The Cross-Harbour (Holdings) Limited

港 通 控 股 有 限 公 司

(Stock Code : 32)

2007
Annual Report

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Corporate Information

Board of Directors

Executive Director

Cheung Chung Kiu *(Chairman)*

Yeung Hin Chung, John, OBE, JP *(Managing Director)*

Yuen Wing Shing

Wong Chi Keung

Leung Wai Fai

Tung Wai Lan, Iris

Non-executive Director

Lee Ka Sze, Carmelo

Wong Yat Fai

Independent Non-executive Director

Ng Kwok Fu

Luk Yu King, James *(appointed on 10 September 2007)*

Leung Yu Ming, Steven *(appointed on 1 October 2007)*

Wong Wai Kwong, David *(resigned on 26 July 2007)*

Wong Yat Fai *(re-designated as non-executive director on 1 October 2007)*

Audit Committee

Luk Yu King, James *(Chairman)* *(appointed on 10 September 2007)*

Lee Ka Sze, Carmelo

Ng Kwok Fu

Leung Yu Ming, Steven *(appointed on 1 October 2007)*

Wong Wai Kwong, David *(resigned on 26 July 2007)*

Wong Yat Fai *(resigned on 1 October 2007)*

Remuneration Committee

Cheung Chung Kiu *(Chairman)*

Ng Kwok Fu

Leung Yu Ming, Steven *(appointed on 1 October 2007)*

Wong Yat Fai *(resigned on 1 October 2007)*

Secretary

Leung Shuk Mun, Phyllis Sylvia

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Website: www.crossharbour.com.hk

Registrar & Transfer Office

Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

Auditors

KPMG
Certified Public Accountants

Share Listing

The Stock Exchange of Hong Kong Limited
Stock Code: 32

Performance

The Group reported a net profit of HK$261.7million for the year ended 31 December 2007, representing an increase of 51.4 percent as compared with HK$172.8 million in 2006. The increase was primarily attributable to an increase in contribution from the treasury segment. Earnings per share were HK$0.74 against HK$0.52 for 2006.

Final Dividend

A fourth and final dividend of HK$0.12 per share has been proposed and, if approved by the Shareholders, will result in total dividends of HK$0.30 per share for the year, the same as for 2006. Total dividends paid and proposed for the year will be HK$106.0 million.

Business Review and Outlook

2007 was indisputably a volatile year for the global economy. While the liquidity boom dominated the global financial market in the first half year, the US subprime crisis threw international financial institutions into disarray in the second half. However, benefited by the strong economic growth of the Mainland, the performance of the local economy in 2007 was still amazing. Bolstered by the influx of Mainland funds, falling interest rates, soaring wealth from rising asset prices and improving labour market, the headline unemployment rate continued to edge down and declined to a 10-year low of 3.4%, whereas consumer prices climbed to a nine-year high of 3.2% and the stock and property markets also hit the fresh highs.

Volatility continues to be an inevitable feature of global financial markets in 2008 against a backdrop of various concerns – subprime woes, slump in the US property market and the looming of US recession. The Hong Kong economy is unlikely to buck the trend and export growth is expecting a moderate deceleration. However, the continued strong growth in other emerging markets, and on the Mainland though moderating slightly on the back of cooling measures, may partially cushion the impact of a sharp slowdown in the external sector. Notwithstanding the strong domestic demand, the series of severe US interest rate cuts push local real interest rates to historical low level, even ushering in an era of negative real interest rates. Along with the import of inflation on RMB appreciation, consumer and asset prices are likely to be driven up. Private consumption, remains the key growth driver of the Hong Kong economy and is expected to continue to display strength in 2008.

The Autopass Company Limited ("Autopass") – 70% owned
Autotoll Limited ("Autotoll") – effectively 35% owned

Autotoll Limited, 50% owned by Autopass, provides electronic toll clearing ("ETC") facilities in Hong Kong covering ten different toll roads and tunnels. There are forty-eight auto-toll lanes in operation at present. Despite increasing difficulty in acquiring new subscribers, new tag subscription in 2007 was pleasing as compared with the faltering growth during the past few years. In view of the increasing enrolments for the "Autotoll-Unitoll Card" and the growing popularity of the Autotoll Club membership, projection for new tag subscriptions in the coming year remains optimistic.

On GPS service, increase market penetration remains to be the paramount objective. In order to enhance contribution from the GPS service in the coming years, Autotoll will continue to usher in new service concepts as well as to expand its service network in the Mainland market. In July 2007, Autotoll was awarded the tender for a trial project sponsored by the Government to develop and implement a data exchange platform, "On-Board Trucker Information System" (OBTIS), with the aim of enhancing the operational efficiency and competitiveness of the Hong Kong logistics and trucking industry. OBTIS, a location based trucking intelligent transport systems solution, utilizes technologies such as Global Positioning System (GPS), Radio Frequency Identification (RFID) etc., to automate and streamline the working processes of trucker operations. The success of OBTIS will pave way for Autotoll's participation in the development of a seamless system for cross-border cargo movements and customs clearance in the near future.

Regarding the RFID division, Autotoll has recently completed the development of four key supply chain solutions including asset management, production management, inventory management and human resources management and is prepared to roll out to markets of huge potential for RFID solutions and support services such as Pearl River Delta Region.

The Hong Kong School of Motoring Limited ("HKSM") – 70% owned

Although 2007 was a bonanza year for the local economy, it was another challenging year for the driving school business. The operation of the new driving school at Apleichau had commenced in early January upon the termination of the Wong Chuk Hang Centre. Hamstrung by the comparatively inconvenient location and unsatisfactory configuration of this replacement site, the first year lesson throughput generated by the new driving centre was lower than projected. As an aggregate result of shrinking market size, changes in the mode of consumers' spending and unfavourable operating environment due to the relocation of driving centre, HKSM recorded a decrease in the demand for driving lessons in the year under review. However, through continuing efforts by the management in brand rejuvenation and product innovation, higher lesson income unit rate and a general increase in the spending per customer were achieved. In the light of the tougher business environment ahead, HKSM will continue to focus on promoting the brand attributes of professionalism and excellence as a measure to buttress its pricing strategy as well as to defend its market share.

Western Harbour Tunnel Company Limited ("WHTCL") – 37% owned

The performance of the WHTCL in 2007 was remarked by a significant improvement in toll revenue boosted by the ecstatic consumer sentiment. The throughput of the Western Harbour Tunnel ("WHT") has increased significantly by 10% as compared with that of the previous year, and outperformed the almost 3% growth of the total cross-harbour traffic in the same year. In December 2007, the WHT again attained a new record high single daily throughput of over 67,000 vehicle journeys to celebrate its tenth anniversary since operation. To take advantage of further interest rate cuts, WHTCL refinanced its outstanding debt in February 2007 with a new syndicated loan facility of HK$3.5 billion at a lower interest cost for a longer loan tenor, and repaid HK$1.6 billion of its shareholders' loan.

Despite improved cashflow in the past years, maximizing revenue for the remaining period of the franchise remains of the utmost importance for WHTCL. To this end, WHTCL has implemented its fourth toll increase with effect from 6 January 2008. However, the actual tolls charged are still below the tolls gazetted in July 2007 and the on-going Midnight Empty Taxi and Midnight Goods Vehicle Promotions, which have been in effect for years, are further extended till 30 June 2008 in view of the positive response from the users. Looking ahead, we expect the revenue growth of WHTCL to remain solid in the coming year under the new tolls. It is also anticipated that the WHT will continue to benefit, in the long run, from the additional traffic induced by the booming property development in West Kowloon and the increasing cross-border traffic resulted from the opening of the Deep Bay Link.

Hong Kong Transport, Logistics and Management Company Limited ("HKTLMCL") – 37% owned

HKTLMCL, has managed the busiest Cross-Harbour Tunnel at Hunghom ("CHT") under a Management, Operation and Maintenance ("MOM") Contract with the Government for a period of twenty-six months since 1 September 2006, with an option for the Government to extend for further periods of up to twenty-four months upon expiry.

Looking Forward

We remain cautiously optimistic on the economic outlook of the Hong Kong economy in the coming year and we are confident that the Group will continue to create sustainable return for our shareholders in the years to come.

Acknowledgement

I would like to take this opportunity to extend my sincere appreciation to my fellow directors for their wise counsel and to all the staff for their dedicated hard work and contributions. Last but not least, I would like to express my gratitude to our shareholders for their support to the Group in the past years.

Cheung Chung Kiu
Chairman

Hong Kong, 14 March 2008

Operation Review

Autotoll

The total number of tags in circulation was around 226,000 as at 31 December 2007, representing an increase of almost 5% from the year before. Autotoll's penetration rate on licensed vehicles was about 40% on average. The overall usage of auto-toll facilities in all ten toll roads and tunnels maintained at about 50% with the highest usage at the Western Harbour Tunnel at around 60%. The daily transactions handled by Autotoll were about 334,000 with toll amount of approximately HK$6.7 million. The number of subscribers for the Global Positioning System at the end of the year under review was about 2,900.

Hong Kong School of Motoring ("HKSM")

HKSM recorded a decrease of 4% in tuition fees income due to a decline in the demand for driving lessons and a further reduction in the income from motorcycle training courses, as compared with the previous year. The dampening effect of lower throughput generated by the replacement site on the overall performance of the school, was however mitigated by the higher lesson income unit rate.

Western Harbour Tunnel ("WHT")

The construction of the Western Harbour Tunnel was completed in April 1997 at a total cost of HK$7 billion. The dual three-lane tunnel has been under-utilised due to lower tolls at the other cross-harbour tunnels and poor connecting roads leading to and from the WHT. The company will continue to work with the Government to improve the overall traffic flow of Hong Kong through better usage of the WHT.

Refinancing

During the year, the WHTCL completed its 2nd refinancing at a lower interest cost with a new loan facility of HK$3.5 billion. The repayment of the outstanding amount under the old facility was financed by drawdown from the new facility on 28 February 2007.

After 2nd refinancing, the interest margin has been reduced from 77 bps to 32 bps above HIBOR and the last date of loan repayment has been extended from February 2011 to February 2014. The cashflow position of WHTCL is expected to improve under the new loan repayment schedule.

Toll

The sixth toll gazettal took effect on 31 July 2007 due to the performance of the tunnel being below the target set in the WHC Ordinance. Although this allows the tunnel toll to be raised, actual tolls remained unchanged up to 5 January 2008.

With effect from 6 January 2008, toll charges for private cars, taxis and light buses have risen by HK$5 to HK$45, HK$40 and HK$55 respectively, while single and double decked buses are charged HK$80 (increased by HK$10) and HK$115 (increased by HK$15) respectively. Tolls on all other categories of vehicles, including goods vehicles and motorcycles, remain unchanged. The above toll increase is expected to improve the financial position of WHTCL.

Tunnel Usage

Throughput for the year was 17,817,704 vehicle journeys, representing an increase of 10.0% from 2006. The daily average throughput stood at 48,816 vehicle journeys and the market share of WHT increased from 19.4% in 2006 to 20.7% in 2007.

	Traffic Mix	
	2007	2006
Private Cars/Taxis and Motorcycles	**75.1%**	73.6%
Goods Vehicles	**10.8%**	11.0%
Buses	**14.1%**	15.4%
	100.0%	100.0%

In terms of traffic volume by vehicle category, usage by private cars, taxis and motorcycles in 2007 increased by 12.3% and usage by goods vehicles also increased by 8.2% while bus traffic increased slightly by 0.52% as compared to 2006. The average net toll per vehicle was slightly reduced from $45.52 in 2006 to $44.87 in 2007 due to a larger increase in private cars mix.

Accidents

The traffic accident occurrence rate decreased by 12.5% during 2007 due to enhancement of traffic safety measures implemented by the tunnel management to remind tunnel users of traffic safety.

	Occurrence Rate per million vehicle trips	
	2007	2006
Fatal Accidents	**0.00**	0.00
Traffic Accidents (Personal Injury)	**0.78**	1.48
Traffic Accidents (Damage Only)	**3.92**	3.89
TOTAL:	**4.70**	5.37

Breakdowns

The occurrence rate of breakdowns in 2007 reduced by 6.1% and the average time taken to attend the scene maintained below two minutes.

	2007	2006
Total Breakdowns (occurrence rate per million vehicle trips)	**15.37**	16.36
Daily Average Breakdowns	**0.75**	0.73

Escorts

	Number of trips	
	2007	2006
Dangerous Goods & Abnormal Goods	**1,504**	1,268

Infringements

The number of infringements per million vehicle trips decreased by 21.8% in 2007 because of decrease in the toll evasion cases and overspeeding vehicles after stringent prosecution on offenders was enforced. The number of prosecutions per million vehicle trips increased by 17.7%.

	Number of Events Per million vehicle trips	
	2007	2006
Total Infringements Reported	**402**	514
Prosecutions	**24.6**	20.9

Maintenance

Throughout the year 2007, all major tunnel systems operated in a safe and reliable condition.

Preventive maintenance work was performed on all engineering systems and no major defects were revealed in the course of the maintenance.

As an annual exercise, an Independent Consulting Engineer was engaged in November 2007 to conduct a maintenance audit, which showed that all tunnel infrastructure and systems had been maintained in compliance with Maintenance Manual, which is a standard agreed with the Highways Department.

Staff

Staff turnover for the year was 14.7% (2006 : 9.3%) with 32 members departed.

Cross-Harbour Tunnel at Hunghom

(managed by Hong Kong Transport, Logistics and Management Company Limited ("HKTLMCL"))

HKTLMCL operated the Cross-Harbour Tunnel ("CHT") at Hunghom under a Management, Operations and Maintenance ("MOM") Contract with the Government for a period of 26 months commencing 1 September 2006 with an option by the Government to extend for a further period of 24 months. The company was entitled to a management fee income from, and shared the advertising revenue with, the Government.

Tunnel Usage

Traffic throughput during 2007 was 44,865,912 vehicle journeys, representing a decrease of 0.76% from 2006.

In terms of vehicle mix profile, the private cars category (i.e. private cars, taxis and motorcycles) decreased by 0.1% as compared to last year, while usage by buses decreased by 0.1% and usage by goods vehicles increased by 0.2%. CHT's average toll per vehicle decreased to $15.77 in 2007 from $15.82 last year.

	Traffic Mix	
	2007	2006
Private Cars/Taxis and Motorcycles	**66.3%**	66.4%
Goods Vehicles	**22.9%**	22.7%
Buses	**10.8%**	10.9%
	100.0%	100.0%

Accidents

The overall traffic accident occurrence rate increased by 12.76% during 2007. The company took constant measures to remind tunnel users of road safety.

	Occurrence Rate per million vehicle trips	
	2007	2006
Fatal Accidents	**0.00**	0.00
Traffic Accidents (Personal Injury)	**1.09**	0.71
Traffic Accidents (Damage Only)	**15.43**	13.94
TOTAL:	**16.52**	14.65

Breakdowns

The occurrence rate of breakdowns in 2007 reduced by 1.35% and the average time taken to attend the scene maintained at two minutes.

	2007	2006
Total Breakdowns (occurrence rate per million vehicle trips)	31.34	31.77
Daily Average Breakdowns	3.85	3.93

Escorts

	Number of trips	
	2007	2006
Dangerous Goods & Abnormal Goods	1,230	1,281

Infringements

The number of infringements and prosecutions per million vehicle trips increased by 50.55% and 61.70% respectively mainly due to traffic offences.

Infringements included 19 excessive smoke emissions from vehicles, which the company referred to the Environmental Protection Department for action.

	Number of Events per million vehicle trips	
	2007	2006
Total Infringements Reported	26.95	17.90
Prosecutions	20.86	12.90

Maintenance

All major tunnel systems operated satisfactorily. Major replacement works were carried out continuously by the Highways Department, Architectural Services Department and Electrical and Mechanical Services Department.

During the contract period, the unit cost of replacement and maintenance of tunnel equipment which exceeds a value of HK$120,000 shall be borne by the Government.

Staff

Staff turnover for the year was 16.1% (2006 : 10.7%) with 40 members either retired or resigned.

Set out below is information disclosed pursuant to the listing rules of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"):

Commentary on Annual Results

(I) Review of 2007 Results

The Group reported a profit attributable to shareholders of HK$261.7 million for the year ended 31 December 2007, an increase of 51.4% compared with HK$172.8 million in 2006. Earnings per share were HK$0.74 compared to HK$0.52 for the previous year. The improvement in 2007 results was mainly attributable to the increase in profit contribution from the treasury segment.

The Group's turnover for the year was HK$290.8 million, increased by HK$16.5 million or 6.0% as compared to HK$274.3 million recorded in 2006.

The Hong Kong School of Motoring Limited recorded a decrease in turnover of 3.4% to HK$214.9 million as a result of a decrease in tuition fees income due to decline in both demand for driving lessons and income from motorcycle courses despite an increase in the lesson income unit rate. The operating profit decreased by 5.4% as compared with the previous year as a result of an increase in depreciation.

The Group's share of net profits less losses of associates, primarily contributed by the operations of the Western Harbour Tunnel ("WHT"), has decreased by 5.5% to HK$101.1 million as compared to HK$107.0 million in 2006, despite an increase of 8.4% in toll revenue resulting from improved throughput and market share. The unfavourable variance was attributable to increases in amortization expense (calculated on a units-of-usage basis) and finance costs as a result of increased loan balance after second refinancing. The Group's share of taxation of associates was primarily the utilization of deferred tax assets by WHTCL. With effect from 1 January 2003, in order to comply with HKAS 12 "Income taxes", WHTCL has recognized deferred tax assets in respect of the future benefit of tax losses, as the management of WHTCL considers it probable that future taxable profits will be available against which the tax losses can be utilized. As a result, WHTCL recorded a taxation charge for the year.

The Group's share of net profit from a jointly controlled entity, Autotoll Limited, was HK$11.7 million for the year against HK$9.6 million recorded in the previous year, representing an increase of 21.9% as an aggregate result of moderate growth in the number of subscribers and increase in project income.

(II) Investments

At 31 December 2007, the Group maintained a portfolio of investments, composed of listed securities, equity-linked notes and derivative financial instruments, with an aggregate market value of HK$791.0 million. Equity-linked notes and certain trading securities were pledged to the financial institution to secure margin and securities facilities granted to the Group in respect of securities and derivatives transactions. Dividend income received therefrom in 2007 amounted to HK$15.1 million.

Commentary on Annual Results *(continued)*

(III) Liquidity and Financial Resources

At 31 December 2007, the Group had bank balances and deposits in the amount of HK$1,210.4 million. The substantial increase in cash balance was primarily due to the partial repayment of shareholders' loan from WHTCL. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities were not utilized by the Group during the year.

Except for the Group's investment in trading securities denominated in foreign currencies other than the United States dollars, the Group's major sources of income, major assets and borrowings are denominated in Hong Kong dollars. Further information on the Group's foreign currency exposure is provided in note 26(d) to the financial statements on pages 93 and 94.

The Group did not have long-term debts outstanding as at 31 December 2007 and 2006.

(IV) Comments on Segmental Information

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries, associates and a jointly controlled entity are the operation of motoring schools, tunnels and an electronic toll collection system, and investment. Further information on the segmental details is provided in note 12 to the financial statements on pages 70 to 72.

(V) Employees

The Group has 596 employees. Employees are remunerated according to the job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from provident fund schemes and medical insurance, discretionary bonuses and employee share options are awarded to employees of the Group at the discretion of the directors, depending upon the financial performance of the Group. Total staff costs for the year amounted to HK$120.2 million. Detailed information is set out in note 8 to the financial statements on page 67.

The Company also operates a Share Option Scheme, details of which are set out in the Report of the Directors on pages 27 to 29.

Executive Director

Cheung Chung Kiu, aged 43, was appointed Chairman of the Company on 21 March 2001. Mr. Cheung was born and educated in Chongqing, the PRC. He set up Chongqing Industrial Limited ("Chongqing Industrial", a company engaged mainly in the trading business in the PRC) in 1985. He is the founder and chairman of Yugang International Limited ("Yugang"), chairman of Y. T. Realty Group Limited ("Y. T. Realty") and C C Land Holdings Limited ("C C Land"), all being listed public companies in Hong Kong. He is director of Palin Holdings Limited, Chongqing Industrial, Yugang International (B.V.I.) Limited ("Yugang BVI"), Funrise Limited ("Funrise"), Y. T. Investment Holdings Limited ("Y. T. Investment") and Honway Holdings Limited ("Honway") which, together with Yugang and Y. T. Realty, are companies disclosed in the section headed "Interests and Short Positions of Shareholders" on page 30.

Yeung Hin Chung, John OBE, JP, aged 61, was appointed Managing Director of the Company on 1 August 2001. Mr. Yeung holds a doctorate in management. Prior to joining the Company, he had held various key management positions in the Government of Hong Kong, where he last served as Deputy Director of Immigration; and in the private sector, where he last worked as the chief executive of a large trading consortium. He is a member of the Chinese People's Political Consultative Conference, Guangzhou, the PRC. Mr. Yeung is active in community service and is member of the Municipal Services Appeals Board and the Lotteries Fund Advisory Committee, and Vice Chairman of Hong Kong Repertory Theatre Limited. He is a member of the Advisory Committee of Hong Kong Community College, The Hong Kong Polytechnic University, a Visiting Professor of Asia International Open University (Macau) and a Senior Visiting Scholar of Beijing Normal University.

Yuen Wing Shing, aged 61, was appointed Executive Director of the Company on 21 March 2001. Mr. Yuen holds a diploma in management studies from The Hong Kong Polytechnic University. Prior to joining the Company, he had held senior management positions with a major bank in Hong Kong for over 20 years. He is the managing director of Yugang, an executive director of Y. T. Realty and a non-executive director of Silver Grant International Industries Limited, a listed public company in Hong Kong. He is director of Yugang BVI, Funrise, Y. T. Investment and Honway.

Wong Chi Keung, aged 52, was appointed Executive Director of the Company on 21 March 2001. Mr. Wong holds a doctorate in business and is member of Hong Kong Institute of Housing, Chartered Institute of Housing, and The Chinese People's Political Consultative Conference, Nanning City, Guangxi, the PRC. He is fellow of Hong Kong Institute of Real Estate Administrators and The Hong Kong Institute of Directors, an honorary fellow of Guangxi Academy of Social Science and vice chairman of Officers' Club, Hong Kong Auxiliary Medical Services. He has held various senior executive positions with some of Hong Kong's leading property companies and property consultant firms for the past 30 years, and has taken an active role in public and voluntary services. He is the managing director of Y. T. Realty, an independent non-executive director of Water Oasis Group Limited, a listed public company in Hong Kong, and director of Y. T. Investment and Honway.

Leung Wai Fai, aged 46, was appointed Executive Director of the Company on 21 March 2001. Mr. Leung graduated from University of Wisconsin at Madison, USA with a bachelor degree in business administration. He is fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is an executive director of C C Land and the group financial controller of Yugang.

Tung Wai Lan, Iris, aged 42, was appointed Executive Director of the Company on 21 March 2001. Ms. Tung holds a master of philosophy degree from The Chinese University of Hong Kong. She is an executive director of Y. T. Realty and director of Y. T. Investment and Honway.

Non-executive Director

Lee Ka Sze, Carmelo, aged 47, was appointed Independent Non-executive Director of the Company on 21 March 2001 and re-designated Non-executive Director on 30 September 2004. Mr. Lee received his bachelor of laws degree and postgraduate certificate in laws from The University of Hong Kong. He is a partner in Messrs. Woo, Kwan, Lee & Lo, Hong Kong legal advisers to the Company. He is an independent non-executive director of KWG Property Holding Limited and non-executive director of China Pharmaceutical Group Limited, Hopewell Holdings Limited, Safety Godown Company, Limited, Termbray Industries International (Holdings) Limited, Taifook Securities Group Limited, Yugang and Y. T. Realty, all being listed public companies in Hong Kong.

Wong Yat Fai, aged 48, was appointed Independent Non-executive Director of the Company on 30 September 2004 and re-designated Non-executive Director on 1 October 2007. Mr. Wong holds a professional diploma in banking from The Hong Kong Polytechnic University. He has over 13 years of experience working with an international banking group. He is an executive director of GR Vietnam Holdings Limited (formerly, 139 Holdings Limited) and non-executive director of Yugang, Y. T. Realty and C C Land, all being listed public companies in Hong Kong.

Independent Non-executive Director

Ng Kwok Fu, aged 36, was appointed Independent Non-executive Director of the Company on 30 September 2004. Mr. Ng holds a certificate in accounting from Grant MacEwan Community College, Canada. He has over 18 years of experience in the marketing, trading, purchasing and developing of construction materials and in technical control, support and management in building projects. He is independent non-executive director of Yugang and Y. T. Realty.

Luk Yu King, James, aged 53, was appointed Independent Non-executive Director of the Company on 10 September 2007. Mr. Luk graduated from The University of Hong Kong with a bachelor degree in science. He is a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and an ordinary member of Hong Kong Securities Institute. He has over 10 years of experience in corporate finance, securities and commodities trading business with several international and local financial institutions. He is independent non-executive director of Yugang and Y. T. Realty.

Leung Yu Ming, Steven, aged 48, was appointed Independent Non-executive Director of the Company on 1 October 2007. Mr. Leung received his bachelor of social science degree from The Chinese University of Hong Kong and master degree in accountancy from Charles Sturt University, Australia. He is an associate of The Institute of Chartered Accountants in England and Wales, and fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong. Mr. Leung is also a certified practising accountant of CPA Australia and a practising certified public accountant in Hong Kong. He commenced public practice in auditing and taxation in 1990 and is currently the senior partner in a CPA firm. Apart from accounting and taxation, he has over 22 years of experience in assurance, financial management and corporate finance, including working as assistant vice president with Nomura International (Hong Kong) Limited, International Finance and Corporate Finance Department. He is independent non-executive director of Suga International Holdings Limited, Yugang, Y. T. Realty and C C Land, all being listed public companies in Hong Kong.

Senior Management

Chung Wai Yee, Stella, aged 46, was appointed Financial Controller and Qualified Accountant of the Company on 1 July 2001 and 31 March 2004 respectively. Ms. Chung received her bachelor of commerce degree from The University of New South Wales, Australia and master degree in business administration from The Chinese University of Hong Kong. She is fellow of CPA Australia and the Hong Kong Institute of Certified Public Accountants, and associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Prior to joining the Company, she was a senior manager of corporate planning with a major listed property investment company in Hong Kong.

Shareholder Value

The Company is committed to upholding the principles of good corporate governance that supports wealth creation, which in turn drives more investment and employment. These principles highlight an effective board, a sound internal control system as well as transparency and accountability. The board considers such commitment essential in balancing the interests of investors, customers and employees while advancing shareholder wealth through greater efficiency. The Company sees to it that the corporate governance agenda is focused on improving performance and not just bogged down in conformity and compliance.

Corporate Governance Practices

Throughout the accounting period covered by the annual report, the Company has met the code provisions of the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Rules 3.10 and 3.21 of the Listing Rules

During the year, Mr. Wong Wai Kwong, David resigned as an independent non-executive director and a member and the chairman of the audit committee with effect from 26 July 2007. Following Mr. Wong's resignation, the number and qualifications of independent non-executive directors failed to meet the requirements under rule 3.10 of the Listing Rules, and the composition of the audit committee failed to meet the requirement under rule 3.21 of the Listing Rules.

In order to address the above non-compliance, the board appointed Mr. Luk Yu King, James as an independent non-executive director and a member and the chairman of the audit committee with effect from 10 September 2007.

Directors' Securities Transactions

The Company has adopted a code (the "Securities Code") for directors' dealing in its securities (of which the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "Model Code") forms part) at least as exacting as the Model Code. Each director is given a copy of the Securities Code on appointment (or has been given one for those appointed before the adoption of the Securities Code) and thereafter twice annually, one month before the date of the board meeting to approve the Company's half-year results or annual results, notification of the restraint period during which the directors (and their spouses and infant children) must not deal in any of the Company's securities.

The Company has also adopted a code for relevant employees (within the meaning of the CG Code) regarding securities transactions on terms no less exacting than the required standard set out in the Model Code. Notification of the restraint period is given to the relevant employees in the same manner as the directors.

All directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code and the Securities Code throughout the year.

Board of Directors

The Company is governed by a board of directors which assumes responsibility for leadership and control of the Company. The directors are collectively responsible for promoting the success of the Company by directing and supervising its affairs. In discharging their duties, the directors exercise care, diligence and skill and act in good faith and in the best interests of the Company and its shareholders as a whole.

The board is structured so that it makes the maximum contribution to the overall objective of preserving and creating wealth for shareholders. As at the date of this report, it comprises the chairman, the managing director and four other executive directors; and five non-executive directors three of whom are independent non-executive directors. Biographical details of the directors, which show a good balance of skills and experience among them, are given on pages 13 to 15.

The board met regularly during the year at quarterly intervals. Apart from the four regular meetings, the board held three other meetings during the year, two of which relate to the re-designation and/or appointment of directors (the "nomination meetings") and one relates to the resignation of directors. Attendance records of those regular meetings, nomination meetings and the one other meeting held in 2007 are respectively as follows:

	No. of regular meetings attended / held	No. of nomination meetings attended / held	No. of other meetings attended / held
Executive Director			
Cheung Chung Kiu *(Chairman)*	4/4	1/2	1/1
Yeung Hin Chung, John *(Managing Director)*	4/4	1/2	1/1
Yuen Wing Shing	4/4	2/2	1/1
Wong Chi Keung	4/4	2/2	1/1
Leung Wai Fai	4/4	2/2	1/1
Tung Wai Lan, Iris	3/4	2/2	1/1
Non-executive Director			
Lee Ka Sze, Carmelo [1]	4/4	0/2	0/1
Wong Yat Fai [2]	1/1	N/A	N/A
Independent Non-executive Director			
Ng Kwok Fu [3]	4/4	2/2	1/1
Luk Yu King, James [4] *(appointed on 10 September 2007)*	2/2	1/1	N/A
Leung Yu Ming, Steven [5] *(appointed on 1 October 2007)*	1/1	N/A	N/A
Wong Wai Kwong, David [6] *(resigned on 26 July 2007)*	2/2	N/A	N/A
Wong Yat Fai [2] *(re-designated as non-executive director on 1 October 2007)*	3/3	2/2	1/1

Board of Directors *(continued)*

Notes:

1 The term of office for Mr. Lee Ka Sze, Carmelo is approximately three years, commencing 11 May 2007 and ending at the close of the annual general meeting in 2010.

2 The term of office for Mr. Wong Yat Fai is approximately three years, commencing 29 May 2006 and ending at the close of the annual general meeting in 2009. Mr. Wong attended all seven meetings during the year, as to six meetings prior to his re-designation and as to one meeting after his re-designation.

3 The term of office for Mr. Ng Kwok Fu is approximately three years, commencing 29 May 2006 and ending at the close of the annual general meeting in 2009.

4 The term of office for Mr. Luk Yu King, James commenced at the date of his appointment, namely, 10 September 2007. Mr. Luk retires at the general meeting next following his appointment. During the year, Mr. Luk attended all three meetings held after his appointment.

5 The term of office for Mr. Leung Yu Ming, Steven commenced at the date of his appointment, namely, 1 October 2007. Mr. Leung retires at the general meeting next following his appointment. During the year, Mr. Leung attended the only meeting held after his appointment.

6 The term of office for Mr. Wong Wai Kwong, David is approximately three years, commencing 11 May 2007 and ending at the close of the annual general meeting in 2010. During the year, Mr. Wong attended both two meetings held prior to his resignation.

7 Notwithstanding any contractual or other terms of appointment or engagement, the non-executive directors are subject to retirement by rotation at least once every three years under the Company's articles of association and the Listing Rules.

The board's primary role is to protect and maximize long-term shareholder value and to balance broader stakeholder interests. It sets the business strategy of the Company and its subsidiaries (the "Group") and monitors its development in pursuit of the overall objective of wealth preservation and creation.

The board, led by the chairman, is accountable to shareholders for the management of the Company. It appoints management and delegates thereto the powers and the authority to manage the Company while reserving certain decisions and actions for itself, and performing them effectively. The managing director in turn delegates aspects of management and administrative functions to executives who report directly to him on a regular basis.

Besides management appointments, the types of decisions to be taken by the board include the following: board and senior management; relations with the members and stakeholders; financial matters; business strategy; capital expenditures; lease or purchase of buildings; major transactions not included in the budget; actions or transactions involving legality or propriety; and internal control and reporting systems.

The directors acknowledge their responsibility for preparing the accounts. Such responsibility extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

The board is also responsible for the integrity of financial information and for ensuring its timely disclosure. Arrangements are made which will allow them to be satisfied that the accounts are true and fair, which accurately disclose the financial position of the Company, and which comply with statutory requirements and applicable accounting standards.

Board of Directors *(continued)*

The board acknowledges its responsibility for maintaining sound and effective internal controls and to this end reviews the effectiveness of the system of internal controls at least annually. The directors have conducted the annual review of the effectiveness of the Group's internal control system in 2007. The review covered all material controls, including financial, operational and compliance controls and risk management functions.

The Company has clearly established written policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Group's internal control system is designed to safeguard shareholders' investment and the assets against unauthorized use and disposition; to ensure the maintenance of proper accounting records and the truth and fairness of the financial statements; and to ensure compliance with relevant legislation and regulations. The board recognizes that the purpose of internal controls is to help manage and control, rather than eliminate, risks and internal controls can only provide reasonable, and not absolute, assurance against misstatement or loss.

The board confirms that the Company has a process for identifying, evaluating, and managing the significant risks to the achievement of its operational objectives. This process is subject to continuous improvement and was in place throughout 2007 and up to the date of this report. In formulating the risk management strategy, the board ensures that the risks facing the Company have been assessed, and that the policies for handling them are up to date and are being complied with. No significant control failings were reported during the year and up to the date of this report.

The board has delegated the day-to-day operations of the Company to a committee comprising all the executive directors and given clear directions as to the powers of management conferred thereon. The executive committee so established forms the core of the management team, with additional members from the second line of management.

The main responsibilities of management are to execute the business strategies and initiatives adopted by the board; to consider and approve investments and divestments; and to manage the assets and liabilities of the Group in accordance with the policies and directives of the board.

Management reviews the operating and financial performance of the Group against agreed budgets and targets on a monthly basis. Major matters that are specifically discharged by management are the preparation of annual and interim reports, the implementation of systems of internal control and risk management, and compliance with all applicable rules and regulations.

The board has ratified a written statement giving clear directions as to the functions reserved for itself and those delegated to management. It reviews those arrangements on an annual basis to ensure that they remain appropriate to the needs of the Company.

Board of Directors *(continued)*

In addition to the executive committee, the board has appointed two board committees (the remuneration committee and the audit committee) to deal with specific matters and to advise the board or, where appropriate, decide on behalf of the board on such matters. Both these committees have terms of reference which accord with the principles set out in the CG Code and are posted on the Company's website. The secretary of each appointed committee minutes all matters discussed or decided at each meeting and the work of each committee is reported to the board. Further information relating to the remuneration committee and the audit committee is provided in the remainder of this report.

The board has separate and independent access to information and to executives at all times. Management ensures that the board and its committees receive adequate information in a timely manner to enable them to make informed decisions. The right of access extends to board papers and related materials, as well as to the secretary of the Company who regularly updates the board on governance and regulatory matters. Any director, wishing to do so in furtherance of his or her duties, may seek through the chairman at the Company's expense such independent professional advice as may be recommended by the Company or as deemed fit by the independent non-executive directors provided that such approval may not be unreasonably withheld or delayed. The provision of independent professional advice is also available to the remuneration and audit committees.

New directors, together with existing board members, are provided with the opportunity to visit the operating divisions and meet up with management to gain a proper understanding of the Group's business and operations. Each newly appointed director is given a package of materials comprising the latest quarterly management reports, annual and interim reports of the Company, as well as guidelines on directors' duties and on corporate governance. In addition, the mini-library maintained by the company secretarial department, open to directors and senior management during office hours, is well stocked with publications of the Company and all applicable rules, codes, ordinances and acts to the Group. Directors are welcome to borrow these materials and make copies of them.

The Company has in force appropriate insurance cover on directors' and officers' liabilities arising from the Group's business. The extent of insurance cover is reviewed by management each year.

Chairman and Managing Director

The positions of chairman and managing director are held by separate individuals with the defined roles of managing the board and managing the affairs of the Company respectively. The board considers that vesting the roles in different individuals is essential in ensuring a balance of power and authority and in upholding independence, accountability and responsibility with respect to the management of the Company. The division of responsibilities between the chairman and managing director has been clearly established and set out in writing.

The chairman provides leadership for the board, ensuring its effectiveness in all aspects of its role. The managing director, supported by the management team, provides planning and implementation.

The chairman ensures that all directors are properly briefed on issues arising at board meetings and that all key and appropriate issues are discussed by the board in a timely manner. Board meetings for each year are scheduled in advance to give all directors an opportunity to attend, and are structured to encourage open discussion. All board members are encouraged to update their knowledge of and familiarity with the Group through active participation at board meetings.

Chairman and Managing Director *(continued)*

The chairman settles the agenda for each individual board meeting, taking into account any additional items proposed by the managing director and arising from current operating issues, as well as such other matters as may be raised by the other directors with him, who can include them on the agenda. The agenda and accompanying board papers are sent in full to all directors where possible at least 3 days before the time appointed for the meeting.

It is also the chairman's responsibility to control board meetings, to lead the board's discussions to clear conclusions, and to satisfy himself that the secretary of the meeting has understood each conclusion reached. The secretary and the qualified accountant of the Company attend board meetings to advise on corporate governance practices and accounting and financial matters, where appropriate.

Minutes of board meetings and meetings of board committees are kept by a duly appointed secretary of the meeting and open for inspection by any director. Draft and final versions of minutes of board meetings are sent to all directors for their comments and records respectively.

Remuneration of Directors

The Company established the remuneration committee on 30 June 2005 to discharge remuneration related duties, namely, to make proposals on remuneration policy and structure (and where appropriate, determine remuneration packages) and other human resources issues relating to directors and senior management.

As at the date of this report, the remuneration committee comprises the chairman of the board, Mr. Cheung Chung Kiu who is also chairman of the committee, and two independent non-executive directors, Mr. Ng Kwok Fu and Mr. Leung Yu Ming, Steven.

The remuneration committee met once in 2007, during which meeting no member took part in any discussion about his own remuneration. Attendance record is as follows:

	No. of meetings attended / held
Cheung Chung Kiu *(Chairman)*	1/1
Ng Kwok Fu	1/1
Leung Yu Ming, Steven *(appointed on 1 October 2007)*	1/1
Wong Yat Fai *(resigned on 1 October 2007)*	N/A

The principal elements of the executive remuneration package include basic salary, discretionary bonus without capping and share option (if any). The emoluments received by every executive director and senior executive are based on time commitment and responsibilities to be undertaken, and are determined with reference to corporate and individual performance as well as remuneration benchmark in the industry and the prevailing market conditions.

The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to retain and maintain a stable, motivated and high-calibre management team by linking their remuneration with performance as measured against corporate objectives. Under the policy, no director is allowed to approve his or her own remuneration.

Remuneration of Directors *(continued)*

The remuneration committee has reviewed this policy, and determined individual remuneration packages of all executive directors in accordance therewith while delegating the approval of senior management's remuneration packages to Mr. Cheung Chung Kiu and Mr. Yuen Wing Shing. The committee considered that the executive directors' remuneration for 2007 was in line with comparators in peer group companies.

The remuneration of non-executive directors is subject to annual assessment and determined with reference to his qualifications, experience, involvement in the Company's affairs and the prevailing market level or remuneration of similar position.

Details of directors' remuneration, as determined by or on behalf of the board, are set out in note 7 to the financial statements on page 65 and 66.

Nomination of Directors

The full board participates in the selection of individuals nominated for directorships and the Company has not established a nomination committee. Individuals, suitably qualified and expected to make a positive contribution to the performance of the Company, are identified by existing directors and nominated to the board. When assessing the suitability of a candidate, the board takes into consideration factors such as time commitment, professional knowledge, expertise and industry experience, integrity and skill as well as the ability to demonstrate a standard of competence commensurate with the position as a director of a listed Company. A candidate for the office of independent non-executive director must also satisfy the independence criteria set out in rule 3.13 of the Listing Rules.

Auditors' remuneration

Auditors' remuneration for the year amounted to a total of HK$1.23 million, as to HK$1.05 million for audit services, as to HK$0.14 million for review services and as to HK$0.04 million for tax services.

Audit Committee

The Company established an audit committee on 1 January 1999 with reference to the guidelines issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). New terms of reference of the audit committee have been adopted to meet the requirements of the CG Code.

The audit committee is tasked with responsibilities relating to the auditing of the accounts, the accounting policies and practices adopted by the Group, as well as financial reporting and internal control matters. The committee meets regularly to discuss those matters and to this end has unrestricted access to the Company's management and external auditor. The committee is chaired by Mr. Luk Yu King, James, an independent non-executive director. Other members are Mr. Ng Kwok Fu and Mr. Leung Yu Ming, Steven, who are independent non-executive directors, and Mr. Lee Ka Sze, Carmelo, non-executive director.

Audit Committee *(continued)*

Regular meetings have been held by the audit committee since its establishment. The committee met three times in 2007 with attendance records as follows:

	No. of meetings attended / held
Luk Yu King, James [1] *(Chairman)* *(appointed on 10 September 2007)*	2/2
Lee Ka Sze, Carmelo	3/3
Ng Kwok Fu	3/3
Leung Yu Ming, Steven [2] *(appointed on 1 October 2007)*	1/1
Wong Wai Kwong, David [3] *(resigned on 26 July 2007)*	1/1
Wong Yat Fai [4] *(resigned on 1 October 2007)*	2/2

Notes:

1 Mr. Luk Yu King, James attended both two meetings held after his appointment.

2 Mr. Leung Yu Ming, Steven attended the only meeting held after his appointment.

3 Mr. Wong Wai Kwong, David attended the only meeting held prior to his resignation.

4 Mr. Wong Yat Fai attended both two meetings held prior to his resignation.

During the year, the audit committee reviewed the Company's interim and annual reports and accounts, paying attention to any changes in accounting policies and practices, major judgmental areas and significant adjustments arising from audit. It also reviewed the Company's financial reporting system and internal control procedures. The work and findings of the committee were reported to the board.

At a meeting held in December 2007 for that purpose, the audit committee received an annual review report from management on the effectiveness of the Group's internal control system. Management concluded, they were satisfied that the prevailing internal control system was adequately in place to facilitate the effectiveness and efficiency of operations, to safeguard assets against unauthorized use and disposition, to ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, as well as to ensure compliance with relevant legislation and regulations. There revealed no significant areas of improvement which were required to be brought to the attention of the audit committee. The committee discussed the report and concurred with the conclusion reached.

At the meeting last held in March 2008, the audit committee discussed with the external auditor their independence and scope of the audit. The committee was satisfied with the findings of its review with respect to audit issues, including the external auditor's independence and objectivity and the effectiveness of the audit process. The committee was also satisfied that all issues raised had been addressed by management, who confirmed that save as disclosed in the accounts, there existed no other matters which were required to be brought to the attention of the committee.

Audit Committee *(continued)*

The audit committee also reviewed the Company's financial controls, internal control and risk management systems and ensured that management had discharged its duty to maintain an effective internal control system. Management confirmed that since the November 2007 report, there had been no changes in the Company's activities, business or operating units and internal control procedures. The committee concluded that as there had been no changes since the last annual review in the nature and extent of significant risks, no further work was needed. As with the findings of the November 2007 report, the committee confirmed the adequacy and effectiveness of the Group's internal control system.

The audit committee has recommended to the board the re-appointment of KPMG as the Company's external auditor for 2008 and delegated to management to approve the remuneration and the terms of engagement of the external auditor. The committee has also recommended to the board the tabling of the 2007 accounts for shareholders' approval at the forthcoming annual general meeting.

Conclusion

The board believes that the Company maintains good corporate governance practices throughout the year. The board continues to review those practices, with a view to achieving the objective of wealth preservation and creation for shareholders.

The directors submit their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

Principal Activities

The principal activity of the Company is investment holding while the principal activities of its subsidiaries are set out in note 14 to the financial statements on pages 75 and 76.

During the year, more than 90% of the Group's trading operations in terms of both turnover and operating profit were carried out in Hong Kong. An analysis of the Group's turnover and operating profit for the year is set out in note 3 to the financial statements on page 62.

Results and Appropriations

The results of the Group and appropriations of profit for the year ended 31 December 2007 are set out in the consolidated profit and loss account on page 36 and note 10 to the financial statements on page 68 respectively.

The first, second and third quarterly interim dividends each of HK$0.06 per share (2006: HK$0.06 per share) were paid on 27 July 2007, 12 October 2007 and 7 January 2008 respectively. The directors recommend the payment of a final dividend of HK$0.12 per share (2006: HK$0.12 per share) which, together with the interim dividends, make total dividends for the year ended 31 December 2007 of HK$0.30 per share (2006: HK$0.30 per share), representing a total distribution of approximately HK$106.0 million (2006: HK$106.0 million) for the year.

Subject to the shareholders' approval of the proposed final dividend at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 9 May 2008 to shareholders registered on 2 May 2008. The member register and transfer books of the Company will be closed from 30 April 2008 to 2 May 2008, both days inclusive, in order to determine the proposed dividend entitlements.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK$14,000 (2006: HK$30,800).

Fixed Assets

Movements in fixed assets during the year are set out in note 13 to the financial statements on pages 73 and 74.

Share Capital

Movement in the share capital of the Company during the year is set out in note 25(c) to the financial statements on page 88.

Reserves

Movements in reserves during the year are set out in note 25 to the financial statements on pages 86 to 90.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 101 and 102.

Major Suppliers and Customers

During the year, less than 30% of the Group's purchases (not being purchases of items of a capital nature) were attributable to the Group's five largest suppliers, whereas less than 30% of the Group's turnover were attributable to the Group's five largest customers (being the five largest customers of The Hong Kong School of Motoring Limited, a 70%-owned subsidiary). None of the directors; their associates; or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in these suppliers and customers.

Directors

The directors serving for the year and up to the date of this report are listed on page 2.

Mr. Luk Yu King, James ("Mr. Luk") was appointed as an independent non-executive director on 10 September 2007 to fill the casual vacancy arising from the resignation of Mr. Wong Wai Kwong, David, former independent non-executive director on 26 July 2007. Mr. Leung Yu Ming, Steven ("Mr. Leung") was appointed as an independent non-executive director to fill the casual vacancy arising from the re-designation of Mr. Wong Yat Fai, former independent non-executive director, as non-executive director on 1 October 2007. Each of them shall hold office only until the general meeting next following his appointment in accordance with article 94 of the articles of association. Accordingly, Mr. Luk and Mr. Leung retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for election.

In accordance with article 82, Mr. Yeung Hin Chung, John, Mr. Yuen Wing Shing, Mr. Wong Chi Keung and Mr. Wong Yat Fai retire from office by rotation this year and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

The Company has received from each of its independent non-executive directors an annual confirmation of his independence and it still considers them to be independent.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

The register kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") shows the following interest of a director in the shares of the Company as at 31 December 2007:

Name	Capacity	No. of shares	% of issued share capital
Cheung Chung Kiu	Interest of controlled corporation	148,254,432	41.94%

Note:

The above interest of Mr. Cheung Chung Kiu ("Mr. Cheung") represents a long position. Mr. Cheung was deemed to be interested in those shares by virtue of his indirect shareholding interest in Honway Holdings Limited ("Honway") which owned those shares. Honway was a wholly owned subsidiary of Y. T. Investment Holdings Limited ("Y. T. Investment") which in turn was a wholly owned subsidiary of Y. T. Realty Group Limited ("Y. T. Realty"). Yugang International (B.V.I.) Limited ("Yugang BVI"), through its wholly owned subsidiary, Funrise Limited ("Funrise"), owned 34.14% of the issued share capital of Y. T. Realty. Yugang BVI was a wholly owned subsidiary of Yugang International Limited ("Yugang"). Mr. Cheung, Timmex Investment Limited (a company wholly owned by Mr. Cheung) and Chongqing Industrial Limited ("Chongqing Industrial") owned 0.57%, 9.16% and 34.33% of the issued share capital of Yugang respectively. Chongqing Industrial was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited (a company owned by Mr. Cheung and his associates), as to 30% by Peking Palace Limited ("Peking Palace") and as to 5% by Miraculous Services Limited ("Miraculous Services"). Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.

Save as disclosed herein, as at 31 December 2007, there was no interest recorded in the register kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Code for Securities Transactions by Directors adopted by the Company on 1 January 2005.

Share Option Scheme

On 29 April 2005, the Company adopted a share option scheme (the "New Scheme") and terminated the one it adopted on 8 May 2001 (the "Old Scheme"), details of which are given in the Company's circular dated 13 April 2005 (the "Scheme Circular"). The New Scheme complies with the requirements of Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") as published by The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

A summary of the New Scheme is set out below.

(1) Purpose : To provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to, the participants and for such other purposes as the board may approve from time to time

Share Option Scheme *(continued)*

(2)	Participants	:	Any director (or any person proposed to be appointed as such, whether executive or non-executive), officer and employee (whether full-time or part-time) of each member of the Eligible Group (as defined in the Scheme Circular); any business consultant, professional and other advisers (in the areas of legal, technical, financial or corporate managerial) (including any executive, officer and employee of such business consultant, professional and other advisers) to each member of the Eligible Group (or persons proposed to be appointed as such) who has rendered service or will render service to the Group, as absolutely determined by the board
(3)	Total number of shares available for issue (% of issued share capital as at 14 March 2008)	:	28,015,985 shares (7.9%)
(4)	Maximum entitlement of each participant	:	1% of the total number of shares in issue in any 12-month period
(5)	Period within which the shares must be taken up under an option	:	To be determined by the board at its absolute discretion, such period to expire not later than ten years from the date of grant of the option
(6)	Minimum period for which an option must be held before exercise	:	To be determined by the board at its absolute discretion
(7)	Amount payable on application or acceptance of the option	:	HK$1.00
(8)	Basis of determining the exercise price	:	The exercise price shall be a price solely determined by the board, such price being no less than the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (c) the nominal value of a share
(9)	Remaining life	:	Until 28 April 2015

Share Option Scheme *(continued)*

Pursuant to the Old Scheme, options over 19,200,000 shares had been granted to eligible participants and all such options remained exercisable throughout the year. Particulars of those outstanding options at the beginning and at the end of the year are set out in the table below.

Type of participant	No. of outstanding options at the beginning and at the end of the year	Date of grant	Vesting period	Exercise period	Exercise price per share
Directors	Nil	N/A	N/A	N/A	N/A
Other employees	19,200,000	30 August 2001	Nil	30 August 2001 to 7 May 2011	HK$2.492

During the year, no option lapsed and no option was granted, exercised or cancelled under the Old Scheme and the New Scheme.

Directors' Rights to Acquire Securities

Save for the New Scheme noted above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements whose objects are, or one of whose objects is, to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Contracts

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

Mr. Lee Ka Sze, Carmelo is a partner in Messrs. Woo, Kwan, Lee & Lo and as such has an interest in the normal remuneration paid by the Company to that firm for the services rendered to the Company during the year.

Interests and Short Positions of Shareholders

As at 31 December 2007, so far as is known to the directors of the Company, the following persons, other than the directors, had, or were deemed to have, interests in the shares of the Company as recorded in the register kept under section 336 of the SFO:

(I) Long Positions

Name	Capacity	No. of shares	Total no. of shares	% of issued share capital
Palin Holdings Limited	Interest of controlled corporation	145,022,432	145,022,432[1]	41.03%
Chongqing Industrial	Interest of controlled corporation	145,022,432	145,022,432[1]	41.03%
Yugang	Interest of controlled corporation	145,022,432	145,022,432[1]	41.03%
Yugang BVI	Interest of controlled corporation	145,022,432	145,022,432[1]	41.03%
Funrise	Interest of controlled corporation	145,022,432	145,022,432[1]	41.03%
Y. T. Realty	Interest of controlled corporation	145,022,432	145,022,432[1]	41.03%
Y. T. Investment	Interest of controlled corporation	145,022,432	145,022,432[1]	41.03%
Honway	Beneficial owner	145,022,432	145,022,432[1]	41.03%
Deutsche Bank Aktiengesellschaft	Beneficial owner	4,000		
	Investment manager	12,705,000		
	Security interest	17,282,000	29,991,000	8.48%
PMA Capital Management Limited	Investment manager	29,030,000	29,030,000	8.21%
Sheldon Fenton Kasowitz[2]	Interest of controlled corporation	17,705,000	17,705,000	5.01%
David Nathan Kowitz[2]	Interest of controlled corporation	17,705,000	17,705,000	5.01%
Indus Capital Partners, LLC [2]	Investment manager	17,705,000	17,705,000	5.01%

(II) Short Positions

Name	Capacity	No. of shares	Total no. of shares	% of issued share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner	4,000	4,000	0.00%

Notes:

1. Each parcel of 145,022,432 shares represents the same shareholding interest of Honway and is duplicated in Mr. Cheung's interest as set out on page 27. Each of Palin Holdings Limited, Chongqing Industrial, Yugang, Yugang BVI, Funrise, Y. T. Realty and Y. T. Investment was deemed to be interested in those shares by virtue of its direct/indirect shareholding interest in Honway.

2. Messrs. Sheldon Fenton Kasowitz and David Nathan Kowitz owned 35.3% each of Indus Capital Partners, LLC.

Save as disclosed herein, there was no person known to the directors of the Company, who, as at 31 December 2007, had, or was deemed to have, any interest or short position in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO, other than as disclosed on page 27.

Retirement Schemes

The Group operates a defined contribution retirement scheme, and two Mandatory Provident Fund schemes (the "MPF Schemes"). Particulars of those schemes are set out below.

(I) Pension Scheme

(i) Nature of the scheme

The principal scheme operated by the Group is a defined contribution retirement scheme for the employees of The Hong Kong School of Motoring Limited.

(ii) Funding of the scheme

The benefits of the scheme were funded in 2007 by a 5% contribution by employees and a 5% contribution by The Hong Kong School of Motoring Limited based on the annual salaries of employees. The contributions excluded the costs of administration and term life assurance.

(iii) Costs of the scheme

Total costs of the scheme, amounting to HK$2.7 million, were charged to the Group's profit and loss account for the year under review. The required contribution rate was calculated as 5% of the total salaries payable during the year.

(iv) Forfeited contributions of the scheme

There is no available balance of forfeited contributions that may be used to reduce the existing level of contributions under the scheme as at 31 December 2007 and a total amount of HK$0.2 million was utilized during the year.

(II) MPF Schemes

As from 1 December 2000, the Group has operated two MPF Schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement scheme. The MPF Schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF Schemes, the employer and its employees are each required to make contributions to the schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. The total amount of contributions to the MPF Schemes charged to the Group's profit and loss account for the year was HK$2.2 million.

Disclosure under Rules 13.20 and 13.22 of the Listing Rules

(I) Financial Assistance

In relation to the provision of financial assistance by the Company to Western Harbour Tunnel Company Limited ("WHTCL"), a 37%-owned associate of the Company, as previously disclosed in the Company's interim report and financial statements for the half-year ended 30 June 2007, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 31 December 2007. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK$413.83 million as at 31 December 2007.

Terms of the Financial Assistance

WHTCL, a consortium, was granted a thirty-year franchise to construct and operate the Western Harbour Tunnel ("WHT") in accordance with the Western Harbour Crossing Ordinance enacted on 22 July 1993. The construction of the WHT was completed in April 1997 at a total cost of HK$7 billion. In addition to external loan finance, the project was partly financed by the shareholders' fund of the consortium in the form of equity and shareholders' loan in proportion to their shareholdings.

The loan to WHTCL bears interest at such rate as may be agreed from time to time among all the shareholders of WHTCL, currently being fixed at 1% per annum. The loan is repayable on demand as may from time to time be agreed among WHTCL's shareholders, subject to certain financial parameters of a syndicated loan being fulfilled. No security is provided to the Group for the loan.

(II) Guarantee

The Company entered into a guarantee ("Guarantee") on 6 July 2006 in favour of The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), given for the benefit of Hong Kong Transport, Logistics and Management Company Limited ("HKTLMCL"), a company which is owned as to 37% by the Company, to the extent of approximately HK$28.5 million, which becomes effective as from 1 September 2006 (the commencement date of the new MOM Contract). The Guarantee is given to HSBC in return for it providing a guarantee in favour of the Government of the Hong Kong SAR on behalf of HKTLMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel at Hunghom and the operation and maintenance of the tunnel equipment by HKTLMCL.

Disclosure under Rules 13.20 and 13.22 of the Listing Rules *(continued)*

(III) Combined Balance Sheet of Affiliated Companies

Set out below is a combined unaudited balance sheet of WHTCL and HKTLMCL as at 31 January 2008 (being the latest practicable date for determining the relevant figures):

	HK$'000
Total assets	5,224,617
Other liabilities	(2,974,861)
	2,249,756
Share capital and reserves	1,130,356
Shareholders' loans	1,119,400
	2,249,756

Further Corporate Information

Further information of the Group which is required to be disclosed pursuant to the Listing Rules is set out on pages 11 and 12.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company maintained throughout the year the prescribed amount of public float under the Listing Rules.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company during the year.

Auditors

The financial statements for the year have been audited by KPMG, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Cheung Chung Kiu
Chairman

Hong Kong, 14 March 2008

Independent auditor's report to the shareholders of
The Cross-Harbour (Holdings) Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of The Cross-Harbour (Holdings) Limited (the "Company") set out on pages 36 to 100, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

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

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

14 March 2008

Consolidated Profit and Loss Account

for the year ended 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Turnover	3	**290,846**	274,339
Other revenue	4	**5,018**	10,780
Other net income	4	**100,136**	7,329
Direct costs and operating expenses		**(112,827)**	(109,120)
Selling and marketing expenses		**(29,246)**	(31,381)
Administrative and corporate expenses		**(66,742)**	(63,871)
Operating profit before finance costs		**187,185**	88,076
Finance costs	5(a)	**(2,139)**	(1,212)
Operating profit	3	**185,046**	86,864
Share of profits less losses of associates		**101,147**	107,045
Share of profits of a jointly controlled entity		**11,691**	9,557
Profit before taxation	5	**297,884**	203,466
Income tax	6(a)	**(16,222)**	(11,509)
Profit for the year		**281,662**	191,957
Attributable to:			
Equity shareholders of the Company	9,25(a)	**261,660**	172,796
Minority interests	25(a)	**20,002**	19,161
Profit for the year	25(a)	**281,662**	191,957
Dividends payable to equity shareholders of the Company attributable to the year:	10		
Interim dividends declared during the year		**63,628**	63,628
Final dividend proposed after the balance sheet date		**42,419**	42,419
		106,047	106,047
Earnings per share	11		
Basic		**$0.74**	$0.52
Diluted		**$0.71**	$0.49

The notes on pages 45 to 100 form part of these financial statements.

		2007		2006	
	Note	$'000	$'000	$'000	$'000
Non-current assets					
Fixed assets	13(a)				
- Property, plant and equipment			82,230		95,081
- Interest in leasehold land held for own use under operating leases			28,806		29,535
			111,036		124,616
Interest in associates	15		826,863		1,318,421
Interest in a jointly controlled entity	16		29,214		22,523
Available-for-sale securities	17		623,458		614,409
Deferred tax assets	24(b)		290		140
			1,590,861		2,080,109
Current assets					
Trading securities	18	136,235		105,633	
Equity-linked notes	19	49,965		46,598	
Inventories		945		685	
Trade and other receivables	20	21,507		23,845	
Cash and cash equivalents	21	1,210,379		437,001	
		1,419,031		613,762	
Current liabilities					
Trade and other payables	22	83,536		72,051	
Course fees received in advance		67,317		66,494	
Taxation payable	24(a)	12,223		8,674	
Interim dividends payable		21,316		1,493	
		184,392		148,712	

Consolidated Balance Sheet

as at 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Net current assets			1,234,639		465,050
Total assets less current liabilities			2,825,500		2,545,159
Non-current liability					
Deferred tax liabilities	24(b)		1,500		1,350
NET ASSETS			2,824,000		2,543,809
CAPITAL AND RESERVES	25(a)				
Share capital			353,488		353,488
Reserves			2,401,538		2,129,815
Total equity attributable to equity shareholders of the Company			2,755,026		2,483,303
Minority interests			68,974		60,506
TOTAL EQUITY			2,824,000		2,543,809

Approved and authorised for issue by the board of directors on 14 March 2008.

Yeung Hin Chung, John
Director

Yuen Wing Shing
Director

The notes on pages 45 to 100 form part of these financial statements.

Company Balance Sheet

as at 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Non-current assets					
Fixed assets	13(b)		218		179
Interest in subsidiaries	14		499,200		696,415
Interest in associates	15		562,244		1,149,227
			1,061,662		1,845,821
Current assets					
Trade and other receivables	20	694		485	
Cash and cash equivalents	21	963,422		232,463	
		964,116		232,948	
Current liabilities					
Trade and other payables	22	24,109		21,817	
Interim dividends payable		21,316		1,493	
		45,425		23,310	
Net current assets			918,691		209,638
NET ASSETS			1,980,353		2,055,459
CAPITAL AND RESERVES	25(b)				
Share capital			353,488		353,488
Reserves			1,626,865		1,701,971
TOTAL EQUITY			1,980,353		2,055,459

Approved and authorised for issue by the board of directors on 14 March 2008.

Yeung Hin Chung, John
Director

Yuen Wing Shing
Director

The notes on pages 45 to 100 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

(Expressed in Hong Kong dollars)

		2007		2006	
	Note	$'000	$'000	$'000	$'000
Total equity balance at 1 January			2,543,809		2,172,829
Net income recognised directly in equity:					
Changes in fair value of available-for-sale securities	25(a)		178,658		84,872
Net income for the year recognised directly in equity			178,658		84,872
Transfers from equity:					
Cash flow hedge: transfers from equity to profit or loss	25(a)		(5,721)		(3,181)
Transfer to profit or loss on disposal of available-for-sale securities	25(a)		(56,811)		—
			(62,532)		(3,181)
Net profit for the year	25(a)		281,662		191,957
Total recognised income and expense for the year			397,788		273,648
Attributable to:					
- Equity shareholders of the Company		377,770		254,213	
- Minority interests		20,018		19,435	
		397,788		273,648	

		2007		2006	
	Note	$'000	$'000	$'000	$'000
Dividends declared or approved during the year	25(a)		(106,047)		(98,977)
Minority interest's share of dividend	25(a)		(11,550)		(14,280)
Movements in equity arising from capital transactions:					
Shares issued upon exercise of share option	25	—		210,589	
			—		210,589
Total equity at 31 December			2,824,000		2,543,809

The notes on pages 45 to 100 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2007

(Expressed in Hong Kong dollars)

	Note	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Operating activities					
Profit before taxation		297,884		203,466	
Adjustments for:					
- Dividend income from investments		(15,087)		(15,061)	
- Amortisation of land lease premium		729		729	
- Depreciation		23,738		19,419	
- Finance costs		2,139		1,212	
- Interest income		(49,402)		(31,070)	
- Share of profits less losses of associates		(101,147)		(107,045)	
- Share of profits of a jointly controlled entity		(11,691)		(9,557)	
- Net gain on sale of fixed assets		(583)		(1,852)	
- Net realised and unrealised gains on trading securities		(39,587)		(831)	
- Net gain on sale of available-for-sale securities		(74,028)		—	
- Net realised and unrealised losses/(gains) on derivative financial instruments		14,690		(4,662)	
- Net unrealised gain on equity-linked notes		(628)		16	
Operating profit before changes in working capital		47,027		54,764	
Increase in inventories		(260)		(64)	
(Increase)/decrease in trade and other receivables		(881)		1,819	
Increase in trade and other payables		6,508		1,824	
Increase in course fees received in advance		823		6,477	
Cash generated from operations		53,217		64,820	

	Note	2007		2006	
		$'000	$'000	$'000	$'000
Tax paid					
- Hong Kong profits tax paid		(12,673)		(10,114)	
Net cash from operating activities			40,544		54,706
Investing activities					
Payments for the purchase of fixed assets		(19,692)		(16,293)	
Proceeds from sale of fixed assets		812		2,079	
Payments for the purchase of available-for-sale securities		—		(116,186)	
Payments for the purchase of equity-linked notes		(41,623)		(69,939)	
Payments for the purchase of trading securities		(335,794)		(235,787)	
Payments for the purchase of derivative financial instruments		(4,892)		(748)	
Proceeds from sale of available-for-sale securities		189,791		—	
Proceeds from sale of trading securities		338,246		131,116	
Proceeds from sale of derivative financial instruments		14,115		—	
Proceeds from sale of equity-linked notes		38,884		23,325	
Dividends received from investments		11,702		12,569	
Dividend received from a jointly controlled entity		5,000		5,000	
Repayment of loan from an associate		592,000		62,900	
Interest received		44,198		20,577	
Net cash from/(used in) investing activities			832,747		(181,387)

		2007		2006	
	Note	$'000	$'000	$'000	$'000
Financing activities					
Proceeds from shares on exercise of share option		—		190,589	
Other borrowing costs		(2,139)		(764)	
Dividends paid		(86,224)		(97,740)	
Dividends paid to minority shareholders		(11,550)		(14,280)	
Net cash (used in)/from financing activities			(99,913)		77,805
Net increase/(decrease) in cash and cash equivalents			773,378		(48,876)
Cash and cash equivalents at 1 January			437,001		485,877
Cash and cash equivalents at 31 December	21		1,210,379		437,001

The notes on pages 45 to 100 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their value as explained in the accounting policies set out below:

— financial instruments classified as available-for-sale or as trading securities (see note 1(f)); and

— derivative financial instruments (see note 1(g)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 Significant accounting policies *(continued)*

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group or Company. Control exists when the Group or Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising form intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant accounting policies *(continued)*

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements, using accounting policies consistent with those of the Group, under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated profit and loss account includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(e) and 1(k)).

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(k)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

The significant accounting policies adopted by the associates and jointly controlled entity are consistent with those of the Group. Tunnel is stated in the accounts of the associate at cost less accumulated depreciation and impairment losses. Amortisation of the cost of the tunnel of the associate is calculated to write off the cost over the franchise period on a units-of-usage basis whereby amortisation is provided based on the share of traffic volume for a particular period over the projected total traffic volume for the remainder of the franchise period of the tunnel. The projected traffic volume, residual values and useful lives are reviewed, and adjusted if appropriate by management of the associate at each balance sheet date.

1 Significant accounting policies *(continued)*

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entity, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading and equity-linked notes are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these recognised in accordance with the policies set out in note 1(s)(iii), (iv) and (v).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(s)(iii)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(s)(v). When these investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1 Significant accounting policies *(continued)*

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(h)).

(h) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

1 Significant accounting policies *(continued)*

(i) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)):

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(j)); and

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of their estimated useful lives, being 10 years after the date of completion, and the unexpired terms of the leases.

— Furniture, fixtures and equipment	3 - 10 years
— Motor vehicles	3 - 5 years
— Yacht	3 - 10 years
— Leasehold improvements	Remaining term of the lease

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 Significant accounting policies *(continued)*

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(k) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable date that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

1 Significant accounting policies *(continued)*

(k) Impairment of assets *(continued)*

(i) Impairment of investments in equity securities and other receivables (continued)

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 Significant accounting policies *(continued)*

(k) Impairment of assets *(continued)*

(i) Impairment of investments in equity securities and other receivables (continued)

— For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— investments in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale); and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1 Significant accounting policies *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

1 Significant accounting policies *(continued)*

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of the completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(k)).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

1 Significant accounting policies *(continued)*

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement scheme. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 Significant accounting policies *(continued)*

(q) Income tax *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies *(continued)*

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Recognition of income

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) The principal source of income from motoring school operations is driving course fee income which is recognised in the profit and loss account upon the completion of the relevant training lessons.

(ii) Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income is recognised as it accrues using the effective interest method.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

1 Significant accounting policies *(continued)*

(u) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

1 Significant accounting policies *(continued)*

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 26.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 25.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32).

3 Turnover and operating profit

The principal activity of the Company is investment holding and those of its subsidiaries are set out in note 14 to the financial statements. Given below is an analysis of the turnover and operating profit of the Group:

	Turnover		Operating profit	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Principal activities				
Motoring school operations	**214,856**	222,396	**44,370**	46,917
Investment and other activities	**75,990**	51,943	**140,676**	39,947
	290,846	274,339	**185,046**	86,864

4 Other revenue and other net income

	2007	2006
	$'000	$'000
Other revenue		
Interest income from loan to an associate	**5,018**	10,312
Interest income from other loan	**—**	468
	5,018	10,780
Other net gains/(losses)		
Net gain on sale of available-for-sale securities	**74,028**	—
Net realised and unrealised gains on trading securities	**39,587**	831
Net realised and unrealised (losses)/gains on derivative financial instruments	**(14,690)**	4,662
Net unrealised gain on equity-linked notes	**628**	(16)
Net gain on sale of fixed assets	**583**	1,852
	100,136	7,329

5 Profit before taxation

	2007 $'000	2006 $'000
Profit before taxation is arrived at after charging:		
(a) Finance costs		
Interest on convertible loan/notes	—	448
Other borrowing costs	2,139	764
	2,139	1,212
(b) Other items		
Amortisation of land lease premium	729	729
Depreciation	23,738	19,419
Auditors' remuneration		
- statutory audit services	1,054	896
- other services	172	157
Operating lease charges - land and buildings	10,988	13,718
Contributions to defined contribution retirement scheme	4,688	4,600
Salaries, wages and other benefits (excluding directors' emoluments)	115,542	118,577
Cost of inventories consumed	8,835	7,719
and after crediting:		
Dividend income from listed investments	15,087	15,061
Interest income	49,402	31,070
Net foreign exchange gain	1,215	207

6 Income tax in the consolidated profit and loss account

(a) Taxation in the consolidated profit and loss account represents:

	2007 $'000	2006 $'000
Current tax - Hong Kong Profits Tax		
Provision for the year	15,168	12,968
Under/(over)-provision in respect of prior years	1,054	(679)
	16,222	12,289
Deferred tax		
Origination and reversal of temporary differences	—	(780)
	16,222	11,509

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2007 $'000	2006 $'000
Profit before tax	297,884	203,466
Notional tax on profit before tax calculated at 17.5%	52,130	35,607
Tax effect of non-deductible expenses	4,389	2,194
Tax effect of non-taxable revenue	(45,699)	(28,017)
Tax effect of current year's tax losses not recognised	4,348	2,404
Under/(over)-provision in prior years	1,054	(679)
Actual tax expense	16,222	11,509

7 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

2007

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2007 Total $'000
Executive director					
Cheung Chung Kiu	—	—	6,000	1	6,001
Yeung Hin Chung, John	—	2,710	2,500	12	5,222
Yuen Wing Shing	—	—	1,000	1	1,001
Wong Chi Keung	—	—	—	—	—
Leung Wai Fai	—	—	1,000	1	1,001
Tung Wai Lan, Iris	—	—	400	1	401
Non-executive director					
Lee Ka Sze, Carmelo	500	—	—	—	500
Wong Yat Fai (re-designated as non-executive director on 1 October 2007)	200	—	—	—	200
Independent non- executive director					
Luk Yu King, James (appointed on 10 September 2007)	300	—	—	—	300
Ng Kwok Fu	200	—	—	—	200
Leung Yu Ming, Steven (appointed on 1 October 2007)	100	—	—	—	100
Wong Wai Kwong, David (resigned on 26 July 2007)	300	—	—	—	300
	1,600	2,710	10,900	16	15,226

7 Directors' remuneration *(continued)*

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows: *(continued)*

2006

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2006 Total $'000
Executive director					
Cheung Chung Kiu	—	—	5,000	1	5,001
Yeung Hin Chung, John	—	2,470	2,000	12	4,482
Yuen Wing Shing	—	—	800	1	801
Wong Chi Keung	—	—	—	—	—
Leung Wai Fai	—	—	800	1	801
Tung Wai Lan, Iris	—	—	800	1	801
Non-executive director					
Lee Ka Sze, Carmelo	400	—	—	—	400
Independent non-executive director					
Wong Wai Kwong, David	400	—	—	—	400
Wong Yat Fai	200	—	—	—	200
Ng Kwok Fu	200	—	—	—	200
	1,200	2,470	9,400	16	13,086

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2006: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2006: three) individuals are as follows:

	2007 $'000	2006 $'000
Salaries and other emoluments	2,260	2,776
Discretionary bonuses and/or performance-related bonuses	700	630
Retirement scheme contributions	77	98
	3,037	3,504

The emoluments of the two (2006: three) individuals with the highest emoluments are within the following bands:

	2007 Number	2006 Number
Bands (in HK$)		
Not more than $1,000,000	—	1
$1,000,001 - $1,500,000	1	2
$1,500,001 - $2,000,000	1	—
	2	3

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of $14,631,000 (2006: profit of $17,473,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2007 $'000	2006 $'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	14,631	17,473
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	16,310	28,000
Company's profit for the year (note 25(b))	30,941	45,473

10 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	2007 $'000	2006 $'000
Interim dividends declared of $0.18 per share (2006: $0.18 per share)	63,628	63,628
A fourth and final dividend proposed after the balance sheet date of $0.12 per share (2006: $0.12 per share)	42,419	42,419
	106,047	106,047

A fourth and final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2007 $'000	2006 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.12 per share (2006: $0.10 per share)	42,419	35,349

11 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $261,660,000 (2006: $172,796,000) and the weighted average of 353,488,000 ordinary shares (2006: 333,151,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007 '000	2006 '000
Issued ordinary shares at 1 January	353,488	300,841
Effect of share options exercised	—	32,310
Weighted average number of ordinary shares at 31 December	353,488	333,151

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $261,660,000 (2006: $173,166,000) and the weighted average number of ordinary shares of 366,526,000 shares (2006: 351,633,000 shares), calculated as follows:

(i) *Profit attributable to ordinary equity shareholders of the Company (diluted):*

	2007 $'000	2006 $'000
Profit attributable to ordinary equity shareholders	261,660	172,796
After tax effect of effective interest on liability component of convertible loan/notes	—	370
Profit attributable to ordinary equity shareholders (diluted)	261,660	173,166

11 Earnings per share *(continued)*

(b) Diluted earnings per share *(continued)*

(ii) Weighted average number of ordinary shares (diluted):

	2007 '000	2006 '000
Weighted average number of ordinary shares at 1 January	353,488	333,151
Effect of deemed issue of shares of conversion of convertible loan/notes	—	7,080
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	13,038	11,402
Weighted average number of ordinary shares (diluted) at 31 December	366,526	351,633

12 Segment reporting

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the reporting format because this is considered by management to be more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:
Motoring school operations
Tunnel operations
Electronic toll operations
Treasury

Geographical segments

No information has been disclosed in respect of the Group's geographical segments as the Group operates only one geographical segment which is Hong Kong.

12 Segment reporting *(continued)*

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Unallocated		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Turnover	214,856	222,396	2,872	2,873	12,600	12,600	59,472	35,351	1,046	1,119	290,846	274,339
Other revenue	–	–	–	–	–	–	5,018	10,780	–	–	5,018	10,780
Total revenue	214,856	222,396	2,872	2,873	12,600	12,600	64,490	46,131	1,046	1,119	295,864	285,119
Segment result	44,370	46,917	2,872	2,873	12,519	12,527	163,454	57,626	(7,233)	(6,653)	215,982	113,290
Unallocated operating expenses											(28,797)	(25,214)
Operating profit before finance costs											187,185	88,076
Finance costs	–	–	–	–	–	–	(2,139)	(1,212)	–	–	(2,139)	(1,212)
Operating profit											185,046	86,864
Share of profits less losses of associates	–	–	101,147	107,045	–	–	–	–	–	–	101,147	107,045
Share of profits of a jointly controlled entity	–	–	–	–	11,691	9,557	–	–	–	–	11,691	9,557
Profit before taxation											297,884	203,466
Income tax	(7,660)	(7,260)	–	–	(2,164)	(2,166)	(6,426)	(2,054)	28	(29)	(16,222)	(11,509)
Profit for the year											281,662	191,957
Depreciation for the year	18,588	14,446	–	–	–	–	–	–	5,150	4,973	23,738	19,419
Amortisation of land lease premium	729	729	–	–	–	–	–	–	–	–	729	729
Capital expenditure incurred during the year	8,853	22,812	–	–	–	–	–	–	2,263	298	11,116	23,110

12 Segment reporting *(continued)*

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segment assets	266,478	255,493	–	–	–	–	1,887,337	1,097,434	2,153,815	1,352,927
Interest in associates	–	–	826,863	1,318,421	–	–	–	–	826,863	1,318,421
Interest in a jointly controlled entity	–	–	–	–	29,214	22,523	–	–	29,214	22,523
Total assets	266,478	255,493	826,863	1,318,421	29,214	22,523	1,887,337	1,097,434	3,009,892	2,693,871
Segment liabilities	92,911	101,258	6,961	6,983	1,221	1,204	46,336	23,951	147,429	133,396
Unallocated liabilities									38,463	16,666
Total liabilities									185,892	150,062

13 Fixed assets

(a) The Group

	Buildings held for own use carried at cost $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Yacht $'000	Leasehold improvements $'000	Sub-total $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:								
At 1 January 2006	100,697	26,249	94,994	40,626	1,186	263,752	38,286	302,038
Additions	15,832	687	6,433	158	—	23,110	—	23,110
Disposals	(204)	(505)	(9,903)	(24)	—	(10,636)	—	(10,636)
At 31 December 2006	116,325	26,431	91,524	40,760	1,186	276,226	38,286	314,512
At 1 January 2007	116,325	26,431	91,524	40,760	1,186	276,226	38,286	314,512
Additions	1,417	1,585	7,332	782	—	11,116	—	11,116
Disposals	(8,483)	(1,679)	(7,594)	—	—	(17,756)	—	(17,756)
At 31 December 2007	109,259	26,337	91,262	41,542	1,186	269,586	38,286	307,872
Accumulated amortisation and depreciation:								
At 1 January 2006	71,687	22,540	69,181	7,859	868	172,135	8,022	180,157
Charge for the year	6,066	1,285	7,837	4,165	66	19,419	729	20,148
Written back on disposals	(204)	(503)	(9,687)	(15)	—	(10,409)	—	(10,409)
At 31 December 2006	77,549	23,322	67,331	12,009	934	181,145	8,751	189,896
At 1 January 2007	77,549	23,322	67,331	12,009	934	181,145	8,751	189,896
Charge for the year	9,848	1,307	8,239	4,278	66	23,738	729	24,467
Written back on disposals	(8,482)	(1,678)	(7,367)	—	—	(17,527)	—	(17,527)
At 31 December 2007	78,915	22,951	68,203	16,287	1,000	187,356	9,480	196,836
Net book value:								
At 31 December 2007	30,344	3,386	23,059	25,255	186	82,230	28,806	111,036
At 31 December 2006	38,776	3,109	24,193	28,751	252	95,081	29,535	124,616

(i) The leasehold land of the Group at 31 December 2007 is held in Hong Kong under a medium-term lease.

(ii) The Group leases out a portion of buildings held for own use under operating leases. The leases typically run for an initial period of one to two years. None of the leases includes contingent rentals.

(iii) Included under buildings held for own use are additions of properties under construction of $Nil million as at 31 December 2007 (2006: $15.3 million), which was not subject to depreciation.

13 Fixed assets (continued)

(a) The group (continued)

(iv) The Group's total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	2007 $'000	2006 $'000
Within 1 year	30	30

(b) The Company

	Furniture, fixtures and equipment $'000	Leasehold improvements $'000	Total $'000
Cost:			
At 1 January 2006	579	857	1,436
Additions	140	—	140
Disposals	(90)	—	(90)
At 31 December 2006	629	857	1,486
At 1 January 2007	629	857	1,486
Additions	123	—	123
Disposals	(54)	—	(54)
At 31 December 2007	698	857	1,555
Accumulated depreciation:			
At 1 January 2006	459	857	1,316
Charge for the year	81	—	81
Written back on disposals	(90)	—	(90)
At 31 December 2006	450	857	1,307
At 1 January 2007	450	857	1,307
Charge for the year	85	—	85
Written back on disposals	(55)	—	(55)
At 31 December 2007	480	857	1,337
Net book value:			
At 31 December 2007	218	—	218
At 31 December 2006	179	—	179

14 Interest in subsidiaries

	2007 $'000	2006 $'000
Unlisted shares at cost	539,755	539,755
Amounts due from subsidiaries	330,921	339,537
	870,676	879,292
Amounts due to subsidiaries	(371,476)	(182,877)
	499,200	696,415

The amounts due from and to subsidiaries are non-current as these are not expected to be repayable within the next twelve months.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

Name of company	Country/ place of incorporation and operation	Particulars of issued and fully paid up share capital	Percentage of equity attributable to the Group		Principal activities
			directly	indirectly	
Beckworth International Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
Centre Court Profits Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
Clear Path Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
Cumberworth Investments Limited	British Virgin Islands/ International	500 shares of US$1 each	—	70%	Investment

(Expressed in Hong Kong dollars)

14 Interest in subsidiaries *(continued)*

Name of company	Country/ place of incorporation and operation	Particulars of issued and fully paid up share capital	Percentage of equity attributable to the Group		Principal activities
			directly	indirectly	
Deep Bowl Limited	British Virgin Islands/ International	1 share of US$1	100%	—	Holding of a yacht
Gold Faith Investments Limited	British Virgin Islands/ International	1 share of US$1	—	100%	Investment
HKSM Yuen Long Driving School Limited	Hong Kong	2 shares of $10 each	—	70%	Operation of a driver training centre
Hong Kong Driving School Management Limited	Hong Kong	2 shares of $10 each	—	70%	Provision of services for the management of the HKSM group
Join Harbour Limited	British Virgin Islands/ International	1 share of US$1	—	100%	Holding of a property
Kempsford International Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
The Autopass Company Limited	Hong Kong	70,000 "A" shares of $10 each	100%	—	Investment holding and provision of consultancy services
		30,000 "B" shares of $10 each	—	—	
The Hong Kong School of Motoring (China) Limited	Hong Kong	2 shares of $1 each	—	70%	Provision of PRC driving licence referral services
The Hong Kong School of Motoring Limited	Hong Kong	2,000,000 shares of $1 each	70%	—	Operation of driver training centres

15 Interest in associates

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Unlisted shares, at cost	**—**	—	**148,370**	148,370
Share of net assets other than goodwill	**412,989**	317,564	**—**	—
Amount due from an associate	**416**	416	**416**	416
Amounts due to associates	**(370)**	(370)	**(370)**	(370)
Loan to and interest receivable from an associate	**413,828**	1,000,811	**413,828**	1,000,811
	826,863	1,318,421	**562,244**	1,149,227

The amounts due from/to associates are non-current as these are not repayable within the next twelve months.

(a) Particulars of an associate, which is an unlisted corporate entity and principally affected the results or assets of the Group:

Name of associate	Form of business structure	Place of incorporation and operation	Proportion of ownership interest shares held directly by the Company	Principal activity	Financial year end
Western Harbour Tunnel Company Limited ("WHTCL")	Incorporated	Hong Kong	37%	Operation of the Western Harbour Crossing	31 July

(b) The Group's interest in WHTCL is accounted for under the equity method based on the financial statements of WHTCL for year ended 31 December 2007. KPMG are not the auditors of WHTCL.

(c) WHTCL was granted a thirty year franchise to construct and operate the Western Harbour Crossing in accordance with the Western Harbour Crossing Ordinance enacted on 22 July 1993.

(d) The loan to an associate ("the Loan") bears interest at a rate of 1% per annum as determined by the shareholders of that associate. Interest earned by the Group from WHTCL for the year ended 31 December 2007 amounted to $5.0 million (2006: $10.3 million). The Loan is repayable on demand as may from time to time be agreed among WHTCL's shareholders, subject to certain financial parameters of a syndicated loan being fulfilled.

15 Interest in associates *(continued)*

(e) Summary financial information on associates:

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	Profit $'000
2007					
100 per cent *	**5,437,803**	**4,321,618**	**1,116,185**	**895,181**	**273,372**
Group's effective interest	**2,011,988**	**1,598,999**	**412,989**	**331,217**	**101,147**
2006					
100 per cent *	5,639,091	4,780,811	858,280	838,773	289,310
Group's effective interest	2,086,464	1,768,900	317,564	310,346	107,045

* Assets of associates includes tunnel, plant and equipment of $5,305,151,000 (2006: $5,519,536,000) and liabilities of associates includes bank loans of $2,866,000,000 (2006: $1,829,428,000) and shareholders' loans of $1,118,454,000 (2006: $2,704,892,000).

16 Interest in a jointly controlled entity

	Group		Company	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Share of net assets other than goodwill	**29,214**	22,523	**—**	—

(a) Details of the Group's interest in the jointly controlled entity are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest held indirectly by the Company	Principal activity	Financial year end
Autotoll Limited	Incorporated	Hong Kong	10,000 ordinary shares of $1 each	50%	Operation of an electronic toll collection system	30 September

16 Interest in a jointly controlled entity *(continued)*

(b) The Autopass Company Limited and Electronic Toll Systems Limited formed the above equal equity joint venture to operate an electronic toll collection system in Hong Kong on 1 October 1998.

(c) Summary financial information on jointly controlled entity – Group's effective interest:

	2007 $'000	2006 $'000
Non-current assets	13,682	13,353
Current assets	73,556	65,715
Non-current liabilities	(1,305)	(1,354)
Current liabilities	(65,483)	(61,948)
Net assets	20,450	15,766
Income	44,038	39,045
Expenses	(35,854)	(32,355)
Profit for the year	8,184	6,690

17 Available-for-sale securities

	Group	
	2007 $'000	2006 $'000
Listed in Hong Kong	542,139	549,126
Listed outside Hong Kong	81,319	65,283
	623,458	614,409
Market value of listed securities	623,458	614,409

At 31 December 2007, certain securities held by the subsidiaries were pledged to the banks for the banking facilities granted to the Company.

18 Trading securities

	Group	
	2007	2006
	$'000	$'000
Trading securities (at market value)		
Listed equity securities		
- in Hong Kong	27,767	7,097
- outside Hong Kong	108,468	98,536
	136,235	105,633

At 31 December 2007, certain trading securities were pledged to the financial institution as securities against treasury facilities granted to the Group.

19 Equity-linked notes

Equity-linked notes are designated as financial assets at fair value through profit or loss.

Major terms of the equity-linked notes are as follows:

Notional amount	Maturity
US$3,000,000	2008
US$3,500,000	2009

The equity-linked notes are callable, interest bearing at rates based on the value of the underlying equities. The equity-linked notes are linked with various listed securities at various strike prices.

The above equity-linked notes are measured at fair value at the balance sheet date. Their fair values are determined based on the quoted prices provided by the securities' brokers for equivalent instruments at the balance sheet date.

At 31 December 2007, all the equity-linked notes were pledged to a financial institution as securities against treasury facilities granted to the Group.

20 Trade and other receivables

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Trade receivables	4,382	2,230	—	—
Other receivables	9,087	2,901	363	264
Amount due from a jointly controlled entity	300	—	—	—
Trade and other receivables	13,769	5,131	363	264
Derivative financial instruments	—	10,016	—	—
Deposits and prepayments	7,738	8,698	331	221
	21,507	23,845	694	485

The amount of the Group's and the Company's deposits and prepayments expected to be recovered after more than one year is $4,043,000 (2006: $4,188,000). Apart from these, all of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis as of the balance sheet date:

	Group	
	2007	2006
	$'000	$'000
Current	3,694	1,105
Less than 1 month past due	248	618
1 to 3 months past due	312	251
More than 3 months but less than 12 months past due	128	256
Amounts past due	688	1,125
	4,382	2,230

The Group's credit policy is set out in note 26(a).

20 Trade and other receivables *(continued)*

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2007	2006
	$'000	$'000
Neither past due nor impaired	3,694	1,105
Less than 1 month past due	248	618
1 to 3 months past due	312	251
	560	869
	4,254	1,974

Receivables that were nether past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21 Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Deposits with banks and other financial institutions	1,133,431	406,364	911,067	229,802
Cash at bank and in hand	76,948	30,637	52,355	2,661
	1,210,379	437,001	963,422	232,463

At 31 December 2007, $24,008,000 (2006: $15,315,000) were pledged to a financial institution as securities against treasury facilities granted to the Group.

21 Cash and cash equivalents *(continued)*

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group		Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
United States Dollar	**USD 17,160**	USD 15,150	**USD 16,015**	USD 14,953

22 Trade and other payables

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Trade payables and accrued charges	**64,902**	67,315	**24,109**	21,817
Derivative financial instruments	**18,634**	4,736	**—**	—
	83,536	72,051	**24,109**	21,817

The amount of derivative financial instruments expected to be settled or recognised as income after more than one year is $263,000 (2006: $825,000). All of the other trade and other payables, are expected to be settled or recognised as income within one year or are repayable on demand.

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	Group	
	2007	2006
	$'000	$'000
Due within 1 month or on demand	**1,755**	1,427
Due after 1 month but within 3 months	**327**	476
Due after 3 months but within 6 months	**575**	758
	2,657	2,661

23 Equity settled share-based transactions

The Company has a share option scheme which was adopted on 8 May 2001 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any Company in the Group, to take up options to subscribe for shares of the Company. The options vest from the date of grant and are exercisable within the exercise period from 30 August 2001 to 7 May 2011. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Exercise period	Number
Options granted to employees:		
- on 30 August 2001	30 August 2001 to 7 May 2011	19,200,000

(b) The number and weighted average exercise price of share options are as follows:

	2007		2006	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning and end of the year	$2.492	19,200	$2.492	19,200

24 Income tax in the balance sheet

(a) Current taxation in the consolidated balance sheet represents:

	2007 $'000	2006 $'000
Provision for Hong Kong Profits Tax for the year	15,168	12,968
Provisional Profits Tax paid	(10,378)	(8,568)
	4,790	4,400
Balance of Profits Tax provision relating to prior years	7,433	4,274
	12,223	8,674

24 Income tax in the balance sheet *(continued)*

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Group
	$'000
Deferred tax arising from depreciation allowances in excess of related depreciation	
At 1 January 2006	1,990
Credited to profit or loss	(780)
At 31 December 2006	1,210
At 1 January 2007	1,210
Credited to profit or loss	—
At 31 December 2007	1,210

	2007	2006
	$'000	$'000
Deferred tax assets recognised in the balance sheet	(290)	(140)
Deferred tax liabilities recognised in the balance sheet	1,500	1,350
	1,210	1,210

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $13,084,000 (2006: $8,736,000) as it is not probable that future taxable profits against which the unused tax losses can be utilised will be available. The tax losses do not expire under current tax legislation.

25 Reserves

(a) Group

	Share capital $'000	Share premium $'000	Capital reserve $'000	Investment revaluation reserve $'000	Share option reserve $'000	Hedging reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2006	300,841	1,062,641	1,984	130,186	7,544	4,799	609,483	2,117,478	55,351	2,172,829
Dividend approved in respect of the previous financial year (note 10(b))	–	–	–	–	–	–	(35,349)	(35,349)	–	(35,349)
Cash flow hedge: transfer from equity to profit or loss	–	–	–	–	–	(3,181)	–	(3,181)	–	(3,181)
Changes in fair value of available-for-sale securities	–	–	–	84,598	–	–	–	84,598	274	84,872
Net profit for the year	–	–	–	–	–	–	172,796	172,796	19,161	191,957
Minority interest's share of dividend	–	–	–	–	–	–	–	–	(14,280)	(14,280)
Dividends declared in respect of the current financial year (note 10(a))	–	–	–	–	–	–	(63,628)	(63,628)	–	(63,628)
Shares issued upon exercise of share option	52,647	165,486	–	–	(7,544)	–	–	210,589	–	210,589
At 31 December 2006	353,488	1,228,127	1,984	214,784	–	1,618	683,302	2,483,303	60,506	2,543,809

	Share capital $'000	Share premium $'000	Capital reserve $'000	Investment revaluation reserve $'000	Hedging reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2007	353,488	1,228,127	1,984	214,784	1,618	683,302	2,483,303	60,506	2,543,809
Dividend approved in respect of the previous financial year (note 10(b))	–	–	–	–	–	(42,419)	(42,419)	–	(42,419)
Cash flow hedge: transfer from equity to profit or loss	–	–	–	–	(5,721)	–	(5,721)	–	(5,721)
Available-for-sale securities:									
- Changes in fair value	–	–	–	178,658	–	–	178,658	–	178,658
- Transfer to profit or loss on disposal	–	–	–	(56,827)	–	–	(56,827)	16	(56,811)
Net profit for the year	–	–	–	–	–	261,660	261,660	20,002	281,662
Minority interest's share of dividend	–	–	–	–	–	–	–	(11,550)	(11,550)
Dividends declared in respect of the current financial year (note 10(a))	–	–	–	–	–	(63,628)	(63,628)	–	(63,628)
At 31 December 2007	353,488	1,228,127	1,984	336,615	(4,103)	838,915	2,755,026	68,974	2,824,000

25 Reserves *(continued)*

(b) Company

	Share capital $'000	Share premium $'000	Share option reserve $'000	Retained profits $'000	Total $'000
At 1 January 2006	300,841	1,062,641	7,544	527,348	1,898,374
Dividend approved in respect of the previous financial year (note 10(b))	—	—	—	(35,349)	(35,349)
Net profit for the year	—	—	—	45,473	45,473
Dividends declared in respect of the current financial year (note 10(a))	—	—	—	(63,628)	(63,628)
Shares issued upon exercise of share option	52,647	165,486	(7,544)	—	210,589
At 31 December 2006	353,488	1,228,127	—	473,844	2,055,459
At 1 January 2007	**353,488**	**1,228,127**	**—**	**473,844**	**2,055,459**
Dividend approved in respect of the previous financial year (note 10(b))	**—**	**—**	**—**	**(42,419)**	**(42,419)**
Net profit for the year	**—**	**—**	**—**	**30,941**	**30,941**
Dividends declared in respect of the current financial year (note 10(a))	**—**	**—**	**—**	**(63,628)**	**(63,628)**
At 31 December 2007	**353,488**	**1,228,127**	**—**	**398,738**	**1,980,353**

25 Reserves *(continued)*

(c) Share capital

(i) Authorised and issued share capital

	2007		2006	
	No. of shares '000	Amount $'000	No. of shares '000	Amount $'000
Authorised:				
Ordinary shares of $1 each	1,000,000	1,000,000	1,000,000	1,000,000
Issued and fully paid:				
At 1 January	353,488	353,488	300,841	300,841
Shares issued upon exercise of share option	—	—	52,647	52,647
At 31 December	353,488	353,488	353,488	353,488

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) On 22 May 2006, the holder of a share option exercised its right to subscribe for 52,647,059 ordinary shares at a value of $4.0 per share. An amount of $165.5 million was credited to the share premium account upon the issue of new shares.

(iii) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2007 Number	2006 Number
30 August 2001 to 7 May 2011	$2.492	19,200,000	19,200,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 23 to the financial statements.

25 Reserves *(continued)*

(d) Nature and purpose of reserves

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The capital reserve and investment revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on subsidiaries, associates and jointly controlled entities and the revaluation of available-for-sale securities issued in notes 1(e) and (f).

The share option reserve which represented amounts received in advance of the exercise of share options was utilised and transferred to the share capital account and the share premium account upon the options were exercised.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used by the associate in cash flow hedges pending subsequent recognition of the hedged cash flow.

At 31 December 2007, the aggregate amount of reserves available for distribution to shareholders of the Company was $398,738,000 (2006: $473,844,000). After the balance sheet date the directors proposed a final dividend of $0.12 per share (2006: $0.12 per share), amounting to $42,419,000 (2006: $42,419,000). This dividend has not been recognised as a liability at the balance sheet date.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

25 Reserves *(continued)*

(e) Capital management *(continued)*

The Group currently does not have external loans and borrowings (apart from those of the associate) and has negative net debt on account of its large cash and cash equivalents. Adjusted capital comprises all components of equity, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

In order to monitor its capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders or raise new debt financing.

The adjusted capital at 31 December 2007 and 2006 was as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Total equity (note 25)	**2,824,000**	2,543,809	**1,980,353**	2,055,459
Less: Hedging reserve (note 25)	**4,103**	(1,618)	**—**	—
Proposed dividends (note 10(a))	**(42,419)**	(42,419)	**(42,419)**	(42,419)
	2,785,684	2,499,772	**1,937,934**	2,013,040

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, equity-linked notes, available-for-sale securities, trading securities, loans to associates and other parties and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limits for any single financial institution. The majority of investments are in liquid securities quoted on the recognised stock exchanges, and with counterparties that have good credit ratings. Transactions involving derivative financial instruments are with counterparties with sound credit ratings. Given their high credit ratings, management does not expect any of these financial institutions and investment counterparties will fail to meet their obligations.

With respect to loans to associates and other parties, management reviews the credit standing of the borrowers and also monitors on an ongoing basis to control and mitigate the credit risk.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within one month from the date of billing while further credit may be granted to individual customer when appropriate. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. The Group has no concentrations of credit risk in view of its variety of investments with different counterparties or large number of customers. The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

26 Financial instruments *(continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Group is exposed to interest rate risk through the impact of rates changes on income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

		2007		2006	
	Fixed/ floating	**Effective interest rate**	**Within one year $'000**	Effective interest rate	Within one year $'000
Cash and cash equivalents	Floating	**0.25% - 5.72%**	**75,258**	2.75% - 3.625%	28,998
Cash and cash equivalents	Fixed	**1.38% - 4.98%**	**1,133,431**	3.45% - 5.19%	406,364

26 Financial instruments *(continued)*

(d) Foreign currency risk

The Group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the Group. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in profit or loss.

The Group invests in financial instruments and enters into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the United States dollars. Management of the Group continuously monitors the Group's exposure to such foreign currency risks to ensure they are at manageable levels.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group	
	2007	**2006**
	Singapore Dollars	Singapore Dollars
	'000	'000
Trading securities	**16,747**	16,747

26 Financial instruments *(continued)*

(d) Foreign currency risk *(continued)*

Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than functional currencies of the lender or the borrower.

The Group

	2007			2006		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity
		$'000	$'000		$'000	$'000
Singapore	5%	4,563	—	5%	4,247	—
Dollars	(5)%	(4,563)	—	(5)%	(4,247)	—

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group's entities' exposure to currency risk for the both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

26 Financial instruments *(continued)*

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 18) and available-for-sale securities (see note 17). All of these investments are listed.

The Group's listed investments are listed in Hong Kong and Singapore. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonable possible changes in the Hang Seng Index to which the Group have significant exposure at the balance sheet date.

The Group

	2007			2006		
	Increase/ (decrease) in the relevant risk variable	Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000	Increase/ (decrease) in the relevant risk variable	Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000
Stock market index in respect of listed investments: - Hang Seng Index	5%	3,203	30,190	5%	2,994	29,459
	(5)%	(3,203)	(30,190)	(5)%	(2,994)	(29,459)

26 Financial instruments *(continued)*

(e) Equity price risk *(continued)*

The sensitivity analysis has been determined assuming that the reasonably possible changes in the Hang Seng index or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the Hang Seng Index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of a reasonably possible decrease in the Hang Seng Index or other relevant risk variables, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the Hang Seng Index or the relevant risk variables over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 31 December 2006.

(g) Estimation of fair values

(i) Listed securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Equity-linked notes and derivative financial instruments

The fair value is determined based on the quoted prices provided by the securities' brokers for equivalent instruments at the balance sheet date.

27 Capital commitments

Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Contracted for	**2,589**	2,593	—	—
Authorised but not contracted for	—	—	—	—

28 Operating lease commitments

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Within 1 year	**4,787**	5,525	—	—
After 1 year but within 5 years	**1,845**	4,568	—	—
	6,632	10,093	—	—

Significant leasing arrangements in respect of land held under operating leases are described in note 13.

In addition, the Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of three months to five years, with an option to renew the leases upon expiry when all terms are renegotiated. Contingent rentals are charged as expense in the year in which they are incurred.

29 Material related party transactions

During the year, the Group was involved in the following material related party transactions, none of which is regarded as a "connected transaction" as defined under the Listing Rules.

(a) The Group extended a loan to and received interest from an associate, Western Harbour Tunnel Company Limited ("WHTCL"). The balance of the loan and interest receivable at 31 December 2007 was $413.8 million (2006: $1,000.8 million).

The Group received interest income and management fee income from WHTCL of $5.0 million (2006: $10.3 million) and $2.5 million (2006: $2.5 million) respectively.

(b) The Group received consultancy fees from a jointly controlled entity of $12.6 million (2006: $12.6 million).

In addition to the transactions and balances disclosed above, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2007 $'000	2006 $'000
Short-term employee benefits	16,950	14,515
Post-employment benefits	81	64

Total remuneration is included in "Salaries, wages and other benefits" (see note 5(b)).

30 Contingent liabilities

At 31 December 2007, the Group had the following contingent liabilities:

(a) In respect of the Company

The Company has given two letters of undertaking in relation to the bank facilities of the Group to two banks for general banking facilities totalling $150 million (2006: $150 million) granted to the Company. The banking facilities granted are also secured by a negative pledge of certain listed investments held by the Group. At 31 December 2007, these facilities were not utilised by the Company.

(b) In respect of The Hong Kong School of Motoring Limited ("HKSM")

There is an arrangement between HKSM and its banker whereby the bank provides guarantees in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than $0.4 million (2006: $2.5 million).

(c) In respect of Hong Kong Transport, Logistics and Management Company Limited ("HKTLMCL").

At 31 December 2007, the Group has given a guarantee to the extent of $28.5 million (2006: $28.5 million) to a bank in return for it providing a guarantee in favour of the Government of the HKSAR on behalf of HKTLMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel and the operation and maintenance of the tunnel equipment by HKTLMCL.

(d) In respect of Western Harbour Tunnel Company Limited ("WHTCL")

A joint and several guarantee given by the Company and the other shareholders of WHTCL, namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchants Holdings (International) Company Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR for its advance to WHTCL by way of share capital injection and/or subordinated debt of an amount equal to any excess of the total costs over the budgeted cost of $7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of the Western Harbour Tunnel ("WHT") up to the date WHT opened for use by the public (the "operating date") and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to WHT. The maintenance certificate had not been issued at 31 December 2007.

31 Post balance sheet event

(a) On 21 February 2008, the Company and China Merchants Holdings (International) Company Limited ("CMHI") entered into a conditional sale and purchase agreement ("S&P Agreement"), pursuant to which the Company agreed to acquire from CMHI the entire issued share capital of High Fortune Group Limited ("High Fortune"), a wholly-owned subsidiary of CMHI, and to purchase and take assignment of the entire shareholder's loan due from High Fortune to CMHI for an aggregate consideration of $460,000,000, payable in cash at completion. High Fortune is an investment holding company incorporated in the British Virgin Islands and holds a 13% interest in each of WHTCL, Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL") and HKTLMCL. After the completion, the Company will effectively hold a 50% shareholding interest in each of WHTCL, HKTHMCL and HKTLMCL.

The completion is conditional upon fulfillment of certain conditions precedent. If such conditions have not been fulfilled on or before 30 June 2009 or such later date as the parties may agree, the S&P Agreement shall lapse.

(b) After the balance sheet date the directors proposed a final dividend, further details of which are disclosed in note 10.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 8, Operating segments, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

	2003 $'000	2004 $'000	2005 $'000	2006 $'000	**2007 $'000**
Consolidated profit and loss account					
Turnover	255,234	254,038	249,672	274,339	**290,846**
Profit attributable to equity shareholders of the Company for the year	87,235	134,979	161,992	172,796	**261,660**
Dividends payable to equity shareholders of the Company attributable to the year	49,905	66,837	84,236	106,047	**106,047**
Consolidated balance sheet					
Fixed assets	75,534	105,192	121,881	124,616	**111,036**
Interest in associates	1,149,151	1,190,188	1,267,145	1,318,421	**826,863**
Interest in a jointly controlled entity	9,120	13,768	17,966	22,523	**29,214**
Available-for-sale securities	330,615	458,283	412,376	614,409	**623,458**
Deferred tax assets	1,180	1,000	400	140	**290**
Current assets	390,596	460,923	500,219	613,762	**1,419,031**
	1,956,196	2,229,354	2,319,987	2,693,871	**3,009,892**
Current liabilities	147,473	203,259	144,768	148,712	**184,392**
Convertible notes	82,457	—	—	—	**—**
Interest free loan	20,000	20,000	—	—	**—**
Deferred tax liabilities	2,800	1,380	2,390	1,350	**1,500**
NET ASSETS	1,703,466	2,004,715	2,172,829	2,543,809	**2,824,000**
Capital and reserves					
Share capital	250,552	279,698	300,841	353,488	**353,488**
Reserves	1,410,057	1,677,808	1,816,637	2,129,815	**2,401,538**
Total equity attributable to equity shareholders of the Company	1,660,609	1,957,506	2,117,478	2,483,303	**2,755,026**
Minority interests	42,857	47,209	55,351	60,506	**68,974**
TOTAL EQUITY	1,703,466	2,004,715	2,172,829	2,543,809	**2,824,000**

Note to five year summary

In order to comply with HKAS 39, Financial instruments: Recognition and measurement, the Group changed its accounting policies relating to investments in equity securities, derivative financial instruments and convertible notes with effect from 1 January 2005. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to certain reserves as at 1 January 2005. Figures in years earlier than 2005 are stated in accordance with the policies before the change on a consistent basis.