

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 include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public 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. A summary of the significant accounting policies adopted by the Group is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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(f)).

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(c) Subsidiaries and controlled enterprises (continued)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated profit and loss account.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable 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 good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

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(f)). The results of subsidiaries are accounted for by the Company on the basis of dividends declared or approved during the Company's financial year.

(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(f)). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(d) Associates and jointly controlled entities (continued)

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(f)). The results of associates are accounted for by the Company on the basis of dividends declared or approved during the Company's financial year.

(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(e) Goodwill (continued)

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.

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) 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 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 consolidated 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(g) Fixed assets

- (i) All fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(i)) 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.

(h) 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.

(i) 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 ¹ / ₃ %
Motor vehicles	20% to 33 ¹ / ₃ %
Yacht	10% to 33 ¹ / ₃ %
Leasehold improvements	Remaining term of the lease

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 entities (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 in the consolidated profit and loss account whenever the carrying amount of such 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 favourable 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) 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 determined by reference to management estimates based on prevailing marketing conditions.

When inventories are utilised, the carrying amount of those inventories is recognised as an expense in the period in which the inventories are consumed. 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.

(l) 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 cash flow statement.

(m) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii) 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.

- (iii) 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 option are exercised, equity is increased by the amount of the proceeds received.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(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 consolidated 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 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those 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 (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 provided 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.

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 expenditures 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.

(p) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(p) Recognition of income (continued)

- (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 or to an outsider is accrued on a time apportioned basis based on the principal amounts outstanding and at the applicable interest rates. The rate of the loan to an associates may be agreed from time to time among all the shareholders of the associate.

(q) 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.

(r) Borrowing costs

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

(s) 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.

(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(t) Segment reporting (continued)

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 fixed assets. 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 13 to the financial statements. Given below is an analysis of the turnover and operating profit of the Group:

	Turnover		Operating profit	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Principal activities				
Motoring school operations	225,633	228,497	54,960	46,491
Investment and other activities	28,405	26,737	24,902	5,959
	<u>254,038</u>	<u>255,234</u>	<u>79,862</u>	<u>52,450</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Other revenue and other net income/(loss)

	2004 \$'000	2003 \$'000
Other revenue		
Interest income from loan to an associate	11,068	11,094
Interest income from loan to outsider	777	—
	<u>11,845</u>	<u>11,094</u>
Other net income/(loss)		
Realised gain on disposal of fixed assets to a jointly controlled entity in prior years	5,072	—
Net gain/(loss) on sale of investments	1,360	(432)
Net gain on disposal of fixed assets	1,022	132
Provision for impairment in value of investments	(1,330)	(6,747)
	<u>6,124</u>	<u>(7,047)</u>

The directors reviewed the Group's investment portfolio at 31 December 2004 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 \$1.3 million (2003: \$6.7 million), was transferred to the consolidated profit and loss account at 31 December 2004.

4 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at

	2004 \$'000	2003 \$'000
after charging:		
(a) Finance costs		
Interest on convertible notes	2,886	4,400
Other borrowing costs	406	442
	<u>3,292</u>	<u>4,842</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

4 Profit from ordinary activities before taxation (continued)

	2004 \$'000	2003 \$'000
(b) Other items		
Depreciation	20,307	17,123
Auditors' remuneration		
- statutory audit services	756	631
- other services	133	120
Operating lease charges - land and buildings	13,775	15,224
Contributions to defined contribution retirement scheme	4,232	4,154
Salaries, wages and other benefits (excluding directors' emoluments)	110,335	117,191
Cost of inventories consumed	12,536	13,148
	<u> </u>	<u> </u>
and after crediting:		
Dividend income from listed investments	9,415	7,409
Interest income	14,223	14,610
	<u> </u>	<u> </u>

5 Directors' remuneration

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

	2004 \$'000	2003 \$'000
Fees	1,000	700
Salaries and other emoluments	2,330	2,210
Discretionary bonuses	3,650	3,600
Retirement scheme contributions	16	16
	<u> </u>	<u> </u>
	6,996	6,526
	<u> </u>	<u> </u>

Directors' fees of \$1,000,000 (2003: \$700,000), were paid and/or payable to independent non-executive directors of the company.

The remuneration of the Directors is within the following bands:

Bands (in HK\$)	2004 Number	2003 Number
Not more than \$1,000,000	9	7
\$3,500,001 - \$4,000,000	1	1
	<u> </u>	<u> </u>
	10	8
	<u> </u>	<u> </u>

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6 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2003: one) is a director whose emoluments are disclosed in note 5. The aggregate emoluments in respect of the other four (2003: four) individuals are as follows:

(a) Aggregate emoluments

	2004 \$'000	2003 \$'000
Salaries and other emoluments	3,318	3,194
Discretionary bonuses and/or performance-related bonuses	560	534
Retirement scheme contributions	115	111
	<u>3,993</u>	<u>3,839</u>

(b) Bandings

Bands (in HK\$)	2004 Number	2003 Number
Not more than \$1,000,000	2	2
\$1,000,001 - \$1,500,000	2	2
	<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:

	2004 \$'000	2003 \$'000
Current tax - provision for Hong Kong Profits Tax		
Tax for the year	12,984	12,095
Under-provision in respect of prior years	49	636
	<u>13,033</u>	<u>12,731</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)

Deferred tax

	2004 \$'000	2003 \$'000
Origination and reversal of temporary differences	(1,240)	(1,246)
Effect of increase in tax rate on deferred tax balances at 1 January	—	246
	<u>(1,240)</u>	<u>(1,000)</u>
Share of an associate's taxation	<u>17,811</u>	<u>6,315</u>
Share of a jointly controlled entity's taxation	<u>1,962</u>	<u>1,753</u>
Total income tax expense	<u><u>31,566</u></u>	<u><u>19,799</u></u>

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

	2004 \$'000	2003 \$'000
Profit from ordinary activities before taxation	<u>187,352</u>	<u>123,312</u>
Notional tax on profit from ordinary activities before taxation calculated at 17.5%	32,787	21,580
Tax effect of non-deductible expenses	1,433	929
Tax effect of non-taxable revenue	(4,351)	(1,839)
Tax effect of tax losses not recognised	1,648	1,116
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	—	(2,623)
Under-provision in prior years	<u>49</u>	<u>636</u>
Actual tax expense	<u><u>31,566</u></u>	<u><u>19,799</u></u>

Notes to the Financial Statements

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8 Profit attributable to shareholders for the year

The consolidated profit attributable to shareholders includes a profit of \$16,801,000 (2003: \$10,174,000) 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:

	2004 \$'000	2003 \$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	16,801	10,174
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	<u>16,310</u>	<u>16,170</u>
Company's profit for the year (note 25)	<u><u>33,111</u></u>	<u><u>26,344</u></u>

9 Dividends

(a) Dividends attributable to the year:

	2004 \$'000	2003 \$'000
Interim dividends declared of \$0.15 per share (2003: \$0.15 per share)	38,867	37,377
Final dividend proposed after the balance sheet date of \$0.10 per share (2003: \$0.05 per share)	<u>27,970</u>	<u>12,528</u>
	<u><u>66,837</u></u>	<u><u>49,905</u></u>

Interim dividends for the year ended 31 December 2004 totalling \$4,765,000 were settled under the Company's scrip dividend scheme. The amounts of \$1,186,000 and \$3,579,000 were capitalised in the share capital and share premium accounts respectively.

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

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

	2004 \$'000	2003 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of \$0.05 per share (2003: \$0.05 per share)	<u>12,528</u>	<u>10,460</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$134,979,000 (2003: \$87,235,000) and the weighted average of 255,332,702 ordinary shares (2003: 235,970,889) 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 \$137,360,000 (2003: \$90,865,000) and the weighted average number of ordinary shares of 298,965,104 shares (2003: 280,774,492 shares) after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

	2004 \$'000	2003 \$'000
Profit attributable to shareholders used in calculating basic earnings per share	134,979	87,235
Interest expense on convertible notes	<u>2,381</u>	<u>3,630</u>
Profit attributable to shareholders used in calculating diluted earnings per share	<u><u>137,360</u></u>	<u><u>90,865</u></u>
	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	255,332,702	235,970,889
Deemed issue of ordinary shares for no consideration	21,346,710	9,595,089
Deemed issue of ordinary shares from conversion of convertible notes	<u>22,285,692</u>	<u>35,208,514</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>298,965,104</u></u>	<u><u>280,774,492</u></u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

11 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)

11 Segment reporting (continued)

	Motoring school				Electronic toll				Unallocated		Consolidated	
	operations		Tunnel operations		operations		Treasury		2004	2003	2004	2003
	2004	2003	2004	2003	2004	2003	2004	2003				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Turnover	225,633	228,497	2,873	2,873	12,600	12,600	11,793	11,106	1,139	158	254,038	255,234
Other revenue	—	—	—	—	—	—	11,845	11,094	—	—	11,845	11,094
Total revenue	<u>225,633</u>	<u>228,497</u>	<u>2,873</u>	<u>2,873</u>	<u>12,600</u>	<u>12,600</u>	<u>23,638</u>	<u>22,200</u>	<u>1,139</u>	<u>158</u>	<u>265,883</u>	<u>266,328</u>
Segment result	54,960	46,491	2,873	2,873	17,610	12,378	31,583	14,961	(5,739)	(479)	101,287	76,224
Unallocated operating expenses											(18,133)	(18,932)
Operating profit before finance costs											83,154	57,292
Finance costs	—	—	—	—	—	—	(3,292)	(4,842)	—	—	(3,292)	(4,842)
Operating profit											79,862	52,450
Share of profits less losses of associates	—	—	95,880	60,405	—	—	—	—	—	—	95,880	60,405
Share of profits of a jointly controlled entity	—	—	—	—	11,610	10,457	—	—	—	—	11,610	10,457
Profit from ordinary activities before taxation											187,352	123,312
Income tax	(9,278)	(9,533)	(17,811)	(6,315)	(4,130)	(3,918)	(347)	(33)	—	—	(31,566)	(19,799)
Profit from ordinary activities after taxation											155,786	103,513
Minority interests	(13,282)	(10,560)	—	—	(7,525)	(5,718)	—	—	—	—	(20,807)	(16,278)
Profit attributable to shareholders for the year											<u>134,979</u>	<u>87,235</u>
Depreciation for the year	15,685	16,364	—	—	—	—	—	—	4,622	759	20,307	17,123
Provision for impairment in value of investments	—	—	—	—	—	—	1,330	6,747	—	—	1,330	6,747
Capital expenditure incurred during the year	7,124	3,958	—	—	—	—	—	—	43,176	242	50,300	4,200

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

11 Segment reporting (continued)

	Motoring school		Tunnel operations		Electronic toll		Treasury		Consolidated	
	operations		operations		operations					
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	200,756	213,238	—	—	—	—	824,642	584,687	1,025,398	797,925
Interest in associates	—	—	1,190,188	1,149,151	—	—	—	—	1,190,188	1,149,151
Interest in a jointly controlled entity	—	—	—	—	13,768	9,120	—	—	13,768	9,120
Total assets	<u>200,756</u>	<u>213,238</u>	<u>1,190,188</u>	<u>1,149,151</u>	<u>13,768</u>	<u>9,120</u>	<u>824,642</u>	<u>584,687</u>	<u>2,229,354</u>	<u>1,956,196</u>
Segment liabilities	(80,430)	(95,759)	(16,170)	(15,741)	(1,361)	(6,420)	(126,565)	(134,163)	(224,526)	(252,083)
Unallocated liabilities									(113)	(647)
Total liabilities									<u>(224,639)</u>	<u>(252,730)</u>
Minority interests	(36,092)	(35,260)	—	—	(11,117)	(7,597)	—	—	(47,209)	(42,857)

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

12 Fixed assets

	Leasehold land and buildings \$'000	Furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Yacht \$'000	Leasehold improvements \$'000	Total \$'000
(a) The Group						
Cost:						
At 1 January 2004	127,468	22,824	89,686	—	857	240,835
Additions	44	3,021	6,626	40,609	—	50,300
Disposals	—	(123)	(8,917)	—	—	(9,040)
At 31 December 2004	<u>127,512</u>	<u>25,722</u>	<u>87,395</u>	<u>40,609</u>	<u>857</u>	<u>282,095</u>
Accumulated depreciation:						
At 1 January 2004	66,275	19,456	79,044	—	526	165,301
Charge for the year	7,979	1,857	6,431	3,709	331	20,307
Written back on disposal	—	(119)	(8,586)	—	—	(8,705)
At 31 December 2004	<u>74,254</u>	<u>21,194</u>	<u>76,889</u>	<u>3,709</u>	<u>857</u>	<u>176,903</u>
Net book value:						
At 31 December 2004	<u>53,258</u>	<u>4,528</u>	<u>10,506</u>	<u>36,900</u>	<u>—</u>	<u>105,192</u>
At 31 December 2003	<u>61,193</u>	<u>3,368</u>	<u>10,642</u>	<u>—</u>	<u>331</u>	<u>75,534</u>

Included within "Leasehold land and buildings" above is leasehold land of the Group, with a net book value of \$22.1 million (2003: \$27.9 million), held in Hong Kong under a medium lease.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

12 Fixed assets (continued)

	Furniture, fixtures and equipment \$'000	Leasehold improvements \$'000	Total \$'000
(b) The Company			
Cost:			
At 1 January 2004	592	857	1,449
Additions	6	—	6
	<u>598</u>	<u>857</u>	<u>1,455</u>
At 31 December 2004	598	857	1,455
Accumulated depreciation:			
At 1 January 2004	263	526	789
Charge for the year	118	331	449
	<u>381</u>	<u>857</u>	<u>1,238</u>
At 31 December 2004	381	857	1,238
Net book value:			
At 31 December 2004	<u>217</u>	<u>—</u>	<u>217</u>
At 31 December 2003	<u>329</u>	<u>331</u>	<u>660</u>

13 Interest in subsidiaries

	2004 \$'000	2003 \$'000
Unlisted shares at cost	539,755	539,754
Amounts due from subsidiaries	77,677	43,024
	<u>617,432</u>	<u>582,778</u>
Amounts due to subsidiaries	(161,696)	(136,506)
	<u>455,736</u>	<u>446,272</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)

13 Interest 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
Gold Faith Investments Limited	British Virgin Islands/ International	1 share of US\$1	—	100%	Investment
Deep Bowl Limited	British Virgin Islands/ International	1 share of US\$1	100%	—	Holding of yacht
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

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

13 Interest 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	
Kempsford International Limited	British Virgin Islands/ International	500 shares of US\$1 each	—	100%	Investment
The Autopass Company Limited	Hong Kong	70,000 "A" shares of 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

14 Interest in associates

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Unlisted shares, at cost	—	—	148,370	148,370
Share of net assets other than goodwill	106,734	28,665	—	—
Amount due from an associate	416	416	416	416
Amount due to an associate	(370)	(370)	(370)	(370)
Loan to and interest receivable from an associate	1,083,408	1,120,440	1,083,408	1,120,440
	<u>1,190,188</u>	<u>1,149,151</u>	<u>1,231,824</u>	<u>1,268,856</u>

The 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)

14 Interest in associates (continued)

(a) Details of the Group's principal associate at 31 December 2004 are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Percentage of issued ordinary shares held directly by the Company</u>	<u>Principal activity</u>	<u>Financial year end</u>
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 2004.

(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 2004 amounted to \$11.1 million (2003: \$11.1 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.

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

	2004 \$'000	2003 \$'000
(i) Turnover	<u>670,654</u>	<u>596,217</u>
Finance costs	148,130	178,540
Depreciation and amortisation	148,572	140,879
Profit before taxation	<u>262,176</u>	<u>165,699</u>
(ii) Fixed assets	5,873,559	6,020,977
Bank loans	(2,580,832)	(2,903,000)
Loan from shareholders	<u>(2,580,000)</u>	<u>(2,710,000)</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

15 Interest in a jointly controlled entity

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Share of net assets other than goodwill	<u>13,768</u>	<u>9,120</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.

16 Investments

	Group	
	2004 \$'000	2003 \$'000
Held-to-maturity debt securities		
Unlisted	—	15,000
Investment securities		
Shares listed in Hong Kong	396,457	287,765
Shares listed outside Hong Kong	61,826	27,850
	<u>458,283</u>	<u>315,615</u>
	<u>458,283</u>	<u>330,615</u>
Market value of listed shares	<u>458,283</u>	<u>315,615</u>

Certain securities held by the subsidiaries are pledged to the banks for the banking facilities granted to the Company.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

17 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	
	2004	2003
	\$'000	\$'000
Amounts receivable due:		
0-30 days	2,470	2,206
31-60 days	624	269
61-90 days	178	170
Over 90 days	1,245	1,052
	<u>4,517</u>	<u>3,697</u>

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

Trade and other receivables include deposits paid amounting to \$4,072,000 (2003: \$4,633,000) which are expected to be recovered after one year. Apart from the above, all of the balances are expected to be recovered within one year.

18 Cash and cash equivalents

	Group		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Deposits with banks and other financial institutions	432,134	326,906	308,821	192,287
Cash at bank and in hand	10,132	4,467	1,265	1,674
	<u>442,266</u>	<u>331,373</u>	<u>310,086</u>	<u>193,961</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

19 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	
	2004	2003
	\$'000	\$'000
Amounts payable within:		
0-30 days	1,855	974
31-60 days	281	188
61-90 days	160	213
Over 90 days	578	723
	<u>2,874</u>	<u>2,098</u>

Trade and other payables include deposit received amounting to \$118,000 (2003: \$118,000) which are expected to be settled after one year. Apart from the above, all of the balances are expected to be settled within one year.

20 Income tax in the balance sheet

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

	Group	
	2004	2003
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	12,984	12,095
Provisional Profits Tax paid	<u>(10,618)</u>	<u>(9,185)</u>
	2,366	2,910
Balance of Profits Tax provision relating to prior years	<u>372</u>	<u>340</u>
Taxation payable	<u>2,738</u>	<u>3,250</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

20 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:

Deferred tax arising from depreciation allowances in excess of related depreciation

	Group \$'000
At 1 January 2003	2,620
Credited to the consolidated profit and loss account	<u>(1,000)</u>
At 31 December 2003	<u>1,620</u>
At 1 January 2004	1,620
Credited to the consolidated profit and loss account	<u>(1,240)</u>
At 31 December 2004	<u>380</u>

	Group	
	2004 \$'000	2003 \$'000
Deferred tax assets recognised in the balance sheet	(1,000)	(1,180)
Deferred tax liabilities recognised in the balance sheet	<u>1,380</u>	<u>2,800</u>
	<u>380</u>	<u>1,620</u>

(c) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets in respect of the future benefit of unused tax losses amounting to \$3,622,000 (2003: \$2,637,000) as it is not probable that future taxable profits will be available against which the unused tax losses can be utilised. The tax losses do not expire under current tax legislation.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

21 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 17 May 2002, 28 April 2003, 29 April 2003, 2 May 2003 and 7 May 2003, \$35 million, \$35 million, \$28 million, \$24 million and \$9 million CN I were converted into 10,000,000, 10,000,000, 8,000,000, 6,857,142 and 2,571,428 ordinary shares respectively. As at 31 December 2004, outstanding CN I amounted to \$2,000,000.

On 11 June 2002, the Company issued further 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. As at 31 December 2004, outstanding CN II amounted to \$80,457,000.

22 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.

On 18 June 2004, the \$25 million non-refundable deposit was converted into 7,352,941 ordinary shares. As at 31 December 2004, it remains a maximum of 52,647,059 new shares exercisable under the share option agreement.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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

Date granted	Exercise period	Exercise price	2004 Number	2003 Number
30 August 2001	30 August 2001 to 7 May 2011	\$2.492	<u>19,200,000</u>	<u>19,200,000</u>

(b) During the year ended 31 December 2004, no options were exercised and no options were granted to subscribe for ordinary shares of the Company under the Company's share option scheme.

24 Share capital

	2004		2003	
	No. of shares '000	Amount \$'000	No. of shares '000	Amount \$'000
Authorised:				
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>
Issued and fully paid:				
At 1 January	250,552	250,552	207,954	207,954
Shares issued in lieu of cash dividends	1,793	1,793	4,729	4,729
Shares issued on exercise of share option	7,353	7,353	—	—
Shares issued under private placement	20,000	20,000	—	—
Shares issued on conversion of convertible notes	—	—	37,869	37,869
At 31 December	<u>279,698</u>	<u>279,698</u>	<u>250,552</u>	<u>250,552</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

24 Share capital (continued)

Fully paid new shares in lieu of cash dividends were issued as follows. An amount of \$5.5 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 May 2004	Final dividend of 2003	606,948	\$4.12
21 July 2004	First interim dividend of 2004	633,993	\$3.98
27 October 2004	Second interim dividend of 2004	552,473	\$4.06

- (a) On 18 June 2004, the holder of share options exercised its right to convert the \$25 million deposit paid into 7,352,941 ordinary shares at a value of \$3.4 per share. An amount of \$17.7 million was credited to the share premium account.
- (b) On 20 December 2004, 20,000,000 new shares of \$1.0 each were issued to individual investors at a price of \$5.10 per share under a private placement arrangement. The shares were issued on 31 December 2004. An amount of \$79.3 million was credited to the share premium account.
- (c) 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)

25 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 2003	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 9(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 9(a))	5,533	—	—	—	(37,377)	(31,844)
Shares issued on conversion of convertible notes	94,674	—	—	—	—	94,674
Granting of share options (note 22)	—	—	—	30,000	—	30,000
At 31 December 2003	<u>891,850</u>	<u>1,984</u>	<u>33,135</u>	<u>30,000</u>	<u>453,088</u>	<u>1,410,057</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

25 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 2004	891,850	1,984	33,135	30,000	453,088	1,410,057
Dividend approved in respect of the previous financial year (note 9(b))	1,894	—	—	—	(12,528)	(10,634)
Revaluation surplus	—	—	105,381	—	—	105,381
Transfer to the profit and loss account on impairment	—	—	1,330	—	—	1,330
Net profit for the Year	—	—	—	—	134,979	134,979
Dividends declared in respect of the current financial year (note 9(a))	3,579	—	—	—	(38,867)	(35,288)
Share premium on issue of shares	79,336	—	—	—	—	79,336
Exercise of share options (note 22)	17,647	—	—	(25,000)	—	(7,353)
At 31 December 2004	994,306	1,984	139,846	5,000	536,672	1,677,808

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

25 Reserves (continued)

(b) Company

	Share premium \$'000	Share option reserve \$'000	Revenue reserve \$'000	Total \$'000
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 9(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 9(a))	5,533	—	(37,377)	(31,844)
Shares issued on conversion of convertible notes	94,674	—	—	94,674
Granting of share options (note 22)	—	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>
At 1 January 2004	891,850	30,000	619,126	1,540,976
Dividend approved in respect of the previous financial year (note 9(b))	1,894	—	(12,528)	(10,634)
Net profit for the year	—	—	33,111	33,111
Dividends declared in respect of the current financial year (note 9(a))	3,579	—	(38,867)	(35,288)
Share premium on issue of shares	79,336	—	—	79,336
Exercise of share options (note 22)	17,647	(25,000)	—	(7,353)
At 31 December 2004	<u>994,306</u>	<u>5,000</u>	<u>600,842</u>	<u>1,600,148</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

25 Reserves (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(e) and (f)).

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 at the discretion of the directors.

At 31 December 2004, the aggregate amount of reserves available for distribution to shareholders of the Company was \$600,842,000 (2003: \$619,126,000). After the balance sheet date the directors proposed a final dividend of \$0.10 per share (2003: \$0.05 per share), amounting to \$27,970,000 (2003: \$12,528,000). This dividend has not been recognised as a liability at the balance sheet date.

	2004 \$'000	2003 \$'000
Profit for the year is retained by:		
- The Company and its subsidiaries	53,656	30,552
- Associates	78,069	54,090
- Jointly controlled entity	3,254	2,593
	<u>134,979</u>	<u>87,235</u>
Total	<u><u>134,979</u></u>	<u><u>87,235</u></u>

Included in the revenue reserve is an amount of \$41,636,000 (2003: \$119,705,000), being the accumulated losses attributable to associates; and an amount of \$9,634,000 (2003: \$6,380,000) being the retained profits attributable to a jointly controlled entity.

26 Capital commitments

Capital commitments outstanding at 31 December 2004 not provided for in the financial statements were as follows:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Contracted for	<u>11,304</u>	<u>14,883</u>	<u>—</u>	<u>—</u>
Authorised but not contracted for	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

27 Operating lease commitments

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Within 1 year	4,859	6,081	—	—
After 1 year but within 5 years	621	1,085	—	—
	<u>5,480</u>	<u>7,166</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. Contingent rentals are charged as expense in the year which they are incurred.

28 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).

- (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 2004 was \$1,083.4 million (2003: \$1,120.4 million).

The Group received interest income and management fee income from WHTCL of \$11.1 million (2003: \$11.1 million) and \$2.5 million (2003: \$2.5 million) respectively.

- (b) The Group received consultancy fees from a jointly controlled entity of \$12.6 million (2003: \$12.6 million).
- (c) The interest expenses in respect of the convertible notes issued to Honway, a substantial shareholder of the Company for the year ended 31 December 2004 totalled \$2.8 million (2003: \$3.3 million). The balance of the outstanding convertible notes and respective interest payable at 31 December 2004 was \$82.0 million (2003: \$82.0 million).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

29 Contingent liabilities

At 31 December 2004, the Group had the following contingent liabilities:

(a) In respect of the Company

The Company has given two letters of undertaking in relation to the bank facilities of the Group to two banks for general facilities totalling \$150 million (2003: \$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 2004, 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 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 (2003: \$1.7 million).

(c) 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 (2003: \$18.9 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.

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

A joint and several guarantee given by the Company and the other shareholders of WHTCL, namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchants Holdings (International) Company, Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR 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 2004.

30 Post balance sheet event

After the balance sheet date the directors proposed a final dividend, further details of which are disclosed in note 9.

31 Comparative figures

Certain comparative figures have been reclassified to conform with the current year’s presentation.