.11%
Mr. Wong Man Ka, Stephen	11.11%
Ms. Wong Man Hing, Alice	11.11%
Mr. Wong Man Chiu, Ronnie (Executive Director)	11.11%
Mr. Wong Man Kon, John	11.11%
Mr. Wong Man Kong, Peter	11.11%

Mr. Wong Wah Sang is the father of the other shareholders of Kenworth Enterprises mentioned above. Mr. Wong Wah Sang is also the elder brother of Mr. Wilson Wong. Accordingly, all the shareholders of Kenworth Enterprises are regarded as an Initial Management Shareholder.

6.
 - (i) The entire issued share capital of Via Roma is beneficially owned by Mr. Kwan Yan Ming. Accordingly, Mr. Kwan Yan Ming is also regarded as an Initial Management Shareholder.
 - (ii) As Mr. Kwan Yan Ming indirectly holds 5,040,000 Shares in the Company through Via Roma and Sino Market and his wife, Ms. Wong Man Hing, Alice indirectly holds 4,895,310 Shares in the Company through Kenworth Enterprises and Sino Market, Mr. Kwan Yan Ming and Ms. Wong Man Hing, Alice is deemed to be interested in aggregate 9,935,310 Shares by virtue of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing, the following person (without taking into account the Shares which may be taken up under the Placing) will be entitled to exercise or control the exercise of 10 per cent. or more of the then issued Shares for the purposes of the SDI Ordinance:

Name	Number or attributable number of Shares held	Approximate percentage or attributable percentage of shareholding in the Company
Sino Market (<i>Note 3</i>)	126,000,000	70
Sinoman International (<i>Note 4</i>)	76,897,800	42.721
Twilight Enterprises Limited	61,518,240	34.1768
Wong, Wilson (<i>Note 4</i>)	30,759,120	17.0884
Chiu Gee Chai	30,759,120	17.0884
Kenworth Enterprises (<i>Note 5</i>)	44,062,200	24.479

Note: Please refer to Notes 1 to 6 in the paragraph headed “Reorganisation” in the section headed “Summary” in this prospectus.

UNDERTAKING

Each of the Initial Management Shareholders has undertaken to the Company, Yu Ming, the Underwriters and the Stock Exchange that:

- (i) it shall enter into an escrow agreement with an escrow agent acceptable to the Stock Exchange and Yu Ming and place in escrow, with such escrow agent, its Relevant Securities on terms acceptable to the Stock Exchange.
- (ii) it shall not, and shall procure that none of its associates (as defined in the GEM Listing Rules) and the companies controlled by it or its nominees or its trustees holding in trust for it shall within the Lock-up Period sell, transfer or otherwise dispose of (or enter into an agreement to dispose of) in respect of any of the Relevant Securities nor permit the registered holder to dispose of (nor enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Securities;

The Kenworth Shareholders, Owner of Via Roma, Twilight Shareholders, Sinoman Shareholders and the Sino Market Shareholders, being the shareholders of Sino Market, have undertaken to the Company, the Sponsor, the Underwriters and the Stock Exchange that they will not sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise

dispose of) any of their respective interests in Kenworth Enterprises, Via Roma, Twilight Enterprises Limited, Sinoman International and Sino Market within 12 months from the Listing Date.

- (iii) it shall in the event that it pledges or charges any direct or indirect interest in the Relevant Securities in compliance with the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.17(5) of the GEM Listing Rules, at any time during the a period of twelve months commencing from the Listing Date or such shorter period as may be required by the GEM Listing Rules, he must, inform the Company and Yu Ming immediately in the event it becomes aware that the pledgee or the chargee has disposed of or intends to dispose of such interest and of the number of Relevant Securities affected, such information specified in Rules 17.43(1) to 17.43(4) of the GEM Listing Rules.

SHARE CAPITAL

The authorised and issued share capital of the Company are as follows:

Authorised share capital: *HK\$*

<u>10,000,000,000</u> Shares	<u>100,000,000</u>
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Issued and to be issued, fully paid or credited as fully paid:

1,000,000 Shares in issue	10,000
149,000,000 Shares to be issued pursuant to the Capitalization Issue	1,490,000
30,000,000 New Shares to be issued pursuant to the Placing (excluding the Sale Shares)	<u>300,000</u>
<u>180,000,000</u> Shares	<u>1,800,000</u>

Minimum public float

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 30 per cent. of the issued share capital of the Company in the hands of the public from time to time.

Assumptions

The table above assumes the Placing and the Capitalization Issue become unconditional. It takes no account of any Shares which may be issued or allotted upon the exercise of options granted under the Share Option Scheme, any shares which may be allotted and issued under the general mandate given to the Directors for the issue and allotment of Shares or any Shares which may be bought back by the Company pursuant to the general mandate given to the Directors for the repurchase of Shares as described below.

Ranking

The Placing Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned herein, and will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus except that they will not qualify for Share to be issued under the Capitalization Issue.

Share Option Scheme

The Group has conditionally adopted the Share Option Scheme. Summaries of the main terms of such plan and scheme are set out in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus. Under the Share Option Scheme, full-time employees and executive directors of any members of the Group may be granted options which entitle them to subscribe for Shares which in aggregate representing up to a maximum of 30 per cent. of the issued share capital of the Company from time to time (excluding Share which may be issued pursuant to the exercise of options granted under the Share Option Scheme) for a period of ten years commencing from the date on which the Share Option Scheme is deemed to be granted and accepted.

General mandate to issue New Shares

The Directors have been granted a general unconditional mandate (as referred to in the paragraph headed “Written resolutions of all the shareholders of the Company passed on 30 July, 2001” of Appendix IV to this prospectus) to allot, issue and deal in Shares with a total nominal value of not more than the sum of:

1. 20 per cent. of the total nominal amount of the share capital of the Company issued and to be issued (following completion of the Placing and the Capitalization Issue); and
2. the total amount of the share capital of the Company purchased by the Company under the general mandate to repurchase shares (if any).

The Directors may, in addition to the Shares which they are authorised to issue under the above mandate, allot, issue and deal in Shares under a rights issue, scrip dividend scheme or similar arrangement or Shares to be issued upon the exercise of options granted under the exercise of options granted under the Share Option Scheme.

The mandate will expire:

- at the end of the Company’s next annual general meeting; or
- at the end of the period within which the Company is required by law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of its shareholders in general meeting;

whichever is the earliest.

General mandate to repurchase Shares

If the Placing becomes unconditional, the Directors have been a general unconditional mandate to exercise all the powers of the Company to buy back the Shares with a total nominal value of not more than 10 per cent. of the total nominal amount of the share capital of the Company issued and to be issued (as set out in the above table).

The mandate only relates to repurchase made on GEM, or any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase by the Company of its own securities” in Appendix IV to this prospectus.

The mandate will expire:

- at the end of the Company’s next annual general meeting; or

SHARE CAPITAL

- at the end of the period within which the Company is required by law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of its shareholders in general meeting;

whichever is the earliest.

UNDERWRITING

UNDERWRITERS

Yu Ming, Celestial Capital Limited, CSC Securities (HK) Limited, JS Cresvale International Limited, Core Pacific – Yamaichi International (H.K.) Limited and South China Securities Limited.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering up to 30,000,000 New Shares, representing 55.56 per cent. of the Placing Shares, and the Share Vendor is offering an aggregate of 24,000,000 Sale Shares, representing 44.44 per cent. of the Placing Shares to investors who are professional and institutional investors and other investors on and subject to the terms and conditions set out in the Underwriting Agreement at the Placing Price.

Pursuant to the Underwriter Agreement entered into between, among others, the Company and the Underwriters, the Company is offering the Placing Shares for subscription subject to the terms and conditions set forth in this prospectus relating thereto.

Conditional upon the GEM Listing Committee granting the listing of, and permission to deal in, the Placing Shares and to certain additional conditions set out in the Underwriting Agreement being fulfilled by no later than 30 August, 2001, and the Underwriting Agreement not being terminated in accordance with its terms, the Underwriters have severally consent to subscribe for or procure placees to subscribe for the Placing Shares, which have not been subscribed for or placed under the Placing.

Grounds for Termination

Each of Yu Ming and Celestial Capital, on behalf of the Underwriters, has the absolute right to terminate their obligations under the Underwriting Agreement at any time prior to the Listing Date, should certain events, including but not limited to the following, take place:

- (a) there develops, occurs, exists or comes into force:
 - (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority or any relevant jurisdiction or any other similar event; or
 - (ii) any adverse change or development (whether or not permanent) or any event or series of events resulting in any charge in local, national or international economic, financial, industrial, political or military conditions in Hong Kong or elsewhere; or
 - (iii) any adverse change (whether or not permanent) in local, national or international stock market conditions; or
 - (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or

UNDERWRITING

- (v) any adverse change or development involving a prospective change in Taxation in Hong Kong, PRC and BVI or the implementation of any exchange controls; or
 - (vi) any change in the business or in the financial or trading position of the Group; or
 - (vii) a general moratorium on commercial banking business activities in Hong Kong, the PRC or elsewhere declared by the relevant authorities; or
 - (viii) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock out; or
 - (ix) any other change whether or not ejusdem generis with any of the foregoing,

which in the absolute and sole opinion of Yu Ming or Celestial Capital (for itself and on behalf of the Underwriters):
 - is or will or is likely to be materially adverse to the business, financial condition or prospects of the Group taken as a whole; or
 - has or will have or is likely to have a material adverse effect on the success of the Placing or the full subscription or sale of all of the Placing Shares; or
 - for any other reasons makes it inadvisable or inexpedient to proceed with the Placing; or
- (b) any breach of any of the warranties set out in the Underwriting Agreement or any breach of any other provision of the Underwriting Agreement (except where such breaches arise solely from the wilful default, gross negligence or fraud on the part of the Underwriters) comes to the knowledge of Yu Ming or Celestial Capital which in the absolute and sole opinion of Yu Ming or Celestial Capital would affect the success of the Placing; or
- (c) any matter which, had it arisen immediately before the date of the Prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the absolute and sole opinion of Yu Ming or Celestial Capital (for itself and on behalf of the Underwriters) in the context of the Placing; or
- (d) any statement contained in the Prospectus considered to be material by Yu Ming or Celestial Capital is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the sole opinion of Yu Ming or Celestial Capital (for itself and on behalf of the Underwriters) to be material; or
- (e) any event, act or omission which gives or is likely to give rise to any liability of the Company and any of the substantial shareholder (as defined in the Listing Rules) of the Company and the Share Vendor pursuant to the indemnities contained in the Underwriting Agreement.

Commission and expenses

The Underwriters will receive a total commission of 2.8 per cent. of the Placing Price of all the Placing Shares (out of which the Underwriters will pay their own sub-underwriting commissions and selling concessions if any). In addition, Yu Ming will receive a advisory and documentation fee in relation to the Placing and for acting as the Sponsor of the Placing. Based on the Placing Price of HK\$1.00, the aggregate expenses and commission is estimated at HK\$9 million. The Share Vendor will bear HK\$4 million of these expenses, being a proportional allocation in accordance to the ratio of New Shares and Sale Shares.

Sponsor's and Underwriters' interest in the Company

Yu Ming, being the Sponsor and one of the Underwriters in the listing of the Company's Shares, has also been appointed the Sponsor of the Company up to 31 December, 2003.

Save for the interests and obligations under the Underwriting Agreement, none of the Underwriters is interested in any Shares in any member of the Group or any rights (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Save for the interests and obligations under the Underwriting Agreement, neither Yu Ming nor Celestial Capital nor their respective associates have or may, as a result of the Placing, have any shareholding interests in any member of the Group or any rights to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

STRUCTURE OF THE PLACING

THE PLACING

The Placing Shares, totalling 54,000,000 Shares, will represent 30 per cent. of the enlarged issued share capital of the Company immediately following completion of the Placing. 30,000,000 New Shares and 24,000,000 Sale Shares are being offered pursuant to the Placing. The Placing is fully underwritten by the Underwriters, subject to the terms and conditions of the Underwriting Agreement. The level of indications of interest for the Placing Shares is expected to be announced on the GEM website (in English and Chinese) on or before 7 August, 2001.

Under the Placing, it is expected that one or more of the Underwriters, on behalf of the Company, will conditionally place the Placing Shares at HK\$1.00 per Share plus 1 per cent. brokerage and 0.01 per cent. Stock Exchange transaction levy. The Placing Shares are to be placed with selected professional and institutional investors and certain employees of Argos Hong Kong and the Company on a preferential basis. Professional and institutional investors generally include brokers, dealers and fund managers, whose ordinary course of business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole. There will not be any preferential treatment in the allotment of the Placing Shares to any persons.

CONDITIONS OF THE PLACING

The Placing is conditional on:

(a) Listing

The GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus on or before 30 August, 2001; and

(b) Underwriting Agreement

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by Yu Ming or Celestial Capital (as the case may be) on behalf of the Underwriters) and the Underwriting Agreement not being terminated on or before 30 August, 2001 in accordance with its terms or otherwise. Details of the Underwriting Agreement are set out in the section headed “Underwriting” in this prospectus.

STRUCTURE OF THE PLACING

Should such conditions are not fulfilled or waived on or before 30 August, 2001, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be caused to be published by the Company in the GEM website on the next business day following such lapse.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on 13 August, 2001. The Shares will be traded in board lots of 2,000 each.

SHARES WILL BE ELIGIBLE FOR CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares on GEM and the Company complies with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares on GEM or on any other date as determined by Hongkong Clearing.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

31 July, 2001

The Directors
Argos Enterprise (Holdings) Limited
Yu Ming Investment Management Limited

Dear Sirs,

We set out below our report on the financial information regarding Argos Enterprise (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December, 2000 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 31 July, 2001 (the “Prospectus”).

The Company was incorporated in Hong Kong on 13 October, 2000 as a private limited company under the Companies Ordinance. Through a group reorganisation, as described more fully in the sections headed “Written resolutions of all the shareholders of the Company passed on 30 July, 2001” and “Corporate reorganisation” in Appendix IV of the Prospectus (the “Reorganisation”), the Company will become a public limited company on 13 August, 2001 and the holding company of the Group on 30 July, 2001.

At the date of this report, the Company has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ registration	Issued and paid up share capital/ contributed capital	Attributable equity interest of the Group	Principal activities
Argos Bus Services (China) Company Limited* (“Argos China”)	Hong Kong 15 October, 1985	HK\$500,000	100%	Investment holding
南京雅高風光旅游 有限公司 (“Nanjing Argos Tours”)	People’s Republic of China (the “PRC”) 13 February, 1999	RMB500,000	57%	City touring and sightseeing agent
南京公交雅高巴士 有限公司 Nanjing Public Transport Argos Bus Company Limited ** (“Nanjing Argos”)	PRC 24 September, 1997	RMB31,442,272	60%	Bus operation
重慶市萬州區 雅高公交巴士有限公司 Chongqing Wanzhou Area Argos Public Transport Bus Co., Limited *** (“Chongqing Wanzhou Argos”)	PRC 21 December, 2000	RMB10,000,000	60%	Bus operation

- * Directly held by the Company.
- ** The registered capital of this company is US\$3,800,000. According to the latest official verification report dated 2 November, 1999, the amount of capital contributed by the Group which has been verified amounted to HK\$29,491,917.74 (equivalent to RMB31,442,272).
- *** This company commenced its operation in March 2001 and no results of this subsidiary have been included in the Relevant Periods.

No audited financial statements have been prepared for the Company or Chongqing Wanzhou Argos since their respective date of incorporation or registration. We have, however, reviewed all relevant transactions of the Company and Chongqing Wanzhou Argos since their respective date of incorporation or registration.

Auditors of the companies now comprising the Group (other than the Company and Chongqing Wanzhou Argos) during the Relevant Periods were summarised as follows:

Name of subsidiary	Financial period	Auditors
Argos China	Year ended 30 June, 1998	T.H. See & Co. Certified Public Accountants in Hong Kong
	Year ended 30 June, 1999	W.H. Tse & Company Certified Public Accountants in Hong Kong
Nanjing Argos Tours	Period from 13 February, 1999 (date of establishment) to 31 December, 2000	Nanjing Gongzheng Certified Public Accountants Co., Ltd. Certified Public Accountants in the PRC
Nanjing Argos	Year ended 31 December, 1998	Nanjing Gongzheng Certified Public Accountants Certified Public Accountants in the PRC
	Year ended 31 December, 1999 and 31 December, 2000	Nanjing Gongzheng Certified Public Accountants Co., Ltd. Certified Public Accountants in the PRC

For the purpose of this report, we have undertaken an independent audit of the financial statements of the Company's subsidiaries established in Hong Kong and the PRC for the Relevant Periods in accordance with Hong Kong Auditing Standards.

We have examined the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group for the Relevant Periods or since their respective dates of incorporation or registration to 31 December, 2000, where this is a shorter period. Our examination was

made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for the Relevant Periods and of the combined net tangible assets of the Group as at 31 December, 2000 (the “Summaries”) set out in this report have been prepared from the audited financial statements or, where appropriate, management accounts (the “Underlying Financial Statements”) of the companies now comprising the Group, on the basis set out in section 1 below.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an opinion on the financial information and to report our opinion to you.

In our opinion, on the basis of presentation set out in section 1 below, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results of the Group for the Relevant Periods and of the combined net tangible assets of the Group as at 31 December, 2000.

1. BASIS OF PREPARATION

The summary of the combined results of the Group for the Relevant Periods has been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or registration to 31 December, 2000, where this is a shorter period. The summary of the combined net tangible assets of the Group as at 31 December, 2000 has been prepared to present the assets and liabilities of the companies now comprising the Group as at that date.

All significant intra-group transactions and balances have been eliminated on combination.

The financial information has been prepared on a going concern basis as the amount due to Argos Bus Services Company Limited (“Argos Hong Kong”), the Company’s immediate holding company prior to the Reorganisation and a fellow subsidiary subsequent to the Reorganisation, of HK\$5,000,000 was capitalised subsequent to 31 December, 2000 and Argos Hong Kong has confirmed that it will not demand repayment of the remaining balance of HK\$2,216,000 due to it within two years from the date of listing of the Company’s shares on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Sino Market Enterprises Limited (“Sino Market”), the Company’s immediate holding company subsequent to the Reorganisation, has confirmed that it will continue to provide financial support to the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies which have been adopted by the Group in arriving at the financial information set out in this report and which conform with accounting principles generally accepted in Hong Kong are as follows.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its

present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	5%
Furniture, fixtures and office equipment	20%
Motor vehicles	10%

Investment in securities

All of the Group's investments in securities are investment securities. Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost, as reduced by any impairment loss that is other than temporary.

Consumables

Consumables, which represent spare parts for repairs of motor vehicles, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the consumables to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated recoverable value in the ordinary course of business less the estimated costs necessary to make the sale.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Turnover

Turnover represents revenue generated from the operation of franchised and non-franchised bus services by the Group to outside customers.

Revenue recognition

Revenue from bus operations is recognised when the related bus services are rendered.

Advertising income on fleet body, including revenue invoiced in advance, is recognised over the terms of the relevant agreements.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rates applicable.

Rental income from equipment rented out under operating leases are recognised on a straight-line basis over the terms of the relevant leases.

Subsidies from local authorities are recognised upon receipt.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefit costs

The amount of contributions payable to the defined contribution retirement benefit scheme of the subsidiaries are charged to the income statement.

Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On combination, the assets and liabilities of the Group's overseas operations are translated at exchange rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with through the exchange reserve.

3. RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods prepared on the basis set out in section 1 above.

	<i>Notes</i>	Year ended 31 December,		
		1998 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover		14,644	33,894	41,977
Cost of bus services rendered		<u>(9,492)</u>	<u>(20,003)</u>	<u>(30,026)</u>
Gross profit		5,152	13,891	11,951
Other revenue	(a)	901	6,230	8,970
Administrative expenses		<u>(2,856)</u>	<u>(7,361)</u>	<u>(7,851)</u>
Profit from operations		3,197	12,760	13,070
Interest income		55	226	729
Finance costs	(b)	<u>(898)</u>	<u>(1,114)</u>	<u>(2,002)</u>
Profit before taxation	(c)	2,354	11,872	11,797
Taxation	(d)	<u>(879)</u>	<u>(2,969)</u>	<u>(2,995)</u>
Profit before minority interests		1,475	8,903	8,802
Minority interests		<u>(1,089)</u>	<u>(4,184)</u>	<u>(4,521)</u>
Profit for the year		<u>386</u>	<u>4,719</u>	<u>4,281</u>
Dividends	(f)	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share	(g)	<u>0.26 cent</u>	<u>3.15 cents</u>	<u>2.85 cents</u>

Notes:

(a) **Other revenue**

	Year ended 31 December,		
	1998 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
The amounts comprise:			
Subsidy from local authority	–	4,395	6,039
Advertising income on fleet body	538	1,033	1,712
Rental income from equipment	43	72	42
Sundries	320	730	1,177
	<u>901</u>	<u>6,230</u>	<u>8,970</u>

Subsidy from local authority represents cash incentive received from local authority in Nanjing, which is calculated based on the full amount of sales tax and the full amount of income tax paid by Nanjing Argos in its first year of profitable operation and the full amount of sales tax and half of the income tax paid by Nanjing Argos for each of the following two years. No further subsidy will be entitled by Nanjing Argos for the period after 31 December, 2001.

(b) Finance costs

	Year ended 31 December,		
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The amounts comprise:			
Interest on bank borrowings			
– wholly repayable within five years	–	(66)	(351)
– wholly repayable over five years	–	(336)	(1,651)
Interest on other borrowings			
– wholly repayable within five years	(898)	(712)	–
	<u>(898)</u>	<u>(712)</u>	<u>–</u>
	<u>(898)</u>	<u>(1,114)</u>	<u>(2,002)</u>

(c) Profit before taxation

	Year ended 31 December,		
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:			
Auditors' remuneration	12	13	13
Depreciation	1,168	2,685	3,914
Operating lease rentals in respect of			
– rented premises	75	–	44
– rented equipment	112	–	–
Staff costs (<i>note e</i>)	6,427	12,473	16,037
	<u>6,427</u>	<u>12,473</u>	<u>16,037</u>

(d) Taxation

	Year ended 31 December,		
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The amounts comprise:			
PRC income tax			
– provided for the year	(2,544)	(3,763)	(4,780)
– deferred taxation credit	1,665	794	1,785
	<u>(879)</u>	<u>(2,969)</u>	<u>(2,995)</u>

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the Relevant Periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Deferred taxation credit represents the reversal of the effect of timing differences arising from the recognition of advertising income on fleet body in the year of receipt for the PRC income tax purpose whilst such advertising income is to be recognised in the income statement of the Group over the period of the agreements.

(e) Staff costs

	Year ended 31 December,		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
The amounts comprise:			
Directors' remuneration	–	–	513
Retirement benefit scheme contributions	500	764	1,074
Other staff costs	5,927	11,709	14,450
	<u>6,427</u>	<u>12,473</u>	<u>16,037</u>

Directors' remuneration:

One director received emoluments of approximately HK\$513,000 for the year ended 31 December, 2000.

During the Relevant Periods, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

Employees' emoluments:

The five individuals with the highest emoluments in the Group for the year ended 31 December, 2000 included a director of the Company. The emoluments of the remaining individuals, are all below HK\$1,000,000 and are analysed as follows:

	Year ended 31 December,		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
Salaries and other benefits	107	135	164
Bonuses	4	4	4
Performance related incentive payments	–	–	–
Retirement benefit scheme contributions	11	11	10
	<u>122</u>	<u>150</u>	<u>178</u>

Retirement benefit scheme:

The Group did not operate any retirement benefit scheme for its directors and employees in Hong Kong. However pursuant to the PRC Government regulations, the Group is required to contribute to a central pension scheme in respect of certain of the Group's employees in the PRC based on 16% to 30% of the salaries of those employees and there is no forfeited contributions under the central pension scheme.

(f) Dividends

No dividends have been paid or declared by the Company since its date of incorporation. The dividends paid or declared by the Company's subsidiary to their then shareholders during the Relevant Periods were as follows:

	Year ended 31 December,		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
Nanjing Argos	4,380	7,866	–
Less: Eliminated of intra-group dividend	(2,628)	(4,720)	–
Dividend paid to minority shareholders	<u>(1,752)</u>	<u>(3,146)</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>

(g) Earnings per share

Earnings per share information is calculated based on the profit for the Relevant Periods and 150,000,000 shares in issue.

(h) Related party transactions

During the Relevant Periods, the Group had the following significant transactions with related parties:

Nature of transaction	Notes	Year ended 31 December,		
		1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
With Nanjing Public Transport Company, 40% shareholder of the Company's subsidiary, Nanjing Argos				
Purchase of motor vehicles from	(i)	6,738	–	–
Rentals paid in respect of parking space	(ii)	187	–	–
Salaries paid	(iii)	593	1,367	1,583
Share of fare receipts	(iv)	4,026	11,807	16,892
Management fees paid	(v)	47	–	–
Rentals paid in respect of office premises to Argos Hong Kong	(vi)	–	–	44
Interest paid to Argos Hong Kong	(vii)	898	712	–
Interest income received from				
– Kenworth Enterprises Limited (“Kenworth”)	(viii)	–	33	34
– Wong Man Kon	(ix)	–	61	65
– Wong Man Hing	(ix)	–	29	65

Notes:

- (i) The purchase prices of the motor vehicles were mutually agreed between the parties and in accordance with the sales agreement.
- (ii) Rental expenses were determined in accordance with the terms contained in the joint venture agreement entered into between Argos China and Nanjing Public Transport Company.
- (iii) Nanjing Argos agreed to bear some of the surplus staff cost of Nanjing Public Transport Company. The salaries paid were determined in accordance with the terms contained in the agreement referred to in note (ii) above.
- (iv) Fare receipts were calculated based on the mileages run by Nanjing Argos for each month in proportion to the total mileages run by the other bus companies in Nanjing, the PRC. Nanjing Public Transport Company acted as a collecting agent and reimbursed the fare to Nanjing Argos on a monthly basis.
- (v) Management fees were charged on actual allocation cost basis.
- (vi) Rental expenses were determined in accordance with the tenancy agreement entered into between Argos Hong Kong and Argos China.
- (vii) Interest is charged at prime rate plus 0.75% per annum on the outstanding balance.
- (viii) Kenworth is a shareholder of the immediate holding company of the Company. Messrs. Wong Man Kon and Wong Man Hing are shareholders of Kenworth. Interest is calculated at prime rate plus 2% per annum on the outstanding balance. The advance was settled in July 2000.
- (ix) Interest income was charged at prime rate plus 2% per annum on the outstanding balance. The advances were settled in July 2000.

The directors of the Company have represented that all of the above transactions were carried out in the ordinary course of business of the Group and in accordance with the relevant agreements governing these transactions.

The directors of the Company have confirmed that, except for the salaries paid to and the, share of fare received from Nanjing Public Transport Company, and the rental paid to Argos Hong Kong, these related party transactions will not continue after the Company's shares are listed on GEM of the Stock Exchange.

Certain bank borrowings have been secured partly by personal guarantees executed by certain directors of the Company and the pledge of a property held by Always Earn Investment Limited ("Always Earn"), a company in which Mr. Wong Man Chiu, Ronnie, a director of the Company, has a beneficial interest. An amount of HK\$120,000 was paid to Always Earn during the year ended 31 December, 2000 for the use of the property.

4. NET TANGIBLE ASSETS

The following is a summary of the combined net tangible assets of the Group as at 31 December, 2000 prepared on the basis set out in section 1 above.

	<i>Notes</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	<i>(a)</i>	42,593
Deferred taxation asset	<i>(b)</i>	4,244
Investment securities	<i>(c)</i>	701
		<u>47,538</u>
CURRENT ASSETS		
Consumables		490
Trade receivables		781
Other receivables		3,740
Amount due from a related company	<i>(d)</i>	209
Amount due from Nanjing Public Transport Company	<i>(e)</i>	1,401
Bank deposits	<i>(f) & (g)</i>	12,963
Bank balances and cash	<i>(g)</i>	3,225
		<u>22,809</u>
CURRENT LIABILITIES		
Trade payables		1,396
Other payables and accruals		11,085
Advertising income on fleet body receipt in advance		1,664
Amount due to Argos Hong Kong	<i>(h)</i>	7,216
Taxation payable		8,272
Bank borrowings – due within one year	<i>(i)</i>	9,929
		<u>39,562</u>
NET CURRENT LIABILITIES		<u>(16,753)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>30,785</u>
NON-CURRENT LIABILITIES		
Bank borrowings – due after one year	<i>(i)</i>	12,750
Advertising income on fleet body receipt in advance		3,686
		<u>16,436</u>
MINORITY INTERESTS		<u>4,840</u>
NET TANGIBLE ASSETS		<u>9,509</u>

Notes:

(a) **Property, plant and equipment**

	Cost <i>HK\$'000</i>	Accumulated depreciation <i>HK\$'000</i>	Net book value <i>HK\$'000</i>
Leasehold improvements	1,389	299	1,090
Furniture, fixtures and office equipment	1,290	428	862
Motor vehicles	47,684	7,043	40,641
	<u>50,363</u>	<u>7,770</u>	<u>42,593</u>

(b) **Deferred taxation asset**

Deferred taxation asset represents principally the tax effect of timing differences attributable to the recognition of advertising income on fleet body in the year of receipt for the PRC income tax purposes whilst such income is to be recognised in the income statement of the Group over the period of the agreements.

At 31 December, 2000, the Group did not have any significant unprovided deferred taxation balances.

(c) **Investment securities**

The amount is measured at cost and represents the Group's 3% equity interests in two unlisted companies established in the PRC, which are engaged in the business of development of bus stops and issue of IC card, respectively.

(d) **Amount due from a related company**

It represents the amount due from 東莞沙田游艇俱樂部有限公司 of which Mr. Wong Man Chiu, Ronnie, is also a director. The amount is unsecured, bears interest at prime rate plus 2% per annum and is repayable on demand.

	Balance at 1 January, 2000 <i>HK\$'000</i>	Balance at 31 December, 2000 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>
Amount due from 東莞沙田游艇俱樂部有限公司	<u>—</u>	<u>209</u>	<u>209</u>

(e) **Amount due from Nanjing Public Transport Company**

The amount is unsecured, non-interest bearing and repayable on demand.

(f) **Bank deposits**

The deposits have been pledged by the Group for banking facilities granted by the banks.

(g) **Bank deposits, balances and cash**

At 31 December, 2000, the bank deposits, balances and cash of the Group denominated in RMB amounted to approximately HK\$16,188,000. RMB is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

(h) **Amount due to Argos Hong Kong**

The amount is unsecured and non-interest bearing. Subsequent to 31 December, 2000, the amount due to Argos Hong Kong of HK\$5,000,000 was capitalised and Argos Hong Kong confirmed that it will not demand repayment of the remaining balance of approximately HK\$2,216,000 due to it within two years from the date of listing of the Company's shares on the GEM of the Stock Exchange.

(i) Bank borrowings

HK\$'000

The terms of repayment of the bank borrowings are analysed as follows:

Within one year	9,929
One to two years	3,000
Two to five years	9,750
	22,679
<i>Less: Amounts due within one year included in current liabilities</i>	<i>(9,929)</i>
Amounts due after one year	12,750

At 31 December, 2000, the bank borrowings were secured by bank deposits amounting to approximately HK\$13 million, personal guarantees executed by certain directors of the Company and the pledge of a property held by Always Earn. The bank has agreed, subject to certain conditions, to release the personal guarantees executed by certain directors and the pledge of a property held by Always Earn following the listing of the Company's shares on the GEM of the Stock Exchange.

(j) Reserves

Movements in the general reserve of subsidiaries established in the PRC for the Relevant Periods are as follows:

	Year ended 31 December,		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
At the beginning of the year	–	377	835
Transfer from the profit for the year	377	458	1,097
At the end of the year	377	835	1,932

In accordance with the relevant PRC regulations, subsidiaries of the Company established in the PRC are required to transfer a certain percentage of their profit after taxation, if any, to the general reserve which comprise of the statutory reserve and the enterprise expansion fund. The percentage of the transfer is determined by the board of directors of the subsidiaries for the Relevant Periods.

The above reserve is non-distributable and calculated based on the PRC statutory financial statements of these subsidiaries.

(k) Operating lease commitments

At 31 December, 2000, the Group had annual commitments under non-cancellable operating leases in respect of rented premises which expire:

	HK\$'000
In the second to fifth year inclusive	48
Over five years	150
	198

(l) Commitments

HK\$'000

Authorised but not contracted for	
Acquisition of plant and equipment	2,325
Commitment for contributions to a subsidiary	5,607
	7,932

(m) Net tangible assets of the Company

The Company was incorporated on 13 October, 2000 and did not carry on any business until 30 July, 2001 when pursuant to the Reorganisation, it acquired the entire issued share capital of Argos China and became the holding company of the Group. Had the Reorganisation and capitalisation of an amount of HK\$5,000,000 due to Argos Hong Kong as mentioned in note (h) above been completed on 31 December, 2000 and on the basis set out in section 1 above, the net tangible assets of the Company at that date would have been approximately HK\$14,509,000, representing the Company's investment in subsidiaries.

5. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable by the Company or any of its subsidiaries to the directors of the Company in respect of the Relevant Periods.

6. SUBSEQUENT EVENTS

The following events occurred subsequent to 31 December, 2000:

- (a) The Group underwent a group reorganisation to rationalise the Group's structure in preparation for a listing of the Company's securities on the GEM of the Stock Exchange, details of which are set out in the paragraph headed "Corporate reorganisation" of Appendix IV of the prospectus; and
- (b) At an extraordinary general meeting of the Company held on 30 July, 2001, resolutions were passed to give effect to the transactions which are set out in the paragraph headed "Written resolutions of all the shareholders of the Company passed on 30 July, 2001" of Appendix IV of the prospectus.

7. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December, 2000.

Yours faithfully,
DELOITTE TOUCHE TOHMATSU
Certified Public Accountants

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this prospectus, received from DTZ Debenham Tie Leung Limited, an independent valuer, in connection with their valuation as at 30 June, 2001 of the property interest of the Group.



Formerly C Y Leung & Company
原梁振英測量師行

31 July, 2001

The Directors
Argos Enterprise (Holdings) Limited
Room 1113, 11th Floor,
Block A2,
Yau Tong Industrial City,
17 Ko Fai Road,
Yau Tong,
Kowloon

Dear Sirs,

In accordance with your instructions to us to value the property interest held by Argos Enterprise (Holdings) Limited and/or its subsidiaries (hereinafter together referred to as the “Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of such property interest as at 30 June, 2001 (the “date of valuation”).

Our valuation of the property interest represents its open market value which we would define as intended to mean “the best price at which the sale of an interest in property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuation has been made on the assumption that the Group sells the property interest on the open market without the benefit of deferred term contracts, leasebacks, management agreements or any similar arrangements which would serve to affect the value of such property interest.

The property interest which is occupied by the Group in the PRC is considered to have no commercial value due to the prohibitions against assignment of the property interest or otherwise due to the lack of substantial profit rents.

We have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, occupancy, tenure, identification and age of property, floor and site areas, floor plans and all other relevant matters.

We have been provided by the Group with cooperative agreements relating to the property interest. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information so supplied.

We have inspected the exterior and, wherever possible, the interior of the property. No structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

Unless otherwise stated, all sums stated in our valuation are in Hong Kong dollars. The exchange rate adopted in our valuation is approximately HK\$1=RMB1.07 which was approximately the prevailing exchange rates as at the date of valuation.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest or any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

We enclose herewith our valuation certificate.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K.F. Chan
Registered Professional Surveyor (GP)
A.H.K.I.S., M.R.I.C.S.
Director

Note: Mr. Andrew K. F. Chan is a chartered surveyor who has extensive experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property interest	Description and tenancy particulars	Capital value in existing state as at 30 June, 2001
A bus depot situated at Longpan Road, and various bus stations and bus stops in Nanjing, Jiangsu Province PRC	<p>The bus depot of the property comprises portion of a two-storey building and a vehicle parking lot completed in 1998.</p> <p>The portion of the building and structures occupied by the Group has a total area of approximately 1,480 sq.m. (15,930.72 sq.ft.) and the vehicle parking lot has a site area of approximately 6,331.50 sq.m. (68,152 sq.ft.) and is currently occupied by the Group as a bus depot.</p> <p>Apart from the said bus depot, the Group is also occupying various bus stations and bus stops situated in Nanjing for the operation of public bus services. The Group is entitled to use these depot, stations and stops either under a cooperative contract or leases entered into with independent third parties. (Please refer to notes below)</p>	No commercial value

Notes:

- (1) Pursuant to Contract for Nanjing Public Transport Argos Bus Co., Ltd. (the “Nanjing Argos”) dated 19 September, 1997 and its Amendment Agreement dated 28 March, 1998, both entered into between Nanjing Public Transport General Corporation (the “Nanjing Public Transport Company”) and Argos Bus Services (China) Ltd. (the “Argos China”), both parties have agreed to establish a cooperative company, the salient conditions as stipulated in the contract are, among others, summarized as follows:
- (i) Cooperative company : Nanjing Argos (the “Cooperative Company”)
- (ii) Registered capital : US\$3,800,000
Argos China shall inject US\$3,800,000 as the registered capital. Nanjing Public Transport Company shall inject the operation rights of 6 bus routes and the use rights of a bus depot at Longpan Road with an area of 300 sq.m. and a parking lot of 4,400 sq.m. and the use rights of other related bus stations and bus stops into Nanjing Argos in accordance with the actual operation situation. (Please refer to note (2) below.)
- (iii) Operation Period : 19 years from the date of issue of Business Licence
- (iv) Nanjing Argos shall be responsible for the repairing of the said bus depot and bus stations within the operation period of Nanjing Argos. Nanjing Argos shall also pay a compensation fee of RMB160,000 per annum to Nanjing Public Transport Company for the occupation of such.
- (2) Pursuant to an Agreement dated 28 March, 1998 entered into between Nanjing Public Transport Company and Argos China (“Agreement”), the details of various bus stations currently provided by Nanjing Public Transport Company to Nanjing Argos for the operation for public bus services are summarized as below:

Name of Station	Gross Floor Area (sq.m.)	Parking Lot (sq.m.)
Shoujin Village Station	1,480.00	5,550.00
Qingliangshan Park Station	102.70	1,055.00
Station for Route No. 17 at Railway Station	30	30
Gulou Station	191.90	843.00
Station for Route No. 2 at Yuhuatai	269.80	2,810.20
Station for Route No. 20 at Mingxiaoling	64.14	660.00
Station for Route No. 23 at Honghua Village	40.00	600
Station for Route No. 2 at Longway Bus East Station	52.24	450

According to the Agreement, Argos China is entitled to the use rights of portion of the bus depot at Longpan Road with an area of 150 sq.m. and a parking lot of 2,200 sq.m. only.

According to the information provided by the Group, Nanjing Argos is also using various bus stops in Nanjing provided by Nanjing Public Transport Company for the operation of public bus routes.

- (3) Pursuant to the Certificate for Use of State-owned Land No. (2001) 07514 issued by Nanjing Land Administration Bureau in May 2001, Nanjing Public Transport Company has been granted with the land use rights of a land with site area of 6,331.50 sq.m. and situated at No. 68 Huanghu Village of Longpan Road, Shoujin Village Jiedao, Xuanwu District of Nanjing. The land use rights is in the form of administrative appropriation with an unspecified term.

As advised by the Group, the Shoujin Village Station (gross floor area of approximately 1,480.00 sq.m. and parking lot of approximately 5,550.00 sq.m.) and the bus deport at Longpan Road (gross floor area of approximately 150.00 sq.m. and parking lot of approximately 2,200.00 sq.m.) as mentioned in note (2), are located on the land with site area of 6,331.50 sq.m. as stated above and representing the same bus deport with a total area of approximately 1,480.00 sq.m. and site area of approximately 6,331.50 sq.m.

- (4) As advised by the Group, apart from the Certificate for Use of State-owned Land No. (2001) 07514 mentioned-above, Nanjing Public Transport Company also obtained the Certificate for Use of State-owned Land for the Qingliangshan Park Station and Station for Route No. 2 at Yuhuatai as stated in note (2).

- (5) Pursuant to six Agreements or Tenancy Agreements entered into between Nanjing Argos and other independent third parties, Nanjing Argos is occupying several bus stations or parking lot provided by other independent third parties on terms summarised below:

Location of station/parking lot	Term	Rental (RMB)
Huayuan Road, Yingtuo	1 January, 2001 – 31 December, 2001	1,000 per month
Huayuan Road, Yingtuo and East Station	1 January, 2001 – 31 December, 2001	60,000 per year
Nanjing Harbour Keyuan Square	12 July, 2001 – 11 July, 2002	5,000 per year
Nanjing Harbour	Unspecified term	6 per vehicle per day
Zhongshanling Commercial Street	18 January, 2000 – 17 January, 2010	20,000 per year
Zhongshanling, Linggushi and Baima Park	In the term of operation of bus route of Baima Park to Linggushi by the Nanjing Argos	225,000 per year

The respective landlords of the leased properties are entitled to lease the respective leased properties and enter into the respective lease agreements and Nanjing Argos is entitled to occupy and use the leased properties under such lease agreements provided that the respective landlords have obtained the respective title certificates of the leased properties and Nanjing Argos is not in default of any of such lease agreements. No title certificate in relation to such lease agreements has been provided to us. The respective lease agreements are not effective if the respective landlords do not obtain the respective title certificates.

- (6) Pursuant to Business Licence No. 004336 dated 10 April, 2000, Nanjing Argos is established with a registered capital of US\$3,800,000 with an operation period of 19 years from 24 September, 1997 to 23 September, 2016.

This Appendix contains a summary of the articles of association of the Company (the “Articles”). The principal objective is to provide potential investors with an overview of the Articles. As the information contained below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed “Documents delivered and available for inspection” in Appendix V to this prospectus, a copy of the Articles is available for inspection.

The existing articles of association of the Company were adopted on 30 July, 2001. The following is a summary of certain provisions of the articles of association (the “Articles”) of the Company:

ALTERATION OF CAPITAL

The Company may from time to time by ordinary resolution increase the share capital by such sum to be divided into shares of such amount as the resolution shall prescribe.

The Company may by ordinary resolution (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; (b) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken, by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and (c) sub-divide its shares or any of them into shares of a smaller amount than is fixed by the memorandum of association, and the resolution may determine that, as between the holders of the shares resulting from the sub-division, any of the shares may have any preference or advantage over or to be subject to any restrictions as compared with the others, subject nevertheless to the provisions of the Companies Ordinance and every other ordinance in force concerning companies and affecting the Company.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised by the Companies Ordinance and every other ordinance in force concerning companies and affecting the Company.

PURCHASES OF OWN SHARES

So far as it is permitted by the Companies Ordinance or every other ordinance in force concerning companies and affecting the Company and is made in accordance with any relevant rules codes or regulations issued by the Stock Exchange or the Securities and Futures Commission from time to time, the Company is authorised by its Articles to purchase or otherwise acquire its own shares and other securities affecting its shares, including any redeemable shares and any warrants, options or other securities which carry a right to subscribe for, purchase, convert into or exchange for, shares or other securities of the Company. Such powers are exercisable by the Directors upon such terms and conditions as they may think fit.

MODIFICATION OF RIGHTS

If any time the share capital of the Company is divided into different classes of shares, the special rights attached to any class of shares, subject to the provisions of the Companies Ordinance and every other ordinance in force concerning companies and affecting the Company, may be varied with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of

that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To any such separate general meeting, all the provisions of the Articles as to general meetings of the Company shall mutatis mutandis apply, but so that the necessary quorum shall be two persons at least holding or representing by proxy or by representative not less than one third in nominal value of the issued shares of that class and that every holder of shares of that class present in person or by proxy or by representative shall be entitled on a poll to one vote for every share of that class held by him and that any holder of shares of the class present in person or by proxy or by representative may demand a poll and that at any adjourned meeting of the holders, any two holders present in person, by proxy or by representative (whatever the number of shares held by him) shall be a quorum. The special rights conferred upon the holders of any shares or class of shares shall not be deemed to be varied (unless otherwise expressly provided in the rights attaching to or by the terms of issue of the shares of that class) by the creation or issue of further shares ranking pari passu therewith.

VOTES OF MEMBERS

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, on a show of hands every member who being an individual is present in person or by representative or, being a corporation, is present by its corporate representative in accordance with the Companies Ordinance and every other ordinance in force concerning companies and affecting the Company at a general meeting of the Company, shall have one vote and on a poll every member who is present in person or by proxy or by duly authorised representative shall have one vote for every fully paid share held by him and in respect of every partly paid share of which he is the holder, the fraction of one vote equal to the proportion which the nominal amount paid or credited as paid thereon bears to the nominal value of the share (but so that no amount paid or credited as paid up on a share in advance of calls or instalments shall be treated for the purposes of the Articles as paid on the share). No member shall (unless the Directors may determine or the terms of issue of the relevant shares provide otherwise) be entitled to vote at any general meeting or any meetings of any class of members either in person or by proxy or by representative or to exercise any other right conferred by membership in relation to meetings or of the holders of any class of shares if any call or other sum payable by him to the Company in respect of shares held by him remains unpaid. On a poll a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

Where a member of the Company is a recognised clearing house within the meaning of the Securities and Futures (Clearing Houses) Ordinance (Cap. 420 of the Laws of Hong Kong) or its nominees, may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any general meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorization or proxy form must specify the number and class of shares in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same powers on behalf of the clearing house (or its nominees) which he represents as that clearing house (or its nominee) could exercise if it were a registered holder of the shares of the Company.

BORROWING POWERS

The Directors may exercise all the powers of the Company to raise or borrow or secure the payment of any sum or sums of money, to guarantee, and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and subject to the Companies Ordinance and any other ordinance in force concerning companies and affecting the Company, to create and issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. These powers, in common with other provisions in the Articles, may be altered by a special resolution of the Company.

QUALIFICATION OF DIRECTORS

A Director is not required to hold any qualification shares. Subject to the Companies Ordinance, no Director shall be required to vacate office or ineligible for re-election or reappointment as a Director and no person shall be ineligible for appointment as a Director by reason only of his having attained any particular age.

DIRECTORS' REMUNERATION AND OTHER MATTERS

The Directors shall be entitled to receive by way of remuneration for their services such sum as is from time to time be determined by the members at a general meeting of the Company or by the Directors on the authority of the Company.

The Directors may from time to time appoint one or more Directors to hold any employment or executive office with the Company (including that of a managing director) for such period and upon such terms as the Directors think fit and may revoke or terminate any of such appointments.

Any Director who performs any special or extra services which in the opinion of the Board are outside the ordinary duties of a director to or at the request of the Company may be paid special remuneration. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, any may be made by way of salary or commission or participation in profits or otherwise as may be arranged.

Notwithstanding the above, the remuneration of a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Board and may be by way of salary, commission, participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his remuneration as a Director.

An executive Director shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Directors may from time to time determine and in addition to his remuneration as a Director.

The Directors shall also be entitled to be repaid his reasonable travelling, hotel and other expenses properly incurred by them respectively in or with a view to the performance of their duties as Directors, including the expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred while engaged in the business of the Company or for the discharge of their duties as directors.

DIRECTORS' INTERESTS

A Director may hold any other office or place of profit with the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms as the Directors may determine and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other provision of the Articles. The Director may also exercise the voting power conferred by the shares in any other company held or owned by the Company or exercisable by him as a Director of such other company in such manner in all respects as he thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Ordinance and other ordinances concerning companies and affecting the Company and the provisions of the Articles, a Director or a proposed or intending Director may be or become a director or other officer of, or otherwise interested in any company promoted by the Company or any other Company in which he may be interested as a vendor, purchaser, shareholder or otherwise in any way and no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place or profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any such Director is in any way interested be liable to be avoided, nor shall any Director who is interested be liable to account to the Company or the members for any remuneration, profit or other benefit realised by the contract by reason of such Director holding that office or of the fiduciary relationship thereby established, provided that such Director shall declare the nature of his interest in any such contract or arrangement in which he is interested in accordance with the provisions of the Articles and the Companies Ordinance and every other ordinances concerning companies and affecting the Company.

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract with the Company shall declare the nature of his interest at the meeting of the Directors at which the question of entering into the contract is first taken into consideration, if he knows that he is or has become so interested. For this purpose, a general notice to the Directors given by a Director to the effect that (a) he is a member of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm, or (b) he is to be regarded as interested in any contract which may after the date of the notice be made with a specified person who is connected with him, shall be deemed to be a sufficient declaration of interest in relation to any such contract or arrangement; provided that no such notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next meeting of the Directors after it is given.

Save as otherwise provided by the Articles, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Directors in respect of any contract in which he is to his knowledge materially interested, but this prohibition shall not apply to any of the following matters provided he has declared his interest in the manner as aforesaid and as required by and subject to the provisions of the Articles, the Companies Ordinance and every other ordinances concerning companies and affecting the Company:

- (i) any arrangement for the giving to him of any indemnity or security in respect of money lent or obligations undertaken by him at request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any arrangement for the giving by the Company to a third party of any indemnity or security in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) where the Company or any of its subsidiaries or any other companies which the Company may promote is offering securities in which offer the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer and any matters in connection with such offer;
- (iv) any contract in which the Director is interested in the same manner as other holders of shares, debentures or other securities of the Company or any of its subsidiaries;
- (v) any contract concerning any other company (not being a company in which such Director, together with any of his associates, own five per cent. or more of the issued shares or voting rights of any class of shares of such company, other than shares which carry no voting rights at general meetings and with no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through the Company) in which he is interested directly or indirectly, whether as an officer, an executive or a shareholder;
- (vi) any contract concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director personally as such any privilege or advantage not accorded to the class of persons to which the fund or scheme relates; and
- (vii) any contract concerning the adoption, modification or operation of any share incentive or share option scheme for the benefit of employees of the Company or its subsidiaries under which the Director may benefit.

Any Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director, provided that a Director or his firm shall not act as auditors of the Company.

DIVIDENDS

The Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board.

Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid on the shares in respect whereof the dividend is paid but no amount paid on a share in advance of calls shall be treated for this purpose as paid up on the share. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as if paid up (in whole or in part) as from a particular date such share shall rank for dividend accordingly. The Directors may deduct from any dividend or other moneys payable to a member by the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise in relation to the Shares of the Company.

The Directors may pay such interim dividends as appear to the Board to be justified by the profits of the Company available for distribution. The Directors may also pay any dividend payable at a fixed rate at half-yearly or other suitable intervals to be settled by the Directors, whatever the profits of the Company, in the opinion of the Directors, justifies its payment.

Whenever the Board or the Company in general meeting have resolved that a dividend be paid or declared, the Board may further resolve that (a) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto shall be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) the members entitled to such dividend be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

Any general meeting declaring a dividend may, upon the recommendation of the Board, by ordinary resolution, direct that it shall be satisfied wholly or partly by the distribution of specific assets of any kind.

All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect of it. Any dividend unclaimed after a period of six years from the date when the same became payable may be forfeited by the Directors and shall revert to the Company.

TRANSFER OF SHARES

All transfers of shares may be effected by instrument of transfer in the usual or common form as prescribed by the Stock Exchange or in such other form as the Directors may accept and approve. Such transfer may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), under hand or by machine-imprinted signature or by such other manner of execution as the Directors may approve from time to time.

The instrument of transfer of any share shall be executed by or on behalf of the transferor and the transferee. The transferor shall for all purposes hereof be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect of it. Nothing in the Articles shall preclude the Board from recognising a renunciation of any allotment or provisional allotment of any share by the allottee in favour of some other person.

The Directors may in their absolute discretion and without assigning any reason, decline to register any transfer of any share which is not a fully paid.

The Directors may also decline to register any transfer unless:

- (i) the instrument of transfer, duly stamped, is accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (ii) such fee as the maximum amount as shall from time to time be approved by the Stock Exchange or such reasonable sum as the Directors may from time to time determine is paid to the Company in respect of it;
- (iii) the instrument of transfer is in respect of only one class of share;
- (iv) the shares concerned are free from any lien in favour of the Company; and
- (v) such other conditions as the Directors may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied.

No transfer may be made to an infant or to a person of unsound mind or under other legal disability.

If the Directors decline to register a transfer of any share, they shall, within two months after the date on which the instrument of transfer was lodged with the Company send to each of the transferor and the transferee notice of the refusal.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated in Hong Kong under the Companies Ordinance on 13 October, 2000 with limited liability.

As at the date of incorporation of the Company, its authorised share capital was HK\$1,000,000 divided into 100,000,000 Shares, two of which were allotted and issued to Sino Market and Mr. Wong Man Chiu, Ronnie, credited as fully paid. The Company's registered office is situated at Flat 1113, Block A2, Yau Tong Industrial City, 17 Ko Fai Road, Yau Tong, Kowloon, Hong Kong.

As the Company was incorporated in Hong Kong, it is subject to the Companies Ordinance and to its constitution which comprises a memorandum and articles of association. A summary of certain relevant parts of its articles of association is set out in Appendix III to this prospectus.

2. Changes in share capital of the Company

- (a) The authorised share capital of the Company as at the date of its incorporation was HK\$1,000,000 divided into 100,000,000 Shares, two of which were allotted and issued, credited as fully paid to Sino Market and Mr. Wong Man Chiu, Ronnie, who holds the said share on trust for Sino Market, on 13 October, 2000.
- (b) On 23 October, 2000, 999,998 Shares were allotted and issued to Sino Market, credited as fully paid.
- (c) Pursuant to resolutions of the shareholders of the Company passed on 30 July, 2001,
 - (i) the authorised share capital of the Company was increased from HK\$1,000,000 to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional of 9,900,000,000 Shares; and
 - (ii) in consideration of the acquisition by the Company of the entire issued share capital of Argos China, the Directors were authorised to allot and issue 99,000,000 Shares, credited as fully paid, to Sino Market as directed by Argos Hong Kong;
 - (iii) in consideration of the setting-off of an indebtedness of HK\$5,000,000 owing from the Company to Argos Hong Kong, the Directors were authorised to allot and issue 50,000,000 Shares (at an agreed price per Share of HK\$0.10 each), credited as fully paid, to Sino Market as directed by Argos Hong Kong.
- (d) Immediately following completion of the Placing and the Capitalization Issue but not taking into account of any Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme, the authorised share capital of the Company was increased from HK\$1,000,000 to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,900,000,000 Shares and the issued share capital will be HK\$1,800,000 divided into 180,000,000 Shares (each of which will be fully paid or credited

as fully paid) and 9,820,000,000 Shares will remain unissued. Other than the Shares issuable pursuant to the exercise of any options which may fall to be granted under the Share Option Scheme, the Directors have no present intention to issue any part of the authorised but issued capital of the Company, and without the prior approval of the members of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as the aforementioned, there has been no alteration in the share capital of the Company since its incorporation.

3. Written resolutions of all the shareholders of the Company passed on 30 July, 2001

Pursuant to written resolutions of all the shareholders of the Company passed on 30 July, 2001:

- (a) the Company approved and adopted its existing articles of association;
- (b) conditional on the same conditions as set out in the paragraph headed “Conditions of the Placing” in the section headed “Structure of the Placing” of this prospectus,
 - (i) the Placing was approved and the Directors were authorised to allot and issue the Placing Shares pursuant thereto; and
 - (ii) conditional on the GEM Listing Committee granting approval of the Share Option Scheme and the granting of options thereunder and the listing of, and permission to deal in, any Shares which may fall to be issued pursuant to the exercise of any such options, the rules of the Share Option Scheme be approved and adopted and the Directors be authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto; and
 - (iii) conditional on Argos Hong Kong entering into an agreement to sell its entire issued share capital of Argos China, the Directors are authorised to allot and issue, credited as fully paid at par 99,000,000 Shares to Sino Market as directed by Argos Hong Kong. And, conditional on the setting-off of an indebtedness owed by the Company to Argos Hong Kong, the Directors are authorised to allot and issue (credit as fully paid at an agreed price of HK\$0.10 per Share) 50,000,000 Shares to Sino Market as directed by Argos Hong Kong marking a total of 149,000,000 Shares in aggregate.
- (c) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue or pursuant to the exercise of the options under the Share Option Scheme, or any allotment of Shares in lieu of the whole or part of the dividend on Shares in accordance with the articles of association of the Company or other similar arrangements in accordance with its articles of association or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into shares of the Company in issue prior to the date of the relevant resolution or pursuant to the exercise of options granted under the Share Option Scheme or under the Placing, on behalf of the Company, Shares with an aggregate nominal value not exceeding (i) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein and (ii) the aggregate nominal amount of the share capital repurchased under the authority granted to the Directors referred to in paragraph (d) below, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held, or the revocation or variation by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest; and

- (d) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares on the GEM, or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the SFC and the Stock Exchange with an aggregate nominal value not exceeding 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held, or the revocation or variation of such mandate by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest.

4. Corporate reorganisation

The companies in the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of Shares on the GEM under which on 30 July, 2001 the Company acquired the entire issued share capital of Argos China from Argos Hong Kong and the setting-off of an indebtedness owed by the Company to Argos Hong Kong, the Company was allotted and, through issued an aggregate of 149,000,000 Shares, credited as fully paid, to Sino Market as directed by Argos Hong Kong in consideration thereof.

5. Changes in share capital of subsidiaries

The subsidiaries of the Company are listed in the accountants' report set out in Appendix I to this prospectus.

Save as set out in the paragraph headed "Changes in share capital of subsidiaries" and "Corporate reorganisation" in this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Particulars of investment in the PRC

The Group has established certain investment in the PRC, the summaries of their respective information and particulars are as follows:

(a) *Nanjing Argos*

Nature	: Sino-foreign cooperative joint venture
Total investment	: US\$5,400,000
Registered capital	: US\$3,800,000 (fully paid up)
Name of Group members which is the shareholder of the enterprise	: Argos China
Percentage of share of profit and loss allocation of the relevant group member	: 60 per cent.
Directors	: Messrs. Wong Man Chiu, Ronnie, Yeung Wai Hung, Lee Kin Chi, Song Guo Qiang and Wang Xing Fu
Term of the enterprise	: 19 years from 24th September, 1997
Nature of business	: Provision of public and tourist transport services

(b) Chongqing Wanzhou Argos

Nature	: Sino-foreign equity joint venture
Total investment	: RMB10,000,000
Registered capital	: RMB10,000,000 (<i>see Note</i>)
Name of Group members which is the shareholder of the enterprise	: Argos China
Percentage of share of profit and loss allocation of the relevant group member	: 60 per cent.
Directors	: Messrs. Wong Man Chiu, Ronnie, Yeung Wai Hung, Wu Fong Xing, Zhang Dao Lin, Sun Yong Min, Wu Chen Hoi, He Ze
Term of the enterprise	: 30 years from 21st December, 2000
Nature of business	: Provision of public and tourist transport services

Note: On 21st January, 2001, RMB2,975,327.10 has been paid by Argos China as its share of capital contribution and the balance thereof would be paid by 20th September, 2001 according to the joint venture contract dated 22nd September, 2000 or such later date as approved by the relevant PRC government authority. As at 7th March, 2001, RMB1,000,870.82 has been paid by Chongqing Wanzhou Public Transport Company as its share of capital contribution and RMB2,999,129.18 has been paid by Chongqing Wanzhou Public Transport Company in the form of asset injection. As at the Latest Practicable Date, the Group has met all the capital commitment required.

(c) Nanjing Argos Tours

Nature	: Joint stock limited company in the PRC
Total investment	: Not applicable
Registered capital	: RMB500,000 (fully paid up)
Name of Group members which is the shareholder of the enterprise	: Nanjing Argos
Percentage of equity owned by the relevant group member	: 95 per cent.
Executive director	: Mr. Zhang Dao Lin
Term of the enterprise	: 19 years from 13th February, 1999
Nature of business	: Provision of tour services

(d) 南京公用事業IC卡有限公司 (*Nanjing Public Utilities IC Card Company Limited*) (*See Note*)

Nature	: Joint stock limited company in the PRC
Total investment	: Not applicable
Registered capital	: RMB15,000,000 (fully paid up)
Name of Group members which is the shareholder of the enterprise	: Nanjing Argos
Percentage of equity owned by the relevant group member	: 3 per cent.
Directors	: Messrs. Zhu Zi Qiang, Wang Quang Fan, Yu Jian Pieg, Song Quo Qiang, Guo Shi Ping, Chen Jun, Wang Min Chao and Ye Xing Ming
Term of the enterprise	: 20 years from 8th September, 1999
Nature of business	: Development and operation of Nanjing IC card system

(e) 南京公用場站建設發展有限責任公司 (*Nanjing Public Facilities Development Company Limited*) (*See Note*)

Nature	: Joint stock limited company in the PRC
Total investment	: Not applicable
Registered capital	: RMB10,000,000 (fully paid up)
Name of Group members which is the shareholder of the enterprise	: Nanjing Argos
Percentage of equity owned by the relevant group member	: 3 per cent.
Directors	: Messrs. Zhu Zi Qiang, Song Guo Qiang, Din Wei Dong, Zhao Wen and Zhang Dao Lin
Term of the enterprise	: 20 years from 20th March, 2000
Nature of business	: Development of bus stops

Note: The English description of the nature of these companies appearing in this paragraph is only an English translation of its description in Chinese.

7. Repurchase by the Company of its own securities

This paragraph includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities on GEM by a company with a primary listing on GEM must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction. On 30 July, 2001, shareholders' written resolutions were passed whereby a general unconditional mandate was given to the Directors authorising the repurchase by the Company of Shares on GEM, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange of up to 10 per cent. of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned herein at any time until the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance or any applicable laws of Hong Kong or the articles of association of the Company to be held or until such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest ("Buyback Mandate").

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the memorandum and articles of association of the Company, the Companies Ordinance and any other applicable laws of Hong Kong. Any repurchase will be made out of funds of the Company legally permitted to be utilised in this connection, including profits available for distribution and sums standing to the share premium account of the Company, the proceeds of a fresh issue of shares made for the purpose of the repurchase or out of capital, if the Company can, immediately following such payment, pay its debts, as they fall due in the ordinary course of business.

(iii) Trading restrictions

The Shares proposed to be repurchased by a company must be fully-paid up. A maximum of 10 per cent. of the existing issued share capital of the Company at the date of the passing of the ordinary resolution approving the Buyback Mandate may be repurchased on GEM or any other stock exchange recognised by the Securities and Futures Commission and the Stock Exchange. A listed company may not purchase its own securities on the Stock Exchange for a

consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. A company may not issue or announce an issue of new shares for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. The GEM Listing Rules also prohibit a company from repurchasing its securities on GEM if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange at the time of listing under Rules 11.23 of the GEM Listing Rules. A company shall procure that the broker appointed by it to effect the repurchase of securities shall disclose to the Stock Exchange such information with respect to the repurchase made on behalf of the Company as the Stock Exchange may require.

(iv) Status of repurchased shares

The GEM Listing Rules provide that the listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled upon repurchase and the relative certificates for those securities must be cancelled and destroyed. Under Hong Kong law, all repurchased Shares will remain part of the authorised but unissued share capital of the Company.

(v) Suspension of repurchase

The GEM Listing Rules prohibit any repurchase of securities at any time after a price sensitive development has occurred or has been the subject of a decision until the price sensitive information has been publicly announced. In particular, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's half-yearly report or a quarterly report, a company is prohibited from making any repurchase of securities on GEM, unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to prohibit a company from making any repurchase of securities on GEM if a company has breached the GEM Listing Rules.

(vi) Reporting requirements

Repurchase of securities on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, the Company's annual report is required to disclose details regarding securities repurchases made during the year, including a monthly analysis of the number of securities repurchased (whether on GEM or otherwise), the purchase price per share or the highest and lowest price paid for such purchases and the aggregate price paid. The directors' report shall contain reference to the purchases made during the year and the directors' reasons for making such purchases.

(vii) Connected parties

The GEM Listing Rules prohibit a company from knowingly repurchasing securities on GEM from a “connected person”, which includes a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective associates (as defined in the GEM Listing Rules) and a connected person is prohibited from knowingly selling his shares to the company on GEM.

(viii) Shares to be purchased

The GEM Listing Rules and the Companies Ordinance provide that the shares which are proposed to be purchased by a company must be fully paid up.

(b) *Reasons for repurchase*

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have general authority from shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share of the Company and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) *Funding of repurchases*

- (i) In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the GEM Listing Rules, Companies Ordinance and the applicable laws of Hong Kong.
- (ii) The Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company. However, there might be a material adverse effect on the working capital requirements of the Company or the gearing level (as compared with the position disclosed in the accountants’ report, the text of which is set out in Appendix I to this prospectus) in the event the Buyback Mandate is exercised in full.

(d) *Exercise of the Buyback Mandate*

Exercise in full of the Buyback Mandate, on the basis of 180,000,000 Shares in issue immediately after the listing of the Shares on GEM, could result in up to 18,000,000 Shares being repurchased by the Company during the period from the passing of such resolution up to:

- (i) the conclusion of the next annual general meeting of the Company; or

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or
- (iii) the revocation or variation of the Buyback Mandate by an ordinary resolution of the shareholders in general meeting of the Company,

whichever is the earliest.

(e) *General*

- (i) None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the GEM Listing Rules), has any present intention if the Buyback Mandate is exercised to sell any Shares to the Company or any of its subsidiaries.
- (ii) The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules and the applicable laws and regulations of Hong Kong.
- (iii) If as a result of a repurchase of Shares pursuant to the Buyback Mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers ("Takeover Code") issued by the Securities and Futures Commission. As a result, a shareholder, or group of shareholders acting in concert, depending on the level of increase of the shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences that would arise under the Takeovers Code as a result of a repurchase of securities made immediately after the listing of the Shares.
- (iv) No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

8. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an agreement in Chinese dated 26 August, 1999 entered into between Nanjing Argos, (*See Note*) Nanjing Media and (*See Note*) Nanjing Sanhe whereby Nanjing Argos agreed, inter alia, (i) to grant the rights of using the exterior and interior of the fleet of operating vehicles

to Nanjing Media as advertising media for a term of 10 years from 1st September, 1999 (the “advertising rights”) at the consideration of RMB9,800,000 and (ii) that Nanjing Media would transfer the advertising rights to Nanjing Sanhe on an exclusive basis;


Note: The English name of this company appearing in this paragraph is only an English translation of its Chinese official name.

- (b) an agreement in Chinese dated 28 September, 1999 entered into between Nanjing Argos and Nanjing Media, pursuant to which it was agreed that, inter alia, (i) Nanjing Media would pay to Nanjing Argos a sum of RMB2,000,000 for the acquisition of 7 buses (the “newly acquired buses”) and (ii) Nanjing Argos would grant the rights of using the exterior and interior of the newly acquired buses to Nanjing Media as advertising media for a term of 10 years from the date when the newly acquired buses commenced operation;
- (c) an agreement in Chinese dated 26 July, 2000 entered into between Nanjing Argos, Nanjing Media and Nanjing Sanhe whereby Nanjing Argos agreed, inter alia, (i) to grant the rights of using the exterior and interior of the fleet of operating vehicles to Nanjing Media as advertising media for a term of 10 years from 1 August, 2000 (the “advertising rights”) at the consideration of RMB2,100,000 and (ii) that Nanjing Media would transfer the advertising rights to Nanjing Sanhe on an exclusive basis;
- (d) service agreements dated 30 July, 2001 entered into between the Company and each of the executive Directors as referred to in the paragraph headed “Particulars of service agreements” in this Appendix;
- (e) a sale and purchase agreement dated 30 July, 2001 entered into between (i) Argos Hong Kong as vendor, the covenantors as mentioned therein, and (ii) the Company as purchaser relating to the sale and purchase of the entire issued share capital of Argos China by Argos Hong Kong to the Company, and (iii) the setting-off of an indebtedness owed by the Company to Argos Hong Kong the allotment and issue of an aggregate 149,000,000 Shares, credited as fully paid, to Sino Market as consideration;
- (f) a deed of indemnity dated 30 July, 2001 given by the Initial Management Shareholders in favour of the Company and its subsidiaries being the deed of indemnity containing indemnities in respect of, *inter alia*, Hong Kong estate duty and tax indemnity referred to in the paragraph headed “Estate duty and tax indemnity” in this Appendix;
- (g) A deed of indemnity dated 30 July, 2001 given by the Initial Management Shareholders in favour of the Company and its subsidiaries in respect of any liabilities that may arise (up to the Listing Date) from the deficiency of Nanjing Public Transport Company or their lack of proof of ownership in respect of any of the termini assigned for the Company’s use for the purpose of its businesses operations in Nanjing Argos and any liabilities that may arise from the deficiency of the landlords’ titles in respect of any of the leases entered into by the Company for the purpose of its businesses operations in Nanjing Argos.
- (h) an underwriting agreement dated 30 July, 2001 between (i) the Company, (ii) the Directors named therein, (iii) the Initial Management Shareholders, (iv) the Underwriters and (v) 30 July, 2001 being the underwriting agreement referred to in the section headed “Underwriting arrangements and expenses” in this appendix. The Underwriters will receive a commission of 2.8 per cent. of the Placing Price of all Placing Shares (out of which each underwriter will pay its own sub-underwriting commissions and selling concessions).

- (i) a deed of non-competition dated 30 July, 2001 executed by Argos Hong Kong in favour of the Company and its subsidiaries referred to in the subsection headed “Non-competition undertakings” in the section headed “Business” in this prospectus;
- (j) a deed of non-competition dated 30 July, 2001 executive by Mr. Wong Wah Sang in favour of the Company and its subsidiaries referred to in the subsection headed “Non-competition undertakings” in the section headed “Business” in this prospectus;
- (k) a deed of non-competition dated 30 July, 2001 executed by Mr. Wong Man Chiu, Ronnie in favour of the Company and its subsidiaries referred to in the subsection headed “Non-competition undertakings” in the section headed “Business” in this prospectus;
- (l) a deed of non-competition dated 30 July, 2001 executed by Mr. Wong, Wilson in favour of the Company and its subsidiaries referred to in the subsection headed “Non-competition undertakings” in the section headed “Business” in this prospectus; and
- (m) a deed of non-competition dated 30 July, 2001 executed by Mr. Yeung Wai Hung in favour of the Company and its subsidiaries referred to in the subsection headed “Non-competition undertakings” in the section headed “Business” in this prospectus.

9. Intellectual property

The Group has registered the following trade mark(s) in the PRC:

Trademark	Registration no.	Class
	1279877	39 (note)

Note: This class covers traveller transport, tourist transport, sightseeing, car transport, rental car transport, public transport, urban transport, car rental, car parking and arranging of tours (not including hotel reservation).

Applications for registration of the following trade mark in Hong Kong has been filed by the Group. This trade mark is not registered by Argos Hong Kong or other fellow subsidiaries.

Trademark	Date of Application	Application no.	Class
	6 December 2000	20026466	39

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material in relation to the Group’s business.

C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF**10. Disclosure of interests**

- (a) Save as disclosed herein and in the section headed “Summary of material contracts” in this Appendix, none of the Directors or the experts named in the paragraph headed “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of the Company or in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this prospectus.
- (b) Save as disclosed in the paragraph headed “Summary of material contracts” in this Appendix, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group.

11. Particulars of service agreements

Each of Messrs. Wong, Wilson, Wong Wah Sang, Wong Man Chiu, Ronnie and Yeung Wai Hung has entered into a service contract with the Company for a term of three years commencing on 30 July, 2001 with monthly remuneration at the rate of HK\$nil, HK\$nil, HK\$nil and HK\$15,400 respectively. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the Directors, be increased by not more than 15 per cent. and they will each be entitled to a discretionary bonus provided that the audited combined/consolidated profit after tax and minority interests (and after the payment of such bonus) but before extraordinary items (the “Profit”) of the Group for the relevant year exceeds HK\$50-HK\$80 million but provided that the total amount of bonuses payable to all the Directors for such year shall not exceed 10 per cent. of the Profit. Each of Messrs. Wong, Wilson, Wong Wah Sang, Wong Man Chiu, Ronnie and Yeung Wai Hung will also be entitled to be reimbursed of reasonable out-of-pocket expenses incurred by them in the proper discharge of their duties and in respect of medical expenses. Such out-of-pocket expenses amounted to HK\$43,789, HK\$57,893 and HK\$170,579 for the three years ended 31 December, 1998, 1999 and 2000.

12. Directors’ remuneration

Remuneration and benefits in kind of approximately HK\$513,000 in aggregate were paid and granted by the Group to the Directors (in which HK\$513,000 were paid to Mr. Yeung Wai Hung and HK\$nil were paid to other Directors) in respect of the financial year ended 31 December, 2000. Under the current arrangements, the Directors will be entitled to receive remuneration before bonus which, for the year ended 31 December, 2001 is expected to be approximately HK\$184,800.

The independent non-executive Directors have no fixed term of office but under the Company’s articles of association, one third of the Directors for the time being (or if their number is not three or a multiple of three, than the result to, but not exceeding one third of the Directors) will retire from office by rotation at each annual general meeting, subject to re-election.

Save for directors' fees of HK\$50,000 each year, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

13. Interests of Directors in the share capital of the Company after the Placing

Immediately following completion of the Placing and the Capitalization Issue and taking no account of Shares which may be taken up under the Placing, the following Directors have the following interests in the equity or debt securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which will be required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, once the Shares are listed on GEM:

Director	Number of attributable number of Shares		
	Corporate interests	Personal interests	Other interests
Mr. Wong, Wilson	61,518,240 <i>(see notes 1 to 2)</i>	–	–
Mr. Yeung Wai Hung	15,379,560 <i>(see notes 1 to 2)</i>	–	–
Mr. Wong Wah Sang	9,795,027 <i>(see notes 1 to 3)</i>	–	–
Mr. Wong Man Chiu, Ronnie	4,895,310 <i>(see notes 1 to 3)</i>	–	–

Notes:

1. Sino Market is a company incorporated in Hong Kong. The issued share capital of Sino Market are beneficially owned by Sinoman International as to 61.03 per cent., Kenworth Enterprises as to 34.97 per cent., and Via Roma as to 4 per cent..
2. The issued share capital of Sinoman International is beneficially owned by Twilight Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability, as to 80 per cent., and Mr. Yeung Wai Hung as to 20 per cent.. Twilight Enterprises Limited is beneficially owned by Mr. Wong, Wilson as to 50 per cent. and Ms. Chiu Gee Chai, his wife, as to 50 per cent. and each of Mr. Wong, Wilson and Ms. Chiu Gee Chai is deemed to be interested in 30,759,120 Shares by virtue of the SDI Ordinance.
3. The issued share capital of Kenworth Enterprises is beneficially owned by Mr. Wong Wah Sang as to 22.23 per cent., Mr. Wong Man Fung, Anthony as to 11.11 per cent., Mr. Wong Man Che, Edward as to 11.11 per cent., Mr. Wong Man Ka, Stephen as to 11.11 per cent., Ms. Wong Man Hing, Alice as to 11.11 per cent., Mr. Wong Man Chiu, Ronnie as to 11.11 per cent.. Mr. Wong Man Kon, John as to 11.11 per cent. and Mr. Wong Man Kong, Peter as to 11.11 per cent.. Mr. Wong Wah Sang is the father of the other shareholders mentioned above and is also the elder brother of Mr. Wong, Wilson.

14. Substantial shareholder(s)

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalization Issue the following persons (without taking into account the Shares which may be taken up under the Placing) will be interested in 10 per cent. or more of the then issued Shares for the purposes of the SDI Ordinance:

Name	Number or attributable number of Shares held	Approximate percentage or attributable percentage of shareholding in the Company
Sino Market (<i>Note 1</i>)	126,000,000	70
Sinoman International (<i>Note 2</i>)	76,897,800	42.721
Wong, Wilson (<i>Note 2</i>)	30,759,120	17.0884
Kenworth Enterprise (<i>Note 3</i>)	44,062,200	24.479

Note: Please refer to Notes 1 to 3 in the paragraph headed "Interests of Directors in the Share capital of the Company after the Placing" in this Appendix.

15. Agency fees or commissions received

The Underwriters will receive a commission of 2.8 per cent. of the Placing Price in respect of the Placing Shares under the Placing, out of which they will pay any sub-underwriting commissions and selling concessions. Such commissions, selling concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Placing which are estimated to amount in aggregate to approximately HK\$5 million, will be payable by the Company.

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or loan capital of the Company or any of its subsidiaries.

16. Personal guarantee

Personal guarantees have been provided by the executive Directors, Mr. Wong Man Chiu, Ronnie and Mr. Yeung Wai Hung in respect of certain banking facilities and the relevant bank has agreed, in principle, to release the personal guarantees provided by Mr. Wong Man Chiu, Ronnie and Mr. Yeung Wai Hung and replace them by a corporate guarantee from the Company and/or other members of the Group upon the listing of the Share on the Stock Exchange.

17. Related party transactions

The Group has entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in the section headed “Connected Transactions” and the paragraphs headed “Corporate Reorganisation” in this Appendix and note (h) in the paragraph headed “Results” of the accountants’ report set out to Appendix I of this prospectus.

18. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors or chief executive of the Company or their associates (as defined in the GEM Listing Rules) has any interest in the shares or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (or any interest which will be taken or deemed to have been taken under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which will be required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the Shares are listed on GEM;
- (b) save as disclosed in the paragraph headed “Particulars of service contracts” above, there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;
- (c) none of the Directors or the experts named in the paragraph headed “Consents of experts” in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (e) taking no account of Shares which may be taken up under the Placing, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will immediately following completion of the Placing be interested, directly or indirectly, in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and

- (f) none of the experts named in the paragraph headed “Consents of experts” in this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

19. Share Option Scheme

(a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted pursuant to written resolutions of all the shareholders of the Company passed on 30 July, 2001:

(i) Who may join

The Directors may at their discretion grant options to full-time employees (including the executive Directors) of the Group to subscribe for Shares. Upon acceptance of an offer of the grant of the option, the grantee shall pay HK\$1.00 by way of consideration to the Company.

(ii) Price of Shares

Options may be granted without any initial payment at a subscription price (subject to adjustments as provided therein) equal to the higher of (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets on the date of grant, which must be a business day; and (iii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant.

(iii) Maximum number of Shares

The maximum number of Shares subject to the Share Option Scheme and any other schemes must not, in aggregate, exceed 30 per cent. of Shares of the Company in issue from time to time (excluding (i) any Shares issued after that date upon the exercise of any options granted pursuant to the Share Option Scheme and any other such schemes; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)). Subject to this:

- (aa) the total number of Shares available for issue under options which may be granted under the Share Option Scheme must not in aggregate exceed 10 per cent. of the issued share capital of the Company as at the date of listing of Shares on the Stock Exchange unless an approval by shareholders at general meeting has been obtained pursuant to paragraphs (bb) or (cc) below;
- (bb) the Company may seek approval by shareholders at general meeting to refresh the 10 per cent. limit. However, the total number of Shares available for issue under options which may be granted under the Share Option Scheme in these circumstances must not exceed 10 per cent. of the issued share capital of the Company as at the date of approval of the refreshing of the limit;

- (cc) the Company may seek separate shareholders' approval at general meeting to grant options beyond the 10 per cent. limit, provided that (i) the total number of Shares subject to the Share Option Scheme does not in aggregate exceed 30 per cent. of the total issued share capital of the Company and (ii) the options in excess of the 10 per cent. limit are granted only to participants specified by the Company before such application is sought;
- (dd) any grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by all independent non-executive Directors; and
- (ee) where options are proposed to be granted to a connected person who is also a substantial shareholder (as defined in the GEM Listing Rules) of the Company or any of its respective associates, and the proposed grant of options, when aggregated the options already granted to such connected person in the past 12 months period, would entitle that person to receive more than 0.1 per cent. of the total issued shares of the Company for the time being and the value of which is in excess of HK\$5 million, then the proposed grant must be subject to the approval of the shareholders at general meeting. Apart from the connected person involved, all other connected persons of the Company must abstain from voting in such general meeting (except where any connected person intends to vote against the proposed grant). A shareholder's circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant.
- (ff) the following additional disclosures will be made in the annual and interim reports of the Company:
 - (1) details of options granted to each Director and all other participants; and
 - (2) summary of the major terms of each Share Option Scheme approved by the shareholders of the Company.

Upon completion of the Placing, the total number of Shares subject to the Share Option Scheme and any other scheme will be the number of Shares, representing 30 per cent. of the issued share capital of the Company at that time.

No option may be granted to any person which if exercised in full will result in such person's maximum entitlement exceeding 25 per cent. of the aggregate Shares for the time being issued or issuable under the Share Option Scheme and any other share option scheme (if any).

(iv) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing immediately after the date on which the option is

deemed to be granted and accepted and expiring on a date to be determined and notified by the board of Directors to the grantee. Such period shall, in any event, be not less than 3 years and not later than 10 years from the date on which the Share Option Scheme option under the Share Option Scheme is deemed to be granted and accepted.

(v) Rights are personal to grantee

An option may not be transferred or assigned and is personal to the holder of the option.

(vi) Rights on dismissal

If the grantee of an option leaves the service of the Group by reason of his termination of his employment on the grounds of serious misconduct, bankruptcy, insolvency, having any arrangement or composition with his creditors or if he has been convicted of any criminal offence involving his or her integrity or honesty, his option will lapse automatically (to the extent not already exercised).

(vii) Rights on cessation of employment or death

If the grantee of an option ceases to be an employee of the Group for any reason other than death or those grounds set out in paragraph (vi) above, the grantee (or his or her legal personal representatives) may exercise the option in full (to the extent not already exercised) within a period of six months following the date of such cessation, which date shall be the last actual working day on which the grantee was at work with the Company or the relevant subsidiary on which salary is paid whether in lieu of notice or not or the date on which his contractual notice period expires, whichever is later, or such longer period as the board of Directors may determine.

In the event the grantee dies before exercising the option in full and none of the events which would be a ground for termination of his or her employment under paragraph (vi) above arises, the legal personal representative(s) of the grantee shall be entitled within a period of six months from the date of death to exercise the option in full (to the extent not already exercised) up to the entitlement of such grantee as at the date of death.

(viii) Effects of alterations to share capital

In the event of any reduction, sub-division or consolidation of the share capital of the Company or capitalisation of profits or reserves, rights issue or distribution of capital assets by the Company, the number or nominal amount of Shares comprised in each option, the option price and/or the method of exercise of the option may be adjusted in such manner as the Directors (having received a statement in writing from the auditors of the Company for the time being that in their opinion the adjustments proposed are fair and reasonable) may deem appropriate, provided always that an option holder shall have the same proportion of the equity capital of the Company as that to which he was entitled before such adjustments.

(ix) Rights on a general offer by way of takeover

In the event of a general offer by way of takeover being made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee (or his or her legal personal representatives) shall be entitled to exercise the option in full (to the extent not already exercised even though the option period has come into effect during the occurrence of the general offer) at any time within one month after the date on which the offer becomes or is declared unconditional.

(x) Rights on a general offer by way of scheme of arrangement

If a general offer by way of scheme of arrangement is made to all the holders of Shares and such offer having been approved by the necessary number of holders of Shares at the requisite meetings, the grantee (or his or her legal personal representatives) may thereafter (but before such time as shall be notified by the Company) exercise the option (to the extent not already exercised) to its full extent or to the extent specified in such notice.

(xi) Rights on winding up

If a notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, every option shall be exercisable in whole or in part at any time thereafter until the resolution is duly passed or defeated or the meeting concluded or adjourned sine die, whichever shall first occur and the Company shall forthwith give notice thereof to the grantee (together with a notice of the existence of the provisions of this paragraph) and the grantee (or his or her legal personal representatives) may by notice in writing to the Company (such notice to be received by the Company not later than four business days prior to the proposed shareholders' meeting), accompanying the remittance of the full amount of the exercise price payable on the exercise of the option exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice whereupon the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon cease and terminate.

(xii) Rights on a compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and any grantee (or his or her legal personal representatives) may by notice in writing to the Company accompanied by a remittance of the full amount of the exercise price payable on exercise of an option and in respect of which the notice is given (such notice to be

received by the Company not later than 2 business days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid and register the grantee as holder thereof.

(xiii) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the name of the grantee is registered on the register of members of the Company and accordingly will entitle the holders to participate in all dividends and other distributions paid or made after that date other than any dividends and other distributions declared or recommended or resolved to be paid or made if the record date therefor was on or before that date provided always that when the date of exercise of the option falls on a date upon which the register of members of the Company is closed then the exercise of the option shall become effective on the first business day in Hong Kong on which the register of members of the Company is re-opened.

(xiv) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years from the date of adoption of such scheme.

(xv) Alteration

Except with the prior approval of shareholders in general meeting and the approval of the Stock Exchange, no alteration shall be made to the provisions of the Share Option Scheme relating to any of the above matters to the advantage of the participants.

(b) *Present status of the Shares Option Scheme*

- (i) The Share Option Scheme is conditional on the GEM Listing Committee of the Stock Exchange granting approval of the scheme and any options which may be granted thereunder and the listing of, and permission to deal in, the Shares in issue at the date of adoption of the Share Option Scheme and the Shares which fall to be issued pursuant to the exercise of options granted under the Share Option Scheme;
- (ii) As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme; and
- (iii) Application has been made to the GEM Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of options under the Share Option Scheme and the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

D. OTHER INFORMATION**20. Estate duty and tax indemnity**

The Initial Management Shareholders have given joint and several indemnities in connection with taxation and Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the Placing becomes unconditional and other taxation which may be payable by any member of the Group on or before the date on which the Placing becomes unconditional save in certain circumstances including where provision has been made for such taxation in the audited accounts of any member of the Group for the period ended 31 December, 2000.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in Hong Kong or the PRC, being jurisdiction in which one or more of the companies comprising the Group are incorporated.

21. Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

22. Sponsor

Yu Ming has made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, and any Shares falling to be issued pursuant to the exercise of options granted under the Share Option Scheme.

23. Preliminary expenses

The estimated preliminary expenses of the Company are approximately HK\$7,500 and are payable by the Company.

24. Qualifications of experts

The following are the qualifications of the experts who have given their opinions or advice which are contained in this prospectus:

Name of expert	Qualifications
Yu Ming	a registered dealer and investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Deloitte Touche Tohmatsu	Certified public accountants
Pu Dong Law Office	qualified PRC lawyer
DTZ Debenham Tie Leung Limited	Professional surveyors and valuers

None of the experts above is interested beneficially or legally in any Shares in any member of the Group nor has any right or option (whether legally enforceable or not) to subscribe for any Shares in any members of the Group.

25. Consents of experts

Yu Ming, Deloitte Touche Tohmatsu, Pu Dong Law Office and DTZ Debenham Tie Leung Limited have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation opinions or letters (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

26. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance of Hong Kong so far as applicable.

27. Tax

(a) *Hong Kong*

Dealings in Shares will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

(b) Professional tax advice recommended

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or other parties involved in the Placing can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

28. Miscellaneous

(a) Save as disclosed in this prospectus:

- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;*
- (ii) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;*
- (iii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and*
- (iv) Save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Group since 31 December, 2000.*

(b) The Company has no founder shares, management shares or deferred shares.

(c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

29. Particulars of the Share Vendor

(a) Names, address and description of the Share Vendor

The Share Vendor of the Sale Shares is Sino Market, a company incorporated in Hong Kong on 14th November, 1991 with its registered office at Flat 1113, Block A2, Yau Tong Industrial City, 17 Ko Fai Road, Yau Tong, Kowloon, Hong Kong. 61.03 per cent., 34.97 per cent. and 4 per cent. of the issued share capital of Sino Market are respectively owned by Sinoman International (as to 6,102 ordinary shares and one non-voting deferred share), Kenworth Enterprises (as to 3,496

ordinary shares and one non-voting deferred share) and Via Roma (as to 400 ordinary shares). Sino Market owns 150,000,000 Shares of the Company of which 24,000,000 Shares are offered for sale.

(b) Particulars of Directors' beneficial interests in the Sale Shares

Messrs. Wong Wah Sang, Wong Man Chiu, Ronnie, Wong, Wilson and Yeung Wai Hung, being the executive Directors of the Company, are indirectly interested in the offer for sale of the Sale Shares under the Placing for the following reasons:

- (i) The issued share capital of Sinoman International is beneficially owned by Twilight Enterprises Limited as to 80 per cent. and Mr. Yeung Wai Hung as to 20 per cent.. Twilight Enterprises Limited is beneficially owned by Mr. Wong, Wilson, as to 50 per cent., and his wife, Ms. Chiu Gee Chai, as to 50 per cent.. Mr. Wong, Wilson is deemed to be interested in the entire issued share capital of Twilight Enterprises Limited by virtue of the SDI Ordinance.
- (ii) The issued share capital of Kenworth Enterprises is owned by Mr. Wong Wah Sang, as to 22.23 per cent. and Mr. Wong Man Chiu, Ronnie, as to 11.11 per cent..

Save as disclosed in this prospectus, none of the Directors is interested in the Placing.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration include the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV to this prospectus, a statement of adjustments made by Deloitte Touche Tohmatsu in arriving at the figures set out in their accountants’ report and giving their reasons therefor, and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV of this prospectus and a statement of the name, description and address of the of the Vendor of the Sale Shares.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Gallant Y. T. Ho & Co. at 4th Floor, Jardine House, 1 Connaught Place, Hong Kong during normal business hours up to and including 14 August, 2001:

- (a) the memorandum of association and the articles of association of the Company;
- (b) the accountants’ report of the Company prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments, if any;
- (c) such audited consolidated financial statements as have been prepared for Argos China for each of the three years ended 31 December, 2000;
- (d) the letter, summary of valuation and valuation certificate prepared by DTZ Debenham Tie Leung Limited the texts of which are set out in Appendix II to this prospectus;
- (e) the rules of the Share Option Scheme;
- (f) the Companies Ordinance;
- (g) the service contracts referred to in the paragraph headed “Particulars of service contracts” in Appendix IV to this prospectus;
- (h) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus;
- (i) the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV to this prospectus; and
- (j) the list of particulars of the Share Vendor.