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

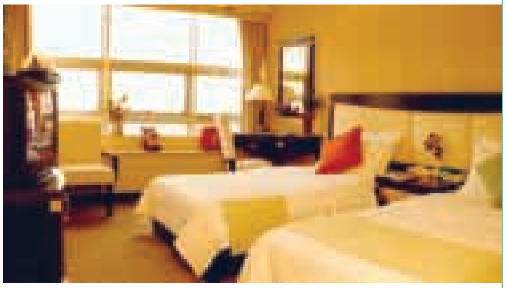
The tour, hotel and cross-border bus services will be the most important areas of growth for the Group.

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 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 newly refurbish deluxe banquet room of Chongqing Grand Hotel


Chongqing Grand Hotel offers deluxe accommodation and exceptional hospitality

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 360º 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