

LIQUIDITY AND FINANCIAL RESOURCES

Funding for the Group's operations during the period mainly came from internally generated cash flows. Any shortfall was financed by bank loans and leases. The total indebtedness outstanding as at 30 September 2006 was approximately HK\$714 million (31 March 2006: HK\$714 million), of which HK\$371 million (31 March 2006: HK\$376 million) was repayable/renewable within one year. The indebtedness comprised mainly bank loans and leases and was deployed mainly for purchases of buses and investments in Hong Kong and Mainland China. The leverage was approximately 67.1% (31 March 2006: 68.0%).

FUNDING AND TREASURY POLICY

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

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

HUMAN RESOURCES

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

FUTURE PROSPECTS

The Group is still facing a very tough operating environment.

1. Although the international fuel price has been falling substantially from its record high, its retail price still remains at a relatively high level. The Group will continue with its fuel-saving measures and negotiate with the local governments in various cities of Mainland China for the relevant fuel subsidies.
2. There are bigger pressures for salary increases both in Mainland China and in Hong Kong. The Group will continue to rationalize its organizational structure, avoid duplication of work, link up pay with performance and improve the productivity of its employees to justify for salary increases.

FUTURE PROSPECTS *(Continued)*

3. With a weaker HK Dollar that is pegged with US Dollar, the import prices of parts and accessories of the Group's fleet in Hong Kong, mostly from Japan and Europe, have also greatly increased. The Group will explore hedging and other useful means to minimize the impact.
4. The competition from rail traffic, especially those parallel to some bus routes of the Group, also forms a great threat to the Group's patronage as well as receipts.
5. The higher interest rates for bank loans also increase the financial burden of the Group.

To overcome the foresaid obstacles, the Group has implemented the following measures:

1. The Group will consolidate its bus operations in Mainland China and will not exclude the possibility of disposal of some bus operations with a relatively more uncertain prospect at reasonable prices.
2. The Group will also dispose of some fixed assets, like land and buildings both in Hong Kong and Mainland China, which will not affect its core business. By doing so, the Group's leverage ratio and cash flow position will be much improved.
3. The Group will diversify its business operations. Its investments in the Chongqing Tourism Group and the inter-city bus terminal in Xiangfan have made steady progresses. The two new investments subsequent to the current period under review, namely, the Miyaluo project and the Chengdu tour bus project with related business in Mainland China, will create new opportunities and will be described in greater details below.

1. Non-franchised Bus Services in Hong Kong

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

2. Franchised Bus Services in Hong Kong

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

FUTURE PROSPECTS *(Continued)*

3. Bus Services in Mainland China

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

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

4. Tour and Hotel Services

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

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

(a) Miyaluo Project in Sichuan Province

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

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

FUTURE PROSPECTS *(Continued)*

4. Tour and Hotel Services *(Continued)*

(a) Miyaluo Project in Sichuan Province (Continued)

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

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

(b) Tour Bus Project in Chengdu

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

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