

NOTES TO FINANCIAL STATEMENTS

31 March 2004

1. CORPORATE INFORMATION

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

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

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : “Income taxes”
- SSAP 35 : “Accounting for government grants and disclosure of government assistance”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”) (Continued)

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 30 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 40 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 the periodic remeasurement of certain fixed assets and short term investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies

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

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

A joint venture company is treated as:

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

Jointly-controlled entities

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 to 15 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill

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

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

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

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

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

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

Impairment of assets

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than hotel properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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

Long term investments

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

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

Short term investments

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

Operating leases

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

Intangible assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on the estimated replacement cost.

Provisions

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

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

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

Income tax *(Continued)*

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Foreign currencies

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

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

Employee benefits

Pension schemes

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

The employees of certain of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 22% of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option schemes

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

Dividends

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the provision of transportation services, in the period in which the related services are rendered;
- (ii) from the provision of tour services, when the tours arrive at their destinations;
- (iii) from the provision of hotel services, when the related services are rendered;
- (iv) from the sale of electricity, based on the consumption by meter readings;
- (v) rental income, on a time proportion basis over the lease terms;
- (vi) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (vii) dividend income, when the shareholders' right to receive payment has been established.

Cash and cash equivalents

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

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

Related parties

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

4. SEGMENT INFORMATION

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

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

- (a) the designated bus routes segment includes the provision of bus services by designated routes as approved by the local governments/transport authorities in Mainland China;
- (b) the non-franchised bus segment includes the provision of non-franchised bus hire and travel related services;
- (c) the franchised bus segment includes the provision of franchised bus services on Lantau Island in Hong Kong;
- (d) the tour segment engages in travel agency and tour service business in Hong Kong and Mainland China;
- (e) the hotel segment includes the provision of hotel services in Mainland China; and
- (f) the corporate and others segment comprises, principally, the sale of electricity and the provision of other transportation services, together with corporate income and expense items.

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

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.

Group

	2004							
	Designated bus routes	Non- franchised bus	Franchised bus	Tour	Hotel	Corporate and others	Intersegment eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
External sales	613,849	423,587	70,090	36,474	18,910	14,077	-	1,176,987
Intersegment sales	-	8,917	1,331	-	-	-	(10,248)	-
Other revenue	27,882	8,967	486	527	180	5,086	(776)	42,352
Total	641,731	441,471	71,907	37,001	19,090	19,163	(11,024)	1,219,339
Segment results	16,255	29,670	4,452	(3,410)	2,894	2,755	-	52,616
Bank interest and dividend income								1,507
Profit from operating activities								54,123
Finance costs								(16,173)
Share of losses of jointly-controlled entities	(4,595)	-	-	-	-	-	-	(4,595)
Profit before tax								33,355
Tax								(10,467)
Profit before minority interests								22,888
Minority interests								(778)
Net profit from ordinary activities attributable to shareholders								22,110

NOTES TO FINANCIAL STATEMENTS

31 March 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	2003							
	Designated	Non-	Franchised			Corporate	Intersegment	Consolidated
	bus routes	franchised	bus	Tour	Hotel	and others	eliminations	
	HK\$'000	bus	bus	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)							(Restated)
Segment revenue:								
External sales	569,061	341,680	69,199	46,085	15,939	14,632	-	1,056,596
Intersegment sales	-	8,506	1,351	-	-	-	(9,857)	-
Other revenue	18,585	5,027	371	958	1,860	6,676	(1,085)	32,392
Total	587,646	355,213	70,921	47,043	17,799	21,308	(10,942)	1,088,988
Segment results	35,985	14,982	6,918	(1,073)	(261)	1,202	-	57,753
Bank interest and dividend income								3,294
Profit from operating activities								61,047
Finance costs								(14,204)
Share of losses of jointly-controlled entities	(1,248)	-	-	-	-	-	-	(1,248)
Profit before tax								45,595
Tax								(14,504)
Profit before minority interests								31,091
Minority interests								(13,717)
Net profit from ordinary activities attributable to shareholders								17,374

NOTES TO FINANCIAL STATEMENTS

31 March 2004

4. SEGMENT INFORMATION (Continued)

(b) Geographical segment

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

Group

	Hong Kong HK\$'000	2004 Mainland China HK\$'000	Total HK\$'000
Revenue	497,878	679,109	1,176,987
Segment assets	662,693	982,941	1,645,634
Interests in associates	–	5,640	5,640
Interests in jointly-controlled entities	–	150,092	150,092
Total assets	662,693	1,138,673	1,801,366
Capital expenditure	211,108	167,180	378,288
		2003 Mainland China HK\$'000	Total HK\$'000
	Hong Kong HK\$'000 (Restated)		(Restated)
Revenue	416,589	640,007	1,056,596
Segment assets	515,048	977,434	1,492,482
Interests in jointly-controlled entities	–	166,997	166,997
Total assets	515,048	1,144,431	1,659,479
Capital expenditure	59,038	141,147	200,185

5. TURNOVER

Turnover represents bus fares and the invoiced value of coach hire and travel related services, tour and hotel services, and the sale of electricity.

Revenue from the following activities has been included in turnover:

	Group	
	2004 HK\$'000	2003 HK\$'000
Provision of designated bus route services	613,849	569,061
Provision of non-franchised bus services	423,587	341,680
Provision of franchised bus services	70,090	69,199
Provision of tour services	36,474	46,085
Provision of hotel services	18,910	15,939
Provision of other transportation services	13,173	13,800
Power generation	904	832
	1,176,987	1,056,596

NOTES TO FINANCIAL STATEMENTS

31 March 2004

6. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2004 HK\$'000	2003 HK\$'000 (Restated)
Auditors' remuneration	1,530	1,280
Depreciation (<i>Note (i)</i>)	144,963	121,765
Minimum lease payments under operating leases (<i>Note (i)</i>):		
Land and buildings	8,434	5,417
Bus depots, terminals and car parks	19,489	19,018
Motor buses and coaches	26,014	24,962
Staff costs (<i>Note (i)</i>) (including directors' remuneration – <i>note 8</i>):		
Wages and salaries	442,665	399,936
Other welfare benefits	9,467	6,378
Pension scheme contributions	11,097	10,599
Less: Forfeited contributions (<i>Note (ii)</i>)	(82)	(441)
Net pension scheme contributions	11,015	10,158
	463,147	416,472
Amortisation:		
Intangible assets (<i>Note (iii)</i>)	2,988	1,749
Goodwill (<i>Note (iii)</i>)	377	126
Negative goodwill recognised as income during the year (<i>Note (iv)</i>)	(914)	(325)
Gains on disposal of short term listed investments	(149)	(274)
Net unrealised holding gains on short term listed investments	–	(97)
Loss on disposal of fixed assets, net	10,175	12,106
Gain on disposal of intangible assets	(10,387)	–
Government subsidies (<i>Note (v)</i>)	(4,333)	(1,943)
Write off of an amount due from an associate	–	125
Net rental income	(8,225)	(8,107)
Bank interest income	(1,507)	(2,992)
Dividend income from an unlisted investment	–	(302)

Notes:

- (i) The cost of services rendered for the year amounted to HK\$991,931,000 (2003: HK\$857,496,000) and included depreciation charges of HK\$129,945,000 (2003: HK\$106,324,000), operating lease rentals of HK\$47,708,000 (2003: HK\$45,026,000) and staff costs of HK\$375,995,000 (2003: HK\$333,352,000).

NOTES TO FINANCIAL STATEMENTS

31 March 2004

6. PROFIT FROM OPERATING ACTIVITIES (Continued)

- (ii) As at 31 March 2004, there were no material forfeited contributions available to the Group to reduce its contributions to the pension schemes in future years.
- (iii) The amortisation of intangible assets and goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.
- (iv) The movements in negative goodwill recognised in the consolidated profit and loss account for the year are included in "Other revenue and gains" on the face of the consolidated profit and loss account.
- (v) Various government subsidies have been received by certain subsidiaries which operate in Mainland China in connection with the losses incurred by these subsidiaries. The government subsidies released have been included in "Other revenue and gains" on the face of the consolidated profit and loss account. There are no unfulfilled conditions or contingencies relating to these subsidies.

7. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	15,351	14,003
Finance leases	822	201
	16,173	14,204

8. DIRECTORS' REMUNERATION

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees*	160	100
Other emoluments:		
Salaries and other benefits	12,987	14,146
Pension scheme contributions	1,020	1,102
	14,007	15,248
	14,167	15,348

* Fees include HK\$160,000 (2003: HK\$100,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2004

8. DIRECTORS' REMUNERATION (Continued)

The number of directors whose remuneration fell within the following bands is as set out below:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	11	11
HK\$2,000,001 – HK\$2,500,000	2	2
HK\$2,500,001 – HK\$3,000,000	1	1
	14	14

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

During the year, 16,000,000 share options were granted to the directors in respect of their services rendered to the Group, further details of which are set out in note 32 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID INDIVIDUALS

All of the five highest paid individuals of the Group during each of the two years ended 31 March 2004 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% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax had been made in prior year as the Group had no assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004 HK\$'000	2003 HK\$'000 (Restated)
Current – Hong Kong:		
Charge for the year	1,225	–
Under/(Over)provision in prior years	3	(873)
Current – Elsewhere	3,123	6,225
Deferred – note 30	6,116	9,152
Tax charge for the year	10,467	14,504

No provision for tax is required in respect of the associates and jointly-controlled entities because no assessable profits were earned by the associates and jointly-controlled entities during the year (2003: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2004

10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2004

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

Group – 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	6,581		39,014		45,595	
Tax at the statutory tax rate	1,152	17.5	12,875	33.0	14,027	30.8
Adjustments in respect of						
current tax of previous periods	(873)		–		(873)	
Income not subject to tax	(637)		–		(637)	
Expenses not deductible for tax	125		–		125	
Effect on opening deferred tax						
of increase in rates	3,235		–		3,235	
Tax losses utilised from						
previous periods	(546)		(827)		(1,373)	
Tax charge at the Group's effective rate	2,456	37.3	12,048	30.9	14,504	31.8

NOTES TO FINANCIAL STATEMENTS

31 March 2004

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company is HK\$13,348,000 (2003: HK\$11,591,000) (note 33).

12. DIVIDENDS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interim:		
HK1 cent (2003: HK1 cent) per ordinary share	3,939	3,939
Proposed final:		
HK1 cent (2003: HK2.5 cents) per ordinary share	3,939	9,848
	7,878	13,787

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$22,110,000 (2003 (restated): HK\$17,374,000) and on the weighted average of 393,906,000 (2003: 393,906,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 March 2004 was based on the net profit from ordinary activities attributable to shareholders for the year of HK\$22,110,000 (2003 (restated): HK\$17,374,000), the weighted average number of 393,906,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 2,441,645 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Diluted earnings per share for the year ended 31 March 2003 has not been disclosed as the share options outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

14. FIXED ASSETS

Group

	Land use rights	Leasehold land and buildings	Hotel properties	Bus terminal structure	Garage improvements	Motor buses and vehicles	Power plants	Furniture, fixtures and office machinery	Equipment and tools	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost or valuation:											
At beginning of year	73,779	91,243	57,731	2,258	8,500	1,313,831	2,543	44,419	23,643	16,050	1,633,997
Additions	-	91	-	122	434	253,769	-	3,008	7,352	4,730	269,506
Reclassification	-	3,769	308	-	-	-	-	127	89	(4,293)	-
Disposals	-	(1,079)	(570)	-	-	(143,279)	-	(2,293)	(761)	-	(147,982)
Acquisition of subsidiaries (note 34)	-	268	-	-	-	104,161	-	336	2,407	12	107,184
At 31 March 2004	73,779	94,292	57,469	2,380	8,934	1,528,482	2,543	45,597	32,730	16,499	1,862,705
Accumulated depreciation:											
At beginning of year	8,542	17,190	-	1,616	5,414	463,363	751	24,119	12,210	-	533,205
Provided during the year	2,005	2,890	-	161	720	131,094	266	4,648	3,179	-	144,963
Disposals	-	(27)	-	-	-	(116,323)	-	(2,152)	(593)	-	(119,095)
At 31 March 2004	10,547	20,053	-	1,777	6,134	478,134	1,017	26,615	14,796	-	559,073
Net book value:											
At 31 March 2004	63,232	74,239	57,469	603	2,800	1,050,348	1,526	18,982	17,934	16,499	1,303,632
At 31 March 2003	65,237	74,053	57,731	642	3,086	850,468	1,792	20,300	11,433	16,050	1,100,792
Analysis of cost and valuation:											
At cost	73,779	61,669	57,469	2,380	8,934	1,528,482	2,543	45,597	32,730	16,499	1,830,082
At 30 June 1996 professional valuation	-	32,623	-	-	-	-	-	-	-	-	32,623
	73,779	94,292	57,469	2,380	8,934	1,528,482	2,543	45,597	32,730	16,499	1,862,705

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

	2004 HK\$'000	2003 HK\$'000
Hong Kong	57,443	58,189
Elsewhere	36,849	33,054
	94,292	91,243

NOTES TO FINANCIAL STATEMENTS

31 March 2004

14. FIXED ASSETS (Continued)

Certain of the Group's leasehold land and buildings in Hong Kong were revalued at 30 June 1996 by the former C.Y. Leung & Company Limited (currently known as DTZ Debenham Tie Leung Limited), a firm of independent professionally qualified valuers, on an open market value, existing use basis. In the opinion of the directors, the fair values of these revalued leasehold land and buildings were approximately the same as the carrying values of the respective assets at 31 March 2004.

Had all the leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$73,575,000 (2003: HK\$72,910,000) at 31 March 2004.

Certain of the Group's fixed assets with an aggregate net book value of HK\$311,132,000 (2003: HK\$284,160,000) were pledged to secure banking facilities granted to the Group as set out in notes 28 and 38 to the financial statements.

Certain of the Group's shop units in the hotel properties and certain of the Group's motor vehicles were leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements.

15. INTANGIBLE ASSETS

Group

	Taxi operating rights <i>HK\$'000</i>	Bus route operating rights <i>HK\$'000</i>	Advertising rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At beginning of year	19,200	14,182	7,848	41,230
Additions	–	1,598	–	1,598
Disposals	(14,100)	–	–	(14,100)
At 31 March 2004	5,100	15,780	7,848	28,728
Accumulated amortisation:				
At beginning of year	1,162	1,268	932	3,362
Provided during the year	1,524	1,202	262	2,988
Disposals	(1,942)	–	–	(1,942)
At 31 March 2004	744	2,470	1,194	4,408
Net book value:				
At 31 March 2004	4,356	13,310	6,654	24,320
At 31 March 2003	18,038	12,914	6,916	37,868

NOTES TO FINANCIAL STATEMENTS

31 March 2004

16. GOODWILL AND NEGATIVE GOODWILL

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

		Group	
	Notes	Goodwill HK\$'000	Negative goodwill HK\$'000
Cost:			
At beginning of year:			
As previously reported		1,251	(5,604)
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	40	3,507	972
As restated		4,758	(4,632)
Acquisition of subsidiaries	34	–	(8,158)
Acquisition of additional interest in a subsidiary		2,597	–
At 31 March 2004		7,355	(12,790)
Accumulated amortisation/(recognition as income):			
At beginning of year:			
As previously reported		120	(418)
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	40	42	12
As restated		162	(406)
Amortisation provided/(recognised as income) during the year		377	(914)
At 31 March 2004		539	(1,320)
Net book value:			
At 31 March 2004		6,816	(11,470)
At 31 March 2003 (restated)		4,596	(4,226)

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

The amounts of goodwill and negative goodwill remaining in consolidated reserves or credited to the capital reserve, arising from the acquisition of subsidiaries prior to the adoption of the SSAP, were HK\$1,855,000 and HK\$4,042,000, respectively, as at 1 April 2003 and 31 March 2004. The amount of goodwill is stated at its cost which arose in prior years.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

17. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	71,070	71,070
Due from subsidiaries	564,706	564,601
	635,776	635,671

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Date of incorporation/ registration	Nominal value of issued share/registered capital	Percentage of equity interest attributable to the Company [#]		Principal activities
				2004	2003	
Kwoon Chung Buses Investment Limited	British Virgin Islands/ Hong Kong	2 January 1996	Ordinary US\$6,000	100	100	Investment holding
Chongqing Everbright International Travel Co., Ltd. **	Mainland China	11 January 2000	RMB5,000,000	60	60	Tour operations
Chongqing Grand Hotel Co., Ltd. **	Mainland China	13 October 1986	RMB35,000,000	60	60	Hotel operations
Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd. **	Mainland China	14 March 2000	RMB62,672,087	42.15*	42.15*	Provision of bus and travel related services
Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. **	Mainland China	23 December 1998	RMB90,000,000	30.25*	30.25*	Provision of bus and travel related services
Chongqing Pengshui Dongguaxi Hydropower Station Co., Ltd. **	Mainland China	16 June 1998	RMB4,000,000	60	60	Power generation

NOTES TO FINANCIAL STATEMENTS

31 March 2004

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Date of incorporation/ registration	Nominal value of issued share/registered capital	Percentage of equity interest attributable to the Company#		Principal activities
				2004	2003	
Chongqing Tourism Coach Co., Ltd. **	Mainland China	17 October 2000	RMB8,000,000	60	60	Provision of coach hire services
Chongqing Tourism (Group) Co., Ltd. **	Mainland China	6 May 1998	RMB56,600,000	60	60	Investment holding
Gallic Limited	Hong Kong	3 April 1990	Ordinary HK\$900	100	100	Property holding
Good Funds Services Limited	Hong Kong	6 November 1984	Ordinary HK\$75 Non-voting deferred HK\$500,025	100	100	Provision of coach hire and travel related services
HK Kwoon Chung (Anshan) Bus Investment Limited	Hong Kong	25 June 1997	Ordinary HK\$2	100	100	Investment holding
HK Kwoon Chung (Chongqing) Bus Investment Limited	Hong Kong	21 January 1998	Ordinary HK\$46,261,682	55	55	Investment holding
HK Kwoon Chung (Dalian) Bus Investment Limited	Hong Kong	19 August 1983	Ordinary HK\$1,000	100	100	Investment holding
HK Kwoon Chung (Harbin) Bus Investment Limited	Hong Kong	19 September 1996	Ordinary HK\$2	100	100	Investment holding
HK Kwoon Chung (Hubei) Bus Investment Company Limited	Hong Kong	23 August 1999	Ordinary HK\$2	100	100	Investment holding
HK Kwoon Chung (Jieyang) Bus Investment Limited	Hong Kong	17 September 1996	Ordinary HK\$2	100	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 March 2004

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Date of incorporation/ registration	Nominal value of issued share/registered capital	Percentage of equity interest attributable to the Company [#]		Principal activities
				2004	2003	
King Chau Keung Tat Transportation Co., Ltd. **	Mainland China	13 November 1993	RMB15,243,640	84.27	51	Provision of bus and travel related services
Kwoon Chung Motors Company, Limited	Hong Kong	15 May 1979	Ordinary HK\$200 Non-voting deferred HK\$10,000,000	100	100	Provision of bus, coach hire and travel related services
Kwoon Chung Travel Company Limited	Hong Kong	7 March 1996	Ordinary HK\$2	100	100	Investment holding
Kwoon Chung (China) Development Company Limited	Hong Kong	12 September 1991	Ordinary HK\$1,000,000	100	100	Investment holding
Jieyang Guanyun Transportation Company Limited **	Mainland China	24 June 1997	RMB22,891,755	60.63	91.5	Provision of bus and travel related services
Lantau Tours Limited	Hong Kong	14 March 1972	Ordinary HK\$500,000	100	100	Provision of coach hire and tour services
New Lantao Bus Company (1973) Limited	Hong Kong	11 May 1973	Ordinary HK\$14,116,665	99.99	99.99	Provision of bus and travel related services
Shanghai Pudong Kwoon Chung Public Transport Co., Ltd. **	Mainland China	3 June 1992	RMB100,000,000	90	90	Provision of bus and travel related services
Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. **	Mainland China	16 June 1998	RMB120,000,000	52.4	52.4	Provision of bus and travel related services

NOTES TO FINANCIAL STATEMENTS

31 March 2004

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Date of incorporation/ registration	Nominal value of issued share/registered capital	Percentage of equity interest attributable to the Company#		Principal activities
				2004	2003	
Tai Fung Coach Company Limited	Hong Kong	15 May 1981	Ordinary HK\$1,000,000	100	100	Provision of coach hire and travel related services
Trade Travel (Hong Kong) Limited	Hong Kong	22 August 1975	Ordinary HK\$500,000	100	100	Provision of hiring services of limousines, minibuses and coaches
Wealth Crown Investment Limited	Hong Kong	5 November 1999	HK\$1,000,000	65	65	Investment holding
GFTZ Xing Hua International Transport Limited ***	Mainland China	24 January 1994	RMB30,000,000	52.5	52.5	Provision of bus and travel related services
GFTZ Xing Hua Tourism Bus Company Limited **	Mainland China	8 April 1994	HK\$40,000,000	52.5	52.5	Provision of taxi services
Trans-Island Limousine Service Limited	Hong Kong	21 September 1973	HK\$30,005,000	100	–	Provision of bus and coach hire services
Intercontinental Hire Cars Limited	Hong Kong	13 August 1968	HK\$10,000,000	100	–	Provision of bus and coach hire services
Shanghai Public Transport Hubei Passenger Road Transport Services Company	Mainland China	5 May 1994	RMB2,000,000	47.16*	–	Provision of bus and travel related services

NOTES TO FINANCIAL STATEMENTS

31 March 2004

17. INTERESTS IN SUBSIDIARIES (Continued)

- # 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 Mainland China.
- *** Limited company established in Mainland China

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

During the year, the Group acquired Trans-Island Limousine Service Limited and its subsidiaries (collectively the "TIL Group") and Shanghai Public Transport Hubei Passenger Road Transport Services Company. Further details of these acquisitions are included in note 34 to the financial statements.

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

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	131,004	131,004
Share of post-acquisition results	14,673	13,539
Less: Accumulated amortisation	(68,913)	(59,835)
	76,764	84,708
Due from jointly-controlled entities	66,673	74,967
Due to jointly-controlled entities	(2,068)	(2,068)
Loans to jointly-controlled entities	8,723	9,390
	150,092	166,997

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.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Registered capital	Tenure	Percentage of		Principal activities
					Voting power	Ownership interest and profit sharing	
Anshan Kwoon Chung Public Transport Co., Ltd.	Corporate	Mainland China	RMB16,408,615	15 years expiring on 31 March 2013	60	50	Provision of bus services
Dalian Kwoon Chung Public Transport Co., Ltd.	Corporate	Mainland China	RMB18,100,000	15 years expiring on 12 June 2011	57	50	Provision of bus services
Guangzhou Kwoon Chung Bus Co., Ltd.	Corporate	Mainland China	HK\$76,000,000	17 years expiring on 8 October 2011	50	50	Provision of bus services
Harbin Kwoon Chung Public Transport Co., Ltd.	Corporate	Mainland China	RMB11,106,025	15 years expiring on 23 December 2011	57	50	Provision of bus services
Shantou Kwoon Chung Bus Co., Ltd.	Corporate	Mainland China	HK\$20,460,000	12 years expiring on 10 October 2007	50	50*	Provision of bus services

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

19. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	5,640	–

Particulars of associates are as follows:

Name	Business structure	Place of incorporation/ registration/ and operations	Percentage of ownership interest attributable to the Group		Principal activity
			2004	2003	
L&K Technology Co., Limited	Corporate	Hong Kong	50	50	Dormant
Chongqing Wansheng Transportation Centre Co. Ltd.*	Corporate	Mainland China	40	–	Dormant

* Limited company established in Mainland China

20. INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Long term investments		
Unlisted equity investments in Mainland China, at cost	4,117	3,557
Less: Provision for impairment	(470)	(470)
	3,647	3,087
Short term investments		
Listed equity investments in Mainland China, at market value	231	172

NOTES TO FINANCIAL STATEMENTS

31 March 2004

21. BALANCES WITH JOINT VENTURERS

The balances with joint venturers are unsecured and interest-free. Except for the amounts due to joint venturers of HK\$75,876,000 (2003: HK\$78,476,000) which are not repayable within the next 12 months from the balance sheet date, the other balances with joint venturers have no fixed terms of repayment.

22. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Spare parts and other consumables	17,642	17,588

23. TRADE RECEIVABLES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 30 days	44,801	33,524
31 to 60 days	8,226	3,147
61 to 90 days	3,779	1,676
Over 90 days	9,580	3,437
	66,386	41,784

24. OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Prepayments	12,987	7,687	181	180
Deposits and other debtors	62,416	43,374	–	1
Due from joint venturers – <i>note 21</i>	14,009	10,120	–	–
	89,412	61,181	181	181

NOTES TO FINANCIAL STATEMENTS

31 March 2004

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	133,359	110,511	270	308
Time deposits	8,924	103,968	–	507
	142,283	214,479	270	815
Less: Pledged time deposits for bank loans – note 38	(1,536)	(50,860)	–	–
Cash and cash equivalents	140,747	163,619	270	815

26. TRADE PAYABLES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 30 days	56,243	43,780
31 to 60 days	1,819	1,793
61 to 90 days	1,785	959
Over 90 days	4,840	2,848
	64,687	49,380

27. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accruals	68,996	65,716	–	–
Other liabilities	84,336	56,712	134	135
	153,332	122,428	134	135

NOTES TO FINANCIAL STATEMENTS

31 March 2004

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans:		
Secured	274,008	221,075
Unsecured	111,690	99,590
	385,698	320,665
Unsecured other loans	36,499	40,375
	422,197	361,040
Bank loans repayable:		
Within one year	178,594	210,734
In the second year	76,712	45,159
In the third to fifth years, inclusive	68,315	64,772
Beyond five years	62,077	–
	385,698	320,665
Other loans repayable:		
Within one year	4,056	7,177
In the second year	32,443	33,198
	36,499	40,375
	422,197	361,040
Portion classified as current liabilities	(182,650)	(217,911)
Long term portion	239,547	143,129

The Group's bank loans are secured by certain fixed assets with an aggregate net book value of HK\$311,132,000 (2003: HK\$284,160,000) as at 31 March 2004, time deposits of HK\$1,536,000 (2003: HK\$50,860,000) and all of the issued shares of New Lantao Bus Company (1973) Limited and Trans-Island Limousine Service Limited, subsidiaries, held by the Group (see note 38).

An other loan of HK\$4,056,000 (2003: HK\$7,177,000) is unsecured, bears interest at 8.5% (2003: 8.5%) per annum and has no fixed terms of repayment. The other loans of HK\$32,443,000 (2003: HK\$33,198,000) are unsecured, bear interest at 5.94% (2003: 5.94%) per annum and are repayable after one year.

A minority shareholder of a subsidiary of the Group has guaranteed certain of the Group's bank loans up to HK\$47,000,000 (2003: HK\$35,700,000).

NOTES TO FINANCIAL STATEMENTS

31 March 2004

29. DUE TO DIRECTORS

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

30. DEFERRED TAX LIABILITIES

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

Group – 2004

	<i>Notes</i>	Accelerated Tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Others <i>HK\$'000</i>	Losses available for offset against future taxable profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003:						
As previously reported		7,591	–	–	–	7,591
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	<i>40</i>	63,676	728	–	(13,198)	51,206
As restated		71,267	728	–	(13,198)	58,797
Deferred tax charged/(credited) to the profit and loss account						
during the year	<i>10</i>	9,026	–	–	(2,910)	6,116
Acquisition of subsidiaries	<i>34</i>	13,551	–	(213)	(6,351)	6,987
At 31 March 2004		93,844	728	(213)	(22,459)	71,900

NOTES TO FINANCIAL STATEMENTS

31 March 2004

30. DEFERRED TAX LIABILITIES (Continued)

Group – 2003

	Notes	Accelerated Tax 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 2002:						
As previously reported		7,662	–	–	–	7,662
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	40	55,683	666	–	(14,428)	41,921
As restated		63,345	666	–	(14,428)	49,583
Deferred tax charged to the profit and loss account during the year, including a charge of HK\$3,235,000 due to the effect of a change in tax rates						
	10	7,922	–	–	1,230	9,152
Deferred charged to equity during the year due to the effect of a change in statutory tax rates						
	33	–	62	–	–	62
At 31 March 2003		71,267	728	–	(13,198)	58,797

The Group has tax losses arising in Hong Kong of HK\$6,506,000 (2003: HK\$4,349,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2004, there is no significant unrecognised deferred tax liability (2003: 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 be reversed in the foreseeable future.

At 31 March 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of the Group's associates or jointly-controlled entities.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

31. SHARE CAPITAL

Share

	2004 HK\$'000	2003 HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$0.10 each	60,000	60,000
Issued and fully paid:		
393,906,000 ordinary shares of HK\$0.10 each	39,391	39,391

There was no change in the issued share capital during the years ended 31 March 2004 and 2003.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 32 to the financial statements.

32. SHARE OPTION SCHEMES

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

(a) The Old Scheme

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

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

32. SHARE OPTION SCHEMES *(Continued)*

(a) The Old Scheme *(Continued)*

At 31 March 2004, the number of shares issuable under share options granted under the Old Scheme was 7,080,000 which represented approximately 1.8% of the Company's shares in issue as at that date.

(b) The New Scheme

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

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

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

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

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. During the year, 25,900,000 share options were granted under the New Scheme. At 31 March 2004, the number of shares issuable under share options granted under the New Scheme was 25,900,000 which represented approximately 6.6% of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

32. SHARE OPTION SCHEMES (Continued)

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

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 April 2003	Lapsed during the year	At 31 March 2004				At grant date of options HK\$	At exercise date of options HK\$
Directors								
Wong Chung Pak, Thomas	1,000,000	(1,000,000)	–	22 December 1997	22 June 1998 to 21 June 2003	1.5656	1.860	N/A
	100,000	–	100,000	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	–	700,000	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	1,800,000	(1,000,000)	800,000					
Wong Wing Pak	1,000,000	(1,000,000)	–	22 December 1997	22 June 1998 to 21 June 2003	1.5656	1.860	N/A
	100,000	–	100,000	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	–	700,000	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	1,800,000	(1,000,000)	800,000					
Wong Leung Pak, Matthew	1,000,000	(1,000,000)	–	22 December 1997	22 June 1998 to 21 June 2003	1.5656	1.860	N/A
	100,000	–	100,000	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	–	700,000	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	1,800,000	(1,000,000)	800,000					
Lee Yin Ching, Stanley	200,000	(200,000)	–	22 December 1997	22 June 1998 to 21 June 2003	1.5656	1.860	N/A
	80,000	–	80,000	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	–	700,000	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	980,000	(200,000)	780,000					
Lo Kin Wai	100,000	(100,000)	–	22 December 1997	22 June 1998 to 21 June 2003	1.5656	1.860	N/A
	80,000	–	80,000	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	–	700,000	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	880,000	(100,000)	780,000					
Cheng King Hoi, Andrew	200,000	(200,000)	–	22 December 1997	22 June 1998 to 21 June 2003	1.5656	1.860	N/A
	80,000	–	80,000	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	–	700,000	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	980,000	(200,000)	780,000					

NOTES TO FINANCIAL STATEMENTS

31 March 2004

32. SHARE OPTION SCHEMES (Continued)

Name or category of participant	Number of share options			Date of grant of share options [†]	Exercise period of share options	Exercise price of share options ^{**} HK\$	Price of Company's shares ^{***}	
	At	Lapsed	At				At grant	At exercise
	1 April 2003	during the year	31 March 2004				date of options	date of options
Directors (Continued)								
Ng King Yee	100,000	(100,000)	–	22 December 1997	22 June 1998 to 21 June 2003	1.5656	1.860	N/A
	80,000	–	80,000	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	–	700,000	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	880,000	(100,000)	780,000					
Chan Yu Kwong, Francis	200,000	(200,000)	–	22 December 1997	22 June 1998 to 21 June 2003	1.5656	1.860	N/A
	80,000	–	80,000	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	–	700,000	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	980,000	(200,000)	780,000					
Mok Wah Fun, Peter	100,000	(100,000)	–	22 December 1997	22 June 1998 to 21 June 2003	1.5656	1.860	N/A
	80,000	–	80,000	17 March 1999	17 September 1999 to 16 September 2004	1.0112	1.270	N/A
	700,000	–	700,000	15 September 1999	15 March 2000 to 14 March 2005	1.7880	2.175	N/A
	880,000	(100,000)	780,000					
	10,980,000	(3,900,000)	7,080,000					

NOTES TO FINANCIAL STATEMENTS

31 March 2004

32. SHARE OPTION SCHEMES (Continued)

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

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 April 2003	Granted during the year	At 31 March 2004				At grant date of options HK\$	At exercise date of options HK\$
Directors								
Wong Chung Pak, Thomas	-	2,000,000	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Wong Wing Pak	-	2,000,000	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Wong Leung Pak, Matthew	-	2,000,000	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Tsang Wing Hang	-	1,000,000	1,000,000	2 October 2003	5 September 2003 to 4 September 2013	1.2000	1.170	N/A
Lee Yin Ching, Stanley	-	1,000,000	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Lo Kin Wai	-	1,000,000	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Cheng King Hoi, Andrew	-	1,000,000	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Ng King Yee	-	1,000,000	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Chan Yu Kwong, Francis	-	1,000,000	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Mok Wah Fun, Peter	-	1,000,000	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Hsu Hsung, Adolf, JP	-	1,000,000	1,000,000	2 October 2003	5 September 2003 to 4 September 2013	1.2000	1.170	N/A
Choi Pak Wing	-	1,000,000	1,000,000	2 October 2003	5 September 2003 to 4 September 2013	1.2000	1.170	N/A
Chan Bing Woon, SBS, JP	-	500,000	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Sung Yuen Lam	-	500,000	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	0.900	N/A
Shareholders								
In aggregate	-	3,500,000	3,500,000	28 July 2003	23 July 2003 to 22 July 2013	0.8440	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	0.8440	0.900	N/A
Other employees								
In aggregate	-	3,900,000	3,900,000	2 October 2003	5 September 2003 to 4 September 2013	1.2000	1.170	N/A
	-	25,900,000	25,900,000					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

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

At the balance sheet date, the Company had an aggregate of 32,980,000 share options outstanding under the Old and New Schemes. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 32,980,000 additional ordinary shares of the Company and additional share capital of HK\$3,298,000 and share premium of HK\$33,071,000 (before issue expenses).

NOTES TO FINANCIAL STATEMENTS

31 March 2004

33. RESERVES

Group

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	Enterprise expansion fund HK\$'000	Reserve fund HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2002:										
As previously reported		522,111	10,648	2,187	4,161	2,162	1,111	790	194,050	737,220
Prior year adjustments:										
SSAP 12 – restatement of deferred tax	40	–	–	–	(666)	–	–	–	(35,440)	(36,106)
As restated		522,111	10,648	2,187	3,495	2,162	1,111	790	158,610	701,114
Net profit for the year (restated)		–	–	–	–	–	–	–	17,374	17,374
Deferred tax charge due to changes in statutory tax rates	30	–	–	–	(62)	–	–	–	–	(62)
Transfer of reserves		–	–	–	–	1,164	2,316	–	(3,480)	–
Interim 2003 dividend	12	–	–	–	–	–	–	–	(3,939)	(3,939)
Proposed final 2003 dividend	12	–	–	–	–	–	–	–	(9,848)	(9,848)
Exchange realignment		–	–	–	–	–	–	(554)	–	(554)
At 31 March 2003		522,111	10,648	2,187	3,433	3,326	3,427	236	158,717	704,085
At 1 April 2003:										
As previously reported		522,111	10,648	2,187	4,161	3,326	3,427	236	201,373	747,469
Prior year adjustments:										
SSAP 12 – restatement of deferred tax	40	–	–	–	(728)	–	–	–	(42,656)	(43,384)
As restated		522,111	10,648	2,187	3,433	3,326	3,427	236	158,717	704,085
Net profit for the year		–	–	–	–	–	–	–	22,110	22,110
Transfer of reserves		–	–	–	–	515	1,441	–	(1,956)	–
Interim 2004 dividend	12	–	–	–	–	–	–	–	(3,939)	(3,939)
Proposed final 2004 dividend	12	–	–	–	–	–	–	–	(3,939)	(3,939)
Exchange realignment		–	–	–	–	–	–	442	–	442
At 31 March 2004		522,111	10,648	2,187	3,433	3,841	4,868	678	170,993	718,759
Reserves retained by:										
Company and subsidiaries		522,111	10,648	2,187	3,433	3,841	4,868	678	162,940	710,706
Jointly-controlled entities		–	–	–	–	–	–	–	8,053	8,053
At 31 March 2004		522,111	10,648	2,187	3,433	3,841	4,868	678	170,993	718,759
Company and subsidiaries (restated)		522,111	10,648	2,187	3,433	3,326	3,427	236	146,069	691,437
Jointly-controlled entities		–	–	–	–	–	–	–	12,648	12,648
At 31 March 2003		522,111	10,648	2,187	3,433	3,326	3,427	236	158,717	704,085

NOTES TO FINANCIAL STATEMENTS

31 March 2004

33. RESERVES (Continued)

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

In accordance with the accounting standards and regulations applicable in Mainland China and the joint venture agreements, the subsidiaries in Mainland China are required to transfer part of their net profit after tax to the enterprise expansion fund and the reserve fund, which is 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.

Company

	<i>Note</i>	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2002		522,111	70,770	(3,392)	589,489
Net profit for the year		–	–	11,591	11,591
Interim 2003 dividend	12	–	–	(3,939)	(3,939)
Proposed final 2003 dividend	12	–	–	(9,848)	(9,848)
At 31 March 2003 and 1 April 2003		522,111	70,770	(5,588)	587,293
Net profit for the year		–	–	13,348	13,348
Interim 2004 dividend	12	–	–	(3,939)	(3,939)
Proposed final 2004 dividend	12	–	–	(3,939)	(3,939)
At 31 March 2004		522,111	70,770	(118)	592,763

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

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is distributable to shareholders under certain circumstances.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Fixed assets	107,184	17,439
Intangible assets	–	18,800
Inventories	57	657
Trade receivables	21,342	516
Deposits and other debtors	25,441	871
Cash and bank balances	5,866	4,066
Trade payables	(19,637)	(1,188)
Other liabilities	(36,699)	(1,036)
Bank loans	(18,900)	(4,469)
Finance lease payables	(18,974)	–
Deferred tax liabilities	(6,987)	–
Minority interests	(1,086)	(12,399)
	57,607	23,257
Negative goodwill on acquisition	(8,158)	(3,419)
	49,449	19,838
Satisfied by:		
Cash	49,449	19,838

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

	2004 HK\$'000	2003 HK\$'000
Cash paid	(49,449)	(19,838)
Deposits paid in prior years	–	7,148
Cash and bank balances acquired	5,866	4,066
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(43,583)	(8,624)

In October 2003, the Group acquired the entire equity interest in the TIL Group. The TIL Group is engaged in the provision of bus and coach hire services. The purchase consideration of HK\$43,250,000 for the acquisition was in the form of cash. Since its acquisition, the TIL Group contributed HK\$92,399,586 to the Group's turnover and a net profit of HK\$15,407,615 to the consolidated net profit from ordinary activities for the year ended 31 March 2004.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

In November 2003, the Group acquired a 47.16% effective interest in Shanghai Public Transport Hubei Passenger Road Transport Services Company ("Shanghai PT") from a minority shareholder of a subsidiary. Shanghai PT is engaged in the operation of designated bus route services in Shanghai city in Mainland China. The purchase consideration of HK\$6,199,000 for the acquisition was in the form of cash. Since its acquisition, Shanghai PT contributed HK\$12,320,000 to the Group's turnover and a net loss of HK\$165,000 to the consolidated net profit from ordinary activities for the year ended 31 March 2004.

35. CONTINGENT LIABILITIES

The Company has given a guarantee amounting to HK\$479,000,000 (2003: HK\$379,640,000) in favour of a bank for facilities granted to its subsidiaries and a jointly-controlled entity.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 March 2004, the Group had total future minimum lease rental receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	3,927	4,352
In the second to fifth years, inclusive	4,218	6,182
After five years	988	–
	9,133	10,534

NOTES TO FINANCIAL STATEMENTS

31 March 2004

36. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

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

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	17,252	13,923
In the second to fifth years, inclusive	9,687	10,387
After five years	21,590	23,344
	48,529	47,654

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

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group and the Company had the following commitments at the balance sheet date:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Capital commitments in respect of acquisition of fixed assets:		
Contracted, but not provided for	108,001	67,151
Authorised, but not contracted for	–	30,516
	108,001	97,667

At the balance sheet date, the Company had no significant contingent liabilities.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

38. PLEDGE OF ASSETS

At 31 March 2004, the following assets of the Group were pledged in favour of banks as security for banking facilities granted:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fixed assets:		
Leasehold land and buildings, net book value	42,904	45,663
Hotel properties, net book value	57,085	57,731
Motor buses and vehicles, net book value	211,143	180,766
	311,132	284,160
Time deposits – <i>note 25</i>	1,536	50,860
	312,668	335,020

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

39. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Rental expenses paid to joint venturers	(i), (ii)	3,269	3,252
Interest income from jointly-controlled entities	(iii)	1,269	788
Refueling and bus washing charges paid to a related company	(iv)	6,223	–

Notes:

- (i) In 2002, Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. ("Wu Qi KC"), in which the Group has an effective equity interest of 52.4% (2003: 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 for a term of 2 years starting from 1 January 2002 at an annual rental of approximately HK\$2,446,000 (equivalent to approximately RMB2,602,000), which was determined between both parties by reference to the open market rentals at the time when the lease agreement was entered into. Wu Qi KC paid rental expenses amounting to approximately HK\$2,463,000 (equivalent to approximately RMB2,620,000) (2003: HK\$2,446,000 (equivalent to approximately RMB2,602,000)) to Shanghai Public Transport for the year.
- (ii) In 1999, Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. ("Chongqing KC No. 3"), in which the Group has an effective interest of 30.25% (2003: 30.25%), entered into agreements with Chongqing No. 3 Public Transport Company ("Chongqing Public Transport"), a minority shareholder of Chongqing KC No. 3, for the leasing of offices and bus depots for a term of 30 years starting from 1999 at an annual rental of approximately HK\$806,000 (equivalent to approximately RMB857,000), which were determined between both parties by reference to the open market rentals at the time when the lease agreements were entered into. Pursuant to the agreements, Chongqing KC No. 3 paid rental expenses amounting to approximately HK\$806,000 (equivalent to approximately RMB857,000) (2003: HK\$806,000 (equivalent to approximately RMB857,000)) to Chongqing Public Transport for the year.
- (iii) The loans to jointly-controlled entities are unsecured, bear interest at various rates ranging from 8% to 13% per annum and are repayable within periods from five to eight years in accordance with the respective loan agreements.
- (iv) On 13 June 2003, the Company entered into an agreement with New World First Bus Services Limited ("NWFB"), a fellow subsidiary of a shareholder of the Company, for the provision of refueling and bus washing services by NWFB to certain of the motor vehicles of the Group in Hong Kong.
- (v) Shanghai Public Transport has guaranteed certain bank loans made to the Group of up to HK\$47,000,000 (2003: HK\$35,700,000) as at 31 March 2004.

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

40. COMPARATIVE AMOUNTS AND PRIOR YEAR ADJUSTMENTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

Following the adoption of SSAP 12 (Revised), the deferred tax assets or liabilities were quantified and recognised retrospectively in periods prior to 1 April 2003. The effects of the adjustments to these consolidated financial statements are summarised as follows:

	Increase/(decrease)	
	As at 1 April 2003 HK\$'000	As at 1 April 2002 HK\$'000
Consolidated Balance Sheet		
Goodwill	3,465	–
Negative goodwill	(960)	–
Retained profits	(42,656)	(35,440)
Deferred tax liabilities, net	51,206	41,921
Minority interests	(3,397)	(5,815)
Fixed assets revaluation reserve	(728)	(666)
		Increase/(decrease) For the year ended 31 March 2003 HK\$'000
Consolidated Profit and Loss Account		
Other operating expenses		54
Deferred tax expenses, net		9,223
Minority interests, share of profit		(2,061)
Net profit attributable to shareholders		(7,216)

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 July 2004.