

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, 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 (the “Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

### (c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a Company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same way as for investments in securities (see note 1(h)).

Intra-group balances and transactions, and any unrealised profits arising from 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.

In the Company’s balance sheet, its investments in subsidiaries are stated at cost less any impairment losses (see note 1(j)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions which significantly impair their ability to transfer funds to the Company, in which case, they are stated at fair value with changes in fair value recognised in the same way as for investments in securities (see note 1(h)). The results of subsidiaries are accounted for by the Company on the basis of dividends declared or approved during the Company’s financial year.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 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 or Company and other parties, where the contractual arrangement establishes that the Group or Company 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 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 acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the same way as for investments in securities (see note 1(h)). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates and jointly controlled entity for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entity are eliminated to the extent of the Group's interest in the associates 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 the consolidated profit and loss account.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(j)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the investor, in which case, they are stated at fair value with changes in fair value recognised in the same way as for investments in securities (see note 1(h)). The results of associates are accounted for by the Company on the basis of dividends declared or approved during the Company's financial year.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, associates and jointly controlled entities:

- for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(j)); and
- for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(j)).

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a reduction from assets in the same balance sheet classification as positive goodwill; and
- for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (e) Goodwill (continued)

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

### (f) Fixed assets

- (i) All fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(g)) and impairment losses (see note 1(j)).
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated profit and loss account on the date of retirement or disposal.

### (g) Depreciation

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:

- The cost of leasehold land is depreciated over its remaining lease term on a straight line basis.
- The cost of buildings is depreciated over the remaining term or the expected renewable period of the leases up to a maximum of 10 years on a straight line basis.
- The charge for depreciation on the cost of other fixed assets is calculated on a straight line basis at the following rates per annum:

Furniture, fixtures and equipment	10% to 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	20% to 33 <sup>1</sup> / <sub>3</sub> %
Leasehold improvements	Remaining term of the lease

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (h) Investments in securities

- (i) Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

Provisions against the carrying value of held-to-maturity securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

- (ii) Other non-trading securities are classified as non-current assets and are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative loss is transferred from the investment revaluation reserve to the consolidated profit and loss account.

Transfers from the investment revaluation reserve to the consolidated profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

- (iii) Trading securities are classified as current assets and are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated profit and loss account as they arise.
- (iv) Profits or losses on disposal of investments in securities are accounted for in the consolidated profit and loss account as they arise. In the case of other non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

### (i) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated profit and loss account 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 the consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (j) Impairment of 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 an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- held-to-maturity securities;
- goodwill; and
- investments in subsidiaries, associates and jointly controlled entity (except for those accounted for at fair value under notes 1(c) and (d)).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

#### (i) 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).

#### (ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses 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 the consolidated profit and loss account in the year in which the reversals are recognised.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (k) 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 the consolidated profit and loss account as follows:

- (i) The principal source of income from motoring school operations is driving course fee income which is recognised in the consolidated profit and loss account upon the completion of the relevant training lessons.
- (ii) Interest income from bank deposits is accrued on a time apportioned basis based on the principal amounts outstanding and at the applicable interest rates.
- (iii) Dividends from listed investments are recognised when the share price of such investments goes ex-dividend.
- (iv) Interest income from a loan to an associate is accrued on a time apportioned basis based on the principal amounts outstanding and at such rate as may be agreed from time to time among all the shareholders of the associate.

### (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 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated profit and loss account.

### (n) Income tax

- (i) 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 the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) 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.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the 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. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit 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 provided is 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.



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (n) Income tax (continued)

(iv) 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, and only 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.

### (o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group 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.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (p) Employee benefits

- (i) A defined contribution retirement scheme is operated by a subsidiary. The cost of operating the scheme and contributions in respect of the Group's employees are charged to the consolidated profit and loss account in the period to which they relate.

Contributions to the Mandatory Provident Fund, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the consolidated profit and loss account when incurred.

- (ii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

### (q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (r) Borrowing costs

Borrowing costs are expensed in the consolidated profit and loss account in the year 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.

### (s) 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. 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 cash flow statement.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (t) 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, 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 enterprises 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, corporate and financing expenses and minority interests.

## 2 Turnover and operating profit

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

	Turnover		Operating profit	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<b>Principal activities</b>				
Motoring school operations	228,497	239,759	46,491	46,217
Investment and other activities	26,737	31,525	5,959	(22,193)
	<u>255,234</u>	<u>271,284</u>	<u>52,450</u>	<u>24,024</u>

During the financial year, more than 90% of the trading operations of the Company and its subsidiaries in terms of both turnover and operating profit were carried on in Hong Kong.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 3 Other revenue and other net loss

	2003	2002
	\$'000	\$'000
<b>Other revenue</b>		
Interest income from loan to an associate	<u>11,094</u>	<u>10,270</u>
<b>Other net loss</b>		
Net loss on sale of investments	(432)	—
Net gain/(loss) on sale of fixed assets	132	(334)
Provision for impairment in value of investments	<u>(6,747)</u>	<u>(39,395)</u>
	<u>(7,047)</u>	<u>(39,729)</u>

The directors reviewed the Group's investment portfolio at 31 December 2003 and pursuant to this review considered that certain of the Group's investments were impaired in value at that date as there was objective evidence of such impairment.

In accordance with the accounting policies adopted by the Group for investments, the entire cumulative deficit in the investment revaluation reserve relating to these investments, which totalled \$6.7 million (2002: \$39.4 million), was transferred to the consolidated profit and loss account at 31 December 2003.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 4 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at

	2003	2002
	\$'000	\$'000
<b>after charging:</b>		
(a) Finance costs		
Interest on convertible notes	4,400	4,555
Other borrowing costs	442	733
	<u>4,842</u>	<u>5,288</u>
(b) Other items		
Depreciation	17,123	18,869
Auditors' remuneration		
- audit services	631	616
- other services	120	220
Operating lease charges - land and buildings	15,224	16,045
Contributions to defined contribution retirement scheme	4,154	4,785
Salaries, wages and other benefits (excluding directors' emoluments)	117,191	121,127
Cost of inventories consumed	<u>13,148</u>	<u>12,862</u>
<b>and after crediting:</b>		
Dividend income from listed investments	7,409	10,896
Interest income	<u>14,610</u>	<u>14,927</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 5 Directors' remuneration

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

	2003	2002
	\$'000	\$'000
Fees	700	700
Salaries and other emoluments	2,210	2,210
Discretionary bonuses	3,600	3,100
Retirement scheme contributions	16	16
	<u>6,526</u>	<u>6,026</u>

For the year under review, total emoluments (including any reimbursement of expenses) of \$700,000 (2002: \$700,000), of which \$700,000 (2002: \$700,000) was in the form of directors' fees and \$Nil (2002: \$Nil) was in respect of other emoluments, were paid and/or payable to independent non-executive directors of the company.

The remuneration of the Directors is within the following bands:

	2003	2002
Bands (in HK\$)	Number	Number
Not more than \$1,000,000	7	7
\$3,500,001 - \$4,000,000	1	1
	<u>8</u>	<u>8</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 6 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2002: one) is a director whose emoluments are disclosed in note 5. The aggregate emoluments in respect of the other four (2002: four) individuals are as follows:

(a) Aggregate emoluments

	2003 \$'000	2002 \$'000
Salaries and other emoluments	3,194	3,218
Discretionary bonuses and/or performance-related bonuses	534	380
Retirement scheme contributions	111	114
	<u>3,839</u>	<u>3,712</u>

(b) Bandings

	2003 Number	2002 Number
<b>Bands (in HK\$)</b>		
Not more than \$1,000,000	2	3
\$1,000,001 - \$1,500,000	2	1
	<u>4</u>	<u>4</u>

## 7 Income tax in the consolidated profit and loss account

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

	2003 \$'000	2002 restated \$'000
<b>Current tax - provision for Hong Kong Profits Tax</b>		
Tax for the year	12,095	10,963
Under/(over)-provision in respect of prior years	636	(217)
	<u>12,731</u>	<u>10,746</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 7 Income tax in the consolidated profit and loss account (continued)

(a) Income tax in the consolidated profit and loss account represents: (continued)

	2003	2002
		restated
	\$'000	\$'000
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(1,246)	(1,620)
Effect of increase in tax rate on deferred tax balances at 1 January	246	—
	<u>(1,000)</u>	<u>(1,620)</u>
Share of associate's taxation	<u>6,315</u>	<u>5,533</u>
Share of a jointly controlled entity's taxation	<u>1,753</u>	<u>1,688</u>
Total income tax expense	<u><u>19,799</u></u>	<u><u>16,347</u></u>

In March 2003, the Government of the HKSAR announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements.

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

	2003	2002
		restated
	\$'000	\$'000
Profit before tax	<u>123,312</u>	<u>94,865</u>
Notional tax on profit before tax calculated at the rates applicable to profits in the tax jurisdictions concerned	21,580	15,178
Tax effect of non-deductible expenses	929	2,366
Tax effect of non-taxable revenue	(1,839)	(2,371)
Tax effect of tax losses not recognised	1,116	1,391
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	(2,623)	—
Under/(over)-provision in prior years	<u>636</u>	<u>(217)</u>
Actual tax expense	<u><u>19,799</u></u>	<u><u>16,347</u></u>



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 8 Change in accounting policy

In prior years, deferred tax liabilities were provided for using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice (“SSAP”) 12 (revised) “Income tax” issued by the Hong Kong Society of Accountants, the Group, its associates and its jointly controlled entity adopted a new policy for deferred tax as set out in note 1(n). As a result of the adoption of this accounting policy, the Group’s profit for the year has been decreased by \$5,923,000 (2002: \$5,685,000) and the net assets as at the year end have been increased by \$25,532,000 (2002: \$31,455,000). The effect of such change is not material to the Company.

As a result of adopting this new accounting policy, the Group’s profit for the year has been decreased as follows:

	2003	2002
	\$'000	\$'000
Effect of adoption of SSAP 12 (revised) by		
- The Company and its subsidiaries	(350)	(364)
- Associates	6,315	5,533
- Jointly controlled entity	(42)	516
	<u>5,923</u>	<u>5,685</u>

The net assets of the Group at the year end have been increased as follows:

	2003	2002
	\$'000	\$'000
Effect of adoption of SSAP 12 (revised) by		
- The Company and its subsidiaries	826	476
- Associates	25,573	31,888
- Jointly controlled entity	(867)	(909)
	<u>25,532</u>	<u>31,455</u>

The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 9 Profit attributable to shareholders for the year

The consolidated profit attributable to shareholders includes a profit of \$10,174,000 (2002: \$18,880,000) 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:

	2003 \$'000	2002 \$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	10,174	18,880
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	<u>16,170</u>	<u>13,930</u>
Company's profit for the year (note 26)	<u><u>26,344</u></u>	<u><u>32,810</u></u>

## 10 Dividends

(a) Dividends attributable to the year:

	2003 \$'000	2002 \$'000
Interim dividends declared of \$0.15 per share (2002: \$0.15 per share)	37,377	31,010
Final dividend proposed after the balance sheet date of \$0.05 per share (2002: \$0.05 per share)	<u>12,528</u>	<u>10,460</u>
	<u><u>49,905</u></u>	<u><u>41,470</u></u>

Interim dividends for the year ended 31 December 2003 totalling \$7,672,000 were settled under the Company's scrip dividend scheme. The amounts of \$2,139,000 and \$5,533,000 were capitalised in the share capital and share premium accounts respectively.

The directors have also recommended that final dividend should be paid in cash, with shareholders being given the option to receive scrip in lieu of cash in respect of part or all such dividend. The proposed option to elect for scrip in lieu of cash dividend is conditional upon The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares to be issued pursuant to the scrip dividend option.

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 10 Dividends (continued)

(b) Dividends attributable to the previous financial year, approved and paid during the year:

	2003	2002
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of \$0.05 per share (2002: \$0.05 per share)	<u>10,460</u>	<u>9,728</u>

## 11 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$87,235,000 (2002 restated: \$61,753,000) and the weighted average of 235,970,889 ordinary shares (2002: 202,148,734) in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$90,865,000 (2002 restated: \$65,580,000) and the weighted average number of ordinary shares of 280,774,492 shares (2002: 243,941,327 shares) after adjusting for the effects of all dilutive potential ordinary shares.

### (c) Reconciliations

	2003	2002
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	235,970,889	202,148,734
Deemed issue of ordinary shares for no consideration	9,595,089	4,605,118
Deemed issue of ordinary shares from conversion of convertible notes	<u>35,208,514</u>	<u>37,187,475</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>280,774,492</u>	<u>243,941,327</u>

# Notes to the Financial Statements

*(Expressed in Hong Kong dollars)*

## 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.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 12 Segment reporting (continued)

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Unallocated		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
		restated		restated		restated						restated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	228,497	239,759	2,873	3,073	12,600	12,636	11,106	15,553	158	263	255,234	271,284
Other revenue	—	—	—	—	—	—	11,094	10,270	—	—	11,094	10,270
Total revenue	<u>228,497</u>	<u>239,759</u>	<u>2,873</u>	<u>3,073</u>	<u>12,600</u>	<u>12,636</u>	<u>22,200</u>	<u>25,823</u>	<u>158</u>	<u>263</u>	<u>266,328</u>	<u>281,554</u>
Segment result	46,491	46,217	2,873	3,073	12,378	12,430	14,961	(13,632)	(479)	(303)	76,224	47,785
Unallocated operating expenses											(18,932)	(18,473)
Operating profit before finance costs											57,292	29,312
Finance costs	—	—	—	—	—	—	(4,842)	(5,288)	—	—	(4,842)	(5,288)
Operating profit											52,450	24,024
Share of profits less losses of associates	—	—	60,405	61,607	—	—	—	—	—	—	60,405	61,607
Share of profits of a jointly controlled entity	—	—	—	—	10,457	9,234	—	—	—	—	10,457	9,234
Profit from ordinary activities before taxation											123,312	94,865
Income tax	(9,533)	(7,018)	(6,315)	(5,655)	(3,918)	(3,675)	(33)	1	—	—	(19,799)	(16,347)
Profit from ordinary activities after taxation											103,513	78,518
Minority interests	(10,560)	(11,229)	—	—	(5,718)	(5,536)	—	—	—	—	(16,278)	(16,765)
Profit attributable to shareholders for the year											<u>87,235</u>	<u>61,753</u>
Depreciation for the year	16,364	18,252	—	—	—	—	—	—	759	617	17,123	18,869
Provision for impairment in value of investments	—	—	—	—	—	—	6,747	39,395	—	—	6,747	39,395
Capital expenditure incurred during the year	3,958	2,742	—	—	—	—	—	—	242	966	4,200	3,708

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 12 Segment reporting (continued)

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
		restated		restated		restated				restated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	213,238	197,328	—	—	—	—	584,687	472,019	797,925	669,347
Interest in associates	—	—	1,149,151	1,083,967	—	—	—	—	1,149,151	1,083,967
Interest in a jointly controlled entity	—	—	—	—	9,120	5,416	—	—	9,120	5,416
Total assets	<u>213,238</u>	<u>197,328</u>	<u>1,149,151</u>	<u>1,083,967</u>	<u>9,120</u>	<u>5,416</u>	<u>584,687</u>	<u>472,019</u>	<u>1,956,196</u>	<u>1,758,730</u>
Segment liabilities	(95,759)	(84,722)	(15,741)	(17,526)	(6,420)	(7,473)	(134,163)	(246,679)	(252,083)	(356,400)
Unallocated liabilities									(647)	(10,458)
Total liabilities									<u>(252,730)</u>	<u>(366,858)</u>
Minority interests	(35,260)	(33,850)	—	—	(7,597)	(5,160)	—	—	(42,857)	(39,010)

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 13 Fixed assets

	Leasehold land and buildings \$'000	Furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Leasehold improvements \$'000	Total \$'000
<b>(a) The Group</b>					
<b>Cost:</b>					
At 1 January 2003	129,252	22,444	89,324	857	241,877
Additions	1,544	1,024	1,632	—	4,200
Adjustment of over provision in prior years	(2,872)	—	—	—	(2,872)
Disposals	(456)	(644)	(1,270)	—	(2,370)
At 31 December 2003	<u>127,468</u>	<u>22,824</u>	<u>89,686</u>	<u>857</u>	<u>240,835</u>
<b>Accumulated depreciation:</b>					
At 1 January 2003	58,724	18,007	73,645	81	150,457
Charge for the year	8,007	2,003	6,668	445	17,123
Written back on disposals	(456)	(554)	(1,269)	—	(2,279)
At 31 December 2003	<u>66,275</u>	<u>19,456</u>	<u>79,044</u>	<u>526</u>	<u>165,301</u>
<b>Net book value:</b>					
At 31 December 2003	<u>61,193</u>	<u>3,368</u>	<u>10,642</u>	<u>331</u>	<u>75,534</u>
At 31 December 2002	<u>70,528</u>	<u>4,437</u>	<u>15,679</u>	<u>776</u>	<u>91,420</u>

Included within "Leasehold land and buildings" above is leasehold land of the Group, with a net book value of \$27.9 million (2002: \$33.9 million), held in Hong Kong under a medium lease.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 13 Fixed assets (continued)

	Furniture, fixtures and equipment \$'000	Leasehold improvements \$'000	Total \$'000
<b>(b) The Company</b>			
<b>Cost:</b>			
At 1 January 2003	650	857	1,507
Additions	5	—	5
Disposals	(63)	—	(63)
	<u>592</u>	<u>857</u>	<u>1,449</u>
At 31 December 2003	<u>592</u>	<u>857</u>	<u>1,449</u>
<b>Accumulated depreciation:</b>			
At 1 January 2003	163	81	244
Charge for the year	125	445	570
Written back on disposal	(25)	—	(25)
	<u>263</u>	<u>526</u>	<u>789</u>
At 31 December 2003	<u>263</u>	<u>526</u>	<u>789</u>
<b>Net book value:</b>			
At 31 December 2003	<u>329</u>	<u>331</u>	<u>660</u>
At 31 December 2002	<u>487</u>	<u>776</u>	<u>1,263</u>

## 14 Investments in subsidiaries

	2003 \$'000	2002 \$'000
Unlisted shares at cost	539,754	539,754
Amounts due from subsidiaries	<u>43,024</u>	<u>30,006</u>
	582,778	569,760
Amounts due to subsidiaries	<u>(136,506)</u>	<u>(145,806)</u>
	<u>446,272</u>	<u>423,954</u>

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



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 14 Investments in subsidiaries (continued)

Details of the principal subsidiaries are as follows:

Name of company	Country/ place of incorporation and operation	Issued and fully paid up share capital (all being ordinary shares except where otherwise stated)	Percentage of equity attributable to the Group		Principal activities
			directly	indirectly	
Beckworth International Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	100%	Investment
Centre Court Profits Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	100%	Investment
Clear Path Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	100%	Investment
Cumberworth Investments Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	70%	Investment
Deep Bowl Limited	British Virgin Islands/ International	1 share of US\$1	100%	—	Investment holding
HKSM Yuen Long Driving School Limited	Hong Kong	2 shares of HK\$10 each	—	70%	Operation of a driver training centre
Hong Kong Driving School Management Limited	Hong Kong	2 shares of HK\$10 each	—	70%	Provision of services for the management of the HKSM group
Kempsford International Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	100%	Investment

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 14 Investments in subsidiaries (continued)

Details of the principal subsidiaries are as follows: (continued)

Name of company	Country/ place of incorporation and operation	Issued and fully paid up share capital (all being ordinary shares except where otherwise stated)	Percentage of equity attributable to the Group		Principal activities
			directly	indirectly	
The Autopass Company Limited	Hong Kong	70,000 "A" shares of HK\$10 each 30,000 "B" shares of HK\$10 each	100%	—	Investment holding and provision of consultancy services
The Hong Kong School of Motoring Limited	Hong Kong	2,000,000 shares of HK\$1 each	70%	—	Operation of driver training centres

## 15 Interest in associates

	Group		Company	
	2003	2002	2003	2002
		restated		
	\$'000	\$'000	\$'000	\$'000
Unlisted shares at cost	—	—	148,370	148,370
Share of net assets/(liabilities) other than goodwill	28,665	(25,425)	—	—
Amounts due from an associate	416	416	416	416
Amounts due to an associate	(370)	(370)	(370)	(370)
Loan to and interest receivable from an associate	1,120,440	1,109,346	1,120,440	1,109,346
	<u>1,149,151</u>	<u>1,083,967</u>	<u>1,268,856</u>	<u>1,257,762</u>

The loan to including interest receivable thereon, and amounts due from/to an associate are non-current as these are not repayable within the next twelve months.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 15 Interest in associates (continued)

(a) Details of the Group's principal associate at 31 December 2003 are as follows:

Name	Place of incorporation	Percentage of issued ordinary shares held directly by the Company	Principal activity	Financial year end
Western Harbour Tunnel Company Limited ("WHTCL")	Hong Kong	37%	Operation of the Western Harbour Crossing	31 July

(b) The Group's interest in WHTCL is accounted for under the equity method based on the financial statements of WHTCL as at 31 December 2003.

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

(d) The loan to an associate ("the Loan") bears interest at a rate of 1% per annum as determined by the shareholders of that associate. Interest earned by the Group from WHTCL for the year ended 31 December 2003 totalled \$11.1 million (2002: \$10.3 million). The Loan is repayable on demand as may from time to time be agreed among WHTCL's shareholders, subject to a syndicated loan (which will be due for full and final repayment on 28 February 2011 having been fully repaid by WHTCL before any repayment of the Loan).

(e) The following supplementary financial information is disclosed relating to the principal associate, WHTCL:

	2003 \$'000	2002 \$'000
(i) Turnover	596,217	636,320
Finance costs	178,540	232,973
Depreciation and amortisation	140,879	132,484
Profit before taxation	165,699	168,380
(ii) Fixed assets	6,020,977	6,161,407
Bank loans	(2,903,000)	(3,238,000)
Loan from shareholders	(2,710,000)	(2,710,000)

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 16 Interest in a jointly controlled entity

	Group		Company	
	2003	2002 restated	2003	2002
	\$'000	\$'000	\$'000	\$'000
Share of net assets other than goodwill	<u>9,120</u>	<u>5,416</u>	<u>—</u>	<u>—</u>

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

Name of company	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity attributable to the Group	Principal activity	Financial year end
Autotoll Limited	Corporation	Hong Kong	10,000 ordinary shares of HK\$1 each	35%	Operation of an electronic toll collection system	30 September

(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.

## 17 Investments

	Group	
	2003	2002
	\$'000	\$'000
<b>Held-to-maturity debt securities</b>		
Unlisted	<u>15,000</u>	<u>—</u>
<b>Investment securities</b>		
Shares listed in Hong Kong	287,765	209,045
Shares listed outside Hong Kong	<u>27,850</u>	<u>22,712</u>
	<u>315,615</u>	<u>231,757</u>
	<u>330,615</u>	<u>231,757</u>
Market value of listed shares	<u>315,615</u>	<u>231,757</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 18 Trade and other receivables

Included in trade and other receivables are trade receivables with an aging analysis as at the year end as follows:

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Amounts receivable within:				
0-30 days	382	504	—	—
31-60 days	55	40	—	—
61-90 days	—	—	—	—
Over 90 days	417	322	—	—
	<u>854</u>	<u>866</u>	<u>—</u>	<u>—</u>

Debts are normally due within one month from the date of billing while further credit may be granted to individual customers when appropriate.

Trade and other receivables include deposits paid amounting to \$4,633,000 (2002: \$4,456,000) which are expected to be recovered after one year.

## 19 Cash and cash equivalents

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Deposits with banks and other financial institutions	326,906	301,903	192,287	193,314
Cash at bank and in hand	4,467	378	1,674	695
	<u>331,373</u>	<u>302,281</u>	<u>193,961</u>	<u>194,009</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 20 Trade and other payables

Included in trade and other payables are trade payables with an aging analysis as at the year end as follows:

	Group		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Amounts payable within:				
0-30 days	382	1,778	—	—
31-60 days	—	—	—	—
61-90 days	—	—	—	—
Over 90 days	20	10	—	—
	<u>402</u>	<u>1,788</u>	<u>—</u>	<u>—</u>

Trade and other payables include deposits received amounting to \$118,000 (2002: \$100,000) which are expected to be settled after one year.

## 21 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	Group		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Provision for Hong Kong				
Profits Tax for the year	12,095	10,963	—	—
Provisional Profits Tax paid	(9,185)	(9,386)	—	(515)
	<u>2,910</u>	<u>1,577</u>	<u>—</u>	<u>(515)</u>
Balance of Profits Tax				
provision relating to prior years	340	—	—	—
	<u>3,250</u>	<u>1,577</u>	<u>—</u>	<u>(515)</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 21 Income tax in the balance sheet (continued)

(b) Deferred tax assets and liabilities recognised:

(i) *The Group*

The components of deferred tax recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from	Depreciation allowances in excess of the related depreciation \$'000
At 1 January 2002	
- as previously reported	4,400
- prior year adjustment	(160)
	<hr/>
- as restated	4,240
Credited to the consolidated profit and loss account	(1,620)
	<hr/>
At 31 December 2002 (restated)	<u>2,620</u>
At 1 January 2003	
- as previously reported	3,300
- prior year adjustment	(680)
	<hr/>
- as restated	2,620
Credited to the consolidated profit and loss account	(1,000)
	<hr/>
At 31 December 2003	<u>1,620</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 21 Income tax in the balance sheet (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

(ii) *The Company*

No deferred tax assets and liabilities have been recognised by the Company as there were no material temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases as at 31 December 2003.

	Group		Company	
	2003	2002 restated	2003	2002
	\$'000	\$'000	\$'000	\$'000
Net deferred tax assets				
recognised in the balance sheet	(1,180)	(680)	—	—
Net deferred tax liability				
recognised in the balance sheet	2,800	3,300	—	—
	<u>1,620</u>	<u>2,620</u>	<u>—</u>	<u>—</u>

(c) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets in respect of the future benefit of tax losses amounting to \$2,637,000 (2002: \$1,391,000) as it is not probable that future taxable profits will be available against which the assets can be utilised. The tax losses do not expire under current tax legislation.



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 22 Convertible notes

On 8 May 2002, the Company issued convertible notes (the “CN I”) amounting to \$133,000,000 with a maturity date of 8 May 2005 which bear interest at the rate of 3.5% per annum. The CN I confer rights to be converted into new ordinary shares of the Company at a conversion price of \$3.50 per share during the period from 8 May 2002 to 8 May 2003, \$3.70 per share during the period from 9 May 2003 to 8 May 2004 and \$3.90 per share during the period from 9 May 2004 to 8 May 2005 (subject to adjustment).

On 28 April 2003, 29 April 2003, 2 May 2003 and 7 May 2003, \$35 million, \$28 million, \$24 million and \$9 million CN I were converted into 10,000,000, 8,000,000, 6,857,142 and 2,571,428 ordinary shares respectively.

On 11 June 2002, the Company further issued convertible notes (the “CN II”) of \$117,000,000 with a maturity date of 11 June 2005 which bear interest at the rate of 3.5% per annum. The CN II confer rights to be converted into new ordinary shares of the Company at a conversion price of \$3.50 per share during the period from 11 June 2002 to 11 June 2003, \$3.70 per share during the period from 12 June 2003 to 11 June 2004 and \$3.90 per share during the period from 12 June 2004 to 11 June 2005 (subject to adjustment).

On 28 April 2003, 29 April 2003, 2 May 2003 and 7 May 2003, \$13.3 million, \$10.7 million, \$9.1 million and \$3.4 million CN II were converted into 3,800,000, 3,057,142, 2,604,857 and 978,840 ordinary shares respectively.

## 23 Share option

On 9 May 2003, the Company entered into a share option agreement with Honway Holdings Limited (“Honway”) in relation to the subscription by Honway, a substantial shareholder of the Company, for a maximum of 60,000,000 new shares. In consideration for Honway paying to the Company the sum of \$50 million (\$5 million being the amount for purchasing the option and \$25 million being a non-refundable deposit payable in advance for exercise of the option and \$20 million being a 3-year interest-free term loan advanced by Honway to the Company), the Company has agreed to grant the option to Honway to subscribe for new shares in the Company. The option is exercisable from 24 June 2003 for a period of three years, at an option price of \$3.4 per share in the first year, \$3.7 per share in the second year and \$4.0 per share in the third year, subject to adjustment.

The amount received for purchasing the option of \$5 million and the \$25 million non-refundable deposit have been credited to share option reserve account, further details of which are disclosed in note 26.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 24 Equity compensation benefits

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 exercise price of options is determined by the board as the higher of the nominal value of the shares and 80% of the average of the closing prices of the existing shares on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of such options. The options vest from the date of grant and are exercisable within the exercise period from 30 August 2001 to 7 May 2011.

### (a) Movements in share options

	2003 Number	2002 Number
At 1 January	19,200,000	19,200,000
Issued	—	—
Exercised	—	—
	<u>19,200,000</u>	<u>19,200,000</u>
At 31 December	<u>19,200,000</u>	<u>19,200,000</u>
Options vested at 31 December	<u>19,200,000</u>	<u>19,200,000</u>

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

Date granted	Exercise period	Exercise price	2003 Number	2002 Number
30 August 2001	30 August 2001 to 7 May 2011	\$2.492	<u>19,200,000</u>	<u>19,200,000</u>

(c) During the year ended 31 December 2003, no options were exercised and no options were granted to subscribe for ordinary shares of the Company under the Company's share option scheme.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 25 Share capital

	2003		2002	
	No. of shares '000	Amount \$'000	No. of shares '000	Amount \$'000
<b>Authorised:</b>				
Ordinary shares of \$1 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
<b>Issued and fully paid:</b>				
At 1 January	207,954	207,954	193,572	193,572
Shares issued in lieu of cash dividends	4,729	4,729	4,382	4,382
Shares issued on conversion of convertible notes	<u>37,869</u>	<u>37,869</u>	<u>10,000</u>	<u>10,000</u>
At 31 December	<u>250,552</u>	<u>250,552</u>	<u>207,954</u>	<u>207,954</u>

Fully paid new shares in lieu of cash dividends were issued as follows. An amount of \$11.2 million was credited to the share premium account upon issue of the shares.

<u>Date shares issued</u>	<u>Dividend</u>	<u>No. of shares issued</u>	<u>Value</u>
13 January 2003	Third interim dividend of 2002	1,240,501	\$3.285
30 May 2003	Final dividend of 2002	1,349,308	\$3.130
21 July 2003	First interim dividend of 2003	764,407	\$3.255
15 October 2003	Second interim dividend of 2003	772,245	\$3.57
29 December 2003	Third interim dividend of 2003	602,068	\$4.03

On 28 April 2003, 29 April 2003, 2 May 2003 and 7 May 2003, \$48.3 million, \$38.7 million, \$33.1 million and \$12.4 million convertible notes were converted by the holders into 13,800,000, 11,057,142, 9,461,999 and 3,550,268 ordinary shares respectively. An amount of \$94.7 million was credited to the share premium account upon the conversion of the notes and issue of the new shares.

All shares issued during the year rank pari passu with the existing issued shares of the Company in all respects.

## Notes to the Financial Statements

(Expressed in Hong Kong dollars)

### 26 Reserves

#### (a) Group

	Share premium \$'000	Capital reserve \$'000	Investment revaluation reserve \$'000	Share option reserve \$'000	Revenue reserve \$'000	Total \$'000
At 1 January 2002						
- as previously reported	751,015	1,984	(9,645)	—	355,535	1,098,889
- prior year adjustment arising from change in accounting policy for deferred tax (note 8)	—	—	—	—	37,140	37,140
- as restated	751,015	1,984	(9,645)	—	392,675	1,136,029
Shares issued in lieu of dividend declared in the previous financial year	2,145	—	—	—	—	2,145
Dividend approved in respect of the previous financial year (note 10(b))	2,375	—	—	—	(9,728)	(7,353)
Revaluation deficits	—	—	(86,451)	—	—	(86,451)
Transfer to the profit and loss account on impairment	—	—	39,395	—	—	39,395
Net profit for the year						
- as previously reported	—	—	—	—	67,438	67,438
- prior year adjustment arising from change in accounting policy for deferred tax (note 8)	—	—	—	—	(5,685)	(5,685)
- as restated					61,753	61,753
Dividends declared in respect of the current financial year (note 10(a))	5,400	—	—	—	(31,010)	(25,610)
Shares issued on conversion of convertible notes	25,000	—	—	—	—	25,000
At 31 December 2002	785,935	1,984	(56,701)	—	413,690	1,144,908

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 26 Reserves (continued)

### (a) Group (continued)

	Share premium \$'000	Capital reserve \$'000	Investment revaluation reserve \$'000	Share option reserve \$'000	Revenue reserve \$'000	Total \$'000
At 1 January 2003						
- as previously reported	785,935	1,984	(56,701)	—	382,235	1,113,453
- prior year adjustment arising from change in accounting policy for deferred tax (note 8)	—	—	—	—	31,455	31,455
- as restated	785,935	1,984	(56,701)	—	413,690	1,144,908
Shares issued in lieu of dividend declared in the previous financial year	2,834	—	—	—	—	2,834
Dividend approved in respect of the previous financial year (note 10(b))	2,874	—	—	—	(10,460)	(7,586)
Revaluation surplus	—	—	83,089	—	—	83,089
Transfer to the profit and loss account on impairment	—	—	6,747	—	—	6,747
Net profit for the year	—	—	—	—	87,235	87,235
Dividends declared in respect of the current financial year (note 10(a))	5,533	—	—	—	(37,377)	(31,844)
Shares issued on conversion of convertible notes	94,674	—	—	—	—	94,674
Granting of share options (note 23)	—	—	—	30,000	—	30,000
At 31 December 2003	891,850	1,984	33,135	30,000	453,088	1,410,057

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 26 Reserves (continued)

### (b) Company

	Share premium \$'000	Share option reserve \$'000	Revenue reserve \$'000	Total \$'000
At 1 January 2002	751,015	—	648,547	1,399,562
Shares issued in lieu of dividend declared in the previous financial year	2,145	—	—	2,145
Dividend approved in respect of the previous financial year (note 10(b))	2,375	—	(9,728)	(7,353)
Net profit for the year	—	—	32,810	32,810
Dividends declared in respect of the current financial year (note 10(a))	5,400	—	(31,010)	(25,610)
Shares issued on conversion of convertible notes	25,000	—	—	25,000
At 31 December 2002	<u>785,935</u>	<u>—</u>	<u>640,619</u>	<u>1,426,554</u>
At 1 January 2003	785,935	—	640,619	1,426,554
Shares issued in lieu of dividend declared in the previous financial year	2,834	—	—	2,834
Dividend approved in respect of the previous financial year (note 10(b))	2,874	—	(10,460)	(7,586)
Net profit for the year	—	—	26,344	26,344
Dividends declared in respect of the current financial year (note 10(a))	5,533	—	(37,377)	(31,844)
Shares issued on conversion of convertible notes	94,674	—	—	94,674
Granting of share options (note 23)	—	30,000	—	30,000
At 31 December 2003	<u>891,850</u>	<u>30,000</u>	<u>619,126</u>	<u>1,540,976</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 26 Reserves (continued)

### (b) Company (continued)

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 investments in securities (note 1(h)).

The share option reserve which represents amounts received in advance of the exercise of share options will be utilised and transferred to the share capital account and the share premium account once the options are exercised. Should the options not be exercised, such amount will be transferred to the capital contribution reserve upon expiry of the options. Such reserve will be distributable upon discretion of the directors.

At 31 December 2003, the aggregate amount of reserves available for distribution to shareholders of the Company was \$619,126,000 (2002: \$640,619,000). After the balance sheet date the directors proposed a final dividend of \$0.05 per share (2002: \$0.05 per share), amounting to \$12,528,000 (2002: \$10,460,000). This dividend has not been recognised as a liability at the balance sheet date.

	2003	2002
		restated
	\$'000	\$'000
Profit for the year is retained by:		
- The Company and its subsidiaries	30,552	4,283
- Associates	54,090	56,074
- Jointly controlled entity	2,593	1,396
	<u>87,235</u>	<u>61,753</u>
Total	<u>87,235</u>	<u>61,753</u>

Included in the figure for revenue reserve is an amount of \$119,705,000 (2002 restated: \$173,795,000), being the accumulated losses attributable to associates; and an amount of \$6,380,000 (2002 restated: \$3,787,000) being the retained profits attributable to a jointly controlled entity.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 27 Capital commitments

Capital commitments outstanding at 31 December 2003 not provided for in the financial statements were as follows:

	Group		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Contracted for	<u>14,883</u>	<u>10,608</u>	<u>—</u>	<u>—</u>
Authorised but not contracted for	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

## 28 Operating lease commitments

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	Group		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Within 1 year	6,081	6,778	—	—
After 1 year but within 5 years	<u>1,085</u>	<u>2,544</u>	<u>—</u>	<u>—</u>
	<u>7,166</u>	<u>9,322</u>	<u>—</u>	<u>—</u>

The Group leases a number of properties 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. None of the leases includes contingent rentals.



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 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 except for (c) and (d).

- (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 2003 was \$1,120.4 million (2002: \$1,109.3 million).

The Group received interest income and management fee income from WHTCL of \$11.1 million (2002: \$10.3 million) and \$2.5 million (2002: \$2.5 million) respectively.

- (b) The Group received consultancy fees from a jointly controlled entity of \$12.6 million (2002: \$12.6 million).
- (c) The interest expenses payable in respect of the convertible notes issued to Honway, a substantial shareholder of the Company for the year ended 31 December 2003 totalled \$3.3 million (2002: \$2.3 million).
- (d) On 9 May 2003, the Company entered into a share option agreement with Honway in relation to the subscription by Honway for a maximum of 60,000,000 new shares, further details of which are disclosed in note 23.

## 30 Contingent liabilities

At 31 December 2003, the Group had the following contingent liabilities:

### (a) In respect of Western Harbour Tunnel Company Limited (“WHTCL”)

A joint and several guarantee given by the Company and the other shareholders of WHTCL, namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchants Holdings (International) Company, Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR to advance to WHTCL by way of share capital injection and/or subordinated debt an amount equal to any excess of the total costs over the budgeted cost of \$7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of the Western Harbour Tunnel (“WHT”) up to the date WHT opened for use by the public (the “operating date”) and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to WHT. The maintenance certificate had not been issued at 31 December 2003.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 30 Contingent liabilities (continued)

### (b) In respect of Hong Kong Tunnels and Highways Management Company Limited (“HKTHMCL”)

The Group has given a guarantee to the extent of \$18.9 million (2002: \$30.0 million) to a bank in return for it providing a guarantee in favour of the Government of the HKSAR on behalf of HKTHMCL 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 HKTHMCL.

### (c) In respect of The Hong Kong School of Motoring Limited (“HKSM”)

There is an arrangement between HKSM and its banker where 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 \$1.7 million (2002: \$4.1 million). \$2.4 million of the total at 31 December 2002 was released in January 2003.

### (d) In respect of the Company

The Company has given two letters of undertaking in relation to the bank facilities of the Group to two banks for general facilities totalling \$150 million (2002: \$200 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 2003, these facilities were not utilised by the Company.

## 31 Post balance sheet events

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

## 32 Comparative figures

Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in note 8.