(Stock Code: 0306)

KWOON CHUNG BUS HOLDINGS LIMITED

ANNUAL REPORT 2006/07

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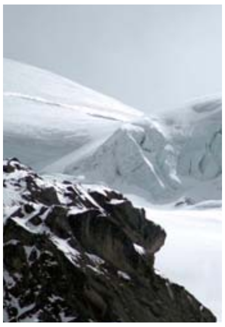


Note: The English text of this annual report shall prevail over the Chinese text.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. WONG Chung Pak, Thomas *(Chairman)*
Mr. WONG Leung Pak, Matthew
(Chief Executive Officer and Managing Director)
Mr. WONG Wing Pak *(Senior Executive Director)*
Mr. LAM Sze Hoo, Christopher
Mr. CHENG Wai Po, Samuel
Mr. LEE Yin Ching, Stanley
Mr. CHENG King Hoi, Andrew
Mr. NG King Yee
Mr. CHAN Yu Kwong, Francis
Mr. MOK Wah Fun, Peter
Mr. LO Kin Wai *(resigned on 31 August 2006)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. CHAN Kwok Kee, Andy

AUTHORISED REPRESENTATIVES

Mr. WONG Chung Pak, Thomas
Mr. WONG Leung Pak, Matthew

QUALIFIED ACCOUNTANT

Mr. CHAN Yu Kwong, Francis

AUDITORS

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

REGISTERED OFFICE

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Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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PRINCIPAL BANKER

The Hong Kong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

PRINCIPAL REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock code: 306
Board lot: 2,000 shares

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Email: info@kcm.com.hk/contact@kcm.com.hk

CORPORATE PROFILE

When the late Mr. Wong Kwoon Chung launched a car cleaning service in 1948, he would not have envisaged that Kwoon Chung Bus Holdings Limited and its subsidiaries (the "Group") would become one of the largest, if not already the largest, non-franchised bus operators in Hong Kong. The expansion in Mainland China can also be described as dramatic. Today, the Group has operations in more than 10 major cities and locations in Mainland China.

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

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

New Lantao Bus Company (1973) Limited, a subsidiary of the Group, is the franchised bus operator in Lantau Island. Another subsidiary, Lantau Tours Limited, is the major tour service provider in Lantau Island that offers a wide range of travel packages, covering the new and old sceneries of Lantau.

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

In November 2003, the Group acquired 100% shares of Trans-Island Limousine Service Limited ("TIL") and all its subsidiaries and CJVs in Hong Kong and Mainland China. TIL is a non-franchised bus operator with a fleet of about 200 buses. Its subsidiary, Intercontinental Hire Cars Limited, is a limousine service provider with a fleet of over 100 operating limousines. A portion of the above fleet of vehicles has service licences for cross-border passenger services. In addition, TIL operates a number of service counters at the passenger terminal of the HKIA and Shenzhen Baoan International Airport. Synergy can be achieved to strengthen the Group's operations in the provision of tour, hotel, limousine and cross-border bus services, both in Hong Kong and Mainland China. Since August 2004, a new mode of cross-border bus service has been developed, with a network of six routes operating a 24-hour service between Huanggang of Shenzhen and designated locations in Hong Kong. The Group, through its associated company – All China Express Limited – succeeded in the bidding of three of the above routes. The number of passengers has been increasing steadily.

CORPORATE PROFILE

In August 2004, the Group also acquired a 50% shareholding of GoGo TIL (Cross Border) Transportation Services Co. Ltd., which provides cross-border bus services mainly to Taiwanese travellers for routes between the HKIA and various locations in Guangdong Province. The Group's shareholding has increased to 92.3% since early 2006.

Since 1992, the Group has been trying to realise its vision of the bus transport market in Mainland China, though the path is arduous. Shanghai Pudong Kwoon Chung Public Transport Co., Ltd. ("Pudong Kwoon Chung") was the first co-operative joint venture ("CJV") that the Group established in Mainland China. Subsequently, this CJV became an equity joint venture ("EJV") and had been disposed of in January 2007. The Group has CJVs in other major cities, namely, Guangzhou, Shantou, Dalian and Harbin, and cross-border bus services in Shenzhen. There are altogether around 500 buses being operated under these CJVs. In June 1998, the Group completed its another joint venture in Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. This subsidiary, which owns a fleet of over 900 buses and 81 taxis, operating designated bus routes mainly at Puxi of Shanghai and is now a 53% owned EJV of the Group.

Under the "Go West" Strategy directed by the Central Government of The People's Republic of China, Chongqing is a fast growing autonomous municipality in the western part of Mainland China. In December 1998, the Group, through a 55% owned subsidiary, established a 55% (effectively 30.25%) owned EJV in Chongqing, namely, Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. This company, now renamed as Chongqing Kwoon Chung Public Transport Holdings Co. Ltd., commenced its operation in January 1999 and currently operates a fleet of over 900 buses. In January 2000, the Group acquired and established another EJV in Chongqing, namely, Chongqing Kwoon Chung (New Town) Public Transport Co. Ltd. The Group owns about 76.64% (effectively 42.15%) equity interest of this EJV. As a major shareholder, the Group now owns two public city bus companies out of seven such major companies administered by the Chongqing Communications Committee in Chongqing. With the committed support from the relevant authorities in Chongqing, the Group continues to realize its vision.

The Group envisages that domestic, inbound and outbound travel business in Mainland China will grow at speed. The entrance into this market will be beneficial to the Group's existing tour bus business, both in Mainland China and in Hong Kong. The Group may also utilize its bus operation network in Mainland China to advance the development of its travel business, which is expected to become one of the major business of the Group for business diversification. Accordingly, in June 2000, the Group acquired a 60% equity interest in Chongqing Tourism (Group) Co. Ltd., which together with its group companies operate a hotel, a travel agency company and a tour bus company. The travel agency company – Chongqing Everbright International Travel Service Co. Ltd. – originally holds domestic and inbound travel business licences in Mainland China. In 2002, two years after the Group's acquisition, the company has been granted an outbound travel business licence by the National Tourism Administration Bureau of China. The award has been made at the recommendation of the local Tourism Administration Bureau, in recognition of the company's good record in the expansion of its business and its achievement of various standards set by the relevant authorities. There are only 13 out of over 200 travel agency companies in Chongqing that have been granted this competitive licence. This success further enhances the Group's diversification into the travel business industry in Mainland China.

In October 2002, the Group acquired a 75% equity interest in Top China International Investment Holdings Limited, which holds a 70% effective equity interest in GFTZ Xing Hua Tourism Bus Co., Ltd., and GFTZ Xing Hua International Transport Ltd. These companies operate a number of intra-city and long-distance bus routes in Guangzhou. The Group has conducted a feasibility study on this investment and found that Guangzhou and its vicinity, as the hub of the fast growing Guangdong Province, have great potential for development because of its extending network of highways and the notable reduction in the number of bicycle users. To enlarge our market presence, the Group further acquired a 56% equity interest in Guangzhou New Era Express Bus Co., Ltd. in December 2004. This company operates a fleet of 19 buses for 5 long-distance bus routes in Guangdong Province.

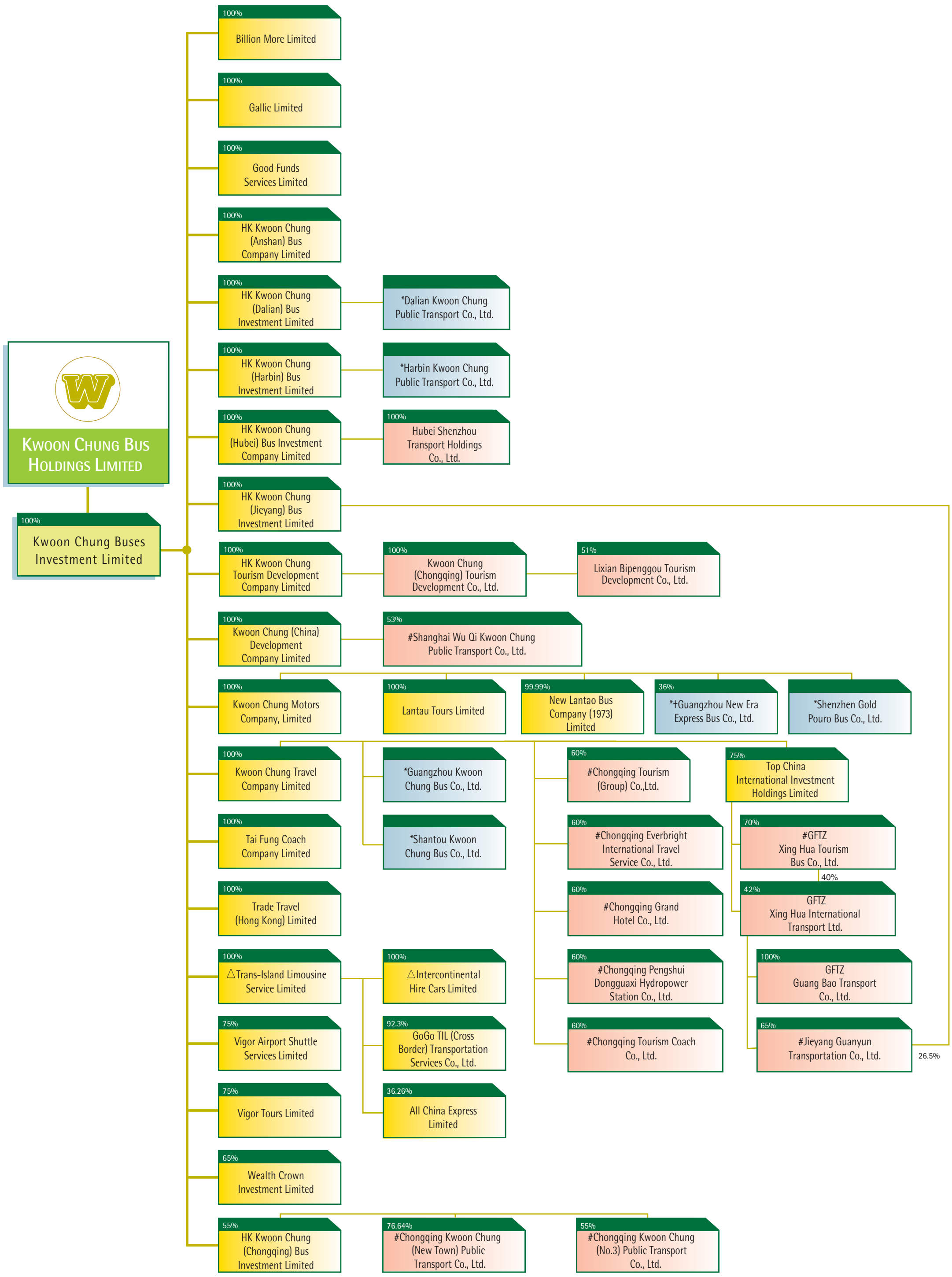
In August 2004, the Group acquired 100% equity interest in Hubei Shenzhou Transport Holdings Co., Ltd. This subsidiary holds a transport terminal, with around 95 routes and a fleet of around 280 buses, and operates long-distance bus services mainly within Hubei Province in the central region of Mainland China. In the opinion of the Group, this transport terminal and long-distance bus services operation should have promising potential for future development.

In November 2006, the Group acquired 51% equity interest in Lixian Bipengguo Tourism Development Co., Ltd. after dilution of the original equity interests of the other two equity holders by the capital injection of approximately RMB35 million into this EJV. The local government has granted this subsidiary the right to develop a vast and distinctive scenic site called Miyaluo, in Sichuan Province for 50 years, in which "Bipengguo" is the first scenic spot being developed. The total area of the scenic site of Miyaluo is approximately 613.8 sq.km. Bipenggou is only about 200 km away from Chengdu city. This journey distance would be shortened to about 175 km, once the new highway network will be completed by the local government at the end of 2007. The goal of the subsidiary is to develop scenic spots for 'eco-tourism', leisure, business and incentive tours. The major income will be the entrance fee from tourists visiting these scenic spots. This project is at a development stage and the number of visitors is expected to increase at speed after official opening of the scenic spots.

Given the enormous market in Mainland China, the Group is confident in its future growth in Mainland China in various businesses.

CORPORATE STRUCTURE

31 March 2007



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

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

△ Holding certain CJVs established in Mainland China

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

CHAIRMAN'S STATEMENT

THE QUEST FOR **EXCELLENCE**
KNOWS **NO BOUNDS**

CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders the Group's annual report for the year ended 31 March 2007.

RESULTS

The consolidated net profit for the year was approximately HK$32.8 million. This represents an increase of approximately ten times from that for the year ended 31 March 2006 of approximately HK$2.9 million. There have been substantial improvements in the financial performance of the Group, which will be discussed in greater detail in the sections headed "Review of Operations" and "Future Prospects" below.

In the year under review, the Group continued to confront very hard business environments in both Hong Kong and Mainland China. Firstly, the fuel cost was still very high. Secondly, there was pressure to increase staff salaries and benefits, especially in Mainland China. Thirdly, it was relatively difficult to adjust bus fares upward to compensate for the rise in operating costs because of political, social, and economic reasons. Fourthly, the public bus industry faced intense rivalry arising from new parallel routes operated by the subways and other rail companies. Fifthly, the relatively high bank borrowing interest rate had added extra burden on the Group's finance costs.

DIVIDENDS

The Directors recommended a final dividend of HK2.5 cents (2006: nil) and a special dividend of HK2.5 cents (2006: nil) per ordinary share in respect of the year. The Proposed final dividend and special dividend will be paid on or about Tuesday, 25 September 2007 to the shareholders on the register of members on Tuesday, 18 September 2007.

REVIEW OF OPERATIONS

1. NON-FRANCHISED BUS SERVICES IN HONG KONG

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

The total turnover of this sector for the year was approximately HK$864 million (2006: HK$759 million), representing an increase of approximately 14% from that of prior year. This was mainly due to the expansion of the Group's present business, particularly cross-border bus services. The net profit derived from the above segment was approximately HK$51.6 million (2006: HK$19.4 million). There was a bigger profit margin after the bus fares of some services were increased during the year.

Preparations by the Group are underway for a massive publicity campaign in Hong Kong for the "Mighty Rovers" event which is about to take place in Miyaluo in August 2007.

In terms of the size of the bus fleet, the Group continued to be the largest non-franchised bus operator in Hong Kong. As at 31 March 2007, the fleet comprised 835 (2006: 797) non-franchised buses.

Kwoon Chung Motors Company Limited, Good Funds Services Limited, and Tai Fung Coach Company Limited (the Group's wholly-owned subsidiaries) provided bus services for students, employees, residents, tours, hotels and contract hires. These business sectors remained relatively stable.

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

The joint venture set up by TIL, namely GoGo TIL (Cross Border) Transportation Services Co., Ltd. ("GoGo TIL"), continued to operate a high-end cross-border bus service between the Hong Kong International Airport ("HKIA") and Dongguan/Guangzhou, mainly for Taiwanese travellers.

TIL also ran a number of service counters at the Passenger Terminal Building of HKIA for its "Airport Hotelink" and hotel limo services.

To counter the high overheads, especially fuel and insurance, the Group had done its best to minimize costs through route rationalisation and better utilisation of resources, including human resources as well as its relatively large fleet of buses.

Efforts by the Hong Kong SAR Government in controlling the unhealthy growth in the number of non-franchised public buses had resulted in near-zero growth in new registration of these buses. In the opinion of the Group, this was in the right direction. However, excessive and unwarranted regulation and controls from the Administrations had contributed only to unreasonable restriction of the non-franchised bus sector.

The Group deeply believed that the non-franchised bus sector had its long-standing and proud history in the society, and their contribution and capability to serve the general public should not be underestimated.

Through active participation by a number of its subsidiaries as members of the Public Omnibus Operators Association, the Group continued to actively reflect the industry's concern to the Administrations.

2. FRANCHISED BUS SERVICES IN HONG KONG

Bus Route B2 operated by NLB running between Shenzhen Bay and Yuen Long/Tin Shui Wai already commenced service on 1 July 2007, the 10th anniversary of Hong Kong's handover of sovereignty to China, marking an increasing integration of Hong Kong with China.

The Group's franchised bus services in Hong Kong were provided by New Lantao Bus Company (1973) Limited ("NLB"), a 99.99% owned subsidiary of the Group. As at 31 March 2007, NLB was operating 22 (2006: 24) franchised bus routes, mainly in Lantau Island, with a fleet of 83 (2006: 83) buses.

For the year ended 31 March 2007, the total turnover of NLB was approximately HK$76.5 million (2006: HK$79.8 million). NLB recorded a loss of approximately HK$4.0 million (2006: HK$3.8 million).

There were two causative factors for the loss: the reduction in revenue due to the loss of patronage to Ngong Ping Skyrail, and high fuel costs. To counter these unfavourable conditions, NLB had undertaken a number of measures to cut costs as well as to boost revenue. These included systematic steps to rationalize the existing routes and introduce new bus routes and services, some of which were created in combination with the Ngong Ping 360 Cable Car service. The last resort was to seek fare increment and an application for such, which had been submitted to the relevant government authorities in November 2006, was under review.

3. OTHER SERVICES IN HONG KONG

The Group's subsidiaries: Trade Travel (Hong Kong) Limited, TIL, and Vigors Airport Shuttle Services Ltd. ("Vigor Shuttle"), continued to operate commercial service counters at the Arrival Hall of the HKIA, and offered onward transfer for tour groups and individual international visitors with pre-arranged bookings.

In addition, Vigors Shuttle and Lantau Tours Limited ("LT"), another of the Group's wholly-owned subsidiary, operated travel itineraries for tourists on visit to Hong Kong and for tourists on transit.

As at 31 March 2007, TIL had a fleet of 116 (2006: 124) operating limousines. 24 (2006: 24) of these vehicles had cross-border service licences. TIL had strengthened this fleet of limousines, mainly to cater for VIP airport and local transfers, and cross-border transfers to and from Guangdong Province.

In addition, LT continued to provide tour services for individuals and groups, with itineraries mainly covering the Lantau Island.

"TIL Travel" was the travel agency department of TIL. Its major operations included organising local tours to the Ocean Park and Disneyland, sale of air tickets and other tour packages.

4. BUS SERVICES IN MAINLAND CHINA

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

As at 31 March 2007, the Group was operating a number of routes and buses through its CJVs in the major cities in Mainland China, as follows:

	Number of Routes		Number of Buses	
	2007	2006	**2007**	2006
Guangzhou	**8**	8	**169**	168
Shantou	**6**	6	**63**	63
Dalian	**4**	4	**215**	180
Harbin	**1**	1	**60**	60
Anshan	**0**	3	**0**	94
	19	22	**507**	565

The share of losses from these CJVs, together with certain write-off and impairment made (as explained below) for the year amounted to approximately HK$20.9 million (2006: HK$9.4 million).

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

As the "guaranteed income" of most CJVs had gradually expired, the gross income contributed to the Group from these entities had diminished accordingly. When the operating results of these CJVs were unfavourable, the share of net profit would not be sufficient to cover the respective amortisation of the Group's investments in these CJVs, resulting in a share of losses of these CJVs attributable to the shareholders of the Company.

Increase in share of losses was mainly due to the early termination of the contract of the CJV in Anshan in May 2006, amounting to approximately HK$6.9 million, and impairment for receivable from the CJV in Harbin amounting to approximately HK$3.8 million.

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

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

i. Shanghai Pudong Kwoon Chung Public Transport Co., Ltd.
In January 2007, the Group disposed of its total 90% equity interest in this EJV to a third party in Shanghai for a consideration of RMB132 million. At the same time, the Group retained the 6% equity interest in Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. held by this EJV for a consideration of RMB7.9 million. The net gain after tax and related expenses of the disposal was about HK$20.2 million.

The share of loss attributable to the shareholders of the Company for the year until the date of disposal was approximately HK$9.1 million (2006: HK$8.0 million). Upon the above disposal, the share of continual loss from this EJV had ceased and the overall profitability, liquidity and cash position of the Group were improved.

ii. Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd.
As at 31 March 2007, this 53% (2006: 52.4%) owned subsidiary was operating 38 (2006: 38) routes with a fleet of 917 (2006: 976) buses and a fleet of 81 (2006: 81) taxis in Shanghai, mainly in Puxi area. The share of loss attributable to the shareholders of the Company for the year was approximately HK$12.2 million (2006: HK$4.7 million). Some vital bus routes of this EJV had been severely affected by the almost parallel new routes of the subway which commenced from December 2004. This situation had created a direct and critical challenge to the survival of this EJV. As the fares were not significantly different, passengers could switch easily from the bus to the subway.

iii. Jieyang Guanyuan Transport Co., Ltd.
As at 31 March 2007, this 60.6% (2006: 60.6%) owned subsidiary was operating 6 (2006: 7) routes with a fleet of 35 (2006: 34) buses. The share of loss attributable to the shareholders of the Company for the year was approximately HK$568,000 (2006: HK$900,000). Under a new mode of operation in the form of sub-contracting its buses to other operators, the loss incurred by this subsidiary had narrowed.

iv. Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd.
As at 31 March 2007, this subsidiary, owned as to 55% (2006: 55%) by a joint venture company of the Group and Market Giant Limited, a wholly owned subsidiary of NWS Transport Services Limited, was operating 76 (2006: 74) routes with a fleet of 919 (2006: 880) buses in Chongqing. The share of profit attributable to the shareholders of the Company for the year was approximately HK$679,000 (2006: HK$1.2 million). The decrease in profit was mainly due to the significant rise in natural gas price from RMB1.63 per cubic m. to RMB1.92 per cubic m. since February 2006, and the decrease in patronage due to the unusual hot weather in the summer.

Newly acquired bus fleet running on 608 route of Chongqing Kwoon Chung (New Town) Public Transport, which links between Lianglu Chengnan and Chaotianmen in Chongqing.

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

As at 31 March 2007, this subsidiary, owned as to 76.64% (2006: 76.64%) by a joint venture formed by the Group and Market Giant Limited, a wholly owned subsidiary of NWS Transport Services Limited, was operating 22 (2006: 20) routes with a fleet of 566 (2006: 494) buses in northern Chongqing. The share of profit attributable to the shareholders of the Company for the year was approximately HK$2.7 million (2006: HK$3.2 million). The decrease in profit was also due to the rise in fuel costs.

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

Taking into consideration that this EJV had a relatively small operation with little economies of scale, and that it was not expected to become profitable in the foreseeable future, the Group had disposed of its total 84.3% equity interest in this EJV to a third party in April 2006 at a nominal price, given that this EJV had carried a minimal net asset value.

vii. GFTZ Xing Hua Group

As at 31 March 2007, Top China International Investment Holdings Limited, a 75% (2006: 75%) owned subsidiary of the Group, was holding 70% (2006: 70%) equity interest in each of GFTZ Xing Hua International Transport Ltd., GFTZ Xing Hua Tourism Bus Co., Ltd. and GFTZ Guang Bao Transport Co., Ltd. ("GFTZ Xing Hua Group").

As at 31 March 2007, GFTZ Xing Hua Group was operating 15 (2006: 16) routes with a fleet of 166 (2006: 196) buses, providing long-distance transport within Guangdong Province and city transport in Guangzhou Municipal. The share of profit attributable to the shareholders of the Company for the year was approximately HK$742,000 (2006: HK$688,000). The improvement in the performance of the long-distance routes had raised the EJV's profit margin.

Hubei Shenzhou Transport Holdings Tour Bus Company, a branch Company set up by Hubei Shenzhou Group commenced operation at the end of 2006. It principally operates tour coach lease services.

viii. Hubei Shenzhou Transport Holdings Co., Ltd

As at 31 March 2007, this 100% (2006: 100%) owned subsidiary of the Group, once a state-owned enterprise, was holding a transport terminal with 95 routes (2006: 91) and a fleet of 277 (2006: 319) buses operating mainly long-distance bus services within Hubei Province. Under the state enterprise reform scheme, this subsidiary had successfully streamlined its human resources structure, thus its competitiveness was substantially enhanced.

Attractive outlook of coach buses newly purchased by Hubei Shenzhou Group.

The profit for the year of this subsidiary was approximately HK$5.1 million (2006: HK$7.8 million). The significant reduction in profit was due to the material increase in bank borrowings, the relatively less satisfactory patronage during the 2007 Spring Festival, and the disposal of a profitable associated company in mid-2006.

ix. Guangzhou New Era Express Bus Co., Ltd
As at 31 March 2007, this 56% (2006: 56%) owned subsidiary was operating a fleet of 19 (2006: 19) buses for 5 (2006: 5) long-distance bus routes within Guangdong Province.

The share of profit attributable to the shareholders of the Company for the year was approximately HK$2.9 million (2006: HK$3.0 million). The performance of long-distance routes in Guangzhou had been relatively stable.

5. TRAVEL AND TOURISM SERVICES IN MAINLAND CHINA

a. Chongqing Tourism (Group) Co., Ltd.

This 60% (2006: 60%) owned subsidiary, together with its four group companies with the same equity-holding structure, operated a hotel, a travel agency company, a tour bus company and a hydro-electric power plant. In June 2006, the Group disposed of its power plant for a consideration of RMB4.5 million as such operation was not the Group's core business. The share of profit attributable to the shareholders of the Company for the year was approximately HK$1.2 million (2006: loss of HK$1.9 million). The turnaround was mainly due to the continuing growth of tourism business in Mainland China.

b. Lixian Bipengguo Tourism Development Co., Ltd.

In November 2006, the Group acquired 51% equity interest in this EJV after dilution of the original equity interests of the other two equity holders by the capital injection of approximately RMB35 million into the EJV. This subsidiary had procured the right of development of the scenic site of Miyaluo, Sichuan Province for 50 years, in which "Bipengguo" was the first scenic spot being developed. The total area of the scenic site was approximately 613.8 sq.km. Bipenggou was only about 200 km away from Chengdu city. This journey distance would be shortened to about 175 km, once the new highway network would be completed by the local government at the end of 2007. The goal of this subsidiary was to develop scenic spots for "eco-tourism", leisure, business and incentive tours. As this project was only at a preliminary stage of development, revenue and profit were yet to be made. The share of loss attributable to the shareholders of the Company for the year was approximately HK$314,000.

Unveiled in November 2006, Lixian Bipengguo Tourism Development Co., Ltd. is operating on a trial basis.

LIQUIDITY AND FINANCIAL RESOURCES

Funding for the Group's operations during the year were sourced mainly from internally generated cash flows. Any shortfall was financed by loans and leases from banks and other financial institutions. The total indebtedness outstanding as at 31 March 2007 was approximately HK$551 million (2006: HK$714 million), of which HK$320 million (2006: HK$376 million) was repayable/renewable within one year. The indebtedness comprised mainly loans and leases from banks and other financial institutions and were deployed mainly for the purchase of buses and investments in Hong Kong and Mainland China. The leverage was approximately 49% (2006: 68%). From experience, the revolving loans borrowed in Mainland China could always be renewed when they expired. However, to reduce potential risks, the Group will in future negotiate with the relevant banks for more term loans rather than revolving loans.

FUNDING AND TREASURY POLICY

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

Consequently, the income and expenditure of the Group for its Hong Kong operations are denominated in Hong Kong Dollar ("HKD"). For its investments in Mainland China, the major sources of income are in Renminbi ("RMB"). Regardless of the continual appreciation of RMB against HKD, the Group has been cautiously watching over this trend and will formulate plans to hedge against the foreign currency risk as and when it is necessary.

The Group is also cautious about the cash flow interest rate risk, as the bank loans of the Group carry mainly floating interest rates. The Group will take appropriate measures to minimize such risks as and when it is necessary.

HUMAN RESOURCES

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

FUTURE PROSPECTS

The Group will encounter threats as well as opportunities.

The relatively high fuel costs, pressing demand for increasing salaries, keener competition among fellow bus operators and transport modes, and rising interest rates and operating costs are all challenges that the Group has to face and find solutions for.

1. NON-FRANCHISED BUS SERVICES IN HONG KONG

The student, employee, hotel, resident, tour and contract hire bus services are expected to be relatively stable.

The cross-border bus services, however, will face more uncertainties:

a. The new Futian Port will commence operation from mid-2007. New transport competitors include the Lok Ma Chau (LMC) Spur Line, one franchised bus route (between Yuen Long and LMC run by another bus operator), one green mini-bus route (between Tin Shui Wai and LMC), as well as taxis. This will undoubtedly constitute threats to the Group's cross-border bus services at Huanggang.

b. The new Shenzhen Bay Port has also opened on 1 July 2007. There are two franchised bus routes (between Yuen Long and Shenzhen Bay operated by NLB, and between Tuen Mun and Shenzhen Bay operated by Citybus), and one green mini-bus route (between Tin Shui Wai and Shenzhen Bay). There are 300 scheduled trips per day operated by non-franchised buses, 100 more cross-border limos and all taxis. It is forecasted that around 30,000 passengers per day will use this new border crossing.

In spite of this competitive setting, the Group will be able to expand its operational capacity if granted more cross-border bus and limo quotas, and it may transfer some of its existing quotas from other crossings to the Shenzhen Bay Port.

Needless to say, some time will be required in order to assess the overall impact of these two new crossings on the Group. Below is our preliminary forecast:

a. The two new crossings with the new transport modes will surely seize away a certain share of patronage from the operators of the existing market, which includes the cross-border buses, the rail to Lo Wu and the Yellow Bus at LMC.

b. The impact on the two fixed routes already operated by the Group, namely, between Mongkok and LMC and between Wanchai and LMC, is expected to be minimal. This is because the current demand is greater than the capacity of the existing fleet; the bus fares are competitive compared with that of the rails; and there are guaranteed seats on the buses for each passenger. However, the adverse impact on the third route between Kam Sheung Road and LMC will be greater.

c. The impact on the fixed routes to and from various cities of Guangdong Province, such as Zhongshan, Foshan, etc., may not be great because these routes are from point to point and many bus riders have already developed a travel pattern with them.

d. The market for cross-border limos is more uncertain. Currently, the total number of operating limos is about 60 to 70 units. An addition of 100 new units implies a big change in the market environment.

e. The Group has the comparative advantage of having well-located reception counters at the HKIA, Huanggang Port, and Shenzhen Baoan International Airport, a strong clientele base and good business connections for its cross-border limos.

f. Moreover, as the traveling time to Shenzhen West via the Western Corridor is shorter and the immigration procedure is simpler, some cross-border ferry users may return to using the bus service again.

g. The number of cross-border passengers has increased steadily over the last five years. Currently, it is around 450,000 to 500,000 passengers per day. When the clientele base becomes larger, the demand for cross-border transportation will also increase.

h. The two new border crossings should help to relieve the traffic congestion at the existing crossings. As a result, the turnaround time of the buses will be shorter.

2. FRANCHISED BUS SERVICES IN HONG KONG

a. NLB has not raised its bus fares over the past 10 years, whereas all operating costs have gone up, notably fuel, depreciation, insurance, spare parts, and repair and maintenance. The launch of Ngong Ping 360 and the Cable Car service added the last straw. For another consecutive year, NLB registered a loss of approximately HK$4 million, even after the implementation of various measures to minimize costs. There is no option but to request an upward adjustment of fares. NLB has submitted a proposal/application to the relevant government authorities for a modest fare increase. If approved, this will reduce the losses and enable NLB to break even, hopefully.

b. As mentioned above, NLB has been awarded a new cross-border route between Yuen Long and Shenzhen Bay, which has begun since 1 July 2007. It will take some time for NLB to build up the patronage, but it is hoped that, in the long run, this new route will grow in popularity and will generate profit.

c. The intake of population in the Tung Chung New Town has increased steadily. With the prospect of new government projects and economic development in North Lantau, the demand for bus services may likewise increase.

d. If the Tung Chung Road were open to more public transport, including non-franchised buses, the effect on NLB would have been devastating.

e. The suspension of the Cable Car service of Ngong Ping 360 since the accident in June 2007 has greatly dampened visitors' desire to come to Ngong Ping. The patronage for the bus suffers a further decline.

The last two points just show how vulnerable the franchised bus service is in a constrained operational environment.

3. BUS SERVICES IN MAINLAND CHINA

a. CJVs in Mainland China

Most of the CJV contracts will expire in a few years' time. The Group will take a very cautious stance in considering further extension of these contracts. The CJVs will either cease operation when their contracts expire, or the Group will negotiate with the Chinese partners to transform them into EJVs, if they are financially viable.

b. EJVs in Mainland China

i. City public bus transport

Because the majority of the local governments of Mainland China regard public transport in the city as a necessity for the citizens, therefore, profit making is not their prime objective. To avoid any disturbance to social stability, fare increase becomes very difficult, regardless of the improved affordability of the general public and a real need for adjustment on a commercial basis. In light of such circumstances, the Group will not exclude the possibility of disposal of those EJVs that cannot break even, especially if a reasonable price (preferably not less than their net book values) can be fetched.

In the meantime, the Group will negotiate with the local governments for more subsidies and other forms of financial assistance. The Group will seek opportunities to collaborate with other bus companies in the same district to achieve synergies and cost cutting. If profitable, the Group may acquire some smaller bus companies in the vicinity in order to maximize its benefits.

ii. Long-distance public bus transport

The adjustment of the bus fares of the long-distance routes is relatively easier than the fares of city routes. The profit margin of these routes is better too. The Group will explore the possibility of strengthening long-distance public bus services in the future.

4. TRAVEL, TOURISM AND OTHER OPERATIONS

a. *Travel and Tourism Services*

i. Chongqing Tourism (Group) Co., Ltd.

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

The Chongqing Grand Hotel, an operating entity of Chongqing Tourism Group, will be able to make a larger profit gradually in coming years as the room occupancy and charging rates become more favourable when the economic environment of Chongqing City keeps improving.

ii. Lixian Bipenggou Tourism Development Company Limited

Bipenggou of Miyaluo is richly endowed with resources in the beauty of nature all year round. The cultures of the minority ethnic groups, Qiang (羌) and Zong (藏), also form big attraction for tourists. The Group's ultimate goal is to have about 1 million tourists per year to visit this scenic spot. The Group plans to invite other interested parties to participate in developing Bipenggou and other scenic spots of Miyaluo for leisure activities, with high-quality hotel accommodation, hot springs, sightseeing cable car, skiing field, etc.

Staff of "Mighty Rovers" arrived at Bipenggou, Miyaluo in April 2007, making preparations for the event which is to take place in August 2007.

"Ice, snow and red leaves", a famous scenic spot in Bipenggou, Miyaluo.

Travel agencies are holding a press conference on the "Hong Kong free individual traveler scheme" organized by Chongqing Everbright International Travel Service.

iii. Travel and tour operations in Hong Kong

The Group operates tour business in Hong Kong through its three subsidiaries/business units: Lantau Tours Ltd., TIL Travel and Vigor Tours Ltd. Taking advantage of the Group's relative strengths in providing transport services to tourist attractions such as Disneyland, Ocean Park and Lantau Island, the Group will develop its tourist package services under one-shop, that is, "transport + tour + possibly hotel reservation". This plan is in response to the rapidly growing number of Free Individual Travellers from Mainland China to Hong Kong. It is one of the ways in which the Group seeks to transform from an enterprise providing transportation services into one providing a variety of related and value-added services apart from transportation, thus achieving a bigger profit margin.

iv. Chengdu Kwoon Chung CTS International Tourism Company Limited

The Group has formed a 60%-owned joint venture with Chengdu China Travel Service Company Ltd. After being granted 20 tour bus quotas in Sichuan Province, this EJV is applying for specific, popular tour bus routes. The Group may also form joint ventures with other neighboring cities in Sichuan Province to operate tour bus business, and explore the possibility of travel related property development projects.

b. *Long-distance Bus Terminal*

The Group operates a long-distance bus terminal in Hubei Province via its subsidiary namely Hubei Shenzhou Transport Holdings Co., Ltd.. The Shenzhou Group has recently acquired a subsidiary in Nanzhang, a county of Xiangfan, with 199 operating quotas of long-distance buses and taxis. The Shenzhou Group is also negotiating with the Xiangfan local government to acquire a 51% interest in the new highway long-distance bus terminal, which will become a hub of inter-city traffic in Xiangfan in 5 to 10 years.

c. *Property Development Projects*

To maximize the use of land resources owned by the Group, the Shenzhou Group has formed joint ventures with local property developers in Xiangfan for property development. The Group is also conducting a feasibility study to develop its tour bus depot in Chongqing.

Wong Chung Pak, Thomas
Chairman

Hong Kong
23 July 2007

FINANCIAL HIGHLIGHTS

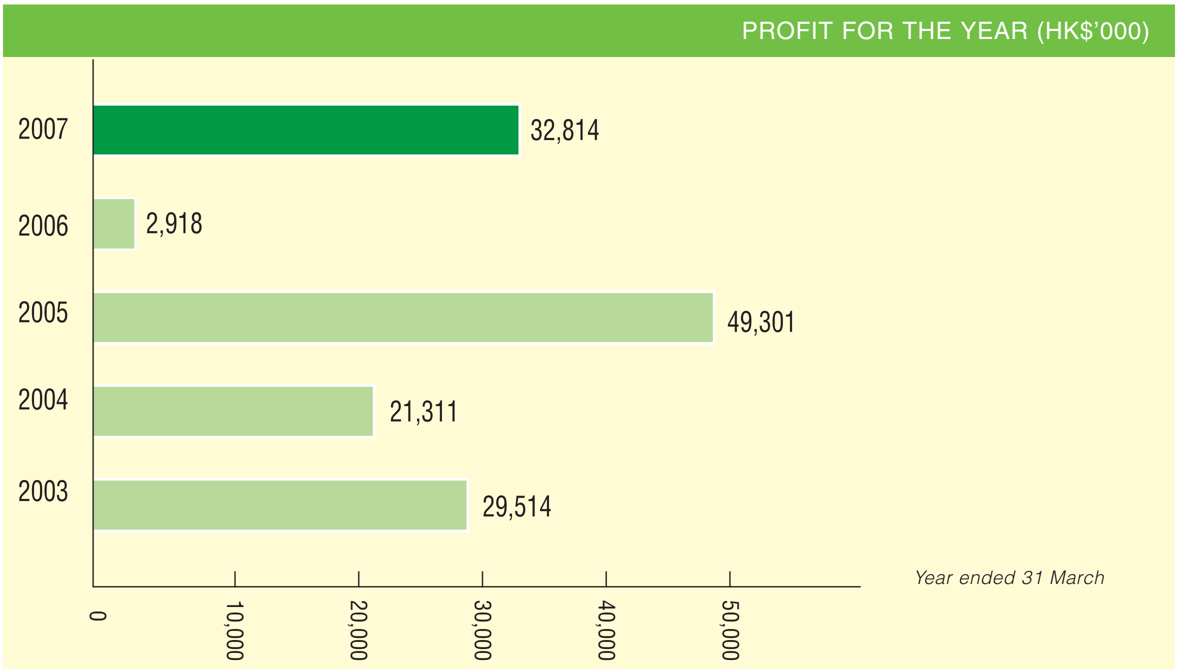
Year ended 31 March 2007

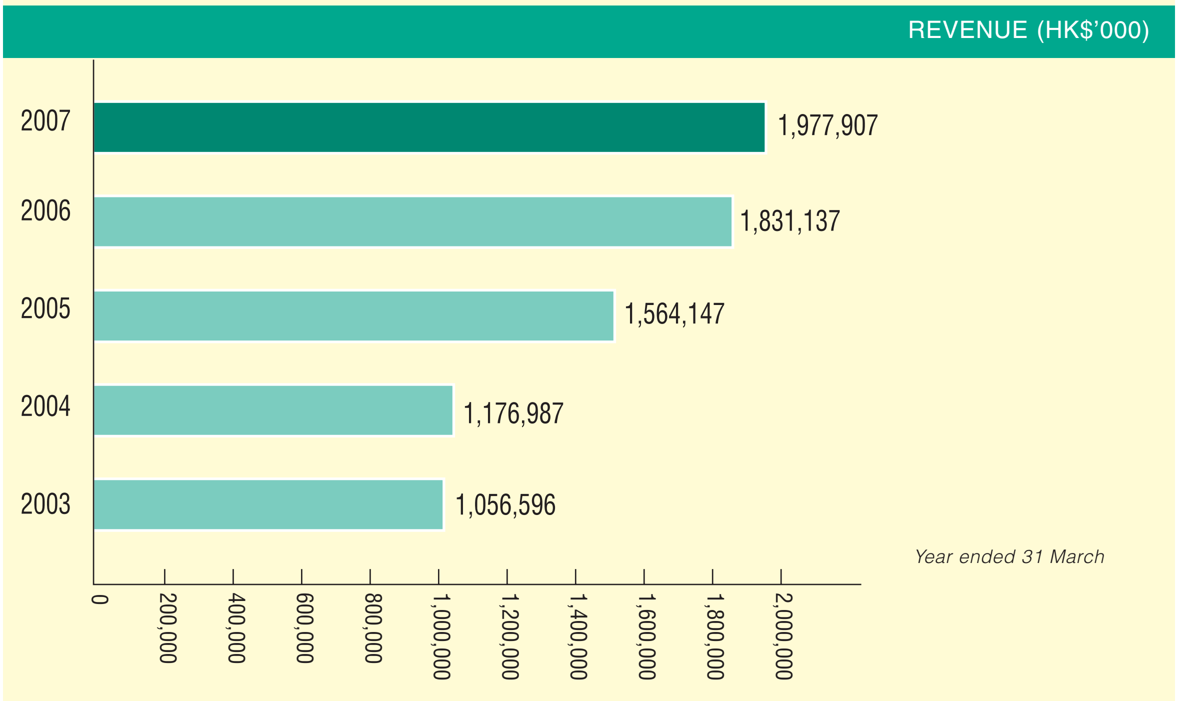
	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE BY BUSINESS SEGMENT					
Designated bus route services in Mainland China	**825,091**	803,662	725,113	613,849	569,061
Non-franchised bus services					
Student services	**121,312**	115,640	112,734	108,510	116,483
Resident services	**103,136**	89,230	89,328	92,086	81,031
Employee services	**100,792**	94,808	86,887	83,735	85,608
Tour services	**227,545**	183,173	170,407	76,136	44,319
Mainland China/Hong Kong cross-border services	**300,715**	265,420	155,185	54,589	2,876
Bus hire services	**10,816**	10,728	14,643	8,531	11,363
	864,316	758,999	629,184	423,587	341,680
Franchised bus services	**76,531**	79,849	82,068	70,090	69,199
Travel agency and tour services	**117,416**	97,157	68,963	36,474	46,085
Hotel services	**23,276**	22,915	22,962	18,910	15,939
Corporate and others	**71,277**	68,555	35,857	14,077	14,632
TOTAL REVENUE	**1,977,907**	1,831,137	1,564,147	1,176,987	1,056,596
PROFIT FOR THE YEAR	**32,814**	2,918	49,301	21,311	29,514
BUS FLEET					
	Number of buses				
Franchised	**83**	83	86	74	80
Non-franchised	**835**	797	750	714	605
Mainland China CJVs	**507**	565	594	602	597
Mainland China EJVs	**2,905**	3,693	3,571	3,086	2,908
	4,330	5,138	5,001	4,476	4,190
EMPLOYEES					
	Number of full-time employees				
Hong Kong operations	**1,978**	2,024	1,853	1,438	845
Mainland China operations*	**13,260**	16,058	16,261	15,615	15,430
	15,238	18,082	18,114	17,053	16,275

* *Employed by EJVs and CJVs in Mainland China*

FINANCIAL HIGHLIGHTS

Year ended 31 March 2007





SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Wong Chung Pak, Thomas, aged 57 joined the Group in the early 1970s. Mr. Wong is the Chairman of the Group and is responsible for providing leadership for and management of the Board. He graduated from the University of Hong Kong with a Bachelor's Degree of Social Sciences and from the Chinese University of Hong Kong with a Master's Degree of Business Administration. Mr. Wong has over 30 years experience in the bus business. Mr. Wong is the brother of Messrs. Wong Wing Pak and Wong Leung Pak, Matthew. He is also a director of Wong Family Holdings Limited, which has an interest in the shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Mr. Wong Leung Pak, Matthew, aged 51 joined the Group in the early 1970s. Mr. Wong is the Chief Executive Officer and Managing Director of the Group and is responsible for day-to-day management of the business. Mr. Wong has over 30 years experience in the bus business. Mr. Wong is currently the Vice-Chairman of the Public Omnibus Operators Association in Hong Kong, a committee member of the Chinese People's Political Consultative Conference of Chongqing and the adviser to the Guangdong Traffic and Transport Association in Mainland China. Mr. Wong is the brother of Messrs. Wong Chung Pak, Thomas and Wong Wing Pak. He is also a director of Wong Family Holdings Limited, which has an interest in the shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Mr. Wong Wing Pak, aged 53 joined the Group in the early 1970s. Mr. Wong is the Senior Executive Director of the Group and is responsible for the operations and human resources management. Mr. Wong has over 30 years experience in the bus business and is a member of the Public Omnibus Operators Association. Mr. Wong is the brother of Messrs. Wong Chung Pak, Thomas and Wong Leung Pak, Matthew. He is also a director of Wong Family Holdings Limited, which has an interest in the shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

SENIOR MANAGEMENT PROFILE

Mr. Lam Sze Hoo, Christopher, aged 42 has been an executive director of the Group since 2004. Mr. Lam is an alternate director of Citybus Limited and New World First Bus Services Limited (the latter having an interest in the underlying shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance).

Mr. Cheng Wai Po, Samuel, aged 47 has been an executive director of the Group since 2004. Mr. Cheng is the Managing Director of Citybus Limited and New World First Bus Services Limited (the latter having an interest in the underlying shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance). He graduated from the University of Hong Kong with a Bachelor's Degree of Social Sciences and is a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Lee Yin Ching, Stanley, aged 55 is an executive director of the Group and is responsible for bus fleet management and marketing. Mr. Lee has been the Chairman of a charitable body since 1992. Prior to joining the Group in 1978, Mr. Lee had 5 years experience in container terminal operation. Mr. Lee has over 25 years experience in bus fleet management.

Mr. Cheng King Hoi, Andrew, aged 48 is an executive director of the Group and is responsible for the Group's operations in Shanghai, Dalian, Harbin and Chongqing of Mainland China. He is a member of the Australian Institute of Management NSW Ltd. and a committee member of the Chinese People's Political Consultative Conference of Sichuan Province of Mainland China. Prior to joining the Group in 1990, Mr. Cheng had worked in the banking industry for over 9 years.

Mr. Ng King Yee, aged 58

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

Mr. Chan Yu Kwong, Francis, aged 57

is an executive director of the Group. Mr. Chan graduated from the University of Melbourne, Australia, with a Bachelor's Degree of Commerce. He is a fellow member of both the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in 1997, he had worked for a major international accounting firm for approximately 15 years. Mr. Chan participates in corporate finance and the Mainland China business department with substantive involvement in the management of travel agency, hotel and tourism related businesses in Chongqing and Sichuan Province. He also participates in the Group's financial reporting functions with the support from the Group's financial controller in Hong Kong. Mr. Chan is also the qualified accountant of the Company appointed pursuant to rule 3.24 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

Mr. Mok Wah Fun, Peter, aged 56

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

Mr. Lo Kin Wai, aged 60
(resigned on 31 August 2006)

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

SENIOR MANAGEMENT PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Bing Woon, SBS, JP, aged 62 has been an independent non-executive director of the Group since 1996. Mr. Chan is a consultant of Yung Yu Yuen & Co., Solicitors and Notaries. He has over 30 years experience in the legal profession. Mr. Chan is involved in numerous public duties including being a member of the Eastern District Council and the Town Planning Board. He is also a fellow member of the Hong Kong Institute of Directors, the Chairman of the Hong Kong Mediation Council and a member of Security and Guarding Services Industry Authority.

Mr. Sung Yuen Lam, aged 64 has been an independent non-executive director of the Group since 1996. Mr. Sung is the founding partner of William Y. L. Sung & Co., Certified Public Accountants, and has over 30 years experience in auditing.

Mr. Lee Kwong Yin, Colin, aged 56 has been an independent non-executive director of the Group since 2004. Mr. Lee graduated from the Chinese University of Hong Kong, with a Master's Degree of Business Administration . He is currently a sales manager of an international insurance firm and has over 30 years experience in the insurance industry.

COMPANY SECRETARY

Mr. Chan Kwok Kee, Andy, aged 34 joined the Group in 2000 and he is also the financial controller of the Group. Mr. Chan graduated from the Chinese University of Hong Kong, with a Bachelor's Degree of Business Administration. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he had worked for a major international accounting firm and The Stock Exchange of Hong Kong Limited for over four years and one year, respectively.

CORPORATE GOVERNANCE REPORT

Maintaining high levels of corporate governance and business ethics is one of the Group's major goals. The Group believes that conducting business in a responsible and reliable way will serve its long term interests and those of its shareholders. The principles of corporate governance adopted by the Company emphasise a quality board, sound internal controls and accountability to shareholders and these are based upon an established ethical corporate culture.

THE BOARD OF DIRECTORS

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

As at 31 March 2007, the board comprised 13 directors, including 10 executive directors and 3 independent non-executive directors. The list of all directors is set out under "Corporate Information" on page 2.

In accordance with the Company's Bye-laws, all directors are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Independent non-executive directors are appointed for a term of two years. For a director to be considered independent, the board must determine the director does not have any direct or indirect material relationship with the Group. In determining the independence of the directors, the board follows the requirements set out in the Listing Rules. Biographical details and the relationships among the members of the Board are disclosed under "Senior Management Profile" on pages 23 to 26.

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

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

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

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

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

The board held four meetings in 2006/2007. The attendance record of each member of the board in 2006/2007 is set out below:

Directors	**Attendance of board meetings in 2006/2007**
Executive Directors	
Mr. WONG Chung Pak, Thomas *(Chairman)*	4/4
Mr. WONG Leung Pak, Matthew *(Chief Executive Officer and Managing Director)*	4/4
Mr. WONG Wing Pak *(Senior Executive Director)*	4/4
Mr. LAM Sze Hoo, Christopher	4/4
Mr. CHENG Wai Po, Samuel	4/4
Mr. LEE Yin Ching, Stanley	4/4
Mr. CHENG King Hoi, Andrew	3/4
Mr. NG King Yee	3/4
Mr. CHAN Yu Kwong, Francis	4/4
Mr. MOK Wah Fun, Peter	4/4
Mr. LO Kin Wai *(resigned on 31 August 2006)*	1/2
Independent Non-executive Directors	
Mr. CHAN Bing Woon, SBS, JP	4/4
Mr. SUNG Yuen Lam	4/4
Mr. LEE Kwong Yin, Colin	4/4

BOARD COMMITTEES

As an integral part of good corporate governance practices, the board had established the following board committees in 2006/2007 to oversee particular aspects of the Group's affairs. Each of these committees comprises mostly independent non-executive directors who have been invited to serve as members. These committees are governed by the respective terms of reference approved by the board.

Audit Committee

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

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

The audit committee held two meetings in 2006/2007. The attendance record of each member of the audit committee in 2006/2007 is set out below:

Directors	**Attendance of audit committee meetings in 2006/2007**
Mr. CHAN Bing Woon, SPS, JP *(Chairman)*	2/2
Mr. SUNG Yuen Lam	2/2
Mr. LEE Kwong Yin, Colin	2/2

The Company's interim results for the six months ended 30 September 2006 and annual results for the year ended 31 March 2007 have been reviewed by the audit committee.

Remuneration Committee

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

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

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

As mentioned before, the remuneration committee met once during the year ended 31 March 2007 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management. The attendance record of each member of the remuneration committee in 2006/2007 is set out below:

Directors	**Attendance of remuneration committee meeting in 2006/2007**
Mr. WONG Chung Pak, Thomas *(Chairman)*	1/1
Mr. WONG Leung Pak, Matthew	1/1
Mr. CHAN Bing Woon, SBS, JP	1/1
Mr. SUNG Yuen Lam	1/1
Mr. LEE Kwong Yin, Colin	1/1

NOMINATION OF DIRECTORS

Having considered the scale and composition of the board, the Company does not set up a nomination committee. The function of appointment and removal of directors is undertaken by the board. When considering candidates for directorship, the board assesses, among others, experience level, qualifications and independence of candidates, if appropriate. In 2006/2007, the Company held one board meeting to deal with the resignation of an executive director. The attendance record of each member of the board in respect of this board meeting is set out below:

Directors	**Attendance of board meetings to deal with resignation of directors in 2006/2007**
Executive directors	
Mr. WONG Chung Pak, Thomas *(Chairman)*	1/1
Mr. WONG Leung Pak, Matthew *(Chief Executive Officer and Managing Director)*	1/1
Mr. WONG Wing Pak *(Senior Executive Director)*	1/1
Mr. LAM Sze Hoo, Christopher	1/1
Mr. CHENG Wai Po, Samuel	1/1
Mr. LEE Yin Ching, Stanley	1/1
Mr. CHENG King Hoi, Andrew	1/1
Mr. NG King Yee	1/1
Mr. CHAN Yu Kwong, Francis	1/1
Mr. MOK Wah Fun, Peter	1/1
Mr. LO Kin Wai *(resigned on 31 August 2006)*	1/1
Independent non-executive directors	
Mr. CHAN Bing Woon, SBS, JP	1/1
Mr. SUNG Yuen Lam	1/1
Mr. LEE Kwong Yin, Colin	1/1

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

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

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The following statement, which sets out the responsibilities of the directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the auditors' report on pages 49 to 50 which acknowledges the reporting responsibilities of the Group's auditors.

Accounts

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

Going Concern

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

AUDITORS' REMUNERATION

The audit committee has received a letter from Ernst & Young confirming their independence and objectivity. Details of the fees paid or payable to Ernst & Young for the year ended 31 March 2007 are as follows:

	HK$'000
2006/2007 annual audit	1,988
Non-audit related services	638
	2,626

INTERNAL CONTROLS

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

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

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

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

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

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

Results on any voting conducted by poll will be posted on the website of the Company and the Stock Exchange after the shareholders' meeting.

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

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

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

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 51 to 129.

No interim dividend was paid during the year. The directors recommend the payment of a final dividend of HK2.5 cents and a special dividend of HK2.5 cents per ordinary share in respect of the year to shareholders on the register of member on 18 September 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 March				
	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
REVENUE	**1,977,907**	1,831,137	1,564,147	1,176,987	1,056,596
OPERATING PROFIT	**62,464**	17,492	68,523	36,373	45,266
Share of profits and losses of:					
Jointly-controlled entities	**(10,183)**	(9,357)	(4,442)	(4,595)	(1,248)
Associates	**946**	2,459	–	–	–
PROFIT BEFORE TAX	**53,227**	10,594	64,081	31,778	44,018
Tax	**(20,413)**	(7,676)	(14,780)	(10,467)	(14,504)
PROFIT FOR THE YEAR	**32,814**	2,918	49,301	21,311	29,514
Attributable to:					
Equity holders of the parent	**32,302**	256	44,757	21,207	16,471
Minority interests	**512**	2,662	4,544	104	13,043
	32,814	2,918	49,301	21,311	29,514

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 March				
	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
TOTAL ASSETS	**2,277,592**	2,296,445	2,189,744	1,795,810	1,655,500
TOTAL LIABILITIES	**(1,156,934)**	(1,246,804)	(1,161,830)	(816,414)	(685,996)
MINORITY INTERESTS	**(265,576)**	(240,205)	(232,036)	(218,400)	(215,022)
	855,082	809,436	795,878	760,996	754,482

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

PROPERTIES HELD FOR SALE

Details of the Group's properties held for sale are set out on page 130.

SHARE CAPITAL AND SHARE OPTIONS

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

Details of the Company's authorised or issued share capital and share options are set out in notes 33 and 34, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981 (as amended), amounted to HK$73,461,000, of which HK$19,746,000 has been proposed as final and special dividends for the year. This includes the Company's contributed surplus of HK$70,770,000 which is available for distribution under certain circumstances in accordance with the Bermuda Companies Act 1981 (as amended). In addition, the Company's share premium account, in the amount of HK$523,211,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers of the Group accounted for less than 6% of the Group's total turnover for the year.

Purchases from the Group's five largest suppliers accounted for 46.5% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to 25.1%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Wong Chung Pak, Thomas
Wong Leung Pak, Matthew
Wong Wing Pak
Lam Sze Hoo, Christopher
Cheng Wai Po, Samuel
Lee Yin Ching, Stanley
Cheng King Hoi, Andrew
Ng King Yee
Chan Yu Kwong, Francis
Mok Wah Fun, Peter
Lo Kin Wai (resigned on 31 August 2006)

Independent non-executive directors:
Chan Bing Woon, SBS, JP
Sung Yuen Lam
Lee Kwong Yin, Colin

In accordance with Clauses 86(2) and 87(1) of the Company's bye-laws, Messrs. Lam Sze Hoo, Christopher, Cheng Wai Po, Samuel, Chan Bing Woon, *SBS, JP*, Sung Yuen Lam and Lee Kwong Yin, Colin, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 23 to 26 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. The remuneration of the executive directors are determined by the remuneration committee and the remuneration of the non-executive directors are determined by the Company's board of directors on the recommendation of the remuneration committee by reference to their duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(i) Long positions in ordinary shares of the Company

	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
Name of director	**Directly beneficially owned**	**Through controlled corporation**	**Total**	
Wong Chung Pak, Thomas	1,217,665 [(1)]	125,880,981 [(2)]	127,098,646	32.18
Wong Wing Pak	699,665 [(1)]	125,880,981 [(2)]	126,580,646	32.05
Wong Leung Pak, Matthew	599,665 [(1)]	125,880,981 [(2)]	126,480,646	32.03
Lee Yin Ching, Stanley	2,893,556	–	2,893,556	0.73
Cheng King Hoi, Andrew	755,556	–	755,556	0.19
Ng King Yee	100,000	–	100,000	0.03

Notes:

(1) Mr. Wong Chung Pak, Thomas, jointly holds 1,217,665 shares with his spouse. Mr. Wong Wing Pak jointly holds 699,665 shares with his spouse. Mr. Wong Leung Pak, Matthew, jointly holds 599,665 shares with his spouse.

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

The interests of the directors in the share options of the Company are separately disclosed in note 34 to the financial statements.

(ii) Long positions in shares of associated corporations

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

* *Subsidiaries of the Company*

\# *Directly beneficially owned*

In addition, Mr. Wong Chung Pak, Thomas, has non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 March 2007, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 34 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Details of the Company's share option scheme are disclosed in note 34 to the financial statements.

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

At 31 March 2007, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity	Number of ordinary shares held and nature of interest Personal	Corporate	Interest in underlying shares pursuant to share options	Aggregate interest	Percentage of the Company's issued share capital
Wong Chung Pak, Thomas	Joint interest	1,217,665	–	–	130,598,646	33.07
	Founder of a discretionary trust	–	125,880,981[1]	–		
	Beneficial owner	–	–	3,500,000		
Tso Anna	Joint interest	1,217,665	–	–	130,598,646	33.07
	Interest of spouse	–	125,880,981	3,500,000		
Wong Leung Pak, Matthew	Joint interest	599,665	–	–	130,280,646	32.99
	Founder of a discretionary trust	–	125,880,981[1]	–		
	Beneficial owner	–	–	3,500,000		
	Interest of spouse	–	–	300,000		
Ng Lai Yee, Christina	Joint interest	599,665	–	–	130,280,646	32.99
	Beneficial owner	–	–	300,000		
	Interest of spouse	–	125,880,981	3,500,000		
Wong Wing Pak	Joint interest	699,665	–	–	130,080,646	32.94
	Founder of a discretionary trust	–	125,880,981[1]	–		
	Beneficial owner	–	–	3,500,000		
Tang Kit Ling, Louise	Joint interest	699,665	–	–	130,080,646	32.94
	Interest of spouse	–	125,880,981	3,500,000		

Name	Capacity	Number of ordinary shares held and nature of interest		Interest in underlying shares pursuant to share options	Aggregate interest	Percentage of the Company's issued share capital
		Personal	Corporate			
Equity Trustee Limited	Trustee	–	125,880,981	–	125,880,981	31.88
Wong Family Holdings Limited ("WFHL")	Beneficial owner	–	125,880,981[1]	–	125,880,981	31.88
New World First Holdings Limited ("NWFH")	Interest of a controlled corporation	–	118,093,019[2]	6,000,000[4]	124,093,019	31.42
NWS Transport Services Limited ("NWST") corporation	Interest of a controlled	–	118,093,019[2]	6,000,000[4]	124,093,019	31.42
NWS Service Management Limited ("NWSSM-BVI") [3] corporation	Interest of a controlled	–	118,093,019[2]	6,000,000[4]	124,093,019	31.42
NWS Service Management Limited ("NWSSM-Cayman Islands") [3]	Interest of a controlled corporation	–	118,093,019[2]	6,000,000[4]	124,093,019	31.42
NWS Holdings Limited ("NWSH")	Interest of a controlled corporation	–	118,093,019[2]	6,000,000[4]	124,093,019	31.42
New World Development Company Limited ("NWD")	Interest of a controlled corporation	–	118,093,019[2]	6,000,000[4]	124,093,019	31.42
Enrich Group Limited ("EGL")	Interest of a controlled corporation	–	118,093,019[2]	6,000,000[4]	124,093,019	31.42

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

Name	Capacity	Number of ordinary shares held and nature of interest		Interest in underlying shares pursuant to share options	Aggregate interest	Percentage of the Company's issued share capital
		Personal	Corporate			
Chow Tai Fook Enterprises Limited ("CTFEL")	Interest of a controlled corporation	–	118,093,019[(2)]	6,000,000[(4)]	124,093,019	31.42
Centennial Success Limited ("CSL")	Interest of a controlled corporation	–	118,093,019[(2)]	6,000,000[(4)]	124,093,019	31.42
Cheng Yu Tung Family (Holdings) Limited ("CYTFHL")	Interest of a controlled corporation	–	118,093,019[(2)]	6,000,000[(4)]	124,093,019	31.42
First Action Developments Limited ("First Action")	Beneficial owner	–	118,093,019[(2)]	3,500,000	121,593,019	30.79
Cathay Corporation	Beneficial owner	–	71,238,000	–	71,238,000	18.04

Notes:

(1) Each of Messrs. Wong Chung Pak, Thomas, Wong Wing Pak and Wong Leung Pak, Matthew, holds one-third of the shares in WFHL and they are deemed to be interested in the 125,880,981 shares which are directly held by WFHL. These 125,880,981 shares represent approximately 31.88% of the issued share capital of the Company.

(2) At 31 March 2007, First Action was a wholly-owned subsidiary of NWFH; NWFH was a wholly-owned subsidiary of NWST; the issued share capital of NWST was held directly by NWSSM-BVI and EGL on a 50-50 basis; NWSSM-BVI was a wholly owned subsidiary of NWSSM-Cayman Islands; NWSSM-Cayman Islands was a wholly-owned subsidiary of NWSH; NWD owned approximately 55.85% equity shares in NWSH; CTFEL owned approximately 36.54% equity shares in NWD; EGL was a whollyowned subsidiary of CTFEL; CTFEL was a wholly-owned subsidiary of CSL; and CSL was 51% owned by CYTFHL. At 31 March 2007, each of NWFH, NWST, NWSSM-BVI, NWSSM-Cayman Islands, NWSH, NWD, EGL, CTFEL, CSL and CYTFHL was deemed to be interested in the 118,093,019 shares which were held directly by First Action. These 118,093,019 shares represented approximately 29.90% of the issued share capital of the Company.

(3) NWSSM-BVI was incorporated in the British Virgin Islands and NWSSM-Cayman Islands was incorporated in the Cayman Islands.

(4) At 31 March 2007, NWFH owned 100% equity shares in New World First Bus Services Limited ("NWFB"), which held 2,500,000 share options of the Company. At 31 March 2007, NWFH was deemed to be interested in the 6,000,000 share options which were held directly by First Action and NWFB as to 3,500,000 share options and 2,500,000 share options, respectively.

Save as disclosed above, as at 31 March 2007, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transaction

On 24 May 2006, the Group entered into a share transfer agreement with NWFB, a fellow subsidiary of a shareholder of the Company, to dispose of its entire 23.69% equity interest in Guangzhou City Panguang Public Bus Company Limited, an associate of the Group, for a consideration of RMB 36,428,000 (equivalent to approximately HK$36,847,000). Details of the transaction were disclosed in the Company's circular dated 16 June 2006.

Continuing connected transactions

(i) On 13 June 2003, the Company entered into an agreement with NWFB, for (a) the provision of refuelling and bus washing services by NWFB to certain motor vehicles of the Group in Hong Kong; and (b) the purchase of fuel from NWFB by the Group. NWFB is a wholly-owned subsidiary of NWFH and First Action, a substantial shareholder holding approximately 29.90% equity interest in the Company. The fee related to the refuelling and bus washing services provided by NWFB to the Group was determined at a monthly charge of HK$10,000 (2006: HK$10,000) which is comparable to those offered by other unrelated service providers to the Group. The aggregate fee related to refueling and bus washing services was HK$120,000 (2006: HK$120,000). The purchase of fuel from NWFB was made according to the prices and conditions similar to those offered by other unrelated suppliers to the Group. The aggregate purchases of fuel from NWFB amounted to HK$12,080,000 (2006: HK$11,906,000).

(ii) On 9 March 2005, the Company entered into a tenancy agreement with NWFB for the lease of office premises for a period of two years commencing on 1 January 2005 at a monthly charge, including rental and related management charges, of HK$207,939 (2006: HK$192,901), which was determined with reference to open market rates or based on the actual disbursement basis. The total rental paid by the Group for the year amounted to HK$2,495,000 (2006: HK$2,315,000).

(iii) On 10 October 2005, the Company entered into an agreement with Citybus Limited ("CTB"), a wholly-owned subsidiary of NWFH, for (a) the provision of refuelling and washing services by CTB to certain motor vehicles of the Group in Hong Kong; and (b) the purchase of fuel from CTB by the Group for a period commencing from 10 October 2005 to 31 March 2007. The refuelling charge was determined at a fixed rate of HK$0.65 per litre for the total quantity of fuel refueled and the bus washing charges were determined at a fixed rate of HK$16 per vehicle. No refuelling and bus washing services was provided by CTB during the year (2006: HK$450). The fuel charge was determined with reference to open market rates. The aggregate purchases of fuel from CTB for the year amounted to HK$6,760,000 (2006: HK$2,678,000).

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 41 to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

PUBLIC FLOAT

The Listing Rules normally requires issuers to maintain at least 25% of their listed securities in public hands at all times. Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, less than 25% of the Company's total issued share capital was held by the public as at the date of this report.

The Company is considering various ways to ensure the minimum percentage of public float be maintained in compliance with the relevant Listing Rules at the earliest possible moment.

AUDITORS

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

ON BEHALF OF THE BOARD

Wong Chung Pak, Thomas
Chairman

Hong Kong
23 July 2007

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

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

We have audited the financial statements of Kwoon Chung Bus Holdings Limited set out on pages 51 to 129, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

23 July 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**1,977,907**	1,831,137
Cost of services rendered		**(1,650,955)**	(1,540,915)
Gross profit		**326,952**	290,222
Other income and gains	5	**69,724**	48,993
Administrative expenses		**(250,633)**	(240,021)
Other expenses		**(44,539)**	(48,105)
Finance costs	6	**(39,040)**	(33,597)
Share of profits and losses of:			
Jointly-controlled entities		**(10,183)**	(9,357)
Associates		**946**	2,459
PROFIT BEFORE TAX	7	**53,227**	10,594
Tax	10	**(20,413)**	(7,676)
PROFIT FOR THE YEAR		**32,814**	2,918
Attributable to:			
Equity holders of the parent	11	**32,302**	256
Minority interests		**512**	2,662
		32,814	2,918
DIVIDENDS	12		
Proposed final		**9,873**	–
Proposed special		**9,873**	–
		19,746	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**8.2 cents**	0.1 cent
Diluted		**8.1 cents**	0.1 cent

CONSOLIDATED BALANCE SHEET

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,353,583**	1,492,932
Investment properties	15	**1,000**	9,030
Prepaid land lease payments	16	**88,208**	100,766
Intangible assets	17	**25,703**	28,678
Goodwill	18	**12,623**	16,378
Interests in jointly-controlled entities	20	**99,257**	105,694
Interests in associates	21	**25,358**	53,964
Available-for-sale investments	22	**8,709**	3,904
Deposits paid for purchases of items of property, plant and equipment		**1,761**	2,513
Consideration receivable for disposal of a subsidiary	36(c)	**26,000**	–
Pledged time deposits	26, 29	**1,934**	1,625
Total non-current assets		**1,644,136**	1,815,484
CURRENT ASSETS			
Properties held for sale	5(ii)	**61,453**	85,294
Inventories		**27,727**	22,205
Trade receivables	23	**110,944**	98,969
Prepayments, deposits and other receivables	24	**231,203**	117,632
Derivative financial instruments	25	**635**	1,790
Pledged time deposits	26, 29	**15,153**	17,844
Cash and cash equivalents	26	**186,341**	137,227
Total current assets		**633,456**	480,961
CURRENT LIABILITIES			
Trade payables	27	**70,051**	65,332
Tax payable		**13,901**	11,874
Accruals and other payables	28	**347,683**	275,351
Derivative financial instruments	25	**–**	2,500
Deposits received		**36,791**	34,306
Interest-bearing bank and other borrowings	29	**320,105**	375,826
Total current liabilities		**788,531**	765,189
NET CURRENT LIABILITIES		**(155,075)**	(284,228)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,489,061**	1,531,256

CONSOLIDATED BALANCE SHEET

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**231,259**	337,697
Due to joint venturers	31	**52,983**	63,938
Deferred tax liabilities	32	**84,161**	79,980
Total non-current liabilities		**368,403**	481,615
Net assets		**1,120,658**	1,049,641
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	33	**39,491**	39,491
Reserves	35(a)	**795,845**	769,945
Proposed final and special dividends	12	**19,746**	–
		855,082	809,436
Minority interests		**265,576**	240,205
Total equity		**1,120,658**	1,049,641

Wong Chung Pak, Thomas
Director

Wong Leung Pak, Matthew
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2007

	Attributable to equity holders of the parent												
	Issued capital HK$'000	Share premium account HK$'000 (note 35(a))	Contributed surplus HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Enterprise expansion fund HK$'000 (note 35(a))	Reserve fund HK$'000 (note 35(a))	Exchange equalisation reserve HK$'000	Retained profits HK$'000	Proposed final and special dividends HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 April 2005	39,491	523,211	10,648	(1,855)	2,638	4,182	7,155	624	216,941	5,924	808,959	234,932	1,043,891
Exchange realignment and total income and expense for the year recognised directly in equity	–	–	–	–	–	–	–	6,145	–	–	6,145	4,657	10,802
Profit for the year	–	–	–	–	–	–	–	–	256	–	256	2,662	2,918
Total income and expense for the year	–	–	–	–	–	–	–	6,145	256	–	6,401	7,319	13,720
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(2,142)	(2,142)
Capital contribution to a subsidiary from a minority shareholder	–	–	–	–	–	–	–	–	–	–	–	96	96
Final 2005 dividend declared	–	–	–	–	–	–	–	–	–	(5,924)	(5,924)	–	(5,924)
Transfer from retained profits	–	–	–	–	–	–	691	–	(691)	–	–	–	–
At 31 March 2006	39,491	523,211*	10,648*	(1,855)*	2,638*	4,182*	7,846*	6,769*	216,506*	–	809,436	240,205	1,049,641

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2007

	Notes	Issued capital HK$'000	Share premium account HK$'000 (note 35(a))	Contributed surplus HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Enterprise expansion fund HK$'000 (note 35(a))	Reserve fund HK$'000 (note 35(a))	Exchange equalisation reserve HK$'000	Retained profits HK$'000	Proposed final and special dividends HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the parent												
At 1 April 2006		39,491	523,211	10,648	(1,855)	2,638	4,182	7,846	6,769	216,506	–	809,436	240,205	1,049,641
Exchange realignment and total income and expense for the year recognised directly in equity		–	–	–	–	–	–	–	19,727	–	–	19,727	11,239	30,966
Profit for the year		–	–	–	–	–	–	–	–	32,302	–	32,302	512	32,814
Total income and expense for the year		–	–	–	–	–	–	–	19,727	32,302	–	52,029	11,751	63,780
Disposal of subsidiaries	36(c)	–	–	–	–	–	(3,862)	(2,284)	(6,383)	6,146	–	(6,383)	(14,372)	(20,755)
Acquisition of additional interest in a subsidiary from a minority shareholder		–	–	–	–	–	–	–	–	–	–	–	(483)	(483)
Acquisition of a subsidiary	36(b)	–	–	–	–	–	–	–	–	–	–	–	33,358	33,358
Dividends paid to minority shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(4,883)	(4,883)
Proposed final and special 2007 dividends	12	–	–	–	–	–	–	–	–	(19,746)	19,746	–	–	–
Transfer from retained profits		–	–	–	–	–	714	1,907	–	(2,621)	–	–	–	–
At 31 March 2007		39,491	523,211*	10,648*	(1,855)*	2,638*	1,034*	7,469*	20,113*	232,587*	19,746	855,082	265,576	1,120,658

** These reserve accounts comprise the consolidated reserves of HK$795,845,000 (2006: HK$769,945,000) in the consolidated balance sheet.*

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**53,227**	10,594
Adjustments for:			
Finance costs	6	**39,040**	33,597
Share of profits and losses of jointly-controlled entities		**10,183**	9,357
Share of profits of associates		**(946)**	(2,459)
Bank interest income	5	**(2,395)**	(1,426)
Fair value gains on investment properties	5	**–**	(2,819)
Gain on disposal of an investment property	5	**(1,520)**	–
Gain on disposal of an associate	5	**(114)**	–
Gain on disposal of subsidiaries, net	5	**(20,382)**	–
Gain on disposal of properties held for sales	5	**(4,734)**	–
Excess over the cost of a business combination	5	**(22)**	–
Amortisation of intangible assets	7	**1,298**	1,206
Depreciation	7	**204,534**	199,146
Adjustment of goodwill	18	**–**	1,000
Impairment of goodwill	7	**–**	2,381
Fair value losses/(gains) on interest rate swaps, net	5, 7	**(1,345)**	518
Impairment of items of property, plant and equipment	7	**–**	1,289
Impairment of prepaid land lease payments	7	**–**	384
Impairment on an amount due from a jointly-controlled entity	7	**3,787**	–
Loss on disposal of items of property, plant and equipment, net	7	**27,864**	40,823
Recognition of prepaid land lease payments	7	**4,085**	4,171
Write-off of interests in a jointly-controlled entity	7	**6,896**	–
Write-off of other receivables	7	**4,733**	–
		324,189	297,762
Decrease/(increase) in balances with jointly-controlled entities		**(14,976)**	20,237
Increase in balances with joint venturers		**10,160**	17,919
Increase in inventories		**(6,184)**	(1,765)
Increase in trade receivables		**(14,519)**	(10,840)
Increase in prepayments		**(669)**	(6,285)
Increase in deposits and other receivables		**(13,477)**	(7,993)
Increase in trade payables		**8,596**	6,576
Increase/(decrease) in accruals		**13,600**	(756)
Increase/(decrease) in other payables		**55,476**	(11,328)
Increase/(decrease) in deposits received		**215**	(5,323)
Cash generated from operations		**362,411**	298,204
Bank interest received		**2,395**	1,426
Interest paid		**(35,126)**	(32,810)
Interest element on finance lease rental payments		**(2,778)**	(150)
Overseas taxes paid		**(10,965)**	(4,004)
Net cash inflow from operating activities		**315,937**	262,666

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow from operating activities		**315,937**	262,666
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits paid for purchases of items of property, plant and equipment		**(1,761)**	(2,513)
Proceeds from disposal of items of property, plant and equipment		**26,762**	6,818
Purchases of items of property, plant and equipment		**(228,351)**	(250,407)
Proceeds from disposal of an investment property		**9,550**	–
Proceeds from disposal of prepaid land lease payment		**1,929**	–
Additions to intangible assets		**(1,852)**	(7,433)
Distributions received from jointly-controlled entities		**1,990**	6,012
Investment in a jointly-controlled entity		**–**	(5,000)
Repayments from jointly-controlled entities		**660**	815
Advances to an associate		**(4,772)**	(3,868)
Investments in associates		**–**	(36,647)
Proceeds from disposal of an associate		**35,822**	–
Acquisition of a subsidiary, net of cash acquired	36(b)	**261**	–
Capital contribution to a subsidiary from a minority shareholder		**–**	96
Disposal of subsidiaries	36(c)	**(13,036)**	–
Decrease/(increase) in pledged time deposits		**2,382**	(4,352)
Increase/(decrease) in non-pledged time deposits with original maturity of more than three months when acquired		**86**	(781)
Consideration received for properties held for sale		**22,510**	–
Purchases of available-for-sale investments		**(4,500)**	(528)
Net cash outflow from investing activities		**(152,320)**	(297,788)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of new bank loans		**92,346**	351,527
Repayment of bank loans		**(177,493)**	(340,740)
Repayment of other borrowings		**–**	(1,896)
Capital element of finance lease rental payments		**(28,554)**	(833)
Repayment of amounts due to directors		**–**	(58)
Dividends paid		**–**	(5,924)
Dividends and distributions paid to minority shareholders of subsidiaries		**(4,883)**	(2,142)
Net cash outflow from financing activities		**(118,584)**	(66)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**45,033**	(35,188)
Cash and cash equivalents at beginning of year		**129,546**	164,734
Effect of foreign exchange rate changes, net		**4,167**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**178,746**	129,546

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS (note)			
Cash and bank balances	26	**146,268**	108,828
Non-pledged time deposits with original maturity of less than three months when acquired		**32,478**	20,718
		178,746	129,546

Note:

Reconciliation of cash and cash equivalents

		2007 HK$'000	2006 HK$'000
Cash and bank balances and non-pledged time deposits with original maturity of less than three months		**178,746**	129,546
Non-pledged time deposits with original maturity of more than three months when acquired		**7,595**	7,681
Total cash and cash equivalents at end of year	26	**186,341**	137,227

BALANCE SHEET

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	19	**635,744**	636,220
CURRENT ASSETS			
Prepayments	24	**184**	183
Cash and bank balances	26	**344**	301
Total current assets		**528**	484
CURRENT LIABILITIES			
Other payables	28	**109**	67
NET CURRENT ASSETS		**419**	417
Net assets		**636,163**	636,637
EQUITY			
Issued capital	33	**39,491**	39,491
Reserves	35(b)	**576,926**	597,146
Proposed final and special dividends	12	**19,746**	–
Total equity		**636,163**	636,637

Wong Chung Pak, Thomas
Director

Wong Leung Pak, Matthew
Director

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2007. Adjustments are made to bring into line any dissimilar accounting practices that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*

The principal changes in accounting policies are as follows:

(a) HKAS 21 – The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 March 2007 or 31 March 2006.

(b) HKAS 39 & HKFRS 4 Amendments – Financial Guarantee Contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(c) HK(IFRIC)-Int 4 – Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 April 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKAS 23 (Revised)	Borrowing Costs (Revised)
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 March 2007. This new interpretation prescribes that when the parent grants rights to equity instruments to the employees of a subsidiary, the subsidiary should account for such a scheme as an equity-settled scheme and as an equity contribution by the parent.

HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 12 and HKAS 23 (Revised) shall be applied for annual periods beginning on or after 1 May 2006, 1 June 2006, 1 November 2006, 1 January 2008 and 1 January 2009, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly-controlled entities *(continued)*

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

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

Associates

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

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

Goodwill

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

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (continued)

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

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

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

Goodwill previously eliminated against consolidated reserves

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

Excess over the cost of business combinations

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

The excess for the associates is included in the Group's share of the associates' profits or losses in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill *(continued)*

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Construction in progress represents a scenic establishment and motor vehicles under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

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

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

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

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

Leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

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

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

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

Intangible assets (other than goodwill)

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

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

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

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

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

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

Fair value

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

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

Available-for sale financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities, including trade and other payables and interest-bearing bank and other borrowings, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

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

Properties held for sale

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

Inventories

Inventories represent spare parts and other consumables, and 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.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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 have arrived at their destinations;

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

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

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

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

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

Foreign currencies

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

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

Employee benefits

Share-based payment transactions

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

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

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

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

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

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 April 2005 and to those granted on or after 1 April 2005.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension schemes

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

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

Dividends

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Classification between investment properties and owner-occupied properties

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

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

Impairment of assets

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

Estimation uncertainty

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

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

The Group determines whether the intangible assets with indefinite lives or goodwill are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible assets with indefinite lives or the goodwill are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of intangible assets with indefinite lives and that of goodwill as at 31 March 2007 were HK$7,433,000 (2006: HK$7,433,000) and HK$12,623,000 (2006: HK$16,378,000), respectively. Details of the impairment test are set out in note 18 to the financial statements.

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

Estimation uncertainty *(continued)*

(ii) Fair value of derivative financial instruments

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

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

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

(iv) Impairment allowances on loans and receivables

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

4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the designated bus routes segment includes the provision of bus services by designated routes as approved by the local governments/transport authorities in Mainland China;

(b) the non-franchised bus segment includes the provision of non-franchised bus hire service and travel related services;

(c) the franchised bus segment includes the provision of franchised bus services on Lantau Island in Hong Kong;

(d) the tour segment engages in travel agency and tour service businesses in Hong Kong and Mainland China;

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

(f) the corporate and others segment comprises, principally, the sale of electricity and the provision of other transportation services, together with corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2007 and 2006.

Group

	2007							
	Designated bus routes HK$'000	Non-franchised bus HK$'000	Franchised bus HK$'000	Tour HK$'000	Hotel HK$'000	Corporate and others HK$'000	Intersegment eliminations HK$'000	Consolidated HK$'000
Segment revenue:								
External sale	825,091	864,316	76,531	117,416	23,276	71,277	–	1,977,907
Intersegment sales	–	12,165	753	–	–	–	(12,918)	–
Other revenue	17,076	24,889	3,905	931	704	420	(5,826)	42,099
Total	842,167	901,370	81,189	118,347	23,980	71,697	(18,744)	2,020,006
Segment results	(871)	75,287	(1,885)	5,422	2,977	(155)	–	80,775
Bank interest income								2,395
Gain on disposal of an associate	114	–	–	–	–	–	–	114
Gain on disposal of subsidiaries, net	20,382	–	–	–	–	–	–	20,382
Gain on disposal of properties held for sale	4,734	–	–	–	–	–	–	4,734
Write-off of interests in a jointly controlled entity	(6,896)	–	–	–	–	–	–	(6,896)
Finance costs								(39,040)
Share of profits and losses of:								
– jointly-controlled entities	(10,813)	–	–	–	–	–	–	(10,183)
– associates	946	–	–	–	–	–	–	946
Profit before tax								53,227
Tax								(20,413)
Profit for the year								32,814

4. **SEGMENT INFORMATION** *(continued)*

(a) Business segments *(continued)*

Group

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

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	2007						
	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	Consolidated HK$'000
Assets and liabilities:							
Segment assets	1,065,476	781,759	62,451	121,560	97,940	6,704	2,135,890
Interests in associates	25,358	–	–	–	–	–	25,358
Interests in jointly-controlled entities	99,257	–	–	–	–	–	99,257
Unallocated assets							17,087
Total assets							2,277,592
Segment liabilities	325,515	89,546	5,531	18,697	4,149	2,425	445,863
Unallocated liabilities							711,071
Total liabilities							1,156,934
Other segment information:							
Capital expenditure	179,665	96,903	435	47,287	579	2,876	327,745
Amortisation	1,298	–	–	–	–	–	1,298
Recognition of prepaid land lease payments	3,273	289	17	62	444	–	4,085
Depreciation	99,113	91,497	8,991	656	2,729	1,548	204,534
Gain on disposal of an investment property	–	1,520	–	–	–	–	1,520
Loss on disposal of items of property, plant and equipment, net	24,279	3,422	30	–	128	5	27,864

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

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

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

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

Group

	Hong Kong HK$'000	2007 Mainland China HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	1,003,166	974,741	1,977,907
Other segment information:			
Segment assets	978,012	1,174,965	2,152,977
Interests in associates	–	25,358	25,358
Interests in jointly–controlled entities	–	99,257	99,257
Total assets	978,012	1,299,580	2,277,592
Capital expenditure	95,261	232,484	327,745

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

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Revenue		
Provision of designated bus route services	**825,091**	803,662
Provision of non-franchised bus services	**864,316**	758,999
Provision of franchised bus services	**76,531**	79,849
Provision of tour services	**117,416**	97,157
Provision of hotel services	**23,276**	22,915
Provision of other transportation services	**71,093**	68,028
Power generation	**184**	527
	1,977,907	1,831,137
Other income		
Bank interest income	**2,395**	1,426
Other interest income	**146**	755
Gross rental income	**10,704**	10,085
Advertising income	**7,640**	10,112
Government subsidies (note (i))	**373**	1,125
Others	**15,292**	15,662
	36,550	39,165
Gains		
Realised gains on interest rate swaps	**1,854**	6,824
Fair value gains on interest rate swaps, net	**1,345**	–
Foreign exchange differences, net	**3,203**	185
Fair value gains on investment properties	**–**	2,819
Gain on disposal of an investment property	**1,520**	–
Gain on disposal of an associate	**114**	–
Gain on disposal of subsidiaries, net	**20,382**	–
Gain on disposal of properties held for sale (note (ii))	**4,734**	–
Excess over the cost of a business combination	**22**	–
	33,174	9,828
	69,724	48,993

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

Note:

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

(ii) On 7 March 2006, the Group entered into a sale and purchase agreement with an independent third party (the "Purchaser") to dispose of its two pieces of land in Mainland China (the "Disposed Land"), which were classified as properties held for sale in previous years, for a consideration of RMB36.1 million (approximately HK$36.1 million) (the "Disposal"). To facilitate the Disposal, the Group entered into a supplemental agreement dated 24 July 2006 with the Purchaser, pursuant to which the Group injected the Disposed Land into a newly set up joint venture (the "Joint Venture") in exchange for a 55% equity interest therein (the "Joint Venture Interest"). The Group also agreed to subordinate all its power over operating and management decisions and its entitlement to profit generated, if any, of the Joint Venture to the Purchaser. The Purchaser shall be solely responsible for all profits and losses of the Joint Venture before the successful transfer of the Group's legal ownership over the Joint Venture to the Purchaser which is expected to be completed in 2008. During the year, the Group received an aggregate amount of RMB22.5 million (approximately HK$22.5 million) from the Purchaser for the Disposal. Based on the opinion of the Group's legal advisor, the directors consider that the Group has transferred all the risks and rewards associated with the Disposed Land and the Joint Venture Interest to the Purchaser. Accordingly, the Group derecognised the Disposed Land with a carrying amount of HK$27.0 million, recorded the outstanding consideration of HK$13.6 million as other receivable and a net gain on the Disposal of approximately HK$3.3 million during the year.

6. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	**35,126**	32,810
Finance leases	**2,778**	150
Notional interest on an interest-free loan	**1,136**	637
	39,040	33,597

7. PROFIT BEFORE TAX

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

	Group	
	2007 HK$'000	2006 HK$'000
Amortisation of intangible assets (notes (i) & (ii))	1,298	1,206
Auditors' remuneration	1,988	1,880
Depreciation (note (ii))	204,534	199,146
Employee benefits expense (note (ii)) (including directors' remuneration – note 8):		
Wages and salaries	654,156	598,541
Other welfare benefits	15,207	20,450
Pension scheme contributions (note (iii))	33,803	15,393
	703,166	634,384
Fair value losses on interest rate swaps, net	–	518
Foreign exchange differences, net	(3,203)	(185)
Goodwill impairment arising during the year (note (i))	–	2,381
Gross rental income	(10,779)	(10,085)
Direct operating expenses (including repairs and maintenance arising on rental-earning investment properties)	75	83
Net rental income	(10,704)	(10,002)
Impairment of items of property, plant and equipment (note (i))	–	1,289
Impairment of prepaid land lease payments (note (i))	–	384
Impairment of an amount due from a jointly-controlled entity (note (i))	3,787	–
Loss on disposal of items of property, plant and equipment, net (note (i))	27,864	40,823
Minimum lease payments under operating leases (note (ii)):		
Land and buildings	8,780	10,395
Bus depots, terminals and car parks	39,154	36,062
Motor buses and coaches	70,025	50,676
	117,959	97,133
Recognition of prepaid land lease payments	4,085	4,171
Write-off of interests in a jointly-controlled entity (note (i))	6,896	–
Write-off of other receivables (note (i))	4,733	–

7. PROFIT BEFORE TAX *(continued)*

Notes:

(i) Included in "Other expenses" on the face of the consolidated income statement.

(ii) The cost of services rendered for the year amounted to HK$1,650,955,000 (2006: HK$1,540,915,000) and included amortisation of intangible assets of HK$826,000 (2006: HK$684,000), depreciation charges of HK$169,082,000 (2006: HK$176,553,000), employee benefits expense of HK$567,363,000 (2006: HK$511,187,000), and operating lease rentals of HK$108,932,000 (2006: HK$87,087,000).

(iii) As at 31 March 2007, there were no material forfeited contributions available to the Group to reduce its contributions to the pension schemes in future years.

8. DIRECTORS' REMUNERATION

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

	Group	
	2007	2006
	HK$'000	HK$'000
Fees	**218**	210
Other emoluments:		
Salaries and other benefits	**12,676**	14,137
Pension scheme contributions	**1,067**	1,131
	13,743	15,268
	13,961	15,478

(a) Independent non-executive directors

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

	Group	
	2007	2006
	HK$'000	HK$'000
Chan Bing Woon, SBS, JP	**80**	80
Sung Yuen Lam	**80**	80
Lee Kwong Yin, Colin	**58**	50
	218	210

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors

	Fees HK$'000	Salaries and other benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007				
Wong Chung Pak, Thomas	–	2,594	214	2,808
Wong Leung Pak, Mattew	–	2,594	214	2,808
Wong Wing Pak	–	2,724	226	2,950
Lam Sze Hoo, Christopher	–	–	–	–
Cheng Wai Po, Samuel	–	–	–	–
Lee Yin Ching, Stanley	–	905	87	992
Cheng King Hoi, Andrew	–	1,136	109	1,245
Ng King Yee	–	592	57	649
Chan Yu Kwong, Francis	–	1,135	82	1,217
Mok Wah Fun, Peter	–	781	58	839
Lo Kin Wai	–	215	20	235
	–	12,676	1,067	13,743
2006				
Wong Chung Pak, Thomas	–	2,888	229	3,117
Wong Leung Pak, Mattew	–	2,888	229	3,117
Wong Wing Pak	–	2,888	229	3,117
Lam Sze Hoo, Christopher	–	–	–	–
Cheng Wai Po, Samuel	–	–	–	–
Lee Yin Ching, Stanley	–	955	91	1,046
Cheng King Hoi, Andrew	–	1,193	114	1,307
Ng King Yee	–	630	60	690
Chan Yu Kwong, Francis	–	1,192	80	1,272
Mok Wah Fun, Peter	–	799	51	850
Lo Kin Wai	–	704	48	752
Tsang Wing Hang	–	–	–	–
	–	14,137	1,131	15,268

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

Details of share options granted to the directors are set out in note 34 to the financial statements.

9. FIVE HIGHEST PAID INDIVIDUALS

All of the five highest paid individuals of the Group during each of the two years ended 31 March 2007 are directors, details of whose remuneration are set out in note 8 above.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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 jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

PRC land appreciation tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures. LAT of HK$1,444,000 has been charged to the consolidated income statement for the year ended 31 March 2007 (2006: Nil).

	Group	
	2007 HK$'000	2006 HK$'000
Current:		
Hong Kong		
Charge for the year	**6,005**	830
Overprovision in prior years	**(4,457)**	–
Mainland China		
Charge for the year	**9,815**	7,315
LAT	**1,444**	–
Deferred (note 32)	**7,606**	(469)
Tax charge for the year	**20,413**	7,676

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the jurisdictions 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 – 2007

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	56,493		(3,266)		53,227	
Tax at the statutory tax rate	9,886	17.5	(1,078)	(33.0)	8,808	
Profits and losses attributable to jointly-controlled entities and associates	–		3,048		3,048	
Adjustments in respect of current tax of previous periods	(4,457)		–		(4,457)	
Income not subject to tax	(1,381)		(2,954)		(4,335)	
Expenses not deductible for tax	13,067		2,666		15,733	
LAT	–		1,444		1,444	
Tax effect of LAT	–		(477)		(477)	
Tax losses utilised from previous periods	–		(1,103)		(1,103)	
Tax losses not recognised	–		1,752		1,752	
Tax charge at the Group's effective rate	17,115	30.3	3,298	101.0	20,413	38.4

10. TAX *(continued)*

Group – 2006

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

The share of tax charge attributable to jointly-controlled entities and associates amounting to nil (2006: HK$298,000) and HK$403,000 (2006: HK$720,000), respectively, are included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 March 2007 includes a loss of HK$474,000 (2006: profit of HK$5,557,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. DIVIDENDS

	2007	2006
	HK$'000	HK$'000
Proposed final – HK2.5 cents (2006: Nil) per ordinary share	9,873	–
Proposed special – HK2.5 cents (2006: Nil) per ordinary share	9,873	–
	19,746	–

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK$32,302,000 (2006: HK$256,000), and the weighted average number of 394,906,000 (2006: 394,906,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK$32,302,000 (2006: HK$256,000), and the weighted average number of 394,906,000 (2006: 394,906,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average number of 5,325,481 (2006: 9,256,464) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Buildings HK$'000	Hotel building HK$'000	Bus terminal structure HK$'000	Garage improve-ments HK$'000	Motor buses and vehicles HK$'000	Power plant HK$'000	Furniture, fixtures and office machinery HK$'000	Equipment and tools HK$'000	Construction in progress HK$'000	Total HK$'000
31 March 2007											
At cost or valuation:											
At beginning of year		95,960	70,643	2,688	13,321	1,893,973	2,638	58,177	45,114	9,446	2,191,960
Additions		3,952	154	123	1,288	235,517	–	3,747	12,978	19,137	276,896
Acquisition of a subsidiary	36(b)	–	–	–	–	–	–	26	47	47,163	47,236
Reclassification		2,294	–	–	–	2,767	–	14	13	(5,088)	–
Disposals		(14,682)	(157)	(26)	(2,143)	(143,506)	(2,781)	(1,600)	(2,714)	(91)	(167,700)
Disposal of subsidiaries	36(c)	(9,299)	–	(541)	(1,060)	(316,511)	–	(8,378)	(2,889)	–	(338,678)
Exchange realignment		3,417	3,790	23	299	57,410	143	1,355	1,143	507	68,087
At 31 March 2007		81,642	74,430	2,267	11,705	1,729,650	–	53,341	53,692	71,074	2,077,801
Accumulated depreciation:											
At beginning of year		23,110	8,916	2,130	7,749	604,095	1,564	28,288	23,176	–	699,028
Provided during the year		4,629	1,720	99	754	185,185	67	5,781	6,299	–	204,534
Disposals		(6,358)	(26)	(26)	(2,143)	(97,053)	(1,716)	(1,425)	(1,338)	–	(110,085)
Disposal of subsidiaries	36(c)	(3,509)	–	(236)	(289)	(84,121)	–	(5,672)	(2,264)	–	(96,091)
Exchange realignment		882	524	12	83	24,082	85	527	637	–	26,832
At 31 March 2007		18,754	11,134	1,979	6,154	632,188	–	27,499	26,510	–	724,218
Net book value:											
At 31 March 2007		62,888	63,296	288	5,551	1,097,462	–	25,842	27,182	71,074	1,353,583

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

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

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

Group

Analysis of cost and valuation:

	Buildings HK$'000	Hotel building HK$'000	Bus terminal structure HK$'000	Garage improvements HK$'000	Motor buses and vehicles HK$'000	Power plant HK$'000	Furniture, fixtures and office machinery HK$'000	Equipment and tools HK$'000	Construction in progress HK$'000	Total HK$'000
31 March 2007										
Analysis of cost or valuation:										
At cost	49,983	74,430	2,267	11,705	1,729,650	–	53,341	53,692	71,074	2,046,142
At 30 June 1996 professional valuation	31,659	–	–	–	–	–	–	–	–	31,659
	81,642	74,430	2,267	11,705	1,729,650	–	53,341	53,692	71,074	2,077,801
31 March 2006										
Analysis of cost or valuation:										
At cost	64,301	70,643	2,688	13,321	1,893,973	2,638	58,177	45,114	9,446	2,160,301
At 30 June 1996 professional valuation	31,659	–	–	–	–	–	–	–	–	31,659
	95,960	70,643	2,688	13,321	1,893,973	2,638	58,177	45,114	9,446	2,191,960

Certain of the Group's leasehold buildings situated in Hong Kong were revalued at 30 June 1996 by C.Y. Leung & Company Limited (currently known as DTZ Debenham Tie Leung Limited), a firm of independent professionally qualified valuers, on an open market value, existing use basis. In the opinion of the directors, the fair values of the leasehold buildings were approximately the same as the carrying values of the respective assets at 31 March 2007.

Had all the buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$72,712,000 (2006: HK$73,694,000) as at 31 March 2007.

Certain of the Group's property, plant and equipment of HK$59,194,000 (2006: HK$106,254,000), 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 the hotel building and certain of the Group's motor buses and vehicles are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

Certain of the Group's motor buses and vehicles with an aggregate net book value of HK$80,099,000 (2006: HK$50,878,000) were held under finance leases as set out in note 30 to the financial statements.

15. INVESTMENT PROPERTIES

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
Carrying amount at 1 April		9,030	–
Transfer from prepaid land lease payments	16	–	4,608
Transfer from owner-occupied properties	14	–	1,603
Disposal during the year		(8,030)	–
Net profit from a fair value adjustment		–	2,819
Carrying amount at 31 March		1,000	9,030

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

The Group's investment properties were revalued on 31 March 2007 by Midland Surveyors Limited, independent professionally qualified valuers, at HK$1,000,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

In the prior year, the Group's investment properties with a net carrying value of HK$8,030,000 were pledged to secure general banking facilities granted to the Group (note 29). The pledge was released during the year.

16. PREPAID LAND LEASE PAYMENTS

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
Carrying amount at 1 April		104,896	112,134
Impairment	7	–	(384)
Transfer to investment properties	15	–	(4,608)
Disposal		(1,929)	–
Recognised during the year	7	(4,085)	(4,171)
Disposal of subsidiaries	36(c)	(10,913)	–
Exchange realignment		3,937	1,925
Carrying amount at 31 March		91,906	104,896
Current portion included in prepayments, deposits and other receivables	24	(3,698)	(4,130)
Non-current portion		88,208	100,766

16. PREPAID LAND LEASE PAYMENTS *(continued)*

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

Certain of the Group's leasehold land of HK$62,311,000 (2006: HK$68,614,000) are pledged to secure banking facilities granted to the Group as set out in note 29 to the financial statements.

17. INTANGIBLE ASSETS

Group

	Taxi operating rights HK$'000	Passenger service licences HK$'000	Bus route operating rights HK$'000	Advertising rights HK$'000	Total HK$'000
31 March 2007					
Cost at 1 April 2006, net of accumulated amortisation	**3,912**	**7,433**	**11,072**	**6,261**	**28,678**
Additions	**–**	**–**	**1,852**	**–**	**1,852**
Disposal of subsidiaries (note 36(c))	**(3,845)**	**–**	**(578)**	**–**	**(4,423)**
Amortisation provided during the year	**(191)**	**–**	**(826)**	**(281)**	**(1,298)**
Exchange realignment	**124**	**–**	**434**	**336**	**894**
At 31 March 2007	**–**	**7,433**	**11,954**	**6,316**	**25,703**
At 31 March 2007:					
Cost	**–**	**7,433**	**16,904**	**8,445**	**32,782**
Accumulated amortisation	**–**	**–**	**(4,950)**	**(2,129)**	**(7,079)**
Net carrying amount	**–**	**7,433**	**11,954**	**6,316**	**25,703**
31 March 2006					
Cost at 1 April 2005, net of accumulated amortisation	4,101	–	11,576	6,392	22,069
Additions	–	7,433	–	–	7,433
Amortisation provided during the year	(255)	–	(684)	(267)	(1,206)
Exchange realignment	66	–	180	136	382
At 31 March 2006	3,912	7,433	11,072	6,261	28,678

17. INTANGIBLE ASSETS *(continued)*

Group

	Taxi operating rights HK$'000	Passenger service licences HK$'000	Bus route operating rights HK$'000	Advertising rights HK$'000	Total HK$'000
At 31 March 2006:					
Cost	5,208	7,433	16,116	8,015	36,772
Accumulated amortisation	(1,296)	–	(5,044)	(1,754)	(8,094)
Net carrying amount	3,912	7,433	11,072	6,261	28,678

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

18. GOODWILL

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
Cost at beginning of year, net of accumulated amortisation		**16,378**	19,759
Adjustment (note)		**–**	(1,000)
Acquisition of a subsidiary	36(b)	**173**	–
Disposal of subsidiaries	36(c)	**(3,928)**	–
Impairment during the year		**–**	(2,381)
Carrying value at end of year		**12,623**	16,378
At 31 March 2007:			
Cost		**13,356**	18,759
Accumulated impairment		**(733)**	(2,381)
Net carrying amount		**12,623**	16,378

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

18. GOODWILL *(continued)*

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provision of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

The amounts of goodwill remaining in the consolidated reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, were HK$1,855,000 as at 31 March 2006 and 2007. The amount of goodwill is stated at its cost of HK$1,855,000 which arose in years prior to 1 April 2005.

Impairment testing of goodwill and intangible assets with indefinite lives

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

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

The recoverable amounts of the designated bus cash-generating unit and non-franchised bus cash-generating unit have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering an eight-year period, which approximate to the average useful lives of motor buses and vehicles. The discount rate applied to cash flow projections is 5.8% (2006: 5.8%). This rate does not exceed the average long-term growth rate for the relevant markets.

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

	Designated bus		Non-franchised bus		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount of goodwill	**6,716**	10,645	**5,907**	5,733	**12,623**	16,378
Carrying amount of intangible assets with indefinite lives	**–**	–	**7,433**	7,433	**7,433**	7,433

Key assumptions were used in the value in use calculation of the designated bus and non-franchised bus cash-generating units for the years ended 31 March 2006 and 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and passenger service licences:

18. GOODWILL *(continued)*

Impairment testing of goodwill and intangible assets with indefinite lives *(continued)*

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

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

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

19. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**71,070**	71,070
Due from subsidiaries	**564,674**	565,150
	635,744	636,220

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

Particulars of the principal subsidiaries as at 31 March 2007 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company#		Principal activities
			2007	2006	
Kwoon Chung Buses Investment Limited	British Virgin Islands/ Hong Kong	Ordinary US$6,000	**100**	100	Investment holding
Chongqing Everbright International Travel Co., Ltd. **	PRC/Mainland China	RMB5,000,000	**60**	60	Tour operations
Chongqing Grand Hotel Co., Ltd. **	PRC/Mainland China	RMB35,000,000	**60**	60	Hotel operations

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company# 2007	2006	Principal activities
Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd. **	PRC/Mainland China	RMB62,672,087	42.15*	42.15*	Provision of bus and travel-related services
Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. **	PRC/Mainland China	RMB90,000,000	30.25*	30.25*	Provision of bus and travel-related services
Chongqing Tourism Coach Co., Ltd. **	PRC/Mainland China	RMB8,000,000	60	60	Provision of coach hire services
Chongqing Tourism (Group) Co., Ltd. **	PRC/Mainland China	RMB56,600,000	60	60	Investment holding
Gallic Limited	Hong Kong	Ordinary HK$900	100	100	Property holding
Good Funds Services Limited	Hong Kong	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.**	PRC/Mainland China	RMB21,335,600	56	56	Provision of bus and travel-related services
HK Kwoon Chung (Chongqing) Bus Investment Limited	Hong Kong	Ordinary HK$46,261,682	55	55	Investment holding
HK Kwoon Chung (Dalian) Bus Investment Limited	Hong Kong	Ordinary HK$1,000	100	100	Investment holding
HK Kwoon Chung (Harbin) Bus Investment Limited	Hong Kong	Ordinary HK$2	100	100	Investment holding

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company# 2007	2006	Principal activities
HK Kwoon Chung (Hubei) Bus Investment Company Limited	Hong Kong	Ordinary HK$2	100	100	Investment holding
HK Kwoon Chung (Jieyang) Bus Investment Limited	Hong Kong	Ordinary HK$2	100	100	Investment holding
Hubei Shenzhou Transport Holdings Co., Ltd.****	PRC/Mainland China	RMB131,843,807	100	100	Provision of bus and travel-related services
HK Kwoon Chung Tourism Development Company Limited	Hong Kong	Ordinary HK$1	100	100	Provision of travel-related services
Kwoon Chung (Chongqing) Tourism Development Co., Ltd****	PRC/Mainland China	RMB790,680	100	–	Investment holding
Kwoon Chung Motors Company, Limited	Hong Kong	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	Ordinary HK$2	100	100	Investment holding
Kwoon Chung (China) Development Company Limited	Hong Kong	Ordinary HK$1,000,000	100	100	Investment holding
Jieyang Guanyun Transportation Company Limited **	PRC/Mainland China	RMB22,891,755	60.63	60.63	Provision of bus and travel-related services

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company# 2007	2006	Principal activities
Lantau Tours Limited	Hong Kong	Ordinary HK$500,000	100	100	Provision of coach hire and tour services
Lixian Bipenggou Tourism Development Company Limited ***	PRC/Mainland China	RMB68,896,000	51	–	Development and management of a scenic area
New Lantao Bus Company (1973) Limited	Hong Kong	Ordinary HK$14,116,665	99.99	99.99	Provision of bus and travel-related services
Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. **	PRC/Mainland China	RMB120,000,000	53	52.4	Provision of bus and travel-related services
Tai Fung Coach Company Limited	Hong Kong	Ordinary HK$1,000,000	100	100	Provision of coach hire and travel-related services
Trade Travel (Hong Kong) Limited	Hong Kong	Ordinary HK$500,000	100	100	Provision of hiring services of limousines, minibuses and coaches
Wealth Crown Investment Limited	Hong Kong	HK$1,000,000	65	65	Investment holding
GFTZ Xing Hua International Transport Limited ***	PRC/Mainland China	RMB30,000,000	52.5	52.5	Provision of bus and travel-related services

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity interest attributable to the Company# 2007	2006	Principal activities
GFTZ Xing Hua Tourism Bus Company Limited **	PRC/Mainland China	HK$40,000,000	52.5	52.5	Provision of bus and travel-related services
Trans-Island Limousine Service Limited	Hong Kong	HK$30,005,000	100	100	Provision of bus and coach hire services
Intercontinental Hire Cars Limited	Hong Kong	HK$10,000,000	100	100	Provision of bus and coach hire services
Shanghai Public Transport Hubei Passenger Road Transport Services Company ***	PRC/Mainland China	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 PRC.*

*** *Limited company established in the PRC*

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

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

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

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted investments, at cost	**120,654**	136,004
Share of post-acquisition results	**11,022**	14,738
Less: Accumulated amortisation	**(87,107)**	(87,104)
	44,569	63,638
Due from jointly-controlled entities	**71,535**	64,892
Due to jointly-controlled entities	**(23,747)**	(30,396)
Loans to jointly-controlled entities	**6,900**	7,560
	99,257	105,694

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

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

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

Particulars of the jointly-controlled entities as at 31 March 2007 are as follows:

				Percentage of		
Name	**Place of registration**	**Registered capital**	**Tenure**	**Voting power**	**Ownership interest and profit sharing**	**Principal activities**
Dalian Kwoon Chung Public Transport Co., Ltd.	Mainland China	RMB18,100,000	15 years expiring on 12 June 2011	57	50	Provision of bus services
Guangzhou Kwoon Chung Bus Co., Ltd.	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.	Mainland China	RMB11,106,025	15 years expiring on 23 December 2011	57	50	Provision of bus services
Shantou Kwoon Chung Bus Co., Ltd.	Mainland China	HK$20,460,000	20 years expiring on 10 October 2015	50	50*	Provision of bus services

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

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

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

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

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

	2007 HK$'000	2006 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**30,460**	31,570
Non-current assets	**42,139**	39,312
Current liabilities	**(27,825)**	(20,032)
Non-current liabilities	**(13,704)**	(18,023)
Net assets	**31,070**	32,827
Share of the jointly-controlled entities' results:		
Turnover	**64,293**	53,950
Other revenue	**1,578**	174
Total revenue	**65,871**	54,124
Total expenses	**67,767**	(54,069)
Tax	**–**	(298)
Loss after tax	**(1,896)**	(243)

21. INTERESTS IN ASSOCIATES

	Group	
	2007 HK$'000	2006 HK$'000
Share of net assets	8,678	26,465
Goodwill on acquisitions	5,040	20,549
	13,718	47,014
Due from associates	11,640	6,950
	25,358	53,964

The amounts due from associates are unsecured, interest-free and repayable within one year, except for an amount due from an associate of HK$4,532,000 (2006: HK$6,912,000) which bears interest at a rate of 6.75% per annum and is not repayable within the next 12 months from the balance sheet date.

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

Particulars of the associates as at 31 March 2007 are as follows:

Name	Particulars of issued shares held/registered capital paid up	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group 2007	2006	Principal activities
Chongqing Wansheng Transportation Centre Co. Ltd*#	RMB8,400,000	Mainland China	40	40	Dormant
All China Express # Limited	63 ordinary shares of HK$1 each	Hong Kong	36.26	36.26	Provision of bus and trave-related services
Qijiang Xian Bus Terminal Co., Ltd*#	RMB637,830	Mainland China	33.33	33.33	Provision of bus terminal management services

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

* *Limited liability companies established in the PRC*

21. INTERESTS IN ASSOCIATES *(continued)*

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

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

	2007	2006
	HK$'000	HK$'000
Assets	**116,176**	181,281
Liabilities	**86,590**	76,009
Revenues	**329,899**	115,152
Profit after tax	**1,862**	1,636

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted equity investments in Mainland China, at cost	**9,179**	4,374
Less: Provision for impairment	**(470)**	(470)
	8,709	3,904

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

23. TRADE RECEIVABLES

Included in the Group's trade receivables are amounts due from an associate of HK$10,641,000 (2006: HK$9,623,000), which are repayable within 90 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The Group allows an average credit period ranging from 30 to 60 days for its trade debtors. An aged analysis of the Group's trade receivables as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Current to 30 days	**79,038**	63,057
31 to 60 days	**12,347**	21,636
61 to 90 days	**7,682**	6,273
Over 90 days	**11,877**	8,003
	110,944	98,969

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**23,029**	22,360	**184**	183
Prepaid land lease payments	16	**3,698**	4,130	**–**	–
Consideration receivable for disposal of a subsidiary	36(c)	**98,100**	–	**–**	–
Deposits and other receivables		**88,177**	72,476	**–**	–
Due from joint venturers	31	**18,199**	18,666	**–**	–
		231,203	117,632	**184**	183

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

Included in other receivables is an amount of HK$1,977,000 (2006: HK$1,920,000) which is secured by a property situated in Mainland China, bears interest at 12% (2006: 12%) per annum and is repayable within one year.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2007 Assets HK$'000	2007 Liabilities HK$'000	2006 Assets HK$'000	2006 Liabilities HK$'000
Interest rate swaps contracts	635	–	1,790	2,500

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

At 31 March 2007, the Group had interest rate swap contracts in place with a total notional amount of HK$200,000,000 (2006: HK$400,000,000), which did not meet the criteria for hedge accounting. The changes in fair values of these derivatives amounting to HK$1,345,000 (2006: debit of HK$518,000) were credited to the consolidated income statement during the year.

26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Note	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
Cash and bank balances		146,268	108,828	344	301
Time deposits		57,160	47,868	–	–
		203,428	156,696	344	301
Less: Pledged time deposits for bank loans	29	(17,087)	(19,469)	–	–
Cash and cash equivalents		186,341	137,227	344	301

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$104,107,000 (2006: HK$90,585,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

27. TRADE PAYABLES

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

	Group	
	2007 HK$'000	2006 HK$'000
Current to 30 days	50,168	52,930
31 to 60 days	9,558	5,420
61 to 90 days	2,503	884
Over 90 days	7,822	6,098
	70,051	65,332

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

28. ACCRUALS AND OTHER PAYABLES

		Group		Company	
	Note	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Accruals		132,955	114,429	–	–
Other payables		155,842	130,191	109	67
Due to a joint venturer	31	58,886	30,731	–	–
		347,683	275,351	109	67

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

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2007 Effective interest rate (%)	2007 Maturity	2007 HK$'000	2006 Effective interest rate (%)	2006 Maturity	2006 HK$'000
Current						
Finance lease payables (note 30)	**5.53**	**2008**	**18,634**	5.50	2007	12,863
Bank loans – secured	**5.82**	**2008**	**163,241**	5.04	2007	246,529
Bank loans – unsecured	**5.71**	**2008**	**98,216**	5.24	2007	78,459
Other loans – unsecured	**5.94**	**2008**	**40,014**	5.94	2007	37,975
			320,105			375,826
Non-current						
Finance lease payables (note 30)	**5.53**	**2011**	**52,633**	5.50	2011	40,926
Bank loans – secured	**5.82**	**2008-2011**	**162,402**	5.04	2007-2011	252,117
Bank loans – unsecured	**5.71**	**2008-2011**	**16,224**	5.24	2007-2011	44,654
			231,259			337,697
			551,364			713,523

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

	Group	
	2007	2006
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**261,457**	324,988
In the second year	**116,076**	167,719
In the third to fifth years, inclusive	**62,550**	129,052
	440,083	621,759
Other borrowings repayable:		
Within one year	**58,648**	50,838
In the second year	**17,718**	40,926
In the third of fifth years, inclusive	**34,915**	–
	111,281	91,764
	551,364	713,523

The Group's bank loans are secured by:

(i) certain property, plant and equipment and prepaid land lease payments with an aggregate net book value of HK$121,505,000 (2006: HK$174,868,000) (notes 14 and 16);

(ii) time deposits of HK$17,087,000 (2006: HK$19,469,000) (note 26);

(iii) all 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

(iv) fixed and floating charges over all the assets and undertakings of the Group in Hong Kong to the extent of HK$390,000,000 (2006: HK$540,000,000) under a debenture given by the Company.

A minority shareholder of a subsidiary of the Group has guaranteed certain of the Group's bank loans up to HK$65,052,000 (2006: HK$53,376,000).

In the prior year, the Group's investment property with a net carrying value of HK$8,300,000 was also pledged to secure the Group's bank loans (note 15). The pledge was released during the year.

The Group's other loans of HK$40,014,000 (2006: HK$37,975,000) are unsecured, bear interest at a rate of 5.94% (2006: 5.94%) per annum and are repayable within one year.

Except for bank loans of HK$73,680,000 (2006: HK$276,968,000) and other loans of HK$40,014,000 (2006: HK$37,972,000) which are denominated in RMB, all bank and other borrowings are in Hong Kong dollars.

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

Other interest rate information:

Group

	2007		2006	
	Fixed rate HK$'000	Floating rate HK$'000	Fixed rate HK$'000	Floating rate HK$'000
Finance lease payables	25,362	45,905	53,789	–
Bank loans – secured	48,681	276,962	–	498,646
Bank loans – unsecured	72,929	41,511	–	123,113
Other loans – unsecured	40,014	–	37,975	–

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

30. FINANCE LEASE PAYABLES

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

At 31 March 2007, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2007 HK$'000	Minimum lease payments 2006 HK$'000	Present value of minimum lease payments 2007 HK$'000	Present value of minimum lease payments 2006 HK$'000
Amounts payable:				
Within one year	20,163	13,410	18,634	12,863
In the second year	19,624	12,952	17,718	11,895
In the third to fifth years, inclusive	39,928	34,737	34,915	29,031
Total minimum finance lease payments	79,715	61,099	71,267	53,789
Future finance charges	(8,448)	(7,310)		
Total net finance lease payables	71,267	53,789		
Portion classified as current liabilities (note 29)	(18,634)	(12,863)		
Non-current portion (note 29)	52,633	40,926		

31. BALANCES WITH JOINT VENTURERS

The amounts classified under current assets and current liabilities are unsecured, interest free and have no fixed term of repayment, except that an amount due to a joint venturer of HK$56,411,000 (2006: HK$29,291,000) bears an annual effective interest at 6.12% (2006: 6.12%) and is payable within one year.

The amounts classified under non-current liabilities are unsecured, interest-free and not repayable within one year from the balance sheet date, except that amounts due to joint venturers of HK$21,764,000 (2006: HK$32,719,000) bear an annual effective interest at 6.12% (2006: 6.12%).

The carrying amounts of the balances with joint venturers approximate to their fair values.

32. DEFERRED TAX LIABILITIES

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

	Notes	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Others HK$'000	Losses available for offset against future taxable profit HK$'000	Total HK$'000
At 1 April 2005		103,626	559	(279)	(24,846)	79,060
Deferred tax charged/(credited) to the income statement during the year	10	(2,869)	493	–	1,907	(469)
Exchange differences		1,389	–	–	–	1,389
At 31 March 2006 and 1 April 2006		102,146	1,052	(279)	(22,939)	79,980
Disposal of subsidiaries	36(c)	(4,597)	–	–	–	(4,597)
Deferred tax charged to the income statement during the year	10	1,677	–	–	5,929	7,606
Exchange differences		1,172	–	–	–	1,172
At 31 March 2007		100,398	1,052	(279)	(17,010)	84,161

The Group has tax losses in Mainland China of HK$22,592,000 (2006: HK$20,501,000) that are available for offsetting against future taxable profits of the companies in which the losses arose for a maximum of five years. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient future taxable profits will be generated against which the tax losses can be ultilised.

32. DEFERRED TAX LIABILITIES *(continued)*

At 31 March 2007, there was no significant unrecognised deferred tax liability (2006: 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 2007, there was no significant unrecognised deferred tax liability (2006: 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.

On 16 March 2007, the national people's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies of Mainland China from 1 January 2008 will decrease from 33% to 25%. This reduction in the income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to HKAS 12 *Income tax*, deferred tax assets and deferred tax 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 the Group's preliminary assessment, the change in the corporate tax rate has had no material effect on the results and financial positions of the Group for the year ended 31 March 2007.

At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements included regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

33. SHARE CAPITAL

Shares

	2007 HK$'000	2006 HK$'000
Authorised:		
600,000,000 ordinary shares of HK$0.10 each	**60,000**	60,000
Issued and fully paid:		
394,906,000 (2006: 394,906,000) ordinary shares of HK$0.10 each	**39,491**	39,491

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 34 to the financial statements.

34. SHARE OPTION SCHEME

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

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

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

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

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

34. SHARE OPTION SCHEME *(continued)*

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

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

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

Name or category of participant	Number of share options: At 1 April 2006	Granted during the year	Exercised during the year	At 31 March 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Company's shares***: At grant date of options HK$ per share	At exercise date of options HK$ per share
Directors									
Wong Chung Pak, Thomas	2,000,000	–	–	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	–	–	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	3,500,000	–	–	3,500,000					
Wong Wing Pak	2,000,000	–	–	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	–	–	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	3,500,000	–	–	3,500,000					

34. SHARE OPTION SCHEME *(continued)*

Name or category of participant	Number of share options: At 1 April 2006	Granted during the year	Exercised during the year	At 31 March 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Company's shares***: At grant date of options HK$ per share	At exercise date of options HK$ per share
Directors *(continued)*									
Wong Leung Pak, Matthew	2,000,000	–	–	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	–	–	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	3,500,000	–	–	3,500,000					
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 Septembe 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					
Cheng King Hoi, Andrew	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					
Ng King Yee	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					
Chan Yu Kwong, Francis	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					

34. SHARE OPTION SCHEME *(continued)*

Name or category of participant	Number of share options: At 1 April 2006	Granted during the year	Exercised during the year	At 31 March 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Company's shares***: At grant date of options HK$ per share	At exercise date of options HK$ per share
Directors *(continued)*									
Mok Wah Fun, Peter	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	–	–	1,200,000					
Chan Bing Woon, SBS, JP	500,000	–	–	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	700,000	–	–	700,000					
Sung Yuen Lam	500,000	–	–	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	700,000	–	–	700,000					
Lee Kwong Yin, Colin	100,000	–	–	100,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
Shareholders In aggregate	3,500,000	–	–	3,500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
Suppliers of goods or services In aggregate	2,500,000	–	–	2,500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A

34. SHARE OPTION SCHEME *(continued)*

Name or category of participant	Number of share options: At 1 April 2006	Granted during the year	Exercised during the year	At 31 March 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Company's shares***: At grant date of options HK$ per share	At exercise date of options HK$ per share
Other employees	4,900,000	–	–	4,900,000	2 October 2003	5 September 2003 to 4 September 2013	1.200	1.170	N/A
In aggregate	100,000	–	–	100,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	5,000,000	–	–	5,000,000					
Others	1,000,000	–	–	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
In aggregate	1,000,000	–	–	1,000,000	2 October 2003	5 September 2003 to 4 September 2013	1.200	1.170	N/A
	200,000	–	–	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	2,200,000	–	–	2,200,000					
	31,200,000	–	–	31,200,000					

* *The vesting period of the share options is from the date of 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 grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.*

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

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 54 to 55 of the financial statements.

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

35. RESERVES *(continued)*

(a) Group *(continued)*

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

(b) Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2005		523,211	70,770	(2,392)	591,589
Profit for the year		–	–	5,557	5,557
At 31 March 2006 and 1 April 2006		523,211	70,770	3,165	597,146
Loss for the year		–	–	(474)	(474)
Proposed final and special 2007 dividends	12	–	–	(19,746)	(19,746)
At 31 March 2007		523,211	70,770	(17,055)	576,926

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.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$46,032,000 (2006: HK$54,622,000).

(b) Business combination

On 12 June 2006, the Group entered into a joint venture agreement (the "Agreement") with independent third parties, whereby the Group agreed to inject RMB35,137,000 (equivalent to approximately HK$34,892,000) into Lixian Bipenggou Tourism Development Company Limited ("Lixian Bipenggou") in exchange for a 51% equity interest of the enlarged capital therein. Lixian Bipenggou is principally engaged in the management and operations of the Bipenggou Miyaluo scenic area in Sichuan Province, Mainland China.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Business combination *(continued)*

The fair values of the identifiable assets and liabilities of Lixian Bipenggou as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000	**Carrying amount** HK$'000
Property, plant and equipment	14	47,236	47,236
Trade receivables		584	584
Inventories		83	83
Prepayments, deposits and other receivables		631	631
Cash and bank balances		35,153	35,153
Trade payables		(646)	(646)
Accruals and other payables		(14,167)	(14,167)
Due to a minority shareholder		(697)	(697)
Interest-bearing bank and other borrowings		(100)	(100)
Minority interests		(33,358)	(33,358)
		34,719	34,719
Goodwill on acquisition	18	173	
Satisfied by cash		34,892	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash and bank balances acquired	35,153
Capital injection by the Group	(34,892)
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	261

Since its acquisition, Lixian Bipenggou contributed HK$444,000 to the Group's turnover and a loss of HK$640,000 to the consolidated profit for the year ended 31 March 2007.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group of the year would have been HK$1,979,211,000 and HK$32,953,000 respectively.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries

During the year, the Group disposed of its entire 90% equity interest in Shanghai Pudong Kwoon Chung Public Transport Co. Ltd. ("Shanghai Pudong"), and its 84.27% equity interest in King Chau Keung Tat Transportation Co., Ltd ("King Chau") for cash consideration of RMB132 million (approximately HK$132 million) and HK$1, respectively. Shanghai Pudong and King Chau are principally engaged in the provision of bus and travel-related services.

Pursuant to the share transfer agreement dated 12 December 2006 entered into between the Group as vendor and Shanghai Jinxiu Yifang Industrial Company Limited ("Shanghai Jinxiu"), an independent third party to the Group as the buyer, the sales proceeds which was recorded as consideration receivable at the balance sheet date shall be collected in cash by three installments. The first installment amounting to RMB72.1 million (approximately HK$72.1 million), net of a consideration of RMB7.9 million (approximately HK$7.9 million) for the purchase of a 6% equity interest in a subsidiary of the Group from Shanghai Pudong, was deposited in an escrow account maintained in Mainland China. The escrow account is jointly operated by the Group and Shanghai Jinxiu and the remittance of RMB72.1 million back to Hong Kong is currently subject to the completion of the foreign exchange clearance procedures. The second and third instalments each amounting to RMB26 million (approximately HK$26 million) shall be collected by the Group in January 2008 and January 2009, respectively.

The assets and liabilities of Shanghai Pudong and King Chau as at the date of disposal were as follows:

	Notes	2007 HK$'000	2006 HK$'000
Net assets disposed:			
Property, plant and equipment	14	242,587	–
Prepaid land lease payments	16	10,913	–
Intangible assets	17	4,423	–
Interests in a subsidiary		7,848	–
Inventories		1,257	–
Trade receivables		4,628	–
Prepayments, deposits and other receivables		6,605	–
Cash and bank balances		16,811	–
Trade payables		(7,023)	–
Accruals and other payables		(51,962)	–
Bank borrowings		(107,170)	–
Deferred tax liabilities	32	(4,597)	–
Minority interests		(14,372)	–
		109,948	–
Exchange equalisation reserve released		(6,383)	–
Goodwill released	18	3,928	–
Gain on disposal of subsidiaries, net	5	20,382	–
Net consideration		127,875	–

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries *(continued)*

An analysis of the net outflow of cash and cash equivalents at the balance sheet date in respect of the disposal of subsidiaries is as follows:

	2007 HK$'000	2006 HK$'000
Cash consideration	127,875	–
Consideration receivable at 31 March 2007	(124,100)	–
Cash and bank balances disposed of	(16,811)	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(13,036)	–

37. CONTINGENT LIABILITIES

The Company has given certain guarantees amounting to HK$818,850,000 (2006: HK$760,700,000) in favour of a bank for the banking facilities granted to its subsidiaries and jointly-controlled entities. As at 31 December 2007, the banking facilities granted to the subsidiaries and the jointly-controlled entities subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$300,906,000 (2006: HK$448,903,000) and HK$15,500,000 (2006: HK$30,500,000), respectively.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 March 2007, the Group had total future minimum lease rental receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	7,564	8,908
In the second to fifth years, inclusive	8,441	14,927
After five years	–	202
	16,005	24,037

38. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

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

At 31 March 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	26,149	23,333
In the second to fifth years, inclusive	15,313	13,311
After five years	17,719	19,074
	59,181	55,718

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the balance sheet date:

	2007 HK$'000	2006 HK$'000
Contracted, but not provided for:		
Acquisition of motor buses and vehicles	52,235	76,076
Construction of a scenic site and a repairing plant	3,657	–
Authorised, but not provided for:		
Capital contribution payable to a joint venture	46,800	–
	102,692	76,076

40. 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.

41. CONNECTED AND RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	**2007** **HK$'000**	2006 HK$'000
Rental expenses paid to joint venturers	(i), (ii)	**3,204**	3,410
Coach rental income from an associate	(iii)	**38,573**	32,981
Refueling and bus washing charges paid to related companies	(iv), (v)	**120**	120
Purchases of fuel from related companies	(iv), (v)	**18,840**	14,584
Rental expenses paid to a related company	(vi)	**2,495**	2,315

Notes:

(i) On 1 July 2005, Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. ("Wu Qi KC"), in which the Group has an effective equity interest of 53.0% (2006: 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 at a monthly rental of RMB215,000 (equivalent to approximately HK$212,000). On 1 January 2007, the agreement was renewed and the monthly rental decreased to RMB136,000 (equivalent to approximately HK$134,000). The above rentals were determined between both parties by reference to the prevailing market rentals at the time when the lease agreements were entered into. Wu Qi KC paid rental expenses amounting to approximately HK$2,309,000 (equivalent to approximately RMB2,344,000) (2006: HK$2,536,000) to Shanghai Public Transport during the year.

(ii) In 1999, Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. ("Chongqing KC No. 3"), in which the Group has an effective interest of 30.25% (2006: 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 RMB852,000 (equivalent to approximately HK$839,000), which was determined between both parties by reference to the open market rentals at the time when the lease agreements were entered into. Pursuant to the agreement, Chongqing KC No. 3 paid rental expenses amounting to approximately HK$895,000 (equivalent to approximately RMB908,000) (2006: HK$874,000) to Chongqing Public Transport during the year.

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

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

(a) *Notes: (continued)*

(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 fee related to the refuelling and bus washing services provided by NWFB to the Group was determined at monthly charge of HK$10,000 (2006: HK$10,000) which is comparable to those offered by other unrelated service providers to the Group. The aggregate fee related to refueling and bus washing services was HK$120,000 (2006: HK$120,000). The purchase of fuel from NWFB was made according to the prices and conditions similar to those offered by other unrelated suppliers to the Group. The aggregate purchases of fuel from NWFB amounted to HK$12,080,000 (2006: HK$11,906,000).

(v) On 10 October 2005, the Company entered into an agreement with Citybus Limited ("CTB"), a wholly-owned subsidiary of New World First Holdings Limited, a shareholder of the Company, for (a) the provision of refueling and washing services by CTB to certain motor vehicles of the Group in Hong Kong; and (b) the purchase of fuel from CTB by the Group for a period commencing from 10 October 2005 to 31 March 2007. The refueling charge was determined at a fixed rate of HK$0.65 per litre for the total quantity of fuel refueled and the bus washing charges were determined at a fixed rate of HK$16 per vehicle. No refueling and bus washing services was provided by CTB during the year (2006: HK$450). The purchase of fuel from CTB was determined by reference to open market rates. The aggregate purchases from CTB amounted to HK$6,760,000 (2006: HK$2,678,000).

(vi) 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$207,939 (2006: HK$192,901), which was determined by reference to open market rates or based on the actual disbursement basis. The total rental paid by the Group for the year amounted to HK$2,495,000 (2006: HK$2,315,000).

(vii) On 24 May 2006, the Group entered into a share transfer agreement with NWFB to dispose of its entire 23.69% equity interest in Guangzhou City Panguang Public Bus Company Limited, an associate of the Group, for a consideration of RMB36,428,000 (equivalent to approximately HK$36,847,000). This transaction was completed on 3 August 2006, resulting in a gain on disposal of approximately HK$114,000 (note 5).

(b) Other transaction with a related party

Shanghai Public Transport has guaranteed certain bank loans made to the Group of up to HK$65,800,000 (2006: HK$56,640,000) as at 31 March 2007.

(c) Outstanding balances with related parties

(i) Details of the Group's amounts due from its associates as at the balance sheet date are included in note 21 to the financial statements, and details of the Group's balances with its jointly-controlled entities and joint venturers are included in notes 20 and 31 to the financial statements, respectively.

(ii) Details of the Group's trade balances with its associates as at the balance sheet date are disclosed in note 23 to the financial statements.

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

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

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Cash flow interest rate risk

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

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 41.56% (2006: 51.19%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 59.37% (2006: 51.29%) of costs are denominated in the unit's functional currency.

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

Foreign currency risk *(continued)*

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$104,107,000 (2006: HK$90,585,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. In accordance with the foreign exchange regulations applicable in Mainland China, the cash and bank balances held by subsidiaries in Mainland China are not freely remittable to Hong Kong.

Credit risk

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

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

Liquidity risk

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

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

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue for the board of directors on 23 July 2007.

PARTICULARS OF PROPERTIES

31 March 2007

PROPERTIES HELD FOR SALE

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