# KWOON CHUNG BUS HOLDINGS LIMITED

**冠忠巴士集團有限公司***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 306)**

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

The directors of Kwoon Chung Bus Holdings Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2011 together with the comparative figures of the corresponding period in 2010. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

* *For identification purposes only*

## CONDENSED CONSOLIDATED INCOME STATEMENT

| | | | |
|---|---|---|---|
| | | **For the six months ended 30 September** | |
| | | **2011** | 2010 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| REVENUE | 2 | **809,364** | 1,028,708 |
| Cost of services rendered | | **(680,104)** | (859,123) |
| Gross profit | | **129,260** | 169,585 |
| Other income and gains | | **71,705** | 20,105 |
| Administrative expenses | | **(115,140)** | (128,146) |
| Other expenses | | **(6,802)** | (1,332) |
| Finance costs | | **(6,093)** | (7,879) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | **4,190** | 2,629 |
| Associates | | **20** | — |
| PROFIT BEFORE TAX | 3 | **77,140** | 54,962 |
| Income tax expense | 4 | **(9,191)** | (19,577) |
| PROFIT FOR THE PERIOD | | **67,949** | 35,385 |
| ATTRIBUTABLE TO: | | | |
| Owners of the parent | | **67,411** | 40,072 |
| Non-controlling interests | | **538** | (4,687) |
| | | **67,949** | 35,385 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 6 | | |
| Basic | | | |
| — For profit for the period | | **HK16.53 cents** | HK10.15 cents |
| Diluted | | | |
| — For profit for the period | | **HK15.95 cents** | HK9.93 cents |

Details of the dividends payable and proposed for the period are disclosed in note 5.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| PROFIT FOR THE PERIOD | **67,949** | 35,385 |
| OTHER COMPREHENSIVE INCOME: | | |
| Exchange differences on translation of foreign operations | **3,062** | 11,508 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | **71,011** | 46,893 |
| Attributable to: | | |
| Owners of the parent | **69,738** | 43,647 |
| Non-controlling interests | **1,273** | 3,246 |
| | **71,011** | 46,893 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| | Notes | **30 September 2011 (Unaudited) *HK$'000*** | 31 March 2011 (Audited) *HK$'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7,12 | **1,051,816** | 971,416 |
| Investment properties | | **42,350** | 42,350 |
| Prepaid land lease payments | 12 | **45,722** | 46,328 |
| Licences and operating rights | 13 | **372,195** | 64,622 |
| Goodwill | 13 | **189,357** | 17,874 |
| Interests in jointly-controlled entities | | **115,302** | 122,552 |
| Interests in associates | | **8,643** | 1,748 |
| Available-for-sale investments | | **232** | 229 |
| Deposits paid for purchases of items of property, plant and equipment | | **15,037** | 10,244 |
| Deposits and other receivables | | **16,467** | 151,502 |
| Total non-current assets | | **1,857,121** | 1,428,865 |
| CURRENT ASSETS | | | |
| Properties/interest in properties held for sale | | **73,990** | 73,990 |
| Inventories | | **26,095** | 18,537 |
| Trade receivables | 8 | **125,131** | 105,914 |
| Prepayments, deposits and other receivables | | **115,533** | 125,101 |
| Tax recoverable | | **3,721** | 3,849 |
| Pledged time deposits | 12 | **2,719** | 2,717 |
| Cash and cash equivalents | | **271,120** | 353,703 |
| | | **618,309** | 683,811 |
| Assets of disposal groups classified as held for sale | 14 | **—** | 799,218 |
| Total current assets | | **618,309** | 1,483,029 |

| | Notes | **30 September 2011 (Unaudited)** ***HK$'000*** | 31 March 2011 (Audited) *HK$'000* |
|---|---|---|---|
| CURRENT LIABILITIES | | | |
| Trade payables | 9 | **76,754** | 52,263 |
| Accruals, other payables and deposits received | | **334,143** | 311,630 |
| Tax payable | | **29,681** | 28,224 |
| Derivative financial instruments | | **741** | 741 |
| Interest-bearing bank and other borrowings | | **687,829** | 513,193 |
| | | **1,129,148** | 906,051 |
| Liabilities directly associated with assets classified as held for sale | 14 | **—** | 530,433 |
| Total current liabilities | | **1,129,148** | 1,436,484 |
| NET CURRENT ASSETS/(LIABILITIES) | | **(510,839)** | 46,545 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,346,282** | 1,475,410 |
| NON-CURRENT LIABILITIES | | | |
| Due to joint venturers | | **—** | 19,792 |
| Other long term liabilities | | **29,394** | 17,829 |
| Deferred tax liabilities | | **85,498** | 85,868 |
| Total non-current liabilities | | **114,892** | 123,489 |
| Net assets | | **1,231,390** | 1,351,921 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | | **40,841** | 40,751 |
| Reserves | | **1,105,216** | 1,053,989 |
| Proposed final dividend | 5 | **—** | 8,150 |
| | | **1,146,057** | 1,102,890 |
| Non-controlling interests | | **85,333** | 249,031 |
| Total equity | | **1,231,390** | 1,351,921 |

*Notes:*

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2011.

The accounting policies used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) and amendments to HKFRSs issued by the HKICPA for the first time for the current period's unaudited condensed consolidated interim financial statements:

| | |
|---|---|
| HKFRS 1 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* |
| HKAS 24 (Revised) | *Related Party Disclosures* |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| Improvements to HKFRSs 2010 | Amendments to a number of HKFRSs issued in May 2010 |

The adoption of these new interpretations and amendments has had no significant financial effect on the unaudited condensed consolidated interim financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

The Group has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the six months ended 30 September 2011, in the unaudited condensed consolidated interim financial statements. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

## 2. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has six reportable operating segments as follows:

(a) the designated bus routes segment includes the provision of bus services by designated routes as approved by various local governments/transport authorities in Hubei and Guangdong, Mainland China.

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

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

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance costs are excluded from such measurement.

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

**Operating segments**

The following tables present revenue and profit/(loss) information of the Group's operating segments for the six months ended 30 September 2011 and 2010.

**For the six months ended 30 September 2011 (Unaudited)**

| | Designated bus routes | Non-franchised bus | Franchised bus | Tour | Hotel | Corporate and others | Inter-segment eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenue: | | | | | | | | |
| External sales | 69,169 | 619,922 | 63,586 | 42,416 | 14,271 | — | — | 809,364 |
| Intersegment sales | — | 32,889 | — | — | — | — | (32,889) | — |
| Other revenue | 3,415 | 14,657 | 2,150 | 517 | 7 | 1,354 | — | 22,100 |
| Total | 72,584 | 667,468 | 65,736 | 42,933 | 14,278 | 1,354 | (32,889) | 831,464 |
| Segment results | 12,004 | 31,548 | 5,615 | (3,609) | 2 | (6,130) | (5,000) | 34,430 |
| Gain on disposal of subsidiaries | | | | | | | | 48,803 |
| Finance costs | | | | | | | | (6,093) |
| Profit before tax | | | | | | | | 77,140 |

For the six months ended 30 September 2010 (Unaudited and 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* | Inter-segment eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| Segment revenue: | | | | | | | | |
| External sales | 381,118 | 543,401 | 55,862 | 35,875 | 12,452 | — | — | 1,028,708 |
| Intersegment sales | — | 39,013 | — | — | — | — | (39,013) | — |
| Other revenue | 4,351 | 11,313 | 1,274 | 391 | 1,051 | 1,171 | — | 19,551 |
| Total | 385,469 | 593,727 | 57,136 | 36,266 | 13,503 | 1,171 | (39,013) | 1,048,259 |
| Segment results | 12,631 | 45,347 | 5,437 | (1,103) | 206 | 323 | — | 62,841 |
| Finance costs | | | | | | | | (7,879) |
| Profit before tax | | | | | | | | 54,962 |

## 3. PROFIT BEFORE TAX

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

| | For the six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Depreciation | **79,700** | 91,825 |
| Amortisation of licences and operating rights | **4,847** | 949 |
| Loss on disposal of items of property, plant and equipment, net | **4,633** | 31 |
| Share option expense | **6,700** | — |
| Gain on disposal of subsidiaries | **(48,803)** | — |

## 4. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | For the six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Current: | | |
| Hong Kong | **6,049** | 8,185 |
| Mainland China | **1,939** | 2,318 |
| Deferred | **1,203** | 9,074 |
| Tax charge for the period | **9,191** | 19,577 |

No provision for income tax is required in respect of associates and jointly-controlled entities because no assessable profits were earned by the associates and jointly-controlled entities during the period (2010: Nil).

## 5. DIVIDENDS PAID AND PROPOSED

| | For the six months ended 30 September | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Dividends on ordinary shares declared and paid during the six months period: | | |
| Final dividend for the year ended 31 March 2011: HK2.0 cents (2010: HK6.0 cents) | **8,168** | 23,694 |
| Dividends on ordinary shares proposed for approval (not recognised as a liability as at 30 September): | | |
| Interim dividend for the year ending 31 March 2012: Nil (2011: HK5.0 cents) | **—** | 19,745 |

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

The calculation of basic earnings per share amount is based on the unaudited consolidated profit for the period attributable to ordinary equity holders of the parent of HK$67,411,000 (30 September 2010: HK$40,072,000), and the weighted average number of 407,806,000 (30 September 2010: 394,906,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share amount is based on the unaudited consolidated profit for the period attributable to ordinary equity holders of the parent of HK$67,411,000 (30 September 2010: HK$40,072,000), and the weighted average number of 407,806,000 (30 September 2010: 394,906,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of 14,903,698 (30 September 2010: 8,835,730) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

## 7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2011, additions of property, plant and equipment amounted to HK$100,104,000 (31 March 2011: HK$353,704,000) excluding property, plant and equipment acquired through a business combination. Items of property, plant and equipment with a net book value of HK$4,833,000 (31 March 2011: HK$20,991,000) were disposed by the Group during the six months ended 30 September 2011, resulting in a net loss on disposal of HK$4,633,000 (2010: HK$9,537,000).

## 8. TRADE RECEIVABLES

| | **30 September 2011** | 31 March 2011 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **129,709** | 110,492 |
| Impairment | **(4,578)** | (4,578) |
| | **125,131** | 105,914 |

Included in the Group's trade receivables is an amount due from associates of HK$7,244,000 (31 March 2011: HK$8,177,000), which is repayable within 90 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The Group allows an average credit period ranging from 30 to 60 days for its trade debtors. An aged analysis of the Group's trade receivables that are not considered to be impaired, based on the payment due date, is as follows:

| | **30 September 2011 (Unaudited)** ***HK$'000*** | 31 March 2011 (Audited) *HK$'000* |
|---|---|---|
| Neither past due nor impaired | **79,316** | 68,559 |
| Less than 1 month past due | **28,617** | 25,063 |
| 1 to 3 months past due | **9,541** | 7,864 |
| Over 3 months past due | **7,186** | 3,957 |
| | **124,660** | 105,443 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$4,578,000 (31 March 2011: HK$4,578,000) with a carrying amount of HK$5,049,000 (31 March 2011: HK$5,049,000). The individually impaired trade receivables relate to customers that were in financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

## 9. TRADE PAYABLES

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

| | **30 September 2011 (Unaudited)** ***HK$'000*** | 31 March 2011 (Audited) *HK$'000* |
|---|---|---|
| Current to 30 days | **56,318** | 37,219 |
| 31 to 60 days | **7,684** | 3,509 |
| 61 to 90 days | **5,922** | 4,878 |
| Over 90 days | **6,830** | 6,657 |
| | **76,754** | 52,263 |

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

## 10. CONTINGENT LIABILITIES

The Company has given certain guarantees amounting to HK$1,418,354,000 (31 March 2011: HK$1,140,759,000) in favour of certain banks for the banking facilities granted to its subsidiaries.

## 11. COMMITMENTS

At 30 September 2011, the Group had the following capital commitments:

| | **30 September 2011 (Unaudited)** *HK$'000* | 31 March 2011 (Audited) *HK$'000* |
|---|---|---|
| Contracted, but not provided for: | | |
| Acquisition of motor buses and vehicles | **30,392** | 76,783 |
| Acquisition of subsidiaries | **—** | 27,448 |
| Construction of a scenic site and a plant for repair and maintenance | **118,986** | 152,686 |
| | **149,378** | 256,917 |

## 12. PLEDGE OF ASSETS

At 30 September 2011, the Group's interest-bearing bank and other borrowings are secured by (i) certain property, plant and equipment, leasehold land and investment properties with an aggregate net book value of HK$71,228,000 (31 March 2011: HK$124,190,000); (ii) the pledge of certain time deposits of HK$2,719,000 (31 March 2011: HK$2,717,000); (iii) all the issued shares of New Lantao Bus Company (1973) Limited and Trans-Island Limousine Service Limited, subsidiaries of the Company, held by the Group; and (iv) fixed and floating charges over all the assets and undertakings of the Group in Hong Kong to the extent of HK$780,000,000 (31 March 2011: HK$470,000,000) under debentures given by the Company.

## 13. LICENCES AND OPERATING RIGHTS AND GOODWILL

During the period, the Group acquired certain cross-boundary transportation businesses through acquisition of (i) 100% equity interest in Elegant Sun Group Limited and additional 10% equity interest in each of Chinalink Express Holdings Limited and Chinalink Transport Group Limited (collectively, the "Elegant Sun Group"); and (ii) 100% equity interest in eleven companies incorporated in Hong Kong, for a total consideration of HK$494,600,000. The major assets acquired through these business combination including, amongst others, the passenger service licences and cross-boundary transportation operating rights (the "Identifiable Assets"). Accordingly, the Group has initially recognised the Identifiable Assets of HK$323,117,000 and goodwill of HK$171,483,000 in accordance with HKFRS 3 "Business Combinations". The fair values of the Identifiable Assets and hence the goodwill are subject to the finalisation of the fair value estimation.

## 14. DISPOSAL GROUP HELD FOR SALE

On 11 January 2011, the Group entered into equity transfer agreements with Chongqing Public Traffic Holdings (Group) Co., Ltd ("Chongqing Traffic"), the PRC joint venture partner of Chongqing Designated Bus Group (defined hereunder), whereby the Group agreed to dispose of its entire 42.2% effective equity interest in Chongqing Kwoon Chung (New Town) Public Transport Co., Ltd and its entire 30.3% effective equity interest in Chongqing Kwoon Chung Public Transport Co., Ltd. (collectively "Chongqing Designated Bus Group ") to Chongqing Traffic for a total consideration of RMB230 million (approximately HK$273.2 million). During the period, the transaction was completed and the Group derecognised all the assets and liabilities of the Chongqing Designated Bus Group which were classified as a disposal group held for sale as at 31 March 2011 and recognised a gain on disposal of HK$48.8 million.

## 15. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to conform with the current period's presentation. In the opinion of directors, such restatements result in a more appropriate presentation and better reflect the nature of the transactions.

## DIVIDEND

At a meeting of the board of directors held on 29 November 2011, the directors resolved not to pay any interim dividend (2011: HK5 cents per ordinary share) for the year ending 31 March 2012.

## REVIEW OF OPERATIONS

The unaudited consolidated profit attributable to owners of the parent for the six months ended 30 September 2011 was approximately HK$67.4 million. This was an increase of about 68.1% from that of approximately HK$40.1 million for the same period of prior year.

The considerable increase was mainly due to an exceptional gain of about HK$48.8 million owing to the disposal of the Chongqing designated bus route operation.

The profit from the normal operation has actually decreased because the general business environment has still been tough for the industry, both in Hong Kong and Mainland China. In particular, mounting local and imported inflation has led to rising operating costs. The Group's expenditure on fuel for Hong Kong operations alone has gone up by HK$37.9 million or 41.3%, approximately HK$24.8 million of which was attributable to higher oil price compared with prior year, followed by repair and maintenance, and salaries. Owing to the acquisition of some fellow operators in Hong Kong, there has been an increase of about HK$4.8 million amortization expenses of intangible assets. More bank loans for Hong Kong operations have also increased the financial expenses. Details on each segment of operation are discussed below:

### 1. Non-franchised Bus and Limousine Services in Hong Kong

The principal non-franchised bus services provided by the Group include transport service of students, employees, residents, tours and hotels, contract hire and cross-boundary services between Hong Kong and Mainland China. The Group continued to be the largest non-franchised bus operator in Hong Kong, having a fleet of 926 (2010: 914) licensed buses, and 240 limousines (2010: 214) as at 30 September 2011.

The total turnover of this sector for the six months ended 30 September 2011 was approximately HK$620 million (2010: HK$543 million), representing an increase of approximately 14% compared with the same period of prior year.

There has been a growing demand for cross-boundary service, both coaches as well as limousines. The bus/coach/shuttle services catered for local schools, employees, residential estates, and tours continued to be stable, while the long distance bus servicing Hong Kong through various crossings to destinations in Mainland China has potential for growth. Apart from competition, the latter involved collaboration with other service providers in order to maximize business opportunities and market share.

2. **Franchised Bus Services in Hong Kong**
**New Lantao Bus Company (1973) Limited ("NLB")**

As at 30 September 2011, this 99.99% (2010: 99.99%) owned subsidiary was operating 23 (2010: 23) franchised bus routes, mainly in Lantau Island, with a fleet of 104 (2010: 94) buses. For the period, the total turnover was approximately HK$63.6 million (2010: HK$55.9 million), and the share of profit attributable to the Company was approximately HK$4.5 million (2010: HK$4.4 million). The routes servicing Yuen Long/Tin Shui Wai and Shenzhen Bay Port (B2), and shuttle bus services within Tung Chung New Town, have contributed substantially to the improved results, both in terms of patronage as well as revenue.

3. **Other Operations in Hong Kong**

The Group continued to operate a number of service counters at the Passenger Terminal Building of the Hong Kong International Airport, to assist inbound visitors to Hong Kong or on transit with coach/bus or limousine service to Mainland China. The Group was also operating three travel agencies units in Hong Kong that cater for tour services, namely, Lantau Tours Limited, TIL Travel (operated by Trans-Island Limousine Service Limited), and Vigor Tours Limited.

4. **Designated Bus Route Services in Mainland China**

Business in this segment was operated through Equity Joint Ventures (EJVs).

(a) *Hubei Shenzhou Transport Holdings Ltd.*

As at 30 September 2011, this 100% (2010: 100%) owned subsidiary was operating a transport terminal and long distance bus route services in Hubei Province, comprising 101 (2010: 102) routes with a fleet of 278 (2010: 265) chartered buses. The loss attributable to the subsidiary for the period was approximately HK$268,000 (2010: a profit of HK$567,000).

(b) *GFTZ Xing Hua International Transport Ltd. ("Xing Hua")*

As at 30 September 2011, this 56% (2010: 56%) owned subsidiary was operating 5 (2010: 6) routes with a fleet of 25 (2010: 23) buses operated by Xing Hua, providing long distance bus transport in Guangdong Province. The share of profit attributable to the Company for the period was approximately HK$626,000 (2010: HK$188,000). Improved cost control has been a contributing factor to the turnaround for this subsidiary.

(c) *Guangzhou New Era Express Bus Co., Ltd.*

As at 30 September 2011, this 56% (2010: 56%) owned subsidiary was operating a fleet of 21 (2010: 21) buses for 5 (2010: 5) long distance bus routes in Guangdong Province. The share of profit attributable to the Company for the period was approximately HK$2.6 million (2010: HK$2.6 million). The performance of this subsidiary has been consistent and satisfactory.

*(d) Guangzhou City No.2 Bus Co., Ltd.*

This 40% (2010: 40%) owned jointly controlled entity commenced operation from January 2008. As at 30 September 2011, it was operating a fleet of 1,801 buses (2010: 1,648) for 127 routes (2010: 96) in Guangzhou. The share of profit attributable to the Company for the period was approximately HK$4.2 million (2010: HK$3.1 million).

**5. Hotel, Tour and Eco-Tourism Development in Mainland China**

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

This 60% (2010: 60%) owned subsidiary together with its three-company group with the same shareholding structure (collectively "Chongqing Tourism Group"), was operating a hotel, a travel agency, and a tour bus company. The aggregate share of loss attributable to the Company for the period was approximately HK$340,000 (2010: HK$468,000). The Chongqing Tourism Group continued to attain positive operating cash flow for the period, as in the past years, which were mainly utilized in repayment of bank loans.

*(b) Lixian Bipenggou Tourism Development Co., Ltd.*

As at 30 September 2011, the Group owned 51% (2010: 51%) equity interest in this subsidiary. The other two equity holders are Chengdu China Travel Service Co., Ltd. (with 34.3% equity interest) and Lixian Government of Sichuan Province (with 14.7% equity interest). During the period, the share of loss attributable to the Company was approximately HK$2.2 million (2010: HK$928,000). Tourists were still deterred by the post-5.12 Sichuan earthquake reconstruction work by the Government for a vast transport network, and progress was stalled by mudslides in the summer. During this period, this subsidiary focused on projects inside the scenic site, including a hotel and an electric car roadway, all of which aimed at enhancing Bipenggou as an attraction for tourists as soon as external transport links would be in place.

## LIQUIDITY AND FINANCIAL RESOURCES

Funding for the Group's operations during the period came mainly from internally generated cash flows. Shortfalls, if any, were financed through bank loans and leases. The total indebtedness outstanding as at 30 September 2011 was approximately HK$688 million (31 March 2011: HK$666 million), of which HK$648 million (31 March 2011: HK$626 million) was repayable/renewable within one year or subject to repayment on demand clauses under bank facility agreements. The indebtedness comprised mainly bank loans and leases and were deployed primarily for the purchase of buses and for investments both in Hong Kong and Mainland China. The leverage was approximately 56% (31 March 2011: 49%).

## FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy towards its overall business operations, aimed at minimizing financial risks. Future projects will be financed by cash flows from the Group's operations, banking facilities or other viable forms of financing in Hong Kong and Mainland China.

The income and expenditure of the Group's Hong Kong operations are denominated in Hong Kong Dollars ("HKD"). For its investments in Mainland China, the major sources of income are in Renminbi ("RMB"). The Group will pay vigilant attention to any significant fluctuation in the exchange rates. The Group is also mindful of significant fluctuations in interest rates, as the bank loans of the Group carry mainly floating interest rates. Appropriate measures in minimizing such risks have been duly enforced by the Group.

## HUMAN RESOURCES

The Group recruits, employs, remunerates and promotes its employees based on their qualifications, experience, skills, performance and contributions. Remuneration is established in line with market rates. In-house orientation and training programs are arranged for the staff both in Hong Kong and Mainland China. Employees are also encouraged to attend job-related seminars and courses organized by professional and/or educational institutions.

## FUTURE PROSPECTS

On the generic level:

The general economic environment of Hong Kong and Mainland China is stable with substantial growth. The cross-boundary bus business is still growing. However, the Euro debt and US debt has worsened recently. This may compose great challenges to Hong Kong.

Achieving sustained net profit will be a greater challenge for the Group, in light of:

(a) Accelerating costs, not least for operating essentials such as fuel, spare parts and tunnel fees; and

(b) The expanding competition from rail transport continues to exert pressure on the Group's patronage and revenue, and parallel routes and services are particularly at risk.

On the segmental level:

### 1. Non-franchised Bus Services in Hong Kong

The Group will maximize the strengths of its large fleet and manpower in this segment and exercise flexibility in customizing services that would enhance convenience, comfort, and safety for our clients.

With the acquisition of some fellow operators, the turnover of the Group will definitely grow. However, it takes time to integrate the different operations and to attain the targeted synergies.

## 2. Franchised Bus Services in Hong Kong

NLB will continue to provide responsible and reliable franchised bus services in Lantau and the areas between Yuen Long, Tin Shui Wai and Shenzhen Bay Port. It will be open to opportunities for developing service beneficial for both clients and NLB.

## 3. Designated Bus Routes Services in Mainland China

For urban city buses, the Group has almost sold back all of its interest in its equity joint venture operations to respective Chinese partners, except for the Guangzhou No. 2 Bus Company. The Group has also terminated all its contractual joint ventures after respective contracts expired.

For long distance inter-city routes, as its fares are more flexible and commercially viable, the Group has maintained its operation of some equity joint ventures in Guangzhou and Xiangfan.

## 4. Tour, Hotel and other related services

(a) Taking advantage of the relative strengths of the Group in its wide range of transport services in Hong Kong and access to the major tourist attractions such as Disneyland and other parts of Hong Kong and Lantau, the Group has developed packaged services that include transport, tour, and possibly hotel reservations. This targets mainly the growing number of visitors from Mainland China to Hong Kong, and is one of the modes by which the Group transforms from a transport company to providing a range of services with added values, thus achieving diversification and increasing profit.

(b) Beyond Hong Kong, the Group has joint interest in developing eco-tourism in Bipenggou, Miyaluo, just about 180 km from Chengdu, Mainland China. Bipenggou is endowed with diverse ecology and landscapes of stunning natural beauty and uniqueness, and is attractive all year round. As such, it has high potential for eco-tourism. The Sichuan earthquake in 2008 did not cause direct damage to the Scenic Area, but the external road network connecting to the Site had been subject to vast reconstruction and upgrading. Road traffic has now resumed to normal as of October 2010, with a journey time of four hours from Chengdu. Access will further improve with journey time shortened to two hours when a new expressway is through hopefully by the end of 2012. Recent completion of an electric car roadway at an elevation of 3,000 metres inside Bipenggou is taking visitors even closer to various sites that will deepen their personal experience with Mother Nature. An exclusive town-house design 127-room hotel in-construction inside the Scenic Area will open before end of 2011. Bipenggou is stepping up for tourists, which is evidenced by the number of patronage achieving more than 80,000 up to mid November for the calendar year of 2011.

(c) The travel and tourism operations of the subsidiary Chongqing Tourism (Group) Co., Ltd./Chongqing Everbright International Travel Service Co., Ltd. will continue. Apart from promoting inbound-outbound packaged tours for travelers to Hong Kong and nearby places, preparations as sales centre of Bipenggou coordinating fellow travel agency companies in Chongqing are under way to promote tours to Bipenggou, thus creating synergy and maximizing business opportunities for both subsidiaries. The hotel operator of this Group — Chongqing Grand Hotel Co., Ltd. — has committed to provide management service to the new hotel in Bipenggou for mutual benefits. The hotel in Chongqing will undergo a renovation program in 2012 and 2013 during the lack periods aiming at upgrading from 3-star to a 4-star hotel, without affecting annual revenue of the hotel in the coming 2 years, but increasing its revenue on a larger scale after completion of renovation.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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

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

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

## PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of interim results of the Group for the six months ended 30 September 2011, containing all the information required by paragraphs 46(1) to 46(9) inclusive of Appendix 16 of the Listing Rules, will be published on the Company's website at www.kcbh.com.hk and the Stock Exchange's website in due course.

On behalf of the Board
**Wong Chung Pak, Thomas**
*Chairman*

Hong Kong, 29 November 2011

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. Wong Chung Pak, Thomas, Mr. Wong Leung Pak, Matthew, Mr. Wong Wing Pak, Mr. Cheng Wai Po, Samuel, Mr. Chung Chak Man, William, Mr. Cheng King Hoi, Andrew, Mr. Ng King Yee, Mr. Chan Yu Kwong, Francis and Mr. Mok Wah Fun, Peter as executive Directors and Mr. Chan Bing Woon, SBS, JP, Mr. Sung Yuen Lam and Mr. Lee Kwong Yin, Colin as independent non-executive Directors.*