



KWOON CHUNG BUS HOLDINGS LIMITED

冠忠巴士集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 306)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

The directors of Kwoon Chung Bus Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2006 together with comparative figures. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 September	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	2	947,280	841,837
Cost of services rendered		(818,313)	(726,465)
Gross profit		128,967	115,372
Other income and gains		52,988	35,630
Administrative expenses		(119,824)	(115,047)
Other operating expenses		(18,560)	(11,128)
Finance costs		(20,727)	(14,889)
Share of profits and losses of:			
Jointly-controlled entities		(4,736)	(4,243)
Associates		64	801
PROFIT BEFORE TAX	3	18,172	6,496
Tax	4	(6,651)	(1,730)
PROFIT FOR THE PERIOD		11,521	4,766
ATTRIBUTABLE TO:			
Equity holders of the parent		5,021	1,563
Minority interests		6,500	3,203
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	5		
Basic		HK1.27 cent	HK0.40 cent
Diluted		HK1.26 cent	HK0.38 cent
DIVIDEND PER SHARE	6	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	7, 11	1,540,359	1,492,932
Investment properties		–	9,030
Prepaid land lease payments		98,678	100,766
Intangible assets		27,595	28,678
Goodwill		19,239	16,378
Interests in jointly-controlled entities		102,915	105,694
Interests in associates		21,325	53,964
Available-for-sale equity investments		3,508	3,904
Deposits paid for purchases of items of property, plant and equipment		–	2,513
Pledged time deposits		1,668	1,625
		<hr/>	<hr/>
Total non-current assets		1,815,287	1,815,484
CURRENT ASSETS			
Properties held for sale		67,354	85,294
Inventories		22,413	22,205
Trade receivables	8	105,120	98,969
Prepayments, deposits and other receivables		189,967	117,632
Derivative financial instruments		–	1,790
Pledged time deposits		17,844	17,844
Cash and cash equivalents		132,629	137,227
		<hr/>	<hr/>
Total current assets		535,327	480,961
CURRENT LIABILITIES			
Trade payables	9	69,456	65,332
Tax payable		6,989	11,874
Accruals and other payables		296,870	275,351
Derivative financial instruments		1,310	2,500
Deposits received		45,991	34,306
Interest-bearing bank and other borrowings		371,244	375,826
		<hr/>	<hr/>
Total current liabilities		791,860	765,189

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
<i>Notes</i>		
NET CURRENT LIABILITIES	<u>(256,533)</u>	<u>(284,228)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,558,754</u>	<u>1,531,256</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	342,299	337,697
Due to joint venturers	63,938	63,938
Deferred tax liabilities	88,371	79,980
Total non-current liabilities	<u>494,608</u>	<u>481,615</u>
Net assets	<u>1,064,146</u>	<u>1,049,641</u>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	39,491	39,491
Reserves	778,036	769,945
	<u>817,527</u>	<u>809,436</u>
Minority interests	<u>246,619</u>	<u>240,205</u>
Total equity	<u>1,064,146</u>	<u>1,049,641</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2006, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRS”) which are effective for an annual period beginning on or after 1 January 2006:

HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rate–Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HK (IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The adoption of the pronouncements listed above has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements.

The Group has not early applied any of the new standards, amendments or interpretations, that have been issued but not yet effective, in these condensed consolidated interim financial statements.

2. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- the designated bus routes segment includes the provision of bus services by designated routes as approved by the local governments/transport authorities in Mainland China;
- the non-franchised bus segment includes the provision of non-franchised bus hire and travel related services;
- the franchised bus segment includes the provision of franchised bus services on Lantau Island in Hong Kong;
- the tour segment engages in travel agency and tour service businesses in Hong Kong and Mainland China;
- the hotel segment includes the provision of hotel services in Mainland China; and
- the corporate and others segment comprises, principally, the provision of other transportation services, together with corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue and profit/(loss) information for the Group's business segments.

	For the six months ended 30 September 2006 (Unaudited)							Consolidated HK\$'000
	Designated bus routes HK\$'000	Non- franchised bus HK\$'000	Franchised bus HK\$'000	Tour HK\$'000	Hotel HK\$'000	Corporate and other HK\$'000	Inter- segment eliminations HK\$'000	
Segment revenue:								
External sales	416,044	420,117	40,998	59,562	10,372	187	-	947,280
Intersegment sales	-	48,357	-	-	-	-	(48,357)	-
Other revenue	40,801	115,285	674	442	17	389	(107,212)	50,396
Total	<u>456,845</u>	<u>583,759</u>	<u>41,672</u>	<u>60,004</u>	<u>10,389</u>	<u>576</u>	<u>(155,569)</u>	<u>997,676</u>
Segment results	<u>25,560</u>	<u>16,671</u>	<u>(3,116)</u>	<u>529</u>	<u>1,526</u>	<u>(191)</u>	<u>-</u>	<u>40,979</u>
Bank interest income								2,592
Finance costs								(20,727)
Share of profits and losses of:								
Jointly-controlled entities	(4,736)	-	-	-	-	-	-	(4,736)
Associates	70	(6)	-	-	-	-	-	64
Profit before tax								18,172
Tax								(6,651)
Profit for the period								<u>11,521</u>

For the six months ended 30 September 2005 (Unaudited)

	Designated bus routes HK\$'000	Non- franchised bus HK\$'000	Franchised bus HK\$'000	Tour HK\$'000	Hotel HK\$'000	Corporate and other HK\$'000	Inter- segment eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:								
External sales	382,624	359,216	40,532	48,628	10,515	322	-	841,837
Intersegment sales	-	30,426	-	-	-	-	(30,426)	-
Other revenue	24,296	101,752	761	462	348	273	(95,632)	32,260
Total	406,920	491,394	41,293	49,090	10,863	595	(126,058)	874,097
Segment results	2,599	19,964	(3,398)	741	2,146	(595)	-	21,457
Bank interest income								3,370
Finance costs								(14,889)
Share of profits and losses of:								
Jointly-controlled entities	(4,243)	-	-	-	-	-	-	(4,243)
Associates	-	801	-	-	-	-	-	801
Profit before tax								6,496
Tax								(1,730)
Profit for the period								<u>4,766</u>

(b) *Geographical segments*

The following tables present revenue information for the Group's geographical segments.

**For the six months ended
30 September 2006 (Unaudited)**

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Revenue	<u>469,204</u>	<u>478,076</u>	<u>947,280</u>

**For the six months ended
30 September 2005 (Unaudited)**

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Revenue	<u>407,220</u>	<u>434,617</u>	<u>841,837</u>

3. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 September 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation	94,609	91,539
Amortisation	1,253	2,174
Gain on disposal of an associate	(970)	-
Loss on disposal of a subsidiary	1,784	-

4. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for profits tax:		
Elsewhere outside Hong Kong	2,040	1,663
Deferred	4,611	67
	<hr/>	<hr/>
Tax charge for the period	6,651	1,730
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No provision for income tax is required in respect of associates and jointly-controlled entities because no assessable profits were earned by the associates and jointly-controlled entities during the period (2005: Nil).

5. Earnings per share

The calculation of basic earnings per share is based on the unaudited consolidated net profit for the period attributable to equity holders of the parent of HK\$5,021,000 (2005: HK\$1,563,000) and on the weighted average of 394,906,000 (2005: 394,906,000) ordinary shares in issue during the period.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings:		
Net profit for the period attributable to equity holders of the parent, for the purpose of basic and diluted earnings per share calculation	5,021	1,563
	<hr/> <hr/>	<hr/> <hr/>
	Number of shares	
	For the six months ended	
	30 September	
	2006	2005
	(Unaudited)	(Unaudited)
Shares:		
Weighted average number of ordinary shares in issue during the period for the purpose of basic earnings per share calculation	394,906,000	394,906,000
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of share options outstanding during the period	4,921,322	12,354,397
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Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	399,827,322	407,260,397
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6. Dividend

At a meeting of the board of directors held on 20 December 2006, the directors resolved not to pay an interim dividend to shareholders (2005: Nil).

7. Property, plant and equipment

During the period, the Group acquired property, plant and equipment at cost amounting to HK\$147,715,000 (2005: HK\$216,450,000) and disposed of property, plant and equipment with net book value amounting to HK\$5,679,000 (2005: HK\$6,119,000).

8. Trade receivables

The Group allows an average credit period ranging from 30 to 60 days to its trade debtors. An aged analysis of the Group's trade receivables is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Current to 30 days	73,249	63,057
31 to 60 days	12,727	21,636
61 to 90 days	8,238	6,273
Over 90 days	10,906	8,003
	<u>105,120</u>	<u>98,969</u>

9. Trade payables

An aged analysis of the Group's trade payables is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Current to 30 days	35,399	52,930
31 to 60 days	12,371	5,420
61 to 90 days	7,581	884
Over 90 days	14,105	6,098
	<u>69,456</u>	<u>65,332</u>

10. Contingent liabilities

The Company has given guarantees amounting to HK\$769,212,000 (31 March 2006: HK\$760,700,000) in favour of the Group's bankers for banking facilities granted to its subsidiaries and a jointly-controlled entity.

11. Pledge of assets

At 30 September 2006, the Group's bank loans are secured by (i) certain property, plant and equipment and prepaid land lease payments with an aggregate net book value of HK\$291,828,000 (31 March 2006: HK\$174,868,000), an investment property with a net carrying value of HK\$9,030,000 (31 March 2006: HK\$8,030,000) and time deposits of HK\$19,512,000 (31 March 2006: HK\$19,469,000); (ii) all of the issued shares of New Lantao Bus Company (1973) Limited and Trans-Island Limousine Service Limited, subsidiaries of the Company, held by the Group; and (iii) fixed and floating charges over all the assets and undertakings of the Group in Hong Kong to the extent of HK\$490,000,000 (31 March 2006: HK\$540,000,000) under debentures given by the Company.

12. Post balance sheet event

On 12 December 2006, the Group entered into share transfer agreements (the “Transfer Agreements”) with an independent third party to dispose of its entire 90% equity interest in Shanghai Pudong Kwoon Chung Public Transport Co., Ltd. (“PDKC”) (excluding a 6% equity interest in Shanghai Wuqi Kwoon Chung Public Transport Co., Ltd. held by PDKC), for a consideration of RMB124,100,000 (equivalent to approximately HK\$124,100,000). This transaction is scheduled to be completed in the first half of 2007 and is expected to result in a gain on disposal before tax of approximately HK\$16,000,000. Details of the Transfer Agreements, including the terms and conditions, were set out in the Company’s announcement dated 13 December 2006.

REVIEW OF OPERATIONS

The unaudited consolidated profit for the period attributable to equity holders of the parent for the six months ended 30 September 2006 was approximately HK\$5.0 million. This was an increase of approximately 221% from that for the prior period of approximately HK\$1.6 million.

The improvement was mainly due to the receipts of more subsidies from the local governments for some Mainland China EJV’s and the net gain on disposal of a piece of land in Xiangfan city, Mainland China.

The profit margin of the Group during the period, however, had yet been adversely affected by the high fuel costs, salary increments (particularly for China EJV’s in Mainland China), and higher bank borrowing interest rates.

1. Non-franchised Bus Services in Hong Kong

The principal non-franchised bus services provided by the Group included student, employee, resident, hotel, tour, Mainland China/Hong Kong cross-border and contract hire services. The Group continued, in terms of size of the bus fleet, to be the largest non-franchised bus operator in Hong Kong and as at 30 September 2006 was operating a fleet of 854 (2005: 808) buses.

The total turnover of this sector for the six months ended 30 September 2006 was approximately HK\$420 million (2005: HK\$359 million), representing an increase of approximately 17% from that of prior period. The growth in turnover was due to higher income derived from cross-border passenger transport service. The Group also took over the resident service routes of Kingswood Villas in Tin Shui Wai, New Territories.

During the period, the Group had successfully persuaded most clients to accept a mild increase of bus fare, ranging from 3 to 10%, owing to rising operating costs, especially fuel costs. This had helped to raise the gross income of the Group.

The Group also aimed at cost saving by a fuller utilization of its fleet, staff and other resources.

2. Franchised Bus Services

New Lantao Bus Company (1973) Limited (“NLB”)

As at 30 September 2006, this 99.99% owned subsidiary was operating 24 (2005: 23) franchised bus routes, mainly in Lantau Island, with a fleet of 86 (2005 : 86) buses. For the period, the total turnover was approximately HK\$41.0 million (2005: HK\$40.5 million), and the share of loss attributable to the Company was approximately HK\$4.0 million (2005: HK\$4.0 million).

Skyrail, the cable car service between Tung Chung and Ngong Ping, commenced operation since 18 September 2006. As the cable car route is directly parallel to NLB’s Route 23 (Tung Chung - Ngong Ping), the patronage and the receipts of this route were adversely affected. To solve the problem, NLB introduced new products, including Tai O Pass and Lantau Pass, providing travel options to the visitors other than riding the cable car for both up and down trips. NLB also held discussions with Skyrail management about the provision of contingency service and employee

service to the latter and the related charges. There had been salary cuts for directors and certain management staff since September 2006 as a gesture to support the Group during difficult time. NLB also began talks with Transport Department and other related authorities to see what could be done, including route rationalization and bus fare increase.

3. Other Operations in Hong Kong

The Group continued to operate a number of airport service counters at the Passenger Terminal Building of the Hong Kong International Airport, catering for inbound visitors to Hong Kong and those visitors on transit by bus or limousine to Mainland China. The Group was operating three travel companies/units, namely, Lantau Tours Limited, TIL Travel (operated by Trans-Island Limousine Service Limited) and Vigors Tour Limited in Hong Kong.

4. Designated Bus Routes Services in Mainland China

(a) Cooperative Joint Ventures (“CJVs”) in Mainland China

Through its CJVs, the Group was operating the following number of routes and buses in the following cities of Mainland China:

	Number of Routes		Number of Buses	
	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
Guangzhou	8	8	168	177
Shantou	6	6	63	66
Dalian	4	4	180	180
Harbin	1	1	60	60
Anshan	–	3	–	94
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>19</u>	<u>22</u>	<u>471</u>	<u>577</u>

The share of losses of these jointly controlled entities for the period amounted to approximately HK\$4.7 million, representing an increase of approximately 12% as compared with that of approximately HK\$4.2 million in the corresponding period.

During the period, upon mutual agreement with the relevant JV partner, the JV contract of Anshan Kwoon Chung had been terminated on 31 May 2006 before expiry. The local Foreign Economic Relation and Trade Commission had approved such early termination on 25 September 2006.

(b) Equity Joint Ventures (“EJVs”) and subsidiaries in Mainland China

i. Shanghai Pudong Kwoon Chung Public Transport Co., Ltd.

As at 30 September 2006, this 90% (2005: 90%) owned subsidiary was operating 33 (2005: 31) routes with a fleet of 752 (2005: 801) buses and a fleet of 25 (2005: 25) taxis in Shanghai, mainly in Pudong area. The share of profit attributable to the Company for the period was approximately HK\$294,000 (2005: loss of HK\$5.2 million). The turnaround was mainly due to receipts of more subsidies from local government with the effort of management. Meanwhile, the bus fares remained unchanged.

ii. Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd.

As at 30 September 2006, this 52.4% (2005: 52.4%) owned subsidiary was operating 38 (2005: 37) routes with a fleet of 959 (2005: 975) buses and a fleet of 81 (2005: 81) taxis, mainly in Puxi area of Shanghai. The share of profit attributable to the Company for the period was approximately HK\$26,000 (2005: loss of HK\$ 2.3 million). The turnaround was also due to receipts of more subsidies from local government.

- iii. Jieyang Guanyun Transportation Co., Ltd.
As at 30 September 2006, this 60.63% (2005: 60.63%) owned subsidiary was operating 7 (2005: 5) routes with a fleet of 29 (2005: 28) buses. The share of loss attributable to the Company for the period was approximately HK\$217,000 (2005: HK\$541,000). Loss had been slightly reduced under effective cost control.
- iv. Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd.
As at 30 September 2006, this 30.25% (2005: 30.25%) owned subsidiary, was operating 76 (2005: 74) routes with a fleet of 898 (2005: 866) buses in Chongqing, mainly in the southern area. The share of profit attributable to the Company for the period was approximately HK\$907,000 (2005: HK\$484,000). The increase in profit was mainly due to increased fleet size.
- v. Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd.
As at 30 September 2006, this 42.15% (2005: 42.15%) owned subsidiary, was operating 20 (2005: 20) routes with a fleet of 525 (2005: 468) buses in Chongqing, mainly in the northern area. The share of profit attributable to the Company for the period was approximately HK\$2.0 million (2005: HK\$1.7 million). There had been an increase in profit owing to continuing enlargement of fleet size.
- vi. King Chau Keung Tat Transportation Co., Ltd.
In early April 2006, the Group had disposed of its equity interest in this subsidiary, resulting in a loss on disposal of approximately HK\$1.8 million attributable to the Company.
- vii. GFTZ Xing Hua Group
As at 30 September 2006, Top China International Investment Holdings Limited, a 75% (2005: 75%) owned subsidiary of the Group was holding 70% (2005: 70%) equity interest in each of GFTZ Xing Hua International Transport Limited, GFTZ Xing Hua Tourism Bus Company Limited, and GFTZ Guang Bao Transport Company Limited (“GFTZ Xing Hua Group”).
- As at 30 September 2006, GFTZ Xing Hua Group was operating 9 (2005: 9) routes with a fleet of 140 (2005: 138) buses, providing inter-city transport in Guangdong Province and inner-city transport within Guangzhou Municipal. The share of profit attributable to the Company for the period was approximately HK\$86,000 (2005: loss of approximately HK\$82,000). The slight improvement in results was due to tighter cost control posed by management.
- viii. Hubei Shenzhou Transport Holdings Co., Ltd.
As at 30 September 2006, this 100% (2005: 100%) owned subsidiary was operating a transport terminal and designated bus route service comprising 96 (2005: 142) routes with a fleet of 274 (2005: 256) chartered buses. The profit attributable to the Company for the period was approximately HK\$6.7 million (2005: HK\$1.7 million). The increase in profit was mainly due to the gain on disposal of a piece of land in Xiangfan city. This subsidiary had disposed of an associate, namely Guangzhou City Panguang Public Bus Co., Ltd. on 24 May 2006, for a consideration of approximately RMB36.4 million (equivalent to approximately HK\$35.0 million).
- ix. Guangzhou New Era Express Bus Co., Ltd.
As at 30 September 2006, this 56% owned subsidiary was operating a fleet of 19 (2005: 18) buses for 5 (2005: 5) routes in Guangdong Province. The share of profit attributable to the Company for the period was approximately HK\$1.8 million (2005: HK\$1.5 million). The increase in profit was due to increased patronage.

5. Tour, Hotel and Power Services in Mainland China

Chongqing Tourism (Group) Co., Ltd.

This 60% (2005: 60%) owned subsidiary together with its four group companies with same shareholding structure (“Chongqing Tourism Group”) operated a hotel, a travel agency company, a tour bus company and a hydro-electric power plant. The aggregate share of profit attributable to the Company for the period was approximately HK\$190,000 (2005: profit of HK\$265,000). The decrease in profit was mainly due to the historical record high temperature in Chongqing city this summer and hence the decrease in number of local and overseas patronage and tourists.

On 7 June 2006, Chongqing Tourism Group had disposed of its hydropower plant for a consideration of RMB4.5 million (equivalent to approximately HK\$4.3 million). The transaction was completed on 30 June 2006, resulting in a gain on disposal of approximately HK\$50,000. The reason for disposal was that the hydropower plant was due for major overhaul and the further investment might need millions of dollars. As this was not the Group’s core business, decision for disposal had been approved by the board of directors.

LIQUIDITY AND FINANCIAL RESOURCES

Funding for the Group’s operations during the period mainly came from internally generated cash flows. Any shortfall was financed by bank loans and leases. The total indebtedness outstanding as at 30 September 2006 was approximately HK\$714 million (31 March 2006: HK\$714 million), of which HK\$371 million (31 March 2006: HK\$376 million) was repayable/renewable within one year. The indebtedness comprised mainly bank loans and leases and was deployed mainly for purchases of buses and investments in Hong Kong and Mainland China. The leverage was approximately 67.1% (31 March 2006: 68.0%).

FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy towards its overall business operations with an aim to minimise financial risks. All future projects will be financed by cash flows from operations or banking facilities or any viable forms of financing in Hong Kong and/or Mainland China.

Substantially, the income and expenditure of the Group for its Hong Kong operations are denominated in Hong Kong Dollars (“HK\$”). For its investments in Mainland China, the major sources of income are in Renminbi (“RMB”). Regardless of the relative stableness of RMB against HK\$, the Group has been cautiously observing the trend and will formulate plans in hedging the risks of currency exchange rate fluctuations as and when it is necessary, such as raising funds in RMB from the local capital market or local banking sector if feasible. The Group is also cautious about the risk of interest rate fluctuations as the current bank loans of the Group carry floating interest rates. Appropriate measures in minimizing such risks will be duly executed by the Group as and when it is necessary.

HUMAN RESOURCES

The Group recruits, employs, promotes and remunerates its employees based on their qualification, experience, skills, performances and contributions. Remuneration is also fixed at market rates. In-house orientation and training programmes are arranged for the staff both in Hong Kong and Mainland China. Staff are also encouraged to attend seminars and courses of job-related nature that are organized by professional or educational institutions.

FUTURE PROSPECTS

The Group is still facing a very tough operating environment.

1. Although the international fuel price has been falling substantially from its record high, its retail price still remains at a relatively high level. The Group will continue with its fuel-saving measures and negotiate with the local governments in various cities of Mainland China for the relevant fuel subsidies.
2. There are bigger pressures for salary increases both in Mainland China and in Hong Kong. The Group will continue to rationalize its organizational structure, avoid duplication of work, link up pay with performance and improve the productivity of its employees to justify for salary increases.
3. With a weaker HK Dollar that is pegged with US Dollar, the import prices of parts and accessories of the Group's fleet in Hong Kong, mostly from Japan and Europe, have also greatly increased. The Group will explore hedging and other useful means to minimize the impact.
4. The competition from rail traffic, especially those parallel to some bus routes of the Group, also forms a great threat to the Group's patronage as well as receipts.
5. The higher interest rates for bank loans also increase the financial burden of the Group.

To overcome the foresaid obstacles, the Group has implemented the following measures:

1. The Group will consolidate its bus operations in Mainland China and will not exclude the possibility of disposal of some bus operations with a relatively more uncertain prospect at reasonable prices.
2. The Group will also dispose of some fixed assets, like land and buildings both in Hong Kong and Mainland China, which will not affect its core business. By doing so, the Group's leverage ratio and cash flow position will be much improved.
3. The Group will diversify its business operations. Its investments in the Chongqing Tourism Group and the inter-city bus terminal in Xiangfan have made steady progresses. The two new investments subsequent to the current period under review, namely, the Miyaluo project and the Chengdu tour bus project with related business in Mainland China, will create new opportunities and will be described in greater details below.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any of the Company's listed securities during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code provisions as set out in Appendix 14 of the Main Board Listing Rules throughout the accounting period covered by the interim financial statements.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of interim results of the Group for the six months ended 30 September 2006, containing all the information required by paragraphs 46(1) to 46(9) inclusive of Appendix 16 of the Listing Rules, will be published on the Stock Exchange's website in due course.

ON BEHALF OF THE BOARD

Wong Chung Pak, Thomas

Chairman

Hong Kong, 20 December 2006

** for identification purpose only*

As at the date of this announcement, the Board comprises Mr. Wong Chung Pak, Thomas, Mr. Wong Wing Pak, Mr. Wong Leung Pak, Matthew, Mr. Lam Sze Hoo, Christopher, Mr. Cheng Wai Po, Samuel, Mr. Lee Yin Ching, Stanley, Mr. Cheng King Hoi, Andrew, Mr. Ng King Yee, Mr. Chan Yu Kwong, Francis and Mr. Mok Wah Fun, Peter as executive directors and Mr. Chan Bing Woon, SBS, JP, Mr. Sung Yuen Lam and Mr. Lee Kwong Yin, Colin as independent non-executive directors.

Please also refer to the published version of this announcement in The Standard.