The Cross-Harbour (Holdings) Limited

(Stock Code : 32)

Annual Report **2008**

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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
Leung Yu Ming, Steven

Audit Committee

Luk Yu King, James *(Chairman)*
Lee Ka Sze, Carmelo
Ng Kwok Fu
Leung Yu Ming, Steven

Remuneration Committee

Cheung Chung Kiu *(Chairman)*
Ng Kwok Fu
Leung Yu Ming, Steven

Authorised Representative

Yeung Hin Chung, John
Leung Wai Fai (Alternate to Yeung Hin Chung, John)
Yuen Wing Shing
Wong Chi Keung (Alternate to Yuen Wing Shing)

Secretary

Leung Shuk Mun, Phyllis Sylvia

Legal Adviser

Woo, Kwan, Lee & Lo

Registered Office

3301-07, China Resources Building
26 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2161 1888
Fax: (852) 2802 2080
Website: www.crossharbour.com.hk

Auditors

KPMG

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

Share Listing

The Stock Exchange of Hong Kong Limited
Stock Code: 32

Performance

The Group reported a net profit of HK$140.3 million for the year ended 31 December 2008, representing a decrease of 46.4 percent as compared with HK$261.7 million in 2007. The decrease was primarily attributable to the negative performance of the treasury segment as opposed to the significant gain from disposal of listed shares in the previous year. Earnings per share were HK$0.40 against HK$0.74 for 2007.

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 2007. Total dividends paid and proposed for the year will be HK$106.0 million.

Business Review and Outlook

2008 was indisputably a turbulent year for the global economy. The U.S. financial earthquake created a global financial tsunami that wiped-out many major global financial firms and decimated markets around the world. The financial institutions were badly impaired and large-scale deleveraging processes brought great damages to the global economy. With the onset of recession, aggressive interest rate cuts were implemented across the globe to revive growth.

Because of increased globalization, the Mainland economy would not stay unaffected. There have already been signs of economic adjustment in the past year, as reflected in lower export growth, a narrowing trade surplus, tumbling stock prices, weak property market and declining consumption momentum. However, being backed by the recently announced RMB4 trillion fiscal stimulus and a rapid-fire series of interest rate cuts, the Mainland government is trying aggressively to kick-start a rapidly declining economy with the aim to attain a real GDP growth of 8% for 2009.

The local economy, being highly integrated with the global economy and markets, was inevitably undermined by the global financial tsunami. Sharp corrections in the local stock market have eroded consumers' wealth and undermined investors' confidence. The local economy was already in a technical recession as the real GDP growth has contracted for two consecutive quarters since the second quarter of 2008. The unemployment rate reversed its downtrend in September and was set to soar. The domestic financial system, however, remained stable as the local bankers have not been active in high-leverage investments.

We head into 2009 with deteriorating data and poor economic and financial news. Excessive production capacity and deflation are the twin challenges the world will face in the next two years. The global economy remains highly uncertain and asset prices are still under pressure despite aggressive fiscal stimulus and monetary easing. Moreover, the next wave of banking crisis triggered by consumer credit, is expected to unfold. Further write-downs and capital raisings by banks are expected near term. Local businesses are forced to scale back operations as banks turn cautious on lending in a recessionary environment. The negative interest rate environment is likely to remain. However, stimulating measures such as liquidity assistance, the resolve of the Government in assuming some credit risk through expanding the SME loan guarantee scheme and the ten large-scale infrastructure projects in the coming years, will hopefully add momentum to the economy.

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 eleven different toll roads and tunnels. There are fifty-two auto-toll lanes in operation at present. The recent economic downturn deterred the volume of car sales, and subsequently the growth of tag subscription in the past year. In the wake of the unfavourable business environment, new tag subscriptions in the coming year expect to remain falter despite increased enrolments in the Unitoll-Autotoll service and Autotoll Club membership.

In view of the popularity of AutoPark service – an extension of Autotoll's unique feature of "non-stop convenience", Autotoll intends to increase the number of AutoPark car parks in order to make AutoPark the most preferred parking payment method in Hong Kong. In addition to car parking service, AutoPark system is also well prepared to capture the huge potential of the access control market.

As a result of prolonged hard work committed to the development of intelligent transportation, Autotoll was awarded the tender for "Journey Time Indication System" (JTIS) for the Kowloon peninsula, which will be integrated with the JTIS Hong Kong Island to become a single system. By providing motorists with journey time information at the webpage of the Transport Department, motorists are able to make an informed route choice at major approach roads to the road-harbour crossings in Kowloon, thus enhancing the distribution of traffic and alleviating the congestion on the approach roads.

Autotoll is the biggest service provider in the telematics market in Hong Kong with over 50% market share. For years, Autotoll strived to maintain its leading edge and increase its penetration in the Global Positioning System ("GPS") market. In the coming year, Autotoll will focus on expanding the newly launched "On-Board Trucker Information System" service (a location based trucking intelligent transport systems solution) into Guangdong province, a market of huge potential for the GPS business.

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

In the face of a continuously shrinking market, HKSM recorded a further deteriorated demand for driving lessons in the year under review. Shortfall in sales enrolments was partly attributable to the unfavourable operating environment at the Apleichau driving centre. The performance of HKSM in the past year was adversely affected by low throughput in spite of higher lesson income unit rate and lower operating costs. In the light of the worsening economic sentiment, consumers will continue to keep a tight rein on spending; and hard on the heels will be severe price competition among driving school operators in the coming year. To defend its market share remains the most important task for HKSM. To this end, continuous efforts in market segmentation and penetration as well as proactive sales strategy are indispensable. Nevertheless, the outlook on the driving school business will inevitably be more pessimistic in the difficult months ahead.

Western Harbour Tunnel Company Limited ("WHTCL") – 50% owned effective from 8 August 2008

The performance of the WHTCL in 2008 was again remarked by a significant improvement in toll revenue as a result of its fourth toll increase effective from 6 January 2008 for certain categories of vehicles, despite the decrease in throughput due to the adverse economic conditions during the second half-year under review. The cashflow generated by the franchise was further enhanced by a substantial reduction in financing cost resulting from interest rate cuts.

Looking forward to 2009, we anticipate a downward adjustment on the vehicular traffic as well as the total cross harbour traffic under the pressure of a prolonged economic downturn and therefore a resultant negative impact on the throughput and market share of the Western Harbour Tunnel ("WHT"). However, we still look forward to a steady return from the franchise. The adverse impact of intense competition from other cross-harbour tunnel operators on WHTCL's performance will be mitigated by the favourable factor of persistently low interest rates in the coming year. Moreover, the opening of Route 8 in March 2008 not only enhanced the accessibility of the WHT between the New Territories and Hong Kong Island but is also conducive to the overall traffic of the WHT in the long run.

Hong Kong Transport, Logistics and Management Company Limited ("HKTLMCL") – 50% owned effective from 8 August 2008

HKTLMCL has managed the busiest Cross-Harbour Tunnel at Hunghom under a Management, Operation and Maintenance Contract with the Government for a period of twenty-six months up to 31 October 2008. The extension of the contract for a further twenty-four months to 31 October 2010 has been confirmed.

Tate's Cairn Tunnel Company Limited ("TCTCL") – 39.5% owned effective from 18 December 2008

TCTCL was granted a 30-year franchise by the Government to build and operate the Tate's Cairn Tunnel ("TCT") since 1988. The TCT opened in 1991 and is the longest road tunnel in Hong Kong. The current daily average throughput is around 51,000 vehicles and TCTCL has implemented its fifth toll increase effective from 30 November 2008.

The acquisition of 39.5% shareholdings in TCTCL was completed on 18 December 2008 at a consideration of HK$555 million, and is consistent with the Group's core business, that is, investment holding in transport infrastructures. In an era of negative real interest rates, we believe that the steady revenue from TCTCL will create an increased and sustainable return for our shareholders in the years to come.

Looking Forward

The year of the Ox will likely be a tough year for business under the gloomy outlook of the Hong Kong economy. Despite the volatility in the financial markets, the prospect of the Group's core business is expected to stay positive. The acquisition of an additional 13% shareholdings in WHTCL and 39.5% shareholdings in TCTCL during the past year would undoubtedly enhance the earnings of the Group in the years to come. Facing challenge head on, the Group will continue to pursue suitable investments in a prudent and pragmatic manner under its long-term growth strategy.

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, 27 March 2009

Autotoll

The total number of tags in circulation was around 232,000 as at 31 December 2008, representing an increase of about 3% 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 eleven 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 333,600 with toll amount of approximately HK$6.9 million. The number of subscribers for the Global Positioning System at the end of the year under review was about 3,600.

Hong Kong School of Motoring ("HKSM")

HKSM recorded a decrease of 7% 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 resulting from the relocation of driving centre and shrinking market size on the overall performance of HKSM, was however mitigated by the higher lesson income unit rate and effective cost control measures.

Tate's Cairn Tunnel ("TCT")

The dual two-lane TCT was constructed at a total cost of HK$2 billion. TCT opened for traffic in June 1991 and is the longest road tunnel in Hong Kong. The daily average throughput in 2008 was around 54,500 vehicle journeys against its designed capacity of 78,500 vehicle journeys. Competition mainly comes from the lower tolls at the Lion Rock Tunnel, Shing Mun Tunnels and the newly opened Eagle's Nest Tunnel (part of Route 8) which connects Cheung Sha Wan and Shatin Valley.

TCT has raised its tolls five times since its opening. Effective from 30 November 2008, toll charges for private cars / taxis and medium / heavy goods vehicles have risen by HK$2 to HK$14 and HK$25 respectively, while light buses and light goods vehicles are charged HK$21 (increased by HK$3). Toll increases for single and double decked buses are HK$4 and HK$5 respectively. Toll charge for motorcycles has increased by HK$1 to HK$11. The above toll rise is expected to contribute to the continued viability of the tunnel company.

Western Harbour Tunnel ("WHT")

The construction of the WHT was completed in April 1997 at a total cost of HK$7 billion. The dual three-lane tunnel has been under-utilised due to the 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.

Toll

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 Western Harbour Tunnel Company Limited.

The seventh toll gazettal took effect on 31 July 2008 due to the performance of the tunnel being below the target set in the Western Harbour Crossing Ordinance. Although this allows the tunnel toll to be raised, actual tolls remained unchanged since 6 January 2008.

Tunnel Usage

Throughput for the year was 17,473,527 vehicle journeys, representing a decrease of 1.9% from 2007. The daily average throughput stood at 47,742 vehicle journeys and the market share of WHT decreased from 20.7% in 2007 to 20.6% in 2008.

	Traffic Mix	
	2008	2007
Private Cars/Taxis and Motorcycles	74.7%	75.1%
Goods Vehicles	11.3%	10.8%
Buses	14.0%	14.1%
	100.0%	100.0%

In terms of traffic volume by vehicle category, usage by private cars, taxis and motorcycles in 2008 decreased by 2.5% and usage by buses also decreased by 2.6% while goods vehicle traffic increased by 3.0% as compared to 2007. The average net toll per vehicle was increased from $44.87 in 2007 to $49.98 in 2008 due to the 4th toll increase effected from 6 January 2008.

Accidents

The traffic accident occurrence rate decreased by 16.2% during 2008 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	
	2008	2007
Fatal Accidents	0.00	0.00
Traffic Accidents (Personal Injury)	0.74	0.78
Traffic Accidents (Damage Only)	3.20	3.92
TOTAL:	3.94	4.70

Breakdowns

The occurrence rate of breakdowns in 2008 increased by 12.4% and the average time taken to attend the scene maintained below two minutes.

	2008	2007
Total Breakdowns (occurrence rate per million vehicle trips)	17.28	15.37
Daily Average Breakdowns	0.82	0.75

Escorts

	Number of trips	
	2008	2007
Dangerous Goods & Abnormal Goods	2,405	1,504

Infringements

The number of infringements per million vehicle trips decreased by 7.5% in 2008 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 38.6%.

	Number of Events Per million vehicle trips	
	2008	2007
Total Infringements Reported	372	402
Prosecutions	34.1	24.6

Maintenance

Throughout the year 2008, 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 2008 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 17.7% (2007: 14.7%) with 38 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 and an extension was exercised by the Government for a further period of 24 months to 31 October 2010. The company was entitled to a management fee income from, and shared the advertising revenue with, the Government.

Tunnel Usage

Traffic throughput during 2008 was 44,375,838 vehicle journeys, representing a decrease of 1.1% from 2007.

In terms of vehicle mix profile, the private cars category (i.e. private cars, taxis and motorcycles) increased by 0.4% as compared to last year, while usage by buses decreased by 0.1% and usage by goods vehicles decreased by 0.3%. CHT's average toll per vehicle increased to $15.86 in 2008 from $15.77 last year.

	Traffic Mix	
	2008	2007
Private Cars/Taxis and Motorcycles	66.7%	66.3%
Goods Vehicles	22.6%	22.9%
Buses	10.7%	10.8%
	100.0%	100.0%

Accidents

The overall traffic accident occurrence rate reduced by 9.87% during 2008. The company took constant measures to remind tunnel users of road safety.

	Occurrence Rate per million vehicle trips	
	2008	2007
Fatal Accidents	0.00	0.00
Traffic Accidents (Personal Injury)	0.59	1.09
Traffic Accidents (Damage Only)	14.30	15.43
TOTAL:	14.89	16.52

Breakdowns

The occurrence rate of breakdowns in 2008 reduced by 7.33% and the average time taken to attend the scene maintained at two minutes.

	2008	2007
Total Breakdowns (occurrence rate per million vehicle trips)	29.04	31.34
Daily Average Breakdowns	3.52	3.85

Escorts

	Number of trips	
	2008	2007
Dangerous Goods & Abnormal Goods	1,025	1,230

Infringements

The number of infringements and prosecutions per million vehicle trips reduced by 55.28% and 74.06% respectively mainly due to reduction in traffic offences.

Infringements included 8 excessive smoke emissions from vehicles, which the company referred to the Environmental Protection Department for action.

	Number of Events per million vehicle trips	
	2008	2007
Total Infringements Reported	12.05	26.95
Prosecutions	5.41	20.86

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 17.67% (2007: 16.1%) with 44 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 2008 Results

The Group reported a profit attributable to shareholders of HK$140.3 million for the year ended 31 December 2008, a decrease of 46.4% compared with HK$261.7 million in 2007. Earnings per share were HK$0.40 compared to HK$0.74 for the previous year. The decrease was primarily attributable to the loss on disposal of trading securities and fair value changes in securities investment in 2008 as opposed to the significant gain from disposal of listed shares in the last corresponding year. The negative performance of the treasury segment has overwhelmed the increase in profit contribution from tunnel operations, an aggregate result of an increase in shareholdings and improved toll revenue.

The Group's turnover for the year was HK$244.4 million, decreased by HK$46.4 million or 16.0% as compared to HK$290.8 million recorded in 2007. The decrease was the aggregate result of a reduction in the turnover of the motoring school and decreases in both interest income on bank deposits and dividend income from listed investments.

The Hong Kong School of Motoring Limited recorded a reduction in turnover of 8.3% to HK$197.0 million as a result of decrease in tuition fees income due to decline in both demand for driving lessons and income from motorcycle courses despite increase in the lesson income unit rate. The decline in revenue was, however, partially offset by a decrease in operating costs. Operating profit, therefore, decreased by less than 3% as compared to the HK$44.4 million recorded in the previous year.

The Group's share of net profits less losses of associates, primarily contributed by the operations of the Western Harbour Tunnel, has increased significantly by 62.3% to HK$164.1 million as compared to HK$101.1 million in 2007. Improvement in the performance of Western Harbour Tunnel Company Limited ("WHTCL") was the aggregate result of a 9.2% increase in toll revenue after the fourth toll increase and a substantial saving in financing charges resulting from reduced bank loans and lower interest rates. The Group's share of taxation of associates was primarily the utilization of deferred tax assets by WHTCL. Profit contribution from the Tate's Cairn Tunnel Company Limited ("TCTCL") for the year was insignificant since the acquisition was only completed in the second half of December.

The Group's share of net profit from a jointly controlled entity, Autotoll Limited, was HK$10.3 million for the year against HK$11.7 million recorded in the previous year, representing a reduction of 12.0% as a result of a decrease in project income.

Revaluation deficits arising on certain investment securities, totalling HK$4.3 million, were transferred from the investment revaluation reserve to the consolidated profit and loss account as a result of an impairment loss on those securities at 31 December 2008.

Commentary on Annual Results *(continued)*

(II) Investments

At 31 December 2008, the Group maintained a portfolio of investments, composed of listed securities and equity-linked notes, with an aggregate market value of HK$164.8 million. The substantial decrease in portfolio balance was primarily due to the disposal of available-for-sale securities. 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 2008 amounted to HK$8.2 million.

(III) Liquidity and Financial Resources

At 31 December 2008, the Group had bank balances and deposits in the amount of HK$477.0 million. The substantial decrease in cash balance, despite proceeds from the disposal of listed investments, was primarily due to the financing of the acquisitions of additional 13% shareholdings in WHTCL and 39.5% shareholdings in TCTCL at a total consideration of HK$1,015 million in the past year. 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 95 to 97.

The Group did not have long-term debts outstanding as at 31 December 2008 and 2007.

(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 71 to 73.

(V) Employees

The Group has 565 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$111.9 million. Detailed information is set out in note 8 to the financial statements on page 68.

The Company also operates a Share Option Scheme, details of which are set out in the Report of the Directors on pages 28 to 30.

Executive Director

Cheung Chung Kiu, aged 44, 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 31.

Yeung Hin Chung, John OBE, JP, aged 62, was appointed Managing Director of the Company on 1 August 2001. Mr. Yeung holds a doctoral degree 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 Basic Law Promotion Steering Committee and the Lotteries Fund Advisory Committee, as well as Chairman of Hong Kong Repertory Theatre Limited. He is a member of the Advisory Board on Undergraduate Studies in Business, The Chinese University of Hong Kong, 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 62, 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 53, was appointed Executive Director of the Company on 21 March 2001. Mr. Wong holds a doctoral degree 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 Administration 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.

Directors and Senior Management

Leung Wai Fai, aged 47, 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 43, 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 48, 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 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, Taifook Securities Group Limited, Termbray Industries International (Holdings) Limited, Yugang and Y. T. Realty, all being listed public companies in Hong Kong. He is a partner at Messrs. Woo, Kwan, Lee & Lo, legal advisers to Yugang, Y. T. Realty and the Company.

Wong Yat Fai, aged 49, was appointed Independent Non-executive Director of the Company on 30 September 2004 and re-designated Non-executive Director of the Company 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 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 37, 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 19 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 54, 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 49, 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 47, 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 the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") then in force.

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 as amended from time to time (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 immediately after adoption of the Securities Code as revised from time to time) 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 15 to 17.

The board met on four occasions, at quarterly intervals, during the year with a perfect attendance rate.

	No. of meetings attended / held
Executive Director	
Cheung Chung Kiu *(Chairman)*	4/4
Yeung Hin Chung, John *(Managing Director)*	4/4
Yuen Wing Shing	4/4
Wong Chi Keung	4/4
Leung Wai Fai	4/4
Tung Wai Lan, Iris	4/4
Non-executive Director	
Lee Ka Sze, Carmelo [1]	4/4
Wong Yat Fai [2]	4/4
Independent Non-executive Director	
Ng Kwok Fu [3]	4/4
Luk Yu King, James [2]	4/4
Leung Yu Ming, Steven [2]	4/4

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, Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven is approximately three years, commencing 2 May 2008 and ending at the close of the annual general meeting in 2011.

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 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.

Board of Directors *(continued)*

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.

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 2008. 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 2008 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.

Board of Directors *(continued)*

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.

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.

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 2008 with a perfect attendance rate. No member took part in any discussion or decision concerning his own remuneration.

	No. of meetings attended / held
Cheung Chung Kiu *(Chairman)*	1/1
Ng Kwok Fu	1/1
Leung Yu Ming, Steven	1/1

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.

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 2008 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 66 and 67.

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$1.43 million, as to HK$1.19 million for audit services, as to HK$0.21 million for review services and as to HK$0.03 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 these 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.

Regular meetings have been held by the audit committee since its inception. The committee met three times in 2008 with a perfect attendance rate.

	No. of meetings attended / held
Luk Yu King, James *(Chairman)*	3/3
Lee Ka Sze, Carmelo	3/3
Ng Kwok Fu	3/3
Leung Yu Ming, Steven	3/3

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.

Audit Committee *(continued)*

At a meeting held in December 2008 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 unauthorised 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 committee's attentions. The committee discussed the report and concurred with the conclusion reached.

At the meeting last held in March 2009, the audit committee discussed with the external auditor matters relating to its audit fees and other issues arising from the audit, and was satisfied in all respects, including the external auditor's independence and objectivity and the effectiveness of the audit process. Management confirmed that since the date of the December 2008 report, there had been no changes in the nature and extent of significant risks which required to be brought to the committee's attention, nor were there any changes in the Company's activities, business or operating units and internal control procedures (other than in relation to Tate's Cairn Tunnel, in which the Company acquired a 39.5% effective interest in late December 2008). Management also confirmed that the Company had maintained an effective internal control system since implementation of the removal of the requirement for a qualified accountant under the revised Listing Rules, which came into effect on 1 January 2009, including the adequacy of resources, qualifications and experience of staff of its accounting and financial reporting function. The committee concluded that save for the system revision to integrate with Tate's Cairn Tunnel, there was no major issue regarding internal control procedures. As with the findings of the December 2008 report, the committee confirmed the adequacy and effectiveness of the Group's internal control system. No significant change to the Group's financial and accounting policies and their application was reported, nor were there any significant financial reporting judgments contained in the 2008 accounts.

The audit committee has made recommendation to the board on the re-appointment of KPMG as the Company's external auditor for 2009 and delegated authority to approve the remuneration and terms of engagement of the external auditor to management. Recommendation was also made on the tabling of the 2008 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.

Report of the Directors

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 2008.

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 76 and 77.

During the year, more than 90% of the Group's trading operations in terms of both turnover and operating loss were carried out in Hong Kong. An analysis of the Group's turnover and operating loss 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 2008 are set out in the consolidated profit and loss account on page 37 and note 10 to the financial statements on page 69 respectively.

The first, second and third quarterly interim dividends each of HK$0.06 per share (2007: HK$0.06 per share) were paid on 18 July 2008, 10 October 2008 and 9 January 2009 respectively. The directors recommend the payment of a final dividend of HK$0.12 per share (2007: HK$0.12 per share) which, together with the interim dividends, make total dividends for the year ended 31 December 2008 of HK$0.30 per share (2007: HK$0.30 per share), representing a total distribution of approximately HK$106.0 million (2007: 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 22 May 2009 to shareholders registered on 15 May 2009. The member register and transfer books of the Company will be closed from 13 May 2009 to 15 May 2009, 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$125,000 (2007: HK$14,000).

Fixed Assets

Movements in fixed assets during the year are set out in note 13 to the financial statements on pages 74 and 75.

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 91.

Reserves

Movements in reserves during the year are set out in note 25 to the financial statements on pages 89 to 93.

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 103 and 104.

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.

In accordance with article 82 of the articles of association, Mr. Leung Wai Fai, Ms. Tung Wai Lan, Iris, Mr. Lee Ka Sze, Carmelo and Mr. Ng Kwok Fu retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 2008:

Name	Capacity	No. of shares	% of issued share capital
Cheung Chung Kiu	Interest of controlled corporation	155,254,432	43.92%

Note:

The above interest of Mr. Cheung Chung Kiu ("Mr. Cheung") represents a long position. Mr. Cheung was deemed to be interested in the 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 2008, 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 then in force.

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") in order to comply 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") then in force. Details of the New Scheme are given in the Company's circular dated 13 April 2005 (the "Scheme Circular").

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 27 March 2009)	:	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

No option lapsed and no option was granted, exercised or cancelled during the year 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, whether 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 at 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 2008, 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:

Name	Capacity	No. of shares	% of issued share capital
Palin Holdings Limited	Interest of controlled corporation	155,254,432[1]	43.92%
Chongqing Industrial	Interest of controlled corporation	155,254,432[1]	43.92%
Yugang	Interest of controlled corporation	155,254,432[1]	43.92%
Yugang BVI	Interest of controlled corporation	155,254,432[1]	43.92%
Funrise	Interest of controlled corporation	155,254,432[1]	43.92%
Y. T. Realty	Interest of controlled corporation	155,254,432[1]	43.92%
Y. T. Investment	Interest of controlled corporation	155,254,432[1]	43.92%
Honway	Beneficial owner	155,254,432[1]	43.92%
PMA Capital Management Limited	Investment manager	32,092,000	9.08%
Sheldon Fenton Kasowitz[2]	Interest of controlled corporation	17,705,000	5.01%
David Nathan Kowitz[2]	Interest of controlled corporation	17,705,000	5.01%
Indus Capital Partners, LLC[2]	Investment manager	17,705,000	5.01%

Notes:

1 Each parcel of 155,254,432 shares represents the same shareholding interest of Honway and is duplicated in Mr. Cheung's interest as set out on page 28. 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.

3 All the interests disclosed above represent long positions.

Save as disclosed herein, there was no person known to the directors of the Company, who, as at 31 December 2008, 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 28.

Retirement Schemes

The Group operates a defined contribution retirement scheme, and two Mandatory Provident Fund schemes (the "MPF Schemes"). Particulars of these 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 2008 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$2.6 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 2008 and a total amount of HK$0.04 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$2.0 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 50%-owned associate of the Company effective from 8 August 2008, as previously disclosed in the Company's interim report and financial statements for the half-year ended 30 June 2008, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 31 December 2008. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK$439.4 million as at 31 December 2008.

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

On 8 August 2008, the Company entered into a new guarantee ("Guarantee") which superseded the guarantee previously signed 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 50% by the Company, to the extent of HK$38.5 million (as at 30 June 2008: approximately HK$28.5 million), which becomes effective as from 8 August 2008, the completion date of the acquisition of 13% interest in HKTLMCL. 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 2009 (being the latest practicable date for determining the relevant figures):

	HK$'000
Total assets	4,948,632
Other liabilities	(2,560,097)
	2,388,535
Share capital and reserves	1,508,910
Shareholders' loans	879,625
	2,388,535

Further Corporate Information

Further information of the Group which is required to be disclosed pursuant to the Listing Rules is set out on pages 13 and 14.

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, 27 March 2009

KPMG

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 37 to 102, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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

27 March 2009

Consolidated Profit and Loss Account

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Turnover	3	244,401	290,846
Other revenue	4	5,883	5,018
Other net (losses)/gains	4	(68,520)	100,136
Direct costs and operating expenses		(108,526)	(112,827)
Selling and marketing expenses		(21,763)	(29,246)
Administrative and corporate expenses		(58,379)	(66,742)
Operating (loss)/profit before finance costs		(6,904)	187,185
Finance costs	5(a)	(442)	(2,139)
Operating (loss)/profit	3	(7,346)	185,046
Share of profits less losses of associates		164,128	101,147
Share of profits of a jointly controlled entity		10,279	11,691
Profit before taxation	5	167,061	297,884
Income tax	6(a)	(9,064)	(16,222)
Profit for the year		157,997	281,662
Attributable to:			
Equity shareholders of the Company	9,25(a)	140,266	261,660
Minority interests	25(a)	17,731	20,002
Profit for the year	25(a)	157,997	281,662
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		$0.40	$0.74
Diluted		$0.38	$0.71

The notes on pages 45 to 102 form part of these financial statements.

Consolidated Balance Sheet

as at 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008		2007	
		$'000	$'000	$'000	$'000
Non-current assets					
Fixed assets	13(a)				
– Property, plant and equipment			61,876		82,230
– Interest in leasehold land held for own use under operating leases			28,077		28,806
			89,953		111,036
Interest in associates	15		1,858,885		826,863
Interest in a jointly controlled entity	16		34,488		29,214
Available-for-sale securities	17		121,831		623,458
Deferred tax assets	24(b)		1,360		290
			2,106,517		1,590,861
Current assets					
Trading securities	18	38,694		136,235	
Equity-linked notes	19	4,316		49,965	
Inventories		960		945	
Trade and other receivables	20	12,149		21,507	
Cash and cash equivalents	21	476,959		1,210,379	
		533,078		1,419,031	
Current liabilities					
Trade and other payables	22	45,335		83,536	
Course fees received in advance		56,748		67,317	
Taxation payable	24(a)	11,764		12,223	
Interim dividends payable		21,279		21,316	
		135,126		184,392	

as at 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Net current assets			397,952		1,234,639
Total assets less current liabilities			2,504,469		2,825,500
Non-current liability					
Deferred tax liabilities	24(b)		560		1,500
NET ASSETS			2,503,909		2,824,000
CAPITAL AND RESERVES	25(a)				
Share capital			353,488		353,488
Reserves			2,082,136		2,401,538
Total equity attributable to equity shareholders of the Company			2,435,624		2,755,026
Minority interests			68,285		68,974
TOTAL EQUITY			2,503,909		2,824,000

Approved and authorised for issue by the board of directors on 27 March 2009.

Yeung Hin Chung, John
Director

Yuen Wing Shing
Director

The notes on pages 45 to 102 form part of these financial statements.

Company Balance Sheet

as at 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Non-current assets					
Fixed assets	13(b)		164		218
Interest in subsidiaries	14		1,214,112		499,200
Interest in associates	15		473,603		562,244
			1,687,879		1,061,662
Current assets					
Trade and other receivables	20	532		694	
Cash and cash equivalents	21	258,428		963,422	
		258,960		964,116	
Current liabilities					
Trade and other payables	22	26,103		24,109	
Interim dividends payable		21,279		21,316	
		47,382		45,425	
Net current assets			211,578		918,691
NET ASSETS			1,899,457		1,980,353
CAPITAL AND RESERVES	25(b)				
Share capital			353,488		353,488
Reserves			1,545,969		1,626,865
TOTAL EQUITY			1,899,457		1,980,353

Approved and authorised for issue by the board of directors on 27 March 2009.

Yeung Hin Chung, John
Director

Yuen Wing Shing
Director

The notes on pages 45 to 102 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

		2008		2007	
	Note	$'000	$'000	$'000	$'000
Total equity balance at 1 January			2,824,000		2,543,809
Net income recognised directly in equity:					
Changes in fair value of available-for-sale securities	25(a)		(17,258)		178,658
Net (expense)/income for the year recognised directly in equity			(17,258)		178,658
Transfers from equity:					
Cash flow hedge: transfers from equity to profit or loss	25(a)		(21,255)		(5,721)
Transfer to profit or loss on disposal of available-for-sale securities	25(a)		(319,405)		(56,811)
Transfer to profit or loss on impairment of available-for-sale securities	25(a)		4,297		—
			(336,363)		(62,532)
Net profit for the year	25(a)		157,997		281,662
Total recognised income and expense for the year			(195,624)		397,788
Attributable to:					
– Equity shareholders of the Company		(213,355)		377,770	
– Minority interests		17,731		20,018	
		(195,624)		397,788	
Dividends declared or approved during the year	25(a)		(106,047)		(106,047)
Minority interest's share of dividend	25(a)		(18,420)		(11,550)
Total equity at 31 December			2,503,909		2,824,000

The notes on pages 45 to 102 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Operating activities					
Profit before taxation		167,061		297,884	
Adjustments for:					
– Dividend income from investments		(8,188)		(15,087)	
– Amortisation of land lease premium		729		729	
– Depreciation		24,160		23,738	
– Finance costs		442		2,139	
– Interest income		(28,571)		(49,402)	
– Share of profits less losses of associates		(164,128)		(101,147)	
– Share of profits of a jointly controlled entity		(10,279)		(11,691)	
– Net gain on sale of fixed assets		(869)		(583)	
– Net gain on sale of available-for-sale securities		(71,139)		(74,028)	
– Net realised and unrealised losses/(gains) on trading securities		132,712		(39,587)	
– Net realised and unrealised losses/(gains) on equity-linked notes		11,102		(628)	
– Net realised and unrealised (gains)/losses on derivative financial instruments		(7,583)		14,690	
– Impairment on available-for-sale securities		4,297		—	

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Operating profit before changes in working capital		49,746		47,027	
Increase in inventories		(15)		(260)	
Decrease/(increase) in trade and other receivables		7,068		(881)	
(Decrease)/increase in trade and other payables		(17,381)		6,508	
(Decrease)/increase in course fees received in advance		(10,569)		823	
Cash generated from operations		28,849		53,217	
Tax paid					
– Hong Kong profits tax paid		(11,533)		(12,673)	
Net cash generated from operating activities			17,316		40,544
Investing activities					
Payments for the purchase of fixed assets		(7,260)		(19,692)	
Proceeds from sale of fixed assets		1,127		812	
Refund from overpayment on fixed assets		700		—	
Payments for the purchase of available-for-sale securities		(94,567)		—	
Payments for the purchase of trading securities		(168,319)		(335,794)	
Payments for the purchase of equity-linked notes		—		(41,623)	
Payments for the purchase of derivative financial instruments		(42,141)		(4,892)	
Proceeds from sale of available-for-sale securities		334,046		189,791	
Proceeds from sale of trading securities		133,148		338,246	
Proceeds from sale of equity-linked notes		34,547		38,884	
Proceeds from sale of derivative financial instruments		31,090		14,115	

Consolidated Cash Flow Statement

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008		2007	
		$'000	$'000	$'000	$'000
Additional investment in an associate		(461,114)		—	
Acquisition of an associate		(555,670)		—	
Additional investment in a jointly controlled entity		(2,495)		—	
Repayment of loan from an associate		125,000		592,000	
Additional loan from an associate		2,173		—	
New loan to a jointly controlled entity		(10,000)		—	
Dividends received from investments		6,748		11,702	
Dividend received from an associate		5,036		—	
Dividend received from a jointly controlled entity		17,500		5,000	
Interest received		24,661		44,198	
Net cash (used in)/generated from investing activities			(625,790)		832,747
Financing activities					
Other borrowing costs		(442)		(2,139)	
Dividends paid		(106,084)		(86,224)	
Dividends paid to minority shareholders		(18,420)		(11,550)	
Net cash used in financing activities			(124,946)		(99,913)
Net (decrease)/increase in cash and cash equivalents			(733,420)		773,378
Cash and cash equivalents at 1 January			1,210,379		437,001
Cash and cash equivalents at 31 December	21		476,959		1,210,379

The notes on pages 45 to 102 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 a number of new Interpretations and an amendment to the HKFRSs 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 2008 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.

Upon the adoption of HK(IFRIC12), Service concession arrangements, the franchises of the associates, Western Harbour Tunnel Company Limited and Tate's Cairn Tunnel Company Limited, with the government constituted the service concession arrangements and the infrastructure costs, previously classified as Tunnel, Plant and Equipment were reclassified as Intangible Assets and the Depreciation of the respective infrastructure costs was reclassified as Amortisation of intangible assets in the financial statements of the associates.

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 investments as these are 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 except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(s)(iii) and (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.

1 Significant accounting policies *(continued)*

(f) Other investments in equity securities *(continued)*

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

(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 allowance for impairment of 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 allowance for impairment of 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.

1 Significant accounting policies *(continued)*

(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.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(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.

1 Significant accounting policies *(continued)*

(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 the following new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company:

— HK(IFRIC) 12, *Service concession arrangements* (see note 1(d))

— Amendment to HKAS 39, *Financial instruments: Recognition and measurement, and HKFRS 7, Financial instruments: Disclosures – Reclassification of financial assets*

These HKFRS developments have had no material impact on the Group's financial statements. The Group's associates adopted HK(IFRIC) 12 for the first time during the year.

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 (loss)/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 (loss)/profit of the Group:

	Turnover		Operating (loss)/profit	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Principal activities				
Motoring school operations	197,007	214,856	43,118	44,370
Investment and other activities	47,394	75,990	(50,464)	140,676
	244,401	290,846	(7,346)	185,046

4 Other revenue and other net (losses)/gains

	2008 $'000	2007 $'000
Other revenue		
Interest income from loan to an associate	4,369	5,018
Interest income from other loan	1,514	—
	5,883	5,018
Other net (losses)/gains		
Net gain on sale of available-for-sale securities	71,139	74,028
Impairment on available-for-sale securities	(4,297)	—
Net realised and unrealised (losses)/gains on trading securities	(132,712)	39,587
Net realised and unrealised gains/(losses) on derivative financial instruments	7,583	(14,690)
Net realised and unrealised (losses)/gains on equity-linked notes	(11,102)	628
Net gain on sale of fixed assets	869	583
	(68,520)	100,136

5 Profit before taxation

	2008 $'000	2007 $'000
Profit before taxation is arrived at		
after charging:		
(a) Finance costs		
Other borrowing costs	442	2,139
(b) Other items		
Amortisation of land lease premium	729	729
Depreciation	24,160	23,738
Auditors' remuneration		
– statutory audit services	1,185	1,054
– other services	210	172
Operating lease charges - land and buildings	11,260	10,988
Contributions to defined contribution retirement scheme	4,558	4,688
Salaries, wages and other benefits (excluding directors' emoluments)	107,361	115,542
Cost of inventories consumed	8,847	8,835
Net foreign exchange loss	4,514	—
and after crediting:		
Dividend income from listed investments	8,188	15,087
Interest income	28,571	49,402
Net foreign exchange gain	—	1,215

6 Income tax in the consolidated profit and loss account

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

	2008 $'000	2007 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	11,117	15,168
(Over)/under-provision in respect of prior years	(43)	1,054
	11,074	16,222
Deferred tax		
Origination and reversal of temporary differences	(1,941)	—
Effect of deferred tax balances at 1 January resulting from a change in tax rate	(69)	—
	(2,010)	—
	9,064	16,222

In February 2008, the Hong Kong Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. This decrease is taken into account in the preparation of the Group's and the Company's 2008 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balance of deferred tax has been re-estimated.

6 Income tax in the consolidated profit and loss account *(continued)*

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

	2008 $'000	2007 $'000
Profit before tax	167,061	297,884
Notional tax on profit before tax calculated at 16.5% (2007: 17.5%)	27,565	52,130
Tax effect of non-deductible expenses	23,999	4,389
Tax effect on non-taxable revenue	(54,023)	(45,699)
Tax effect of current year's tax losses not recognised	11,635	4,348
Effect of deferred tax balances at 1 January resulting from a change in tax rate	(69)	—
(Over)/under-provision in prior years	(43)	1,054
Actual tax expense	9,064	16,222

7 Directors' remuneration

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

2008

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2008 Total $'000
Executive directors					
Cheung Chung Kiu	—	—	6,000	1	6,001
Yeung Hin Chung, John	—	3,030	2,600	12	5,642
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 directors					
Lee Ka Sze, Carmelo	500	—	—	—	500
Wong Yat Fai	200	—	—	—	200
Independent non-executive directors					
Luk Yu King, James	300	—	—	—	300
Ng Kwok Fu	200	—	—	—	200
Leung Yu Ming, Steven	200	—	—	—	200
	1,400	3,030	11,000	16	15,446

7 Directors' remuneration *(continued)*

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

2007

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2007 Total $'000
Executive directors					
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 directors					
Lee Ka Sze, Carmelo	500	—	—	—	500
Wong Yat Fai (re-designated as non-executive director on 1 October 2007)	200	—	—	—	200
Independent non-executive directors					
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

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2007: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2007: two) individuals are as follows:

	2008 $'000	2007 $'000
Salaries and other emoluments	2,379	2,260
Discretionary bonuses and/or performance-related bonuses	630	700
Retirement scheme contributions	78	77
	3,087	3,037

The emoluments of the two (2007: two) individuals with the highest emoluments are within the following bands:

	2008 Number	2007 Number
Bands (in HK$)		
$1,000,001 - $1,500,000	1	1
$1,500,001 - $2,000,000	1	1
	2	2

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of $10,199,000 (2007: profit of $14,631,000) 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:

	2008 $'000	2007 $'000
Amount of consolidated (loss)/profit attributable to equity shareholders dealt with in the Company's financial statements	(10,199)	14,631
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	35,350	16,310
Company's profit for the year (note 25(b))	25,151	30,941

10 Dividends

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

	2008 $'000	2007 $'000
Interim dividends declared of $0.18 per share (2007: $0.18 per share)	63,628	63,628
Final dividend proposed after the balance sheet date of $0.12 per share (2007: $0.12 per share)	42,419	42,419
	106,047	106,047

The 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:

	2008 $'000	2007 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.12 per share (2007: $0.12 per share)	42,419	42,419

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 $140,266,000 (2007: $261,660,000) and the weighted average of 353,488,000 ordinary shares (2007: 353,488,000) in issue during the year, calculated as follows:

	2008 '000	2007 '000
Weighted average number of ordinary shares at 31 December	353,488	353,488

(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 $140,266,000 (2007: $261,660,000) and the weighted average number of ordinary shares of 365,902,000 shares (2007: 366,526,000 shares), calculated as follows:

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

	2008 $'000	2007 $'000
Profit attributable to ordinary equity shareholders (diluted)	140,266	261,660

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

	2008 '000	2007 '000
Weighted average number of ordinary shares at 1 January	353,488	353,488
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	12,414	13,038
Weighted average number of ordinary shares (diluted) at 31 December	365,902	366,526

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	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Turnover	197,007	214,856	2,872	2,872	12,600	12,600	30,876	59,472	1,046	1,046	244,401	290,846
Other revenue	–	–	–	–	–	–	5,883	5,018	–	–	5,883	5,018
Total revenue	197,007	214,856	2,872	2,872	12,600	12,600	36,759	64,490	1,046	1,046	250,284	295,864
Segment result	43,118	44,370	2,872	2,872	12,527	12,519	(24,770)	163,454	(7,045)	(7,233)	26,702	215,982
Unallocated operating expenses											(33,606)	(28,797)
Operating (loss)/profit before finance costs											(6,904)	187,185
Finance costs	–	–	–	–	–	–	(442)	(2,139)	–	–	(442)	(2,139)
Operating (loss)/profit											(7,346)	185,046
Share of profits less losses of associates	–	–	164,128	101,147	–	–	–	–	–	–	164,128	101,147
Share of profits of a jointly controlled entity	–	–	–	–	10,279	11,691	–	–	–	–	10,279	11,691
Profit before taxation											167,061	297,884
Income tax	(7,030)	(7,660)	–	–	(2,020)	(2,164)	14	(6,426)	(28)	28	(9,064)	(16,222)
Profit for the year											157,997	281,662
Depreciation for the year	18,752	18,588	–	–	–	–	–	–	5,408	5,150	24,160	23,738
Amortisation of land lease premium	729	729	–	–	–	–	–	–	–	–	729	729
Capital expenditure incurred during the year	3,135	8,853	–	–	–	–	–	–	1,629	2,263	4,764	11,116

12 Segment reporting *(continued)*

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Consolidated	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Segment assets	251,522	266,478	–	–	–	–	494,700	1,887,337	746,222	2,153,815
Interest in associates	–	–	1,858,885	826,863	–	–	–	–	1,858,885	826,863
Interest in a jointly controlled entity	–	–	–	–	34,488	29,214	–	–	34,488	29,214
Total assets	251,522	266,478	1,858,885	826,863	34,488	29,214	494,700	1,887,337	2,639,595	3,009,892
Segment liabilities	77,411	92,911	6,956	6,961	1,197	1,221	9,696	46,336	95,260	147,429
Unallocated liabilities									40,426	38,463
Total liabilities									135,686	185,892

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 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
At 1 January 2008	109,259	26,337	91,262	41,542	1,186	269,586	38,286	307,872
Additions	—	661	4,099	4	—	4,764	—	4,764
Disposals	(921)	(122)	(2,459)	—	—	(3,502)	—	(3,502)
At 31 December 2008	108,338	26,876	92,902	41,546	1,186	270,848	38,286	309,134
Accumulated amortisation and depreciation:								
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
At 1 January 2008	78,915	22,951	68,203	16,287	1,000	187,356	9,480	196,836
Charge for the year	9,454	1,230	9,112	4,298	66	24,160	729	24,889
Written back on disposals	(221)	(122)	(2,201)	—	—	(2,544)	—	(2,544)
At 31 December 2008	88,148	24,059	75,114	20,585	1,066	208,972	10,209	219,181
Net book value:								
At 31 December 2008	20,190	2,817	17,788	20,961	120	61,876	28,077	89,953
At 31 December 2007	30,344	3,386	23,059	25,255	186	82,230	28,806	111,036

(i) The leasehold land of the Group at 31 December 2008 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 four years. The leases includes contingent rentals.

13 Fixed assets *(continued)*

(a) The Group *(continued)*

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

	2008 $'000	2007 $'000
Within 1 year	—	30

(b) The Company

	Furniture, fixtures and equipment $'000	Leasehold improvements $'000	Total $'000
Cost:			
At 1 January 2007	629	857	1,486
Additions	123	—	123
Disposals	(54)	—	(54)
At 31 December 2007	698	857	1,555
At 1 January 2008	698	857	1,555
Additions	7	—	7
Disposals	—	—	—
At 31 December 2008	705	857	1,562
Accumulated depreciation:			
At 1 January 2007	450	857	1,307
Charge for the year	84	—	84
Written back on disposals	(54)	—	(54)
At 31 December 2007	480	857	1,337
At 1 January 2008	480	857	1,337
Charge for the year	61	—	61
Written back on disposals	—	—	—
At 31 December 2008	541	857	1,398
Net book value:			
At 31 December 2008	164	—	164
At 31 December 2007	218	—	218

14 Interest in subsidiaries

	2008 $'000	2007 $'000
Unlisted shares at cost	802,279	539,755
Amounts due from subsidiaries	1,055,727	330,921
	1,858,006	870,676
Amounts due to subsidiaries	(643,894)	(371,476)
	1,214,112	499,200

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 directly	Percentage of equity attributable to the Group indirectly	Principal activities
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
Deep Bowl Limited	British Virgin Islands/ International	1 share of US$1	100%	—	Holding of a yacht
Group Lucky Limited	Hong Kong	1 share of $1	100%	—	Financing
Gold Faith Investments Limited	British Virgin Islands/ International	1 share of US$1	—	100%	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	
Hong Kong Driving School Management Limited	Hong Kong	2 shares of $10 each	—	70%	Provision of services for the management of the HKSM group
High Fortune Group Limited	British Virgin Islands/ International	1 share of US$1	100%	—	Investment holding
HKSM Yuen Long Driving School Limited	Hong Kong	2 shares of $10 each	—	70%	Operation of a driver training centre
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
Power Right Investments Limited	British Virgin Islands/ International	1 share of US$1	—	100%	Investment holding
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	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Unlisted shares, at cost	—	—	148,370	148,370
Share of net assets	1,436,608	412,989	—	—
Goodwill	48,400	—	—	—
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	439,441	413,828	325,187	413,828
Loan from an associate	(65,610)	—	—	—
	1,858,885	826,863	473,603	562,244

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

(a) On 21 February 2008, the Company and China Merchants Holdings (International) Company Limited ("CMHI") entered into a conditional sale and purchase 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 Western Harbour Tunnel Company Limited ("WHTCL"), Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL") and Hong Kong Transport, Logistics and Management Company Limited ("HKTLMCL"). The transaction was completed on 8 August 2008 after the fulfillment of all the precedent conditions. Upon the completion, the Company effectively holds a 50% shareholding interest in each of WHTCL, HKTHMCL and HKTLMCL.

(b) On 27 November 2008, the Company, Gold Harbour Investment Limited ("Gold Harbour"), an indirect wholly-owned subsidiary of the Company, and China Resources (Holdings) Company Limited ("CRH") entered into a sale and purchase agreement, pursuant to which Gold Harbour agreed to acquire from CRH the entire issued share capital of Power Right Investments Limited ("Power Right"), a wholly-owned subsidiary of CRH, and to purchase and take assignment of the entire shareholder's loan due from Power Right to CRH for an aggregate consideration of $555,000,000, payable in cash at completion. Power Right is an investment holding company incorporated in the British Virgin Islands and holds a 39.5% interest in Tate's Cairn Tunnel Investment Holdings Company Limited, the holding company of Tate's Cairn Tunnel Company Limited. The transaction was completed on 18 December 2008.

(Expressed in Hong Kong dollars)

15 Interest in associates *(continued)*

(c) Particulars of associates, which are 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	Group's effective interest	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activity	Financial year end
Western Harbour Tunnel Company Limited ("WHTCL")	Incorporated	Hong Kong	50%	37%	13%	Operation of the Western Harbour Crossing	31 July
Tate's Cairn Tunnel Company Limited ("TCTCL")	Incorporated	Hong Kong	39.5%	—	39.5%	Operation of the Tate's Cairn Tunnel	30 June

(d) The Group's interest in WHTCL and TCTCL are accounted for under the equity method based on the financial statements of WHTCL and TCTCL for year ended 31 December 2008 respectively. KPMG are not the auditors of WHTCL and TCTCL.

(e) 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.

(f) 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 2008 amounted to $4.4 million (2007: $5.0 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.

(g) TCTCL was granted a thirty year franchise to construct and operate the Tate's Cairn Tunnel in accordance with the Tate's Cairn Tunnel Ordinance enacted on 1 July 1988.

(h) The loan from an associate ("the Loan") is unsecured and interest free. The loan is non-current as this is not expected to be repayable within the next twelve months.

15 Interest in associates *(continued)*

(i) Summary financial information on associates:

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	Profit $'000
2008	6,007,166	3,823,512	2,183,654	1,309,322	545,541
2007	5,437,803	4,321,618	1,116,185	895,181	273,372

* *Assets of associates includes intangible assets (relating to service concession arrangements) and plant and equipment of $5,677,253,000 (2007: $5,305,151,000) and loan to shareholders of $166,100,000 (2007: $Nil) and liabilities of associates includes bank loans of $2,404,140,000 (2007: $2,866,000,000) and shareholders' loans of $878,882,000 (2007: $1,118,454,000).*

16 Interest in a jointly controlled entity

	Group		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Share of net assets other than goodwill	24,488	29,214	—	—
Loan to a jointly controlled entity	10,000	—	—	—
	34,488	29,214	—	—

(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) Loan to a jointly controlled entity is unsecured, interest free and has no fixed repayment terms. The loan is non-current as this is not expected to be recoverable within the next twelve months.

(d) Summary financial information on jointly controlled entity - Group's effective interest:

	2008 $'000	2007 $'000
Non-current assets	13,140	13,682
Current assets	79,637	73,556
Non-current liabilities	(8,237)	(1,305)
Current liabilities	(67,398)	(65,483)
Net assets	17,142	20,450
Income	44,363	44,038
Expenses	(37,168)	(35,854)
Profit for the year	7,195	8,184

17 Available-for-sale securities

	Group	
	2008 $'000	2007 $'000
Listed in Hong Kong	121,831	542,139
Listed outside Hong Kong	—	81,319
	121,831	623,458
Market value of listed securities	121,831	623,458
Fair value of individually impaired available-for-sale equity securities	10,600	—

As at 31 December 2008 certain of the Group's available-for-sale equity securities were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments were recognised in profit or loss in accordance with the policy set out in note 1(k)(i).

At 31 December 2008, certain securities held by the subsidiaries were pledged to a bank for the banking facilities granted to the Company.

18 Trading securities

	Group	
	2008	2007
	$'000	$'000
Trading securities (at market value)		
Listed equity securities		
– in Hong Kong	617	27,767
– outside Hong Kong	38,077	108,468
	38,694	136,235

At 31 December 2008, certain trading securities were pledged to a financial institution as security 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:

	Group			
	Notional amount (original currency) '000	Maturing in	Fair value (original currency) '000	Fair value (Hong Kong dollars equivalent) HK$'000
2008:				
Denominated in:				
United States dollars	500	2009	261	2,023
Australian dollars	1,000	2009	427	2,293
Total				4,316
2007:				
Denominated in:				
United States dollars	3,000	2008	2,614	20,389
United States dollars	2,500	2009	3,029	23,631
Australian dollars	1,000	2009	867	5,945
Total				49,965

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 2008, all the equity-linked notes were pledged to a financial institution as security against treasury facilities granted to the Group.

20 Trade and other receivables

	Group		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Trade receivables	3,008	4,382	—	—
Other receivables	97	9,087	73	363
Amount due from a jointly controlled entity	—	300	—	—
Trade and other receivables	3,105	13,769	73	363
Deposits and prepayments	9,044	7,738	459	331
	12,149	21,507	532	694

The amount of the Group's and the Company's deposits and prepayments expected to be recovered after more than one year is $1,011,000 (2007: $4,043,000). 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	
	2008	2007
	$'000	$'000
Current	2,469	3,694
Less than 1 month past due	294	248
1 to 3 months past due	188	312
More than 3 months but less than 12 months past due	57	128
Amounts past due	539	688
	3,008	4,382

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	
	2008	2007
	$'000	$'000
Neither past due nor impaired	2,469	3,694
Less than 1 month past due	294	248
1 to 3 months past due	188	312
	482	560
	2,951	4,254

Receivables that were neither 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	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Deposits with banks and other financial institutions	261,872	1,133,431	50,073	911,067
Cash at bank and in hand	215,087	76,948	208,355	52,355
	476,959	1,210,379	258,428	963,422

At 31 December 2008, $12,271,000 (2007: $24,008,000) were pledged to the 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	
	2008	2007	**2008**	2007
	'000	'000	**'000**	'000
United States Dollars	**7,626**	17,160	**6,464**	16,015

22 Trade and other payables

	Group		Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Trade payables and accrued charges	**45,335**	64,902	**26,103**	24,109
Derivative financial instruments	**—**	18,634	**—**	—
	45,335	83,536	**26,103**	24,109

All of the 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 aging analysis as of the balance sheet date:

	Group	
	2008	2007
	$'000	$'000
Due within 1 month or on demand	**1,053**	1,755
Due after 1 month but within 3 months	**229**	327
Due after 3 months but within 6 months	**385**	575
	1,667	2,657

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:

	2008		2007	
	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:

	2008 $'000	2007 $'000
Provision for Hong Kong Profits Tax for the year	11,117	15,168
Provisional Profits Tax paid	(8,672)	(10,378)
	2,445	4,790
Balance of Profits Tax provision relating to prior years	9,319	7,433
	11,764	12,223

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 2007	1,210
Credited to profit or loss	—
At 31 December 2007	1,210
At 1 January 2008	1,210
Credited to profit or loss	(2,010)
At 31 December 2008	**(800)**

	2008	2007
	$'000	$'000
Deferred tax assets recognised in the balance sheet	(1,360)	(290)
Deferred tax liabilities recognised in the balance sheet	560	1,500
	(800)	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 $145,277,000 (2007: $74,766,000) 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	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

	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 2008	353,488	1,228,127	1,984	336,615	(4,103)	838,915	2,755,026	68,974	2,824,000
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	—	—	—	—	(21,255)	—	(21,255)	—	(21,255)
Available-for-sale securities:									
– Changes in fair value	—	—	—	(17,258)	—	—	(17,258)	—	(17,258)
– Transfer to profit or loss on disposal	—	—	—	(319,405)	—	—	(319,405)	—	(319,405)
– Transfer to profit or loss on impairment	—	—	—	4,297	—	—	4,297	—	4,297
Net profit for the year	—	—	—	—	—	140,266	140,266	17,731	157,997
Minority interest's share of dividend	—	—	—	—	—	—	—	(18,420)	(18,420)
Dividends declared in respect of the current financial year (note 10(a))	—	—	—	—	—	(63,628)	(63,628)	—	(63,628)
At 31 December 2008	353,488	1,228,127	1,984	4,249	(25,358)	873,134	2,435,624	68,285	2,503,909

25 Reserves *(continued)*

(b) Company

	Share capital $'000	Share premium $'000	Retained profits $'000	Total $'000
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
At 1 January 2008	353,488	1,228,127	398,738	1,980,353
Dividend approved in respect of the previous financial year (note 10(b))	—	—	(42,419)	(42,419)
Net profit for the year	—	—	25,151	25,151
Dividends declared in respect of the current financial year (note 10(a))	—	—	(63,628)	(63,628)
At 31 December 2008	353,488	1,228,127	317,842	1,899,457

25 Reserves *(continued)*

(c) Share capital

(i) Authorised and issued share capital

	2008		2007	
	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 and 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) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2008 Number	2007 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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 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 2008, the aggregate amount of reserves available for distribution to shareholders of the Company was $317,842,000 (2007: $398,738,000). After the balance sheet date the directors proposed a final dividend of $0.12 per share (2007: $0.12 per share), amounting to $42,419,000 (2007: $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.

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.

25 Reserves *(continued)*

(e) Capital management *(continued)*

The adjusted capital at 31 December 2008 and 2007 was as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Total equity (note 25)	**2,503,909**	2,824,000	**1,899,457**	1,980,353
Less: Hedging reserve (note 25)	**25,358**	4,103	**—**	—
Proposed dividends (note 10(a))	**(42,419)**	(42,419)	**(42,419)**	(42,419)
	2,486,848	2,785,684	**1,857,038**	1,937,934

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

26 Financial risk management and fair values

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.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are 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.

26 Financial risk management and fair values *(continued)*

(a) Credit risk *(continued)*

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 rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. 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.

(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.

26 Financial risk management and fair values *(continued)*

(c) Interest rate risk

The Group has no interest-bearing borrowings. The Group is exposed to interest rate risk through the impact of rates changes on income-earning financial assets. The following table details their interest rate profile at the balance sheet date.

	Fixed/ floating	2008 Effective interest rate	2008 $'000	2007 Effective interest rate	2007 $'000
Cash and cash equivalents	Floating	0.01% - 4.34%	212,125	0.25%-5.72%	75,258
Cash and cash equivalents	Fixed	0.05% - 3.75%	261,857	1.38%-4.98%	1,133,431

Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately $1,185,000 (2007: $3,022,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest income of such a change in interest rates. The analysis is performed on the same basis for 2007.

(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.

26 Financial risk management and fair values *(continued)*

(d) Foreign currency risk *(continued)*

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. For presentation purpose, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date.

The Group

	Exposure to foreign currencies (express in Hong Kong dollars)	
	2008 Singapore Dollars $'000	2007 Singapore Dollars $'000
Trading securities	36,891	91,257
	36,891	91,257

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. 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.

The Group

	2008			2007		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000
Singapore	5%	1,845	—	5%	4,563	—
Dollars	(5)%	(1,845)	—	(5)%	(4,563)	—

26 Financial risk management and fair values *(continued)*

(d) Foreign currency risk *(continued)*

Results of the analysis as presented in the above table represent an aggregation of the instantaneous 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 sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2007.

(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.

26 Financial risk management and fair values *(continued)*

(e) Equity price risk *(continued)*

At 31 December 2008, it is estimated that an increase/(decrease) of 5% (2007: 5%) in the relevant stock market index (for listed investments), with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits and other components of consolidated equity as follows:

The Group

	2008			2007		
		Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000		Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000
Change in the relevant equity price risk variable:						
– Increase	5%	548	2,596	5%	3,203	30,190
– Decrease	(5)%	(548)	(2,596)	(5)%	(3,203)	(30,190)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and retained profits and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correction with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2007.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 31 December 2007.

26 Financial risk management and fair values *(continued)*

(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

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 2008 not provided for in the financial statements were as follows:

	Group		Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Contracted for	—	2,589	—	—
Authorised but not contracted for	—	—	—	—

28 Operating lease commitments

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	Group		Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Within 1 year	6,529	4,787	—	—
After 1 year but within 5 years	2,720	1,845	—	—
	9,249	6,632	—	—

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 2008 was $439.4 million (2007: $413.8 million).

The Group received interest income and management fee income from WHTCL of $4.4 million (2007: $5.0 million) and $2.5 million (2007: $2.5 million) respectively.

(b) The Group received consultancy fees from a jointly controlled entity of $12.6 million (2007: $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:

	2008 $'000	2007 $'000
Short-term employee benefits	17,130	16,950
Post-employment benefits	82	81

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

30 Contingent liabilities

At 31 December 2008, the Group had the following contingent liabilities:

(a) In respect of the Company

The Company has given a (2007: two) letter of undertaking to a (2007: two) bank for general banking facilities totalling $50 million (2007: $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 2008, 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 (2007: $0.4 million).

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

At 31 December 2008, the Group has given a guarantee to the extent of $38.5 million (2007: $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, 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 was issued on 5 February 2009.

(Expressed in Hong Kong dollars)

31 Post balance sheet event

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 2008

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 2008 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 result in a significant restatement of the Group's or the Company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

	Effective for accounting periods beginning on or after
HKFRS 8, Operating Segments	1 January 2009
HKAS 1 (revised 2007), Presentation of financial statements	1 January 2009

(Expressed in Hong Kong dollars)

	2004 $'000	2005 $'000	2006 $'000	2007 $'000	**2008 $'000**
Consolidated profit and loss account					
Turnover	254,038	249,672	274,339	290,846	**244,401**
Profit attributable to equity shareholders of the Company for the year	134,979	161,992	172,796	261,660	**140,266**
Dividends payable to equity shareholders of the Company attributable to the year	66,837	84,236	106,047	106,047	**106,047**
Consolidated balance sheet					
Fixed assets	105,192	121,881	124,616	111,036	**89,953**
Interest in associates	1,190,188	1,267,145	1,318,421	826,863	**1,858,885**
Interest in a jointly controlled entity	13,768	17,966	22,523	29,214	**34,488**
Available-for-sale securities	458,283	412,376	614,409	623,458	**121,831**
Deferred tax assets	1,000	400	140	290	**1,360**
Current assets	460,923	500,219	613,762	1,419,031	**533,078**
	2,229,354	2,319,987	2,693,871	3,009,892	**2,639,595**
Current liabilities	203,259	144,768	148,712	184,392	**135,126**
Interest free loan	20,000	—	—	—	**—**
Deferred tax liabilities	1,380	2,390	1,350	1,500	**560**
NET ASSETS	2,004,715	2,172,829	2,543,809	2,824,000	**2,503,909**
Capital and reserves					
Share capital	279,698	300,841	353,488	353,488	**353,488**
Reserves	1,677,808	1,816,637	2,129,815	2,401,538	**2,082,136**
Total equity attributable to equity shareholders of the Company	1,957,506	2,117,478	2,483,303	2,755,026	**2,435,624**
Minority interests	47,209	55,351	60,506	68,974	**68,285**
TOTAL EQUITY	2,004,715	2,172,829	2,543,809	2,824,000	**2,503,909**

Five Year Summary

(Expressed in Hong Kong dollars)

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.