



KWOON CHUNG BUS HOLDINGS LIMITED
冠忠巴士集團有限公司

(incorporated in Bermuda with limited liability)

INTERIM REPORT 2002/2003



INTERIM RESULTS

The directors of Kwoon Chung Bus Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2002 together with comparative figures as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the six months ended	
		2002	2001
		(Unaudited)	(Unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	2	498,812	468,524
Cost of services rendered		(417,367)	(401,025)
Severance payment		–	(10,775)
		<hr/>	<hr/>
Gross profit		81,445	56,724
Other revenue and gains		18,349	14,594
Administrative expenses		(67,131)	(72,290)
Other operating expenses		(8,897)	(7,761)
		<hr/>	<hr/>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	3	23,766	(8,733)
Finance costs		(4,742)	(5,956)
Share of profits and losses of:			
Jointly-controlled entities		(206)	2,659
Associates		–	(348)
		<hr/>	<hr/>
PROFIT/(LOSS) BEFORE TAX		18,818	(12,378)
Tax	4	(3,453)	(414)
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PROFIT/(LOSS) BEFORE MINORITY INTERESTS		15,365	(12,792)
Minority interests		(7,239)	(411)
		<hr/>	<hr/>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>8,126</u>	<u>(13,203)</u>
DIVIDENDS	5	<u>3,939</u>	<u>1,969</u>
EARNINGS/(LOSS) PER SHARE	6		
Basic		<u>2.06 cents</u>	<u>(3.35) cents</u>
Diluted		<u>2.06 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	7	1,082,207	1,059,206
Intangible assets		20,771	20,817
Goodwill:			
Goodwill		1,173	1,215
Negative goodwill		(1,092)	(1,132)
Interests in jointly-controlled entities		166,903	177,553
Interests in associates		1	125
Long term investments		5,336	8,104
Long term receivables		2,632	5,264
Deposits for long term investments		15,294	7,148
Deposits paid for purchases of fixed assets		-	4,430
Pledged time deposits	13	1,691	1,461
		1,294,916	1,284,191
CURRENT ASSETS			
Short term investments		83	28
Inventories		15,992	15,271
Trade receivables	8	45,221	40,001
Other receivables		88,944	83,488
Pledged time deposits	13	67,463	52,355
Cash and cash equivalents		89,103	117,351
		306,806	308,494
CURRENT LIABILITIES			
Trade payables	9	41,045	35,188
Tax payable		13,537	8,677
Accruals and other payables	10	172,308	174,831
Finance lease payables		-	705
Deposits received		21,214	8,799
Interest-bearing bank and other borrowings		137,171	157,877
		385,275	386,077
NET CURRENT LIABILITIES		(78,469)	(77,583)

	30 September 2002 (Unaudited) <i>HK\$'000</i>	31 March 2002 (Audited) <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	1,216,447	1,206,608
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	133,928	116,535
Finance lease payables	–	180
Due to the directors	595	502
Due to joint venturers	33,456	53,842
Other payables	9,476	–
Deferred tax	7,662	7,662
	<u>185,117</u>	<u>178,721</u>
MINORITY INTERESTS	250,532	243,398
	<u>780,798</u>	<u>784,489</u>
CAPITAL AND RESERVES		
Issued capital	39,391	39,391
Reserves	741,407	737,220
Proposed final dividend	–	7,878
	<u>780,798</u>	<u>784,489</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2002 (Unaudited)

	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	Enterprise expansion fund HK\$'000	Reserve fund HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 April 2002	39,391	522,111	10,648	2,187	4,161	2,162	1,111	790	194,050	7,878	784,489
Net profit for the period	-	-	-	-	-	-	-	-	8,126	-	8,126
Interim dividends declared – note 5	-	-	-	-	-	-	-	-	(3,939)	-	(3,939)
Final dividends paid	-	-	-	-	-	-	-	-	-	(7,878)	(7,878)
At 30 September 2002	<u>39,391</u>	<u>522,111</u>	<u>10,648</u>	<u>2,187</u>	<u>4,161</u>	<u>2,162</u>	<u>1,111</u>	<u>790</u>	<u>198,237</u>	<u>-</u>	<u>780,798</u>

For the six months ended 30 September 2001 (Unaudited)

	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	Enterprise expansion fund HK\$'000	Reserve fund HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 April 2001	39,391	522,111	10,648	2,187	4,161	1,117	601	906	197,416	3,939	782,477
Net loss for the period	-	-	-	-	-	-	-	-	(13,203)	-	(13,203)
Interim dividends declared – note 5	-	-	-	-	-	-	-	-	(1,969)	-	(1,969)
Final dividends paid	-	-	-	-	-	-	-	-	-	(3,939)	(3,939)
At 30 September 2001	<u>39,391</u>	<u>522,111</u>	<u>10,648</u>	<u>2,187</u>	<u>4,161</u>	<u>1,117</u>	<u>601</u>	<u>906</u>	<u>182,244</u>	<u>-</u>	<u>763,366</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	30 September	
	2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited and restated) <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	105,241	43,321
INVESTING ACTIVITIES	(101,191)	(50,877)
FINANCING ACTIVITIES	(29,931)	(88)
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(25,881)	(7,644)
Cash and cash equivalents at beginning of period	114,908	115,427
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>89,027</u>	<u>107,783</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	58,577	54,818
Non-pledged time deposits with original maturity of less than three months when acquired	30,450	52,965
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	<u>89,027</u>	<u>107,783</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same and consistent as those used in the Group’s annual financial statements for the year ended 31 March 2002.

The following relevant SSAPs issued by the HKSA are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (Revised):	“Presentation of Financial Statements”
SSAP 11 (Revised):	“Foreign Currency Translation”
SSAP 15 (Revised):	“Cash Flow Statements”
SSAP 25 (Revised):	“Interim Financial Reporting”
SSAP 34:	“Employee Benefits”

The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative balances have been presented in accordance with this revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no major impact on these condensed consolidated financial statements.

The main revision to SSAP 15 is to classify cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative balances have been presented in accordance with this revised SSAP.

SSAP 25 (Revised) prescribes the presentation and disclosures following changes in SSAP 1 (Revised) and SSAP 15 (Revised). The condensed consolidated financial statements for the current interim period and comparative balances have been presented in accordance with this revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosure requirements for employee benefits. Prior to the adoption of SSAP 34, the Group did not provide for the liabilities in respect of its staff’s vested annual leave entitlement. SSAP 34 requires that obligations in respect of such entitlement should be accrued as soon as services are rendered. This revised SSAP has had no major impact on these condensed consolidated financial statements.

2. Segment information

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

(a) Business segments

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

	For the six months ended 30 September 2002 (Unaudited)							Consolidated HK\$'000
	Designated bus routes HK\$'000	Non- franchised bus HK\$'000	Franchised bus HK\$'000	Tour HK\$'000	Hotel HK\$'000	Corporate and other HK\$'000	Inter- segment eliminations HK\$'000	
Segment revenue:								
External sales	272,334	156,252	35,780	24,972	8,881	593	-	498,812
Intersegment sales	-	27,836	-	-	-	-	(27,836)	-
Other revenue	12,955	48,688	256	2	42	360	(45,613)	16,690
Total	285,289	232,776	36,036	24,974	8,923	953	(73,449)	515,502
Segment results	17,403	3,171	3,755	130	(1,309)	(1,043)	-	22,107
Bank interest and dividend income								1,659
Profit from operating activities								23,766
Finance costs								(4,742)
Share of profits and losses of:								
Jointly-controlled entities	(206)	-	-	-	-	-	-	(206)
Profit before tax								18,818
Tax								(3,453)
Profit before minority interests								15,365
Minority interests								(7,239)
Net profit from ordinary activities attributable to shareholders								8,126



	For the six months ended 30 September 2001 (Unaudited)							Consolidated HK\$'000
	Designated bus routes HK\$'000	Non- franchised bus HK\$'000	Franchised bus HK\$'000	Tour HK\$'000	Hotel HK\$'000	Corporate and other HK\$'000	Inter- segment eliminations HK\$'000	
Segment revenue:								
External sales	255,344	157,467	31,949	15,843	7,512	409	-	468,524
Intersegment sales	-	18,010	-	-	-	-	(18,010)	-
Other revenue	9,780	17,124	88	-	33	480	(15,323)	12,182
Total	265,124	192,601	32,037	15,843	7,545	889	(33,333)	480,706
Segment results	652	(7,176)	1,119	(105)	(3,208)	(2,427)	-	(11,145)
Bank interest and dividend income								2,412
Loss from operating activities								(8,733)
Finance costs								(5,956)
Share of profits and losses of:								
Jointly-controlled entities	2,659	-	-	-	-	-	-	2,659
Associates	-	-	-	-	-	(348)	-	(348)
Loss before tax								(12,378)
Tax								(414)
Loss before minority interests								(12,792)
Minority interests								(411)
Net loss from ordinary activities attributable to shareholders								(13,203)

(b) **Geographical segments**

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

	For the six months ended 30 September 2002 (Unaudited)		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Revenue	195,010	303,802	498,812
Segment results	6,085	16,022	22,107
	For the six months ended 30 September 2001 (Unaudited)		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Revenue	192,060	276,464	468,524
Segment results	(8,232)	(2,913)	(11,145)

3. Profit/(Loss) from operating activities

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Depreciation	54,267	51,376
Amortization	1,983	2,195
Severance payment (<i>Note</i>)	—	10,775

Note: On 5 July 2001, certain subsidiaries of the Company in respect of non-franchised bus services terminated employment of approximately 450 staff in aggregate. The subsidiaries had taken steps to recruit drivers under new contracts for their operations.

4. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (2001: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Provision for profits tax:		
Hong Kong	—	—
Elsewhere	3,453	414
Tax charge for the period	<u>3,453</u>	<u>414</u>

No provision for tax is required in respect of associates and jointly-controlled entities because no assessable profits were earned by the associates and jointly-controlled entities during the period (2001: Nil).

5. Dividends

At a meeting of the board of directors held on 20 December 2002, the directors resolved to pay an interim dividend of HK1 cent (2002: HK0.5 cent) per share for the year ending 31 March 2003. The interim dividend will be paid on or before 24 January 2003 to the shareholders whose names appear on the Company's register of members on 17 January 2003.

6. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share is based on the unaudited consolidated net profit from ordinary activities attributable to shareholders for the period of HK\$8,126,000 (2001: net loss of HK\$13,203,000) and on the weighted average of 393,906,000 (2001: 393,906,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the unaudited consolidated net profit from ordinary activities attributable to shareholders of HK\$8,126,000 and on the weighted average of 393,906,000 ordinary shares in issue during the period. No diluted loss per share has been presented for prior period because the effect of exercising an option is anti-dilutive.

7. **Fixed assets**

During the period, the Group acquired fixed assets at cost amounting to approximately HK\$95,978,000 (2001: HK\$78,281,000) and disposed of fixed assets with net book value amounting to approximately HK\$18,710,000 (2001: HK\$6,652,000).

8. **Trade receivables**

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

	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
Current to 30 days	30,701	33,564
31 to 60 days	9,054	2,934
61 to 90 days	1,299	1,681
Over 90 days	4,167	1,822
	<u>45,221</u>	<u>40,001</u>

9. **Trade payables**

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

	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
Current to 30 days	29,259	26,276
31 to 60 days	6,509	3,929
61 to 90 days	1,376	2,375
Over 90 days	3,901	2,608
	<u>41,045</u>	<u>35,188</u>

10. **Accruals and other payables**

Included in accruals and other payables are amounts due to joint venturers amounting to HK\$28,816,000 (31 March 2002: HK\$32,179,000).

11. **Contingent liabilities**

The Company has given a guarantee amounting to HK\$383,640,000 (31 March 2002: HK\$339,640,000) in favour of banks for facilities granted to its subsidiaries and a jointly-controlled entity.

12. **Capital commitments**

	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
Capital commitments in respect of acquisition of fixed assets:		
Contracted, but not provided for	<u>67,484</u>	<u>39,132</u>
Commitments in respect of capital contribution for a long term investment:		
Authorised, but not contracted for	<u>-</u>	<u>6,604</u>

13. Pledge of assets

At 30 September 2002, the following assets of the Group were pledged in favour of banks as security for banking facilities and finance lease facilities granted:

	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
Fixed assets:		
Leasehold land and buildings, net book value	58,415	41,123
Hotel properties	50,530	57,514
Motor buses and vehicles, net book value	200,647	197,705
	<u>309,592</u>	<u>296,342</u>
Time deposits	69,154	53,816
	<u>378,746</u>	<u>350,158</u>

In addition, all of the issued shares of New Lantao Bus Company (1973) Limited, a subsidiary, held by the Group were pledged in favour of a bank as security for banking facilities granted to the Group.


14. Related party transactions

The Group had the following transactions with related parties during the period:

		For the six months ended 30 September	
	Notes	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Rental expenses paid to joint venturers	(i), (ii)	1,343	1,340
Interest income from jointly-controlled entities	(iii)	<u>553</u>	<u>1,026</u>

Notes:

- (i) In 1999, Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. ("Wu Qi KC"), in which the Group has an effective equity interest of 50.66% (2001: 50.09%), entered into an agreement with Shanghai Wu Qi Bus Company ("Shanghai Wu Qi"), a wholly-owned subsidiary of Shanghai Public Transport Holding Co., Ltd. ("Shanghai Public Transport"), for the leasing of offices and bus depots for a term of 30 years starting from 1998 at an annual rental of approximately HK\$1,880,000 (equivalent to approximately RMB2,000,000), which was determined between both parties by reference to open market rentals at the time when the lease agreement was entered into. Wu Qi KC is owned as to 47% by Shanghai Public Transport. Pursuant to the agreement, Wu Qi KC paid rental expenses amounting to approximately HK\$940,000 (equivalent to approximately RMB1,000,000) (2001: HK\$940,000 (equivalent to approximately RMB1,000,000) to Shanghai Wu Qi for the period.
- (ii) In 1999, Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. ("Chongqing KC No. 3"), in which the Group has an effective interest of 30.25% (2001: 30.25%), entered into agreements with Chongqing No. 3 Public Transport Company ("Chongqing Public Transport") for the leasing of offices and bus depots for a term of 30 years starting from 1999 at an annual rental of



approximately HK\$806,000 (equivalent to approximately RMB857,000), which were determined between both parties by reference to open market rentals at the time when the lease agreements were entered into. Chongqing KC No. 3 is owned as to 45% by Chongqing Public Transport. Pursuant to the agreements, Chongqing KC No. 3 paid rental expenses amounting to approximately HK\$403,000 (equivalent to approximately RMB429,000) (2001: HK\$400,000 (equivalent to approximately RMB426,000)) to Chongqing Public Transport for the period.

- (iii) The loans to jointly-controlled entities are unsecured, bear interest at various rates ranging from 8% to 13% per annum and are repayable within periods from five to eight years in accordance with the respective loan agreements.

The directors of the Company are of the opinion that the above transactions were entered into in the normal course of the Group's business.

15. Post balance sheet events

In October 2002, the Group had acquired 55% equity interest in Top China International Investment Holdings Limited, which is a 70% shareholder of Guangzhou Free Trade Zone Xin Hua Tourism Bus Company Limited and Guangzhou Free Trade Zone Xin Hua International Transport Company Limited. These companies operate a number of short to medium distance routes, and a fleet of taxis. The consideration is approximately HK\$14 million.

In December 2002, the Group had acquired an additional 29% equity interest in Shanghai Pudong Kwoon Chong Public Transport Co., Ltd., which was originally a 61% owned subsidiary. The consideration is approximately HK\$41 million.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 January 2003 to 17 January 2003, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:00 p.m. on 14 January 2003.

REVIEW OF OPERATIONS

The unaudited consolidated net profit from ordinary activities attributable to shareholders for the six months ended 30 September 2002 was approximately HK\$8.1 million. This is an increase of approximately 162% from the unaudited consolidated net loss from ordinary activities attributable to shareholders for the six months ended 30 September 2001 of approximately HK\$13.2 million.

1. Non-franchised Bus Services in Hong Kong

The principal non-franchised bus services provided by the Group include student, employee, resident, tour, Mainland China/Hong Kong cross-border and contract hire services. The Group continued, in terms of the size of the bus fleet, to be the largest non-franchised bus operator in Hong Kong and as at 30 September 2002, was operating a fleet of 577 (31 March 2002: 581) licensed buses.

As mentioned in the previous report, the Group is still embracing for an enduring period of recession for the general economy of Hong Kong.

The human resources retrenchment exercise for the Group's non-franchised bus sector conducted last year has resulted in a much higher level of cost efficiency. This would contribute to the enhancement of the Group's competitiveness in the non-franchised bus business. The Group is pleased to report that during the six months ended 30 September 2002, our non-franchised bus services have regained momentum in business development.

2. Franchised Bus Services in Lantau Island

New Lantao Bus Company (1973) Limited ("NLB")

As at 30 September 2002, this 99.99% owned subsidiary was operating 22 (31 March 2002: 21) franchised bus routes, mainly in Lantau Island, with a fleet of 78 (31 March 2002: 76) franchised buses. For the period, the total turnover was approximately HK\$35.8 million (2001: HK\$31.9 million) and the net profit attributable to shareholders was approximately HK\$3.2 million (2001: approximately HK\$0.7 million). NLB has conducted a human resources retrenchment exercise, similar to that of the non-franchised sector. This has resulted in cost-efficiency on human resources.

In addition, the population intake at Tung Chung New Town continues; and new routes have been developed, linking the Penny's Bay theme park site with Tung Chung and Tsing Yi. The cost-saving measures and increase in passenger journeys have contributed to a moderately improved performance of the Group's franchised bus sector.

3. Other Operations in Hong Kong

The Group's wholly owned subsidiary, Trade Travel (Hong Kong) Limited, has succeeded in bidding for an airport service counter by tender at the Arrival Hall, Passenger Terminal Building, Hong Kong International Airport, to provide travel and transfer services for inbound tour groups and individual visitors. The licence was granted for a period of two years commencing July 2002. To this effect, the Group has incorporated the door-to-door limousine service in cooperation with Dah Chong Hong (Motor Leasing) Limited into the above.

During the period under report, the Group has disposed of its 18% equity interest in Asia Auto Body Engineering Limited ("Asia Auto"). However, subject to a fair and open purchasing procedure, Asia Auto continues to be one of the Group's major vehicle assembly contractors in Hong Kong.

4. Designated Bus Routes Services in Mainland China

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

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

	Number of routes		No. of buses	
	30 September 2002	31 March 2002	30 September 2002	31 March 2002
Guangzhou	6	6	150	150
Shantau	5	5	56	56
Dalian	5	5	149	149
Harbin	4	4	166	166
Anshan	<u>4</u>	<u>4</u>	<u>100</u>	<u>100</u>

The share of losses from these jointly-controlled entities for the period amounted to approximately HK\$0.2 million, representing a decrease of about 108% as compared with that of approximately HK\$2.7 million profit in the corresponding period.

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

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

As at 30 September 2002, this 61% owned subsidiary was operating 31 (31 March 2002: 32) routes with a fleet of 711 (31 March 2002: 711) buses and a fleet of 25 (31 March 2002: 25) taxis in Shanghai, mainly in Pudong area. The share of profit attributable to the Group for the period was approximately HK\$3.7 million (2001: a loss of approximately HK\$0.1 million). The noticeable increase in profit was due to the completion of a series of repair and maintenance programme last year, resulting in increased revenue and higher bus fleet operation efficiency.

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

As at 30 September 2002, this 50.66% (2001: 50.09%) owned subsidiary was operating 38 (31 March 2002: 38) routes with a fleet of 1,035 (31 March 2002: 1,023) buses and a fleet of 81 (31 March 2002: 81) taxis, mainly in Puxi area of Shanghai. The share of profit attributable to the Group for the period was approximately HK\$4.1 million (2001: HK\$1.3 million).

iii. Jieyang Guanyun Transportation Co., Ltd.

As at 30 September 2002, this 91.5% owned subsidiary was operating 3 routes (31 March 2002: 3) routes with a fleet of 33 (31 March 2002: 33) buses. The share of loss attributed to the Group for the period was approximately HK\$1.8 million (2001: HK\$1.9 million). The Group has endeavoured to divert some buses of the fleet to other operating arms within China, in particular, to regions nearby Jieyang, with success.

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

As at 30 September 2002, this subsidiary, owned as to 55% by a joint venture company of the Group and Stagecoach Group plc., was operating 54 (31 March 2002: 54) routes with a fleet of 652 (31 March 2002: 621) buses in Chongqing, mainly in the southern area. The share of profit attributable to the Group for the period was approximately HK\$923,000 (2001: HK\$718,000).

v. Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd.

As at 30 September 2002, this subsidiary, owned as to 76.64% by a joint venture company of the Group and Stagecoach Group plc., was operating 10 (31 March 2002: 10) routes with a fleet of 234 (31 March 2002: 234) buses in Chongqing, mainly in the northern area. The share of profit attributable to the Group for the period was approximately HK\$407,000 (2001: approximately HK\$244,000).

vi. King Chau Keung Tat Transportation Co., Ltd.

As at 30 September 2002, this 51% owned subsidiary was operating 2 (31 March 2002: 2) routes with a fleet of 35 (31 March 2002: 25) buses. The share of loss attributable to the Group for the period was approximately HK\$583,000 (2001: approximately HK\$320,000).

5. **Tour, Hotel and Power Services in Mainland China**

Chongqing Tourism (Group) Co., Ltd.

This 60% owned subsidiary holds investment in a hotel, a travel agency company, a tour bus company and a hydro-electric power plant. The share of loss attributable to the Group for the period was approximately HK\$1.3 million (2001: HK\$2.7 million). The decrease in loss was mainly due to the hard work of the local management in implementing various feasible cost-cutting exercises and the improving environment of tourism industry in Mainland China. The Group has confidence in seeing the turnaround in the near future.



LIQUIDITY AND FINANCIAL RESOURCES

Funding for the Group's operations during the period mainly came from internally generated cash flows. Any shortfall was financed by term loans and leases from the banks and other non-bank financial institutions. The total indebtedness outstanding at 30 September 2002 was approximately HK\$271 million (31 March 2002: HK\$275 million) which comprised mainly bank loans and leases and was deployed mainly for purchases of buses and investments in Hong Kong and Mainland China. The leverage was approximately 34.5% (31 March 2002: 35.1%).

FUNDING AND TREASURY POLICY

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

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

REMUNERATION POLICY

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

FUTURE PROSPECTS

The series of human resources retrenchment exercises conducted for franchised and non-franchised bus services have seen its initial effect in maintaining the Group's competitiveness in Hong Kong in terms of staff cost. In addition, a mild recovery in the tourism sector has contributed to a modest profit for our non-franchised bus operation in Hong Kong. However, in view of the unstable international political situation, which is dominated by a possible military conflict between the United States and Iraq, the Group would continue to implement its overall strategy in a prudent and cautious manner. As, if the conflict mentioned above materializes, the world's oil prices and tourism industry will both be adversely affected, which will have direct negative impact on the Group's operation both in Hong Kong and Mainland China.

1. Non-franchised Bus Services in Hong Kong

While the Group has achieved its cost-saving objective as mentioned above, the next step to follow would be the implementation of marketing objectives by way of enhancing our competitiveness. Efforts have been taken to provide in-service training for drivers in Workplace English, customer relations and driving skill in order to upgrade their service standard.

2. Franchised Bus Services in Lantau Island

NLB has envisaged both opportunities and challenges from what lies ahead for its forward planning. The increase in population intake for Tung Chung New Town and the construction of the Penny's Bay theme park would be opportunities for expansion. Passenger journeys from Tung Chung New Town routes have increased, regardless that NLB has to compete with other public franchised bus operators. The construction of the Tung Chung - Ngong Ping cable car link would mean a more sophisticated competitor for NLB in one of the most lucrative routes of its services. This challenge has led the Group to engage in negotiation with the HKRC Ltd. in seeking common ground for cooperation to enhance transport facilitation for tourism in South Lantau.

3. Designated Bus Routes Services in Mainland China

As expected, China's entry to the World Trade Organization (WTO) would mean a higher mobility for the population in search of opportunities arising from the event. Further opening of the bus market would also mean a higher level of competition for the Group's operation in this aspect.

Shanghai Pudong Kwoon Chung Public Transport Co., Ltd. has just celebrated its 10th anniversary. It is with much aspiration from the Group to acquire an additional 29% equity interest in this equity joint venture subsidiary in December 2002. Our vision on Shanghai through this acquisition has been echoed by the almost synchronized announcement on Shanghai's successful application for the 2010 Expo and the construction of the Universal Studio, of which their future locations would fall within the network of service of Shanghai Pudong Kwoon Chung Public Transport Co., Ltd.

In October 2002, the Group has also acquired 55% equity interest in Top China International Investment Holdings Limited, which is a 70% shareholder of Guangzhou Free Trade Zone Xin Hua Tourism Bus Company Limited and Guangzhou Free Trade Zone Xin Hua International Transport Company Limited. These companies operate a number of short to medium distance bus routes, and a fleet of taxis. The Group has conducted 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.

As for other centres of operation, the Group would envisage another series of consolidation in order to maintain competitiveness in a market no longer dominant by state-owned enterprises.

4. Bus Related Business

a. *Tour and Hotel Services in Mainland China*

During the period, the Group's 60% owned travel agency subsidiary, Chongqing Everbright International Travel Service Co., Ltd., has been granted the outbound tour licence to operate tour groups for Chinese tourists travelling to designated overseas countries, including Hong Kong. To coordinate the above development, the Group's subsidiaries in Hong Kong, including Lantau Tours Limited and Trade Travel (Hong Kong) Limited, will enhance their services in this respect.

From a longer-term perspective, the Group is investigating the feasibility of conducting outbound tours from Hong Kong to Mainland China for specific itineraries such as study groups and incentive groups.

b. *Bus Manufacturing Business*

In view of the uncertain market situation, the Group has to report that not much progress has been achieved in the South African Taxi Recapitalization Project. Latest information received in the Project has been the inclusion of an electronic fleet management system into the tender's requisites and all contenders have to submit additional information in this respect.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2002, the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

(i) The Company

Ordinary shares of the Company

Name of director	Number of shares held and nature of interest	
	Personal	Corporate
Wong Chung Pak, Thomas	849,665 ⁽¹⁾	125,880,981 ⁽²⁾
Wong Wing Pak	699,665 ⁽¹⁾	125,880,981 ⁽²⁾
Wong Leung Pak, Matthew	599,665 ⁽¹⁾	125,880,981 ⁽²⁾
Lee Yin Ching, Stanley	1,955,556	—
Lo Kin Wai	1,552,667	—
Cheng King Hoi, Andrew	755,556	—
Ng King Yee	100,000	—
Chan Yu Kwong, Francis	300,000	—

(1) Mr. Wong Chung Pak, Thomas jointly holds 849,665 shares with his spouse. Mr. Wong Wing Pak jointly holds 699,665 shares with his spouse. Mr. Wong Leung Pak, Matthew jointly holds 599,665 shares with his spouse.

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

(ii) **Associated corporations**

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

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, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of directors	Number of option shares			Exercise period of share options	Exercise price of share options* HK\$
	At 1 April 2002	Lapsed during the period	At 30 September 2002		
Wong Chung Pak, Thomas	500,000	–	500,000	26 October 1997 to 25 October 2002	2.8120
	1,000,000	–	1,000,000	22 June 1998 to 21 June 2003	1.5656
	100,000	–	100,000	17 September 1999 to 16 September 2004	1.0112
	700,000	–	700,000	15 March 2000 to 14 March 2005	1.7880
	<u>2,300,000</u>	<u>–</u>	<u>2,300,000</u>		
Wong Wing Pak	500,000	–	500,000	26 October 1997 to 25 October 2002	2.8120
	1,000,000	–	1,000,000	22 June 1998 to 21 June 2003	1.5656
	100,000	–	100,000	17 September 1999 to 16 September 2004	1.0112
	700,000	–	700,000	15 March 2000 to 14 March 2005	1.7880
	<u>2,300,000</u>	<u>–</u>	<u>2,300,000</u>		
Wong Leung Pak, Matthew	500,000	–	500,000	26 October 1997 to 25 October 2002	2.8120
	1,000,000	–	1,000,000	22 June 1998 to 21 June 2003	1.5656
	100,000	–	100,000	17 September 1999 to 16 September 2004	1.0112
	700,000	–	700,000	15 March 2000 to 14 March 2005	1.7880
	<u>2,300,000</u>	<u>–</u>	<u>2,300,000</u>		

Name of directors	Number of option shares			Exercise period of share options	Exercise price of share options* HK\$
	At 1 April 2002	Lapsed during the period	At 30 September 2002		
Lee Yin Chung, Stanley	500,000	–	500,000	26 October 1997 to 25 October 2002	2.8120
	200,000	–	200,000	22 June 1998 to 21 June 2003	1.5656
	80,000	–	80,000	17 September 1999 to 16 September 2004	1.0112
	700,000	–	700,000	15 March 2000 to 14 March 2005	1.7880
	<u>1,480,000</u>	<u>–</u>	<u>1,480,000</u>		
Lo Kin Wai	590,000	(590,000)	–	8 April 1997 to 7 April 2002	1.5216
	100,000	–	100,000	2 December 1997 to 1 December 2002	3.3120
	100,000	–	100,000	22 June 1998 to 21 June 2003	1.5656
	80,000	–	80,000	17 September 1999 to 16 September 2004	1.0112
	700,000	–	700,000	15 March 2000 to 14 March 2005	1.7880
	<u>1,570,000</u>	<u>(590,000)</u>	<u>980,000</u>		
Cheng King Hoi, Andrew	980,000	(980,000)	–	8 April 1997 to 7 April 2002	1.5216
	300,000	(300,000)	–	10 September 1997 to 9 September 2002	2.5800
	500,000	–	500,000	26 October 1997 to 25 October 2002	2.8120
	200,000	–	200,000	22 June 1998 to 21 June 2003	1.5656
	80,000	–	80,000	17 September 1999 to 16 September 2004	1.0112
	700,000	–	700,000	15 March 2000 to 14 March 2005	1.7880
	<u>2,760,000</u>	<u>(1,280,000)</u>	<u>1,480,000</u>		



Name of directors	Number of option shares			Exercise period of share options	Exercise price of share options* HK\$
	At 1 April 2002	Lapsed during the period	At 30 September 2002		
Ng King Yee	490,000	(490,000)	–	8 April 1997 to 7 April 2002	1,5216
	100,000	–	100,000	2 December 1997 to 1 December 2002	3.3120
	100,000	–	100,000	22 June 1998 to 21 June 2003	1.5656
	80,000	–	80,000	17 September 1999 to 16 September 2004	1.0112
	700,000	–	700,000	15 March 2000 to 14 March 2005	1.7880
	<u>1,470,000</u>	<u>(490,000)</u>	<u>980,000</u>		
Chan Yu Kwong, Francis	200,000	–	200,000	22 June 1998 to 21 June 2003	1.5656
	80,000	–	80,000	17 September 1999 to 16 September 2004	1.0112
	700,000	–	700,000	15 March 2000 to 14 March 2005	1.7880
	<u>980,000</u>	<u>–</u>	<u>980,000</u>		
Mok Wah Fun, Peter	500,000	(500,000)	–	1 August 1997 to 31 July 2002	2.1000
	300,000	–	300,000	2 December 1997 to 1 December 2002	3.3120
	100,000	–	100,000	22 June 1998 to 21 June 2003	1.5656
	80,000	–	80,000	17 September 1999 to 16 September 2004	1.0112
	700,000	–	700,000	15 March 2000 to 14 March 2005	1.7880
	<u>1,680,000</u>	<u>(500,000)</u>	<u>1,180,000</u>		
	<u>16,840,000</u>	<u>(2,860,000)</u>	<u>13,980,000</u>		

* 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.

Apart from as disclosed above, at no time during the period 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 children under 18 years of age, 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.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Notes	Number of shares held	
		Direct interest	Deemed interest
Wong Family Holdings Limited (“WFHL”)		125,880,981	–
Wong Chung Pak, Thomas	1	849,665	125,880,981
Wong Wing Pak	1	699,665	125,880,981
Wong Leung Pak, Matthew	1	599,665	125,880,981
First Action Developments Limited	2	118,093,019	–
New World Services Limited (“NWS-BVI”)	2, 3	–	118,093,019
New World Services Limited (“NWS–Cayman Islands”)	2, 3	–	118,093,019
New World Development Company Limited (“NWDCL”)	2	–	118,093,019
Chow Tai Fook Enterprises Limited (“CTFEL”)	2	–	118,093,019

Notes:

- 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 31.96% of the issued share capital of the Company.
- First Action Developments Limited is a wholly-owned subsidiary of NWS-BVI, which is in turn a wholly-owned subsidiary of NWS-Cayman Islands. NWDCL owns approximately 52.35% equity shares in NWS-Cayman Islands. CTFEL owns approximately 38.37% equity shares in NWDCL. NWS-BVI, NWS-Cayman Islands, NWDCL and CTFEL are deemed to be interested in the 118,093,019 shares which are held directly by First Action Developments Limited. These 118,093,019 shares represent approximately 29.98% of the issued share capital of the Company.
- NWS-BVI was incorporated in the British Virgin Islands and NWS-Cayman Islands was incorporated in the Cayman Islands.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ interests in shares” above, had registered an interest in the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.



PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice, 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 interim 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.

ON BEHALF OF THE BOARD
Wong Chung Pak, Thomas
Chairman

Hong Kong
20 December 2002