

Interim Report 2006/2007



Kwoon Chung Bus Holdings Limited

(Stock Code : 0306)

INTERIM RESULTS

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 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		2006	2005
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
REVENUE	2	947,280	841,837
Cost of services rendered		<u>(818,313)</u>	<u>(726,465)</u>
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		<u>64</u>	<u>801</u>
PROFIT BEFORE TAX	3	18,172	6,496
Tax	4	<u>(6,651)</u>	<u>(1,730)</u>
PROFIT FOR THE PERIOD		<u>11,521</u>	<u>4,766</u>
ATTRIBUTABLE TO:			
Equity holders of the parent		5,021	1,563
Minority interests		<u>6,500</u>	<u>3,203</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	5		
Basic		<u>HK1.27 cent</u>	<u>HK0.40 cent</u>
Diluted		<u>HK1.26 cent</u>	<u>HK0.38 cent</u>
DIVIDEND PER SHARE	6	<u>Nil</u>	<u>Nil</u>

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

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
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
	<u>494,608</u>	<u>481,615</u>
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>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006 (Unaudited)

	Attributable to equity holders of the parent											Minority interests	Total equity
	Issued share capital	Share premium account	Share Contributed surplus	Capital reserve	Asset revaluation reserve	Enterprise expansion funds	Exchange Reserve funds	Exchange equalisation reserve	Retained profits	Proposed final dividend	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	39,491	523,211	10,648	(1,855)	2,638	4,182	7,846	6,769	216,506	-	809,436	240,205	1,049,641
Profit for the period	-	-	-	-	-	-	-	-	5,021	-	5,021	6,500	11,521
Exchange realignment	-	-	-	-	-	-	-	3,070	-	-	3,070	(86)	2,984
At 30 September 2006	39,491	523,211	10,648	(1,855)	2,638	4,182	7,846	9,839	221,527	-	817,527	246,619	1,064,146

For the six months ended 30 September 2005 (Unaudited)

	Attributable to equity holders of the parent											Minority interests	Total equity
	Issued share capital	Share premium account	Share Contributed surplus	Capital reserve	Asset revaluation reserve	Enterprise expansion funds	Exchange Reserve funds	Exchange equalisation reserve	Retained profits	Proposed final dividend	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	39,491	523,211	10,648	3,465	3,433	4,182	7,155	624	205,110	5,924	803,243	231,952	1,035,195
Profit for the period	-	-	-	-	-	-	-	-	1,563	-	1,563	3,203	4,766
Exchange realignment	-	-	-	-	-	-	-	14,108	-	-	14,108	-	14,108
At 30 September 2005	39,491	523,211	10,648	3,465	3,433	4,182	7,155	14,732	206,673	5,924	818,914	235,155	1,054,069

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	141,121	195,339
INVESTING ACTIVITIES	(146,905)	(248,706)
FINANCING ACTIVITIES	20	15,282
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,764)	(38,085)
Cash and cash equivalents at beginning of period	129,546	164,734
Effects of foreign exchange rate changes, net	1,166	1,563
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>124,948</u>	<u>128,212</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	106,194	128,212
Non-pledged time deposits with original maturity of less than three months when acquired	18,754	-
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	<u>124,948</u>	<u>128,212</u>

Note:

Reconciliation of cash and cash equivalents:

	For the six months ended	
	30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Cash and bank balances and non-pledged time deposits with original maturity of less than three months	124,948	128,212
Non-pledged time deposits with original maturity of more than three months when acquired	7,681	-
	<hr/>	<hr/>
Total cash and cash equivalents at end of period	<u>132,629</u>	<u>128,212</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:

- (a) 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;
- (b) the non-franchised bus segment includes the provision of non-franchised bus hire and travel related services;
- (c) the franchised bus segment includes the provision of franchised bus services on Lantau Island in Hong Kong;
- (d) the tour segment engages in travel agency and tour service businesses in Hong Kong and Mainland China;

2. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	For the six months ended 30 September 2005 (Unaudited)							
	Designated	Non-	Franchised			Corporate	Inter-	Consolidated
	bus routes	franchised	bus	Tour	Hotel	and other	segment	
HK\$'000	bus	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	eliminations	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								4,766

(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	Mainland	Total
	China		
	HK\$'000	HK\$'000	HK\$'000
Revenue	469,204	478,076	947,280
	For the six months ended		
	30 September 2005 (Unaudited)		
	Hong Kong	Mainland	Total
	China		
	HK\$'000	HK\$'000	HK\$'000

Revenue	407,220	434,617	841,837
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3. PROFIT BEFORE TAX

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

	For the six months ended	
	30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	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	-
	<u>1,784</u>	<u>-</u>

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
	<u>4,611</u>	<u>67</u>
Tax charge for the period	<u>6,651</u>	<u>1,730</u>

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 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 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Earnings:		
Profit for the period attributable to equity holders of the parent, for the purpose of basic and diluted earnings per share calculation	<u>5,021</u>	<u>1,563</u>
	Number of shares For the six months ended 30 September	
	2006 (Unaudited)	2005 (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	<u>4,921,322</u>	<u>12,354,397</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	<u>399,827,322</u>	<u>407,260,397</u>

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

Included in the Group's trade receivables are amounts due from an associate of HK\$10,236,000 (31 March 2006: HK\$9,623,000), which are repayable within 90 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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>

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

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. CAPITAL COMMITMENTS

At 30 September 2006, the Group had the following capital commitments:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of motor buses and vehicles	30,056	76,076
Acquisition of subsidiaries	57,047	-
	<u>87,103</u>	<u>76,076</u>

12. PLEDGE OF ASSETS

At 30 September 2006, the Group's bank loans were 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.

13. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) The Group had the following material transactions with connected and/or related parties during the period:

	Notes	For the six months ended	
		30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Rental expenses paid to joint venturers	(i), (ii)	1,637	1,542
Interest income from jointly-controlled entities	(iii)	4	77
Purchases of fuel from related companies	(iv), (v)	10,337	5,449
Refuelling and bus washing charges paid to related companies	(iv), (v)	60	233
Rental expenses paid to a related company	(vi)	1,157	1,222
Associate:			
Coach rental income	(vii)	30,037	26,984
Management fee	(viii)	19,034	15,032

Notes:

- (i) Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. ("Wu Qi KC"), in which the Group has an effective equity interest of 52.4% (2005: 52.4%), entered into an agreement with Shanghai Public Transport Holding Co., Ltd. ("Shanghai Public Transport"), a minority shareholder of Wu Qi KC, for the leasing of offices and bus depots starting from 1 April 2004 at a monthly rental of approximately HK\$192,000 (equivalent to approximately RMB200,000), which was determined between both parties by reference to the open market rentals at the time when the lease agreement was entered into. On 1 July 2005, the agreement was renewed and the monthly rental increased to approximately HK\$205,000 (equivalent to approximately RMB215,000) with reference to the prevailing market rentals. Wu Qi KC paid rental expenses amounting to approximately HK\$1,230,000 (equivalent to approximately RMB1,290,000) (2005: HK\$1,136,000) to Shanghai Public Transport for the period.
- (ii) In 1999, Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. ("Chongqing KC No. 3"), in which the Group has an effective interest of 30.25% (2005: 30.25%), entered into an agreement with Chongqing No. 3 Public Transport Company ("Chongqing Public Transport"), a minority shareholder of Chongqing KC No.3, for the leasing of offices and bus depots for a term of 30 years starting from 1999 at an annual rental of approximately HK\$813,000 (equivalent to approximately RMB852,000), which was determined between both parties by reference to the open market rentals at the time when the lease agreements were entered into. Pursuant to the agreements, Chongqing KC No. 3 paid rental expenses amounting to approximately HK\$407,000 (equivalent to approximately RMB426,000) (2005: HK\$406,000) to Chongqing Public Transport for the period.
- (iii) The loans to jointly-controlled entities are unsecured, bear interest at various rates ranging from 8% to 13% per annum and are repayable within periods from five to eight years in accordance with the respective loan agreements.

13. CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

- (a) The Group had the following material transactions with connected and/or related parties during the period:
(Continued)

Notes: (Continued)

- (iv) On 13 June 2003, the Company entered into an agreement with New World First Bus Services Limited ("NWFB"), a fellow subsidiary of a shareholder of the Company, for (a) the provision of refuelling and bus washing services by NWFB to certain motor vehicles of the Group in Hong Kong; and (b) the purchase of fuel from NWFB by the Group. The purchase of fuel from NWFB was made according to the prices and conditions similar to those offered by other unrelated suppliers to the Group. The aggregate purchases of fuel from NWFB amounted to HK\$6,494,000 (2005: HK\$5,449,000). The fee related to the refuelling and bus washing services provided by NWFB to the Group was determined at monthly charge of HK\$10,000 (2005: HK\$38,880) which is comparable to those offered by other unrelated service providers to the Group.
- (v) On 10 October 2005, the Company entered into an agreement with Citybus Limited ("CTB"), a wholly-owned subsidiary of New World First Holdings Limited, a shareholder of the Company, for (a) the provision of refuelling and washing services by CTB to certain motor vehicles of the Group in Hong Kong; and (b) the purchase of fuel from CTB by the Group for a period commencing from 10 October 2005 to 31 March 2007. The fuel charge was determined with reference to open market rates. The aggregate purchases from CTB amounted to HK\$3,843,000 (2005: Nil). The refuelling charge was based on a fixed rate of HK\$0.65 per litre for the total quantity of fuel refuelled and the bus washing charge was based on a fixed rate of HK\$16 per vehicle. The aggregate fees related to refuelling and bus washing services was nil (2005: Nil).
- (vi) On 9 March 2005, the Company entered into a tenancy agreement with NWFB for the lease of office premises for a period of two years commencing on 1 January 2005 at a monthly charge, including rental and related management charges, of HK\$192,901 (2005: HK\$203,701), which was determined with reference to open market rates or based on the actual disbursement basis. The total rental paid by the Group for the period amounted to HK\$1,157,000 (2005: 1,222,000).
- (vii) The coach rental income was made according to the prices and conditions similar to those offered by the Group to its customers.
- (viii) The management fee income was charged based on the direct costs incurred.
- (b) Other transaction with a related party:
- (i) Shanghai Public Transport guaranteed certain bank loans made to the Group of up to HK\$56,640,000 (31 March 2006: HK\$56,640,000) as at 30 September 2006.
- (c) Outstanding balances with related parties:

(i)	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Due from associates	9,083	6,950
Due from jointly controlled entities	67,616	64,892
Due to jointly controlled entities	(29,300)	(30,396)
Loan to jointly controlled entities	7,560	7,560
Due from joint venturers	18,666	18,666
Due to joint venturers	<u>(94,669)</u>	<u>(94,669)</u>

- (ii) Details of the Group's trade balances with its associates as at balance sheet date are disclosed in note 8 to the interim financial statements.

13. CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group:

	For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short term employee benefits	7,174	7,174
Post-employment benefits	565	565
	<hr/>	<hr/>
Total compensation paid to key management personnel	<u>7,739</u>	<u>7,739</u>

14. 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 Transports 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.

15. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 20 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 equity joint ventures ("EJVs") 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 EJVs in Mainland China), and higher bank borrowing interest rates.

REVIEW OF OPERATIONS *(Continued)*

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 Lantau 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.

REVIEW OF OPERATIONS *(Continued)*

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	19	22	471	577

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.

REVIEW OF OPERATIONS *(Continued)*

4. Designated Bus Routes Services in Mainland China *(Continued)*

(b) Equity Joint Ventures ("EJVs") and subsidiaries in Mainland China (Continued)

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.

REVIEW OF OPERATIONS *(Continued)*

4. Designated Bus Routes Services in Mainland China *(Continued)*

(b) Equity Joint Ventures ("EJVs") and subsidiaries in Mainland China (Continued)

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.

FUTURE PROSPECTS *(Continued)*

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.

1. Non-franchised Bus Services in Hong Kong

While the student, employee, resident and coach hire services remain stable or a mild growth, the tour, hotel and cross-border bus services will be the most important areas of growth for the Group. The new Hongkong-Shenzhen Western Corridor is anticipated to commence operation in July 2007 and the Group will make appropriate arrangements in this regard. The Group is also making some 'travel-related products' to fuller utilize its fleet of buses.

2. Franchised Bus Services in Hong Kong

To minimize the negative impact of Ngong Ping 360, NLB will further promote its own products, like Lantau Pass, Tai O Pass and Ngong Ping Pass. With the support of the Transport Department, NLB has also carried out some route rationalizations to save expenses. NLB has also applied for bus fare increases, which are under processing. NLB would continue with its best effort to work out a mutually beneficial deal with Skyrail. NLB will actively participate if Transport Department invites proposal for new cross-border franchised bus routes. NLB would explore new sources of income like advertisement. It is hoped that NLB will breakeven in the foreseeable future and be profitable ultimately.

FUTURE PROSPECTS *(Continued)*

3. Bus Services in Mainland China

The Group will consolidate its existing operations in Mainland China. The profitability of these operations has been greatly affected by higher fuel costs, salary increases, keen competition from rail and other means of public transport and the difficulty to adjust the bus fares upwards. The Group had obtained the mutual agreement with the local authority to terminate its CJV in Anshan in May 2006. The Group has also arrived at an agreement with an interested party in Shanghai in early December 2006 to dispose of all of its 90% equity interest in Pudong Kwoon Chung (excluding a 6% equity interest in Wuqi Kwoon Chung held by Pudong Kwoon Chung) at a consideration of approximately RMB124 million.

At this stage, the Group has no plan to invest in any new public transport projects in the foreseeable future, but it would still consider expanding some of its existing operations when the development is commercially viable.

4. Tour and Hotel Services

The Group has continued to invest and operate travel and tourism business through the operations of its subsidiary, Chongqing Tourism (Group) Company Limited. This subsidiary together with its fellow subsidiary, Chongqing Everbright International Travel Service Co., Ltd. have achieved and will continue promoting more inbound as well as outbound package tours and Free Individual Travelers to Hong Kong. It has targeted and continues to strengthen its bilateral business relationship links with Taiwan and Japan markets, which have a lot of potential for tourism business in Mainland China.

In Hong Kong, because of the relative strengths of the Group in its wide range of transport services and its access to the new tourist attractions, particularly Disneyland and other parts of Lantau, the Group has developed some tourist package services under the concept of "one-stop shopping", that is, "transport + tour + possibly hotel reservation". This is to match with the rapidly growing number of Free Individual Travellers from Mainland China to Hong Kong. It is hoped that the Group will successfully transform from a purely transport company into a service corporation with more added values, a wider varieties of services and a bigger profit margin.

(a) Miyaluo Project in Sichuan Province

The business license of the "Lixian Bipenggou Tourism Development Company Limited" has been issued by the relevant authorities in November 2006. The Group owns 51% equity interest in this subsidiary and the other two shareholders are Chengdu China Travel Service Co. Ltd. (34.3% equity interest) and Lixian government (14.7% equity interest). The total investment of the Group in this project is about RMB35 million.

Miyaluo is a scenic spot with a total area of about 613.8 sq. km in Lixian which is about 175 km distance (when the construction of a new highway completes in mid-2007) from Chengdu. This subsidiary has the right of development of the region for 50 years.

FUTURE PROSPECTS *(Continued)*

4. Tour and Hotel Services *(Continued)*

(a) Miyaluo Project in Sichuan Province (Continued)

The major spheres of operation of this subsidiary are sightseeing, leisure activities, accommodation and tourist property development. Initially, this subsidiary will concentrate on completing the infra-structural construction works, like construction of roads, renovation of some scenic spots, construction of a reception center, and building a hotel with ethnic characteristic, etc. It will charge entrance fee as one of its major revenues. The official opening date of the project is planned to be 1 October 2007. It is hoped that the number of visitors to this scenic attraction will be 100,000 for the first year and a target of gradual increase to 1 million visitors a year within ten years.

Later on, this subsidiary will also invite interested parties to jointly develop new projects upon approval by relevant authorities, like 5-star hotels, golf courses, international standard skiing fields, etc. It will provide land at prevailing market rates and the business partners will provide capital and technological know-how to form a joint venture for each new project.

(b) Tour Bus Project in Chengdu

The Certificate of Approval of 'Chengdu Kwoon Chung CTS International Tourism Company Limited' has been issued in November 2006. The Group owns 60% equity interest in this subsidiary and the other JV partner is Chengdu China Travel Service Company Limited, which owns the other 40% equity interest. The total investment of the project is US\$10 million and the registered capital is US\$5 million.

The major sphere of operation of this new subsidiary is to run initially a fleet of 60 tour buses that serve the different scenic spots in Sichuan Province. This subsidiary also aims at the establishment of a "tourist distribution center" to conduct travel and travel-related business.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2006, the interests and short positions of the directors in the share capital and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(i) Long positions in ordinary shares of the Company

Name of director	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation		
Wong Chung Pak, Thomas	1,217,665 ⁽¹⁾	125,880,981 ⁽²⁾	127,098,646	32.18
Wong Wing Pak	699,665 ⁽¹⁾	125,880,981 ⁽²⁾	126,580,646	32.05
Wong Leung Pak, Matthew	599,665 ⁽¹⁾	125,880,981 ⁽²⁾	126,480,646	32.03
Lee Yin Ching, Stanley	2,893,556	–	2,893,556	0.73
Lo Kin Wai	1,552,667	–	1,552,667	0.39
Cheng King Hoi, Andrew	755,556	–	755,556	0.19
Ng King Yee	100,000	–	100,000	0.03

Notes:

- (1) Mr. Wong Chung Pak, Thomas jointly holds 1,217,665 shares with his spouse. Mr. Wong Wing Pak jointly holds 699,665 shares with his spouse. Mr. Wong Leung Pak, Matthew jointly holds 599,665 shares with his spouse.
- (2) These shares are held by Wong Family Holdings Limited (as trustee of The Wong Family Unit Trust), with each of Messrs. Wong Chung Pak, Thomas, Wong Wing Pak and Wong Leung Pak, Matthew holding one-third of the shares in issue in Wong Family Holdings Limited. The units of The Wong Family Unit Trust are held by the discretionary trusts established for the respective spouse and issues of each of Messrs. Wong Chung Pak, Thomas, Wong Wing Pak and Wong Leung Pak, Matthew.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option schemes" below.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

(ii) Long positions in shares of associated corporations

Name of associated corporation	Name of director	Number of shares [#]	Class of shares
Good Funds Services Limited*	Wong Chung Pak, Thomas	50,000	Non-voting deferred
Good Funds Services Limited*	Wong Wing Pak	125,000	Non-voting deferred
Good Funds Services Limited*	Wong Leung Pak, Matthew	125,000	Non-voting deferred
Good Funds Services Limited*	Lo Kin Wai	50,010	Non-voting deferred
Kwoon Chung Motors Company, Limited*	Wong Chung Pak, Thomas	33,333	Non-voting deferred
Kwoon Chung Motors Company, Limited*	Wong Wing Pak	33,333	Non-voting deferred
Kwoon Chung Motors Company, Limited*	Wong Leung Pak, Matthew	33,334	Non-voting deferred
New Lantao Bus Company (1973) Limited*	Wong Chung Pak, Thomas	5	Ordinary
New Lantao Bus Company (1973) Limited*	Wong Wing Pak	1	Ordinary
New Lantao Bus Company (1973) Limited*	Wong Leung Pak, Matthew	1	Ordinary

* subsidiaries of the Company

[#] directly beneficially owned

In addition, Mr. Wong Chung Pak, Thomas has non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 September 2006, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in the section "Share option schemes" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

The following share options were outstanding during the period:

Name or category of participant	Number of share options at 1 April and 30 September 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares***	
					At grant date of options HK\$	At exercise date of options HK\$
Directors						
Wong Chung Pak, Thomas	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<hr/> 3,500,000					
Wong Wing Pak	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<hr/> 3,500,000					
Wong Leung Pak, Matthew	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<hr/> 3,500,000					

SHARE OPTION SCHEMES *(Continued)*

Name or category of participant	Number of share options at 1 April and 30 September 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares***	
					At grant date of options HK\$	At exercise date of options HK\$
Lee Yin Ching, Stanley	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<hr/> 1,200,000 <hr/>					
Lo Kin Wai	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<hr/> 1,200,000 <hr/>					
Cheng King Hoi, Andrew	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<hr/> 1,200,000 <hr/>					
Ng King Yee	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<hr/> 1,200,000 <hr/>					
Chan Yu Kwong, Francis	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<hr/> 1,200,000 <hr/>					
Mok Wah Fun, Peter	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<hr/> 1,200,000 <hr/>					

SHARE OPTION SCHEMES *(Continued)*

Name or category of participant	Number of share options at 1 April and 30 September 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares***	
					At grant date of options HK\$	At exercise date of options HK\$
Chan Bing Woon (SBS, JP)	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<u>700,000</u>					
Sung Yuen Lam	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<u>700,000</u>					
Lee Kwong Yiu, Colin	100,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<u>100,000</u>					
Shareholders						
In aggregate	<u>3,500,000</u>	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	<u>3,500,000</u>					
Suppliers of goods or services						
In aggregate	<u>2,500,000</u>	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	<u>2,500,000</u>					
Other employees						
In aggregate	4,900,000	2 October 2003	5 September 2003 to 4 September 2013	1.200	1.170	N/A
	100,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	<u>5,000,000</u>					
Other						
	<u>1,000,000</u>	2 October 2003	5 September 2003 to 4 September 2013	1.200	1.170	N/A
	<u>31,200,000</u>					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 September 2006, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity	Number of ordinary shares held and nature of interest		Interest in underlying shares pursuant to share options	Aggregate interest	Percentage of the Company's issued share capital
		Personal	Corporate			
Wong Chung Pak, Thomas	Joint interest	1,217,665	-	-	130,598,646	33.07
	Founder of a discretionary trust	-	125,880,981 ⁽¹⁾	-		
	Beneficial owner	-	-	3,500,000		
Tso Anna	Joint interest	1,217,665	-	-	130,598,646	33.07
	Interest of spouse	-	125,880,981	3,500,000		
Wong Leung Pak, Matthew	Joint interest	599,665	-	-	130,280,646	32.99
	Founder of a discretionary trust	-	125,880,981 ⁽¹⁾	-		
	Beneficial owner	-	-	3,500,000		
	Interest of spouse	-	-	300,000		
Ng Lai Yee, Christina	Joint interest	599,665	-	-	130,280,646	32.99
	Beneficial owner	-	-	300,000		
	Interest of spouse	-	125,880,981	3,500,000		
Wong Wing Pak	Joint interest	699,665	-	-	130,080,646	32.94
	Founder of a discretionary trust	-	125,880,981 ⁽¹⁾	-		
	Beneficial owner	-	-	3,500,000		
Tang Kit Ling, Louise	Joint interest	699,665	-	-	130,080,646	32.94
	Interest of spouse	-	125,880,981	3,500,000		
Equity Trustee Limited	Trustee	-	125,880,981	-	125,880,981	31.88
Wong Family Holdings Limited ("WFHL")	Beneficial owner	-	125,880,981 ⁽¹⁾	-	125,880,981	31.88

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Name	Capacity	Number of ordinary shares held and nature of interest		Interest in underlying shares pursuant to share options	Aggregate interest	Percentage of the Company's issued share capital
		Personal	Corporate			
First Action Developments Limited ("First Action")	Beneficial owner	-	118,093,019 ⁽²⁾	3,500,000	121,593,019	30.79
New World First Holdings Limited ("NWFH")	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
NWS Transport Services Limited ("NWS")	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
NWS Service Management Limited ("NWSSM-BVI") ⁽³⁾	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
NWS Service Management Limited ("NWSSM-Cayman Islands") ⁽³⁾	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
NWS Holdings Limited ("NWSH")	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
New World Development Company Limited ("NWD")	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
Enrich Group Limited ("EGL")	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
Chow Tai Fook Enterprises Limited ("CTFEL")	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
Centennial Success Limited ("CSL")	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
Cheng Yu Tung Family (Holdings) Limited ("CYTFHL")	Interest of a controlled corporation	-	118,093,019 ⁽²⁾	6,000,000 ⁽⁴⁾	124,093,019	31.42
Cathay Corporation	Beneficial owner	-	59,270,000	-	59,270,000	15.01

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

- (1) Each of Messrs. Wong Chung Pak, Thomas, Wong Wing Pak and Wong Leung Pak, Matthew holds one-third of the shares in WFHL and they are deemed to be interested in the 125,880,981 shares which are directly held by WFHL. These 125,880,981 shares represent approximately 31.88% of the issued share capital of the Company.
- (2) At 30 September 2006, First Action was a wholly-owned subsidiary of NWFH; NWFH was a wholly-owned subsidiary of NWST; the issued share capital of NWST was held directly by NWSSM-BVI and EGL on a 50-50 basis; NWSSM-BVI was a wholly-owned subsidiary of NWSSM-Cayman Islands; NWSSM-Cayman Islands was a wholly-owned subsidiary of NWSH; NWD owned approximately 54.27% equity shares in NWSH; CTFEL owned approximately 36.34% equity shares in NWD; EGL was a wholly-owned subsidiary of CTFEL; CTFEL was a wholly-owned subsidiary of CSL; and CSL was 51% owned by CYTFHL. At 30 September 2006, each of NWFH, NWST, NWSSM-BVI, NWSSM-Cayman Islands, NWSH, NWD, EGL, CTFEL, CSL and CYTFHL was deemed to be interested in the 118,093,019 shares which were held directly by First Action. These 118,093,019 shares represented approximately 29.90% of the issued share capital of the Company.
- (3) NWSSM-BVI was incorporated in the British Virgin Islands and NWSSM-Cayman Islands was incorporated in the Cayman Islands.
- (4) At 30 September 2006, NWFH owned 100% equity shares in New World First Bus Services Limited ("NWFB"), which held 2,500,000 share options of the Company. At 30 September 2006, NWFH was deemed to be interested in the 6,000,000 share options which were held directly by First Action and NWFB as to 3,500,000 share options and 2,500,000 share options, respectively.

Save as disclosed above, as at 30 September 2006, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Main Board Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

These interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the interim report.

ON BEHALF OF THE BOARD

Wong Chung Pak, Thomas
Chairman

Hong Kong
20 December 2006