

NOTES TO FINANCIAL STATEMENTS

31 March 2005

1. CORPORATE INFORMATION

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

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

HKFRS 3 "Business Combinations" applies to accounting for business combinations for which the agreement date is on or after 1 January 2005. The Group's acquisition of subsidiaries was effected before 1 January 2005 and has been accounted for under Statement of Standard Accounting Practice 30 "Business Combinations". Therefore, HKFRS 3 has had no impact on these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAPs") 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 certain fixed assets and for the periodic remeasurement of short term investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. 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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is a company 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 profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company 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 and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company'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 company is treated as:

- (i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (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 company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which 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 partners' 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.

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 a 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 a company, 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 profit and loss account 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

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 share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 5 to 15 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against the consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against the consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against the consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against the consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets of 7 to 10 years. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Negative goodwill *(Continued)*

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an 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 an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 fixed assets.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation

Fixed assets, other than hotel properties and construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

For leasehold land and buildings, any surplus arising on revaluation is credited to the fixed asset revaluation reserve. A decrease in the net carrying amount arising on revaluation of an asset is charged to the profit and loss account to the extent that it exceeds the surplus, if any, held in the respective revaluation reserve relating to a previous revaluation of that particular asset. On subsequent disposal of assets, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over its estimated useful life. The estimated useful life of each assets is as follows:

Land use rights	Over the period of the rights
Leasehold land	Over the lease terms
Buildings	30 years
Bus terminal structure	8 years
Garage improvements	5 years
Motor buses and vehicles	5 to 12 years
Power plants	10 years
Furniture, fixtures and office machinery	5 to 8 years
Equipment and tools	6 to 8 years

Hotel properties represent interests in leasehold land and buildings and their integral fixed plants which are collectively used in the operation of hotels and are stated at cost less any impairment losses. It is the Group's policy to maintain the hotel properties in such condition that their residual values are not currently diminished by the passage of time and, therefore, any element of depreciation is insignificant. Accordingly, the directors consider that depreciation need not be charged in respect of the hotel properties. The related repairs and maintenance costs are charged to the profit and loss account in the period in which they are incurred and the costs of significant improvements are capitalised.

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 fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a strategic long term basis.

Long term investments are stated at cost less any impairment losses.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Operating leases

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 profit and loss account 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 profit and loss account on the straight-line basis over the lease terms.

Intangible assets

Intangible assets comprise bus route operating rights, taxi operating rights and advertising rights and are stated at cost, which comprise the purchase prices thereof, less accumulated amortisation and any impairment losses.

Since the above rights are essential to the operation of the joint ventures and are expected to bring enduring economic benefits to the joint ventures continuously, amortisation is calculated on the straight-line basis to write off the cost of each right over the joint venture period of 15 to 30 years, which is longer than the presumed period of 20 years prescribed by SSAP 29 "Intangible assets". The carrying amount of each right is reviewed annually and written down for impairment when it is considered necessary.

The gain or loss on disposal of an intangible asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

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, except 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.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative 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 deductible temporary differences associated with investments 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.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 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.

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.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, associates and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, associates and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

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 profit and loss account 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 22% of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves 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.

NOTES TO FINANCIAL STATEMENTS

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3. 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) from the sale of electricity, based on the consumption by meter reading;
- (v) rental income, on a time proportion basis over the lease terms;
- (vi) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (vii) dividend income, when the shareholders' right to receive payment has been established.

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 sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

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 business 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.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	2005							Consolidated HK\$'000
	Designated bus routes HK\$'000	Non- franchised bus HK\$'000	Franchised bus HK\$'000	Tour HK\$'000	Hotel HK\$'000	Corporate Intersegment		
						and others HK\$'000	eliminations HK\$'000	
Segment assets	1,097,251	702,715	75,960	34,222	94,088	22,504	-	2,026,740
Interests in associates	10,941	-	-	-	-	-	-	10,941
Interests in jointly- controlled entities	137,079	-	-	-	-	-	-	137,079
Unallocated assets								22,117
Total assets								2,196,877
Segment liabilities	297,722	70,565	5,973	13,790	5,941	6,720	-	400,711
Unallocated liabilities								762,142
Total liabilities								1,162,853
Other segment information:								
Capital expenditure	299,324	153,062	7,351	423	968	2,540	-	463,668
Amortisation	2,741	267	-	-	-	483	-	3,491
Negative goodwill recognised as income during the year	(632)	(753)	-	-	-	-	-	(1,385)
Depreciation	103,272	70,861	8,569	1,206	1,382	2,321	-	187,611

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	2004							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 others HK\$'000	Intersegment eliminations HK\$'000	
Segment assets	814,468	587,609	70,775	33,658	100,495	35,414	-	1,642,419
Interests in associates	5,640	-	-	-	-	-	-	5,640
Interests in jointly- controlled entities	150,092	-	-	-	-	-	-	150,092
Unallocated assets								3,215
Total assets								1,801,366
Segment liabilities	189,947	63,313	5,382	13,012	17,802	5,993	-	295,449
Unallocated liabilities								521,948
Total liabilities								817,397
Other segment information:								
Capital expenditure	158,842	199,954	13,097	345	3,167	5,618	-	381,023
Amortisation	1,308	-	-	-	-	2,057	-	3,365
Negative goodwill recognised as income during the year	(600)	(314)	-	-	-	-	-	(914)
Depreciation	76,252	55,302	7,464	1,949	1,430	2,566	-	144,963

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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

	Hong Kong HK\$'000	2005 Mainland China HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	740,264	823,883	1,564,147
Other segment information:			
Segment assets	785,148	1,263,709	2,048,857
Interests in associates	–	10,941	10,941
Interests in jointly-controlled entities	–	137,079	137,079
Total assets	785,148	1,411,729	2,196,877
Capital expenditure	157,229	306,439	463,668
		2004	
		Mainland	
	Hong Kong	China	Total
	HK\$'000	HK\$'000	HK\$'000
Segment revenue:			
Sales to external customers	497,878	679,109	1,176,987
Other segment information:			
Segment assets	662,693	982,941	1,645,634
Interests in associates	–	5,640	5,640
Interests in jointly-controlled entities	–	150,092	150,092
Total assets	662,693	1,138,673	1,801,366
Capital expenditure	213,068	167,955	381,023

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5. TURNOVER

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	
	2005	2004
	HK\$'000	<i>HK\$'000</i>
Provision of designated bus route services	725,113	613,849
Provision of non-franchised bus services	629,184	423,587
Provision of franchised bus services	82,068	70,090
Provision of tour services	68,963	36,474
Provision of hotel services	22,962	18,910
Provision of other transportation services	34,841	13,173
Power generation	1,016	904
	1,564,147	1,176,987

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Auditors' remuneration	1,680	1,530
Depreciation (<i>Note (i)</i>)	187,611	144,963
Minimum lease payments under operating leases (<i>Note (i)</i>):		
Land and buildings	10,034	8,434
Bus depots, terminals and car parks	27,156	19,489
Motor buses and coaches	39,235	26,014
Staff costs (<i>Note (i)</i>) (including directors' remuneration – <i>note 8</i>):		
Wages and salaries	536,892	442,665
Other welfare benefits	14,407	9,467
Pension scheme contributions	17,698	11,097
Less: Forfeited contributions (<i>Note (ii)</i>)	–	(82)
Net pension scheme contributions	17,698	11,015
	568,997	463,147
Amortisation:		
Intangible assets (<i>Note (iii)</i>)	2,251	2,988
Goodwill (<i>Note (iii)</i>)	1,240	377
Negative goodwill recognised as income during the year (<i>Note (iv)</i>)	(1,385)	(914)
Gain on disposal of short term investments	(41)	(149)
Loss on disposal of fixed assets, net	11,903	10,175
Gain on disposal of intangible assets	–	(10,387)
Government subsidies (<i>Note (v)</i>)	(9,439)	(4,333)
Exchange losses, net	157	12
Net rental income	(9,651)	(8,225)
Bank interest income	(1,087)	(1,507)
Gain on disposal of properties held for sale	(510)	–
Gain on waived bank loans and related interest (<i>Note (vi)</i>)	(3,925)	–

NOTES TO FINANCIAL STATEMENTS

31 March 2005

6. PROFIT FROM OPERATING ACTIVITIES (Continued)

Notes:

- (i) The cost of services rendered for the year amounted to HK\$1,300,425,000 (2004: HK\$991,931,000) and included depreciation charges of HK\$166,645,000 (2004: HK\$129,945,000), operating lease rentals of HK\$67,141,000 (2004: HK\$47,708,000) and staff costs of HK\$458,045,000 (2004: HK\$375,995,000).
- (ii) As at 31 March 2005, there were no material forfeited contributions available to the Group to reduce its contributions to the pension schemes in future years.
- (iii) The amortisation of intangible assets and goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.
- (iv) The movements in negative goodwill recognised in the consolidated profit and loss account for the year are included in "Other revenue and gains" on the face of the consolidated profit and loss account.
- (v) Various government subsidies have been received by certain subsidiaries which operate in Mainland China in connection with the losses incurred by these subsidiaries. The government subsidies released have been included in "Other revenue and gains" on the face of the consolidated profit and loss account. There are no unfulfilled conditions or contingencies relating to these subsidies.
- (vi) During the year, 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.

7. FINANCE COSTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	14,180	15,351
Finance leases	-	822
	14,180	16,173

NOTES TO FINANCIAL STATEMENTS

31 March 2005

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	
	2005 HK\$'000	2004 HK\$'000
Fees*	185	160
Other emoluments:		
Salaries and other benefits	12,865	12,987
Pension scheme contributions	1,013	1,020
	13,878	14,007
	14,063	14,167

* Fees include HK\$185,000 (2004: HK\$160,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	12	11
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	2
HK\$2,500,001 – HK\$3,000,000	2	1
	16	14

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

During the year, certain directors were granted share options in respect of their services to the Group under the share option schemes of the Company, further details of which are set out in note 33 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID INDIVIDUALS

All of the five highest paid individuals of the Group during each of the two years ended 31 March 2005 are directors, details of whose remuneration are set out in note 8 above.

NOTES TO FINANCIAL STATEMENTS

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10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current – Hong Kong:		
Charge for the year	797	1,225
Underprovision in prior years	–	3
Current – Elsewhere	6,770	3,123
Deferred – <i>note 31</i>	7,253	6,116
	14,820	10,467
Tax charge for the year		

No provision for tax is required in respect of the associates and jointly-controlled entities because no assessable profits were earned by the associates and jointly-controlled entities during the year (2004: Nil).

A reconciliation of the tax expense applicable to profit 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 – 2005

	Hong Kong		Mainland China		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit before tax	54,912		10,921		65,833	
Tax at the statutory tax rate	9,610	17.5	3,604	33.0	13,214	20.1
Income not subject to tax	(1,501)		(771)		(2,272)	
Expenses not deductible for tax	4,094		101		4,195	
Tax losses utilised from previous periods	(324)		(231)		(555)	
Tax losses not recognised	238		–		238	
Tax charge at the Group's effective rate	12,117	22.1	2,703	24.8	14,820	22.5

NOTES TO FINANCIAL STATEMENTS

31 March 2005

10. TAX (Continued)

Group – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	27,826		5,529		33,355	
Tax at the statutory tax rate	4,870	17.5	1,825	33.0	6,695	20.1
Adjustments in respect of current tax of previous periods	3		–		3	
Income not subject to tax	(368)		–		(368)	
Expenses not deductible for tax	2,594		–		2,594	
Tax losses utilised from previous periods	(733)		–		(733)	
Tax losses not recognised	315		1,961		2,276	
Tax charge at the Group's effective rate	6,681	24.0	3,786	68.5	10,467	31.4

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company was HK\$9,559,000 (2004: HK\$13,348,000) (note 34).

12. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim: HK1.5 cents (2004: HK1 cent) per ordinary share	5,909	3,939
Proposed final: HK1.5 cents (2004: HK1 cent) per ordinary share	5,924	3,939
	11,833	7,878

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$45,795,000 (2004: HK\$22,110,000), and the weighted average of 393,996,959 (2004: 393,906,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 March 2005 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$45,795,000 (2004: HK\$22,110,000), the weighted average number of 393,996,959 (2004: 393,906,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 6,166,000 (2004: 2,441,645) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

14. FIXED ASSETS

Group

	Land use rights HK\$'000	Leasehold land and buildings HK\$'000	Hotel properties 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
At cost or valuation:											
At beginning of year	73,779	94,292	57,469	2,380	8,934	1,528,482	2,543	45,597	32,730	16,499	1,862,705
Additions	7,326	2,265	-	210	4,125	324,796	-	13,537	6,770	6,026	365,055
Reclassification	-	304	10,684	-	64	-	-	3,224	361	(14,637)	-
Disposals	-	-	(58)	-	(26)	(137,929)	-	(5,116)	(1,613)	-	(144,742)
Reclassified as properties held for sale	(17,349)	-	-	-	-	-	-	-	-	-	(17,349)
Acquisition of subsidiaries (note 35)	39,310	24,385	-	-	-	16,308	-	1,432	-	84	81,519
At 31 March 2005	103,066	121,246	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	2,147,188
Accumulated depreciation:											
At beginning of year	10,547	20,053	-	1,777	6,134	478,134	1,017	26,615	14,796	-	559,073
Provided during the year	2,731	4,100	-	170	805	169,620	262	5,173	4,750	-	187,611
Disposals	-	-	-	-	(26)	(114,503)	-	(4,634)	(754)	-	(119,917)
Reclassified as properties held for sale	(1,663)	-	-	-	-	-	-	-	-	-	(1,663)
At 31 March 2005	11,615	24,153	-	1,947	6,913	533,251	1,279	27,154	18,792	-	625,104
Net book value:											
At 31 March 2005	91,451	97,093	68,095	643	6,184	1,198,406	1,264	31,520	19,456	7,972	1,522,084
At 31 March 2004	63,232	74,239	57,469	603	2,800	1,050,348	1,526	18,982	17,934	16,499	1,303,632
Analysis of cost and valuation:											
At cost	103,066	88,623	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	2,114,565
At 30 June 1996 professional valuation	-	32,623	-	-	-	-	-	-	-	-	32,623
	103,066	121,246	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	2,147,188

NOTES TO FINANCIAL STATEMENTS

31 March 2005

14. FIXED ASSETS *(Continued)*

The Group's leasehold land and buildings are held under medium term leases in the following locations:

	2005 HK\$'000	2004 HK\$'000
Hong Kong	59,053	57,443
Elsewhere	62,193	36,849
	121,246	94,292

Certain of the Group's leasehold land and buildings 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 these revalued leasehold land and buildings were approximately the same as the carrying values of the respective assets at 31 March 2005.

Had all the leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$96,429,000 (2004: HK\$73,575,000) as at 31 March 2005.

Certain of the Group's fixed assets with an aggregate net book value of HK\$89,432,000 (2004: HK\$311,132,000), including land use rights of HK\$39,358,000 (2004: Nil), leasehold land and buildings of HK\$34,777,000 (2004: HK\$42,904,000), hotel properties of nil (2004: HK\$57,085,000) and motor buses and vehicles of HK\$15,297,000 (2004: HK\$211,143,000), were pledged to secure banking facilities granted to the Group as set out in note 29 to the financial statements.

Certain of the Group's shop units in hotel properties and certain of the Group's motor vehicles are leased to third parties under operating leases, further summary details of which are included in note 37(a) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

15. INTANGIBLE ASSETS

Group

	Taxi operating rights HK\$'000	Bus route operating rights HK\$'000	Advertising rights HK\$'000	Total HK\$'000
Cost:				
At beginning of year and at 31 March 2005	5,100	15,780	7,848	28,728
Accumulated amortisation:				
At beginning of year	744	2,470	1,194	4,408
Provided during the year	255	1,734	262	2,251
At 31 March 2005	999	4,204	1,456	6,659
Net book value:				
At 31 March 2005	4,101	11,576	6,392	22,069
At 31 March 2004	4,356	13,310	6,654	24,320

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31 March 2005

16. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	Negative
	HK\$'000	goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year	7,355	(12,790)
Acquisition of subsidiaries – <i>note 35</i>	7,183	–
Additions arose from the reclassification of a jointly-controlled entity to a subsidiary during the year	7,000	–
At 31 March 2005	21,538	(12,790)
Accumulated amortisation/(recognition as income):		
At beginning of year	539	(1,320)
Amortisation provided/(recognised as income) during the year	1,240	(1,385)
At 31 March 2005	1,779	(2,705)
Net book value:		
At 31 March 2005	19,759	(10,085)
At 31 March 2004	6,816	(11,470)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP to remain eliminated against the consolidated reserves or credited to the capital reserve, respectively.

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 the SSAP, were HK\$1,855,000 and HK\$4,042,000, respectively, as at 1 April 2004 and 31 March 2005. The amount of goodwill is stated at its cost which arose in prior years.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

17. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	71,070	71,070
Due from subsidiaries	565,521	564,706
	636,591	635,776

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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 [#]		Principal activities
				2005	2004	
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

NOTES TO FINANCIAL STATEMENTS

31 March 2005

17. 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#		Principal activities
				2005	2004	
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	–	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

NOTES TO FINANCIAL STATEMENTS

31 March 2005

17. 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#		Principal activities
				2005	2004	
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	–	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
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

NOTES TO FINANCIAL STATEMENTS

31 March 2005

17. 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#		Principal activities
				2005	2004	
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
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

NOTES TO FINANCIAL STATEMENTS

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17. 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#		Principal activities
				2005	2004	
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.

*** Limited company established in the People's Republic of China.

**** A wholly-foreign owned enterprise under the law of the People's Republic of China.

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

During the year, the Group acquired Guangzhou New Era Express Bus Co., Ltd. and Hubei Shenzhou Transport Holdings Co., Ltd. Further details of these acquisitions are included in note 35 to the financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Unlisted investments, at cost	131,004	131,004
Share of post-acquisition results	14,981	14,673
Less: Accumulated amortisation	(77,990)	(68,913)
	67,995	76,764
Due from jointly-controlled entities	62,777	66,673
Due to jointly-controlled entities	(2,068)	(2,068)
Loans to jointly-controlled entities	8,375	8,723
	137,079	150,092

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.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Registered capital	Tenure	Percentage of		Principal activities
					Voting power	Ownership interest and profit sharing	
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 period.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

19. INTERESTS IN ASSOCIATES

	Group	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	7,896	5,640
Due from an associate	3,045	–
	10,941	5,640

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2005	2004	
Chongqing Wansheng Transportation Centre Co. Ltd *	Corporate	Mainland China	40	40	Dormant
All China Express Limited	Corporate	Hong Kong	36.26	–	Provision of bus and travel related services

* Limited company established in the People's Republic of China.

20. INVESTMENTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Long term investments		
Unlisted equity investments in Mainland China, at cost	3,846	4,117
Less: Provision for impairment	(470)	(470)
	3,376	3,647
Short term investments		
Listed equity investments in Mainland China, at market value	–	231

NOTES TO FINANCIAL STATEMENTS

31 March 2005

21. PROPERTIES HELD FOR SALE

During the year, a land use right classified under fixed assets with an aggregate carrying value of HK\$15,686,000 was reclassified under properties held for sale at its net book value at the date of transfer.

22. INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Spare parts and other consumables	20,195	17,642

23. TRADE RECEIVABLES

Included in the Group's trade receivables are amounts due from an associate of HK\$7,253,000 (2004: Nil), which are repayable within 90 days.

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:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current to 30 days	59,547	44,801
31 to 60 days	11,205	8,226
61 to 90 days	7,271	3,779
Over 90 days	9,558	9,580
	87,581	66,386

24. OTHER RECEIVABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Prepayments	15,850	12,987	183	181
Deposits and other debtors	63,638	62,416	-	-
Due from joint venturers – note 25	17,385	14,009	-	-
	96,873	89,412	183	181

NOTES TO FINANCIAL STATEMENTS

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25. BALANCES WITH JOINT VENTURERS

The balances with joint venturers are unsecured and interest-free. Except for the amounts due to joint venturers of HK\$79,690,000 (2004: HK\$75,876,000) which are not repayable within the next 12 months from the balance sheet date, the balances with joint venturers have no fixed terms of repayment.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	164,277	133,359	296	270
Time deposits	22,117	8,924	-	-
	186,394	142,283	296	270
Less: Pledged time deposits for bank loans – note 29	(14,760)	(1,536)	-	-
Cash and cash equivalents	171,634	140,747	296	270

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$110,447,000 equivalent (2004: HK\$71,276,000). 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.

27. TRADE PAYABLES

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Current to 30 days	40,572	56,243
31 to 60 days	5,415	1,819
61 to 90 days	3,127	1,785
Over 90 days	9,642	4,840
	58,756	64,687

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28. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Accruals	113,311	68,996	–	–
Other liabilities	130,053	84,336	66	134
	243,364	153,332	66	134

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2005 HK\$'000	2004 HK\$'000
Bank loans:		
Secured	462,927	274,008
Unsecured	142,633	111,690
	605,560	385,698
Unsecured other loans	48,409	36,499
	653,969	422,197
Bank loans repayable:		
Within one year	260,646	178,594
In the second year	189,414	76,712
In the third to fifth years, inclusive	155,500	68,315
Beyond five years	–	62,077
	605,560	385,698
Other loans repayable:		
Within one year	10,437	4,056
In the second year	37,972	32,443
	48,409	36,499
Total	653,969	422,197
Portion classified as current liabilities	(271,083)	(182,650)
Long term portion	382,886	239,547

NOTES TO FINANCIAL STATEMENTS

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29. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

The Group's bank loans are secured by (i) certain fixed assets with an aggregate net book value of HK\$89,432,000 (2004: HK\$311,132,000) as at 31 March 2005, and time deposits of HK\$14,760,000 (2004: HK\$1,536,000); (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\$300,000,000 (2004: Nil) under a debenture given by the Company.

The Group's other loans of HK\$10,437,000 (2004: HK\$4,056,000) are unsecured, have no fixed terms of repayment and, except for an amount of HK\$7,184,000 (2004: Nil) which is interest-free, bear interest at a rate of 5% (2004: 8.5%) per annum. The Group's other loans of HK\$37,972,000 (2004: HK\$32,443,000) are unsecured, bear interest at a rate of 5.94% (2004: 5.94%) per annum and are repayable after one year.

A minority shareholder of a subsidiary of the Group has guaranteed certain of the Group's bank loans up to HK\$75,200,000 (2004: HK\$47,000,000).

30. DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and are repayable after one year.

31. DEFERRED TAX LIABILITIES

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

		Accelerated tax depreciation	Revaluation of properties	Others	Losses available for offset against future taxable profit	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003		71,267	728	–	(13,198)	58,797
Deferred tax charged/(credited) to the profit and loss account during the year	10	9,026	–	–	(2,910)	6,116
Acquisition of subsidiaries	35	13,551	–	(213)	(6,351)	6,987
At 31 March 2004 and 1 April 2004		93,844	728	(213)	(22,459)	71,900
Deferred tax charged/(credited) to the profit and loss account during the year	10	9,706	–	(66)	(2,387)	7,253
Acquisition of subsidiaries	35	930	–	–	–	930
At 31 March 2005		104,480	728	(279)	(24,846)	80,083

NOTES TO FINANCIAL STATEMENTS

31 March 2005

31. DEFERRED TAX LIABILITIES *(Continued)*

The Group has tax losses arising in Hong Kong of HK\$4,156,000 (2004: HK\$6,506,000) and in Mainland China of HK\$7,240,000 (2004: HK\$29,477,000) 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 as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2005, there was no significant unrecognised deferred tax liability (2004: 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 2005, there was no significant unrecognised deferred tax liability (2004: 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.

32. SHARE CAPITAL

Shares

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Authorised:		
600,000,000 ordinary shares of HK\$0.10 each	60,000	60,000
Issued and fully paid:		
394,906,000 (2004: 393,906,000) ordinary shares of HK\$0.10 each	39,491	39,391

During the year, the subscription rights attaching to 1,000,000 share options were exercised at the subscription price of HK\$1.2 per share (note 33), resulting in the issue 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 schemes and the share options issued under the schemes are included in note 33 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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33. SHARE OPTION SCHEMES

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

(a) The Old Scheme

On 6 September 1996, the Company approved the Old Scheme under which the directors may, at their discretion, invite any full-time employee or executive director of the Company to take up options at a price of HK\$1.00 per grant to subscribe for shares of the Company at any time during the 10 years from 6 September 1996. The subscription price is determinable by the directors and is notified to each grantee and will be the higher of a price being not less than 80% of the average of the closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options granted and the nominal value. The share options are exercisable at any time during the five-year period commencing six months after the date of grant and expiring on the last day of the said five-year period or 5 September 2006, whichever is earlier. The maximum number of shares on which options may be granted may not exceed 10% of the issued ordinary share capital of the Company from time to time without taking into account any shares issued and allotted pursuant to the exercise of options granted under the Old Scheme. The Old Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 September 1996.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Listing Rules in respect of share option schemes of listed companies, which have come into effect on 1 September 2001. At the Company's annual general meeting held on 26 August 2002, an ordinary resolution was passed by the Company's shareholders for the adoption of the New Scheme in compliance with the amended Chapter 17 of the Listing Rules and for the termination of the Old Scheme. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and any options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

All the share options issued under share options granted under the Old Scheme lapsed during the year.

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33. SHARE OPTION SCHEMES *(Continued)*

(b) The New Scheme

Eligible participants of the New 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 in the Company's subsidiaries. The New 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 New 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 New 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 share capital of the Company or with an aggregate value (based on the price of the Company's shares at the date of the 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 the 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 the offer of the grant of the share options or the expiry date of the New 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 Stock Exchange closing price of the Company's shares on the date of the offer of the grant, which must be a trading date; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the 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.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

33. SHARE OPTION SCHEMES (Continued)

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

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares***	
	At 1 April 2004	Lapsed during the year	At 31 March 2005				At grant date of options HK\$	At exercise date of options HK\$
Directors								
Wong Chung Pak, Thomas	100,000	(100,000)	-	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	(700,000)	-	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	800,000	(800,000)	-					
Wong Wing Pak	100,000	(100,000)	-	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	(700,000)	-	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	800,000	(800,000)	-					
Wong Leung Pak, Matthew	100,000	(100,000)	-	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	(700,000)	-	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	800,000	(800,000)	-					
Lee Yin Ching, Stanley	80,000	(80,000)	-	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	(700,000)	-	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	780,000	(780,000)	-					
Lo Kin Wai	80,000	(80,000)	-	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	(700,000)	-	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	780,000	(780,000)	-					
Cheng King Hoi, Andrew	80,000	(80,000)	-	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	(700,000)	-	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	780,000	(780,000)	-					
Ng King Yee	80,000	(80,000)	-	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	(700,000)	-	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	780,000	(780,000)	-					
Chan Yu Kwong, Francis	80,000	(80,000)	-	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	(700,000)	-	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	780,000	(780,000)	-					
Mok Wah Fun, Peter	80,000	(80,000)	-	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	(700,000)	-	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	780,000	(780,000)	-					
	7,080,000	(7,080,000)	-					

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31 March 2005

33. SHARE OPTION SCHEMES (Continued)

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

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares***	
	At 1 April 2004	Granted during the year	Exercised during the year	At 31 March 2005				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
	2,000,000	1,500,000	-	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
	2,000,000	1,500,000	-	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
	2,000,000	1,500,000	-	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
	1,000,000	200,000	-	1,200,000					
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
	1,000,000	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
	1,000,000	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
	1,000,000	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
	1,000,000	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
	1,000,000	200,000	-	1,200,000					

NOTES TO FINANCIAL STATEMENTS

31 March 2005

33. SHARE OPTION SCHEMES (Continued)

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares***	
	At 1 April 2004	Granted during the year	Exercised during the year	At 31 March 2005				At grant date of options HK\$	At exercise date of options HK\$
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
	500,000	200,000	–	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
	500,000	200,000	–	700,000					
Lee Kwong Yiu, 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	5,900,000	–	(1,000,000)	4,900,000	2 October 2003	5 September 2003 to 4 September 2013	1.200	1.170	1.810
	–	100,000	–	100,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	5,900,000	100,000	(1,000,000)	5,000,000					
	25,900,000	6,300,000	(1,000,000)	31,200,000					

* 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. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

The 1,000,000 share options under the New Scheme exercised during the year resulted in the issue of 1,000,000 ordinary shares of the Company and new share capital of HK\$100,000 and share premium of HK\$1,100,000 (before issue expenses), as detailed in note 32 to the financial statements.

During the year, 6,300,000 share options under the New Scheme were granted to certain directors of the Company and employees.

At the balance sheet date, the Company had 31,200,000 share options outstanding under the New 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 issue 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).

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34. RESERVES

Group

		Share premium account	Contributed surplus	Capital reserve	Fixed assets revaluation reserve	Enterprise expansion fund	Reserve fund	Exchange equalisation reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003		522,111	10,648	2,187	3,433	3,326	3,427	236	158,717	704,085
Net profit for the year		-	-	-	-	-	-	-	22,110	22,110
Transfer of reserves		-	-	-	-	515	1,441	-	(1,956)	-
Interim 2004 dividend	12	-	-	-	-	-	-	-	(3,939)	(3,939)
Proposed final 2004 dividend	12	-	-	-	-	-	-	-	(3,939)	(3,939)
Exchange realignment		-	-	-	-	-	-	442	-	442
At 31 March 2004 and 1 April 2004		522,111	10,648	2,187	3,433	3,841	4,868	678	170,993	718,759
Net profit for the year		-	-	-	-	-	-	-	45,795	45,795
Transfer of reserves		-	-	-	-	341	2,287	-	(2,628)	-
Issue of shares	32, 33	1,100	-	-	-	-	-	-	-	1,100
Interim 2005 dividend	12	-	-	-	-	-	-	-	(5,909)	(5,909)
Proposed final 2005 dividend	12	-	-	-	-	-	-	-	(5,924)	(5,924)
Exchange realignment		-	-	-	-	-	-	(54)	-	(54)
At 31 March 2005		523,211	10,648	2,187	3,433	4,182	7,155	624	202,327	753,767
Reserves retained by:										
Company and subsidiaries		523,211	10,648	2,187	3,433	4,182	7,155	624	198,716	750,156
Jointly-controlled entities		-	-	-	-	-	-	-	3,611	3,611
At 31 March 2005		523,211	10,648	2,187	3,433	4,182	7,155	624	202,327	753,767
Company and subsidiaries		522,111	10,648	2,187	3,433	3,841	4,868	678	162,940	710,706
Jointly-controlled entities		-	-	-	-	-	-	-	8,053	8,053
At 31 March 2004		522,111	10,648	2,187	3,433	3,841	4,868	678	170,993	718,759

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.

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31 March 2005

34. RESERVES (Continued)

Company

	<i>Notes</i>	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003		522,111	70,770	(5,588)	587,293
Net profit for the year		–	–	13,348	13,348
Interim 2004 dividend	<i>12</i>	–	–	(3,939)	(3,939)
Proposed final 2004 dividend	<i>12</i>	–	–	(3,939)	(3,939)
At 31 March 2004 and 1 April 2004		522,111	70,770	(118)	592,763
Issue of shares	<i>32, 33</i>	1,100	–	–	1,100
Net profit for the year		–	–	9,559	9,559
Interim 2005 dividend	<i>12</i>	–	–	(5,909)	(5,909)
Proposed final 2005 dividend	<i>12</i>	–	–	(5,924)	(5,924)
At 31 March 2005		523,211	70,770	(2,392)	591,589

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.

NOTES TO FINANCIAL STATEMENTS

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35. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiaries

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Net assets acquired:			
Fixed assets	14	81,519	107,184
Properties held for sale		69,746	–
Inventories		1,388	57
Trade receivables		2,490	21,342
Deposits and other debtors		5,095	25,441
Cash and bank balances		24,330	5,866
Trade payables		(8,094)	(19,637)
Other liabilities		(48,380)	(36,699)
Other loans		(9,367)	–
Bank loans		(7,069)	(18,900)
Finance lease payables		–	(18,974)
Deferred tax liabilities	31	(930)	(6,987)
Minority interests		(12,131)	(1,086)
		98,597	57,607
Goodwill/(negative goodwill) on acquisitions	16	7,183	(8,158)
		105,780	49,449
Satisfied by:			
Cash		105,780	49,449

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

	2005 HK\$'000	2004 <i>HK\$'000</i>
Cash paid	(105,780)	(49,449)
Cash and bank balances acquired	24,330	5,866
Net outflow of cash and cash equivalents	(81,450)	(43,583)

NOTES TO FINANCIAL STATEMENTS

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35. 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 from ordinary activities 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 its 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 from ordinary activities for the year ended 31 March 2005.

36. CONTINGENT LIABILITIES

The Company has given a guarantee amounting to HK\$695,300,000 (2004: HK\$479,000,000) in favour of a bank for banking facilities granted to its subsidiaries and jointly-controlled entity.

The Group had a contingent liability in respect of possible purchase consideration contingency pursuant to a joint venture agreement entered into between the Group and an independent third party in relation to the Group's investment in a joint venture, with a maximum possible amount of HK\$14 million. The contingent liability has arisen because, at the balance sheet date, the payment is contingent on a specified level of earnings of the joint venture being achieved in future periods.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its shop units in hotel properties and certain of its motor vehicles (note 14 to the financial statements) under operating lease agreements, with leases negotiated for terms ranging from 1 to 5 years.

At 31 March 2005, the Group had total future minimum lease rental receivables under non-cancellable operating leases with its tenants falling due as follows:

	2005 HK\$'000	2004 HK\$'000
Within one year	5,386	3,927
In the second to fifth years, inclusive	9,062	4,218
After five years	668	988
	15,116	9,133

NOTES TO FINANCIAL STATEMENTS

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37. 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 for terms ranging from 1 to 30 years.

At 31 March 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	19,371	17,252
In the second to fifth years, inclusive	13,661	9,687
After five years	20,094	21,590
	53,126	48,529

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

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following capital commitments at the balance sheet date:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Contracted, but not provided for:		
Acquisition of motor buses and vehicles	100,330	108,001
Authorised, but not contracted for:		
Acquisition of an associate	31,020	–
	131,350	108,001

39. 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 29 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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40. CONNECTED AND RELATED PARTY TRANSACTIONS

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	Group	
		2005 HK\$'000	2004 HK\$'000
Rental expenses paid to joint venturers	(i), (ii)	3,271	3,269
Interest income from jointly-controlled entities	(iii)	1,121	1,269
Purchases of fuel from a related company	(iv)	8,797	5,756
Refueling and bus washing charges paid to a related company	(iv)	467	467
Rental expenses paid to a related company	(v)	176	—
Coach rental income from an associate	(vii)	29,802	—
Management fee from an associate	(vi)	16,418	—
Coach rental income from a jointly-controlled entity	(vii)	5,734	—
Repairs and maintenance service income from a jointly-controlled entity	(viii)	1,308	—

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% (2004: 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\$188,000 (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. Wu Qi KC paid rental expenses amounting to approximately HK\$2,430,000 (equivalent to approximately RMB2,585,000) (2004: HK\$2,463,000) to Shanghai Public Transport for 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% (2004: 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\$806,000 (equivalent to approximately RMB857,000), which was determined between both parties by reference to the open market rentals at the time when the lease agreements were entered into. Pursuant to the agreements, Chongqing KC No. 3 paid rental expenses amounting to approximately HK\$841,000 (equivalent to approximately RMB895,000) (2004: HK\$806,000) to Chongqing Public Transport for the year.
- (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.
- (iv) On 13 June 2003, the Company entered into an agreement with New World First Bus Services Limited ("NWFB"), a fellow subsidiary of a shareholder of the Company, for (a) the provision of refueling and bus washing services by NWFB to certain of the 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 from NWFB amounted to HK\$8,797,000 (2004: HK\$5,756,000). The fee related to the refueling and bus washing services provided by NWFB to the Group was determined at a rate comparable to those offered by other unrelated service providers to the Group with a monthly charge of HK\$38,880 (2004: HK\$38,880).
- (v) 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\$203,701, which was determined with reference to open market rates or on the actual disbursement basis. The total rental paid by the Group for the year amounted to HK\$176,000.

NOTES TO FINANCIAL STATEMENTS

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40. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

Notes: (Continued)

- (vi) The management fee income was charged based on the direct costs incurred.
- (vii) The coach rental income was made according to the prices and conditions similar to those offered by the Group to its customers.
- (viii) The repairs and maintenance service income was charged based on terms agreed between the Group and the jointly-controlled entity.
- (ix) Shanghai Public Transport has guaranteed certain bank loans made to the Group of up to HK\$56,400,000 (2004: HK\$47,000,000) as at 31 March 2005.

The related party transactions in respect of items (iv) and (v) above also constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Further details of the transactions are disclosed in the section headed "Connected transactions" in the Report of the Directors.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 July 2005.