1 Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these developments did not result in significant changes to the Company's accounting policies applied in these financial statements for the years presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32) except for HK(IFRIC) 10 "Interim financial reporting and impairment" which is effective for accounting periods beginning on or after 1 November 2006.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a jointly controlled entity.

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

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

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

1 Significant accounting policies *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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.

(c) Subsidiaries and minority interests

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

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

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

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

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

1 Significant accounting policies *(continued)*

(d) Associates and jointly controlled entities

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

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

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

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

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

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

1 Significant accounting policies *(continued)*

(e) Goodwill

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

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

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

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

(f) Other investments in equity securities

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

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

Investments in securities held for trading and equity-linked notes are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

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

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

1 Significant accounting policies *(continued)*

(g) Derivative financial instruments

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

(h) Hedging

Cash flow hedges

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

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

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

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

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

1 Significant accounting policies *(continued)*

(i) Property, plant and equipment

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

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

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(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 of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 Significant accounting policies *(continued)*

(j) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

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

(k) Impairment of assets

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

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

1 Significant accounting policies *(continued)*

(k) Impairment of assets *(continued)*

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

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

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

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

(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.

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.

1 Significant accounting policies *(continued)*

(k) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

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

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

(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)).

1 Significant accounting policies *(continued)*

(n) Convertible loan

Convertible loan that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible loan is measured 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 loan is converted or redeemed.

If the loan is converted, the other reserves, together with the carrying amount 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 loan is redeemed, the capital reserve is released directly to retained profits.

(o) Trade and other payables

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

(p) Cash and cash equivalents

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

(q) Employee benefits

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

1 Significant accounting policies *(continued)*

(q) Employee benefits *(continued)*

(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.

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

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

1 Significant accounting policies *(continued)*

(r) Income tax *(continued)*

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

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

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

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

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

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

    — the same taxable entity; or

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

1 Significant accounting policies *(continued)*

(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. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

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

(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.

1 Significant accounting policies *(continued)*

(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, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

1 Significant accounting policies *(continued)*

(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 Turnover and operating profit

The principal activity of the Company is investment holding and those of its subsidiaries are set out in note 13 to the financial statements. Given below is an analysis of the turnover and operating profit of the Group:

	Turnover		Operating profit	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Principal activities				
Motoring school operations	222,396	209,918	46,917	49,129
Investment and other activities	51,943	39,754	39,947	34,331
	274,339	249,672	86,864	83,460

3 Other revenue and other net income

	2006 $'000	2005 $'000
Other revenue		
Interest income from loan to an associate	10,312	10,691
Interest income from loan to outsider	468	—
	10,780	10,691
Other net income		
Net gain on sale of listed investments	13,382	14,133
Fair value changes on derivative financial instruments	4,531	—
Net gain on sale of fixed assets	1,852	2,322
Fair value changes on trading securities	(12,420)	—
Fair value changes on equity-linked notes	(16)	—
	7,329	16,455

4 Profit before taxation

	2006 $'000	2005 $'000
Profit before taxation is arrived at after charging:		
(a) Finance costs		
Interest on convertible loan/notes	448	3,265
Other borrowing costs	764	404
	1,212	3,669
(b) Other items		
Amortisation of land lease premium	729	729
Depreciation	19,419	18,387
Auditors' remuneration		
- statutory audit services	896	798
- other services	157	145
Net foreign exchange loss	—	317
Operating lease charges - land and buildings	13,718	12,821
Contributions to defined contribution retirement scheme	4,600	4,419
Salaries, wages and other benefits (excluding directors' emoluments)	118,577	110,180
Cost of inventories consumed	7,719	9,468
and after crediting:		
Dividend income from listed investments	15,061	10,779
Interest income	31,070	22,816
Net foreign exchange gain	207	—

5 Income tax in the consolidated profit and loss account

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

	2006 $'000	2005 $'000
Current tax - Hong Kong Profits Tax		
Provision for the year	12,968	13,350
Over-provision in respect of prior years	(679)	(597)
	12,289	12,753
Deferred tax		
Origination and reversal of temporary differences	(780)	1,610
	11,509	14,363

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

	2006 $'000	2005 $'000
Profit before tax	203,466	194,825
Notional tax on profit before tax calculated at 17.5%	35,607	34,094
Tax effect of non-deductible expenses	2,194	2,583
Tax effect on non-taxable revenue	(28,017)	(24,427)
Tax effect of current year's tax losses not recognised	2,404	2,710
Over-provision in prior years	(679)	(597)
Actual tax expense	11,509	14,363

6 Directors' remuneration

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

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

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2005 Total $'000
Executive directors					
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	—	—	—	—	—
Non-executive director					
Lee Ka Sze, Carmelo	400	—	—	—	400
Independent non-executive directors					
Wong Wai Kwong, David	400	—	—	—	400
Wong Yat Fai	200	—	—	—	200
Ng Kwok Fu	200	—	—	—	200
	1,200	2,460	7,600	15	11,275

7. Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2005: two) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other three (2005: three) individuals are as follows:

	2006 $'000	2005 $'000
Salaries and other emoluments	2,776	2,697
Discretionary bonuses and/or performance-related bonuses	630	537
Retirement scheme contributions	98	90
	3,504	3,324

The emoluments of the three (2005: three) individuals with the highest emoluments are within the following bands:

	2006 Number	2005 Number
Bands (in HK$)		
Not more than $1,000,000	1	1
$1,000,001 - $1,500,000	2	2
	3	3

8 Profit attributable to equity shareholders of the company

The consolidated profit attributable to equity shareholders of the Company includes a profit of $17,473,000 (2005: loss of $2,373,000) 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:

	2006 $'000	2005 $'000
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in the Company's financial statements	17,473	(2,373)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	28,000	18,060
Company's profit for the year (note 25(b))	45,473	15,687

9 Dividends

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

	2006 $'000	2005 $'000
Interim dividends declared of $0.18 per share (2005: $0.18 per share)	63,628	54,152
Final dividend proposed after the balance sheet date of $0.12 per share (2005: $0.10 per share)	42,419	30,084
	106,047	84,236

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:

	2006 $'000	2005 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.10 per share (2005: $0.10 per share)	35,349	28,021

10 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 $172,796,000 (2005: $161,992,000) and the weighted average of 333,151,000 ordinary shares (2005: 292,431,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2006 '000	2005 '000
Issued ordinary shares at 1 January	300,841	279,698
Effect of conversion of convertible notes	—	12,733
Effect of share options exercised	32,310	—
Weighted average number of ordinary shares at 31 December	333,151	292,431

(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 $173,166,000 (2005: $164,685,000) and the weighted average number of ordinary shares of 351,633,000 shares (2005: 332,479,000 shares), calculated as follows:

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

	2006 $'000	2005 $'000
Profit attributable to ordinary equity shareholders	172,796	161,992
After tax effect of effective interest on liability component of convertible loan/notes	370	2,693
Profit attributable to ordinary equity shareholders (diluted)	173,166	164,685

10 Earnings per share *(continued)*

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

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

	2006 '000	2005 '000
Weighted average number of ordinary shares at 1 January	333,151	292,431
Effect of deemed issue of shares of conversion of convertible loan/notes	7,080	28,303
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	11,402	11,745
Weighted average number of ordinary shares (diluted) at 31 December	351,633	332,479

11 Segment reporting

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

Business segments

The Group comprises the following main business segments:

Motoring school operations
Tunnel operations
Electronic toll operations
Treasury

Geographical segments

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

11 Segment reporting *(continued)*

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Unallocated		Consolidated	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Turnover	222,396	209,918	2,873	2,873	12,600	12,600	35,351	22,907	1,119	1,374	274,339	249,672
Other revenue	–	–	–	–	–	–	10,780	10,691	–	–	10,780	10,691
Total revenue	222,396	209,918	2,873	2,873	12,600	12,600	46,131	33,598	1,119	1,374	285,119	260,363
Segment result	46,917	49,129	2,873	2,873	12,527	12,664	57,626	52,935	(6,653)	(6,387)	113,290	111,214
Unallocated operating expenses											(25,214)	(24,085)
Operating profit before finance costs											88,076	87,129
Finance costs	–	–	–	–	–	–	(1,212)	(3,669)	–	–	(1,212)	(3,669)
Operating profit											86,864	83,460
Share of profits less losses of associates	–	–	107,045	102,167	–	–	–	–	–	–	107,045	102,167
Share of profits of a jointly controlled entity	–	–	–	–	9,557	9,198	–	–	–	–	9,557	9,198
Profit before taxation											203,466	194,825
Income tax	(7,260)	(8,616)	–	–	(2,166)	(2,191)	(2,054)	(3,556)	(29)	–	(11,509)	(14,363)
Profit for the year											191,957	180,462
Depreciation for the year	14,446	13,577	–	–	–	–	–	–	4,973	4,810	19,419	18,387
Amortisation of land lease premium	729	729	–	–	–	–	–	–	–	–	729	729
Capital expenditure incurred during the year	22,812	23,961	–	–	–	–	–	–	298	12,386	23,110	36,347

11 Segment reporting *(continued)*

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segment assets	255,493	226,890	—	—	—	—	1,097,434	807,986	1,352,927	1,034,876
Interest in associates	—	—	1,318,421	1,267,145	—	—	—	—	1,318,421	1,267,145
Interest in a jointly controlled entity	—	—	—	—	22,523	17,966	—	—	22,523	17,966
Total assets	255,493	226,890	1,318,421	1,267,145	22,523	17,966	1,097,434	807,986	2,693,871	2,319,987
Segment liabilities	101,258	83,977	6,983	7,062	1,204	1,242	23,951	42,050	133,396	134,331
Unallocated liabilities									16,666	12,827
Total liabilities									150,062	147,158

12 Fixed assets

(a) The Group

	Buildings held for own use carried at cost $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Yacht $'000	Leasehold improvements $'000	Sub-total $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:								
At 1 January 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
At 1 January 2006	100,697	26,249	94,994	40,626	1,186	263,752	38,286	302,038
Additions	15,832	687	6,433	158	—	23,110	—	23,110
Disposals	(204)	(505)	(9,903)	(24)	—	(10,636)	—	(10,636)
At 31 December 2006	116,325	26,431	91,524	40,760	1,186	276,226	38,286	314,512
Accumulated amortisation and depreciation:								
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
At 1 January 2006	71,687	22,540	69,181	7,859	868	172,135	8,022	180,157
Charge for the year	6,066	1,285	7,837	4,165	66	19,419	729	20,148
Written back on disposals	(204)	(503)	(9,687)	(15)	—	(10,409)	—	(10,409)
At 31 December 2006	77,549	23,322	67,331	12,009	934	181,145	8,751	189,896
Net book value:								
At 31 December 2006	38,776	3,109	24,193	28,751	252	95,081	29,535	124,616
At 31 December 2005	29,010	3,709	25,813	32,767	318	91,617	30,264	121,881

(i) The leasehold land of the Group at 31 December 2006 is held in Hong Kong under a medium-term lease.

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

(iii) Included under buildings held for own use are additions of properties under construction of $15.3 million as at 31 December 2006 (2005: $Nil), which was not subject to depreciation.

12 Fixed assets *(continued)*

(a) The Group *(continued)*

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

	2006 $'000	2005 $'000
Within 1 year	30	30

(b) The Company

	Furniture, fixtures and equipment $'000	Leasehold improvements $'000	Total $'000
Cost:			
At 1 January 2005	598	857	1,455
Additions	35	—	35
Disposals	(54)	—	(54)
At 31 December 2005	579	857	1,436
At 1 January 2006	579	857	1,436
Additions	140	—	140
Disposals	(90)	—	(90)
At 31 December 2006	629	857	1,486
Accumulated depreciation:			
At 1 January 2005	381	857	1,238
Charge for the year	117	—	117
Written back on disposals	(39)	—	(39)
At 31 December 2005	459	857	1,316
At 1 January 2006	459	857	1,316
Charge for the year	81	—	81
Written back on disposals	(90)	—	(90)
At 31 December 2006	450	857	1,307
Net book value:			
At 31 December 2006	179	—	179
At 31 December 2005	120	—	120

13 Interest in subsidiaries

	2006 $'000	2005 $'000
Unlisted shares at cost	539,755	539,755
Amounts due from subsidiaries	339,537	50,914
	879,292	590,669
Amounts due to subsidiaries	(182,877)	(187,025)
	696,415	403,644

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

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

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

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

(Expressed in Hong Kong dollars)

13 Interest in subsidiaries *(continued)*

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

14 Interest in associates

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Unlisted shares, at cost	—	—	148,370	148,370
Share of net assets other than goodwill	317,564	213,700	—	—
Amount due from an associate	416	416	416	416
Amount due to associates	(370)	(370)	(370)	(370)
Loan to and interest receivable from an associate	1,000,811	1,053,399	1,000,811	1,053,399
	1,318,421	1,267,145	1,149,227	1,201,815

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

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

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

(b) The Group's interest in WHTCL is accounted for under the equity method based on the financial statements of WHTCL for year ended 31 December 2006. KPMG are not the auditors of WHTCL.

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

(d) The loan to an associate ("the Loan") bears interest at a rate of 1% per annum as determined by the shareholders of that associate. Interest earned by the Group from WHTCL for the year ended 31 December 2006 amounted to $10.3 million (2005: $10.7 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.

14 Interest in associates *(continued)*

(e) Summary financial information on associates:

	Assets	Liabilities	Equity	Revenues	Profit
	$'000	$'000	$'000	$'000	$'000
2006					
100 per cent	**5,639,091**	**4,780,811**	**858,280**	**838,773**	**289,310**
Group's effective interest	**2,086,464**	**1,768,900**	**317,564**	**310,346**	**107,045**
2005					
100 per cent	5,786,205	5,208,637	577,568	800,939	276,126
Group's effective interest	2,140,896	1,927,196	213,700	296,347	102,167

15 Interest in a jointly controlled entity

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Share of net assets other than goodwill	**22,523**	17,966	**—**	—

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

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held indirectly by the Company	Principal activity	Financial year end
Autotoll Limited	Incorporated	Hong Kong	10,000 ordinary shares of $1 each	35%	50%	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.

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

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

	2006 $'000	2005 $'000
Non-current assets	13,353	11,411
Current assets	65,715	61,873
Non-current liabilities	(1,354)	(1,358)
Current liabilities	(61,948)	(59,350)
Net assets	15,766	12,576
Income	39,045	35,386
Expenses	(32,355)	(28,947)
Profit for the year	6,690	6,439

16 Available-for-sale securities

	Group	
	2006 $'000	2005 $'000
Listed in Hong Kong	549,126	360,997
Listed outside Hong Kong	65,283	51,379
	614,409	412,376
Market value of listed securities	614,409	412,376

At 31 December 2006, certain securities held by the subsidiaries were pledged to the banks for the banking facilities granted to the Company.

17 Trading securities

	Group	
	2006	2005
	$'000	$'000
Trading securities (at market value)		
Listed equity securities		
- in Hong Kong	7,097	—
- outside Hong Kong	98,536	—
	105,633	—

At 31 December 2006, certain trading securities were pledged to the financial institution as securities against treasury facilities granted to the Group.

18 Equity-linked notes

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

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

Notional amount	Maturity
US$2,000,000	2007
US$4,000,000	2008

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

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

At 31 December 2006, all the equity-linked notes were pledged to a financial institution as securities against treasury facilities granted to the Group.

19 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	
	2006	2005
	$'000	$'000
Amounts receivable due:		
0-30 days	**1,723**	836
31-60 days	**201**	346
61-90 days	**50**	70
Over 90 days	**256**	116
	2,230	1,368

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

Trade and other receivables include deposits paid amounting to $4,188,000 (2005: $3,487,000) 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.

20 Cash and cash equivalents

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Deposits with banks and other financial institutions	**406,364**	480,269	**229,802**	329,291
Cash at bank and in hand	**30,637**	5,608	**2,661**	2,006
	437,001	485,877	**232,463**	331,297

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

20 Cash and cash equivalents *(continued)*

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

	Group		Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
United States Dollars	USD15,150	USD14,117	USD14,953	USD14,117

21 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	
	2006	2005
	$'000	$'000
Amounts payable within:		
0-30 days	1,427	1,476
31-60 days	268	250
61-90 days	208	311
Over 90 days	758	771
	2,661	2,808

All of the balances are expected to be settled within one year.

22 Income tax in the balance sheet

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

	2006	2005
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	12,968	13,350
Provisional Profits Tax paid	(8,568)	(7,570)
	4,400	5,780
Balance of Profits Tax provision relating to prior years	4,274	719
	8,674	6,499

22 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 2005	380
Charged to profit or loss	1,610
At 31 December 2005	1,990
At 1 January 2006	1,990
Credited to profit or loss	(780)
At 31 December 2006	1,210

	2006 $'000	2005 $'000
Deferred tax assets recognised in the balance sheet	(140)	(400)
Deferred tax liabilities recognised in the balance sheet	1,350	2,390
	1,210	1,990

(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 $8,736,000 (2005: $6,332,000) as it is not probable that future taxable profits against which the unused tax losses can be utilised will be available. The tax losses do not expire under current tax legislation.

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 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. On 22 May 2006, 52,647,059 new shares were issued under the share option agreement and the $20 million 3-year interest-free loan was used as part of the consideration.

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

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

	2006		2005	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning and end of the year	**$2.492**	**19,200**	$2.492	19,200

25 Reserves

(a) Group

	Share capital $'000	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	Minority interests $'000	Total equity $'000
At 1 January 2005	279,698	994,306	1,984	139,846	7,544	7,021	(27,734)	529,664	1,932,329	47,209	1,979,538
Dividend approved in respect of the previous financial year (note 9(b))	—	—	—	—	—	—	—	(28,021)	(28,021)	—	(28,021)
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	—	—	—	—	—	—	32,533	—	32,533	—	32,533
Available-for-sale securities:											
- changes in fair value	—	—	—	12,321	—	—	—	—	12,321	(8)	12,313
- transfer to profit or loss on disposal	—	—	—	(21,981)	—	—	—	—	(21,981)	—	(21,981)
Net profit for the year	—	—	—	—	—	—	—	161,992	161,992	18,470	180,462
Minority interest's share of dividend	—	—	—	—	—	—	—	—	—	(10,320)	(10,320)
Dividends declared in respect of the current financial year (note 9(a))	—	—	—	—	—	—	—	(54,152)	(54,152)	—	(54,152)
Shares issued on conversion of convertible notes	21,143	68,335	—	—	—	(7,021)	—	—	82,457	—	82,457
At 31 December 2005	300,841	1,062,641	1,984	130,186	7,544	—	4,799	609,483	2,117,478	55,351	2,172,829

	Share capital $'000	Share premium $'000	Capital reserve $'000	Investment revaluation reserve $'000	Share option reserve $'000	Hedging reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2006	300,841	1,062,641	1,984	130,186	7,544	4,799	609,483	2,117,478	55,351	2,172,829
Dividend approved in respect of the previous financial year (note 9(b))	–	–	–	–	–	–	(35,349)	(35,349)	–	(35,349)
Cash flow hedge: transfer from equity to profit or loss	–	–	–	–	–	(3,181)	–	(3,181)	–	(3,181)
Changes in fair value of available-for-sale securities	–	–	–	84,598	–	–	–	84,598	274	84,872
Net profit for the year	–	–	–	–	–	–	172,796	172,796	19,161	191,957
Minority interest's share of dividend	–	–	–	–	–	–	–	–	(14,280)	(14,280)
Dividends declared in respect of the current financial year (note 9(a))	–	–	–	–	–	–	(63,628)	(63,628)	–	(63,628)
Shares issued upon exercise of share option	52,647	165,486	–	–	(7,544)	–	–	210,589	–	210,589
At 31 December 2006	353,488	1,228,127	1,984	214,784	–	1,618	683,302	2,483,303	60,506	2,543,809

25 Reserves *(continued)*

(b) Company

	Share capital $'000	Share premium $'000	Share option reserve $'000	Other reserves $'000	Retained profits $'000	Total $'000
At 1 January 2005	279,698	994,306	7,544	7,021	593,834	1,882,403
Dividend approved in respect of the previous financial year (note 9(b))	—	—	—	—	(28,021)	(28,021)
Net profit for the year	—	—	—	—	15,687	15,687
Dividends declared in respect of the current financial year (note 9(a))	—	—	—	—	(54,152)	(54,152)
Shares issued on conversion of convertible notes	21,143	68,335	—	(7,021)	—	82,457
At 31 December 2005	300,841	1,062,641	7,544	—	527,348	1,898,374
At 1 January 2006	300,841	1,062,641	7,544	—	527,348	1,898,374
Dividend approved in respect of the previous financial year (note 9(b))	—	—	—	—	(35,349)	(35,349)
Net profit for the year	—	—	—	—	45,473	45,473
Dividends declared in respect of the current financial year (note 9(a))	—	—	—	—	(63,628)	(63,628)
Shares issued upon exercise of share option	52,647	165,486	(7,544)	—	—	210,589
At 31 December 2006	353,488	1,228,127	—	—	473,844	2,055,459

25 Reserves *(continued)*

(c) Share capital

(i) Authorised and issued share capital

	2006		2005	
	No. of shares '000	Amount $'000	No. of shares '000	Amount $'000
Authorised:				
Ordinary shares of $1 each	1,000,000	1,000,000	1,000,000	1,000,000
Issued and fully paid:				
At 1 January	300,841	300,841	279,698	279,698
Shares issued upon exercise of share option	52,647	52,647	—	—
Shares issued on conversion of convertible notes	—	—	21,143	21,143
At 31 December	353,488	353,488	300,841	300,841

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

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

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

Exercise period	Exercise price	2006 Number	2005 Number
30 August 2001 to 7 May 2011	$2.492	19,200,000	19,200,000

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

25 Reserves *(continued)*

(d) Nature and purpose of reserves

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

The share option reserve which represents amounts received in advance of the exercise of share options is utilised and transferred to the share capital account and the share premium account once the options are exercised.

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

At 31 December 2006, the aggregate amount of reserves available for distribution to shareholders of the Company was $473,844,000 (2005: $527,348,000). After the balance sheet date the directors proposed a final dividend of $0.12 per share (2005: $0.10 per share), amounting to $42,419,000 (2005: $30,084,000). This dividend has not been recognised as a liability at the balance sheet date.

26 Financial instruments

Exposure to credit, liquidity, interest rate and currency risks 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 bank deposits, equity-linked notes, available-for-sale securities, trading securities, loans to associates and other parties and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

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

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

The Group has no concentrations of credit risk in view of its variety of investments with different counterparties or large number of customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

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

26 Financial instruments *(continued)*

(c) Interest rate risk

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

	Fixed/ floating	2006 Effective interest rate	2006 Within one year $'000	2005 Effective interest rate	2005 Within one year $'000
Cash and cash equivalents	Floating	2.75% - 3.625%	28,998	2.5%	5,215
Cash and cash equivalents	Fixed	3.45% - 5.19%	406,364	3.725% - 4.19%	480,269

(d) Foreign currency risk

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

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

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

(f) Estimation of fair values

(i) Listed securities

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

(ii) Equity-linked notes and derivative financial instruments

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

27 Capital commitments

Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Contracted for	2,593	2,131	—	—
Authorised but not contracted for	—	—	—	—

28 Operating lease commitments

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	Group		Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Within 1 year	5,525	5,642	—	—
After 1 year but within 5 years	4,568	4,043	—	—
	10,093	9,685	—	—

Significant leasing arrangements in respect of land held under operating leases are described in note 12.

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

The Group has a tenancy agreement with a third party in respect of a sales office, which will expire on 31 March 2007. 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 receipts of the sales office.

29 Material related party transactions

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

(a) The Group extended a loan to and received interest from an associate, Western Harbour Tunnel Company Limited ("WHTCL"). The balance of the loan and interest receivable at 31 December 2006 was $1,000.8 million (2005: $1,053.4 million).

The Group received interest income and management fee income from WHTCL of $10.3 million (2005: $10.7 million) and $2.5 million (2005: $2.5 million) respectively.

(b) The Group received consultancy fees from a jointly controlled entity of $12.6 million (2005: $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 2006 was $Nil (2005: $2.3 million).

(d) The share option agreement and the shares issued to Honway upon exercise of share option as detailed in note 23.

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 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	2006 $'000	2005 $'000
Short-term employee benefits	14,515	12,580
Post-employment benefits	64	54

Total remuneration is included in "Salaries, wages and other benefits" (see note 4(b)).

30 Contingent liabilities

At 31 December 2006, 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 (2005: $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 2006, 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 $2.5 million (2005: $1.8 million).

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

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

(d) In respect of Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL")

At 31 December 2006, the Group had given a guarantee to the extent of $18.9 million (2005: $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. The guarantee had already expired in February 2007.

(e) 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 2006.

31 Post balance sheet event

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

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

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

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007