

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain buildings and derivative financial instruments which have been measured at fair value, as further explained in note 2.5. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. Adjustments are made to bring into line any dissimilar accounting practices that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities
	Amendment
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Except for HKASs 1, 16, 17, 21, 24, 32, 36 and 39, HKFRSs 2 and 3 as explained below, the adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly-controlled entities is presented net of the Group's share of tax attributable to associates and jointly-controlled entities.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKAS 16 – Property, Plant and Equipment**

HKAS 17 – Leases

In prior years, the Group's hotel properties were stated at cost less any impairment losses. No depreciation was provided on the hotel properties on the basis that they were maintained in such condition that their residual values were not diminished by the passage of time and that any element of depreciation was insignificant. Accordingly, the related repairs and maintenance costs were charged to the income statement in the period in which they were incurred and the costs of significant improvements were capitalised.

Upon the adoption of HKAS 16, the Group's leasehold interest in the hotel's land and buildings is stated at cost less accumulated depreciation and any impairment losses.

In prior years, leasehold land and buildings were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

The effect of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) *Equity securities*

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses.

Upon the adoption of HKAS 39, these securities held by the Group at 1 April 2005 in the amount of HK\$3,376,000 were designated as available-for-sale equity investments under the transitional provisions of HKAS 39 and, accordingly, are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment. When the fair value of these equity securities cannot be reliably measured, such securities are stated at cost less any impairment losses.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(ii) *Derivative financial instruments – Swap contracts*

Interest rate swaps are classified as held for trading and stated at fair value through profit or loss. Gains or losses on these derivative financial instruments held for trading are recognised in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(iii) *Interest-free loan*

In prior years, an interest-free loan was stated at cost in the financial statements. Upon the adoption of HKAS 39, the interest-free loan is initially recognised at fair value less attributable transaction costs. Subsequent to the initial recognition, the accrued interest expenses are measured at amortised cost, using the effective interest rate method.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 April 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 March 2005 but had not yet vested as at 1 April 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 March 2005 and 2006.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated reserves and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets *(continued)*

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

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 April 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the consolidated reserves remains eliminated against the consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

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

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 and HKFRS 4 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the amendments of HKAS 39 regarding financial guarantee contracts will result in the recognition of a financial liability in the Company's balance sheet in respect of corporate guarantees given by the Company in connection with the banking facilities granted to its subsidiaries in the year of initial application.

HKAS 19 Amendment, HKAS 39 Amendments regarding cash flow hedge accounting of forecast intragroup transactions and fair value option, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6, HK(IFRIC)-Int 7, HK(IFRIC)-Int 8 and HK(IFRIC)-Int 9 shall be applied for annual periods beginning on or after 1 December 2005, 1 March 2006, 1 May 2006 and 1 June 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 April 2005	Effect of adopting						Total HK\$'000
	HKAS 16#	HKAS 17#	HKASs 32# & 39*	HKAS 39*	HKAS 39*	HKFRS 3*	
Effect of new policies (Increase/(decrease))	Property, plant and equipment and hotel building HK\$'000	Prepaid land lease payments HK\$'000	Change in classification of equity investments HK\$'000	Derivative financial instruments HK\$'000	Interest-free loan HK\$'000	Derecognition of negative goodwill HK\$'000	
Assets							
Property, plant and equipment	(7,016)	(112,251)	-	-	-	-	(119,267)
Prepaid land lease payments	-	107,965	-	-	-	-	107,965
Negative goodwill	-	-	-	-	-	10,085	10,085
Derivative financial instruments	-	-	-	818	-	-	818
Available-for-sale equity investments	-	-	3,376	-	-	-	3,376
Long term investments	-	-	(3,376)	-	-	-	(3,376)
Prepayments, deposits and other receivables	-	4,169	-	-	-	-	4,169
							3,770
Liabilities/equity							
Derivative financial instruments	-	-	-	1,010	-	-	1,010
Deferred tax liabilities	-	(1,023)	-	-	-	-	(1,023)
Due to joint venturers	-	-	-	-	(6,084)	-	(6,084)
Asset revaluation reserve	-	(795)	-	-	-	-	(795)
Capital reserve	-	-	-	-	-	(4,042)	(4,042)
Retained profits	(4,210)	1,701	-	(192)	3,188	14,127	14,614
Minority interests	(2,806)	-	-	-	2,896	-	90
							3,770

* Adjustments taken effect prospectively from 1 April 2005

Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect on the consolidated balance sheet (continued)

At 31 March 2006	HKAS 16	HKAS 17	Effect of adopting			HKAS 39	HKFRS 3	Total
			HKASs 32 & 39	HKAS 39	HKAS 39			
	Property, plant and equipment and hotel building	Prepaid land lease payments	Change in classification of equity investments	Derivative financial instruments	Interest-free loan	Discontinuation of amortisation of goodwill /Derecognition of negative goodwill		
Effect of new policies (Increase/(decrease))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Property, plant and equipment	(8,916)	(103,551)	-	-	-	-	-	(112,467)
Prepaid land lease payments	-	100,766	-	-	-	-	-	100,766
Goodwill/negative goodwill	-	-	-	-	-	10,929	-	10,929
Derivative financial instruments	-	-	-	1,790	-	-	-	1,790
Available-for-sale equity investments	-	-	3,448	-	-	-	-	3,448
Long term investments	-	-	(3,448)	-	-	-	-	(3,448)
Prepayments, deposits and other receivables	-	4,130	-	-	-	-	-	4,130
								5,148
Liabilities/equity								
Due to joint venturers	-	-	-	-	(5,430)	-	-	(5,430)
Deferred tax liabilities	-	(1,023)	-	-	-	-	-	(1,023)
Asset revaluation reserve	-	(795)	-	-	-	-	-	(795)
Exchange equalisation reserve	(159)	1,925	-	-	(17)	-	-	1,749
Capital reserve	-	-	-	-	-	(4,042)	-	(4,042)
Retained profits	(5,255)	1,238	-	1,790	2,854	14,971	-	15,598
Minority interests	(3,502)	-	-	-	2,593	-	-	(909)
								5,148

Notes to Financial Statements

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) Effect on the balances of equity at 1 April 2004 and at 1 April 2005

	Effect of adopting					Total HK\$'000
	HKAS 16 Property, plant and equipment and hotel building HK\$'000	HKAS 17 Prepaid land lease payments HK\$'000	HKAS 39 Derivative financial instruments HK\$'000	HKAS 39 Interest-free loan HK\$'000	HKFRS 3 Derecognition of negative goodwill HK\$'000	
Effect of new policies (Increase/(decrease))						
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At 1 April 2004						
Asset revaluation reserve	-	(795)	-	-	-	(795)
Retained profits	(3,200)	1,729	-	-	-	(1,471)
Minority interests	(2,132)	-	-	-	-	(2,132)
						(4,398)
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At 1 April 2005						
Asset revaluation reserve	-	(795)	-	-	-	(795)
Capital reserve	-	-	-	-	(4,042)	(4,042)
Retained profits	(4,210)	1,701	(192)	3,188	14,127	14,614
Minority interests	(2,806)	-	-	2,896	-	90
						9,867
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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Effect on the consolidated income statement for the years ended 31 March 2006 and 2005

	Effect of adopting					Total HK\$'000
	HKAS 16	HKAS 17 Recognition of prepaid land lease payments /Depreciation of buildings	HKAS 39 Derivative financial instruments	HKAS 39 Interest-free loan	HKFRS 3 Discontinuation of amortisation of goodwill /Derecognition of negative goodwill	
Effect of new policies (Increase/(decrease))	Depreciation of hotel building HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 March 2006						
Increase in fair value gain on derivative financial instruments	-	-	1,982	-	-	1,982
Increase in depreciation of hotel building	(1,741)	-	-	-	-	(1,741)
Increase in recognition of prepaid land lease payments	-	(4,171)	-	-	-	(4,171)
Decrease in depreciation of buildings	-	3,708	-	-	-	3,708
Decrease in other operating expenses	-	-	-	-	844	844
Increase in finance costs	-	-	-	(637)	-	(637)
Total increase/(decrease) in profit	(1,741)	(463)	1,982	(637)	844	(15)
Increase/(decrease) in basic earnings per share (cents)	(0.44)	(0.12)	0.50	(0.16)	0.21	(0.00)
Increase/(decrease) in diluted earnings per share (cents)	(0.43)	(0.11)	0.49	(0.16)	0.21	(0.00)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*(c) Effect on the consolidated income statement for the years ended 31 March 2006 and 2005 *(continued)*

Effect of new policies (Increase/(decrease))	Effect of adopting		Total HK\$'000
	HKAS 16 Depreciation of hotel building HK\$'000	HKAS 17 Recognition of prepaid land lease payments/ Depreciation of buildings HK\$'000	
Year ended 31 March 2005			
Increase in recognition of prepaid land lease payments	-	(3,203)	(3,203)
Increase in depreciation of hotel building	(1,684)	-	(1,684)
Decrease in depreciation of buildings	-	3,215	3,215
Decrease in deferred tax	-	(40)	(40)
Total decrease in profit	(1,684)	(28)	(1,712)
Decrease in basic earnings per share (cents)	(0.43)	(0.01)	(0.43)
Decrease in diluted earnings per share (cents)	(0.42)	(0.01)	(0.42)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

- (i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (ii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (iv) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly-controlled entities *(continued)*

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

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

Associates

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

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

Goodwill

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

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

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

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

Goodwill previously eliminated against the consolidated reserves

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

Excess over the cost of business combinations (Applicable to business combinations for which the agreement date is on or after 1 January 2005)

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

The excess for the associates and jointly-controlled entities is included in the Group's share of the associates' and jointly-controlled entities' profit or loss in the period in which the investments are acquired.

Impairment of assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

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

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

Property, plant and equipment and depreciation

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

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 property, plant and equipment when completed and ready for use.

Investment properties

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

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

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

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

Intangible assets (other than goodwill)

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

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

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

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

Leases

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

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

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

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

Properties held for sale

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

Inventories

Inventories 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.

Investments and other financial assets

Applicable to the year ended 31 March 2005:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as long term investments.

Long term investments

Long term investments were non-trading investments in unlisted equity securities intended to be held on a long term basis and were stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 March 2006:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale equity investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale equity investments

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

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

Fair value

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (Applicable to the year ended 31 March 2006)

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

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

Available-for sale financial assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (Applicable to the year ended 31 March 2006)

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

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

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

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

Derecognition of financial liabilities (Applicable to the year ended 31 March 2006)

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

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

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

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

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.

2.5 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) advertising income, on a time proportion basis over the terms of underlying contracts;
- (v) from the sale of electricity, on the consumption by meter reading;
- (vi) rental income, on a time proportion basis over the lease terms; and
- (vii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Foreign currencies

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

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

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

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

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

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

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

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees after 7 November 2002 that had not vested before 1 April 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension schemes

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

Dividends

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

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

Related parties

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

- (a) directly or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

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

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

Impairment of assets

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

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

Estimation uncertainty

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

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

The Group determines whether the intangible assets with indefinite lives or goodwill are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible assets with indefinite lives or the goodwill are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of intangible assets with indefinite lives and goodwill as at 31 March 2006 were HK\$7,433,000 (2005: Nil) and HK\$16,378,000 (2005: HK\$19,759,000), respectively. Details of the impairment test are set out in note 18 to the financial statements.

(ii) Estimation of the fair value of investment properties

The best evidence of fair value is the current prices in an active market for similar lease terms and other contracts. In the absence of such information, the Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) the current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) the recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

(iii) Fair value of derivative financial instruments

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

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

Estimation uncertainty *(continued)*

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

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

(v) *Impairment allowances on loans and receivables*

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

4. SEGMENT INFORMATION

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

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

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

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

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

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4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2006 and 2005.

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

4. SEGMENT INFORMATION *(continued)*(a) Business segments *(continued)*

Group

	2005							Consolidated HK\$'000 (Restated)
	Designated bus routes HK\$'000	Non-franchised bus HK\$'000	Franchised bus HK\$'000	Tour HK\$'000	Hotel HK\$'000	Corporate and others HK\$'000	Intersegment eliminations HK\$'000	
	Segment revenue:							
External sales	725,113	629,184	82,068	68,963	22,962	35,857	-	1,564,147
Intersegment sales	-	13,045	1,314	-	-	-	(14,359)	-
Other revenue	21,931	14,608	441	2,011	1,689	5,461	(2,408)	43,733
Total	747,044	656,837	83,823	70,974	24,651	41,318	(16,767)	1,607,880
Segment results	12,722	56,337	5,574	(1,330)	7,137	1,176	-	81,616
Bank interest income								1,087
Finance costs								(14,180)
Share of profits and losses of jointly- controlled entities	(4,442)	-	-	-	-	-	-	(4,442)
Profit before tax								64,801
Tax								(14,780)
Profit for the year								49,301

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4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

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

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	2005							Consolidated HK\$'000 (Restated)
	Designated bus routes HK\$'000	Non-franchised bus HK\$'000	Franchised bus HK\$'000	Tour HK\$'000	Hotel HK\$'000	Corporate and others HK\$'000	Intersegment eliminations HK\$'000	
	Segment assets	1,097,692	702,850	75,612	34,304	87,103	22,504	
Interests in associates	10,941	-	-	-	-	-	-	10,941
Interests in jointly- controlled entities	137,079	-	-	-	-	-	-	137,079
Unallocated assets								21,659
Total assets								2,189,744
Segment liabilities	294,495	70,548	5,971	13,786	5,297	6,719	-	396,816
Unallocated liabilities								765,014
Total liabilities								1,161,830
Other segment information:								
Capital expenditure	299,324	153,062	7,351	423	968	2,540	-	463,668
Amortisation	2,741	267	-	-	-	483	-	3,491
Recognition of prepaid land lease payments	2,293	407	17	62	424	-	-	3,203
Depreciation	100,967	70,427	8,537	1,132	2,641	2,322	-	186,026
Negative goodwill recognised as income during the year	(632)	(753)	-	-	-	-	-	(1,385)
Loss on disposal of items of property, plant and equipment, net	6,116	5,084	166	109	428	-	-	11,903

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4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

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

Group

	Hong Kong HK\$'000	2006	
		Mainland China HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	897,258	933,879	1,831,137
Other segment information:			
Segment assets	860,456	1,276,331	2,136,787
Interests in associates	–	53,964	53,964
Interests in jointly-controlled entities	–	105,694	105,694
Total assets	860,456	1,435,989	2,296,445
Capital expenditure	169,605	162,464	332,069
	Hong Kong HK\$'000	2005	
		Mainland China HK\$'000	Total HK\$'000 (Restated)
Segment revenue:			
Sales to external customers	740,264	823,883	1,564,147
Other segment information:			
Segment assets	785,031	1,256,693	2,041,724
Interests in associates	–	10,941	10,941
Interests in jointly-controlled entities	–	137,079	137,079
Total assets	785,031	1,404,713	2,189,744
Capital expenditure	157,229	306,439	463,668

5. REVENUE, OTHER INCOME AND GAINS

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

Revenue from the following activities has been included in turnover:

	Group	
	2006 HK\$'000	2005 HK\$'000
Revenue		
Provision of designated bus route services	803,662	725,113
Provision of non-franchised bus services	758,999	629,184
Provision of franchised bus services	79,849	82,068
Provision of tour services	97,157	68,963
Provision of hotel services	22,915	22,962
Provision of other transportation services	68,028	34,841
Power generation	527	1,016
	1,831,137	1,564,147
Other income		
Bank interest income	1,426	1,087
Other interest income	755	127
Gross rental income	10,085	9,651
Advertising income	10,112	9,457
Government subsidies (note (i))	1,125	9,439
Others	15,662	9,198
	39,165	38,959
Gains		
Realised gains on interest rate swaps	6,824	–
Foreign exchange differences, net	185	–
Fair value gains on investment properties	2,819	–
Gain on waived bank loans and related interest (note (ii))	–	3,925
Gain on disposal of properties held for sale	–	510
Gain on disposal of short term investments	–	41
Negative goodwill recognised as income during the year	–	1,385
	9,828	5,861
	48,993	44,820

Notes to Financial Statements

31 March 2006

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

Notes:

- (i) Various government subsidies have been received by certain subsidiaries which operate in Mainland China in connection with the losses incurred by these subsidiaries. There are no unfulfilled conditions or contingencies relating to these subsidies.
- (ii) During the year ended 31 March 2005, the Group entered into a debt repayment arrangement with two of its bankers to settle the outstanding bank loans and related interest with an aggregate amount of approximately HK\$19,242,000 by cash payment of approximately HK\$15,317,000, resulting in a gain on the waive of bank loans and related interest of HK\$3,925,000.

6. FINANCE COSTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	32,810	14,180
Finance leases	150	–
Imputed interest on an amount due to a joint venturer	637	–
	33,597	14,180

7. PROFIT BEFORE TAX

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

	Group	
	2006 HK\$'000	2005 HK\$'000 (Restated)
Depreciation <i>(note (i))</i>	199,146	186,026
Amortisation of intangible assets <i>(note (ii))</i>	1,206	2,251
Recognition of prepaid land lease payments	4,171	3,203
Auditors' remuneration	1,880	1,680
Goodwill <i>(note (ii))</i>		
Amortisation for the year	–	1,240
Impairment arising during the year	2,381	–
	2,381	1,240
Employee benefits expense <i>(note (i))</i> (including directors' remuneration – <i>note (8)</i>):		
Wages and salaries	598,541	530,044
Other welfare benefits	20,450	14,407
Pension scheme contributions	15,393	16,685
Less: Forfeited contributions <i>(note (iii))</i>	–	–
Net pension scheme contributions	15,393	16,685
	634,384	561,136
Minimum lease payments under operating leases <i>(note (i))</i> :		
Land and buildings	10,395	10,034
Bus depots, terminals and car parks	36,062	27,156
Motor buses and coaches	50,676	39,235
	97,133	76,425

Notes to Financial Statements

31 March 2006

7. PROFIT BEFORE TAX *(continued)*

	Group	
	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Gross rental income	(10,085)	(9,651)
Direct operating expenses (including repairs and maintenance arising on rental-earning investment properties)	83	–
Net rental income	(10,002)	(9,651)
Impairment of items of property, plant and equipment	1,289	–
Impairment of prepaid land lease payments	384	–
Loss on disposal of items of property, plant and equipment, net	40,823	11,903
Fair value losses on interest rate swaps, net	518	–
Foreign exchange differences, net	(185)	157

Notes:

- (i) The cost of services rendered for the year amounted to HK\$1,540,915,000 (2005: HK\$1,302,204,000 (restated)) and included depreciation charges of HK\$176,553,000 (2005: HK\$164,845,000 (restated)), operating lease rentals of HK\$87,087,000 (2005: HK\$67,141,000) and employee benefits expense of HK\$511,187,000 (2005: HK\$458,045,000).
- (ii) The amortisation and impairment, where appropriate, of intangible assets and goodwill were included in "Other operating expenses" on the face of the consolidated income statement.
- (iii) As at 31 March 2006, there were no material forfeited contributions available to the Group to reduce its contributions to the pension schemes in future years.

8. DIRECTORS' REMUNERATION

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Fees	210	185
Other emoluments:		
Salaries and other benefits	14,137	12,865
Pension scheme contributions	1,131	1,013
	15,268	13,878
	15,478	14,063

(a) Independent non-executive directors

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

	2006	2005
	HK\$'000	HK\$'000
Chan Bing Woon	80	80
Sung Yuen Lam	80	80
Lee Kwong Yin, Colin	50	25
	210	185

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

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8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors

	Fees HK\$'000	Salaries and other benefits HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2006				
Wong Chung Pak, Thomas	–	2,888	229	3,117
Wong Wing Pak	–	2,888	229	3,117
Wong Leung Pak, Matthew	–	2,888	229	3,117
Tsang Wing Hang	–	–	–	–
Lee Yin Ching, Stanley	–	955	91	1,046
Lo Kin Wai	–	704	48	752
Cheng King Hoi, Andrew	–	1,193	114	1,307
Ng King Yee	–	630	60	690
Chan Yu Kwong, Francis	–	1,192	80	1,272
Mok Wah Fun, Peter	–	799	51	850
Lam Sze Hoo, Christopher	–	–	–	–
Cheng Wai Po, Sammel	–	–	–	–
	–	14,137	1,131	15,268
2005				
Wong Chung Pak, Thomas	–	2,615	213	2,828
Wong Wing Pak	–	2,735	213	2,948
Wong Leung Pak, Matthew	–	2,615	213	2,828
Tsang Wing Hang	–	–	–	–
Lee Yin Ching, Stanley	–	898	60	958
Lo Kin Wai	–	689	48	737
Cheng King Hoi, Andrew	–	925	90	1,015
Ng King Yee	–	594	56	650
Chan Yu Kwong, Francis	–	1,078	72	1,150
Mok Wah Fun, Peter	–	716	48	764
Lam Sze Hoo, Christopher	–	–	–	–
Cheng Wai Po, Sammel	–	–	–	–
Choi Pak Wing	–	–	–	–
	–	12,865	1,013	13,878

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

Details of share options granted to the directors are set out in note 37 to the financial statements.

9. FIVE HIGHEST PAID INDIVIDUALS

All of the five highest paid individuals of the Group during each of the two years ended 31 March 2006 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% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006 HK\$'000	2005 HK\$'000 (Restated)
Current:		
Hong Kong	830	797
Elsewhere	7,315	6,770
Deferred (<i>note 35</i>)	(469)	7,213
Tax charge for the year	7,676	14,780

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

Group – 2006

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	30,886		(20,292)		10,594	
Tax at the statutory tax rate	5,405	17.5	(6,696)	(33.0)	(1,291)	(12.2)
Profits and losses attributable to jointly-controlled entities and associates	–		2,277		2,277	
Income not subject to tax	(4,365)		(520)		(4,885)	
Expenses not deductible for tax	9,194		3,579		12,773	
Tax losses utilised from previous periods	–		(1,198)		(1,198)	
Tax charge/(credit) at the Group's effective rate	10,234	33.1	(2,558)	(12.6)	7,676	72.5

Notes to Financial Statements

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10. TAX (continued)

Group – 2005

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000 (Restated)	%
Profit before tax	54,843		9,238		64,081	
Tax at the statutory tax rate	9,598	17.5	3,049	33.0	12,647	19.7
Profits and losses attributable to						
jointly-controlled entities	–		1,466		1,466	
Income not subject to tax	(1,501)		(2,237)		(3,738)	
Expenses not deductible for tax	4,106		657		4,763	
Tax losses utilised from						
previous periods	(324)		(231)		(555)	
Tax losses not recognised	197		–		197	
Tax charge at the Group's						
effective rate	12,076	22.0	2,704	29.3	14,780	23.1

The share of tax charge attributable to associates amounting to HK\$720,000 (2005: Nil) and the share of tax credit attributable to jointly-controlled entities amounting to HK\$298,000 (2005: Nil), are included in "Share of profits and losses of associates and jointly-controlled entities" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The profit attributable to equity holders of the parent for the year ended 31 March 2006 dealt with in the financial statements of the Company was HK\$5,557,000 (2005: HK\$9,559,000) (note 38(b)).

12. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim:		
Nil (2005: HK1.5 cents) per ordinary share	–	5,909
Proposed final:		
Nil (2005: HK1.5 cents) per ordinary share	–	5,924
	–	11,833

13. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK\$256,000 (2005: HK\$44,757,000 (restated)), and the weighted average number of 394,906,000 (2005: 393,996,959) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK\$256,000 (2005: HK\$44,757,000 (restated)), and the weighted average number of 394,906,000 (2005: 393,996,959) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average number of 9,256,464 (2005: 6,166,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

31 March 2005	Note	Land use rights HK\$'000	Buildings HK\$'000	Hotel building HK\$'000	Bus terminal structure HK\$'000	Garage improvements HK\$'000	Motor buses and vehicles HK\$'000	Power plant HK\$'000	Furniture, fixtures and office machinery HK\$'000	Equipment and tools HK\$'000	Construction in progress HK\$'000	Total HK\$'000 (Restated)
At cost or valuation:												
At beginning of year												
(as restated)		-	68,548	57,469	2,380	8,934	1,528,482	2,543	45,597	32,730	16,499	1,763,182
Additions		-	2,265	-	210	4,125	324,796	-	13,537	6,770	6,026	357,729
Reclassification		-	304	10,684	-	64	-	-	3,224	361	(14,637)	-
Disposals		-	-	(58)	-	(26)	(137,929)	-	(5,116)	(1,613)	-	(144,742)
Acquisition of subsidiaries												
	39(b)	-	24,385	-	-	-	16,308	-	1,432	-	84	42,209
At 31 March 2005												
(as restated)		-	95,502	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	2,018,378
Accumulated depreciation:												
At beginning of year												
(as restated)		-	15,647	5,332	1,777	6,134	478,134	1,017	26,615	14,796	-	549,452
Provided during the year												
(as restated)		-	3,562	1,684	170	805	169,620	262	5,173	4,750	-	186,026
Disposals		-	-	-	-	(26)	(114,503)	-	(4,634)	(754)	-	(119,917)
At 31 March 2005												
(as restated)		-	19,209	7,016	1,947	6,913	533,251	1,279	27,154	18,792	-	615,561
Net book value:												
At 31 March 2005												
(as restated)		-	76,293	61,079	643	6,184	1,198,406	1,264	31,520	19,456	7,972	1,402,817

Notes to Financial Statements

31 March 2006

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

Analysis of cost and valuation:

	Land use rights HK\$'000	Buildings HK\$'000	Hotel building HK\$'000	Bus terminal structure HK\$'000	Garage improvements HK\$'000	Motor buses and vehicles HK\$'000	Power plants HK\$'000	Furniture, and office fixtures machinery HK\$'000	Equipment and tools HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 March 2006											
Analysis of cost and valuation:											
At cost	-	64,301	70,643	2,688	13,321	1,893,973	2,638	58,177	45,114	9,446	2,160,301
At 30 June 1996 professional valuation	-	31,659	-	-	-	-	-	-	-	-	31,659
	-	95,960	70,643	2,688	13,321	1,893,973	2,638	58,177	45,114	9,446	2,191,960
31 March 2005											
Analysis of cost and valuation:											
At cost (Restated)	-	63,843	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	1,986,719
At 30 June 1996 professional valuation (Restated)	-	31,659	-	-	-	-	-	-	-	-	31,659
	-	95,502	68,095	2,590	13,097	1,731,657	2,543	58,674	38,248	7,972	2,018,378

Certain of the Group's leasehold buildings situated in Hong Kong were revalued at 30 June 1996 by C.Y. Leung & Company Limited (currently known as DTZ Debenham Tie Leung Limited), a firm of independent professionally qualified valuers, on an open market value, existing use basis. In the opinion of the directors, the fair values of the leasehold buildings were approximately the same as the carrying values of the respective assets at 31 March 2006.

Had all the leasehold buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$73,694,000 (2005: HK\$75,859,000 (restated)) as at 31 March 2006.

Certain of the Group's property, plant and equipment of HK\$106,254,000 (2005: HK\$17,290,000 (restated)), were pledged to secure banking facilities granted to the Group as set out in note 31 to the financial statements.

Certain of the Group's shop units in the hotel building and certain of the Group's motor buses and vehicles are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

Certain of the Group's motor buses and vehicles with an aggregate net book value of HK\$50,878,000 (2005: Nil) were held under finance leases as set out in note 32 to the financial statements.

15. INVESTMENT PROPERTIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Carrying amount at 1 April	–	–
Transfer from prepaid land lease payments (<i>note 16</i>)	4,608	–
Transfer from owner-occupied properties (<i>note 14</i>)	1,603	–
Net profit from a fair value adjustment	2,819	–
Carrying amount at 31 March	9,030	–

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

The Group's investment properties were revalued on 31 March 2006 by Midland Surveyors Limited, independent professionally qualified valuers, at HK\$9,030,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

At 31 March 2006, the Group's investment properties with a carrying value of HK\$8,030,000 (2005: Nil) were pledged to secure general banking facilities granted to the Group (note 31).

Further particulars of the Group's investment properties are included on page 137.

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16. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK\$'000	HK\$'000 (Restated)
Carrying amount at 1 April:		
As previously reported	–	–
Effect of adopting HKAS 17 <i>(note 2.2(a))</i>	112,134	84,387
As restated	112,134	84,387
Additions	–	7,326
Acquisition of subsidiaries <i>(note 39(b))</i>	–	39,310
Transfer to properties held for sale <i>(note 23)</i>	–	(15,686)
Impairment	(384)	–
Transfer to investment properties <i>(note 15)</i>	(4,608)	–
Recognised during the year	(4,171)	(3,203)
Exchange realignment	1,925	–
Carrying amount at 31 March	104,896	112,134
Current portion included in prepayments, deposits and other receivables <i>(note 26)</i>	(4,130)	(4,169)
Non-current portion	100,766	107,965

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

Certain of the Group's leasehold land of HK\$68,614,000 (2005: HK\$68,621,000 (restated)) were pledged to secure banking facilities granted to the Group as set out in note 31 to the financial statements.

17. INTANGIBLE ASSETS

Group	Taxi operating rights HK\$'000	Passenger service licenses HK\$'000	Bus route operating rights HK\$'000	Advertising rights HK\$'000	Total HK\$'000
31 March 2006					
Cost at 1 April 2005, net of accumulated amortisation	4,101	-	11,576	6,392	22,069
Additions	-	7,433	-	-	7,433
Amortisation provided during the year	(255)	-	(684)	(267)	(1,206)
Exchange realignment	66	-	180	136	382
At 31 March 2006	3,912	7,433	11,072	6,261	28,678
At 31 March 2006:					
Cost	5,208	7,433	16,116	8,015	36,772
Accumulated amortisation	(1,296)	-	(5,044)	(1,754)	(8,094)
Net carrying amount	3,912	7,433	11,072	6,261	28,678
31 March 2005					
At 1 April 2004:					
Cost	5,100	-	15,780	7,848	28,728
Accumulated amortisation	(744)	-	(2,470)	(1,194)	(4,408)
Net carrying amount	4,356	-	13,310	6,654	24,320
Cost at 1 April 2004, net of accumulated amortisation	4,356	-	13,310	6,654	24,320
Amortisation provided during the year	(255)	-	(1,734)	(262)	(2,251)
At 31 March 2005	4,101	-	11,576	6,392	22,069
At 31 March 2005:					
Cost	5,100	-	15,780	7,848	28,728
Accumulated amortisation	(999)	-	(4,204)	(1,456)	(6,659)
Net carrying amount	4,101	-	11,576	6,392	22,069

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17. INTANGIBLE ASSETS *(continued)*

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

18. GOODWILL/NEGATIVE GOODWILL

Group

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
31 March 2006			
At 1 April 2005:			
Cost as previously reported	21,538	(12,790)	8,748
Effect of adopting HKFRS 3 <i>(note 2.2(d))</i>	(1,779)	12,790	11,011
Cost as restated	19,759	–	19,759
Accumulated amortisation as previously reported	(1,779)	2,705	926
Effect of adopting HKFRS 3 <i>(note 2.2(d))</i>	1,779	(2,705)	(926)
Accumulated amortisation as restated	–	–	–
Net carrying amount	19,759	–	19,759
Cost at 1 April 2005	19,759	–	19,759
Adjustment <i>(note)</i>	(1,000)	–	(1,000)
Impairment during the year	(2,381)	–	(2,381)
Cost and carrying amount at 31 March 2006	16,378	–	16,378
At 31 March 2006:			
Cost	18,759	–	18,759
Accumulated impairment	(2,381)	–	(2,381)
Net carrying amount	16,378	–	16,378

18. GOODWILL/NEGATIVE GOODWILL *(continued)*

Group	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At 1 April 2004:			
Cost	7,355	(12,790)	(5,435)
Accumulated amortisation	(539)	1,320	781
Net carrying amount	6,816	(11,470)	(4,654)
Cost at 1 April 2004, net of accumulated amortisation	6,816	(11,470)	(4,654)
Acquisition of subsidiaries <i>(note 39 (b))</i>	7,183	–	7,183
Addition arose from the reclassification of a jointly-controlled entity to a subsidiary during the year	7,000	–	7,000
Amortisation provided/(recognised as income) during the year	(1,240)	1,385	145
At 31 March 2005	19,759	(10,085)	9,674
At 31 March 2005:			
Cost	21,538	(12,790)	8,748
Accumulated amortisation	(1,779)	2,705	926
Net carrying amount	19,759	(10,085)	9,674

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

As further detailed in note 2.2 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

18. GOODWILL/NEGATIVE GOODWILL *(continued)*

The amounts of goodwill and negative goodwill remaining in the consolidated reserves or credited to the capital reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, were HK\$1,855,000 and HK\$4,042,000, respectively, as at 31 March 2005. Upon the adoption of HKFRS 3 on 1 April 2005, such negative goodwill of HK\$4,042,000 was derecognised with a corresponding adjustment to the opening balance of retained profits. The amount of goodwill is stated at its cost of HK\$1,855,000 which arose in prior years.

Impairment testing of goodwill and intangible assets with indefinite lives

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

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

The recoverable amount of the designated bus cash-generating and non-franchised bus cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering an eight-year period, which approximate the average useful lives of motor buses and vehicles. The discount rate applied to cash flow projections is 5.8% (2005: 5.5%). This rate does not exceed the average long-term growth rate for the relevant markets.

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

	Designated bus		Non-franchised bus		Total	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amount of goodwill	10,645	13,026	5,733	6,733	16,378	19,759
Carrying amount of intangible assets with indefinite lives	–	–	7,433	–	7,433	–

Key assumptions were used in the value in use calculation of the designated bus and non-franchised bus cash-generating units for the years ended 31 March 2006 and 31 March 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and passenger service licences:

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

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

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

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	71,070	71,070
Due from subsidiaries	565,150	565,521
	636,220	636,591

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

Particulars of the principal subsidiaries 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
				2006	2005	
Kwoon Chung Buses Investment Limited	British Virgin Islands/ Hong Kong	2 January 1996	Ordinary US\$6,000	100	100	Investment holding
Chongqing Everbright International Travel Co., Ltd. **	Mainland China	11 January 2000	RMB5,000,000	60	60	Tour operations
Chongqing Grand Hotel Co., Ltd. **	Mainland China	13 October 1986	RMB35,000,000	60	60	Hotel operations
Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd. **	Mainland China	14 March 2000	RMB62,672,087	42.15*	42.15*	Provision of bus and travel-related services
Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. **	Mainland China	23 December 1998	RMB90,000,000	30.25*	30.25*	Provision of bus and travel-related services
Chongqing Pengshui Dongguaxi Hydropower Station Co., Ltd. **	Mainland China	16 June 1998	RMB4,000,000	60	60	Power generation
Chongqing Tourism Coach Co., Ltd. **	Mainland China	17 October 2000	RMB8,000,000	60	60	Provision of coach hire services

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19. 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
				2006	2005	
Chongqing Tourism (Group) Co., Ltd. **	Mainland China	6 May 1998	RMB56,600,000	60	60	Investment holding
Gallic Limited	Hong Kong	3 April 1990	Ordinary HK\$900	100	100	Property holding
Good Funds Services Limited	Hong Kong	6 November 1984	Ordinary HK\$75 Non-voting deferred HK\$500,025	100	100	Provision of coach hire and travel-related services
Guangzhou New Era Express Bus Co., Ltd.**	Mainland China	12 February 1993	RMB21,335,600	56	56	Provision of bus and travel- related services
HK Kwoon Chung (Anshan) Bus Investment Limited	Hong Kong	25 June 1997	Ordinary HK\$2	100	100	Investment holding
HK Kwoon Chung (Chongqing) Bus Investment Limited	Hong Kong	21 January 1998	Ordinary HK\$46,261,682	55	55	Investment holding
HK Kwoon Chung (Dalian) Bus Investment Limited	Hong Kong	19 August 1983	Ordinary HK\$1,000	100	100	Investment holding
HK Kwoon Chung (Harbin) Bus Investment Limited	Hong Kong	19 September 1996	Ordinary HK\$2	100	100	Investment holding
HK Kwoon Chung (Hubei) Bus Investment Company Limited	Hong Kong	23 August 1999	Ordinary HK\$2	100	100	Investment holding
HK Kwoon Chung (Jieyang) Bus Investment Limited	Hong Kong	17 September 1996	Ordinary HK\$2	100	100	Investment holding
Hubei Shenzhou Transport Holdings Co., Ltd.****	Mainland China	22 October 2001	RMB131,843,807	100	100	Provision of bus and travel- related services
King Chau Keung Tat Transportation Co., Ltd. **	Mainland China	13 November 1993	RMB15,243,640	84.27	84.27	Provision of bus and travel- related services
HK Kwoon Chung Tourism Development Company Limited	Hong Kong	16 November 2005	Ordinary HK\$1	100	-	Provision of travel-related services

19. 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
				2006	2005	
Kwoon Chung Motors Company, Limited	Hong Kong	15 May 1979	Ordinary HK\$200 Non-voting deferred HK\$10,000,000	100	100	Provision of bus, coach hire and travel-related services
Kwoon Chung Travel Company Limited	Hong Kong	7 March 1996	Ordinary HK\$2	100	100	Investment holding
Kwoon Chung (China) Development Company Limited	Hong Kong	12 September 1991	Ordinary HK\$1,000,000	100	100	Investment holding
Jieyang Guanyun Transportation Company Limited **	Mainland China	24 June 1997	RMB22,891,755	60.63	60.63	Provision of bus and travel-related services
Lantau Tours Limited	Hong Kong	14 March 1972	Ordinary HK\$500,000	100	100	Provision of coach hire and tour services
New Lantao Bus Company (1973) Limited	Hong Kong	11 May 1973	Ordinary HK\$14,116,665	99.99	99.99	Provision of bus and travel-related services
Shanghai Pudong Kwoon Chung Public Transport Co., Ltd. **	Mainland China	3 June 1992	RMB100,000,000	90	90	Provision of bus and travel-related services
Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. **	Mainland China	16 June 1998	RMB120,000,000	52.4	52.4	Provision of bus and travel-related services
Tai Fung Coach Company Limited	Hong Kong	15 May 1981	Ordinary HK\$1,000,000	100	100	Provision of coach hire and travel-related services
Trade Travel (Hong Kong) Limited	Hong Kong	22 August 1975	Ordinary HK\$500,000	100	100	Provision of hiring services of limousines, minibuses and coaches

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19. 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
				2006	2005	
Wealth Crown Investment Limited	Hong Kong	5 November 1999	HK\$1,000,000	65	65	Investment holding
GFTZ Xing Hua International Transport Limited ***	Mainland China	24 January 1994	RMB30,000,000	52.5	52.5	Provision of bus and travel-related services
GFTZ Xing Hua Tourism Bus Company Limited **	Mainland China	8 April 1994	HK\$40,000,000	52.5	52.5	Provision of bus and travel-related services
Trans-Island Limousine Service Limited	Hong Kong	21 September 1973	HK\$30,005,000	100	100	Provision of bus and coach hire services
Intercontinental Hire Cars Limited	Hong Kong	13 August 1968	HK\$10,000,000	100	100	Provision of bus and coach hire services
Shanghai Public Transport Hubei Passenger Road Transport Services Company ***	Mainland China	5 May 1994	RMB2,000,000	47.16*	47.16*	Provision of bus and travel-related services

Represents the effective holding of the Group after minority interests therein

* Subsidiaries of non-wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them

** Registered as Sino-foreign equity joint venture companies in the People's Republic of China (the "PRC")

*** Limited company established in the PRC

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

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

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

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Unlisted investments, at cost	136,004	131,004
Share of post-acquisition results	14,738	14,981
Less: Accumulated amortisation	(87,104)	(77,990)
	63,638	67,995
Due from jointly-controlled entities	64,892	62,777
Due to jointly-controlled entities	(30,396)	(2,068)
Loans to jointly-controlled entities	7,560	8,375
	105,694	137,079

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

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

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

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

Particulars of the jointly-controlled entities are as follows:

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

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

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

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

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

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

	2006 HK\$'000	2005 HK\$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	31,570	21,162
Non-current assets	39,312	40,301
Current liabilities	(20,032)	(16,614)
Non-current liabilities	(18,023)	(14,683)
Net assets	32,827	30,166
Share of the jointly-controlled entities' results:		
Turnover	53,950	29,704
Other revenue	174	367
Total revenue	54,124	30,071
Total expenses	(54,069)	(29,763)
Tax	(298)	-
Profit/(loss) after tax	(243)	308

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21. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Share of net assets	26,465	7,896
Goodwill on acquisitions	20,549	-
	47,014	7,896
Due from associates	6,950	3,045
	53,964	10,941

The amounts due from associates are unsecured, interest-free and repayable within one year, except for an amount due from an associate of HK\$6,912,000 (2005: Nil) which bears interest at a rate of 6.12% per annum and is repayable within five years.

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

21. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the associates are as follows:

Name	Particulars of issued shares held/registered paid-up capital	Business structure	Place of incorporation/ registration and operations	Percentage of ownership of interest attributable to the Group		Principal activities
				2006	2005	
Chongqing Wansheng Transportation Centre Co. Ltd*#	RMB8,400,000	Corporate	Mainland China	40	40	Dormant
All China Express Limited#	63 ordinary shares of HK\$1 each	Corporate	Hong Kong	36.26	36.26	Provision of bus and travel-related services
綦江縣汽車站有限公司*#	RMB637,830	Corporate	Mainland China	33.33	-	Provision of bus terminal management services
Guangzhou City Panguang Public Bus Company Limited*#	RMB2,369,000	Corporate	Mainland China	23.69	-	Provision of designated bus route services

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

* Limited liability companies established in the PRC

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

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

	2006 HK\$'000	2005 HK\$'000
Assets	181,281	22,554
Liabilities	76,009	22,004
Revenues	115,152	147,638
Profit after tax	1,636	57

22. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Unlisted equity investments in Mainland China, at cost	4,374	3,846
Less: Provision for impairment	(470)	(470)
	3,904	3,376

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 April 2005 and have no fixed maturity date or coupon rate. The unlisted available-for-sale equity investments, whose fair values cannot be measured reliably, have been stated at cost less any impairment losses.

23. PROPERTIES HELD FOR SALE

During the year ended 31 March 2005, a land use right classified under prepaid land lease payments with a carrying value of HK\$15,686,000 was reclassified under properties held for sale at its net book value at the date of transfer.

During the year ended 31 March 2006, the Group entered into a sale and purchase agreement with an independent third party to disposal of a piece of land for a consideration of approximately HK\$34.7 million. This transaction is scheduled to be completed on the second half of 2006 and is expected to result in a gain on disposal before tax of approximately HK\$3.2 million.

24. INVENTORIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Spare parts and other consumables	22,205	20,195

25. TRADE RECEIVABLES

Included in the Group's trade receivables are amounts due from an associate of HK\$9,623,000 (2005: HK\$7,253,000), which are repayable within 90 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Current to 30 days	63,057	59,547
31 to 60 days	21,636	11,205
61 to 90 days	6,273	7,271
Over 90 days	8,003	9,558
	98,969	87,581

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000
Prepayments	22,360	15,850	183	183
Prepaid land lease payments (note 16)	4,130	4,169	-	-
Deposits and other receivables	72,476	63,638	-	-
Due from joint venturers (note 34)	18,666	17,385	-	-
	117,632	101,042	183	183

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

Included in other receivables is an amount of HK\$1,920,000 (2005: Nil) which is secured by a property situated in Mainland China, bears interest at 12% per annum and is repayable within one year.

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27. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2006	
	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps contracts	1,790	2,500

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

At 31 March 2006, the Group had interest rate swap contracts in place with a total notional amount of HK\$400,000,000, which did not meet the criteria for hedge accounting. The changes in fair value of these derivatives amounting to HK\$518,000 (2005: Nil) were charged to the income statement during the year.

28. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash and bank balances	108,828	164,277	301	296
Time deposits	47,868	22,117	–	–
	156,696	186,394	301	296
Less: Pledged time deposits for bank loans (note 31)	(19,469)	(14,760)	–	–
Cash and cash equivalents	137,227	171,634	301	296

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$90,585,000 (2005: HK\$110,447,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

29. TRADE PAYABLES

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Current to 30 days	52,930	40,572
31 to 60 days	5,420	5,415
61 to 90 days	884	3,127
Over 90 days	6,098	9,642
	65,332	58,756

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

30. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Accruals	114,429	113,311	–	–
Other payables	130,191	120,324	67	66
Due to a joint venturer (<i>note 34</i>)	30,731	9,729	–	–
	275,351	243,364	67	66

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

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31 March 2006

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Annual effective interest rate (%)	Maturity	Group	
			2006 HK\$'000	2005 HK\$'000
Current				
Finance lease payables (note 32)	5.50	2007	12,863	–
Bank loans – secured	5.04	2007	246,529	166,999
Bank loans – unsecured	5.24	2007	78,459	93,647
Other loans – unsecured	5.94	2007	37,975	10,437
			375,826	271,083
Non-current				
Finance lease payables (note 32)	5.50	2011	40,926	–
Bank loans – secured	5.04	2007 – 2011	252,117	295,928
Bank loans – unsecured	5.24	2007 – 2011	44,654	48,986
Other loans – unsecured	5.94	N/A	–	37,972
			337,697	382,886
			713,523	653,969
			Group	
			2006	2005
			HK\$'000	HK\$'000
Analysed into:				
Bank loans repayable:				
Within one year			324,988	260,646
In the second year			167,719	189,414
In the third to fifth years, inclusive			129,052	155,500
			621,759	605,560
Other borrowings repayable:				
Within one year			50,838	10,437
In the second year			40,926	37,972
			91,764	48,409
			713,523	653,969

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

The Group's bank loans are secured by (i) certain property, plant and equipment and prepaid land lease payments with an aggregate net book value of HK\$174,868,000 (2005: HK\$85,911,000 (restated)) as at 31 March 2006, an investment property with a net carrying value of HK\$8,030,000 (2005: Nil) and time deposits of HK\$19,469,000 (2005: HK\$14,760,000); (ii) all of the issued shares of New Lantao Bus Company (1973) Limited and Trans-Island Limousine Service Limited, subsidiaries of the Company, held by the Group; and (iii) fixed and floating charges over all the assets and undertakings of the Group in Hong Kong to the extent of HK\$540,000,000 (2005: HK\$300,000,000) under a debenture given by the Company.

The Group's other loans of HK\$37,975,000 (2005: HK\$37,972,000) are unsecured, bear interest at a rate of 5.94% (2005: 5.94%) per annum and are repayable within one year. In the prior year, the Group's other loans of HK\$10,437,000 were unsecured, had no fixed terms of repayment and bore interest at a rate of 5% per annum.

A minority shareholder of a subsidiary of the Group has guaranteed certain of the Group's bank loans up to HK\$53,376,000 (2005: HK\$75,200,000).

Except for bank loans of HK\$276,968,000 and other borrowings of HK\$37,972,000 which are denominated in RMB, all other borrowings are in Hong Kong dollars.

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate HK\$'000	Floating rate HK\$'000	Fixed rate HK\$'000	Floating rate HK\$'000
Finance lease payables	53,789	–	–	–
Bank loans – secured	–	498,646	–	462,927
Bank loans – unsecured	–	123,113	–	142,633
Other loans – unsecured	37,975	–	48,409	–

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

32. FINANCE LEASE PAYABLES

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

At 31 March 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease	Minimum lease	Present value of	Present value of
	payments	payments	minimum lease	minimum lease
	2006	2005	payments	payments
	HK\$'000	HK\$'000	2006	2005
			HK\$'000	HK\$'000
Amounts payable:				
Within one year	13,410	-	12,863	-
In the second year	12,952	-	11,895	-
In the third to fifth years, inclusive	34,737	-	29,031	-
Total minimum finance lease payments	61,099	-	53,789	-
Future finance charges	(7,310)	-		
Total net finance lease payables	53,789	-		
Portion classified as current liabilities (<i>note 31</i>)	(12,863)	-		
Non-current portion (<i>note 31</i>)	40,926	-		

33. DUE TO DIRECTORS

The amounts due to directors were unsecured, interest-free and fully settled during the year.

34. BALANCES WITH JOINT VENTURERS

The balances with joint venturers are unsecured and interest-free. Except for the amounts due to joint venturers of HK\$63,938,000 (2005: HK\$79,690,000) which are not repayable within the next 12 months from the balance sheet date and have an annual effective interest rate of 6.12%, the remaining balances with joint venturers have no fixed terms of repayment. The carrying amounts of the balances with joint venturers approximate to their fair values.

35. DEFERRED TAX LIABILITIES

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

	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 2004 (restated)		93,030	728	(213)	(22,459)	71,086
Deferred tax charged/(credited) to the income statement during the year (restated)	10	9,666	-	(66)	(2,387)	7,213
Derecognition of deferred tax in assets revaluation reserve (restated)		-	(169)	-	-	(169)
Acquisition of subsidiaries	39(b)	930	-	-	-	930
At 31 March 2005 and 1 April 2005 (restated)		103,626	559	(279)	(24,846)	79,060
Deferred tax charged/(credited) to the income statement during the year	10	(2,869)	493	-	1,907	(469)
Exchange differences		1,389	-	-	-	1,389
At 31 March 2006		102,146	1,052	(279)	(22,939)	79,980

The Group has tax losses arising in Mainland China of HK\$20,501,000 (2005: HK\$31,372,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses due to unpredictability of future taxable income streams.

35. DEFERRED TAX LIABILITIES *(continued)*

At 31 March 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 March 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of the Group's associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts to be remitted.

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

36. SHARE CAPITAL

Shares

	2006 HK\$'000	2005 HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$0.10 each	60,000	60,000
Issued and fully paid:		
394,906,000 (2005: 394,906,000) ordinary shares of HK\$0.10 each	39,491	39,491

During the year ended 31 March 2005, the subscription rights attaching to 1,000,000 share options were exercised at the subscription price of HK\$1.2 per share, resulting in the issuance of 1,000,000 shares of HK\$0.10 each for a total cash consideration of HK\$1,200,000.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

37. SHARE OPTION SCHEME

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

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

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

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

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

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

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

Notes to Financial Statements

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37. SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options			At 31 March 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares***	
	At 1 April 2005	Granted during the year	Exercised during the year					At grant	At exercise
Directors									
Wong Chung Pak, Thomas	2,000,000	-	-	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	-	-	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	3,500,000	-	-	3,500,000					
Wong Wing Pak	2,000,000	-	-	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	-	-	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	3,500,000	-	-	3,500,000					
Wong Leung Pak, Matthew	2,000,000	-	-	2,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	1,500,000	-	-	1,500,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	3,500,000	-	-	3,500,000					
Tsang Wing Hang	1,000,000	-	-	1,000,000	2 October 2003	5 September 2003 to 4 September 2013	1.200	1.170	N/A
Lee Yin Ching, Stanley	1,000,000	-	-	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	-	-	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	-	-	1,200,000					

37. SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options			At 31 March 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares***	
	At 1 April 2005	Granted during the year	Exercised during the year					At grant date of options HK\$	At exercise date of options HK\$
<i>Directors (continued)</i>									
Lo Kin Wai	1,000,000	-	-	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	-	-	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	-	-	1,200,000					
Cheng King Hoi, Andrew	1,000,000	-	-	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	-	-	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	-	-	1,200,000					
Ng King Yee	1,000,000	-	-	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	-	-	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	-	-	1,200,000					
Chan Yu Kwong, Francis	1,000,000	-	-	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	-	-	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	-	-	1,200,000					
Mok Wah Fun, Peter	1,000,000	-	-	1,000,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	-	-	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	1,200,000	-	-	1,200,000					

Notes to Financial Statements

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37. SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options			At 31 March 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares***	
	At 1 April 2005	Granted during the year	Exercised during the year					At grant	At exercise
Directors (continued)									
Chan Bing Woon, SBS, JP	500,000	-	-	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	-	-	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	700,000	-	-	700,000					
Sung Yuen Lam	500,000	-	-	500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
	200,000	-	-	200,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	700,000	-	-	700,000					
Lee Kwong Yin, Colin	100,000	-	-	100,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
Shareholders									
In aggregate	3,500,000	-	-	3,500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
Suppliers of goods or services									
In aggregate	2,500,000	-	-	2,500,000	28 July 2003	23 July 2003 to 22 July 2013	0.844	0.900	N/A
Other employees									
In aggregate	4,900,000	-	-	4,900,000	2 October 2003	5 September 2003 to 4 September 2013	1.200	1.170	N/A
	100,000	-	-	100,000	5 October 2004	21 September 2004 to 20 September 2014	1.126	1.160	N/A
	5,000,000	-	-	5,000,000					
	31,200,000	-	-	31,200,000					

37. SHARE OPTION SCHEME *(continued)*

- * *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.*

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

38. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 45 to 46 of the financial statements.

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

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

(b) Company

	Note	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2004		522,111	70,770	(118)	592,763
Issue of shares		1,100	–	–	1,100
Profit for the year		–	–	9,559	9,559
Interim 2005 dividend	12	–	–	(5,909)	(5,909)
Proposed final 2005 dividend	12	–	–	(5,924)	(5,924)
At 31 March 2005		523,211	70,770	(2,392)	591,589
Profit for the year		–	–	5,557	5,557
At 31 March 2006		523,211	70,770	3,165	597,146

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.

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$54,622,000 (2005: Nil).

(b) Acquisition of subsidiaries

	<i>Notes</i>	2006 HK\$'000	2005 HK\$'000 (Restated)
Net assets acquired:			
Property, plant and equipment	14	–	42,209
Prepaid land lease payments	16	–	39,310
Properties held for sale		–	69,746
Inventories		–	1,388
Trade receivables		–	2,490
Deposits and other receivables		–	5,095
Cash and bank balances		–	24,330
Trade payables		–	(8,094)
Other payables		–	(48,380)
Other loans		–	(9,367)
Bank loans		–	(7,069)
Deferred tax liabilities	35	–	(930)
Minority interests		–	(12,131)
<hr/>			
Goodwill on acquisition	18	–	98,597
		–	7,183
<hr/>			
		–	105,780
<hr/>			
Satisfied by:			
Cash		–	105,780

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

	2006 HK\$'000	2005 HK\$'000
Cash paid	–	(105,780)
Cash and bank balances acquired	–	24,330
<hr/>		
Net outflow of cash and cash equivalents	–	(81,450)

39. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

In June 2004, the Group acquired a 56% effective interest in Guangzhou New Era Express Bus Company Limited ("New Era Express"). New Era Express is engaged in the provision of bus and travel-related services. The purchase consideration of HK\$17,040,000 for the acquisition was in the form of cash. Since its acquisition, New Era Express contributed HK\$21,082,000 to the Group's turnover and a net profit of HK\$3,592,000 to the consolidated net profit for the year ended 31 March 2005.

In August 2004, the Group acquired the entire equity interest in Hubei Shenzhou Transport Holdings Company Limited ("Hubei Shenzhou"). Hubei Shenzhou and its subsidiaries are principally engaged in investment holding and the provision of bus and travel-related services. The purchase consideration of HK\$88,740,000 for the acquisition was in the form of cash. Since its acquisition, Hubei Shenzhou and its subsidiaries contributed HK\$22,162,000 to the Group's turnover and a net profit of HK\$5,535,000 to the consolidated net profit for the year ended 31 March 2005.

40. CONTINGENT LIABILITIES

The Company has given certain guarantees amounting to HK\$760,700,000 (2005: HK\$695,300,000) in favour of a bank for the banking facilities granted to its subsidiaries and a jointly-controlled entity.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its shop units in hotel building, investment properties and certain of its motor buses and vehicles (note 14) under operating lease agreements, with leases negotiated for terms ranging from one to five years.

At 31 March 2006, the Group had total future minimum lease rental receivables under non-cancellable operating leases with its tenants falling due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	8,908	5,386
In the second to fifth years, inclusive	14,927	9,062
After five years	202	668
	24,037	15,116

41. OPERATING LEASE ARRANGEMENTS *(continued)***(b) As lessee**

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

At 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	23,333	19,371
In the second to fifth years, inclusive	13,311	13,661
After five years	19,074	20,094
	55,718	53,126

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

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following capital commitments at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
Contracted, but not provided for:		
Acquisition of motor buses and vehicles	76,076	100,330
Authorised, but not contracted for:		
Acquisition of an associate	-	31,020
	76,076	131,350

43. PLEDGE OF ASSETS

Details of the Group's bank and other borrowings which are secured by the assets of the Group are included in note 31 to the financial statements.

44. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	2006 \$'000	2005 \$'000
Rental expenses paid to joint venturers	(i), (ii)	3,410	3,271
Jointly-controlled entities:			
Interest income	(iii)	81	1,121
Coach rental income	(iv)	–	5,734
Repairs and maintenance service income	(v)	–	1,308
Purchases of fuel from related companies	(vi), (vii)	14,584	8,797
Refuelling and bus washing charges paid to related companies	(vi), (vii)	120	467
Rental expenses paid to a related company	(viii)	2,315	176
Associates:			
Coach rental income	(iv)	32,981	29,802
Management fee	(ix)	–	16,418

- (a) Notes:

- (i) In 2004, Shanghai Wu Qi Kwoon Chung Public Transport Co., Ltd. ("Wu Qi KC"), in which the Group has an effective equity interest of 52.4% (2005: 52.4%), entered into an agreement with Shanghai Public Transport Holding Co., Ltd. ("Shanghai Public Transport"), a minority shareholder of Wu Qi KC, for the leasing of offices and bus depots starting from 1 April 2004 at a monthly rental of approximately HK\$191,000 (equivalent to approximately RMB200,000), which was determined between both parties by reference to the open market rentals at the time when the lease agreement was entered into. On 1 July 2005, the agreement was renewed and the monthly rental increased to approximately HK\$205,000 (equivalent to approximately RMB215,000) with reference to the prevailing market rentals. Wu Qi KC paid rental expenses amounting to approximately HK\$2,536,000 (equivalent to approximately RMB2,656,000) (2005: HK\$2,430,000) to Shanghai Public Transport during the year.
- (ii) In 1999, Chongqing Kwoon Chung (No. 3) Public Transport Co., Ltd. ("Chongqing KC No. 3"), in which the Group has an effective interest of 30.25% (2005: 30.25%), entered into an agreement with Chongqing No. 3 Public Transport Company ("Chongqing Public Transport"), a minority shareholder of Chongqing KC No.3, for the leasing of offices and bus depots for a term of 30 years starting from 1999 at an annual rental of approximately HK\$813,000 (equivalent to approximately RMB852,000), which was determined between both parties by reference to the open market rentals at the time when the lease agreements were entered into. Pursuant to the agreement, Chongqing KC No. 3 paid rental expenses amounting to approximately HK\$874,000 (equivalent to approximately RMB915,000) (2005: HK\$841,000) to Chongqing Public Transport during the year.

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

(a) *Notes: (continued)*

- (iii) The interest income arose from the loans to jointly-controlled entities, details of the terms thereof are disclosed in note 20 to the financial statements.
- (iv) The coach rental income was made according to the prices and conditions similar to those offered by the Group to its customers.
- (v) The repairs and maintenance service income was charged based on terms agreed between the Group and the jointly-controlled entity.
- (vi) On 13 June 2003, the Company entered into an agreement with New World First Bus Services Limited ("NWFB"), a fellow subsidiary of a shareholder of the Company, for (a) the provision of refuelling and bus washing services by NWFB to certain motor vehicles of the Group in Hong Kong; and (b) the purchase of fuel from NWFB by the Group. The purchase of fuel from NWFB was made according to the prices and conditions similar to those offered by other unrelated suppliers to the Group. The aggregate purchases of fuel from NWFB amounted to HK\$11,906,000 (2005: HK\$8,797,000). The fee related to the refuelling and bus washing services provided by NWFB to the Group was determined at monthly charge of HK\$10,000 (2005: HK\$38,880) which is comparable to those offered by other unrelated service providers to the Group.
- (vii) On 10 October 2005, the Company entered into an agreement with Citybus Limited ("CTB"), a wholly-owned subsidiary of New World First Holdings Limited, a shareholder of the Company, for (a) the provision of refuelling and washing services by CTB to certain motor vehicles of the Group in Hong Kong; and (b) the purchase of fuel from CTB by the Group for a period commencing from 10 October 2005 to 31 March 2007. The fuel charge was determined with reference to open market rates. The aggregate purchases from CTB amounted to HK\$2,678,000 (2005: Nil). The refuelling charge was based on a fixed rate of HK\$0.65 per litre for the total quantity of fuel refueled and the bus washing charge was based on a fixed rate of HK\$16 per vehicle. The aggregate fees related to refueling and bus washing services was HK\$450 (2005: Nil).
- (viii) On 9 March 2005, the Company entered into a tenancy agreement with NWFB for the lease of office premises for a period of two years commencing on 1 January 2005 at a monthly charge, including rental and related management charges, of HK\$192,901 (2005: HK\$203,711), which was determined with reference to open market rates or based on the actual disbursement basis. The total rental paid by the Group for the year amounted to HK\$2,315,000 (2005: HK\$226,000).
- (ix) The management fee income was charged based on the direct costs incurred.

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

- (b) Other transaction with a related party:
 - (i) Shanghai Public Transport has guaranteed certain bank loans made to the Group of up to HK\$56,640,000 (2005: HK\$56,400,000) as at 31 March 2006.
- (c) Outstanding balances with related parties:
 - (i) Details of the Group's due from its associates as at the balance sheet date are included in note 21 to the financial statements, and details of the Group's balances with its jointly-controlled entities and joint venturers are included in notes 20 and 34 to the financial statements, respectively.
 - (ii) Details of the Group's trade balances with its associates as at the balance sheet date are disclosed in note 25 to the financial statements.
- (d) Compensation of key management personnel of the Company represented directors' remuneration as disclosed in note 8 to the financial statements.

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

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

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

Cash flow interest rate risk

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

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 51.19% (2005: 52.87%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 51.29% (2005: 54.54%) of costs are denominated in the unit's functional currency.

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK\$90,585,000 (2005: HK\$110,447,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. In accordance with the foreign exchange regulations applicable in Mainland China, the cash and bank balances held by subsidiaries in Mainland China are not freely remittable to Hong Kong.

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

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

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

46. POST BALANCE SHEET EVENTS

- (a) On 24 May 2006, the Group entered into a share transfer agreement with NWFB, to dispose of its entire 23.69% equity interest in Guangzhou City Panguang Public Bus Company Limited ("Panguang"), an associate of the Group, for a consideration of RMB36,428,000 (equivalent to approximately HK\$34,971,000). This transaction is scheduled to be completed in the second half of 2006 and is expected to result in a gain on disposal before tax of approximately HK\$970,000.
- (b) On 7 June 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of its hydropower plant which is situated in Chongqing, Mainland China, for a consideration of RMB4,500,000 (equivalent to HK\$4,300,000). The transaction was completed on 30 June 2006, resulting in a gain on disposal of approximately HK\$50,000.
- (c) On 12 June 2006, the Group entered into a joint venture agreement (the "Agreement") with independent third parties whereby the Group agreed to inject RMB35,137,000 (equivalent to approximately HK\$33,732,000) into Lixian Bipenggou Tourism Development Company Limited ("Bipenggou"), in return for a 51% equity interest therein. Bipenggou is principally engaged in management and operations of Bipenggou Miyaluo scenery area in Sichuan Province.

Because the conclusion of the Agreement was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details.

47. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs 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 and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue for the board of directors on 27 July 2006.