2005/2006
Annual Report

Kwoon Chung Bus Holdings Limited
(Stock Code:0306)

Contents

EXECUTIVE DIRECTORS

Mr. WONG Chung Pak, Thomas *(Chairman)*
Mr. WONG Leung Pak, Matthew
(Chief Executive Officer and Managing Director)
Mr. WONG Wing Pak *(Senior Executive Director)*
Mr. LAM Sze Hoo, Christopher
Mr. CHENG Wai Po, Samuel
Mr. TSANG Wing Hang
(resigned on 30 November 2005)
Mr. LEE Yin Ching, Stanley
Mr. LO Kin Wai
Mr. CHENG King Hoi, Andrew
Mr. NG King Yee
Mr. CHAN Yu Kwong, Francis
Mr. MOK Wah Fun, Peter

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Bing Woon, SBS, JP
Mr. SUNG Yuen Lam
Mr. LEE Kwong Yin, Colin

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Mr. CHAN Bing Woon, SBS, JP *(Chairman)*
Mr. SUNG Yuen Lam
Mr. LEE Kwong Yin, Colin

REMUNERATION COMMITTEE

Mr. WONG Chung Pak, Thomas *(Chairman)*
Mr. WONG Leung Pak, Matthew
Mr. CHAN Bing Woon, SBS, JP
Mr. SUNG Yuen Lam
Mr. LEE Kwong Yin, Colin

COMPANY SECRETARY

Mr. CHAN Kwok Kee, Andy

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SHARE LISTING

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Board lot: 2,000 shares

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When the late Mr. Wong Kwoon Chung launched a car cleaning service in 1948, he would not have envisaged that Kwoon Chung Bus Holdings Limited and its subsidiaries (the "Group") would become one of the largest (if not the largest) non-franchised bus operators in Hong Kong. The expansion in Mainland China can also be described as dramatic. Today, the Group has operations in 11 major cities in Mainland China.

The growth of the Group reflects the typical industrious and diligent nature of the type of free market entrepreneurship that helps to make Hong Kong one of the most competitive regions in the world. After over half a century of development, the Group has made its name in the transport history of Hong Kong as a comprehensive transport service provider.

The Group has made its strong presence in student services and is regarded as the leading school bus service operator. It is also well positioned in resident and employee services. Every morning, from the northwestern edge of the New Territories to Hong Kong Island South, there are buses of the Group carrying passengers to their places of work. The network has extended to the new airport at Chek Lap Kok since 1998. The acquisitions of Tai Fung Coach Company Limited and Holiday Rental, operated by Trade Travel (Hong Kong) Limited in April 1997, have enabled the Group in becoming the largest provider, in terms of bus fleet size, of tour buses and coaches to hotels and tour operators in Hong Kong.

The New Lantao Bus Company (1973) Limited, a subsidiary of the Group, is the franchised bus operator in Lantau Island. Another subsidiary, Lantau Tours Limited, is the major tour service provider in Lantau Island, which offers a wide range of travel packages which cover the new and the old scenery – from visiting the Tsing Ma Bridge viewing platform and Tung Chung New Town, to crossing over to South Lantau Island to visit the Tian Tan Buddha, Po Lin Monastery and Tai O fishing village.

Since 1992, the Group has been trying to realise its vision of the bus service market in Mainland China. Shanghai Pudong Kwoon Chung Public Transport Co., Ltd. ("Pudong Kwoon Chung") was the first co-operative joint venture ("CJV") of the Group established in Mainland China and, after several additional investments, is now a 90% owned equity joint venture ("EJV") or subsidiary of the Group operating a fleet of over 700 buses and 60 taxis mainly in Pudong, Shanghai. The Group has CJVs in other major cities, namely Guangzhou, Shantou, Dalian, Harbin and Anshan, and cross-border bus services in Shenzhen. There are altogether around 550 buses being operated under these CJVs. In June 1998, the Group completed its joint venture investment in Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd., which is now a 52.40% owned EJV or subsidiary of the Group. This subsidiary owns a fleet of approximately 1,000 buses and 81 taxis and operates designated bus routes mainly in Puxi, Shanghai. Together with Pudong Kwoon Chung, the Group operates more than 1,700 buses and 100 taxis in Shanghai city as a whole and is the third largest designated bus route operator in Shanghai, and the largest Sino-foreign joint venture operating designated bus routes in Shanghai and even in Mainland China at large. Further, the Group has advanced to the stage of investing in bus operations in Mainland China with the intention of operating or participating in all bus routes in an entire city. Since 1997, the Group had been negotiating with the then Chongqing Public Utilities Bureau (now reorganised and renamed as Chongqing Communications Committee) as the first target for this strategic plan. In December 1998, the Group, through a 55% owned subsidiary, made the first step to establish a 55% (effective 30.25%) owned EJV in Chongqing, namely Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd., which commenced its operation in January 1999 and currently operates a fleet of over 800 buses. In January 2000, the Group further acquired its and established a EJV in Chongqing, namely Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd., owned as to about a 76.64% (effective 42.15%) equity interest. Now the Group, as a majority shareholder, owns two public city bus companies (out of major seven in total administered by the Chongqing Communications Committee) in Chongqing, which is a fast growing city in the western part of Mainland China under the "Go West" Strategy directed by the central government of The People's Republic of China. With the committed support from the relevant authorities in Chongqing, the Group continues to try to realise this vision.

In September 1999, First Action Developments Limited (a 100% owned subsidiary of NWS Transport Services Limited) acquired approximately 20% (now approximately 29.90%) of the issued share capital in the Company and became the Group's strategic partner. The Group has benefited by sharing with the new partner's valuable experiences in bus fleet management and human resources utilisation.

To diversify into long distance inter-city bus operations, in late 1999, the Group acquired a 51% (now approximately 84.27%) equity interest in King Chau Keung Tat Transportation Co., Ltd. which operates long distance inter-city buses in Hubei Province with Jingzhou as the headquarter city. This subsidiary now operates a fleet of 14 buses.

To diversify into other bus-related businesses, in June 2000, the Group acquired a 60% equity interest in Chongqing Tourism (Group) Co., Ltd. which holds investments in a hotel, a travel agency company, a tour bus company and a hydro-electric power plant. The Group envisages that domestic, inbound and outbound travel businesses in Mainland China will grow at a speed. The entering into this market will be beneficial to the Group's existing tour bus business both in Mainland China and Hong Kong. The Group may also utilise its bus operation network in Mainland China to speed up the development of its travel business which is expected to become one of the major businesses of the Group in the near future. The travel agency company, Chongqing Everbright International Travel Service Co., Ltd., originally holds domestic and inbound travel business licences in Mainland China. In 2002, two years after our acquisition, due to its good record in the expansion of its existing business and achieving of various standards set by the relevant authorities, at the recommendation of the local Tourism Administration Bureau, it has been granted an outbound travel business licence by the National Tourism Administration Bureau of China. There are only 13 out of over 200 travel agency companies in Chongqing which have been granted this competitive licence. This success further enhances the Group's diversification into travel business in Mainland China and internationally.

In October 2002, the Group acquired a 75% equity interest in Top China International Investment Holdings Limited, which holds a 70% effective equity interest in GFTZ Xing Hua Tourism Bus Co., Ltd. and GFTZ Xing Hua International Transport Ltd. These companies operate a number of inner-city and long distance bus routes, and a fleet of taxis. The Group had conducted a feasibility study on this investment and found that Guangzhou and its vicinity have potential for development because of the improved network of highways and the notable diminishing in the number of bicycle users.

In November 2003, the Group acquired a 100% shareholding of Trans-Island Limousine Service Limited ("TIL") and all of its subsidiaries and CJVs in Hong Kong and Mainland China. TIL is a non-franchised bus operator with a fleet of around 190 buses, and its subsidiary, Intercontinental Hire Cars Limited, is a limousine service provider with a fleet of around 140 limousines. A portion of the above fleets of vehicles have service licences for cross-border passenger services. In addition, TIL operates a number of service counters at the passenger terminal of the Hong Kong International Airport and Shenzhen International Airport. Synergy can be achieved to strengthen the Group's operations in the provision of tour, hotel, limousine and cross-border bus services both in Hong Kong and Mainland China. Starting from August 2004, a new mode of cross-border bus service has been developed with a network of six routes operating a 24-hour service between Huanggang of Shenzhen and designated locations in the urban and the New Territories of Hong Kong. The Group, through its associated company, All China Express Limited, succeeded in the bidding of three of the above routes. The number of passengers has been increasing steadily.

In August 2004, the Group also acquired a 50% shareholding of GoGo TIL (Cross Border) Transportation Services Co. Ltd., which provides cross-border bus services to mainly Taiwanese travellers for routes between the Hong Kong International Airport and designated locations in Guangdong Province.

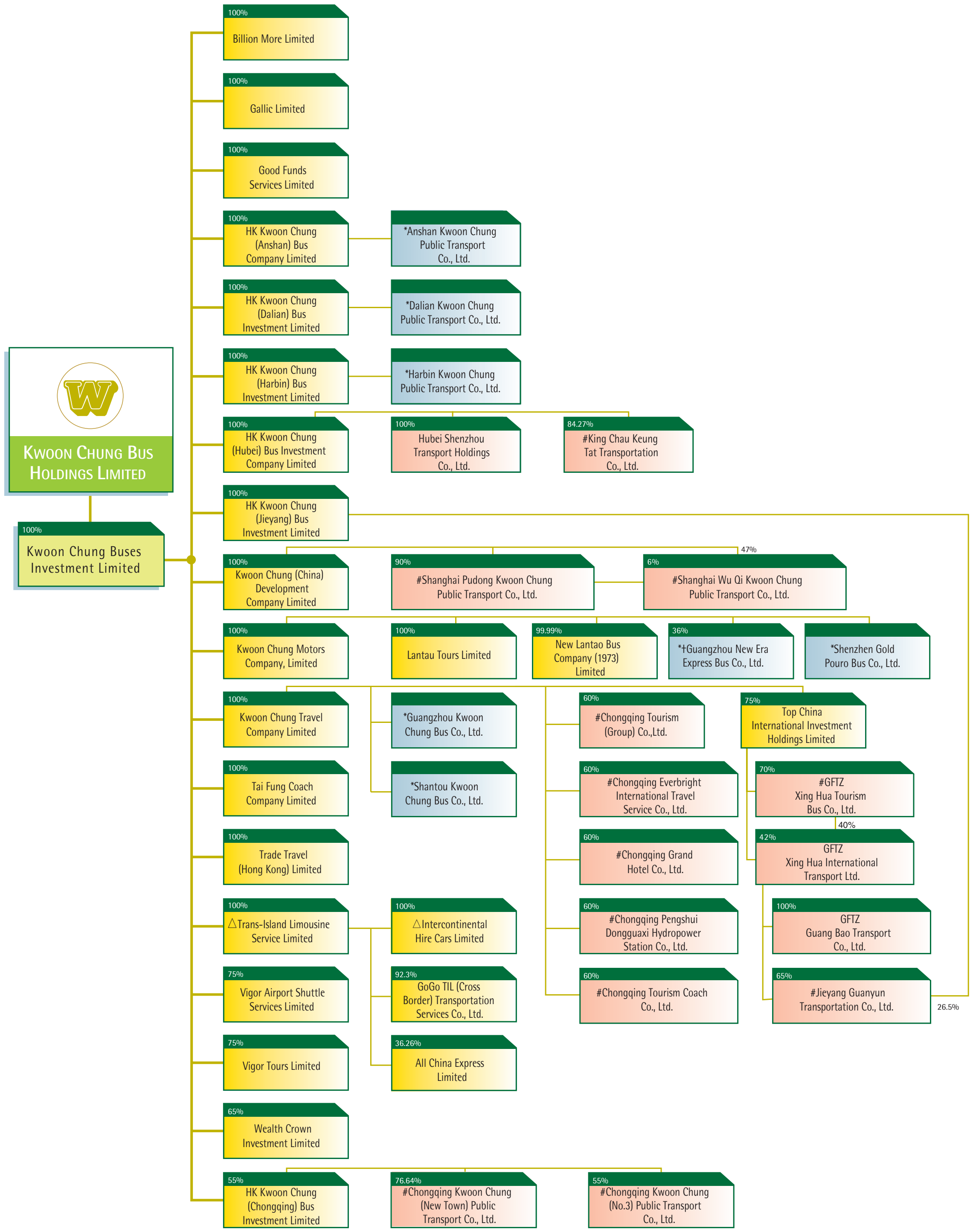
In August 2004, the Group acquired a 100% equity interest in Hubei Shenzhou Transport Holdings Co., Ltd., which holds a transport terminal with around 90 routes and a fleet of around 320 buses and operates inter-city bus services within Hubei Province. In the opinion of the Group, this newly acquired operation should have promising potential for future development.

In December 2004, the Group acquired a 56% equity interest in Guangzhou New Era Express Bus Co., Ltd., which operates a fleet of 19 buses for five inter-city bus routes in Guangdong Province.

Given the enormous market of bus operations and being the first foreign investor with proven record of quality bus services in Mainland China, the Group is confident about its future growth in the bus and bus related businesses in Mainland China.

Corporate Structure

31 March 2006



* *Sino-foreign co-operative joint venture ("CJV") established in Mainland China.*

\# *Sino-foreign equity joint venture established in Mainland China*

△ *Holding certain CJVs established in Mainland China.*

† *An additional 20% equity interest is held by Trans-Island Limousine Service Limited.*

The Quest for Excellence Knows No Bounds

I am pleased to present to the shareholders the Group's annual report for the year ended 31 March 2006.

RESULTS

The consolidated net profit for the year was approximately HK$2.9 million. This represented a decrease of approximately 94% from that for the year ended 31 March 2005 of approximately HK$49.3 million. In the year under review, the Group faced very tough operating environments both in Hong Kong and Mainland China. Firstly, the fuel cost rose acutely and this was not controllable by the bus operators themselves. Secondly, there had been a need to regularly increase the staff salaries and benefits, especially in Mainland China. Thirdly, it was relatively difficult to adjust the bus fares upward to compensate for rises in operating costs because of political, social stability and other economic reasons. Fourthly, the public bus industry had to face keener competition from close substitutes like new parallel routes run by subways and other rails. Fifthly, the gradual increase in bank interest rate kept the Group's finance costs rising.

Regardless of such threats of the public bus industry, the Group had adopted various measures to overcome the difficulties as discussed in details in the 'Review of Operations' and 'Future Prospects' of this report later.

DIVIDENDS

The Directors did not recommend a final dividend (2005: HK1.5 cents per ordinary share).

REVIEW OF OPERATIONS

1. NON-FRANCHISED BUS SERVICES IN HONG KONG

The principal non-franchised bus services provided by the Group included student, employee, resident, tour, hotel, Mainland China/Hong Kong cross-border and contract hire services.

The total revenue of this sector for the year was approximately HK$759.0 million (2005: HK$629.2 million), representing an increase of approximately 21% from that of the prior year. This was mainly due to the Group's expansion of its present operations, particularly for its cross-border bus services and the introduction of new products, like the "SkyLimo" services. The net profit derived from the above services was however approximately HK$19.4 million (2005: HK$39.3 million). This implied a narrower profit margin mainly owing to the increase in the price of fuel, which formed a significant component of the Group's cost elements.

TIL's VIP Lounge at Shenzhen Airport

The Group continued, in term of size of bus fleet, to be the largest non-franchised bus operator in Hong Kong, and as at 31 March 2006, was operating a fleet of 797 (2005: 750) licensed non-franchised buses.

Trans-Island Limousine Service Limited ("TIL"), the Group's 100% subsidiary, continued to participate in the joint-venture with fellow cross-border transport operators in the provision of three fixed, short trip and 24-hours operating routes between Huanggang of Shenzhen and Mongkok/Wanchai/Kam Sheung Road of Hong Kong. TIL also operated regular cross-border routes between Hong Kong and various cities in Mainland China, mainly within Guangdong province.

The joint venture company set up by the Group, GoGo TIL (Cross Border) Transportation Services Co Ltd ("GoGo TIL"), continued to operate a cross-border service, particularly for Taiwanese visitors, between Hong Kong International Airport ("HKIA"), Dongguan and Guangzhou.

The stewards of Chongqing Kwoon Chung (No. 3) is learning the English word usage in relation to public transport services

TIL continued to operate a number of service counters at the Passenger Terminal Building of HKIA for its "Hotelink" and hotel limo services.

With rising costs of operations, especially fuel cost and insurance premium, the Group had been trying its best to control its costs by route rationalisation and better utilisation of its resources, including labour and its relatively large fleet of buses.

As reported last year, Government's efforts in controlling the unhealthy growth of non-franchised buses in Hong Kong via the report and implementation of the Working Group under the Transport Advisory Committee to review the role of non-franchised buses in the provision of road transport, had resulted in a figurative and temporary halt in the new registration of these buses. In the opinion of the Group, this was in the right direction. However, the non-franchised bus services sector in Hong Kong had been under excessive regulation and control from the various authorities of the Administration and its operating spheres had been unreasonably restricted. The Group believed that the non-franchised bus sector had a long-standing history and its contribution and capability to serve the general public could not be under-estimated. Through its participation as a member of the Public Omnibus Operators Association, the Group continued to express its concern to the Administration.

2. FRANCHISED BUS SERVICES IN HONG KONG

The franchised bus services in Hong Kong were provided by New Lantao Bus Company (1973) Limited ("NLB"), a 99.99% owned subsidiary of the Group, which, as at 31 March 2006, was operating 24 (2005: 26) franchised bus routes, mainly in Lantau, with a fleet of 83 (2005: 86) buses.

For the year ended 31 March 2006, the total revenue of NLB was approximately HK$79.8 million (2005: HK$82.1 million). NLB recorded a loss of HK$3.4 million (2005: profit of HK$4.1 million).

The loss in the year was mainly due to a drastic increase in fuel costs and lower patronage to Ngong Ping owing to bad weather and a possible declining attraction of Tian Tan Buddha to the visitors, particularly those from Mainland China.

To embrace for the opening of the Tung Chung – Ngong Ping Skyrail, NLB entered into an agreement with the operator of the cable car, Skyrail-ITM (Hong Kong) Limited for the provision of special routes and contingency bus services (for example, breakdown in the cable car service), and certain combination tickets to facilitate passengers to visit other parts of Lantau after their cable car ride.

At compilation of this report, the cable car was yet to commence its service, though it was originally scheduled to open on 24 June 2006.

3. OTHER OPERATIONS IN HONG KONG

The Group's subsidiary, Trade Travel (Hong Kong) Limited, continued to operate a commercial service counter at the Arrivals Hall of the HKIA. Services offered at the counter included airport transfer for tour groups and individual international visitors with pre-arranged bookings.

In addition, another wholly owned subsidiary of the Group, Lantau Tours Limited, had obtained a licence from the Airport Authority to operate another service counter to cater for different categories of passengers. This had further strengthened the Group's position in the provision of transportation and tour services for visitors to Hong Kong arriving/departing by air.

As at 31 March 2006, TIL had a fleet of 140 (2005: 114) limousines, 24 (2005: 24) of these vehicles had cross-border service licences. TIL had strengthened this fleet of limousines mainly catering for VIP airport and local transfers, and cross-border transfers, within the Guangdong Province.

In addition to the airport counter service mentioned above, Lantau Tours Limited continued to provide individual and group tours services for itineraries mainly originated for Lantau Island.

TIL had also established its travel agency arm, namely "TIL Travel". The major operations were the organising of local tours to Ocean Park and Disneyland, the sale of air tickets and other tour packages.

4. BUS SERVICES IN MAINLAND CHINA

(a) *Co-operative Joint Ventures ("CJVs") in Mainland China*

As at 31 March 2006, through its CJVs, the Group was operating the following number of routes and buses in the major cities in Mainland China listed below:

	Number of Routes		Number of Buses	
	2006	2005	**2006**	2005
Guangzhou	**8**	6	**168**	163
Shantou	**6**	6	**63**	67
Dalian	**4**	4	**180**	180
Harbin	**1**	1	**60**	90
Anshan	**3**	3	**94**	94
	22	20	**565**	594

The share of losses from these CJVs for the year amounted to approximately HK$9.4 million (2005: HK$6.5 million).

The return on investment of these CJVs attributable to the Group was recognised in accordance with respective contract terms including a "guarantee income" receivable over five years immediately after respective contract was signed and an agreed percentage of share of net profit, against a respective amortization of the investment over the tenure of the CJV contract.

As the "guarantee income" of most CJVs had gradually expired, the gross income contributed to the Group from these entities had been diminishing accordingly. When the operating results of these CJVs were unfavourable, the share of net profit would not be sufficient to cover the respective amortisation of the Group's investments in these CJVs and therefore shares of losses of these CJVs attributable to the Group would be incurred.

In view of the progressively changing investment environment in Mainland China, the Group envisaged that no new investment in CJVs would be contemplated and more emphasis would be placed on equity joint ventures.

(b) *Equity Joint Ventures ("EJVs") in Mainland China*

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

As at 31 March 2006, this 90% (2005: 90%) owned subsidiary was operating 31 (2005: 31) routes with a fleet of 755 (2005: 776) buses and a fleet of 60 (2005: 60) taxis in Shanghai, mainly in Pudong area. This subsidiary was also the first of the Group's operation in Mainland China since 1992. The share of loss attributable to the shareholders of the Company for the year ended 31 March 2006 was approximately HK$8.0 million (2005: HK$4.6 million). The loss was a result of continued high fuel cost, rise in salaries and competition from various other modes of transport services, especially from the underground railway.

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

As at 31 March 2006, this 52.4% (2005: 52.4%) owned subsidiary was operating 38 (2005: 38) routes with a fleet of 976 (2005: 970) buses and a fleet of 81 (2005: 81) taxis in Shanghai, mainly in Puxi area. The share of loss attributable to the shareholders of the Company for the year ended 31 March 2006 was approximately HK$4.7 million (2005: profit of HK$2.9 million). Some essential bus routes of the company had been greatly struck by the opening of an almost parallel new route of the subway system since December 2004. This had posed a challenge to the services of this subsidiary, as the fare difference of the two networks was not significant, and passengers could have switched from riding the bus to the underground railway.

iii. Jieyang Guanyuan Transport Co., Ltd.

As at 31 March 2006, this 60.6% (2005: 60.6%) owned subsidiary was operating 7 (2005: 6) routes with a fleet of 34 (2005: 34) buses. The share of loss attributable to the shareholders of the Company for the year ended 31 March 2006 was approximately HK$0.9 million (2005: HK$ 1.5 million). The loss was mainly due to an inefficiency of economics of scale and loss on disposal of some used buses. Under a new mode of operation in the form of sub-contracting its buses to the other operators, this subsidiary had reduced its loss, though marginally.

iv. Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd.

As at 31 March 2006, this subsidiary, owned as to 55% (2005: 55%) by a joint venture company of the Group and Market Giant Limited, a wholly owned subsidiary of NWS Transport Services Limited, was operating 74 (2005: 73) routes with a fleet of 880 (2005: 798) buses in Chongqing. The share of profit attributable to the shareholders of the Company for the year ended 31 March 2006 was approximately HK$1.2 million (2005: HK$0.6 million).

Profit from this operation had increased owing to improved operating environment and a larger fleet of more air-conditioned buses that fetched higher bus fares.

v. Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd.
As at 31 March 2006, this subsidiary, owned as to 76.64% (2005: 76.64%) by a joint venture company of the Group and Market Giant Limited, a wholly owned subsidiary of NWS Transport Services Limited, was operating 20 (2005: 19) routes with a fleet of 494 (2005: 447) buses. The share of profit attributable to the shareholders of the Company for the year was approximately HK$3.2 million (2005: HK$1.4 million). The increase in profit was mainly due to the expansion in fleet size and number of routes.

vi. King Chau Keung Tat Transport Co., Ltd.
As at 31 March 2006, this 84.3% (2004: 84.3%) owned subsidiary was operating 2 (2005: 2) routes with a fleet of 14 (2005: 20) buses. The share of loss attributable to the shareholders of the Company for the year was approximately HK$2.0 million (2005: HK$1.4 million).

vii. GFTZ Xing Hua Group
As at 31 March 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 Ltd., GFTZ Xing Hua Tourism Bus Co., Ltd. and GFTZ Guang Bao Transport Co., Ltd. ("GFTZ Xing Hua Group").

As at 31 March 2006, GFTZ Xing Hua Group was operating 16 (2005: 7) routes with a fleet of 196 (2005: 131) buses, providing city-to-city transport in Guangdong Province and inner-city transport in Guangzhou Municipal. GFTZ Guang Bao Transport Co., Ltd. provided leasing services of cross-border lorry licences. The share of profit attributable to the shareholders of the Company for the year was approximately HK$688,000 (2005: loss of HK$0.8 million).

viii. Hubei Shenzhou Transport Holdings Co., Ltd
As at 31 March 2006, this 100% (2005: 100%) subsidiary of the Group, which was a state enterprise holding a transport terminal with 91 (2005: 140) routes and a fleet of 319 (2005: 371) buses operating inter-city bus services within Hubei Province. Under the state enterprises reform scheme, the Group had restructured the human resources organization of this subsidiary, thus enhanced its competitiveness substantially.

Also, the Hubei Provincial Government had announced that with effect from 1 October 2004, foreign investors could engage directly in the province's transport businesses. The Group was confident that this was a remarkable opportunity for the Group to expand its operation in Hubei province.

The share of profit attributable to the shareholders of the Company for the year ended 31 March 2006 was approximately HK$7.8 million. (2005: HK$5.5 million).

ix. Guangzhou New Era Express Bus Co., Ltd
The Group's 56% (2005: 50%) owned subsidiary, Guangzhou New Era Express Bus Co., Ltd, as at 31 March 2006 was operating a fleet of 19 (2005: 18) buses for 5 (2005: 5) inter-city routes in Guangdong Province.

The share of profit attributable to the shareholders of the Company for the year ended 31 March 2006 was approximately HK$3.0 million (2005: 2.0 million).

5. TRAVEL AND TOURISM BUSINESS IN MAINLAND CHINA

Chongqing Tourism (Group) Co., Ltd.

This 60% (2005: 60%) owned subsidiary together with its four group companies with same shareholding structure operated a hotel, a travel agency company, a tour bus company and a hydro-electric power plant. The share of loss attributable to the shareholders of the Company for the year was approximately HK$1.9 million (2005: profit of HK$1.8 million (restated)). The decrease in profit was mainly due to the change in accounting policy on the hotel properties, which were subject to depreciation starting from the year under review. On the other hand, the tour bus company had conducted a retrenchment program in order to attain a better operating results in future. The retrenchment cost amounted to approximately HK$1.5 million.

LIQUIDITY AND FINANCIAL RESOURCES

Funding for the Group's operations during the year mainly came from internally generated cash flows. Any shortfall was financed by loans and leases from banks. The total indebtedness outstanding as at 31 March 2006 was approximately HK$714 million (2005: HK$654 million), of which HK$376 million (2005: HK$271 million) is repayable/renewable within one year. The indebtedness comprised mainly bank loans and leases and were deployed mainly for purchase of buses and investments in Hong Kong and Mainland China. The leverage was approximately 68.0% (2005: 63.6% (restated)). Experience tells that the revolving loans in Mainland China can always be renewed when they expire. However, to reduce the potential risk, the Group will negotiate with the relevant banks and in future request for more term loans rather than revolving loans.

FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy towards its overall business operation with an aim to minimize 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.

Subsequently, the income and expenditure of the Group for its Hong Kong operations are denominated in Hong Kong Dollar ("HK$"). For its investments in Mainland China, the major sources of income are in Renminbi ("RMB"). Regardless of the relatively stableness of RMB against HK$, the Group has been cautiously observing the trend and will formulate plans in hedging the risk 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 from 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.

The mini-buses of Chongqing Kwoon Chung (No.3) running in the Wansheng District and Qijiang County of Chongqing

HUMAN RESOURCES

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

FUTURE PROSPECTS

There are threats as well as opportunities to the Group.

The most important threat will be the continuous and drastic rise of fuel costs. The impact is particularly adverse when the Group cannot adjust its fares upward proportionately and quickly, particularly for franchised and designated bus routes in Hong Kong and Mainland China respectively. Fortunately, for its non-franchised bus services in Hong Kong, the Group has achieved to persuade most of its clients to raise its fares by 5-10% to reduce the impact of rise in fuel costs. The Group has conducted fuel saving measures, such as to link up the fuel consumption with the indicator of assessing wages and route rationalization. When possible, the Group has also replaced diesel by some less expensive substitutes, like LPG and natural gas for some joint ventures in China.

The second threat will be the competition from subways and/or rails both in Hong Kong and Mainland China. In Hong Kong, the new Skyrail between Tung Chung and Ngong Ping will possibly commence operation in the third quarter of 2006. The subway line in Puxi, Shanghai, which started since December 2004, has also substantially affected the income of Shanghai Wu Qi KC. The completion of several new subway routes in Pudong, Shanghai possibly between 2006 and 2008, in order to meet the growing demand for transport for World Expo to be held there in 2010, will also greatly affect Shanghai Pudong KC. The Group's solution to the threat will be to explore collaboration with the rails or other bus companies in the same region. The Group has signed letters of intent with Shanghai Pudong Ba-shai Transportation Company Limited and other concerned parties. The ultimate goal is to achieve cross-shareholding in a way to maximize the potential synergies and cut the operating costs. It is also hoped that the local government will offer more subsidies or execute some assisting policies to allow more growing spaces for the bus companies.

A coin always has two sides. Some opportunities are created at the same time. In Hong Kong, the new Disneyland Theme Park has commenced operation since September 2005. The Skyrail in Tung Chung will also commence operation in the third quarter of 2006. Such new attractions will certainly bring more tourists to Hong Kong, which has already greatly benefited Hong Kong. More Free Individual Travelers ("FITs") from various provinces and districts have come to Hong Kong since July 2003. The demand for cross-border bus services between Hong Kong and Mainland China has also greatly increased.

The gradual economic recovery of Hong Kong and the prolonged economic growth in Mainland China will certainly create a bigger demand for passenger transport. The impact of Mainland China's becoming a member of World Trade Organization ("WTO") as well as the implementation of CEPA will also bring benefits to Hong Kong as well as to the Group.

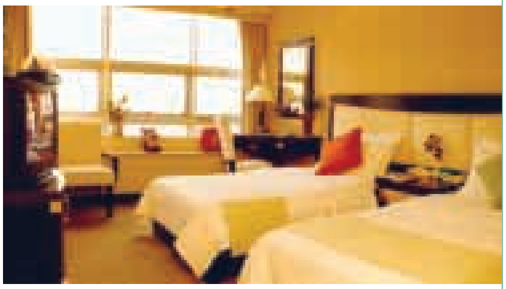
1. Non-franchised Bus Services in Hong Kong

The tour, hotel and cross-border bus services will be the most important areas of growth for the Group.

In Hong Kong, firstly, the Group has arrived at a collaboration agreement with another essential operator for its "Airport Hotelink" service. Starting from July 2005, the Group has combined the services of the two companies and has become the transport provider for the said services between the HKIA and the most prestigious hotels throughout Hong Kong. Such collaboration has not only increased the loading factor of each bus, but has also improved the services by more direct journeys and shorter time. The Group has also been awarded many new hotel contracts. The Group will also continue strengthening its 'tailor-made' chartered coach and limo hire services to the users.

For cross-border transport services, the three short fixed 24-hours routes operated by All China Express Limited ("ACE"), of which the Group is a substantial shareholder, will continue. ACE has applied for a renewal of the operating licenses for another two years. The business of the 'SkyLimo' service grows as it is made more acquainted to the potential users.


The newly refurbish deluxe banquet room of Chongqing Grand Hotel


Chongqing Grand Hotel offers deluxe accommodation and exceptional hospitality

The response of the 'Wonderland Express' (between Disneyland and Huanggang) has not been so good as expected. The Group now plans to explore new options for the four buses originally planned for the aforesaid purpose. The Group has also strengthened its links with major airlines for selling value-for-money transport packages to the potential end-users, particularly Taiwanese in the province of Guangdong. The Group has also developed its feeder-bus services in China to provide more convenience and door-to-door transport to the bus riders.

The Group has also made plans to cope with the commencement of services of the new Lok Ma Chau Rail and the Western Corridor probably in early 2007.

2. Franchised Bus Services in Hong Kong

As mentioned earlier, the commencement of service of the new Skyrail between Tung Chung and Ngong Ping possibly in the third quarter of 2006 will certainly affect the patronage and consequently also the receipts of NLB. After a long and in-depth discussion, Skyrail and NLB have preliminarily arrived at a collaboration agreement. To cope with Skyrail, NLB will introduce the new 'Lantau Pass' and 'Tai O Pass'. These passes entitle their holders to have multiple rides of NLB's buses in the same operating day at much lower fares. NLB's objective is to promote not only 360^{o} Ngong Ping but also "100% Lantau". That is, Ngong Ping will become a hub of transport where more tourists will be attracted to ride NLB's buses to visit South Lantau, like Tai O, Tong Fuk, Shek Pik, Pui O and Mui Wo, etc.

To cut its costs, NLB will also work with the Transport Department ("TD") and other local representatives for more route rationalization and the discontinuation of some serious losing routes.

In its Five Year Forward Plan, NLB has proposed to TD to operate more new routes and/or extend its existing routes to cope with the intake of more residents in the Tung Chung New Town.

In June 2006, NLB was also invited by TD to submit a proposal to operate a franchised bus service on the route between Yuen Long West Rail Station Public Transport Interchange and the Spur Line Lok Ma Chau Public Transport Interchange. The result will probably be announced in October 2006. It is hoped that the route will be profitable and will help offsetting part of the negative impact of Skyrail on NLB.

3. Bus Services in Mainland China

As also mentioned earlier, for areas where subway becomes a threat, like Shanghai Puxi and Pudong, the Group will seek opportunities to collaborate with other bus companies in the same district for synergies and cost cutting.

The Group will also not exclude the possibility of making other collaborations with the major players of other cities, like Chongqing, in order to acquire smaller bus companies enhancing economies of scale and maximize the benefit of the Group.


The aviatic service stewards of Route 326 of Chongqing Kwoon Chung (No. 3)

In Mainland China, the Group has sought more government's assistance and subsidies. Recently, there are substantial progresses. In Shanghai, the local government agrees that if the fuel price is between RMB3-4 per liter, the bus operator and the government will bear 50% each for the burden; when the fuel price exceeds RMB4 per liter, the government will fully take up the burden. Other subsidies, like New Route Subsidy, Bus Purchase Subsidy, Removal of Bus Depot Subsidy, Labour Subsidy, Bank Interest Subsidy, etc., are also provided to the Group's joint venture companies in different cities of China.

Moreover, the need to increase bus fares has been put into the Agenda of many local cities. It is hoped that the bus fares may increase by RMB50 cents for each fare level for most routes. This is equivalent to an increase of income ranging from 25% to 75%, subject to the elasticity of demand of the bus riders.

The Group will also enhance the quality of the bus services for its existing operation in the various cities of Mainland China to maintain a leading edge.

4. Travel and Tourism Services

The Group has continued to invest and operate travel and tourism business through the operations of its subsidiary, Chongqing Tourism (Group) Co., Ltd. of which the travel agency company has achieved and will continue promoting more inbound as well as outbound package tours.

In June 2006, the Group has contracted for a consideration of about RMB35 million to acquire a 51% equity interest in Lixian Bipenggou Tourism Development Company Limited. The company is entitled to have the right to develop the Miyaoluo region, with a total area of about 618 sq.km., for 50 years. Miyaoluo is 200 km away from Chengdu. When the new highway completes in mid-2007, the journey distance and time will be shortened to 175 km and less than 3 hours respectively. Miyaoluo is famous for its natural beauty. The cultures of the minority ethnic groups, Qiang (羌) and Zang (藏), will also form big attraction to the tourists. The ultimate goal in medium term is to have about 1 million tourists visiting the place each year. The Group will also invite other interesting parties to participate in further developing this scenic spot for specific themes, like cable car, skiing field, star-level hotels, etc.

In Hong Kong, because of the Group's relative strengths in providing transport services to the tourist attractions, like Disneyland, Ocean Park and Lantau, the Group will try to develop its tourist package services under one-shop, that is, 'transport plus tour plus possibly hotel reservation'. This is to match with the rapidly growing number of FITs from Mainland China to Hong Kong. It is hoped that the Group will successfully transform from a purely transport service provider into a diversified services corporation with more added-values, a wider varieties of services provided to our customers and a bigger profit margin contributing to the Group's shareholders.

Wong Chung Pak, Thomas
Chairman

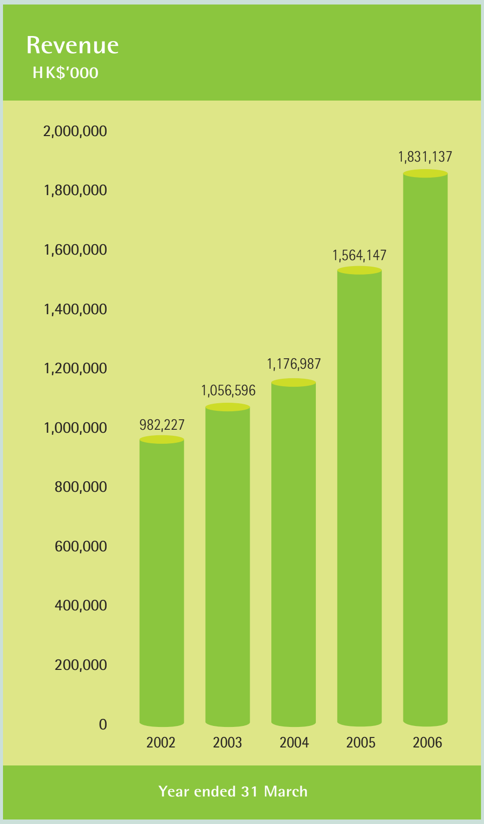
Hong Kong
27 July 2006

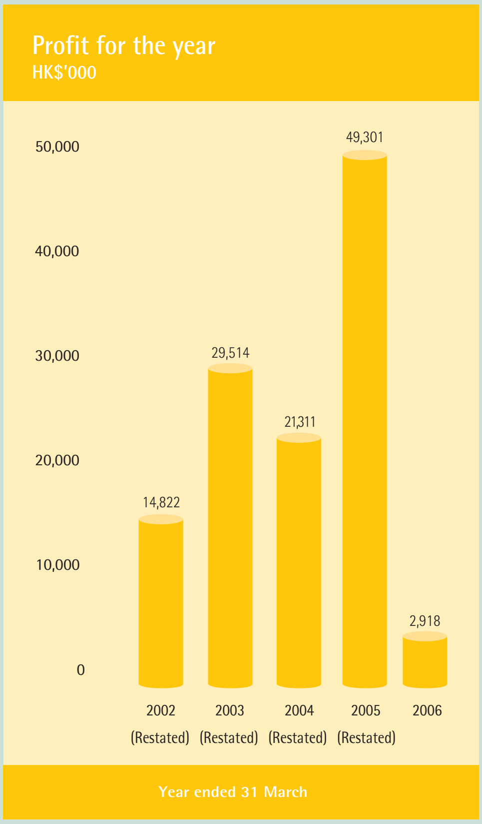
	Year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE BY BUSINESS SEGMENT					
Designated bus route services in Mainland China	**803,662**	725,113	613,849	569,061	526,287
Non-franchised bus services					
Student services	**115,640**	112,734	108,510	116,483	110,450
Resident services	**89,230**	89,328	92,086	81,031	77,484
Employee services	**94,808**	86,887	83,735	85,608	91,043
Tour services	**155,376**	170,407	76,136	44,319	44,535
Mainland China/Hong Kong cross-border services	**293,217**	155,185	54,589	2,876	3,463
Bus hire services	**10,728**	14,643	8,531	11,363	9,279
	758,999	629,184	423,587	341,680	336,254
Franchised bus services	**79,849**	82,068	70,090	69,199	68,329
Travel agency and tour services	**97,157**	68,963	36,474	46,085	28,377
Hotel services	**22,915**	22,962	18,910	15,939	17,278
Corporate and others	**68,555**	35,857	14,077	14,632	5,702
TOTAL REVENUE	**1,831,137**	1,564,147	1,176,987	1,056,596	982,227
		(Restated)	(Restated)	(Restated)	(Restated)
PROFIT FOR THE YEAR	**2,918**	49,301	21,311	29,514	14,822
BUS FLEET					
	Number of buses				
Franchised	**83**	86	74	80	76
Non-franchised	**797**	750	714	605	581
Mainland China CJVs	**565**	594	602	597	621
Mainland China EJVs	**3,693**	3,571	3,086	2,908	2,792
	5,138	5,001	4,476	4,190	4,070
EMPLOYEES					
	Number of full-time employees				
Hong Kong operations	**2,024**	1,853	1,438	845	826
Mainland China operations*	**16,058**	16,261	15,615	15,430	15,825
	18,082	18,114	17,053	16,275	16,651

* *Employed by EJVs and CJVs in Mainland China*

Financial Highlights

Year ended 31 March 2006





EXECUTIVE DIRECTORS

Mr. Wong Chung Pak, Thomas, aged 56 joined the Group in the early 1970s. Mr. Wong is the Chairman of the Group and is responsible for providing leadership for and management of the Board. He graduated from the University of Hong Kong with a Bachelor's Degree of Social Sciences and from the Chinese University of Hong Kong with a Master's Degree of Business Administration. Mr. Wong has over 30 years experience in the bus business. Mr. Wong is the brother of Messrs. Wong Wing Pak and Wong Leung Pak, Matthew. He is also a director of Wong Family Holdings Limited, which has an interest in the shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Mr. Wong Leung Pak, Matthew, aged 50 joined the Group in the early 1970s. Mr. Wong is the Chief Executive Officer and Managing Director of the Group and is responsible for day-to-day management of the business. Mr. Wong has over 30 years experience in the bus business. Mr. Wong is currently the Vice-Chairman of the Public Omnibus Operators Association in Hong Kong, a committee member of the Chinese People's Political Consultative Conference of Chongqing and the adviser to the Guangdong Traffic and Transport Association in Mainland China. Mr. Wong is the brother of Messrs. Wong Chung Pak, Thomas and Wong Wing Pak. He is also a director of Wong Family Holdings Limited, which has an interest in the shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Mr. Wong Wing Pak, aged 52 joined the Group in the early 1970s. Mr. Wong is the Senior Executive Director of the Group and is responsible for the operations and human resources management. Mr. Wong has over 30 years experience in the bus business and is a member of the Public Omnibus Operators Association. Mr. Wong is the brother of Messrs. Wong Chung Pak, Thomas and Wong Leung Pak, Matthew. He is also a director of Wong Family Holdings Limited, which has an interest in the shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Mr. Lam Sze Hoo, Christopher, aged 41 has been an executive director of the Group since 2004. Mr. Lam is an alternate director of Citybus Limited and New World First Bus Services Limited (the latter having an interest in the underlying shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance).

Mr. Cheng Wai Po, Samuel, aged 46 has been an executive director of the Group since 2004. Mr. Cheng is the Managing Director of Citybus Limited and New World First Bus Services Limited (the latter having an interest in the underlying shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance). He graduated from the University of Hong Kong with a Bachelor's Degree of Social Sciences and is a member of the Hong Kong Institute of Certified Public Accountants.

Senior Management Profile

Mr. Tsang Wing Hang, aged 59
(resigned on 30 November 2005)

has been an executive director of the Group since 2001. Mr. Tsang has over 30 year working experience in the traffic and transport field. He graduated from the University of Leeds with a Master's Degree of Science. He is also a member of the Chartered Institute of Logistics and Transport and the Institute of Transportation Engineers.

Mr. Lee Yin Ching, Stanley, aged 54

is an executive director of the Group and is responsible for bus fleet management and marketing. Mr. Lee has been the Chairman of a charitable body since 1992. Prior to joining the Group in 1978, Mr. Lee had 5 years experience in container terminal operation. Mr. Lee has over 25 years experience in bus fleet management.

Mr. Lo Kin Wai, aged 59

is an executive director of the Group and is responsible for bus maintenance and repair and is an automobile engineer by training. Mr. Lo joined the Group in 1988 and has over 30 years experience in automobile engineering.

Mr. Cheng King Hoi, Andrew, aged 47

is an executive director of the Group and is responsible for the Group's operations in Shanghai, Dalian, Harbin, Anshan and Chongqing of Mainland China. He is a member of the Australian Institute of Management NSW Ltd. and a committee member of the Chinese People's Political Consultative Conference of Sichuan Province of Mainland China. Prior to joining the Group in 1990, Mr. Cheng had worked in the banking industry for over 9 years.

Mr. Ng King Yee, aged 57

is an executive director of the Group. Mr. Ng graduated from the Chinese University of Hong Kong, with a Bachelor's Degree of Business Administration. He is a member of the Chartered Institute of Transport of the United Kingdom. Mr. Ng is responsible for the Group's operations in Guangzhou, Shantou and Hubei Province of Mainland China. Mr. Ng joined the Group in 1993. He is also an adviser to the Guangdong Traffic and Transport Association.

Mr. Chan Yu Kwong, Francis, aged 56

is an executive director of the Group. Mr. Chan graduated from the University of Melbourne, Australia, with a Bachelor's Degree of Commerce. He is a fellow member of both the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in 1997, he had worked for a major international accounting firm for approximately 15 years. Mr. Chan participates in the Group's strategic planning, corporate finance, human resources and the Mainland China business department with substantive involvement in the management of travel agency, hotel and tourism related businesses in Chongqing in addition to bus and bus related businesses. He also participates in the Group's financial reporting functions with the support from the Group's financial controller in Hong Kong.

Mr. Mok Wah Fun, Peter, aged 55 joined the Group in 1996. Mr. Mok is an executive director of the Group and is responsible for general management, public relations and marketing. He graduated from the University of Hong Kong with a Bachelor's Degree of Arts and a Post-Graduate Diploma in Education. He is also a member of the Chartered Institute of Logistics and Transport in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Bing Woon, SBS, JP, aged 61 has been an independent non-executive director of the Group since 1996. He is also a consultant of Yung Yu Yuen & Co., Solicitors and Notaries. He has 30 years experience in the legal profession. Mr. Chan is involved in numerous public duties including being a member of the Eastern District Council and the Town Planning Board. He is also a fellow member of the Hong Kong Institute of Directors.

Mr. Sung Yuen Lam, aged 63 has been an independent non-executive director of the Group since 1996. He is also the founding partner of William Y. L. Sung & Co., certified public accountants. He has 30 years experience in auditing.

Mr. Lee Kwong Yin, Colin, aged 55 has been an independent non-executive director of the Group since 2004. Mr. Lee graduated from the Chinese University of Hong Kong, with a Master's Degree of Business Administration . He is currently a sales development manager of an international insurance firm and has over 28 years experience in the insurance industry.

COMPANY SECRETARY

Mr. Chan Kwok Kee, Andy, aged 33 joined the Group in 2000 and he is also the financial controller of the Group. Mr. Chan graduated from the Chinese University of Hong Kong, with a Bachelor's Degree of Business Administration. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he had worked for a major international accounting firm and The Stock Exchange of Hong Kong Limited for over four years and one year, respectively.

Maintaining high standards of business ethics and corporate governance practices has always been one of the Group's prime objectives. The Group believes that conducting business in an open and responsible manner serves its long term interests and those of its shareholders. The principles of corporate governance adopted by the Company emphasise a quality board, sound internal controls and accountability to shareholders and these are based upon an established ethical corporate culture.

THE BOARD OF DIRECTORS

The overall management of the Group's business is vested in the board. Key responsibilities include the formulation of the Group's overall strategies and policies, the setting of performance targets, the evaluation of business performance and the oversight of management.

As at 31 March 2006, the board comprised 14 directors, including 11 executive directors and three independent non-executive directors. The list of all Directors is set out under "Corporate Information" on page 2.

In accordance with the Company's Bye-laws, all Directors are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Independent non-executive directors are appointed for a term of two years. For a director to be considered independent, the board must determine the director does not have any direct or indirect material relationship with the Group. In determining the independence of the directors, the board follows the requirements set out in the Listing Rules. Biographical details and the relationships among the members of the Board are disclosed under "Senior Management Profile" on pages 19 to 21.

The board meets regularly, and at least four times a year. Between scheduled meetings, senior management of the Group provides the directors with information on a timely basis on the activities and development in the businesses of the Group and when required, additional board meetings are held. In addition, the directors have full access to information on the Group and independent professional advice whenever deemed necessary by them.

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer are held by Mr. Wong Chung Pak, Thomas and Mr. Wong Leung Pak, Matthew respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the board to ensure that the board acts in the best interests of the Group and board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each board meeting, taking into account, where appropriate, matters proposed by other directors for inclusion in the agenda. With the support of the company secretary and other senior management, the Chairman seeks to ensure that all directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages directors to fully engage in the board's affairs and make contribution to the board's functions.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

The board held four meetings in 2005/2006. The attendance record of each member of the board in 2005/2006 is set out below:

Directors	Attendance of board meetings in 2005/2006
Executive Directors	
Mr. WONG Chung Pak, Thomas *(Chairman)*	4/4
Mr. WONG Leung Pak, Matthew *(Chief Executive Officer and Managing Director)*	4/4
Mr. WONG Wing Pak *(Senior Executive Director)*	4/4
Mr. LAM Sze Hoo, Christopher	4/4
Mr. CHENG Wai Po, Samuel	4/4
Mr. TSANG Wing Hang *(resigned on 30 November 2005)*	2/2
Mr. LEE Yin Ching, Stanley	4/4
Mr. LO Kin Wai	4/4
Mr. CHENG King Hoi, Andrew	4/4
Mr. NG King Yee	4/4
Mr. CHAN Yu Kwong, Francis	4/4
Mr. MOK Wah Fun, Peter	4/4
Independent Non-executive Directors	
Mr. CHAN Bing Woon, SBS, JP	4/4
Mr. SUNG Yuen Lam	4/4
Mr. LEE Kwong Yin, Colin	4/4

BOARD COMMITTEES

As an integral part of good corporate governance practices, the board had established the following board committees in 2005/2006 to oversee particular aspects of the Group's affairs. Each of these committees comprises mostly independent non-executive directors who have been invited to serve as members. These committees are governed by the respective terms of reference approved by the board.

Audit Committee

The audit committee consists of three independent non-executive directors with Mr. CHAN Bing Woon, SBS, JP as the chairman. Other members are Mr. SUNG Yuen Lam and Mr. LEE Kwong Yin, Colin. At the discretion of the audit committee, executive directors and/or senior management personnel, overseeing the Group's finance or internal audit functions, may be invited to attend meetings. The audit committee normally meets two times a year.

The duties of the audit committee include, among other things, reviewing and monitoring the financial and internal control aspects of the Group. The audit committee reviews the truth and fairness of the Group's interim and annual financial statements, discusses with the external auditors the nature and scope of audit before the audit commences as well as the findings and recommendations raised by the auditors during and after completion of the audit. The audit committee conducts an assessment, at least annually, of the effectiveness of the Group's internal controls and financial controls system. This allows the board to monitor the Group's overall financial position and to protect its assets. In addition, the audit committee supervises the internal audit function. The chairman of the audit committee summarises activities of the audit committee, highlights issues arising therefrom, and provides recommendations for reporting to the Board after each meeting.

The audit committee held two meetings in 2005/2006. The attendance record of each member of the audit committee in 2005/2006 is set out below:

Directors	Attendance of audit committee meetings in 2005/2006
Mr. CHAN Bing Woon, SPS, JP *(Chairman)*	2/2
Mr. SUNG Yuen Lam	2/2
Mr. LEE Kwong Yin, Colin	2/2

The Company's annual results for the year ended 31 March 2006 has been reviewed by the audit committee.

Remuneration Committee

The remuneration committee consists of two executive directors and three independent non-executive directors with Mr. Wong Chung Pak, Thomas, executive director, as the chairman. Other members are Mr. CHAN Bing Woon, SBS, JP, Mr. SUNG Yuen Lam, Mr. LEE Kwong Yin, Colin, independent non-executive directors, and Mr. Wong Leung Pak, Matthew, executive director. At the discretion of the remuneration committee, executive directors and/or senior management personnel, overseeing the Group's human resources function, may be invited to attend meetings.

The primary objectives of the remuneration committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The remuneration committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The remuneration committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The remuneration committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

As mentioned before, the remuneration committee met once during the year ended 31 March 2006 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management. The attendance record of each member of the remuneration committee in 2005/2006 is set out below:

Directors	Attendance of remuneration committee meeting in 2005/2006
Mr. Wong Chung Pak, Thomas *(Chairman)*	1/1
Mr. Wong Leung Pak, Matthew	1/1
Mr. CHAN Bing Woon, SBS, JP	1/1
Mr. SUNG Yuen Lam	1/1
Mr. LEE Kwong Yin, Colin	1/1

NOMINATION OF DIRECTORS

Having considered the scale and composition of the board, the Company does not set up a nomination committee. The function of appointment and removal of directors is undertaken by the board. When considering candidates for directorship, the board assesses, among others, experience level, qualifications and independence of candidates, if appropriate. In 2005/2006, the Company held two board meetings to deal with the appointment of three independent non-executive directors for specific terms and the resignation of an executive director. The attendance record of each member of the board in respect of these two board meetings is set out below:

Directors	Attendance of board meetings to deal with nomination/resignation of directors in 2005/2006
Executive directors	
Mr. WONG Chung Pak, Thomas *(Chairman)*	2/2
Mr. WONG Leung Pak, Matthew *(Chief Executive Officer and Managing Director)*	2/2
Mr. WONG Wing Pak *(Senior Executive Director)*	2/2
Mr. LAM Sze Hoo, Christopher	2/2
Mr. CHENG Wai Po, Samuel	2/2
Mr. TSANG Wing Hang *(resigned on 30 November 2005)*	1/1
Mr. LEE Yin Ching, Stanley	2/2
Mr. LO Kin Wai	2/2
Mr. CHENG King Hoi, Andrew	2/2
Mr. NG King Yee	2/2
Mr. CHAN Yu Kwong, Francis	2/2
Mr. MOK Wah Fun, Peter	2/2
Independent non-executive directors	
Mr. CHAN Bing Woon, SBS, JP	2/2
Mr. SUNG Yuen Lam	2/2
Mr. LEE Kwong Yin, Colin	2/2

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

None of the directors is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by directors. Having made specific enquiries of all directors, all directors have complied with the required standard set out in the Model Code regarding securities transactions by directors.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The following statement, which sets out the responsibilities of the directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the auditors' report on page 41 which acknowledges the reporting responsibilities of the Group's auditors.

Accounts

The directors acknowledge their responsibilities to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

Going Concern

The directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

AUDITORS' REMUNERATION

The audit committee has received a letter from Ernst & Young confirming their independence and objectivity. Details of the fees paid or payable to Ernst & Young for the year ended 31 March 2006 are as follows:

	HK$'000
2005/2006 annual audit	1,880
Non-audit related services	400
	2,280

INTERNAL CONTROLS

Though Code Provision C.2.1 and disclosure requirement under note 3 of paragraph 2 of Appendix 23 of the Listing Rules are only effective for the accounting period commenced on or after 1 July 2005, the Board would like to disclose the following details of the internal control of the Company:

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis through the audit committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The internal audit department, which is independent of the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

The internal audit department also formulates the annual internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the audit committee on any key findings and progress of the internal audit process. The audit committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Board, through the audit committee, has conducted a review of the effectiveness of the internal control system of the Company.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executive directors and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at principal place of business in Hong Kong for any inquiries.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company consists of investment holding. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 136.

No interim dividend was paid during the year and the directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2006.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy upon the adoption of several new and revised accounting standards, as detailed in note 2.2 to the financial statements. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
REVENUE	**1,831,137**	1,564,147	1,176,987	1,056,596	982,227
OPERATING PROFIT	**17,492**	68,523	36,373	45,266	22,656
Share of profits and losses of:					
Jointly-controlled entities	**(9,357)**	(4,442)	(4,595)	(1,248)	3,415
Associates	**2,459**	–	–	–	(1,034)
PROFIT BEFORE TAX	**10,594**	64,081	31,778	44,018	25,037
Tax	**(7,676)**	(14,780)	(10,467)	(14,504)	(10,215)
PROFIT FOR THE YEAR	**2,918**	49,301	21,311	29,514	14,822
Attributable to:					
Equity holders of the parent	**256**	44,757	21,207	16,471	4,759
Minority interests	**2,662**	4,544	104	13,043	10,063
	2,918	49,301	21,311	29,514	14,822

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
TOTAL ASSETS	**2,296,445**	2,189,744	1,795,810	1,655,500	1,590,283
TOTAL LIABILITIES	**(1,246,804)**	(1,161,830)	(816,414)	(685,996)	(605,746)
MINORITY INTERESTS	**(240,205)**	(232,036)	(218,400)	(215,022)	(232,745)
	809,436	795,878	760,996	754,482	751,792

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 137.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital and share options during the year.

Details of the Company's authorised or issued share capital and share options are set out in notes 36 and 37, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2006, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981 (as amended), amounted to HK$73,935,000. This includes the Company's contributed surplus of HK$70,770,000 which is available for distribution under certain circumstances in accordance with the Bermuda Companies Act 1981 (as amended). In addition, the Company's share premium account, in the amount of HK$523,211,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$4,900.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers of the Group accounted for less than 10% of the Group's total turnover for the year.

Purchases from the Group's five largest suppliers accounted for 53.9% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to 19.2%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Wong Chung Pak, Thomas
Wong Wing Pak
Wong Leung Pak, Matthew
Lee Yin Ching, Stanley
Lo Kin Wai
Cheng King Hoi, Andrew
Ng King Yee
Chan Yu Kwong, Francis
Mok Wah Fun, Peter
Lam Sze Hoo, Christopher
Cheng Wai Po, Samuel
Tsang Wing Hang (resigned on 30 November 2005)

Independent non-executive directors:

Chan Bing Woon, *SBS, JP*
Sung Yuen Lam
Lee Kwong Yin, Colin

In accordance with Clauses 86(2) and 87(1) of the Company's bye-laws, Messrs. Wong Chung Pak, Thomas, Wong Leung Pak, Matthew, Ng King Yee, Chan Yu Kwong, Francis and Mok Wah Fun, Peter, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Messrs. Chan Bing Woon, *SBS, JP*, Sung Yuen Lam and Lee Kwong Yin, Colin, and as at the date of this report still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for Messrs. Lam Sze Hoo, Christopher, and Cheng Wai Po, Samuel, has a service contract with the Company for a term of five years commencing on 1 October 2004 which is subject to termination by either party upon expiration of the contract or by giving not less than three months' prior written notice.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 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

	Number of shares held, capacity and nature of interest			
Name of director	Directly beneficially owned	Through controlled corporation	Total	Percentage of the Company's issued share capital
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 of 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 note 37 to the financial statements.

(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

Name of associated corporation	Name of director	Number of shares#	Class of shares
Kwoon Chung Motors Company, Limited*	Wong Wing Pak deferred	33,333	Non-voting
Kwoon Chung Motors Company, Limited*	Wong Leung Pak, Matthew deferred	33,334	Non-voting
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 31 March 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 note 37 to the financial statements, 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 SCHEME

Details of the Company's share option schemes are disclosed in note 37 to the financial statements.

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

At 31 March 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:

		Number of ordinary shares held and nature of interest		Interest in underlying shares Company's pursuant to share		Percentage of the issued Aggregate share
Name	Capacity	Personal	Corporate	options	interest	capital
Wong Chung Pak,	Joint interest Founder	1,217,665	–	–	130,598,646	33.07
Thomas	of a discretionary	–	125,880,981[1]	–		
	trust Beneficial owner	–	–	3,500,000		
Tso Anna	Joint interest Interest	1,217,665	–	–	130,598,646	33.07
	of spouse	–	125,880,981	3,500,000		
Wong Leung Pak,	Joint interest Founder	599,665	–	–	130,280,646	32.99
Matthew	of a discretionary	–	125,880,981[1]	–		
	trust Beneficial owner	–	–	3,500,000		
	Interest of spouse	–	–	300,000		
Ng Lai Yee, Christina	Joint interest Beneficial	599,665	–	–	130,280,646	32.99
	owner Interest of	–	–	300,000		
	spouse	–	125,880,981	3,500,000		

Name	Capacity	Number of ordinary shares held and nature of interest Personal	Corporate	Interest in underlying shares Company's pursuant to share options	interest	Percentage of the issued Aggregate share capital
Wong Wing Pak	Joint interest Founder	699,665	–	–	130,080,646	32.94
	of a discretionary	–	125,880,981[1]	–		
	trust 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
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 ("NWST")	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

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			
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
First Action Developments Limited ("First Action")	Beneficial owner	–	118,093,019 (2)	3,500,000	121,593,019	30.79
Cathay Corporation	Beneficial owner	–	43,764,000	–	43,764,000	11.08

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 31 March 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; and EGL was a wholly-owned subsidiary of CTFEL; NWD owned approximately 54.00% equity shares in NWSH; CTFEL owned approximately 35.26% equity shares in NWD. At 31 March 2006, each of NWFH, NWST, NWSSM-BVI, NWSSM-Cayman Islands, NWSH, NWD, EGL and CTFEL 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 31 March 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 31 March 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 31 March 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.

CONNECTED TRANSACTIONS

The Company and the Group had the following continuing connected transactions during the year:

(i) 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. NWFB is a wholly-owned subsidiary of New World First Holdings Limited ("NWFH") and First Action Development Limited, a substantial shareholder holding approximately 29.90% equity interest in the Company, is a wholly-owned subsidiary of NWFH. 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$11,906,000 (2005: HK$8,797,000). The fee related to the refuelling and bus washing services provided by NWFB to the Group was determined at a monthly charge of HK$10,000 (2005: HK$38,880) which is comparable to those offered by other unrelated service providers to the Group.

(ii) 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 year amounted to HK$2,315,000 (2005: HK$226,000).

(iii) On 10 October 2005, the Company entered into an agreement with Citybus Limited ("CTB"), a wholly-owned subsidiary of NWFH, 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 of fuel from CTB for the year amounted to HK$2,678,000. The refuelling charge was determined at a fixed rate of HK$0.65 per litre for the total quantity of fuel refueled and the bus washing charges were determined at a fixed rate of HK$16 per vehicle. The aggregate fee related to refuelling and bus washing services was HK$450 (2005: Nil) for the year.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and note 44 to the financial statements and have confirmed that these continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the continuing connected transactions during the year set out above and confirmed that these transactions: (i) were approved by the board of directors of the Company; (ii) had been entered into in accordance with the relevant agreements governing the transactions; and (iii) where applicable, have not exceeded the cap stated in the relevant announcements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, throughout the accounting period covered by this annual report, except that the independent non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 46 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wong Chung Pak, Thomas
Chairman

Hong Kong
27 July 2006

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the members
Kwoon Chung Bus Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 42 to 136 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

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

Ernst & Young
Certified Public Accountants

Hong Kong
27 July 2006

Consolidated Income Statement

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
REVENUE	5	**1,831,137**	1,564,147
Cost of services rendered		**(1,540,915)**	(1,302,204)
Gross profit		**290,222**	261,943
Other income and gains	5	**48,993**	44,820
Administrative expenses		**(240,021)**	(204,235)
Other operating expenses		**(48,105)**	(19,825)
Finance costs	6	**(33,597)**	(14,180)
Share of profits and losses of:			
Jointly-controlled entities		**(9,357)**	(4,442)
Associates		**2,459**	–
PROFIT BEFORE TAX	7	**10,594**	64,081
Tax	10	**(7,676)**	(14,780)
PROFIT FOR THE YEAR		**2,918**	49,301
Attributable to:			
Equity holders of the parent	11	**256**	44,757
Minority interests		**2,662**	4,544
		2,918	49,301
DIVIDENDS	12		
Interim		**–**	5,909
Proposed final		**–**	5,924
		–	11,833
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**0.1 cents**	11.4 cents
Diluted		**0.1 cents**	11.2 cents

Consolidated Balance Sheet

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,492,932	1,402,817
Investment properties	15	9,030	–
Prepaid land lease payments	16	100,766	107,965
Intangible assets	17	28,678	22,069
Goodwill:	18		
Goodwill		16,378	19,759
Negative goodwill		–	(10,085)
Interests in jointly-controlled entities	20	105,694	137,079
Interests in associates	21	53,964	10,941
Available-for-sale equity investments/long term investments	22	3,904	3,376
Deposits paid for purchases of items of property, plant and equipment		2,513	17,094
Pledged time deposits	28, 31	1,625	1,566
Total non-current assets		1,815,484	1,712,581
CURRENT ASSETS			
Properties held for sale	23	85,294	83,517
Inventories	24	22,205	20,195
Trade receivables	25	98,969	87,581
Prepayments, deposits and other receivables	26	117,632	101,042
Derivative financial instruments	27	1,790	–
Pledged time deposits	28, 31	17,844	13,194
Cash and cash equivalents	28	137,227	171,634
Total current assets		480,961	477,163
CURRENT LIABILITIES			
Trade payables	29	65,332	58,756
Tax payable		11,874	7,733
Accruals and other payables	30	275,351	243,364
Derivative financial instruments	27	2,500	–
Deposits received		34,306	39,200
Interest-bearing bank and other borrowings	31	375,826	271,083
Total current liabilities		765,189	620,136
NET CURRENT LIABILITIES		(284,228)	(142,973)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,531,256	1,569,608

Consolidated Balance Sheet

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*31*	**337,697**	382,886
Due to directors	*33*	**–**	58
Due to joint venturers	*34*	**63,938**	79,690
Deferred tax liabilities	*35*	**79,980**	79,060
Total non-current liabilities		**481,615**	541,694
Net assets		**1,049,641**	1,027,914
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*36*	**39,491**	39,491
Reserves	*38(a)*	**769,945**	750,463
Proposed final dividend	*12*	**–**	5,924
		809,436	795,878
Minority interests		**240,205**	232,036
Total equity		**1,049,641**	1,027,914

Mr. WONG Chung Pak, Thomas
Director

Mr. WONG Leung Pak, Matthew
Director

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 *(note 38(a))*	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Enterprise expansion funds HK$'000 *(note 38(a))*	Reserve funds HK$'000 *(note 38(a))*	Exchange equalisation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the parent												
At 1 April 2004:														
As previously reported		39,391	522,111	10,648	2,187	3,433	3,841	4,868	678	170,993	3,939	762,089	221,880	983,969
Prior year adjustments	*2.4(b)*	-	-	-	-	(795)	-	-	-	(1,471)	-	(2,266)	(2,132)	(4,398)
As restated		39,391	522,111	10,648	2,187	2,638	3,841	4,868	678	169,522	3,939	759,823	219,748	979,571
Changes in equity during the year														
Exchange realignment and total income and expense for the year recognised directly in equity		-	-	-	-	-	-	-	(54)	-	-	(54)	-	(54)
Profit for the year (as restated)		-	-	-	-	-	-	-	-	44,757	-	44,757	4,544	49,301
Total income and expense for the year		-	-	-	-	-	-	-	(54)	44,757	-	44,703	4,544	49,247
Issue of shares	*36*	100	1,100	-	-	-	-	-	-	-	-	1,200	-	1,200
Acquisition of subsidiaries	*39(b)*	-	-	-	-	-	-	-	-	-	-	-	12,131	12,131
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	-	-	(4,387)	(4,387)
Final 2004 dividend declared		-	-	-	-	-	-	-	-	-	(3,939)	(3,939)	-	(3,939)
Interim 2005 dividend	*12*	-	-	-	-	-	-	-	-	(5,909)	-	(5,909)	-	(5,909)
Proposed final 2005 dividend	*12*	-	-	-	-	-	-	-	-	(5,924)	5,924	-	-	-
Transfer from retained profits		-	-	-	-	-	341	2,287	-	(2,628)	-	-	-	-
At 31 March 2005		39,491	523,211*	10,648*	2,187*	2,638*	4,182*	7,155*	624*	199,818*	5,924	795,878	232,036	1,027,914

Consolidated Statement of Changes in Equity

Year ended 31 March 2006

		Attributable to equity holders of the parent												
		Issued share capital	Share premium account	Contributed surplus	Capital reserve	Asset revaluation reserve	Enterprise expansion funds	Reserve funds	Exchange equalisation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	Notes	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
				(note 38(a))			*(note 38(a))*	*(note 38(a))*						
At 1 April 2005:														
As previously reported		39,491	523,211	10,648	2,187	3,433	4,182	7,155	624	202,327	5,924	799,182	234,842	1,034,024
Prior year adjustments	*2.4*	-	-	-	-	(795)	-	-	-	(2,509)	-	(3,304)	(2,806)	(6,110)
Opening adjustments	*2.4*	-	-	-	(4,042)	-	-	-	-	17,123	-	13,081	2,896	15,977
As restated		39,491	523,211	10,648	(1,855)	2,638	4,182	7,155	624	216,941	5,924	808,959	234,932	1,043,891
Changes in equity during the year														
Exchange realignment and total income and expense for the year recognised directly in equity		-	-	-	-	-	-	-	6,145	-	-	6,145	4,657	10,802
Profit for the year		-	-	-	-	-	-	-	-	256	-	256	2,662	2,918
Total income and expense for the year		-	-	-	-	-	-	-	6,145	256	-	6,401	7,319	13,720
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	-	-	(2,142)	(2,142)
Capital contribution to a subsidiary from a minority shareholder		-	-	-	-	-	-	-	-	-	-	-	96	96
Final 2005 dividend declared	*12*	-	-	-	-	-	-	-	-	-	(5,924)	(5,924)	-	(5,924)
Transfer from retained profits		-	-	-	-	-	-	691	-	(691)	-	-	-	-
At 31 March 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

* *These reserve accounts comprise the consolidated reserves of HK$769,945,000 (2005: HK$750,463,000 (restated)) in the consolidated balance sheet.*

Consolidated Cash Flow Statement

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		10,594	64,081
Adjustments for:			
Finance costs	6	33,597	14,180
Share of losses of jointly-controlled entities		9,357	4,442
Share of profits of associates		(2,459)	–
Bank interest income	5	(1,426)	(1,087)
Fair value gains on investment properties	5	(2,819)	–
Gain on disposal of properties held for sale	5	–	(510)
Negative goodwill recognised as income during the year	5	–	(1,385)
Depreciation	7	199,146	186,026
Recognition of prepaid land lease payments	7	4,171	3,203
Amortisation of intangible assets	7	1,206	2,251
Amortisation of goodwill	7	–	1,240
Adjustment of goodwill	18	1,000	–
Impairment of goodwill	7	2,381	–
Loss on disposal of items of property, plant and equipment, net	7	40,823	11,903
Impairment of items of property, plant and equipment	7	1,289	–
Impairment of prepaid land lease payments	7	384	–
Fair Value losses on interest rate swaps, net	7	518	–
Operating profit before working capital changes		297,762	284,344
Decrease in balances with jointly-controlled entities		20,237	3,896
Decrease/(increase) in balances with joint venturers		17,919	(3,376)
Decrease in short term investments		–	231
Increase in inventories		(1,765)	(1,165)
Increase in trade receivables		(10,840)	(18,705)
Increase in prepayments		(6,285)	(2,729)
Decrease/(increase) in deposits and other receivables		(7,993)	3,873
Increase/(decrease) in trade payables		6,576	(14,025)
Increase/(decrease) in accruals		(756)	44,315
Decrease in other payables		(11,328)	(3,663)
Increase/(decrease) in deposits received		(5,323)	15,198
Exchange realignments		–	(54)
Cash generated from operations		298,204	308,140
Bank interest received		1,426	1,087
Interest paid		(32,810)	(14,180)
Interest element on finance lease rental payments		(150)	–
Overseas taxes paid		(4,004)	(5,178)
Net cash inflow from operating activities		262,666	289,869

Consolidated Cash Flow Statement

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Net cash inflow from operating activities		**262,666**	289,869
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received from jointly-controlled entities		**–**	1,120
Distributions received from jointly-controlled entities		**6,012**	3,207
Purchases of items of property, plant and equipment		**(250,407)**	(362,320)
Proceeds from disposal of items of property, plant and equipment		**6,818**	12,922
Deposits paid for purchases of items of property, plant and equipment		**(2,513)**	(17,094)
Investment in a jointly-controlled entity		**(5,000)**	(6,000)
Additions to intangible assets		**(7,433)**	–
Acquisition of subsidiaries, net of cash acquired	*39(b)*	**–**	(81,450)
Repayments from jointly-controlled entities		**815**	348
Capital Contribution to a subsidiary from a minority shareholder		**96**	–
Purchases of available-for-sale equity investments		**(528)**	–
Investments in associates		**(36,647)**	–
Increase in an interest in an associate		**–**	(2,256)
Advances to associates		**(3,868)**	(3,045)
Proceeds from disposal of properties held for sale		**–**	2,425
Proceeds from disposal of long term investments		**–**	271
Increase in non-pledged time deposits with original maturity of more than three months when acquired		**(781)**	(5,221)
Increase in pledged time deposits		**(4,352)**	(13,224)
Net cash outflow from investing activities		**(297,788)**	(470,317)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*36*	**–**	1,200
Drawdown of new bank loans		**351,527**	438,329
Repayment of bank loans		**(340,740)**	(225,536)
Drawdown of other borrowings		**–**	6,670
Repayment of other borrowings		**(1,896)**	(4,127)
Capital element of finance lease rental payments		**(833)**	–
Repayment of amounts due to directors		**(58)**	(1)
Advances due from joint venturers		**–**	3,814
Dividends paid		**(5,924)**	(9,848)
Dividends and distributions paid to minority shareholders of subsidiaries		**(2,142)**	(4,387)
Net cash inflow/(outflow) from financing activities		**(66)**	206,114
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(35,188)**	25,666
Cash and cash equivalents at beginning of year		**164,734**	139,068
CASH AND CASH EQUIVALENTS AT END OF YEAR		**129,546**	164,734

	Notes	2006 HK$'000	2005 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS *(note)*			
Cash and bank balances	28	**108,828**	164,277
Non-pledged time deposits with original maturity of less than three months when acquired		**20,718**	457
		129,546	164,734

Note:

Reconciliation of cash and cash equivalents:

		2006 HK$'000	2005 HK$'000
Cash and bank balances and non-pledged time deposits with original maturity of less than three months		**129,546**	164,734
Non-pledged time deposits with original maturity of more than three months when acquired		**7,681**	6,900
Total cash and cash equivalents at end of year	28	**137,227**	171,634

Balance Sheet

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*19*	**636,220**	636,591
CURRENT ASSETS			
Prepayments	*26*	**183**	183
Cash and bank balances	*28*	**301**	296
Total current assets		**484**	479
CURRENT LIABILITIES			
Other payables	*30*	**67**	66
NET CURRENT ASSETS		**417**	413
Net assets		**636,637**	637,004
EQUITY			
Issued capital	*36*	**39,491**	39,491
Reserves	*38(b)*	**597,146**	591,589
Proposed final dividend	*12*	**–**	5,924
Total equity		**636,637**	637,004

Mr. WONG Chung Pak, Thomas
Director

Mr. WONG Leung Pak, Matthew
Director

1. CORPORATE INFORMATION

Kwoon Chung Bus Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 3rd Floor, 8 Chong Fu Road, Chai Wan, Hong Kong.

During the year, the Group was involved in the following principal activities:

- provision of bus services
- provision of coach hiring services
- provision of travel related services
- provision of other transportation services
- provision of tour services
- provision of hotel services
- power generation

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain buildings and derivative financial instruments which have been measured at fair value, as further explained in note 2.5. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. Adjustments are made to bring into line any dissimilar accounting practices that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Except for HKASs 1, 16, 17, 21, 24, 32, 36 and 39, HKFRSs 2 and 3 as explained below, the adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly-controlled entities is presented net of the Group's share of tax attributable to associates and jointly-controlled entities.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKAS 16 – Property, Plant and Equipment**
HKAS 17 – Leases

In prior years, the Group's hotel properties were stated at cost less any impairment losses. No depreciation was provided on the hotel properties on the basis that they were maintained in such condition that their residual values were not diminished by the passage of time and that any element of depreciation was insignificant. Accordingly, the related repairs and maintenance costs were charged to the income statement in the period in which they were incurred and the costs of significant improvements were capitalised.

Upon the adoption of HKAS 16, the Group's leasehold interest in the hotel's land and buildings is stated at cost less accumulated depreciation and any impairment losses.

In prior years, leasehold land and buildings were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

The effect of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses.

Upon the adoption of HKAS 39, these securities held by the Group at 1 April 2005 in the amount of HK$3,376,000 were designated as available-for-sale equity investments under the transitional provisions of HKAS 39 and, accordingly, are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment. When the fair value of these equity securities cannot be reliably measured, such securities are stated at cost less any impairment losses.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(ii) Derivative financial instruments – Swap contracts

Interest rate swaps are classified as held for trading and stated at fair value through profit or loss. Gains or losses on these derivative financial instruments held for trading are recognised in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(iii) Interest-free loan

In prior years, an interest-free loan was stated at cost in the financial statements. Upon the adoption of HKAS 39, the interest-free loan is initially recognised at fair value less attributable transaction costs. Subsequent to the initial recognition, the accrued interest expenses are measured at amortised cost, using the effective interest rate method.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 April 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 March 2005 but had not yet vested as at 1 April 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 March 2005 and 2006.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated reserves and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets *(continued)*

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 April 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the consolidated reserves remains eliminated against the consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	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 Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 and HKFRS 4 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the amendments of HKAS 39 regarding financial guarantee contracts will result in the recognition of a financial liability in the Company's balance sheet in respect of corporate guarantees given by the Company in connection with the banking facilities granted to its subsidiaries in the year of initial application.

HKAS 19 Amendment, HKAS 39 Amendments regarding cash flow hedge accounting of forecast intragroup transactions and fair value option, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int7 do not apply to the activities of the Group. HK(IFRIC)-Int 6, HK(IFRIC)-Int 7, HK(IFRIC)-Int 8 and HK(IFRIC)-Int 9 shall be applied for annual periods beginning on or after 1 December 2005, 1 March 2006, 1 May 2006 and 1 June 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting						
At 1 April 2005	HKAS 16#	HKAS 17#	HKASs 32# & 39*	HKAS 39*	HKAS 39*	HKFRS 3*	
Effect of new policies (Increase/(decrease))	Property, plant and equipment and hotel building HK$'000	Prepaid land lease payments HK$'000	Change in classification of equity investments HK$'000	Derivative financial instruments HK$'000	Interest-free loan HK$'000	Derecognition of negative goodwill HK$'000	Total HK$'000
Assets							
Property, plant and equipment	(7,016)	(112,251)	–	–	–	–	(119,267)
Prepaid land lease payments	–	107,965	–	–	–	–	107,965
Negative goodwill	–	–	–	–	–	10,085	10,085
Derivative financial instruments	–	–	–	818	–	–	818
Available-for-sale equity investments	–	–	3,376	–	–	–	3,376
Long term investments	–	–	(3,376)	–	–	–	(3,376)
Prepayments, deposits and other receivables	–	4,169	–	–	–	–	4,169
							3,770
Liabilities/equity							
Derivative financial instruments	–	–	–	1,010	–	–	1,010
Deferred tax liabilities	–	(1,023)	–	–	–	–	(1,023)
Due to joint venturers	–	–	–	–	(6,084)	–	(6,084)
Asset revaluation reserve	–	(795)	–	–	–	–	(795)
Capital reserve	–	–	–	–	–	(4,042)	(4,042)
Retained profits	(4,210)	1,701	–	(192)	3,188	14,127	14,614
Minority interests	(2,806)	–	–	–	2,896	–	90
							3,770

* *Adjustments taken effect prospectively from 1 April 2005*

\# *Adjustments/presentation taken effect retrospectively*

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Effect on the consolidated balance sheet *(continued)*

At 31 March 2006			Effect of adopting				
	HKAS 16	HKAS 17	HKASs 32 & 39	HKAS 39	HKAS 39	HKFRS 3	
Effect of new policies (Increase/(decrease))	Property, plant and equipment and hotel building	Prepaid land lease payments	Change in classification of equity investments	Derivative financial instruments	Interest-free loan	Discontinuation of amortisation of goodwill /Derecognition of negative goodwill	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets							
Property, plant and equipment	(8,916)	(103,551)	–	–	–	–	(112,467)
Prepaid land lease payments	–	100,766	–	–	–	–	100,766
Goodwill/negative goodwill	–	–	–	–	–	10,929	10,929
Derivative financial instruments	–	–	–	1,790	–	–	1,790
Available-for-sale equity investments	–	–	3,448	–	–	–	3,448
Long term investments	–	–	(3,448)	–	–	–	(3,448)
Prepayments, deposits and other receivables	–	4,130	–	–	–	–	4,130
							5,148
Liabilities/equity							
Due to joint venturers	–	–	–	–	(5,430)	–	(5,430)
Deferred tax liabilities	–	(1,023)	–	–	–	–	(1,023)
Asset revaluation reserve	–	(795)	–	–	–	–	(795)
Exchange equalisation reserve	(159)	1,925	–	–	(17)	–	1,749
Capital reserve	–	–	–	–	–	(4,042)	(4,042)
Retained profits	(5,255)	1,238	–	1,790	2,854	14,971	15,598
Minority interests	(3,502)	–	–	–	2,593	–	(909)
							5,148

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) Effect on the balances of equity at 1 April 2004 and at 1 April 2005

	Effect of adopting					
	HKAS 16	HKAS 17	HKAS 39	HKAS 39	HKFRS 3	
Effect of new policies (Increase/(decrease))	Property, plant and equipment and hotel building HK$'000	Prepaid land lease payments HK$'000	Derivative financial instruments HK$'000	Interest-free loan HK$'000	Derecognition of negative goodwill HK$'000	Total HK$'000
At 1 April 2004						
Asset revaluation reserve	–	(795)	–	–	–	(795)
Retained profits	(3,200)	1,729	–	–	–	(1,471)
Minority interests	(2,132)	–	–	–	–	(2,132)
						(4,398)
At 1 April 2005						
Asset revaluation reserve	–	(795)	–	–	–	(795)
Capital reserve	–	–	–	–	(4,042)	(4,042)
Retained profits	(4,210)	1,701	(192)	3,188	14,127	14,614
Minority interests	(2,806)	–	–	2,896	–	90
						9,867

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Effect on the consolidated income statement for the years ended 31 March 2006 and 2005

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 16 Depreciation of hotel building HK$'000	HKAS 17 Recognition of prepaid land lease payments /Depreciation of buildings HK$'000	HKAS 39 Derivative financial instruments HK$'000	HKAS 39 Interest-free loan HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill /Derecognition of negative goodwill HK$'000	Total HK$'000
Year ended 31 March 2006						
Increase in fair value gain on derivative financial instruments	–	–	1,982	–	–	1,982
Increase in depreciation of hotel building	(1,741)	–	–	–	–	(1,741)
Increase in recognition of prepaid land lease payments	–	(4,171)	–	–	–	(4,171)
Decrease in depreciation of buildings	–	3,708	–	–	–	3,708
Decrease in other operating expenses	–	–	–	–	844	844
Increase in finance costs	–	–	–	(637)	–	(637)
Total increase/(decrease) in profit	(1,741)	(463)	1,982	(637)	844	(15)
Increase/(decrease) in basic earnings per share (cents)	(0.44)	(0.12)	0.50	(0.16)	0.21	(0.00)
Increase/(decrease) in diluted earnings per share (cents)	(0.43)	(0.11)	0.49	(0.16)	0.21	(0.00)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Effect on the consolidated income statement for the years ended 31 March 2006 and 2005 *(continued)*

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 16 Depreciation of hotel building HK$'000	Effect of adopting HKAS 17 Recognition of prepaid land lease payments/ Depreciation of buildings HK$'000	Total HK$'000
Year ended 31 March 2005			
Increase in recognition of prepaid land lease payments	–	(3,203)	(3,203)
Increase in depreciation of hotel building	(1,684)	–	(1,684)
Decrease in depreciation of buildings	–	3,215	3,215
Decrease in deferred tax	–	(40)	(40)
Total decrease in profit	(1,684)	(28)	(1,712)
Decrease in basic earnings per share (cents)	(0.43)	(0.01)	(0.43)
Decrease in diluted earnings per share (cents)	(0.42)	(0.01)	(0.42)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(ii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(iv) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's jointly-controlled entities are Sino-foreign co-operative joint ventures in respect of which the venturers' profit-sharing ratios and share of net assets upon the expiration of the joint venture periods are not in proportion to their capital contribution ratios but are as defined in the joint venture contracts.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly-controlled entities *(continued)*

The Group's interests in jointly-controlled entities are carried at cost plus its share of the post-acquisition results of the joint ventures, in accordance with the defined profit-sharing ratios, less accumulated amortisation of the investment costs and any impairment losses.

Amortisation of the investment costs is calculated on the straight-line basis to write off the shortfall of the payback of investment upon the expiry of the joint venture period over the life of the jointly-controlled entity.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005
Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of Statement of Standard Accounting Practice ("SSAP") 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. Upon the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations (Applicable to business combinations for which the agreement date is on or after 1 January 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for the associates and jointly-controlled entities is included in the Group's share of the associates' and jointly-controlled entities' profit or loss in the period in which the investments are acquired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment, to its residual value over its estimated useful life. The estimated useful life of each assets is as follows:

Buildings	30 years
Hotel building	Over the lease term of 50 years
Bus terminal structure	8 years
Garage improvements	5 years
Motor buses and vehicles	5 to 12 years
Power plant	10 years
Furniture, fixtures and office machinery	5 to 8 years
Equipment and tools	6 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

The Group's intangible assets comprise (i) taxi operating rights, bus route operating rights and advertising rights with finite useful lives and are stated at cost, which comprise the purchase prices thereof, less accumulated amortisation and any impairment losses; and (ii) passenger service licenses with indefinite useful lives are stated at cost less any impairment losses.

Passenger services licenses of the Group are regarded to have indefinite useful lives as there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Properties held for sale

Properties held for sale are stated at the lower of their carrying value or cost and net realisable value, which is determined by reference to the prevailing market prices, on an individual property basis. Carrying value represents the cost, net of accumulated depreciation, upon reclassification from property, plant and equipment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on the estimated replacement cost.

Investments and other financial assets

Applicable to the year ended 31 March 2005:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as long term investments.

Long term investments
Long term investments were non-trading investments in unlisted equity securities intended to be held on a long term basis and were stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 March 2006:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale equity investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale equity investments
Available-for-sale equity investments are those non-derivative financial assets in unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition available-for-sale equity investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (Applicable to the year ended 31 March 2006)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (Applicable to the year ended 31 March 2006)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities (Applicable to the year ended 31 March 2006)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the provision of transportation services, in the period in which the related services are rendered;

(ii) from the provision of tour services, when the tours arrive at their destinations;

(iii) from the provision of hotel services, when the related services are rendered;

(iv) advertising income, on a time proportion basis over the terms of underlying contracts;

(v) from the sale of electricity, on the consumption by meter reading;

(vi) rental income, on a time proportion basis over the lease terms; and

(vii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange equalisation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees after 7 November 2002 that had not vested before 1 April 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

The employees of certain of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum of association and bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Related parties

A party is considered to be related to the Group if:

(a) directly or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. An investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rate or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Impairment of intangible assets with indefinite lives and goodwill

The Group determines whether the intangible assets with indefinite lives or goodwill are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible assets with indefinite lives or the goodwill are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of intangible assets with indefinite lives and goodwill as at 31 March 2006 were HK$7,433,000 (2005: Nil) and HK$16,378,000 (2005: HK$19,759,000), respectively. Details of the impairment test are set out in note 18 to the financial statements.

(ii) Estimation of the fair value of investment properties

The best evidence of fair value is the current prices in an active market for similar lease terms and other contracts. In the absence of such information, the Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) the current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) the recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

(iii) Fair value of derivative financial instruments

The fair values of interest rate swap contracts are the estimated amounts that the Group would receive or pay to terminate the swap contracts at the balance sheet date, taking into account current market conditions and the current creditworthiness of the swap counterparties.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

(iv) *Useful lives and residual values of items of property, plant and equipment*

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of an asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each balance sheet date, based on changes in circumstances.

(v) *Impairment allowances on loans and receivables*

The Group regularly reviews its portfolio of trade and other receivables to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group considers whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of trade and other receivables before the decrease can be identified with an individual receivable balance in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and with objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs from previous calculation, the provision estimated would be changed.

4. 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;

(e) the hotel segment includes the provision of hotel services in Mainland China; and

(f) the corporate and others segment comprises, principally, the sale of electricity and 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.

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2006 and 2005.

Group

	2006							
	Designated bus routes HK$'000	Non-franchised bus HK$'000	Franchised bus HK$'000	Tour HK$'000	Hotel HK$'000	Corporate and others HK$'000	Intersegment eliminations HK$'000	Consolidated HK$'000
Segment revenue:								
External sales	803,662	758,999	79,849	97,157	22,915	68,555	-	1,831,137
Intersegment sales	-	11,180	985	-	-	-	(12,165)	-
Other revenue	22,217	21,409	1,945	661	872	3,392	(2,929)	47,567
Total	825,879	791,588	82,779	97,818	23,787	71,947	(15,094)	1,878,704
Segment results	2,392	41,226	(2,517)	(1,008)	3,040	6,530	-	49,663
Bank interest income								1,426
Finance costs								(33,597)
Share of profits and losses of:								
- jointly-controlled entities	(9,357)	-	-	-	-	-	-	(9,357)
- associates	2,457	2	-	-	-	-	-	2,459
Profit before tax								10,594
Tax								(7,676)
Profit for the year								2,918

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	2005							
	Designated bus routes HK$'000	Non-franchised bus HK$'000	Franchised bus HK$'000	Tour HK$'000	Hotel HK$'000	Corporate and others HK$'000	Intersegment eliminations HK$'000	Consolidated HK$'000 (Restated)
Segment revenue:								
External sales	725,113	629,184	82,068	68,963	22,962	35,857	-	1,564,147
Intersegment sales	-	13,045	1,314	-	-	-	(14,359)	-
Other revenue	21,931	14,608	441	2,011	1,689	5,461	(2,408)	43,733
Total	747,044	656,837	83,823	70,974	24,651	41,318	(16,767)	1,607,880
Segment results	12,722	56,337	5,574	(1,330)	7,137	1,176	-	81,616
Bank interest income								1,087
Finance costs								(14,180)
Share of profits and losses of jointly-controlled entities	(4,442)	-	-	-	-	-	-	(4,442)
Profit before tax								64,801
Tax								(14,780)
Profit for the year								49,301

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	2006							
	Designated bus routes HK$'000	Non-franchised bus HK$'000	Franchised bus HK$'000	Tour HK$'000	Hotel HK$'000	Corporate and others HK$'000	Intersegment eliminations HK$'000	Consolidated HK$'000
Segment assets	1,113,112	774,520	70,933	36,770	89,298	25,785	–	2,110,418
Interests in associates	53,964	–	–	–	–	–	–	53,964
Interests in jointly-controlled entities	105,694	–	–	–	–	–	–	105,694
Unallocated assets								26,369
Total assets								2,296,445
Segment liabilities	286,566	120,931	5,662	6,416	6,049	8,790	–	434,414
Unallocated liabilities								812,390
Total liabilities								1,246,804
Other segment information:								
Capital expenditure	155,117	168,691	2,306	2,291	1,360	2,304	–	332,069
Amortisation	811	–	–	284	111	–	–	1,206
Recognition of prepaid land lease payments	3,372	289	17	62	431	–	–	4,171
Depreciation	102,544	81,692	9,011	1,112	2,644	2,143	–	199,146
Fair value gains on investment properties	–	2,819	–	–	–	–	–	2,819
Impairment of goodwill	2,381	–	–	–	–	–	–	2,381
Impairment of items of property, plant and equipment	–	1,289	–	–	–	–	–	1,289
Impairment of prepaid land lease payments	–	384	–	–	–	–	–	384
Loss on disposal of items of property, plant and equipment, net	29,016	10,593	816	131	13	254	–	40,823

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	2005							
	Designated bus routes HK$'000	Non-franchised bus HK$'000	Franchised bus HK$'000	Tour HK$'000	Hotel HK$'000	Corporate and others HK$'000	Intersegment eliminations HK$'000	Consolidated HK$'000 (Restated)
Segment assets	1,097,692	702,850	75,612	34,304	87,103	22,504	–	2,020,065
Interests in associates	10,941	–	–	–	–	–	–	10,941
Interests in jointly-controlled entities	137,079	–	–	–	–	–	–	137,079
Unallocated assets								21,659
Total assets								2,189,744
Segment liabilities	294,495	70,548	5,971	13,786	5,297	6,719	–	396,816
Unallocated liabilities								765,014
Total liabilities								1,161,830
Other segment information:								
Capital expenditure	299,324	153,062	7,351	423	968	2,540	–	463,668
Amortisation	2,741	267	–	–	–	483	–	3,491
Recognition of prepaid land lease payments	2,293	407	17	62	424	–	–	3,203
Depreciation	100,967	70,427	8,537	1,132	2,641	2,322	–	186,026
Negative goodwill recognised as income during the year	(632)	(753)	–	–	–	–	–	(1,385)
Loss on disposal of items of property, plant and equipment, net	6,116	5,084	166	109	428	–	–	11,903

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	2006		
	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	897,258	933,879	1,831,137
Other segment information:			
Segment assets	860,456	1,276,331	2,136,787
Interests in associates	–	53,964	53,964
Interests in jointly-controlled entities	–	105,694	105,694
Total assets	860,456	1,435,989	2,296,445
Capital expenditure	169,605	162,464	332,069

	2005		
	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000 (Restated)
Segment revenue:			
Sales to external customers	740,264	823,883	1,564,147
Other segment information:			
Segment assets	785,031	1,256,693	2,041,724
Interests in associates	–	10,941	10,941
Interests in jointly-controlled entities	–	137,079	137,079
Total assets	785,031	1,404,713	2,189,744
Capital expenditure	157,229	306,439	463,668

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents bus fares and the invoiced value of coach hire and travel-related services, tour and hotel services, and the sale of electricity.

Revenue from the following activities has been included in turnover:

	Group	
	2006	2005
	HK$'000	HK$'000
Revenue		
Provision of designated bus route services	**803,662**	725,113
Provision of non-franchised bus services	**758,999**	629,184
Provision of franchised bus services	**79,849**	82,068
Provision of tour services	**97,157**	68,963
Provision of hotel services	**22,915**	22,962
Provision of other transportation services	**68,028**	34,841
Power generation	**527**	1,016
	1,831,137	1,564,147
Other income		
Bank interest income	**1,426**	1,087
Other interest income	**755**	127
Gross rental income	**10,085**	9,651
Advertising income	**10,112**	9,457
Government subsidies (note (i))	**1,125**	9,439
Others	**15,662**	9,198
	39,165	38,959
Gains		
Realised gains on interest rate swaps	**6,824**	–
Foreign exchange differences, net	**185**	–
Fair value gains on investment properties	**2,819**	–
Gain on waived bank loans and related interest (note (ii))	**–**	3,925
Gain on disposal of properties held for sale	**–**	510
Gain on disposal of short term investments	**–**	41
Negative goodwill recognised as income during the year	**–**	1,385
	9,828	5,861
	48,993	44,820

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Notes:

(i) Various government subsidies have been received by certain subsidiaries which operate in Mainland China in connection with the losses incurred by these subsidiaries. There are no unfulfilled conditions or contingencies relating to these subsidies.

(ii) During the year ended 31 March 2005, the Group entered into a debt repayment arrangement with two of its bankers to settle the outstanding bank loans and related interest with an aggregate amount of approximately HK$19,242,000 by cash payment of approximately HK$15,317,000, resulting in a gain on the waive of bank loans and related interest of HK$3,925,000.

6. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	**32,810**	14,180
Finance leases	**150**	–
Imputed interest on an amount due to a joint venturer	**637**	–
	33,597	14,180

7. PROFIT BEFORE TAX

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

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Depreciation *(note (i))*	199,146	186,026
Amortisation of intangible assets *(note (ii))*	1,206	2,251
Recognition of prepaid land lease payments	4,171	3,203
Auditors' remuneration	1,880	1,680
Goodwill *(note (ii))*		
Amortisation for the year	–	1,240
Impairment arising during the year	2,381	–
	2,381	1,240
Employee benefits expense *(note (i))*		
(including directors' remuneration – *note 8*):		
Wages and salaries	598,541	530,044
Other welfare benefits	20,450	14,407
Pension scheme contributions	15,393	16,685
Less: Forfeited contributions *(note (iii))*	–	–
Net pension scheme contributions	15,393	16,685
	634,384	561,136
Minimum lease payments under operating leases *(note (i))*:		
Land and buildings	10,395	10,034
Bus depots, terminals and car parks	36,062	27,156
Motor buses and coaches	50,676	39,235
	97,133	76,425

7. PROFIT BEFORE TAX *(continued)*

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Gross rental income	**(10,085)**	(9,651)
Direct operating expenses (including repairs and maintenance arising on rental-earning investment properties)	**83**	–
Net rental income	**(10,002)**	(9,651)
Impairment of items of property, plant and equipment	**1,289**	–
Impairment of prepaid land lease payments	**384**	–
Loss on disposal of items of property, plant and equipment, net	**40,823**	11,903
Fair value losses on interest rate swaps, net	**518**	–
Foreign exchange differences, net	**(185)**	157

Notes:

(i) The cost of services rendered for the year amounted to HK$1,540,915,000 (2005: HK$1,302,204,000 (restated)) and included depreciation charges of HK$176,553,000 (2005: HK$164,845,000 (restated)), operating lease rentals of HK$87,087,000 (2005: HK$67,141,000) and employee benefits expense of HK$511,187,000 (2005: HK$458,045,000).

(ii) The amortisation and impairment, where appropriate, of intangible assets and goodwill were included in "Other operating expenses" on the face of the consolidated income statement.

(iii) As at 31 March 2006, there were no material forfeited contributions available to the Group to reduce its contributions to the pension schemes in future years.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	**210**	185
Other emoluments:		
Salaries and other benefits	**14,137**	12,865
Pension scheme contributions	**1,131**	1,013
	15,268	13,878
	15,478	14,063

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
	HK$'000	HK$'000
Chan Bing Woon	**80**	80
Sung Yuen Lam	**80**	80
Lee Kwong Yin, Colin	**50**	25
	210	185

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors

	Fees HK$'000	Salaries and other benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006				
Wong Chung Pak, Thomas	**–**	**2,888**	**229**	**3,117**
Wong Wing Pak	**–**	**2,888**	**229**	**3,117**
Wong Leung Pak, Mattew	**–**	**2,888**	**229**	**3,117**
Tsang Wing Hang	**–**	**–**	**–**	**–**
Lee Yin Ching, Stanley	**–**	**955**	**91**	**1,046**
Lo Kin Wai	**–**	**704**	**48**	**752**
Cheng King Hoi, Andrew	**–**	**1,193**	**114**	**1,307**
Ng King Yee	**–**	**630**	**60**	**690**
Chan Yu Kwong, Francis	**–**	**1,192**	**80**	**1,272**
Mok Wah Fun, Peter	**–**	**799**	**51**	**850**
Lam Sze Hoo, Christopher	**–**	**–**	**–**	**–**
Cheng Wai Po, Sammel	**–**	**–**	**–**	**–**
	–	**14,137**	**1,131**	**15,268**
2005				
Wong Chung Pak, Thomas	–	2,615	213	2,828
Wong Wing Pak	–	2,735	213	2,948
Wong Leung Pak, Mattew	–	2,615	213	2,828
Tsang Wing Hang	–	–	–	–
Lee Yin Ching, Stanley	–	898	60	958
Lo Kin Wai	–	689	48	737
Cheng King Hoi, Andrew	–	925	90	1,015
Ng King Yee	–	594	56	650
Chan Yu Kwong, Francis	–	1,078	72	1,150
Mok Wah Fun, Peter	–	716	48	764
Lam Sze Hoo, Christopher	–	–	–	–
Cheng Wai Po, Sammel	–	–	–	–
Choi Pak Wing	–	–	–	–
	–	12,865	1,013	13,878

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Details of share options granted to the directors are set out in note 37 to the financial statements.

9. FIVE HIGHEST PAID INDIVIDUALS

All of the five highest paid individuals of the Group during each of the two years ended 31 March 2006 are directors, details of whose remuneration are set out in note 8 above.

10. TAX

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

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Current:		
Hong Kong	**830**	797
Elsewhere	**7,315**	6,770
Deferred *(note 35)*	**(469)**	7,213
Tax charge for the year	**7,676**	14,780

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2006

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	30,886		(20,292)		10,594	
Tax at the statutory tax rate	5,405	17.5	(6,696)	(33.0)	(1,291)	(12.2)
Profits and losses attributable to jointly-controlled entities and associates	–		2,277		2,277	
Income not subject to tax	(4,365)		(520)		(4,885)	
Expenses not deductible for tax	9,194		3,579		12,773	
Tax losses utilised from previous periods	–		(1,198)		(1,198)	
Tax charge/(credit) at the Group's effective rate	10,234	33.1	(2,558)	(12.6)	7,676	72.5

10. TAX *(continued)*

Group – 2005

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000 (Restated)	%
Profit before tax	54,843		9,238		64,081	
Tax at the statutory tax rate	9,598	17.5	3,049	33.0	12,647	19.7
Profits and losses attributable to jointly-controlled entities	–		1,466		1,466	
Income not subject to tax	(1,501)		(2,237)		(3,738)	
Expenses not deductible for tax	4,106		657		4,763	
Tax losses utilised from previous periods	(324)		(231)		(555)	
Tax losses not recognised	197		–		197	
Tax charge at the Group's effective rate	12,076	22.0	2,704	29.3	14,780	23.1

The share of tax charge attributable to associates amounting to HK$720,000 (2005: Nil) and the share of tax credit attributable to jointly-controlled entities amounting to HK$298,000 (2005: Nil), are included in "Share of profits and losses of associates and jointly-controlled entities" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The profit attributable to equity holders of the parent for the year ended 31 March 2006 dealt with in the financial statements of the Company was HK$5,557,000 (2005: HK$9,559,000) (note 38(b)).

12. DIVIDENDS

	2006	2005
	HK$'000	HK$'000
Interim:		
Nil (2005: HK1.5 cents) per ordinary share	–	5,909
Proposed final:		
Nil (2005: HK1.5 cents) per ordinary share	–	5,924
	–	11,833

13. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$256,000 (2005: HK$44,757,000 (restated)), and the weighted average number of 394,906,000 (2005: 393,996,959) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$256,000 (2005: HK$44,757,000 (restated)), and the weighted average number of 394,906,000 (2005: 393,996,959) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average number of 9,256,464 (2005: 6,166,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 March 2006	Note	Land use rights HK$'000	Buildings HK$'000	Hotel building HK$'000	Bus terminal structure HK$'000	Garage improvements HK$'000	Motor buses and vehicles HK$'000	Power plant HK$'000	Furniture, fixtures and office machinery HK$'000	Equipment and tools HK$'000	Construction in progress HK$'000	Total HK$'000
At cost or valuation:												
At beginning of year (as restated)		–	95,502	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	2,018,378
Additions		–	2,593	30	90	109	304,289	42	4,172	7,849	2,949	322,123
Reclassification		–	466	1,068	–	–	–	–	45	65	(1,644)	–
Disposals		–	(310)	–	–	–	(163,188)	–	(5,274)	(1,426)	–	(170,198)
Transfer to investment properties	*15*	–	(3,595)	–	–	–	–	–	–	–	–	(3,595)
Exchange realignment		–	1,304	1,450	8	115	21,215	53	560	378	169	25,252
At 31 March 2006		–	95,960	70,643	2,688	13,321	1,893,973	2,638	58,177	45,114	9,446	2,191,960
Accumulated depreciation:												
At beginning of year (as restated)		–	19,209	7,016	1,947	6,913	533,251	1,279	27,154	18,792	–	615,561
Provided during the year		–	4,548	1,741	178	814	180,489	257	5,977	5,142	–	199,146
Disposals		–	(199)	–	–	–	(116,306)	–	(5,073)	(979)	–	(122,557)
Impairment		–	1,289	–	–	–	–	–	–	–	–	1,289
Transfer to investment properties	*15*	–	(1,992)	–	–	–	–	–	–	–	–	(1,992)
Exchange realignment		–	255	159	5	22	6,661	28	230	221	–	7,581
At 31 March 2006		–	23,110	8,916	2,130	7,749	604,095	1,564	28,288	23,176	–	699,028
Net book value:												
At 31 March 2006		–	72,850	61,727	558	5,572	1,289,878	1,074	29,889	21,938	9,446	1,492,932

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

31 March 2005	*Note*	Land use rights HK$'000	Buildings HK$'000	Hotel building HK$'000	Bus terminal structure HK$'000	Garage improvements HK$'000	Motor buses and vehicles HK$'000	Power plant HK$'000	Furniture, fixtures and office machinery HK$'000	Equipment and tools HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
At cost or valuation:												
At beginning of year												
(as restated)		–	68,548	57,469	2,380	8,934	1,528,482	2,543	45,597	32,730	16,499	1,763,182
Additions		–	2,265	–	210	4,125	324,796	–	13,537	6,770	6,026	357,729
Reclassification		–	304	10,684	–	64	–	–	3,224	361	(14,637)	–
Disposals		–	–	(58)	–	(26)	(137,929)	–	(5,116)	(1,613)	–	(144,742)
Acquisition of												
subsidiaries	*39(b)*	–	24,385	–	–	–	16,308	–	1,432	–	84	42,209
At 31 March 2005												
(as restated)		–	95,502	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	2,018,378
Accumulated depreciation:												
At beginning of year												
(as restated)		–	15,647	5,332	1,777	6,134	478,134	1,017	26,615	14,796	–	549,452
Provided during the year												
(as restated)		–	3,562	1,684	170	805	169,620	262	5,173	4,750	–	186,026
Disposals		–	–	–	–	(26)	(114,503)	–	(4,634)	(754)	–	(119,917)
At 31 March 2005												
(as restated)		–	19,209	7,016	1,947	6,913	533,251	1,279	27,154	18,792	–	615,561
Net book value:												
At 31 March 2005												
(as restated)		–	76,293	61,079	643	6,184	1,198,406	1,264	31,520	19,456	7,972	1,402,817

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

Analysis of cost and valuation:

	Land use rights HK$'000	Buildings HK$'000	Hotel building HK$'000	Bus terminal structure HK$'000	Garage improvements HK$'000	Motor buses and vehicles HK$'000	Power plants HK$'000	Furniture, fixtures and office machinery HK$'000	Equipment and tools HK$'000	Construction in progress HK$'000	Total HK$'000
31 March 2006											
Analysis of cost and valuation:											
At cost	-	64,301	70,643	2,688	13,321	1,893,973	2,638	58,177	45,114	9,446	2,160,301
At 30 June 1996 professional valuation	-	31,659	-	-	-	-	-	-	-	-	31,659
	-	95,960	70,643	2,688	13,321	1,893,973	2,638	58,177	45,114	9,446	2,191,960
31 March 2005											
Analysis of cost and valuation:											
At cost (Restated)	-	63,843	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	1,986,719
At 30 June 1996 professional valuation (Restated)	-	31,659	-	-	-	-	-	-	-	-	31,659
	-	95,502	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	2,018,378

Certain of the Group's leasehold buildings situated in Hong Kong were revalued at 30 June 1996 by C.Y. Leung & Company Limited (currently known as DTZ Debenham Tie Leung Limited), a firm of independent professionally qualified valuers, on an open market value, existing use basis. In the opinion of the directors, the fair values of the leasehold buildings were approximately the same as the carrying values of the respective assets at 31 March 2006.

Had all the leasehold buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$73,694,000 (2005: HK$75,859,000 (restated)) as at 31 March 2006.

Certain of the Group's property, plant and equipment of HK$106,254,000 (2005: HK$17,290,000 (restated)), were pledged to secure banking facilities granted to the Group as set out in note 31 to the financial statements.

Certain of the Group's shop units in the hotel building and certain of the Group's motor buses and vehicles are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

Certain of the Group's motor buses and vehicles with an aggregate net book value of HK$50,878,000 (2005: Nil) were held under finance leases as set out in note 32 to the financial statements.

15. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 April	**–**	–
Transfer from prepaid land lease payments *(note 16)*	**4,608**	–
Transfer from owner-occupied properties *(note 14)*	**1,603**	–
Net profit from a fair value adjustment	**2,819**	–
Carrying amount at 31 March	**9,030**	–

The Group's investment properties are held under medium term leases and are situated in Hong Kong.

The Group's investment properties were revalued on 31 March 2006 by Midland Surveyors Limited, independent professionally qualified valuers, at HK$9,030,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

At 31 March 2006, the Group's investment properties with a carrying value of HK$8,030,000 (2005: Nil) were pledged to secure general banking facilities granted to the Group (note 31).

Further particulars of the Group's investment properties are included on page 137.

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 April:		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.2(a))*	**112,134**	84,387
As restated	**112,134**	84,387
Additions	**–**	7,326
Acquisition of subsidiaries *(note 39(b))*	**–**	39,310
Transfer to properties held for sale *(note 23)*	**–**	(15,686)
Impairment	**(384)**	–
Transfer to investment properties *(note 15)*	**(4,608)**	–
Recognised during the year	**(4,171)**	(3,203)
Exchange realignment	**1,925**	–
Carrying amount at 31 March	**104,896**	112,134
Current portion included in prepayments, deposits and other receivables *(note 26)*	**(4,130)**	(4,169)
Non-current portion	**100,766**	107,965

The leasehold land are held under medium term leases and are situated in Hong Kong and Mainland China.

Certain of the Group's leasehold land of HK$68,614,000 (2005: HK$68,621,000 (restated)) were pledged to secure banking facilities granted to the Group as set out in note 31 to the financial statements.

17. INTANGIBLE ASSETS

Group

	Taxi operating rights HK$'000	Passenger service licenses HK$'000	Bus route operating rights HK$'000	Advertising rights HK$'000	Total HK$'000
31 March 2006					
Cost at 1 April 2005, net of accumulated amortisation	4,101	–	11,576	6,392	22,069
Additions	–	7,433	–	–	7,433
Amortisation provided during the year	(255)	–	(684)	(267)	(1,206)
Exchange realignment	66	–	180	136	382
At 31 March 2006	3,912	7,433	11,072	6,261	28,678
At 31 March 2006:					
Cost	5,208	7,433	16,116	8,015	36,772
Accumulated amortisation	(1,296)	–	(5,044)	(1,754)	(8,094)
Net carrying amount	3,912	7,433	11,072	6,261	28,678
31 March 2005					
At 1 April 2004:					
Cost	5,100	–	15,780	7,848	28,728
Accumulated amortisation	(744)	–	(2,470)	(1,194)	(4,408)
Net carrying amount	4,356	–	13,310	6,654	24,320
Cost at 1 April 2004, net of accumulated amortisation	4,356	–	13,310	6,654	24,320
Amortisation provided during the year	(255)	–	(1,734)	(262)	(2,251)
At 31 March 2005	4,101	–	11,576	6,392	22,069
At 31 March 2005:					
Cost	5,100	–	15,780	7,848	28,728
Accumulated amortisation	(999)	–	(4,204)	(1,456)	(6,659)
Net carrying amount	4,101	–	11,576	6,392	22,069

17. INTANGIBLE ASSETS *(continued)*

Passenger service licenses have been allocated to the non-franchised bus cash-generating unit. Details of impairment testing are set out in note 18 to the financial statements.

18. GOODWILL/NEGATIVE GOODWILL

Group

	Goodwill HK$'000	Negative goodwill HK$'000	Total HK$'000
31 March 2006			
At 1 April 2005:			
Cost as previously reported	21,538	(12,790)	8,748
Effect of adopting HKFRS 3 *(note 2.2(d))*	(1,779)	12,790	11,011
Cost as restated	19,759	–	19,759
Accumulated amortisation as previously reported	(1,779)	2,705	926
Effect of adopting HKFRS 3 *(note 2.2(d))*	1,779	(2,705)	(926)
Accumulated amortisation as restated	–	–	–
Net carrying amount	19,759	–	19,759
Cost at 1 April 2005	19,759	–	19,759
Adjustment *(note)*	(1,000)	–	(1,000)
Impairment during the year	(2,381)	–	(2,381)
Cost and carrying amount at 31 March 2006	16,378	–	16,378
At 31 March 2006:			
Cost	18,759	–	18,759
Accumulated impairment	(2,381)	–	(2,381)
Net carrying amount	16,378	–	16,378

18. GOODWILL/NEGATIVE GOODWILL *(continued)*

Group

	Goodwill HK$'000	Negative goodwill HK$'000	Total HK$'000
At 1 April 2004:			
Cost	7,355	(12,790)	(5,435)
Accumulated amortisation	(539)	1,320	781
Net carrying amount	6,816	(11,470)	(4,654)
Cost at 1 April 2004, net of accumulated amortisation	6,816	(11,470)	(4,654)
Acquisition of subsidiaries *(note 39 (b))*	7,183	–	7,183
Addition arose from the reclassification of a jointly-controlled entity to a subsidiary during the year	7,000	–	7,000
Amortisation provided/(recognised as income) during the year	(1,240)	1,385	145
At 31 March 2005	19,759	(10,085)	9,674
At 31 March 2005:			
Cost	21,538	(12,790)	8,748
Accumulated amortisation	(1,779)	2,705	926
Net carrying amount	19,759	(10,085)	9,674

Note: During the year ended 31 March 2005, the Group entered into a joint venture agreement with an independent third party in relation to the Group's investment in a joint venture for a possible maximum consideration of HK$14 million. The purchase consideration was contingent on a specified level of earnings of the joint venture being achieved in future periods. Based on the estimated earnings of the joint venture, the Group recorded an acquisition consideration payable and corresponding goodwill. During the year ended 31 March 2006, the contingent event was resolved and the final purchase consideration was determined based on the actual earnings of the joint venture, resulting in an adjustment of HK$1 million to the acquisition consideration payable and corresponding goodwill.

As further detailed in note 2.2 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

18. GOODWILL/NEGATIVE GOODWILL *(continued)*

The amounts of goodwill and negative goodwill remaining in the consolidated reserves or credited to the capital reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, were HK$1,855,000 and HK$4,042,000, respectively, as at 31 March 2005. Upon the adoption of HKFRS 3 on 1 April 2005, such negative goodwill of HK$4,042,000 was derecognised with a corresponding adjustment to the opening balance of retained profits. The amount of goodwill is stated at its cost of HK$1,855,000 which arose in prior years.

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and passenger service licenses have been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Designated bus cash-generating unit; and
- Non-franchised bus cash-generating unit

The recoverable amount of the designated bus cash-generating and non-franchised bus cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering an eight-year period, which approximate the average useful lives of motor buses and vehicles. The discount rate applied to cash flow projections is 5.8% (2005: 5.5%). This rate does not exceed the average long-term growth rate for the relevant markets.

The carrying amount of goodwill and passenger service licenses allocated to each of the cash-generating units is as follows:

	Designated bus		Non-franchised bus		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**10,645**	13,026	**5,733**	6,733	**16,378**	19,759
Carrying amount of intangible assets with indefinite lives	**–**	–	**7,433**	–	**7,433**	–

Key assumptions were used in the value in use calculation of the designated bus and non-franchised bus cash-generating units for the years ended 31 March 2006 and 31 March 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and passenger service licences:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

General price inflation – The inflation rates used are with reference to current market conditions.

19. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**71,070**	71,070
Due from subsidiaries	**565,150**	565,521
	636,220	636,591

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Date of incorporation/ registration	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company# 2006	2005	Principal activities
Kwoon Chung Buses Investment Limited	British Virgin Islands/ Hong Kong	2 January 1996	Ordinary US$6,000	**100**	100	Investment holding
Chongqing Everbright International Travel Co., Ltd. **	Mainland China	11 January 2000	RMB5,000,000	**60**	60	Tour operations
Chongqing Grand Hotel Co., Ltd. **	Mainland China	13 October 1986	RMB35,000,000	**60**	60	Hotel operations
Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd. **	Mainland China	14 March 2000	RMB62,672,087	**42.15***	42.15*	Provision of bus and travel-related services
Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. **	Mainland China	23 December 1998	RMB90,000,000	**30.25***	30.25*	Provision of bus and travel-related services
Chongqing Pengshui Dongguaxi Hydropower Station Co., Ltd. **	Mainland China	16 June 1998	RMB4,000,000	**60**	60	Power generation
Chongqing Tourism Coach Co., Ltd. **	Mainland China	17 October 2000	RMB8,000,000	**60**	60	Provision of coach hire services

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Date of incorporation/ registration	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company# 2006	2005	Principal activities
Chongqing Tourism (Group) Co., Ltd. **	Mainland China	6 May 1998	RMB56,600,000	60	60	Investment holding
Gallic Limited	Hong Kong	3 April 1990	Ordinary HK$900	100	100	Property holding
Good Funds Services Limited	Hong Kong	6 November 1984	Ordinary HK$75 Non-voting deferred HK$500,025	100	100	Provision of coach hire and travel-related services
Guangzhou New Era Express Bus Co., Ltd.**	Mainland China	12 February 1993	RMB21,335,600	56	56	Provision of bus and travel-related services
HK Kwoon Chung (Anshan) Bus Investment Limited	Hong Kong	25 June 1997	Ordinary HK$2	100	100	Investment holding
HK Kwoon Chung (Chongqing) Bus Investment Limited	Hong Kong	21 January 1998	Ordinary HK$46,261,682	55	55	Investment holding
HK Kwoon Chung (Dalian) Bus Investment Limited	Hong Kong	19 August 1983	Ordinary HK$1,000	100	100	Investment holding
HK Kwoon Chung (Harbin) Bus Investment Limited	Hong Kong	19 September 1996	Ordinary HK$2	100	100	Investment holding
HK Kwoon Chung (Hubei) Bus Investment Company Limited	Hong Kong	23 August 1999	Ordinary HK$2	100	100	Investment holding
HK Kwoon Chung (Jieyang) Bus Investment Limited	Hong Kong	17 September 1996	Ordinary HK$2	100	100	Investment holding
Hubei Shenzhou Transport Holdings Co., Ltd.****	Mainland China	22 October 2001	RMB131,843,807	100	100	Provision of bus and travel-related services
King Chau Keung Tat Transportation Co., Ltd. **	Mainland China	13 November 1993	RMB15,243,640	84.27	84.27	Provision of bus and travel-related services
HK Kwoon Chung Tourism Development Company Limited	Hong Kong	16 November 2005	Ordinary HK$1	100	–	Provision of travel-related services

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Date of incorporation/ registration	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company# 2006	2005	Principal activities
Kwoon Chung Motors Company, Limited	Hong Kong	15 May 1979	Ordinary HK$200 Non-voting deferred HK$10,000,000	100	100	Provision of bus, coach hire and travel-related services
Kwoon Chung Travel Company Limited	Hong Kong	7 March 1996	Ordinary HK$2	100	100	Investment holding
Kwoon Chung (China) Development Company Limited	Hong Kong	12 September 1991	Ordinary HK$1,000,000	100	100	Investment holding
Jieyang Guanyun Transportation Company Limited **	Mainland China	24 June 1997	RMB22,891,755	60.63	60.63	Provision of bus and travel-related services
Lantau Tours Limited	Hong Kong	14 March 1972	Ordinary HK$500,000	100	100	Provision of coach hire and tour services
New Lantao Bus Company (1973) Limited	Hong Kong	11 May 1973	Ordinary HK$14,116,665	99.99	99.99	Provision of bus and travel-related services
Shanghai Pudong Kwoon Chung Public Transport Co., Ltd. **	Mainland China	3 June 1992	RMB100,000,000	90	90	Provision of bus and travel-related services
Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. **	Mainland China	16 June 1998	RMB120,000,000	52.4	52.4	Provision of bus and travel-related services
Tai Fung Coach Company Limited	Hong Kong	15 May 1981	Ordinary HK$1,000,000	100	100	Provision of coach hire and travel-related services
Trade Travel (Hong Kong) Limited	Hong Kong	22 August 1975	Ordinary HK$500,000	100	100	Provision of hiring services of limousines, minibuses and coaches

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Date of incorporation/ registration	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company# 2006	2005	Principal activities
Wealth Crown Investment Limited	Hong Kong	5 November 1999	HK$1,000,000	65	65	Investment holding
GFTZ Xing Hua International Transport Limited ***	Mainland China	24 January 1994	RMB30,000,000	52.5	52.5	Provision of bus and travel-related services
GFTZ Xing Hua Tourism Bus Company Limited **	Mainland China	8 April 1994	HK$40,000,000	52.5	52.5	Provision of bus and travel-related services
Trans-Island Limousine Service Limited	Hong Kong	21 September 1973	HK$30,005,000	100	100	Provision of bus and coach hire services
Intercontinental Hire Cars Limited	Hong Kong	13 August 1968	HK$10,000,000	100	100	Provision of bus and coach hire services
Shanghai Public Transport Hubei Passenger Road Transport Services Company ***	Mainland China	5 May 1994	RMB2,000,000	47.16*	47.16*	Provision of bus and travel-related services

Represents the effective holding of the Group after minority interests therein

* *Subsidiaries of non-wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them*

** *Registered as Sino-foreign equity joint venture companies in the People's Republic of China (the "PRC")*

*** *Limited company established in the PRC*

**** *A wholly-foreign owned enterprise under the law of the PRC*

Except for Kwoon Chung Buses Investment Limited, all principal subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	**136,004**	131,004
Share of post-acquisition results	**14,738**	14,981
Less: Accumulated amortisation	**(87,104)**	(77,990)
	63,638	67,995
Due from jointly-controlled entities	**64,892**	62,777
Due to jointly-controlled entities	**(30,396)**	(2,068)
Loans to jointly-controlled entities	**7,560**	8,375
	105,694	137,079

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.

The other balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

The carrying amounts of the loans and other balances approximate to their fair values.

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Registered paid-up capital	Tenure	Percentage of Voting power	Percentage of Ownership interest and profit sharing	Principal activities
Anshan Kwoon Chung Public Transport Co., Ltd.	Corporate	Mainland China	RMB16,408,615	15 years expiring on 31 March 2013	60	50	Provision of bus services
Dalian Kwoon Chung Public Transport Co., Ltd.	Corporate	Mainland China	RMB18,100,000	15 years expiring on 12 June 2011	57	50	Provision of bus services
Guangzhou Kwoon Chung Bus Co., Ltd.	Corporate	Mainland China	HK$76,000,000	17 years expiring on 8 October 2011	50	50	Provision of bus services
Harbin Kwoon Chung Public Transport Co., Ltd.	Corporate	Mainland China	RMB11,106,025	15 years expiring on 23 December 2011	57	50	Provision of bus services
Shantou Kwoon Chung Bus Co., Ltd.	Corporate	Mainland China	HK$20,460,000	12 years expiring on 10 October 2007	50	50*	Provision of bus services

* *55% for the first three years and 50% from the fourth year onwards.*

In accordance with the joint venture agreements, the title to all assets of the jointly-controlled entities will revert to the joint venture partners in Mainland China at the end of the contractual periods.

All of the above investments in joint-controlled entities are indirectly held by the Company.

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2006 HK$'000	2005 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**31,570**	21,162
Non-current assets	**39,312**	40,301
Current liabilities	**(20,032)**	(16,614)
Non-current liabilities	**(18,023)**	(14,683)
Net assets	**32,827**	30,166
Share of the jointly-controlled entities' results:		
Turnover	**53,950**	29,704
Other revenue	**174**	367
Total revenue	**54,124**	30,071
Total expenses	**(54,069)**	(29,763)
Tax	**(298)**	–
Profit/(loss) after tax	**(243)**	308

21. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**26,465**	7,896
Goodwill on acquisitions	**20,549**	–
	47,014	7,896
Due from associates	**6,950**	3,045
	53,964	10,941

The amounts due from associates are unsecured, interest-free and repayable within one year, except for an amount due from an associate of HK$6,912,000 (2005: Nil) which bears interest at a rate of 6.12% per annum and is repayable within five years.

The carrying amounts of the amounts due from associates approximate to their fair values.

21. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the associates are as follows:

Name	Particulars of issued shares held/registered paid-up capital	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group 2006	2005	Principal activities
Chongqing Wansheng Transportation Centre Co. Ltd*#	RMB8,400,000	Corporate	Mainland China	**40**	40	Dormant
All China Express Limited#	63 ordinary shares of HK$1 each	Corporate	Hong Kong	**36.26**	36.26	Provision of bus and travel-related services
綦江縣汽車站有限公司 *#	RMB637,830	Corporate	Mainland China	**33.33**	–	Provision of bus terminal management services
Guangzhou City Panguang Public Bus Company Limited *#	RMB2,369,000	Corporate	Mainland China	**23.69**	–	Provision of designated bus route services

\# *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms*

* *Limited liability companies established in the PRC*

The above associates have a financial year ends of 31 December. The consolidated financial statements are adjusted for the material transactions between 1 January and 31 March. The associates use 31 December as their reporting date as required by the PRC regulations or to conform with their holding companies' reporting date.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2006 **HK$'000**	2005 HK$'000
Assets	181,281	22,554
Liabilities	76,009	22,004
Revenues	115,152	147,638
Profit after tax	1,636	57

22. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted equity investments in Mainland China, at cost	4,374	3,846
Less: Provision for impairment	(470)	(470)
	3,904	3,376

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 April 2005 and have no fixed maturity date or coupon rate. The unlisted available-for-sale equity investments, whose fair values cannot be measured reliably, have been stated at cost less any impairment losses.

23. PROPERTIES HELD FOR SALE

During the year ended 31 March 2005, a land use right classified under prepaid land lease payments with a carrying value of HK$15,686,000 was reclassified under properties held for sale at its net book value at the date of transfer.

During the year ended 31 March 2006, the Group entered into a sale and purchase agreement with an independent third party to disposal of a piece of land for a consideration of approximately HK$34.7 million. This transaction is scheduled to be completed on the second half of 2006 and is expected to result in a gain on disposal before tax of approximately HK$3.2 million.

24. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Spare parts and other consumables	22,205	20,195

25. TRADE RECEIVABLES

Included in the Group's trade receivables are amounts due from an associate of HK$9,623,000 (2005: HK$7,253,000), 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 as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 30 days	**63,057**	59,547
31 to 60 days	**21,636**	11,205
61 to 90 days	**6,273**	7,271
Over 90 days	**8,003**	9,558
	98,969	87,581

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Prepayments	**22,360**	15,850	**183**	183
Prepaid land lease payments (note 16)	**4,130**	4,169	**–**	–
Deposits and other receivables	**72,476**	63,638	**–**	–
Due from joint venturers (note 34)	**18,666**	17,385	**–**	–
	117,632	101,042	**183**	183

The carrying amounts of these balances approximate to their fair values.

Included in other receivables is an amount of HK$1,920,000 (2005: Nil) which is secured by a property situated in Mainland China, bears interest at 12% per annum and is repayable within one year.

27. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2006	
	Assets	Liabilities
	HK$'000	HK$'000
Interest rate swaps contracts	1,790	2,500

The carrying amounts of interest rate swaps are the same as their fair values.

At 31 March 2006, the Group had interest rate swap contracts in place with a total notional amount of HK$400,000,000, which did not meet the criteria for hedge accounting. The changes in fair value of these derivatives amounting to HK$518,000 (2005: Nil) were charged to the income statement during the year.

28. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**108,828**	164,277	**301**	296
Time deposits	**47,868**	22,117	**–**	–
	156,696	186,394	**301**	296
Less: Pledged time deposits for bank loans (note 31)	**(19,469)**	(14,760)	**–**	–
Cash and cash equivalents	**137,227**	171,634	**301**	296

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$90,585,000 (2005: HK$110,447,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

29. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 30 days	**52,930**	40,572
31 to 60 days	**5,420**	5,415
61 to 90 days	**884**	3,127
Over 90 days	**6,098**	9,642
	65,332	58,756

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

30. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**114,429**	113,311	**–**	–
Other payables	**130,191**	120,324	**67**	66
Due to a joint venturer *(note 34)*	**30,731**	9,729	**–**	–
	275,351	243,364	**67**	66

Other payables are non-interest-bearing and have an average term of three months.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Annual effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000
Current				
Finance lease payables (note 32)	5.50	2007	**12,863**	–
Bank loans – secured	5.04	2007	**246,529**	166,999
Bank loans – unsecured	5.24	2007	**78,459**	93,647
Other loans – unsecured	5.94	2007	**37,975**	10,437
			375,826	271,083
Non-current				
Finance lease payables (note 32)	5.50	2011	**40,926**	–
Bank loans – secured	5.04	2007 – 2011	**252,117**	295,928
Bank loans – unsecured	5.24	2007 – 2011	**44,654**	48,986
Other loans – unsecured	5.94	N/A	**–**	37,972
			337,697	382,886
			713,523	653,969

	Group 2006 HK$'000	Group 2005 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**324,988**	260,646
In the second year	**167,719**	189,414
In the third to fifth years, inclusive	**129,052**	155,500
	621,759	**605,560**
Other borrowings repayable:		
Within one year	**50,838**	10,437
In the second year	**40,926**	37,972
	91,764	48,409
	713,523	653,969

31. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

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$174,868,000 (2005: HK$85,911,000 (restated)) as at 31 March 2006, an investment property with a net carrying value of HK$8,030,000 (2005: Nil) and time deposits of HK$19,469,000 (2005: HK$14,760,000); (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$540,000,000 (2005: HK$300,000,000) under a debenture given by the Company.

The Group's other loans of HK$37,975,000 (2005:HK$37,972,000) are unsecured, bear interest at a rate of 5.94% (2005: 5.94%) per annum and are repayable within one year. In the prior year, the Group's other loans of HK$10,437,000 were unsecured, had no fixed terms of repayment and bore interest at a rate of 5% per annum.

A minority shareholder of a subsidiary of the Group has guaranteed certain of the Group's bank loans up to HK$53,376,000 (2005: HK$75,200,000).

Except for bank loans of HK$276,968,000 and other borrowings of HK$37,972,000 which are denominated in RMB, all other borrowings are in Hong Kong dollars.

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Finance lease payables	**53,789**	**–**	–	–
Bank loans – secured	**–**	**498,646**	–	462,927
Bank loans – unsecured	**–**	**123,113**	–	142,633
Other loans – unsecured	**37,975**	**–**	48,409	–

The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values.

32. FINANCE LEASE PAYABLES

The Group leases certain of its motor buses and vehicles for its transportation business. These leases are classified as finance leases and have remaining lease terms of five years.

At 31 March 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2006 HK$'000**	Minimum lease payments 2005 HK$'000	**Present value of minimum lease payments 2006 HK$'000**	Present value of minimum lease payments 2005 HK$'000
Amounts payable:				
Within one year	**13,410**	–	**12,863**	–
In the second year	**12,952**	–	**11,895**	–
In the third to fifth years, inclusive	**34,737**	–	**29,031**	–
Total minimum finance lease payments	**61,099**	–	**53,789**	–
Future finance charges	**(7,310)**	–		
Total net finance lease payables	**53,789**	–		
Portion classified as current liabilities *(note 31)*	**(12,863)**	–		
Non-current portion *(note 31)*	**40,926**	–		

33. DUE TO DIRECTORS

The amounts due to directors were unsecured, interest-free and fully settled during the year.

34. BALANCES WITH JOINT VENTURERS

The balances with joint venturers are unsecured and interest-free. Except for the amounts due to joint venturers of HK$63,938,000 (2005: HK$79,690,000) which are not repayable within the next 12 months from the balance sheet date and have an annual effective interest rate of 6.12%, the remaining balances with joint venturers have no fixed terms of repayment. The carrying amounts of the balances with joint venturers approximate to their fair values.

35. DEFERRED TAX LIABILITIES

The movements in net deferred tax liabilities during the year are as follows:

	Notes	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Others HK$'000	Losses available for offset against future taxable profit HK$'000	Total HK$'000
At 1 April 2004 (restated)		93,030	728	(213)	(22,459)	71,086
Deferred tax charged/(credited) to the income statement during the year (restated)	*10*	9,666	–	(66)	(2,387)	7,213
Derecognition of deferred tax in assets revaluation reserve (restated)		–	(169)	–	–	(169)
Acquisition of subsidiaries	*39(b)*	930	–	–	–	930
At 31 March 2005 and 1 April 2005 (restated)		103,626	559	(279)	(24,846)	79,060
Deferred tax charged/(credited) to the income statement during the year	*10*	(2,869)	493	–	1,907	(469)
Exchange differences		1,389	–	–	–	1,389
At 31 March 2006		102,146	1,052	(279)	(22,939)	79,980

The Group has tax losses arising in Mainland China of HK$20,501,000 (2005: HK$31,372,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses due to unpredictability of future taxable income streams.

35. DEFERRED TAX LIABILITIES *(continued)*

At 31 March 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 March 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of the Group's associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts to be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

36. SHARE CAPITAL

Shares

	2006	2005
	HK$'000	HK$'000
Authorised:		
600,000,000 ordinary shares of HK$0.10 each	**60,000**	60,000
Issued and fully paid:		
394,906,000 (2005: 394,906,000) ordinary shares of HK$0.10 each	**39,491**	39,491

During the year ended 31 March 2005, the subscription rights attaching to 1,000,000 share options were exercised at the subscription price of HK$1.2 per share, resulting in the issuance of 1,000,000 shares of HK$0.10 each for a total cash consideration of HK$1,200,000.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

37. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder of the Company's subsidiaries. The Scheme became effective on 26 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the issued share capital of the Company at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the issued share capital of the Company in that period. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the issued shares capital of the Company or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer. A consideration of HK$1 is payable on acceptance of the offer of the grant of an option. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the grant of share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of offer of the grant, which must be a trading date; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of offer of the grant; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

37. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 April 2005	Granted during the year	Exercised during the year	At 31 March 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	–	–	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	–	–	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	3,500,000	–	–	3,500,000					
Wong Wing Pak	2,000,000	–	–	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	–	–	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	3,500,000	–	–	3,500,000					
Wong Leung Pak, Matthew	2,000,000	–	–	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	–	–	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	3,500,000	–	–	3,500,000					
Tsang Wing Hang	1,000,000	–	–	1,000,000	2 October 2003	5 September 2003 to 4 September 2013	1.200	1.170	N/A
Lee Yin Ching, Stanley	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					

37. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme during the year: *(continued)*

Name or category of participant	Number of share options: At 1 April 2005	Granted during the year	Exercised during the year	At 31 March 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 *(continued)*									
Lo Kin Wai	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					
Cheng King Hoi, Andrew	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					
Ng King Yee	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					
Chan Yu Kwong, Francis	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					
Mok Wah Fun, Peter	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					

37. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme during the year: *(continued)*

Name or category of participant	Number of share options: At 1 April 2005	Granted during the year	Exercised during the year	At 31 March 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 *(continued)*									
Chan Bing Woon, SBS, JP	500,000	–	–	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	700,000	–	–	700,000					
Sung Yuen Lam	500,000	–	–	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	700,000	–	–	700,000					
Lee Kwong Yin, Colin	100,000	–	–	100,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
Shareholders									
In aggregate	3,500,000	–	–	3,500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
Suppliers of goods or services									
In aggregate	2,500,000	–	–	2,500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
Other employees									
In aggregate	4,900,000	–	–	4,900,000	2 October 2003	5 September 2003 to 4 September 2013	1.200	1.170	N/A
	100,000	–	–	100,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	5,000,000	–	–	5,000,000					
	31,200,000	–	–	31,200,000					

37. SHARE OPTION SCHEME *(continued)*

* *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.*

At the balance sheet date, the Company had 31,200,000 share options outstanding under the Scheme, which represented approximately 7.9% of the Company's shares in issue as at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issuance of 31,200,000 additional ordinary shares of the Company and additional share capital of HK$3,120,000 and share premium of HK$27,090,000 (before issue expenses).

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 45 to 46 of the financial statements.

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in August 1996, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the accounting standards and regulations applicable in Mainland China and the joint venture agreements, the subsidiaries in Mainland China are required to transfer part of their net profit after tax to the enterprise expansion fund and the reserve fund, which are non-distributable, before profit sharing by the joint venture partners. The amounts of the transfer are subject to the approval of the board of directors of these subsidiaries in accordance with the respective joint venture agreements.

(b) Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2004		522,111	70,770	(118)	592,763
Issue of shares		1,100	–	–	1,100
Profit for the year		–	–	9,559	9,559
Interim 2005 dividend	*12*	–	–	(5,909)	(5,909)
Proposed final 2005 dividend	*12*	–	–	(5,924)	(5,924)
At 31 March 2005		523,211	70,770	(2,392)	591,589
Profit for the year		–	–	5,557	5,557
At 31 March 2006		523,211	70,770	3,165	597,146

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in August 1996 over the nominal value of the Company's shares issued in exchange therefor.

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is distributable to shareholders under certain circumstances.

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$54,622,000 (2005: Nil).

(b) Acquisition of subsidiaries

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Net assets acquired:			
Property, plant and equipment	*14*	–	42,209
Prepaid land lease payments	*16*	–	39,310
Properties held for sale		–	69,746
Inventories		–	1,388
Trade receivables		–	2,490
Deposits and other receivables		–	5,095
Cash and bank balances		–	24,330
Trade payables		–	(8,094)
Other payables		–	(48,380)
Other loans		–	(9,367)
Bank loans		–	(7,069)
Deferred tax liabilities	*35*	–	(930)
Minority interests		–	(12,131)
		–	98,597
Goodwill on acquisition	*18*	–	7,183
		–	105,780
Satisfied by:			
Cash		–	105,780

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2006 HK$'000	2005 HK$'000
Cash paid	–	(105,780)
Cash and bank balances acquired	–	24,330
Net outflow of cash and cash equivalents	–	(81,450)

39. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

In June 2004, the Group acquired a 56% effective interest in Guangzhou New Era Express Bus Company Limited ("New Era Express"). New Era Express is engaged in the provision of bus and travel-related services. The purchase consideration of HK$17,040,000 for the acquisition was in the form of cash. Since its acquisition, New Era Express contributed HK$21,082,000 to the Group's turnover and a net profit of HK$3,592,000 to the consolidated net profit for the year ended 31 March 2005.

In August 2004, the Group acquired the entire equity interest in Hubei Shenzhou Transport Holdings Company Limited ("Hubei Shenzhou"). Hubei Shenzhou and its subsidiaries are principally engaged in investment holding and the provision of bus and travel-related services. The purchase consideration of HK$88,740,000 for the acquisition was in the form of cash. Since its acquisition, Hubei Shenzhou and it subsidiaries contributed HK$22,162,000 to the Group's turnover and a net profit of HK$5,535,000 to the consolidated net profit for the year ended 31 March 2005.

40. CONTINGENT LIABILITIES

The Company has given certain guarantees amounting to HK$760,700,000 (2005: HK$695,300,000) in favour of a bank for the banking facilities granted to its subsidiaries and a jointly-controlled entity.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its shop units in hotel building, investment properties and certain of its motor buses and vehicles (note 14) under operating lease agreements, with leases negotiated for terms ranging from one to five years.

At 31 March 2006, the Group had total future minimum lease rental receivables under non-cancellable operating leases with its tenants falling due as follows:

	2006 **HK$'000**	2005 HK$'000
Within one year	**8,908**	5,386
In the second to fifth years, inclusive	**14,927**	9,062
After five years	**202**	668
	24,037	15,116

41. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its office properties, bus depots, terminals and car parks under operating lease agreements that are non-cancellable. Leases for office properties are negotiated for terms ranging from 1 to 29 years and those for bus depots, terminals and car parks are negotiated for terms ranging from 1 to 30 years.

At 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**23,333**	19,371
In the second to fifth years, inclusive	**13,311**	13,661
After five years	**19,074**	20,094
	55,718	53,126

At the balance sheet date, the Company had no outstanding operating lease commitments.

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following capital commitments at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
Acquisition of motor buses and vehicles	**76,076**	100,330
Authorised, but not contracted for:		
Acquisition of an associate	**–**	31,020
	76,076	131,350

43. PLEDGE OF ASSETS

Details of the Group's bank and other borrowings which are secured by the assets of the Group are included in note 31 to the financial statements.

44. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with connected and/or related parties during the year:

	Notes	**2006** **$'000**	2005 $'000
Rental expenses paid to joint venturers	(i), (ii)	**3,410**	3,271
Jointly-controlled entities:			
Interest income	(iii)	**81**	1,121
Coach rental income	(iv)	**–**	5,734
Repairs and maintenance service income	(v)	**–**	1,308
Purchases of fuel from related companies	(vi), (vii)	**14,584**	8,797
Refuelling and bus washing charges paid to related companies	(vi), (vii)	**120**	467
Rental expenses paid to a related company	(viii)	**2,315**	176
Associates:			
Coach rental income	(iv)	**32,981**	29,802
Management fee	(ix)	**–**	16,418

(a) *Notes:*

(i) In 2004, 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$191,000 (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$2,536,000 (equivalent to approximately RMB2,656,000) (2005: HK$2,430,000) to Shanghai Public Transport during the year.

(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 agreement, Chongqing KC No. 3 paid rental expenses amounting to approximately HK$874,000 (equivalent to approximately RMB915,000) (2005: HK$841,000) to Chongqing Public Transport during the year.

44. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

(a) *Notes: (continued)*

(iii) The interest income arose from the loans to jointly-controlled entities, details of the terms thereof are disclosed in note 20 to the financial statements.

(iv) The coach rental income was made according to the prices and conditions similar to those offered by the Group to its customers.

(v) The repairs and maintenance service income was charged based on terms agreed between the Group and the jointly-controlled entity.

(vi) 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$11,906,000 (2005: HK$8,797,000). 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.

(vii) 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$2,678,000 (2005: Nil). The refuelling charge was based on a fixed rate of HK$0.65 per litre for the total quantity of fuel refueled and the bus washing charge was based on a fixed rate of HK$16 per vehicle. The aggregate fees related to refueling and bus washing services was HK$450 (2005: Nil).

(viii) 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$203,711), 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 year amounted to HK$2,315,000 (2005: HK$226,000).

(ix) The management fee income was charged based on the direct costs incurred.

44. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transaction with a related party:

(i) Shanghai Public Transport has guaranteed certain bank loans made to the Group of up to HK$56,640,000 (2005: HK$56,400,000) as at 31 March 2006.

(c) Outstanding balances with related parties:

(i) Details of the Group's due from its associates as at the balance sheet date are included in note 21 to the financial statements, and details of the Group's balances with its jointly-controlled entities and joint venturers are included in notes 20 and 34 to the financial statements, respectively.

(ii) Details of the Group's trade balances with its associates as at the balance sheet date are disclosed in note 25 to the financial statements.

(d) Compensation of key management personnel of the Company represented directors' remuneration as disclosed in note 8 to the financial statements.

The related party transactions in respect of items (a)(vi), (a)(vii) and (a)(viii) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. Further details of the transactions are disclosed in the section headed "Connected transactions" in the report of the directors.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, other interest-bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps contracts. The purpose is to manage the interest rate risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps contracts, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 51.19% (2005: 52.87%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 51.29% (2005: 54.54%) of costs are denominated in the unit's functional currency.

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$90,585,000 (2005: HK$110,447,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. In accordance with the foreign exchange regulations applicable in Mainland China, the cash and bank balances held by subsidiaries in Mainland China are not freely remittable to Hong Kong.

Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale equity investments and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, other interest-bearing loans and finance leases.

For the management of the Group's liquidity risk, the Group monitors and maintains a sufficient level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

46. POST BALANCE SHEET EVENTS

(a) On 24 May 2006, the Group entered into a share transfer agreement with NWFB, to dispose of its entire 23.69% equity interest in Guangzhou City Panguang Public Bus Company Limited ("Panguang"), an associate of the Group, for a consideration of RMB36,428,000 (equivalent to approximately HK$34,971,000). This transaction is scheduled to be completed in the second half of 2006 and is expected to result in a gain on disposal before tax of approximately HK$970,000.

(b) On 7 June 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of its hydropower plant which is situated in Chongqing, Mainland China, for a consideration of RMB4,500,000 (equivalent to HK$4,300,000). The transaction was completed on 30 June 2006, resulting in a gain on disposal of approximately HK$50,000.

(c) On 12 June 2006, the Group entered into a joint venture agreement (the "Agreement") with independent third parties whereby the Group agreed to inject RMB35,137,000 (equivalent to approximately HK$33,732,000) into Lixian Bipenggou Tourism Development Company Limited ("Bipenggou"), in return for a 51% equity interest therein. Bipenggou is principally engaged in management and operations of Bipenggou Miyaluo scenery area in Sichuan Province.

Because the conclusion of the Agreement was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details.

47. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue for the board of directors on 27 July 2006.

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
Unit 1204, Eastern Harbour Centre, 28 Hoi Chak Street, Quarry Bay, Hong Kong	Office building	Medium term lease	100%
L103, Eastern Harbour Centre, 28 Hoi Chak Street, Quarry Bay, Hong Kong	Parking lot	Medium term lease	100%

PROPERTIES HELD FOR SALE

Location	Use	Site Area (sq.m.)	Tenure	Attributable interest of the Group
湖北省襄樊市鄭城大道 Lot: 22-1-23	Industrial	4,702	Medium term lease	100%
湖北省襄樊市園林路 Lot: 55	Industrial	9,335	Medium term lease	100%
湖北省襄樊市 樊城區大慶路 Lot: 10-8-22	Commercial	25,495	Medium term lease	100%
湖北省襄樊市 樊城區大慶路 Lot: 10-8-48	Commercial	5,184	Medium term lease	100%
湖北省襄樊市 樊城區大慶路 Lot: 9-11-2	Commercial	36,949	Medium term lease	100%
湖北省襄樊市 樊城區人民路 Lot: 8-7-3	Industrial	3,542	Medium term lease	100%
重慶市渝北區龍溪鎮寨子坪	Transportation use	16,990	Medium term lease	60%