# 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 2018

The board (the "Board") of directors (the "Directors") of Kwoon Chung Bus Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2018 together with the comparative figures of the corresponding period in 2017. The 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 STATEMENT OF PROFIT OR LOSS

| | Notes | Six months ended 30 September 2018 (Unaudited) *HK$'000* | 2017 (Unaudited) *HK$'000* |
|---|---|---|---|
| REVENUE | *2* | **1,266,410** | 1,155,125 |
| Cost of services rendered | | **(1,043,876)** | (912,691) |
| Gross profit | | **222,534** | 242,434 |
| Other income and gains, net | | **31,690** | 82,561 |
| Administrative expenses | | **(177,380)** | (179,610) |
| Other expenses, net | | **(4,786)** | 4,237 |
| Finance costs | | **(32,090)** | (18,969) |
| PROFIT BEFORE TAX | *3* | **39,968** | 130,653 |
| Income tax expense | *4* | **(5,899)** | (20,635) |
| PROFIT FOR THE PERIOD | | **34,069** | 110,018 |
| Attributable to: | | | |
| Owners of the parent | | **37,434** | 111,911 |
| Non-controlling interests | | **(3,365)** | (1,893) |
| | | **34,069** | 110,018 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | *6* | | |
| Basic | | **HK8.11 cents** | HK24.24 cents |
| Diluted | | **HK8.11 cents** | HK24.24 cents |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| PROFIT FOR THE PERIOD | **34,069** | 110,018 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **(12,993)** | 1,636 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | **21,076** | 111,654 |
| Attributable to: | | |
| Owners of the parent | **28,602** | 113,039 |
| Non-controlling interests | **(7,526)** | (1,385) |
| | **21,076** | 111,654 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Notes* | **30 September 2018 (Unaudited)** ***HK$'000*** | 31 March 2018 (Audited) *HK$'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | *7, 10* | **1,938,888** | 1,891,081 |
| Investment properties | | **292,025** | 298,028 |
| Prepaid land lease payments | | **40,328** | 43,062 |
| Goodwill | | **201,801** | 201,801 |
| Passenger service licences | | **1,004,747** | 857,487 |
| Other intangible assets | | **373,956** | 379,424 |
| Interests in associates | | **26,189** | 25,716 |
| Financial assets at fair value through profit or loss | *10* | **29,009** | 28,626 |
| Loans receivable | | **17,878** | 20,029 |
| Prepayments, deposits and other receivables | | **229,778** | 177,829 |
| Deferred tax assets | | **238** | 238 |
| Total non-current assets | | **4,154,837** | 3,923,321 |
| CURRENT ASSETS | | | |
| Inventories | | **31,291** | 31,424 |
| Trade receivables | *8* | **231,910** | 232,696 |
| Prepayments, deposits and other receivables | | **227,374** | 226,638 |
| Derivative financial instruments | | **712** | 1,021 |
| Tax recoverable | | **10,111** | 18,156 |
| Pledged time deposits | *10* | **64,922** | 68,298 |
| Cash and cash equivalents | | **311,157** | 369,276 |
| | | **877,477** | 947,509 |
| Assets of a disposal group classified as held for sale | | **—** | 121 |
| Total current assets | | **877,477** | 947,630 |

| | Notes | 30 September 2018 (Unaudited) *HK$'000* | 31 March 2018 (Audited) *HK$'000* |
|---|---|---|---|
| CURRENT LIABILITIES | | | |
| Trade payables | *9* | **67,827** | 65,944 |
| Accruals, other payables and deposits received | | **554,997** | 576,912 |
| Tax payable | | **45,199** | 36,897 |
| Derivative financial instruments | | **—** | 2,926 |
| Interest-bearing bank and other borrowings | | **903,440** | 905,977 |
| | | **1,571,463** | 1,588,656 |
| Liabilities directly associated with the assets classified as held for sale | | **—** | 709 |
| Total current liabilities | | **1,571,463** | 1,589,365 |
| NET CURRENT LIABILITIES | | **(693,986)** | (641,735) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **3,460,851** | 3,281,586 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | | **985,745** | 767,716 |
| Other long term liabilities | | **121,909** | 122,940 |
| Deferred tax liabilities | | **268,022** | 270,425 |
| Total non-current liabilities | | **1,375,676** | 1,161,081 |
| Net assets | | **2,085,175** | 2,120,505 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | | **46,169** | 46,169 |
| Reserves | | **1,958,543** | 1,986,347 |
| | | **2,004,712** | 2,032,516 |
| **Non-controlling interests** | | **80,463** | 87,989 |
| Total equity | | **2,085,175** | 2,120,505 |

## NOTES:

### 1.1 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 September 2018 (the "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 ("HKICPA").

The 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 2018.

The Interim Financial Statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousands except when otherwise indicated.

### 1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the first time for the annual periods beginning on or after 1 January 2018.

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| Annual Improvements 2014–2016 Cycle | *Amendments to HKFRS 1 and HKAS 28* |

The adoption of these new and revised HKFRSs has had no significant financial effect on the Group's result of operation and financial position, except for HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* as described below.

**HKFRS 15 *Revenue from Contracts with Customers***

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits as of 1 April 2018. The Group elected to apply the practical expedient to completed contracts and did not restate the contracts completed before 1 April 2018, thus the comparative figures have not been restated.

Except for the reclassification effect below, the adoption of HKFRS 15 did not have material financial impact on the Group's Interim Financial Statements.

Reclassifications were made as at 1 April 2018 in line with the terminology used under HKFRS 15. Accordingly, advances received from customers of HK$73,964,000 were reclassified from deferred revenue to contract liabilities under accruals, other payables and deposits received.

**HKFRS 9 *Financial Instruments***

HKFRS 9 *Financial Instruments* has replaced HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has elected not to adjust the comparative information for the period beginning 1 April 2017, which the comparative information was prepared under classification and measurement requirements of HKAS 39. Differences arising from the adoption of HKFRS 9 have been recognised directly in the relevant items of the condensed consolidated statement of financial position as of 1 April 2018.

*(a) Classification and measurement*

Except for trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVTPL"), amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, loans receivable and other financial assets at amortised cost.

The assessment of the Group's business models was made as of the date of initial application, i.e. 1 April 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

(b) *Impairment*

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group has applied the general approach and recorded twelve-month ECLs that are estimated based on the possible default events on its loans receivable and other financial assets at amortised cost within the next twelve months. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 1 month past due. The Group considers a financial asset in default when contractual payments are 12 months past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in increase in impairment allowance of the Group's debt financial assets. Differences arising from the adoption of HKFRS 9 have been recognised directly in retained profits as at 1 April 2018 and the affected assets are disclosed below:

| | **At 31 March 2018** (Audited) *HK$'000* | **Remeasurement** *HK$'000* | **At 1 April 2018** (Unaudited) *HK$'000* |
|---|---|---|---|
| Loans receivable | 20,029 | (354) | 19,675 |
| Trade receivables | 232,696 | (348) | 232,348 |
| Prepayments, deposits and other receivables | 404,467 | (302) | 404,165 |
| **Equity** | | | |
| Retained profits | 1,122,147 | (1,004) | 1,121,143 |

## 2. OPERATING SEGMENT INFORMATION

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

(a) the non-franchised bus segment includes the provision of non-franchised bus hire services in Hong Kong, cross-boundary passenger transportation services between Hong Kong and Mainland China and other related services;

(b) the local limousine segment includes the provision of limousine hire services in Hong Kong;

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

(d) the hotel and tourism segment includes the provision of hotel services and the operation of a scenic area in Mainland China and travel agency and tour services in Hong Kong and Mainland China;

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

(f) the "others" segment comprises, principally, the provision of other transportation services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions on 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 transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

**Six months ended 30 September 2018 (Unaudited)**

| | **Non-franchised bus** *HK$'000* | **Local limousine** *HK$'000* | **Franchised bus** *HK$'000* | **Hotel and tourism** *HK$'000* | **Mainland China bus** *HK$'000* | **Others** *HK$'000* | **Intersegment eliminations** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| Segment revenue: | | | | | | | | |
| External sales | **1,013,741** | **95,661** | **85,112** | **58,508** | **13,388** | **—** | **—** | **1,266,410** |
| Intersegment sales | **10,718** | **—** | **—** | **—** | **—** | **—** | **(10,718)** | **—** |
| Other income and gains, net | **28,148** | **472** | **1,255** | **380** | **1,435** | **—** | **—** | **31,690** |
| Total | **1,052,607** | **96,133** | **86,367** | **58,888** | **14,823** | **—** | **(10,718)** | **1,298,100** |
| Segment results | **79,451** | **6,957** | **(7,091)** | **(3,249)** | **(3,376)** | **(634)** | **—** | **72,058** |
| Reconciliation: | | | | | | | | |
| Finance costs | | | | | | | | **(32,090)** |
| Profit before tax | | | | | | | | **39,968** |

**Six months ended 30 September 2017 (Unaudited)**

| | Non-franchised bus *HK$'000* | Local limousine *HK$'000* | Franchised bus *HK$'000* | Hotel and tourism *HK$'000* | Mainland China bus *HK$'000* | Others *HK$'000* | Intersegment eliminations *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| Segment revenue: | | | | | | | | |
| External sales | 898,047 | 90,523 | 84,718 | 69,527 | 12,310 | — | — | 1,155,125 |
| Intersegment sales | 15,052 | — | — | — | — | — | (15,052) | — |
| Other income and gains, net | 78,505 | 1,017 | 851 | 430 | 1,758 | — | — | 82,561 |
| Total | 991,604 | 91,540 | 85,569 | 69,957 | 14,068 | — | (15,052) | 1,237,686 |
| Segment results | 151,080 | 7,473 | (3,644) | (2,389) | (2,421) | (477) | — | 149,622 |
| Reconciliation: | | | | | | | | |
| Finance costs | | | | | | | | (18,969) |
| Profit before tax | | | | | | | | 130,653 |

## 3. PROFIT BEFORE TAX

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

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Amortisation of intangible assets | **6,118** | 7,311 |
| Depreciation | **142,449** | 125,205 |
| Government subsidies | **(8,613)** | (9,101) |
| Fair value loss/(gain) on derivative financial instruments, net | **3** | (2,025) |
| Fair value loss/(gain) on financial assets at fair value through profit or loss, net | **(383)** | 473 |
| Gain on disposal of motor buses and vehicles together with passenger service licences | **(7,520)** | (58,680) |
| Gain on disposal of items of property, plant and equipment, net | **(209)** | (409) |

## 4. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 September 2017: 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.

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Current: | | |
| Hong Kong | **8,302** | 20,775 |
| Mainland China | **—** | 302 |
| Deferred | **(2,403)** | (442) |
| Total tax charge for the period | **5,899** | 20,635 |

## 5. DIVIDEND

| | Six months ended 30 September | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Dividend on ordinary shares declared and paid during the six month period: | | |
| Final dividend for the year ended 31 March 2018: HK12 cents (2017: HK12 cents) | **55,402** | 55,402 |
| Dividend on ordinary shares proposed for approval (not recognised as a liability as at 30 September): | | |
| Interim dividend for the year ending 31 March 2019: HK8 cents (2018: HK12 cents) | **36,935** | 55,402 |

The proposed interim dividend for the year ending 31 March 2019 was approved by the Board on 29 November 2018.

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

The calculation of the 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$37,434,000 (six months ended 30 September 2017: HK$111,911,000), and the weighted average number of ordinary shares of 461,686,000 (six months ended 30 September 2017: 461,686,000) in issue during the period.

No adjustment has been made to the basic earnings per share amounts for the six months ended 30 September 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares during these periods.

## 7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2018, additions of property, plant and equipment amounted to HK$215,207,000 (year ended 31 March 2018: HK$506,363,000). Items of property, plant and equipment with a net book value of HK$3,012,000 (year ended 31 March 2018: HK$25,067,000) were disposed of or written-off by the Group during the six months ended 30 September 2018.

## 8. TRADE RECEIVABLES

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **232,258** | 232,696 |
| Less: allowance for ECL | **(348)** | — |
| | **231,910** | 232,696 |

Included in the Group's trade receivables are amounts due from associates of HK$12,636,000 (31 March 2018: HK$12,247,000), which are repayable within 90 days.

The Group allows an average credit period ranging from 30 to 90 days for its trade debtors. 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of allowance for ECL, is as follows:

| | **30 September 2018 (Unaudited)** ***HK$'000*** | 31 March 2018 (Audited) *HK$'000* |
|---|---|---|
| Within 30 days | **156,941** | 179,458 |
| 31 to 60 days | **38,938** | 22,458 |
| 61 to 90 days | **10,487** | 12,938 |
| Over 90 days | **25,544** | 17,842 |
| | **231,910** | 232,696 |

## 9. TRADE PAYABLES

An ageing 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 2018 (Unaudited)** ***HK$'000*** | 31 March 2018 (Audited) *HK$'000* |
|---|---|---|
| Within 30 days | **37,693** | 41,383 |
| 31 to 60 days | **11,250** | 12,419 |
| 61 to 90 days | **4,136** | 3,064 |
| Over 90 days | **14,748** | 9,078 |
| | **67,827** | 65,944 |

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

## 10. PLEDGE OF ASSETS

As at 30 September 2018, certain of the Group's bank loans are secured by:

(i) the pledge of certain property, plant and equipment of HK$149,598,000 (31 March 2018: HK$144,417,000);

(ii) the pledge of certain time deposits of HK$64,922,000 (31 March 2018: HK$68,298,000); and

(iii) the pledge of certain financial assets at fair value through profit or loss of HK$23,274,000 (31 March 2018: HK$22,977,000).

## DIVIDEND

At a meeting of the Board held on 29 November 2018, the Directors resolved to pay an interim dividend of HK8 cents (2018: an interim dividend of HK12 cents) per ordinary share, for the six months ended 30 September 2018. The interim dividend will be paid on or about Monday, 24 December 2018 to the shareholders whose names appear on the register of members of the Company on Thursday, 13 December 2018.

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the interim dividend, the register of members of the Company will be closed on Thursday, 13 December 2018, on which no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, unregistered holders of shares of the Company should ensure that all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 12 December 2018.

## RESULTS

The unaudited consolidated profit attributable to owners of the parent for the six months ended 30 September 2018 was approximately HK$37.4 million, which represents a significant decrease of approximately 66.6% from that of approximately HK$111.9 million for the corresponding period last year. The large decrease in profit is mainly due to: (1) exceptionally significant gain on disposal of fixed assets amounted to approximately HK$59.1 million during the prior period, and the non-occurrence of such significant gain during the current period; (2) increase in fuel costs, frontline staff wages and finance costs during the current period as a result of soaring international fuel prices, the tension in labour supply market, and increase in bank borrowing interest rates respectively; and (3) incurrence of substantial expenditure in relation to preliminary preparation for the opening of the Hong Kong-Zhuhai-Macao Bridge ("HZMB") business, including higher depreciation charges arising from extra bus purchases, lease of cross-boundary bus quotas, driver recruitment and training, and promotion expenses during the current period.

The interim dividend for the current period is less than that for the corresponding period last year. The Board will consider the final dividend based on, among others, the financial performance.

## REVIEW OF OPERATIONS AND FUTURE PROSPECTS

### 1. Non-franchised Bus Segment

The non-franchised bus services provided by the Group include: (1) cross-boundary passenger transportation services between Hong Kong and Mainland China, and (2) local transport in Hong Kong of which the customers include students, employees, residents, tours, hotels, and contract hire services. In terms of the size of bus fleet, the Group continues to be the largest non-franchised bus operator in Hong Kong.

The tour bus businesses, especially those catered for "Meetings, Incentives, Conferences and Exhibitions" ("MICE"), cruises, and tour groups from Mainland China, have recovered gradually and this has led to an increase in the revenue of the Group. In face of the upward pressure on costs, the Group will continue to negotiate with its customers to reasonably raise its fares in the coming years while maintaining premium quality services.

The Guangdong-Shenzhen-Hong Kong Express Rail Link, which was open on 23 September 2018, has no significant adverse impact on the cross-boundary businesses of the Group. Most of our routes are not in direct competition with this high-speed rail, which connects mainly Hong Kong West Kowloon and Guangzhou South via a few intermediate stops in Guangdong Province. Our point-to-point bus services, with relatively lower fares, still have an edge in routes to the scattered cities in Guangdong.

With the acquisitions of some fellow operators in recent years, the turnover, the market share and the bus fleet of the non-franchised bus segment have grown. All these expansions allow the Group to be better equipped for the opening of the HZMB on 24 October 2018.

In prior period, the Group formed a joint venture with four other local operators and became one of the five 20% joint venture partners in Hongkong-Zhuhai-Macao Bridge Shuttle Bus Co., Ltd. ("HZMBSB"), which had successfully won the public tender as the Hong Kong party to participate in the HZMB cross-boundary shuttle bus (colloquially called the "Gold Bus") consortium with 38% equity interest.

The HZMB has become a well-known local attraction in addition to a cross-boundary thoroughfare. A high number of citizens and tourists, especially those from the Pearl River Delta, have visited the HZMB as individual travellers or on package tours shortly after the opening of the HZMB.

The Group, as a whole, is expected to benefit from the increased traffic and other business opportunities brought about by the opening of the HZMB.

**2. Local Limousine Segment**

The Group owned a fleet of limousines which caters for the airport and local transfers and on-hire requests of clients of numerous prestigious hotels in Hong Kong, covering both corporate and individual users.

The local limousine segment profit had dropped slightly during the six months ended 30 September 2018 owing to rising operational costs. Fortunately, the increased orders from some high-end hotels had compensated these negative impacts to a certain extent that a reasonable profit margin had still been maintained.

The Group will continue to explore the possibility of electronizing the limousine hailing system so that its end users can complete their limousine orders online via their mobile devices or computers. The Group believes the so called "e-hailing" will ease and shorten the booking process and enhance the competitiveness of its limousine business.

**3. Franchised Bus Segment**

As at 30 September 2018, New Lantao Bus Company (1973) Limited ("NLB"), a 99.99% (2017: 99.99%) owned subsidiary of the Company, was operating 23 (2017: 23) franchised bus routes, mainly in Lantau Island, with a fleet of 149 (2017: 124) buses. The routes servicing Yuen Long/Tin Shui Wai and Shenzhen Bay Port (B2 and B2P), and the shuttle bus services within Tung Chung New Town, have contributed much to NLB, both in terms of patronage as well as revenue. Greater net loss was incurred during the period mainly because of significant rise in operating costs, including but not limited to fuel, wages, insurance and repair and maintenance.

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

Two new cross-boundary franchised shuttle routes, namely B4 and B6, which connect the HZMB Hong Kong Port to Hong Kong International Airport ("HKIA") and Tung Chung respectively, have commenced operations following the opening of HZMB in October 2018. As mentioned above, there has been a high patronage of the HZMB Hong Kong Port and many travellers are day-trippers. As such, Tung Chung, the town with the closest access to the HZMB Hong Kong Port, is expected to experience a corresponding increase in visitors. We are confident that, these two new routes, especially B6, will bring about stable and reasonable profits to NLB and substantiate NLB's continuous growth in long term.

**4. Hotel and Tourism Segment**

***(a) Local tourism businesses***

The Group continues to operate a number of service counters at the Passenger Terminal Building of HKIA and throughout the urban areas of Hong Kong, to assist inbound visitors to Hong Kong or on transit with coach or limousine services to Mainland China. The Group is also operating four travel agencies in Hong Kong that cater for tour services.

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 Island, the Group provides packaged services that include transport, tour, and hotel reservations.

***(b) Chongqing Grand Hotel ("CQ Hotel")***

CQ Hotel is a 100% (2017: 100%) owned subsidiary running a 3-star 26-storey hotel in Chongqing, Mainland China. As expected, CQ Hotel had recorded a growth in profit for the six months ended 30 September 2018 as compared to that in the corresponding period in 2017. Thanks to the continuous hard work of the local management, a growth in room rental income had been driven by the increase in room occupancy rate from about 75% in the corresponding period in 2017 to about 88% in the six months ended 30 September 2018.

### *(c) Lixian Bipenggou Tourism Development Co., Ltd. ("Bipenggou Tourism")*

As at 30 September 2018, the Group owned 67.807% (2017: 67.807%) effective equity interest in Bipenggou Tourism. The scenic area of Bipenggou, Lixian has maintained its popularity in Sichuan Province, Mainland China and the number of patronage for the period was approximately 211,000 (six months ended 30 September 2017: 178,000). The number of patronage had increased during the six months ended 30 September 2018 as compared to that in the corresponding period in 2017 mainly owing to the low base effect that results from: (1) the massive debris flow happened in June 2017 near Lixian; (2) the heavy earthquake happened in August 2017 in Jiuzhai Valley, Sichuan; and (3) the large-scale road reconstruction works around Bipenggou carried out by the local government in 2017. All these incidents had led to a decrease in visitors to Sichuan for sightseeing during the six months ended 30 September 2017.

However, despite a warming trend in patronage, Bipenggou Tourism recorded a larger net loss during the period as: (1) hotel room rental income had decreased as a result of temporary refurbishment; (2) operational costs, especially depreciation had increased. As the six months ended 30 September 2018 corresponds to a relative slack season of Bipenggou while the peak autumn leaf season is from October to November, we are confident the results of Bipenggou Tourism will turn around greatly in the six months ending 31 March 2019.

## 5. Mainland China Bus Segment

### *Hubei Shenzhou Transport Holdings Ltd. ("Hubei Shenzhou")*

As at 30 September 2018, this 100% (2017: 100%) owned subsidiary of the Company was running a vast long-distance bus terminal and related transport business right at the central hub of Xiangyang City, Hubei Province. Net segment loss during the period had increased further as compared to that in the corresponding period last year owing to continuous parallel competition from high-speed rail transport.

The bus terminal, with its advantageous geographical location, is considered a valuable asset. However, without any change of the macro-economic climate, the performance of Hubei Shenzhou is expected to remain in the current state.

We will continue to work with the local management to explore solutions for the current dilemma.

## LIQUIDITY AND FINANCIAL RESOURCES

Funding for the Group's operations during the six months ended 30 September 2018 was sourced mainly from internally generated cash flows, with shortfalls being financed mainly by borrowings from banks and other financial institutions. As at 30 September 2018, the total outstanding indebtedness was approximately HK$1,889 million (31 March 2018: HK$1,674 million). The indebtedness comprised mainly term loans from banks and other financial institutions in Hong Kong and Mainland China, denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB") and United States dollars, respectively, and funds were deployed mainly for the purchase of capital assets and related investments. As at 30 September 2018, the Group's gearing ratio, which is computed based on dividing the total outstanding indebtedness by the total equity, was approximately 90.6% (31 March 2018: 78.9%).

## FUNDING AND TREASURY POLICIES, AND FINANCIAL RISK MANAGEMENT

The Group maintains prudent funding and treasury policies towards its overall business operations, with an aim to minimize financial risks. All prospective material investments or capital assets will be financed by internal cash flows from operations, bank facilities or other viable forms of finance in Hong Kong and/or Mainland China.

The investments and related liabilities, income and expenditure of the Group for its Hong Kong and Mainland China operations are mainly denominated in HKD and RMB, respectively. The Group has been watchful of the exchange rates of HKD against RMB, and will formulate plans to hedge against major foreign currency exchange risks if and when necessary.

The Group also pays vigilant attention to the interest rate risks, as the borrowings of the Group carry mainly floating interest rates. The Group has adopted measures including certain hedging instruments to minimize such risks.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2018, the total number of full-time employees of the Group was approximately 4,000. The Group recruits, employs, remunerates and promotes its employees based on their qualifications, experience, skills, performance and contributions. Remuneration is offered with reference to market rates. Salary and/or promotion review is conducted upon performance appraisal by management on a regular basis. Discretionary year-end bonus and share options, if applicable, are granted to eligible employees, in accordance with the Group's performance and individual's contribution. Ample in-house orientation and on-the-job training are arranged for the employees all year around. Employees are always encouraged to attend job-related seminars, courses and programs organized by professional or educational institutions, no matter in Hong Kong or overseas.

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

The Board is of the view that the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the six months ended 30 September 2018.

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 six months ended 30 September 2018.

## 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 six months ended 30 September 2018.

## AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company. The Interim Financial Statements of the Group have been reviewed by the audit committee.

## PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.kcbh.com.hk). The interim report of the Group for the six months ended 30 September 2018 containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course in accordance with the Listing Rules.

## APPRECIATION

The Board takes this opportunity to express its hearty gratitude to the Group's business partners, shareholders, and loyal and diligent staff.

On behalf of the Board
**Kwoon Chung Bus Holdings Limited**
**Wong Leung Pak, Matthew,** *BBS*
*Chairman*

Hong Kong, 29 November 2018

*As at the date of this announcement, the Board comprises Mr. Wong Leung Pak, Matthew, BBS, Mr. Wong Cheuk On, James and Mr. Lo Man Po as executive Directors and Mr. Chan Bing Woon, SBS, JP, Mr. James Mathew Fong and Mr. Chan Fong Kong, Francis as independent non-executive Directors.*