

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

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

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

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and a jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial instruments classified as available-for-sale securities and derivative financial instruments (see note 1(f) and 1(g)) are stated at their value as explained in the accounting policies set out below.

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

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

# Notes to the Financial Statements

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## 1 Significant accounting policies (continued)

### (c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group or the Company, 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 from the date that control commences until the date that control ceases.

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.

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 and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). 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 classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated profit and loss account includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see note 1(e) and 1(k)).

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

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

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(k)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The results of associates are accounted for by the Company on the basis of dividends declared or approved during the Company's financial year.



## 1 Significant accounting policies (continued)

### (e) Goodwill

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

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

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

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

### (f) Other investments in equity securities

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

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(k)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 1(k)) which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (g) Derivative financial instruments

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

### (h) Hedging

#### *Cash flow hedges*

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

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

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

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

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 1 Significant accounting policies (continued)

### (i) Property, plant and equipment

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

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

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

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

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

- Buildings situated on leasehold land are depreciated over the shorter of their estimated useful lives, being 10 years after the date of completion, and the unexpired terms of the leases.
- Furniture, fixtures and equipment 3 - 10 years
- Motor vehicles 3 - 5 years
- Yacht 3 - 10 years
- Leasehold improvements Remaining term of the lease

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 1 Significant accounting policies (continued)

### (j) Leased assets

#### (i) Classification of assets leased to the Group

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

#### (ii) Operating lease charges

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

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

### (k) Impairment of assets

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

Investments in equity securities and other current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 1 Significant accounting policies (continued)

### (k) Impairment of assets (continued)

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

- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

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

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

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

#### (ii) Impairment of other assets

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

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investments in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and
- goodwill.



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 1 Significant accounting policies (continued)

### (k) Impairment of assets (continued)

#### (ii) Impairment of other assets (continued)

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

##### — Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### — Recognition of impairment losses

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

##### — Reversals of impairment losses

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

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 1 Significant accounting policies (continued)

### (l) Inventories

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

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

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

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

### (m) Trade and other receivables

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

### (n) Convertible notes and loan

Convertible notes and loan that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes and loan is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserves until either the note or the loan is converted or redeemed.

If the note or the loan is converted, the other reserves, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note or the loan is redeemed, the capital reserve is released directly to retained profits.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies (continued)

### (o) Trade and other payables

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

### (p) Cash equivalents

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

### (q) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement scheme. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the plan vest immediately.

### (r) Income tax

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

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 1 Significant accounting policies (continued)

### (r) Income tax (continued)

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, 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)

### (r) Income tax (continued)

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (s) Provisions and contingent liabilities

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

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

### (t) Recognition of income

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

- (i) The principal source of income from motoring school operations is driving course fee income which is recognised in the profit and loss account upon the completion of the relevant training lessons.
- (ii) Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 1 Significant accounting policies (continued)

### (t) Recognition of income (continued)

- (iii) Interest income from bank deposits is accrued on a time apportioned basis based on the principal amounts outstanding and at the applicable interest rates.
- (iv) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- (v) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- (vi) 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 such rate as may be agreed from time to time among all the shareholders of the associate.

### (u) Translation of foreign currencies

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

### (v) Borrowing costs

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

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

### (w) 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 1 Significant accounting policies (continued)

### (x) Segment reporting

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

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

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

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

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

## 2 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34).

### (a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated profit and loss account and balance sheet and the Company's balance sheet as previously reported for the year ended 31 December 2004. The effects of the changes in accounting policies on the balances at 1 January 2004 and 2005 are disclosed in note 26.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 2 Changes in accounting policies (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (i) Effect on the consolidated financial statements

Consolidated profit and loss for the year ended 31 December 2004

	2004 (as previously reported) \$'000	Effect of new policy (increase/ (decrease) in profit for the year) HKAS 1 (note 2(c)) \$'000	2004 (as restated) \$'000
Turnover	254,038	—	254,038
Other revenue	11,845	—	11,845
Other net income	6,124	—	6,124
Direct costs and operating expenses	(103,095)	—	(103,095)
Selling and marketing expenses	(24,523)	—	(24,523)
Administrative and corporate expenses	(61,235)	—	(61,235)
Operating profit before finance costs	83,154	—	83,154
Finance costs	(3,292)	—	(3,292)
<b>Operating profit</b>	79,862	—	79,862
Share of profits less losses of associates	95,880	(17,811)	78,069
Share of profits of a jointly controlled entity	11,610	(1,962)	9,648
<b>Profit before taxation</b>	187,352	(19,773)	167,579
Income tax	(31,566)	19,773	(11,793)
Minority interest	155,786	—	155,786
	(20,807)	20,807	—
<b>Profit for the year</b>	<u>134,979</u>	<u>20,807</u>	<u>155,786</u>
<b>Attributable to:</b>			
Equity shareholders of the company	134,979	—	134,979
Minority interests	—	20,807	20,807
<b>Profit for the year</b>	<u>134,979</u>	<u>20,807</u>	<u>155,786</u>
Dividends payable to equity shareholders of the Company attributable to the year	(66,837)	—	(66,837)
<b>Earnings per share</b>			
Basic	<u>\$0.53</u>	<u>—</u>	<u>\$0.53</u>
Diluted	<u>\$0.46</u>	<u>—</u>	<u>\$0.46</u>



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (i) Effect on the consolidated financial statements (continued)

Consolidated balance sheet at 31 December 2004

	2004 (as previously reported) \$'000	Effect of new policy (increase/ (decrease) in net assets)			2004 (as restated) \$'000
		HKAS 1 (note 2(c)) \$'000	HKAS 17 (note 2(d)) \$'000	Sub-total \$'000	
<b>Non-current assets</b>					
Fixed assets					
- Property, plant and equipment	105,192	—	(30,993)	(30,993)	74,199
- Interests in leasehold land held for own use under operating leases	—	—	30,993	30,993	30,993
Deferred tax assets	1,000	—	—	—	1,000
Other non-current assets	1,662,239	—	—	—	1,662,239
	<u>1,768,431</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,768,431</u>
<b>Current assets</b>	460,923	—	—	—	460,923
<b>Current liabilities</b>	<u>203,259</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>203,259</u>
<b>Net current assets</b>	<u>257,664</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>257,664</u>
<b>Total assets less current liabilities</b>	<u>2,026,095</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,026,095</u>
<b>Non-current liabilities</b>					
Deferred tax liabilities	1,380	—	—	—	1,380
Other non-current liabilities	20,000	—	—	—	20,000
	21,380	—	—	—	21,380
Minority interests	47,209	47,209	—	47,209	—
<b>NET ASSETS</b>	<u>1,957,506</u>	<u>47,209</u>	<u>—</u>	<u>47,209</u>	<u>2,004,715</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 2 Changes in accounting policies (continued)

### (a) Restatement of prior periods and opening balances (continued)

#### (i) Effect on the consolidated financial statements (continued)

Consolidated balance sheet at 31 December 2004 (continued)

	2004 (as previously reported) \$'000	Effect of new policy (increase/ (decrease) in net assets)			2004 (as restated) \$'000
		HKAS 1 (note 2(c)) \$'000	HKAS 17 (note 2(d)) \$'000	Sub-total \$'000	
<b>CAPITAL AND RESERVES</b>					
<b>Attributable to equity shareholders of the Company</b>					
Share capital	279,698	—	—	—	279,698
Share premium	994,306	—	—	—	994,306
Capital reserve	1,984	—	—	—	1,984
Investment revaluation reserve	139,846	—	—	—	139,846
Share option reserve	5,000	—	—	—	5,000
Retained profits	536,672	—	—	—	536,672
	<u>1,957,506</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,957,506</u>
<b>Attributable to minority interests</b>					
	<u>—</u>	<u>47,209</u>	<u>—</u>	<u>47,209</u>	<u>47,209</u>
	<u>1,957,506</u>	<u>47,209</u>	<u>—</u>	<u>47,029</u>	<u>2,004,715</u>

#### (ii) Effect on the Company's balance sheet

There is no effect on the Company's balance sheet at 31 December 2004.

### (b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated profit and loss account and balance sheet and the Company's balance sheet for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies (continued)

### (b) Estimated effect of changes in accounting policies on the current period (continued)

#### (i) Effect on the consolidated financial statements

Estimated effect on the consolidated profit and loss account for the year ended 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in profit for the year)		
	HKAS 1	HKAS 32 & 39	Total
	(note 2(c)) \$'000	(note 2(e)) \$'000	\$'000
Turnover	—	—	—
Other revenue	—	—	—
Other net income	—	—	—
Direct costs and operating expenses	—	—	—
Selling and marketing expenses	—	—	—
Administrative and corporate expenses	—	—	—
	<hr/>	<hr/>	<hr/>
Operating profit before finance costs	—	—	—
Finance costs	—	(2,109)	(2,109)
	<hr/>	<hr/>	<hr/>
<b>Operating profit</b>	<b>—</b>	<b>(2,109)</b>	<b>(2,109)</b>
Share of profits less losses of associates	(21,760)	—	(21,760)
Share of profits of a jointly controlled entity	(1,633)	—	(1,633)
	<hr/>	<hr/>	<hr/>
<b>Profit before taxation</b>	<b>(23,393)</b>	<b>(2,109)</b>	<b>(25,502)</b>
Income tax	23,393	—	23,393
	<hr/>	<hr/>	<hr/>
<b>Profit for the year</b>	<b>—</b>	<b>(2,109)</b>	<b>(2,109)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Attributable to:</b>			
Equity shareholders of the Company	—	(2,109)	(2,109)
Minority interests	—	—	—
	<hr/>	<hr/>	<hr/>
<b>Profit for the year</b>	<b>—</b>	<b>(2,109)</b>	<b>(2,109)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 2 Changes in accounting policies (continued)

### (b) Estimated effect of changes in accounting polices on the current period (continued)

#### (i) Effect on the consolidated financial statements (continued)

Estimated effect on the consolidated profit and loss account for the year ended 31 December 2005:  
(continued)

	Estimated effect of new policy (increase/(decrease) in profit for the year)		
	HKAS 1	HKAS 32 & 39	Total
	(note 2(c))	(note 2(e))	
	\$'000	\$'000	\$'000
Dividends payable to equity shareholders of the Company attributable to the year	—	—	—
<b>Earnings per share</b>			
Basic	—	\$(0.01)	\$(0.01)
Diluted	—	\$(0.01)	\$(0.01)

Estimated effect on the consolidated balance sheet at 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in net assets)		
	HKAS 17	HKAS 32 & 39	Total
	(note 2(d))	(note 2(e))	
	\$'000	\$'000	\$'000
<b>Non-current assets</b>			
Fixed assets			
- Property, plant and equipment	(30,264)	—	(30,264)
- Interests in leasehold land held for own use under operating leases	30,264	—	30,264
Interest in associates	—	4,799	4,799
Interest in a jointly controlled entity	—	—	—
Available-for-sale securities	—	—	—
Deferred tax assets	—	—	—
	—	4,799	4,799

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies (continued)

### (b) Estimated effect of changes in accounting policies on the current period (continued)

#### (i) Effect on the consolidated financial statements (continued)

Estimated effect on the consolidated balance sheet at 31 December 2005: (continued)

	Estimated effect of new policy (increase/(decrease) in net assets)		Total \$'000
	HKAS 17 (note 2(d))	HKAS 32 & 39 (note 2(e))	
	\$'000	\$'000	
Current assets	—	—	—
Current liabilities			
Interest free loan	—	448	448
Other current liabilities	—	—	—
Net current assets	—	448	448
Total assets less current liabilities	—	5,247	5,247
Non-current liabilities			
Deferred tax liabilities	—	—	—
NET ASSETS	—	5,247	5,247
CAPITAL AND RESERVES			
Effect attributable to equity shareholders of the Company			
Share capital	—	—	—
Share premium	—	7,021	7,021
Capital reserve	—	—	—
Investment revaluation reserve	—	—	—
Share option reserve	—	2,544	2,544
Hedging reserve	—	4,799	4,799
Other reserves	—	—	—
Retained profits	—	(9,117)	(9,117)
	—	5,247	5,247
Effect attributable to minority interests	—	—	—
	—	5,247	5,247

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 2 Changes in accounting policies (continued)

### (b) Estimated effect of changes in accounting polices on the current period (continued)

#### (i) Effect on the consolidated financial statements (continued)

Estimated effect on net income recognised directly in consolidated equity for the year ended 31 December 2005:

	Effect of new policy (increase/(decrease) in equity) HKAS 39 (note 2(e)) \$'000	Total \$'000
For the year ended 31 December 2005		
Attributable to equity shareholders of the company	32,533	32,533
Minority interests	—	—
Total equity	<u>32,533</u>	<u>32,533</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies (continued)

### (b) Estimated effect of changes in accounting policies on the current period (continued)

#### (ii) Effect on the Company's balance sheet

Estimated effect on the balance sheet at 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in net assets) HKAS 32 &39 (note 2(e)) \$'000	Total \$'000
Non-current assets	—	—
Current assets	—	—
Current liabilities		
Interest free loan	448	448
Other current liabilities	—	—
	<u>448</u>	<u>448</u>
Net current assets	<u>448</u>	<u>448</u>
Total assets less current liabilities	—	—
Non-current liabilities	—	—
NET ASSETS	<u>448</u>	<u>448</u>
CAPITAL AND RESERVES		
Share capital	—	—
Share premium	7,021	7,021
Share option reserve	2,544	2,544
Other reserves	—	—
Retained profits	(9,117)	(9,117)
	<u>448</u>	<u>448</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 2 Changes in accounting policies (continued)

### (c) Changes in presentation (HKAS 1, Presentation of financial statements)

#### (i) *Presentation of shares of associates' and jointly controlled entities' taxation (HKAS 1, Presentation of financial statements)*

In prior years, the Group's share of taxation of associates and jointly controlled entities accounted for using the equity method was included as part of the Group's income tax in the consolidated profit and loss account. With effect from 1 January 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates and jointly controlled entities accounted for using the equity method in the respective shares of profit or loss reported in the consolidated profit and loss account before arriving at the Group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

#### (ii) *Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the profit and loss account as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the company. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparative restated as shown in note 2(a).



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 2 Changes in accounting policies (continued)

### (d) Changes in presentation of leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, all interests in leasehold land held for own use were presented together with the buildings situated on that land and were stated at cost less accumulated depreciation and impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has reclassified certain leasehold interests in land held for own use as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. Further details of the policy for leasehold land held for own use are set out in note 1(j).

The new presentation has been applied retrospectively by reclassifying leasehold land from leasehold land and buildings held for own use to interest in leasehold land held for own use under operating leases as shown in note 2(a).

### (e) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in notes 1(f) to (h), (k), (m) to (o). Further details of the changes are as follows:

#### (i) Derivative financial instruments

In prior years, derivative financial instruments entered into by an associate to hedge the interest rate risk of a recognised asset or liability or the foreign currency risk of a committed future transaction were recognised on an accruals basis with reference to the timing of recognition of the hedged transaction.

With effect from 1 January 2005, and in accordance with HKAS 32 and HKAS 39, all derivative financial instruments entered into by an associate are stated at fair value. Changes in the fair value of derivatives held as hedging instruments in a cash flow hedge are recognised in equity to the extent that the hedge is effective and until the hedged transaction occurs. Any other changes in fair value of the derivatives are recognised in profit or loss.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 2 Changes in accounting policies (continued)

### (e) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) (continued)

#### (ii) Convertible notes and interest free loan

In prior years, convertible notes issued and interest free loan which are convertible into shares were stated at amortised cost (including transaction costs).

With effect from 1 January 2005, and in accordance with HKAS 32 and HKAS 39, convertible notes issued and interest free loan which are convertible into shares are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised in the other reserves until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits). Further details of the new policies are set out in note 1(n).

#### (iii) Description of transitional provisions and effect of adjustments

The changes in accounting policies relating to accounting for derivatives and convertible notes and loan were adopted by way of opening balance adjustments to certain reserves as at 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The adjustments for each financial statement line item effected for the years ended 31 December 2004 and 2005 are set out in notes 2(a) and (b).

### (f) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(w) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 3 Turnover and operating profit

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

	Turnover		Operating profit	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Principal activities</b>				
Motoring school operations	209,918	225,633	49,129	54,960
Investment and other activities	39,754	28,405	34,331	24,902
	<u>249,672</u>	<u>254,038</u>	<u>83,460</u>	<u>79,862</u>

## 4 Other revenue and other net income

	2005 \$'000	2004 \$'000
<b>Other revenue</b>		
Interest income from loan to an associate	10,691	11,068
Interest income from loan to outsider	—	777
	<u>10,691</u>	<u>11,845</u>
<b>Other net income</b>		
Net gain on sale of listed investments	14,133	1,360
Net gain on sale of fixed assets	2,322	1,022
Provision for impairment in value of available-for-sale securities	—	(1,330)
Realised gain on disposal of fixed assets to a jointly controlled entity in prior years	—	5,072
	<u>16,455</u>	<u>6,124</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 5 Profit before taxation

	2005 \$'000	2004 \$'000 restated
<b>Profit before taxation is arrived at after charging:</b>		
(a) Finance costs		
Interest on convertible notes	3,265	2,886
Other borrowing costs	404	406
	<u>3,669</u>	<u>3,292</u>
(b) Other items		
Amortisation of land lease premium	729	729
Depreciation	18,387	19,578
Auditors' remuneration		
- statutory audit services	798	756
- other services	145	133
Operating lease charges - land and buildings	12,821	13,775
Contributions to defined contribution retirement scheme	4,419	4,232
Salaries, wages and other benefits (excluding directors' emoluments)	110,180	110,335
Share of an associate's taxation	21,760	17,811
Share of a jointly controlled entity's taxation	1,633	1,962
Cost of inventories consumed	<u>9,468</u>	<u>12,536</u>
<b>and after crediting:</b>		
Dividend income from listed investments	10,779	9,415
Interest income	<u>22,816</u>	<u>14,223</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



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

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

	2005 \$'000	2004 \$'000 restated
<b>Current tax - Hong Kong Profits Tax</b>		
Provision for the year	13,350	12,984
(Over)/under-provision in respect of prior years	(597)	49
	<u>12,753</u>	<u>13,033</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	1,610	(1,240)
	<u>14,363</u>	<u>11,793</u>

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

	2005 \$'000	2004 \$'000 restated
Profit before tax	<u>194,825</u>	<u>167,579</u>
Notional tax on profit before tax calculated at 17.5%	34,094	29,326
Tax effect of non-deductible expenses	2,583	624
Tax effect on non-taxable revenue	(24,427)	(19,657)
Tax effect of current year's tax losses not recognised	2,710	1,451
(Over)/under-provision in prior years	(597)	49
Actual tax expense	<u>14,363</u>	<u>11,793</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 7 Directors' remuneration

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

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	2005 Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Executive directors</b>					
Cheung Chung Kiu	—	—	4,500	1	4,501
Yeung Hin Chung, John	—	2,460	1,800	12	4,272
Yuen Wing Shing	—	—	600	1	601
Wong Chi Keung	—	—	—	—	—
Leung Wai Fai	—	—	700	1	701
Tung Wai Lan, Iris	—	—	—	—	—
<b>Non-executive director</b>					
Lee Ka Sze, Carmelo	400	—	—	—	400
<b>Independent non- executive directors</b>					
Wong Wai Kwong, David	400	—	—	—	400
Wong Yat Fai	200	—	—	—	200
Ng Kwok Fu	200	—	—	—	200
	<u>1,200</u>	<u>2,460</u>	<u>7,600</u>	<u>15</u>	<u>11,275</u>

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	2004 Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Executive directors</b>					
Cheung Chung Kiu	—	—	750	1	751
Yeung Hin Chung, John	—	2,330	1,600	12	3,942
Yuen Wing Shing	—	—	600	1	601
Wong Chi Keung	—	—	—	—	—
Leung Wai Fai	—	—	500	1	501
Tung Wai Lan, Iris	—	—	200	1	201
<b>Non-executive director</b>					
Lee Ka Sze, Carmelo	400	—	—	—	400
<b>Independent non- executive directors</b>					
Wong Wai Kwong, David	400	—	—	—	400
Wong Yat Fai	100	—	—	—	100
Ng Kwok Fu	100	—	—	—	100
	<u>1,000</u>	<u>2,330</u>	<u>3,650</u>	<u>16</u>	<u>6,996</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2004: one) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2004: four) individuals are as follows:

	2005 \$'000	2004 \$'000
Salaries and other emoluments	2,697	3,318
Discretionary bonuses and/or performance-related bonuses	537	560
Retirement scheme contributions	90	115
	<u>3,324</u>	<u>3,993</u>

The emoluments of the three (2004: four) individuals with the highest emoluments are within the following bands:

	2005 Number	2004 Number
<i>Bands (in HK\$)</i>		
Not more than \$1,000,000	1	2
\$1,000,001 - \$1,500,000	2	2
	<u>3</u>	<u>4</u>

## 9 Profit attributable to equity shareholders of the company

The consolidated profit attributable to equity shareholders of the Company includes a loss of \$2,373,000 (2004: profit of \$16,801,000) 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:

	2005 \$'000	2004 \$'000
Amount of consolidated (loss)/profit attributable to equity shareholders dealt with in the Company's financial statements	(2,373)	16,801
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	18,060	16,310
Company's profit for the year (note 26(b))	<u>15,687</u>	<u>33,111</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 10 Dividends

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

	2005 \$'000	2004 \$'000
Interim dividends declared of \$0.18 per share (2004: \$0.15 per share)	54,152	38,867
Final dividend proposed after the balance sheet date of \$0.10 per share (2004: \$0.10 per share)	<u>30,084</u>	<u>27,970</u>
	<u>84,236</u>	<u>66,837</u>

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

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

	2005 \$'000	2004 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of \$0.10 per share (2004: \$0.05 per share)	<u>28,021</u>	<u>12,528</u>



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 11 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$161,992,000 (2004: \$134,979,000) and the weighted average of 292,431,000 ordinary shares (2004: 255,333,000) in issue during the year, calculated as follows:

*Weighted average number of ordinary shares*

	2005 '000	2004 '000
Issued ordinary shares at 1 January	279,698	250,552
Effect of conversion of convertible notes	12,733	—
Effect of script dividend	—	768
Effect of share options exercised	—	3,958
Effect of shares issued under private placement	—	55
Weighted average number of ordinary shares at 31 December	<u>292,431</u>	<u>255,333</u>

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$164,685,000 (2004: \$137,360,000) and the weighted average number of ordinary shares of 332,479,000 shares (2004: 298,965,000 shares), calculated as follows:

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

	2005 \$'000	2004 \$'000
Profit attributable to ordinary equity shareholders	161,992	134,979
After tax effect of effective interest on liability component of convertible notes/loan	<u>2,693</u>	<u>2,381</u>
Profit attributable to ordinary equity shareholders (diluted)	<u>164,685</u>	<u>137,360</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 11 Earnings per share (continued)

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

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

	2005 '000	2004 '000
Weighted average number of ordinary shares at 1 January	292,431	255,333
Effect of deemed issue of shares of conversion of convertible notes/loan	28,303	35,800
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	11,745	7,832
Weighted average number of ordinary shares (diluted) at 31 December	<u>332,479</u>	<u>298,965</u>

## 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	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000 restated	2005 \$'000	2004 \$'000 restated	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000 restated
Turnover	209,918	225,633	2,873	2,873	12,600	12,600	22,907	11,793	1,374	1,139	249,672	254,038
Other revenue	—	—	—	—	—	—	10,691	11,845	—	—	10,691	11,845
Total revenue	<u>209,918</u>	<u>225,633</u>	<u>2,873</u>	<u>2,873</u>	<u>12,600</u>	<u>12,600</u>	<u>33,598</u>	<u>23,638</u>	<u>1,374</u>	<u>1,139</u>	<u>260,363</u>	<u>265,883</u>
Segment result	49,129	54,960	2,873	2,873	12,664	17,610	52,935	31,583	(6,387)	(5,739)	111,214	101,287
Unallocated operating expenses											(24,085)	(18,133)
Operating profit before finance costs											87,129	83,154
Finance costs	—	—	—	—	—	—	(3,669)	(3,292)	—	—	(3,669)	(3,292)
Operating profit											83,460	79,862
Share of profits less losses of associates	—	—	102,167	78,069	—	—	—	—	—	—	102,167	78,069
Share of profits of a jointly controlled entity	—	—	—	—	9,198	9,648	—	—	—	—	9,198	9,648
Profit before taxation											194,825	167,579
Income tax	(8,616)	(9,278)	—	—	(2,191)	(2,168)	(3,556)	(347)	—	—	(14,363)	(11,793)
Profit for the year											<u>180,462</u>	<u>155,786</u>
Depreciation for the year	13,577	14,956	—	—	—	—	—	—	4,810	4,622	18,387	19,578
Amortisation of land lease premium	729	729	—	—	—	—	—	—	—	—	729	729
Provision for impairment in value of available-for-sale securities	—	—	—	—	—	—	—	1,330	—	—	—	1,330
Capital expenditure incurred during the year	23,961	7,124	—	—	—	—	—	—	12,386	43,176	36,347	50,300

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 12 Segment reporting (continued)

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Consolidated	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Segment assets	226,890	200,756	—	—	—	—	807,986	824,642	1,034,876	1,025,398
Interest in associates	—	—	1,267,145	1,190,188	—	—	—	—	1,267,145	1,190,188
Interest in a jointly controlled entity	—	—	—	—	17,966	13,768	—	—	17,966	13,768
<b>Total assets</b>	<b>226,890</b>	<b>200,756</b>	<b>1,267,145</b>	<b>1,190,188</b>	<b>17,966</b>	<b>13,768</b>	<b>807,986</b>	<b>824,642</b>	<b>2,319,987</b>	<b>2,229,354</b>
Segment liabilities	83,977	80,430	7,062	7,062	1,242	1,361	42,050	126,565	134,331	215,418
Unallocated liabilities									12,827	9,221
<b>Total liabilities</b>									<b>147,158</b>	<b>224,639</b>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 13 Fixed assets

### (a) The Group

	Buildings held for own use carried at cost \$'000	Furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Yacht \$'000	Leasehold improvements \$'000	Sub-total \$'000	Interest in leasehold land held for own use under operating leases \$'000	Total \$'000
<b>Cost:</b>								
At 1 January 2004	89,182	22,824	89,686	—	857	202,549	38,286	240,835
Additions	44	3,021	6,626	40,609	—	50,300	—	50,300
Disposals	—	(123)	(8,917)	—	—	(9,040)	—	(9,040)
At 31 December 2004	89,226	25,722	87,395	40,609	857	243,809	38,286	282,095
At 1 January 2005	89,226	25,722	87,395	40,609	857	243,809	38,286	282,095
Additions	12,213	887	22,901	17	329	36,347	—	36,347
Disposals	(742)	(360)	(15,302)	—	—	(16,404)	—	(16,404)
At 31 December 2005	100,697	26,249	94,994	40,626	1,186	263,752	38,286	302,038
<b>Accumulated amortisation and depreciation:</b>								
At 1 January 2004	59,711	19,456	79,044	—	526	158,737	6,564	165,301
Charge for the year	7,250	1,857	6,431	3,709	331	19,578	729	20,307
Written back on disposals	—	(119)	(8,586)	—	—	(8,705)	—	(8,705)
At 31 December 2004	66,961	21,194	76,889	3,709	857	169,610	7,293	176,903
At 1 January 2005	66,961	21,194	76,889	3,709	857	169,610	7,293	176,903
Charge for the year	5,468	1,690	7,068	4,150	11	18,387	729	19,116
Written back on disposals	(742)	(344)	(14,776)	—	—	(15,862)	—	(15,862)
At 31 December 2005	71,687	22,540	69,181	7,859	868	172,135	8,022	180,157
<b>Net book value:</b>								
At 31 December 2005	29,010	3,709	25,813	32,767	318	91,617	30,264	121,881
At 31 December 2004	22,265	4,528	10,506	36,900	—	74,199	30,993	105,192

- (i) The leasehold land of the Group at 31 December 2005 is held in Hong Kong under a medium lease.
- (ii) The Group leases out a portion of buildings held for own use under operating leases. The leases typically run for an initial period of one to two years. None of the leases includes contingent rentals.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 13 Fixed assets (continued)

### (a) The Group (continued)

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

	2005 \$'000	2004 \$'000
Within 1 year	30	81
After 1 year but within 5 years	—	—
	<u>30</u>	<u>81</u>

### (b) The Company

	Furniture, fixtures and equipment \$'000	Leasehold improvements \$'000	Total \$'000
<b>Cost:</b>			
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
At 1 January 2005	598	857	1,455
Additions	35	—	35
Disposals	(54)	—	(54)
	<u>579</u>	<u>857</u>	<u>1,436</u>
At 31 December 2005	579	857	1,436
<b>Accumulated depreciation:</b>			
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
At 1 January 2005	381	857	1,238
Charge for the year	117	—	117
Written back on disposals	(39)	—	(39)
	<u>459</u>	<u>857</u>	<u>1,316</u>
At 31 December 2005	459	857	1,316
<b>Net book value:</b>			
At 31 December 2005	<u>120</u>	<u>—</u>	<u>120</u>
At 31 December 2004	<u>217</u>	<u>—</u>	<u>217</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 14 Interest in subsidiaries

	2005 \$'000	2004 \$'000
Unlisted shares at cost	539,755	539,755
Amounts due from subsidiaries	50,914	77,677
	<u>590,669</u>	<u>617,432</u>
Amounts due to subsidiaries	(187,025)	(161,696)
	<u>403,644</u>	<u>455,736</u>

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

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

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

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

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 14 Interest in subsidiaries (continued)

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



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 15 Interest in associates

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Unlisted shares, at cost	—	—	148,370	148,370
Share of net assets				
other than goodwill	213,700	106,734	—	—
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	1,053,399	1,083,408	1,053,399	1,083,408
	<u>1,267,145</u>	<u>1,190,188</u>	<u>1,201,815</u>	<u>1,231,824</u>

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

- (a) The following list contains only the particulars of an associate, which is unlisted corporate entity and principally affected the results or assets of the Group:

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

- (b) The Group’s interest in WHTCL is accounted for under the equity method based on the financial statements of WHTCL as at 31 December 2005.
- (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 2005 amounted to \$10.7 million (2004: \$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.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 15 Interest in associates (continued)

(e) Summary financial information on associates:

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenues \$'000	Profit/(loss) \$'000
2005					
100 per cent	5,786,205	5,208,637	577,568	800,939	276,126
Group's effective interest	<u>2,140,896</u>	<u>1,927,196</u>	<u>213,700</u>	<u>296,347</u>	<u>102,167</u>
2004					
100 per cent	5,998,421	5,709,951	288,470	734,998	210,998
Group's effective interest	<u>2,219,416</u>	<u>2,112,682</u>	<u>106,734</u>	<u>271,949</u>	<u>78,069</u>

## 16 Interest in a jointly controlled entity

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Share of net assets other than goodwill	<u>17,966</u>	<u>13,768</u>	<u>—</u>	<u>—</u>

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

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity attributable to the Group	Principal activity	Financial year end
Autotoll Limited	Incorporated	Hong Kong	10,000 ordinary shares of \$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.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



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

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

	2005 \$'000	2004 \$'000
Non-current assets	11,411	12,897
Current assets	61,873	54,223
Non-current liabilities	(1,358)	(1,362)
Current liabilities	(59,350)	(56,121)
	<u>12,576</u>	<u>9,637</u>
Net assets	<u>12,576</u>	<u>9,637</u>
Income	35,386	32,047
Expenses	(28,947)	(25,293)
	<u>6,439</u>	<u>6,754</u>
Profit for the year	<u>6,439</u>	<u>6,754</u>

## 17 Available-for-sale securities

	Group	
	2005 \$'000	2004 \$'000
Listed in Hong Kong	360,997	396,457
Listed outside Hong Kong	51,379	61,826
	<u>412,376</u>	<u>458,283</u>
Market value of listed securities	<u>412,376</u>	<u>458,283</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)



## 18 Trade and other receivables

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

	Group	
	2005 \$'000	2004 \$'000
Amounts receivable due:		
0-30 days	836	2,470
31-60 days	346	624
61-90 days	70	178
Over 90 days	116	1,245
	<u>1,368</u>	<u>4,517</u>

The Group's credit policy is set out in note 27(a).

Trade and other receivables include deposits paid amounting to \$3,487,000 (2004: \$4,072,000) 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.

## 19 Cash and cash equivalents

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Deposits with banks and other financial institutions	480,269	432,134	329,291	308,821
Cash at bank and in hand	5,608	10,132	2,006	1,265
	<u>485,877</u>	<u>442,266</u>	<u>331,297</u>	<u>310,086</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 the following aging analysis as of the balance sheet date:

	Group	
	2005	2004
	\$'000	\$'000
Amounts payable within:		
0-30 days	1,476	1,855
31-60 days	250	281
61-90 days	311	160
Over 90 days	771	578
	<u>2,808</u>	<u>2,874</u>

In 2004, trade and other payables included a deposit received amounting to \$118,000 which was expected to be settled after one year. Except for this amount, all of the balances are expected to be settled within one year.

## 21 Income tax in the balance sheet

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

	2005	2004
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	13,350	12,984
Provisional Profits Tax paid	<u>(7,570)</u>	<u>(10,618)</u>
	5,780	2,366
Balance of Profits Tax provision relating to prior years	<u>719</u>	<u>372</u>
	<u>6,499</u>	<u>2,738</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:

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 2004	1,620
Credited to profit or loss account	(1,240)
	<hr/>
At 31 December 2004	380
	<hr/> <hr/>
At 1 January 2005	380
Charged to profit or loss account	1,610
	<hr/>
At 31 December 2005	1,990
	<hr/> <hr/>

	Group	
	2005 \$'000	2004 \$'000
Deferred tax assets recognised in the balance sheet	(400)	(1,000)
Deferred tax liabilities recognised in the balance sheet	2,390	1,380
	<hr/>	<hr/>
	1,990	380
	<hr/> <hr/>	<hr/> <hr/>

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of \$6,332,000 (2004: \$3,622,000) 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)

## 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 17 May 2002, 28 April 2003, 29 April 2003, 2 May 2003, 7 May 2003, 22 April 2005, 25 April 2005 and 3 May 2005, \$35 million, \$35 million, \$28 million, \$24 million, \$9 million, \$1.3 million, \$0.5 million and \$0.2 million CN I were converted into 10,000,000, 10,000,000, 8,000,000, 6,857,142, 2,571,428, 333,333, 128,205 and 51,282 ordinary shares respectively. As at 31 December 2005, all outstanding CN I have been converted.

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, 7 May 2003 and 27 May 2005, \$13.3 million, \$10.7 million, \$9.1 million, \$3.4 million and \$80.5 million CN II were converted into 3,800,000, 3,057,142, 2,604,857, 978,840 and 20,630,015 ordinary shares respectively. As at 31 December 2005, all outstanding CN II have been converted.

## 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.

On 18 June 2004, the \$25 million non-refundable deposit was converted into 7,352,941 ordinary shares. As at 31 December 2005, there remained a maximum of 52,647,059 new shares exercisable under the share option agreement.

The effective interest rate of the interest free term loan at 31 December 2005 was 4.64%.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 24 Equity settled share-based transactions

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

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

	Exercise period	Number
Option granted to employees:		
- on 30 August 2001	30 August 2001 to 7 May 2011	<u>19,200,000</u>

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

	2005		2004	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning and end of the year	<u>\$2.492</u>	<u>19,200</u>	<u>\$2.492</u>	<u>19,200</u>



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 25 Share capital

	2005		2004	
	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	279,698	279,698	250,552	250,552
Shares issued in lieu of cash dividends	—	—	1,793	1,793
Shares issued on exercise of share options	—	—	7,353	7,353
Shares issued under private placement	—	—	20,000	20,000
Shares issued on conversion of convertible notes	<u>21,143</u>	<u>21,143</u>	—	—
At 31 December	<u>300,841</u>	<u>300,841</u>	<u>279,698</u>	<u>279,698</u>

- (a) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.
- (b) On 22 April 2005, 25 April 2005, 3 May 2005 and 27 May 2005, \$1.3 million, \$0.5 million, \$0.2 million and \$80.5 million convertible notes were converted into 333,333, 128,205, 51,282 and 20,630,015 ordinary shares respectively at a value of \$3.9 per share. An amount of \$68.3 million was credited to the share premium account upon the conversion of the notes and issue of new shares. All shares issued during the year rank pari passu with the existing issued shares of the Company in all respects.
- (c) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2005	2004
		Number	Number
30 August 2001 to 7 May 2011	<u>\$2.492</u>	<u>19,200,000</u>	<u>19,200,000</u>

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 24 to the financial statements.

# 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	Retained profits \$'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 10(b))	1,894	—	—	—	(12,528)	(10,634)
Changes in fair value of available-for-sale securities	—	—	105,381	—	—	105,381
Impairment loss realised	—	—	1,330	—	—	1,330
Net profit for the year	—	—	—	—	134,979	134,979
Dividends declared in respect of the current financial year (note 10(a))	3,579	—	—	—	(38,867)	(35,288)
Share premium on issue of shares	79,336	—	—	—	—	79,336
Exercise of share options (note 23)	17,647	—	—	(25,000)	—	(7,353)
At 31 December 2004	<u>994,306</u>	<u>1,984</u>	<u>139,846</u>	<u>5,000</u>	<u>536,672</u>	<u>1,677,808</u>

# 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	Other reserves \$'000	Hedging reserve \$'000	Retained profits \$'000	Total \$'000
At 1 January 2005								
- as previously reported	994,306	1,984	139,846	5,000	—	—	536,672	1,677,808
- opening balance adjustments in respect of HKAS 39 (note 2(e))	—	—	—	2,544	7,021	(27,734)	(7,008)	(25,177)
- as restated, after opening balance adjustments	994,306	1,984	139,846	7,544	7,021	(27,734)	529,664	1,652,631
Dividend approved in respect of the previous financial year (note 10(b))	—	—	—	—	—	—	(28,021)	(28,021)
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	—	—	—	—	—	32,533	—	32,533
Available-for-sale securities:								
- changes in fair value	—	—	12,321	—	—	—	—	12,321
- transfer to profit or loss on disposal	—	—	(21,981)	—	—	—	—	(21,981)
Net profit for the year	—	—	—	—	—	—	161,992	161,992
Dividends declared in respect of the current financial year (note 10(a))	—	—	—	—	—	—	(54,152)	(54,152)
Shares issued on conversion of convertible notes	68,335	—	—	—	(7,021)	—	—	61,314
At 31 December 2005	1,062,641	1,984	130,186	7,544	—	4,799	609,483	1,816,637

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 26 Reserves (continued)

### (b) Company

	Share premium \$'000	Share option reserve \$'000	Other reserves \$'000	Retained profits \$'000	Total \$'000
At 1 January 2004	891,850	30,000	—	619,126	1,540,976
Dividend approved in respect of the previous financial year (note 10(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 10(a))	3,579	—	—	(38,867)	(35,288)
Share premium on issue of shares	79,336	—	—	—	79,336
Exercise of share options (note 23)	17,647	(25,000)	—	—	(7,353)
At 31 December 2004	<u>994,306</u>	<u>5,000</u>	<u>—</u>	<u>600,842</u>	<u>1,600,148</u>
At 1 January 2005					
- as previously reported	994,306	5,000	—	600,842	1,600,148
- opening balance adjustments in respect of HKAS 39 (note 2(e))	—	2,544	7,021	(7,008)	2,557
- as restated, after opening balance adjustments	994,306	7,544	7,021	593,834	1,602,705
Dividend approved in respect of the previous financial year (note 10(b))	—	—	—	(28,021)	(28,021)
Net profit for the year	—	—	—	15,687	15,687
Dividends declared in respect of the current financial year (note 10(a))	—	—	—	(54,152)	(54,152)
Shares issued on conversion of convertible notes	68,335	—	(7,021)	—	61,314
At 31 December 2005	<u>1,062,641</u>	<u>7,544</u>	<u>—</u>	<u>527,348</u>	<u>1,597,533</u>

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 26 Reserves (continued)

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The capital reserve, investment revaluation reserve and other reserves 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, the revaluation of available-for-sale securities and the value of the unexercised equity component of convertible notes issued in notes 1(e), (f) and (n).

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.

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

At 31 December 2005, the aggregate amount of reserves available for distribution to shareholders of the Company was \$527,348,000 (2004: \$600,842,000). After the balance sheet date the directors proposed a final dividend of \$0.10 per share (2004: \$0.10 per share), amounting to \$30,084,000 (2004: \$27,970,000). This dividend has not been recognised as a liability at the balance sheet date.

## 27 Financial instruments

Exposure to credit and liquidity arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within one month from the date of billing while further credit may be granted to individual customer when appropriate. Normally, the Group does not obtain collateral from customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for the financial guarantee given by the Group as disclosed in note 31, the Group does not provide any other guarantees which would expose the Group to credit risk.

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 27 Financial instruments (continued)

### (b) Liquidity risk

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

### (c) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005.

### (d) Estimation of fair values

#### (i) Securities

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

#### (ii) Convertible notes or loans

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

## 28 Capital commitments

Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Contracted for	<u>2,131</u>	<u>11,304</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)

## 29 Operating lease commitments

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Within 1 year	5,642	4,859	—	—
After 1 year but within 5 years	4,043	621	—	—
	<u>9,685</u>	<u>5,480</u>	<u>—</u>	<u>—</u>

Significant leasing arrangement in respect of land held under operating leases is described in note 13.

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

The Group has a tenancy agreement with a third party in respect of a sales office, which will expire on 31 March 2006. The rental payable each year is determined, according to the terms of the agreement, based on the higher of the base rent and 3.5% of the monthly gross receipt of the sales office.

## 30 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 2005 was \$1,053.4 million (2004: \$1,083.4 million).

The Group received interest income and management fee income from WHTCL of \$10.7 million (2004: \$11.1 million) and \$2.5 million (2004: \$2.5 million) respectively.

- (b) The Group received consultancy fees from a jointly controlled entity of \$12.6 million (2004: \$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 2005 totalled \$2.3 million (2004: \$2.8 million).

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 30 Material related party transactions (continued)

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

### Key management personnel remuneration

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

	2005 \$'000	2004 \$'000
Short-term employee benefits	12,580	8,219
Post-employment benefits	54	55
	<u>12,634</u>	<u>8,274</u>

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

## 31 Contingent liabilities

At 31 December 2005, the Group had the following contingent liabilities:

### (a) In respect of the Company

The Company has given two letters of undertaking in relation to the bank facilities of the Group to two banks for general banking facilities totalling \$150 million (2004: \$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 2005, these facilities were not utilised by the Company.

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

There is an arrangement between HKSM and its banker whereby the bank provides guarantees in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than \$1.8 million (2004: \$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 (2004: \$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.



# Notes to the Financial Statements

(Expressed in Hong Kong dollars)

## 31 Contingent liabilities (continued)

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

A joint and several guarantee given by the Company and the other shareholders of WHTCL, namely, High Fortune Group Limited (as well as by its ultimate shareholder, China Merchants Holdings (International) Company Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR for its advance to WHTCL by way of share capital injection and/or subordinated debt of an amount equal to any excess of the total costs over the budgeted cost of \$7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of the Western Harbour Tunnel (“WHT”) up to the date WHT opened for use by the public (the “operating date”) and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to WHT. The maintenance certificate had not been issued at 31 December 2005.

## 32 Post balance sheet event

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

## 33 Comparative figures

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 2.

## 34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 6	Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006

# Notes to the Financial Statements

(Expressed in Hong Kong dollars)



## 34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2005 (continued)

		Effective for accounting periods beginning on or after
HK(IFRIC) 6	Liabilities arising from participating in a specific market - Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19	Employee benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments: Recognition and measurement: - Cash flow hedge accounting of forecast intragroup transactions - The fair value option - Financial guarantee contracts	1 January 2006 1 January 2006 1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
- HKAS 1	Presentation of financial statements	1 January 2006
- HKAS 27	Consolidated and separate financial statements	1 January 2006
- HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

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