# The Cross-Harbour (Holdings) Limited

(Stock Code : 32)

Annual Report 2013

# Contents

# Corporate Information

## Board of Directors

***Executive Director***

Cheung Chung Kiu *(Chairman)*
Yeung Hin Chung, John, SBS, OBE, JP *(Managing Director)*
Yuen Wing Shing
Wong Chi Keung
Leung Wai Fai
Tung Wai Lan, Iris

***Independent Non-executive Director***

Ng Kwok Fu
Luk Yu King, James
Leung Yu Ming, Steven

## Audit Committee

Luk Yu King, James *(Chairman)*
Ng Kwok Fu
Leung Yu Ming, Steven

## Remuneration Committee

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

## Nomination Committee

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

## Authorised Representative

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

## Company Secretary

Leung Shuk Mun, Phyllis Sylvia

## Legal Adviser

Woo, Kwan, Lee & Lo

## Registered Office

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

## External Auditor

KPMG

## Registrar & Transfer Office

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185

## Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

## Share Listing

The Stock Exchange of Hong Kong Limited
Stock Code: 32

# Chairman's Statement

## Performance

The Group reported a net profit of HK$440.2 million for the year ended 31 December 2013, representing an increase of 9.0 percent as compared with HK$403.8 million in 2012. The improvement was primarily attributable to an increase in profit contribution from tunnel operations as compared to the previous year. Earnings per share were HK$1.18 against HK$1.08 for 2012.

## Final Dividend

A fourth and final dividend of HK$0.12 per share has been proposed and, if approved by the Shareholders, will result in total dividends of HK$0.30 per share for the year, the same as for 2012. Total dividends paid and proposed for the year will be HK$111.8 million.

## Business Review and Outlook

The Hong Kong economy continued to expand at a moderate pace in 2013 and concluded its full year GDP growth at 2.9% after growing by 1.5% in 2012, notwithstanding the notable external headwinds and uncertainty over the withdrawal of monetary stimulus in the US. For China, its economic growth decelerated to 7.7%, the lowest since 1999 amid weak global demand and domestic structural problems. Domestic demand, benefited from acceleration in household's income and positive wealth effect due to surge in asset prices, continued to render the key impetus to local growth. Property rent and food prices contributed much to higher inflation of over 4% amid the stable income and employment conditions.

The US Federal Reserve's tapering announcement in last December along with its commitment to keep interest rates low for an extended period has ended months of market speculation. The global economic environment was poised to become more sanguine in 2014, with the re-emergence of the US as the key growth driver. The Eurozone moved out of recession and is showing tentative signs of recovery under its ultra-loose monetary policies. The emerging economies will also fare better, despite an outflow of capital due to worries of tapering US monetary stimulus.

Looking forward, the China economy will no longer sustain high growth rate. The new leadership has implemented a sequence of broad-based and intensive reform measures after the latest Third Plenum in order to pursue a steady and quality growth. Acceleration in economic reform and structural balancing process in Mainland China not only allow market power to take the decisive role in resources allocation but will also generate enormous business opportunities for the majority of Hong Kong exporters in the medium to long term. Moreover, by raising the degree of RMB convertibility in cross-border capital and financial transactions and promoting outward investment by enterprises and individuals, the demand for services provided by Hong Kong as an international financial centre, offshore RMB settlement centre and wealth management centre can be expanded. Against such backdrop, we are more optimistic about the outlook for the Hong Kong economy relative to its Asian peers. A GDP growth of 3% to 4% is projected for 2014 and unemployment rate will remain steady but slightly increase to 3.5% by the end of year. Amid concerns that the US tapering policy will soak liquidity and push up interest rate as well as expectation of an increase in housing supply, the local property market is unlikely to see robust growth in 2014. The property price is under moderate downward pressure and expected to decline by 10% to 15%. The positive wealth effect related to rising house prices, which boosted consumption over the past few years, should dissipate. The performance of the US economy determines the pace of tapering which in turn leads the interest rate movements in the coming years. Recovery is without doubt on a firm footing, however, the risk of sudden reversal in capital flows remains the key threat in early 2014.

## Electronic Toll Operation

Autotoll Limited ("Autotoll"), 50% owned by The Autopass Company Limited (a 70% owned subsidiary), provides electronic toll clearing facilities in Hong Kong covering eleven different toll roads and tunnels. There are fifty-three auto-toll lanes in operation at present. Against the backdrop of favourable business sentiment, the increase in tag subscribers recorded in 2013 is anticipated to continue for 2014 despite the saturation of the market.

On telematics service, the successful interface of the On-Board Trucker Information System (OBTIS) platform with the Road Cargo System (ROCARS) – a mandatory electronic cargo information submission system for all cross-border trucks, gives impetus to the launch of electronic seal (e-seal) service, an extension to the implementation of the ROCARS and jointly endorsed by the Customs Departments of Mainland China and Hong Kong. The e-seal is a radio frequency device with anti-forgery features that can monitor tampering and can provide evidence of authenticity and integrity for the containers. By teaming up with an electronic lock supplier, Autotoll was appointed as the sole agent and service provider in Hong Kong. For years, Autotoll strived to increase its penetration in the market of logistic management.

After years of unrelenting drive for improvement, Autotoll is well placed to capture the huge potential of the intelligent transport system ("ITS") market with its expertise and competitive advantage in this area. The success in the implementation of the three journey time indication systems has paved way for Autotoll's participation in new ITS projects sponsored by the Government. In November 2013 and January 2014, Autotoll and its business partners were awarded the tender for two projects in respect of the supply and installation of (i) traveller information kiosks at various designated locations and (ii) traffic control and surveillance system at the open road and tunnel sections for the "Hong Kong-Zhuhai-Macao Bridge" project.

In view of the increasing popularity of the smart phone, Autotoll is preparing to roll out mobile application software as a means to enhance both competitive edge and customers' satisfaction. Features of the application software include real-time information on road traffic conditions, fuel station and speed camera locations, as well as accounts management for individual Autotoll subscribers. In addition, the apps users can also get updated news on privileges exclusively offered to Autotoll Club members.

## Motoring School Operation

Alpha Hero Group ("AHG") (70% owned) maintained a stable performance in the year under review amid shrinking market size and competitive business environment. Though both enrolments and driving lessons conducted for vehicles have slightly decreased as compared with the previous year, income from motorcycle training courses, however, has increased. Moreover, the performance of the Driving Improvement School has improved and turned from making loss to profit for the past three years due to better sales response.

Though the outlook for the driving training industry has improved in the light of resilient economic growth, competitions, however, escalated as new non-designated driving school operators mushroomed during the past few years. For years, AHG recognized the importance of enhancing brand attributes of professionalism and excellence in securing its market share and supporting its pricing strategy. In view of this, AHG has prepared to implement a series of service and quality enhancement programs including extensive fleet replacement, brand rejuvenation as well as intensive training workshops for frontline staff and driving instructors.

## Tunnel Operations

(I) Western Harbour Tunnel Company Limited ("WHTCL") – *50% owned*

Fuelled by improved economic sentiment and increasing commercial activities on the West Kowloon Reclamation, the Western Harbour Tunnel ("WHT") recorded a moderate growth of 2.5% in throughput as compared with the last corresponding year and outperformed the minimal growth of the total cross-harbour traffic in the same year despite the implementation of its sixth toll increase effective from 1 January 2013. The average daily throughput of the WHT for 2013 rose to 61,957 vehicle journeys and a new record high single daily throughput of 82,426 vehicle journeys was registered in December. The market share of the WHT continued to improve and already accounted for over one quarter of the total cross-harbour traffic. The performance of WHTCL in 2013 was remarked by a significant improvement in toll revenue resulting from a 10% increase in average net toll per vehicle.

For years, the management of WHTCL maintained close liaison with the Government on the improvement of accessibility to and from the WHT. The construction of an elevated single lane carriageway connecting the elevated Nga Cheung Road to the WHT southbound toll plaza, expected to be completed in 2015, will certainly improve the traffic in West Kowloon area. Other projects under construction that will be conducive to both cross-harbour traffic and WHT's throughput in the long run include the Guangzhou-Shenzhen-Hong Kong Express Rail Link Project, the West Kowloon Cultural District, the Hong Kong/Macau/Zhuhai Bridge, the Central-Wanchai Bypass, as well as the Central Kowloon Route. On the other hand, the target opening of the MTR West Island Line in 2014 might have a negative impact on the demand for cross-harbour tunnel traffic. Looking forward to 2014, we expect the growth in both traffic and revenue of the WHT to remain solid against the backdrop of renewed market optimism. In the long run, we anticipate WHTCL will continue to enhance its return and cashflow for the shareholders.

(II) Tate's Cairn Tunnel Company Limited ("TCTCL") – *39.5% owned*

As a measure to improve cashflow for the coming years, TCTCL has implemented its seventh toll increase effective from 1 August 2013. The average toll per vehicle increased from HK$19.6 in the last corresponding year to HK$20.3 and the average daily throughput for the whole year maintained at 55,895 vehicle journeys. As a result, TCTCL recorded an increase of 3.7% in toll revenue for 2013. Moreover, after the introduction of new lane configuration at toll plaza in the past year, the smoothness of the traffic flow during the peak hours has been greatly improved and traffic safety was enhanced. In the years ahead, the steady cashflow generated by the franchise will continue to deliver sustainable return for the Group during the remaining years of the franchise as the threat of alternative routes on the market share of the Tate's Cairn Tunnel ("TCT") has gradually subsided over the past years.

## Looking Forward

Looking forward to 2014, the global economy is expected to become increasingly accommodating. We believe the prospect of the Group's business remains positive and each business segment will continue to perform steadily in the years to come.

## Acknowledgement

I would like to take this opportunity to extend my sincere appreciation to my fellow directors for their wise counsel and to all the staff for their concerted efforts and continued dedication. Last but not least, I would like to express my gratitude to our shareholders for their support to the Group in the past years.

**Cheung Chung Kiu**
*Chairman*

Hong Kong, 25 March 2014

## Electronic Toll Operation

The total number of tags in circulation was around 280,300 as at 31 December 2013, representing an increase of 4.4% from the year before. Autotoll's penetration rate on licensed vehicles was about 40% on average. The overall usage of auto-toll facilities in all eleven toll roads and tunnels remained about 50% with the highest usage at the Tai Lam Tunnel at around 60%. The daily transactions handled by Autotoll were about 375,000 with toll amount of approximately HK$8.7 million. The number of subscribers for the Global Positioning System at the end of the year under review was about 10,600, representing an increase of almost 10% as compared with the previous year.

## Motoring School Operation

Despite a 7% reduction in the demand for vehicle driving lessons, an increase of 4% in tuition fees income was recorded in the year under review as compared with the previous year as a result of higher lesson income unit rate. For years, the Motoring School maintained a flexible cost structure for various operation modes in order to enhance efficiency in resources allocation.

## Tunnel Operations

### Tate's Cairn Tunnel ("TCT")

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

#### Toll

Effective from 1 August 2013, toll charges for all categories of vehicles except motorcycles have risen by HK$2 and toll increase for motorcycles was HK$1.

#### Tunnel Usage

Throughput for the year was 20,401,820 vehicle journeys. The average daily throughput stood at 55,895 vehicle journeys, representing an increase of 0.2% from 2012. Market share of TCT decreased from 30.4% in 2012 to 29.6% in 2013.

| | Traffic Mix | |
|---|---|---|
| | **2013** | 2012 |
| Private Cars/Taxis and Motorcycles | **74.4%** | 73.9% |
| Goods Vehicles | **17.0%** | 17.4% |
| Buses | **8.6%** | 8.7% |
| | **100.0%** | 100.0% |

# Operation Review

In terms of vehicle mix profile and as compared to last year, the private cars category (i.e. private cars, taxis and motorcycles) increased from 73.9% to 74.4% while usage by goods vehicles category decreased from 17.4% to 17.0% and usage by buses decreased from 8.7% to 8.6%. The average net toll per vehicle increased from HK$19.55 in 2012 to HK$20.29 in 2013.

**Accidents**

The traffic accident occurrence rate decreased by 9.2% during 2013.

| | Occurrence Rate Per million vehicle trips | |
|---|---|---|
| | **2013** | 2012 |
| Fatal Accidents | **0.00** | 0.00 |
| Traffic Accidents (Personal Injury) | **0.54** | 0.73 |
| Traffic Accidents (Damage Only) | **4.66** | 5.00 |
| TOTAL: | **5.20** | 5.73 |

**Breakdowns**

The occurrence rate of breakdowns in 2013 decreased by 1.1% and the average time taken to attend the scene was maintained at within two minutes.

| | **2013** | 2012 |
|---|---|---|
| Total Breakdowns (occurrence rate per million vehicle trips) | **26.08** | 26.36 |
| Daily Average Breakdowns | **1.46** | 1.47 |

**Infringements**

The number of infringements per million vehicle trips increased by 3.2% in 2013.

| | Number of Events Per million vehicle trips | |
|---|---|---|
| | **2013** | 2012 |
| Total Infringements Reported | 446 | 432 |
| Prosecutions | 65 | 65 |

### Maintenance

To ensure smooth operation of the tunnel, maintenance work on all major tunnel service systems, E&M installations, computer systems and civil constructions were carried out according to the Master Maintenance Program as well as the maintenance check sheets. No major equipment defects causing adverse effect on the normal tunnel operation were found.

To ensure high maintenance standards, quarterly and yearly maintenance reports were prepared and submitted to the Highways Department and Transport Department for review. Monthly air quality reports were submitted to Environmental Protection Department and Transport Department.

### Staff

Staff turnover for the year was 11.2% (2012: 6.8%) with 23 members having departed.

## Western Harbour Tunnel ("WHT")

The construction of the WHT was completed in April 1997 at a total cost of HK$7 billion. The dual three-lane tunnel has been under-utilised due to the lower tolls at the other cross-harbour tunnels and poor connecting roads leading to and from the WHT. The company will continue to work with the Government to improve the overall traffic flow of Hong Kong through better usage of the WHT.

### Toll

With effect from 1 January 2013, the company has implemented its sixth toll increase as a measure to increase revenue. Toll charges for private cars, taxis, light buses and goods vehicles have risen by HK$5 while toll for additional axles remains unchanged. Toll increases for single and double decked buses are HK$10 and HK$12 respectively whereas toll charge for motorcycles is raised by HK$2.

The twelfth toll gazettal took effect on 31 July 2013 due to the performance of the tunnel being below the target set in the Western Harbour Crossing Ordinance ("WHC Ordinance"). Although this permits the tunnel tolls to be raised, the actual tolls remained unchanged since 1 January 2013 and the average tunnel toll is very much lower than the gazetted toll level as per the WHC Ordinance as at 31 December 2013.

# Operation Review

### Tunnel Usage

Throughput for the year was 22,614,125 vehicle journeys. The average daily throughput stood at 61,957 vehicle journeys which has increased by 1,505 or 2.5% in 2013 and the market share of WHT increased from 24.2% in 2012 to 24.7% in 2013.

| | Traffic Mix | |
|---|---|---|
| | **2013** | 2012 |
| Private Cars/Taxis and Motorcycles | **77.3%** | 77.4% |
| Goods Vehicles | **12.2%** | 11.9% |
| Buses | **10.5%** | 10.7% |
| | **100.0%** | 100.0% |

In terms of vehicle mix profile and as compared to last year, the private cars category (i.e. private cars, taxis and motorcycles) decreased from 77.4% to 77.3% and buses category decreased from 10.7% to 10.5%, while usage by goods vehicles increased from 11.9% to 12.2%. The average net toll per vehicle increased from HK$54.33 in 2012 to HK$59.70 in 2013 due to toll increase since 1 January 2013 and change in traffic mix.

### Accidents

The traffic accident occurrence rate in 2013 slightly increased by 2% as compared to 2012.

| | Occurrence Rate per million vehicle trips | |
|---|---|---|
| | **2013** | 2012 |
| Fatal Accidents | **0.00** | 0.00 |
| Traffic Accidents (Personal Injury) | **0.57** | 0.45 |
| Traffic Accidents (Damage Only) | **1.46** | 1.54 |
| TOTAL: | **2.03** | 1.99 |

### Breakdowns

The occurrence rate of breakdowns in 2013 decreased by 15.4% and the average time taken to attend the scene was maintained at within two minutes.

| | **2013** | 2012 |
|---|---|---|
| Total Breakdowns (occurrence rate per million vehicle trips) | **9.37** | 11.07 |
| Daily Average Breakdowns | **0.58** | 0.67 |

**Escorts**

| | Number of trips 2013 | 2012 |
|---|---|---|
| Dangerous Goods & Abnormal Goods | **2,585** | 2,957 |

**Infringements**

The number of infringements per million vehicle trips increased by 9.8% in 2013.

| | Number of Events Per million vehicle trips 2013 | 2012 |
|---|---|---|
| Total Infringements Reported | **270** | 246 |
| Prosecutions | **25.8** | 17.5 |

**Maintenance**

Throughout the year 2013, all major tunnel systems operated in a safe and reliable condition.

Preventive maintenance work was performed on all engineering systems and no major defects were found in the course of the maintenance.

As an annual exercise, an independent consulting engineer was engaged in November 2013 to conduct a maintenance audit. The audit showed that all tunnel infrastructure and systems had been maintained in compliance with the Maintenance Manual, which is the standard agreed with the Highways Department.

**Staff**

Staff turnover for the year was 27% (2012: 20%). The turnover comprises mainly resignation of front-line and junior technical staff due to keen labour competition in the market.

Hong Kong, 25 March 2014

# Management Discussion and Analysis

## Commentary on Annual Results

### (I) Review of 2013 Results

The Group reported a profit attributable to shareholders of HK$440.2 million for the year ended 31 December 2013, an increase of 9.0% compared with HK$403.8 million in 2012. Earnings per share were HK$1.18 compared to HK$1.08 for the previous year. The increase in 2013 was primarily attributable to an increase in contributions from both tunnel operations and motoring school operations, mitigating the negative performance of the treasury segment resulting from impairment loss on fair value changes in securities investment.

The Group's turnover for the year was HK$290.5 million, increased by HK$6.6 million or 2.3% as compared to HK$283.9 million recorded in 2012. The improvement was attributable to an increase in turnover of the motoring school.

The motoring school operations recorded an increase in turnover of 4.1% to HK$246.0 million as an aggregate result of an increase in tuition fees income due to higher lesson income unit rate despite a decline in demand for driving lessons, and a welcomed increase in income from motorcycle courses. After excluding a gain of HK$36.1 million on disposal of certain properties recorded in 2012, profit before tax for 2013 increased by 14.7% as compared to the HK$98.7 million recorded in the previous year.

The Group's share of profits less losses of associates has increased by 9.8% to HK$433.8 million as compared to HK$395.1 million in 2012 due to improved performance of both Western Harbour Tunnel Company Limited ("WHTCL") and Tate's Cairn Tunnel Company Limited ("TCTCL"). An increase in contribution from WHTCL was attributable to a 12.3% increase in toll revenue after the implementation of toll increase in January 2013 and a decrease in finance costs after the full repayment of outstanding bank loan in December 2012, but partially offset by an increase in profit tax due to an adjustment on deferred tax provision in 2012. TCTCL also registered a 3.8% increase in toll income as a result of a toll increase effective from August 2013. After accounting for the amortization of fair value in excess of net book value of WHTCL and TCTCL as at the completion dates of the acquisitions in 2008, profit contributions from WHTCL and TCTCL for the year were HK$383.8 million and HK$50.0 million respectively, as compared to HK$344.4 million and HK$50.6 million recorded in the previous year.

The Group's share of profit from a joint venture, Autotoll Limited, was HK$14.7 million for the year against HK$12.4 million recorded in the previous year, representing an increase of HK$2.3 million or 18.5% as a result of increase in both project income and administration fee income.

The Group's treasury investment recorded a net realised and unrealised gain of HK$9.4 million on trading securities for the year under review as compared to HK$21.9 million recorded in 2012. Revaluation deficits arising on certain available-for-sale securities, totalling HK$51.1 million, as compared to HK$72.3 million recorded in the previous year, were transferred from the investment revaluation reserve to the consolidated statement of profit or loss as a result of impairment losses on those securities at 30 June and 31 December 2013.

## Commentary on Annual Results *(continued)*

### (II) Investments

At 31 December 2013, the Group maintained a portfolio of investments, composed of listed securities and unlisted investments with an aggregate fair value of HK$640.0 million (31 December 2012: HK$680.5 million). The decrease in portfolio balance was primarily due to negative fair value changes of certain available-for-sale securities as at the end of the year under review. Certain securities were pledged to the financial institution to secure margin and securities facilities granted to the Group in respect of securities and derivatives transactions. Dividend and interest income received therefrom in 2013 amounted to HK$17.9 million.

### (III) Liquidity and Financial Resources

As at 31 December 2013, the Group had bank balances and deposits in the amount of HK$1,174.7 million. The Group did not have any debts outstanding as at 31 December 2013 and 2012. Except for the Group's investment in available-for-sale and trading securities and bank deposits denominated in foreign currencies other than the United States dollars, the Group's major sources of income and major assets are denominated in Hong Kong dollars. Further information on the Group's foreign currency exposure is provided in note 22(d) to the financial statements on pages 101 and 102.

### (IV) Comments on Segmental Information

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries, associates and a joint venture are the operation of motoring schools, tunnels and an electronic toll collection system, and investment. Further information on the segmental details is provided in note 2 to the financial statements on pages 69 to 72.

### (V) Employees

The Group has 454 employees. Employees are remunerated according to job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from provident fund schemes and medical insurance, discretionary bonuses and employee share options are awarded to employees of the Group at the discretion of the board of directors, depending upon the financial performance of the Group. Total staff costs for the year amounted to HK$110.0 million. Detailed information is set out in note 4(b) to the financial statements on page 73.

The Company also operates a Share Option Scheme, details of which are set out in the Report of the Directors on pages 32 and 33.

Hong Kong, 25 March 2014

# Directors and Senior Management

## Executive Directors / Senior Management

**Cheung Chung Kiu**, aged 49, was appointed Chairman of the Company on 21 March 2001 and also holds directorships in certain other members of the Group. Mr. Cheung was born and educated in Chongqing. He set up Chongqing Industrial Limited ("Chongqing Industrial", a company engaged mainly in the trading business in the PRC) in 1985. He is the founder and chairman of Yugang International Limited ("Yugang International") and chairman of Y. T. Realty Group Limited ("Y. T. Realty") and C C Land Holdings Limited ("C C Land"), all being public listed companies in Hong Kong. He is a director of Palin Holdings Limited, Chongqing Industrial, Yugang International (B.V.I.) Limited ("Yugang BVI"), Funrise Limited ("Funrise"), Y. T. Investment Holdings Limited ("Y. T. Investment") and Honway Holdings Limited ("Honway") which, together with Yugang International and Y. T. Realty, are companies disclosed in the section headed "Interests and Short Positions of Shareholders" on page 34.

**Yeung Hin Chung, John,** SBS, OBE, JP, aged 67, was appointed Managing Director of the Company on 1 August 2001 and also holds directorships in certain other members of the Group. Mr. Yeung holds a doctoral degree in management. Prior to joining the Company, he had held various key management positions in the Government of Hong Kong, where he last served as Deputy Director of Immigration; and in the private sector, where he last worked as the chief executive of a large trading consortium. Mr. Yeung is a member of the Basic Law Promotion Steering Committee, the CUHK Advisory Group on Undergraduate Studies in Business, the CPCE Advisory Committee of PolyU and the HKU SPACE Foundation Steering Committee. He is an independent non-executive director of RoadShow Holdings Limited, a public listed company in Hong Kong.

**Yuen Wing Shing**, aged 67, was appointed Executive Director of the Company on 21 March 2001 and also holds directorships in certain other members of the Group. Mr. Yuen holds a diploma in management studies from The Hong Kong Polytechnic University. Prior to joining the Company, he had held senior management positions with a major bank in Hong Kong for over 20 years. He is the managing director of Yugang International and an executive director of Y. T. Realty. He is a director of Yugang BVI, Funrise, Y. T. Investment and Honway.

**Wong Chi Keung**, aged 58, was appointed Executive Director of the Company on 21 March 2001 and also holds directorships in certain other members of the Group. Mr. Wong holds a doctoral degree in business and is a member of the Royal Institution of Chartered Surveyors, Hong Kong Institute of Housing, the Chartered Institute of Housing and the Guangxi Committee of the Chinese People's Political Consultative Conference, Nanning City. He is a fellow of the Hong Kong Institute of Real Estate Administrators and The Hong Kong Institute of Directors and an honorary fellow of Guangxi Academy of Social Sciences. Mr. Wong has held various senior executive positions with some of Hong Kong's leading property companies and property consultant firms for the past 30 years. He has also taken an active role in public and voluntary services and is currently Senior Assistant Commissioner of Hong Kong Auxiliary Medical Service. He is the managing director of Y. T. Realty and an independent non-executive director of Water Oasis Group Limited, both being public listed companies in Hong Kong, and a director of Y. T. Investment and Honway.

## Executive Directors / Senior Management *(continued)*

**Leung Wai Fai**, aged 52, was appointed Executive Director of the Company on 21 March 2001 and also holds directorships in certain other members of the Group. Mr. Leung graduated from University of Wisconsin-Madison with a bachelor's degree in business administration. He is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is an executive director of C C Land, a non-executive director of Qualipak International Holdings Limited and the group financial controller of Yugang International, all being public listed companies in Hong Kong.

**Tung Wai Lan, Iris**, aged 48, was appointed Executive Director of the Company on 21 March 2001 and also holds directorships in certain other members of the Group. Ms. Tung holds a master of philosophy degree from The Chinese University of Hong Kong. She is an executive director of Y. T. Realty and a director of Y. T. Investment and Honway.

## Independent Non-executive Directors

**Ng Kwok Fu**, aged 42, was appointed Independent Non-executive Director of the Company on 30 September 2004. Mr. Ng holds a certificate in accounting from Grant MacEwan Community College of Canada. He has over 20 years of experience in the marketing, trading, purchasing and developing of construction materials as well as in technical control, support and management in building projects. He is an independent non-executive director of Yugang International and Y. T. Realty.

**Luk Yu King, James**, aged 59, was appointed Independent Non-executive Director of the Company on 10 September 2007. Mr. Luk graduated from The University of Hong Kong with a bachelor of science degree. He is a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and an ordinary member of the Hong Kong Securities and Investment Institute. He has over 10 years of experience in corporate finance and in securities & commodities trading business, working with international and local financial institutions. He is an independent non-executive director of Yugang International and Y. T. Realty.

**Leung Yu Ming, Steven**, aged 54, was appointed Independent Non-executive Director of the Company on 1 October 2007. Mr. Leung received his bachelor of social science degree from The Chinese University of Hong Kong and master's degree in accountancy from Charles Sturt University of Australia. He is an associate of The Institute of Chartered Accountants in England and Wales and a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong. He is also a certified practising accountant in Australia and a practising certified public accountant in Hong Kong. Mr. Leung commenced public practice in auditing and taxation in 1990 and is currently a senior partner in a CPA firm. He has over 28 years of experience in assurance, financial management and corporate finance, having worked previously in the International Finance and Corporate Finance Department of Nomura International (Hong Kong) Limited as assistant vice president. He is an independent non-executive director of Suga International Holdings Limited, Yugang International, Y. T. Realty and C C Land, all being public listed companies in Hong Kong.

# Corporate Governance Report

## Shareholder Value

The Company has always been committed to upholding the principles of good corporate governance. These principles highlight an effective board, a sound internal control system as well as transparency and accountability. The board considers such commitment essential in balancing the interests of various stakeholders and the Company and its subsidiaries (the "Group") as a whole. The Company sees to it that the corporate governance agenda is focused on improving performance and not just bogged down in conformity and compliance.

## Corporate Governance

This report sets out the Company's application in the year to 31 December 2013 of the Corporate Governance Code (the "CG Code") set out within Appendix 14 to the Main Board Listing Rules (the "Listing Rules"). To ensure that corporate standards are met, and that processes are in place to ensure continuous improvements, the full board assumes the corporate governance functions rather than delegating the responsibility to a committee.

During the year up to the date of this report, the board conducted regular reviews of the Company's practices on corporate governance, including the training and continuous professional development of directors. It also reviewed the Company's practices on compliance with legal and regulatory requirements, compliance with the CG Code and the relevant disclosure in the interim report and in this report. In the opinion of the board, the Company complied with the principles and the relevant code provisions of the CG Code in all respects throughout the year save for the deviation described below.

The Company has no formal letters of appointment for directors except the managing director setting out the key terms and conditions of their appointment, and has therefore deviated from D.1.4 of the CG Code. This notwithstanding, every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. Shareholders are sent (at the same time as the notice of the relevant general meeting) a circular containing all the information reasonably necessary to enable them to make an informed decision on whether to vote for or against the ordinary resolution to approve the re-election of each retiring director who stands for re-election at the meeting, including the information required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

## Disclosure of Inside Information / Directors' Dealings

The Company is aware of its obligations under Part XIVA of the Securities and Futures Ordinance (Cap. 571) and the Listing Rules concerning inside information and has established a policy on the disclosure of inside information having regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission. Apart from the duty to report, directors and employees must also not deal in the shares of the Company at any time when they are in possession of unpublished inside information under the policy.

Directors' dealings are governed by a code adopted by the Company (the "Securities Code") (of which the Model Code for Securities Transactions by Directors of Listed Issuers set out within Appendix 10 to the Listing Rules as amended from time to time (the "Model Code") forms part). Each director will be given a copy of the Securities Code on appointment and shortly after the code is revised, as appropriate. Directors will be notified in advance of the commencement of each period during which they are not allowed to deal, or are advised not to deal, in the Company's securities with reminders of their obligations under both codes.

## Disclosure of Inside Information / Directors' Dealings *(continued)*

All directors confirmed that they had complied with the required standard set out within the Model Code and the Securities Code throughout the year.

The Company has also adopted a code for relevant employees (within the meaning of the CG Code) regarding securities transactions no less exacting than the Model Code. Relevant employees will be notified in advance of the commencement of each period during which they are not allowed to deal, or are advised not to deal, in the Company's securities with reminders of their obligations under the code.

## The Board

Corporate governance of the Company, as noted above, is achieved through its board which assumes responsibility for leadership and control of the Company. Directors being pillars of corporate governance act at all times honestly and exercise care, diligence and skill in the discharge of their duties. The board is collectively responsible for promoting the success of the Company and seeks to balance broader stakeholder interests and those of the Group.

### Board balance

The board, which is chaired by Mr. Cheung Chung Kiu, comprises nine members. The composition of the board is shown in the corporate information section on page 1. All members served on the board throughout the year up to the date of this report.

Brief biographical details of the directors appear in the directors and senior management section on pages 13 and 14.

The Company recognises the importance of having the appropriate board composition and the advantages it brings to the corporate performance of the Group. In designing composition, the board will take into account the balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. To comply with the new code provision A.5.6 introduced under the CG Code, the board adopted a policy concerning diversity of its members during the year. The board is satisfied that the measurable objectives that it has set for implementing the policy have been achieved. In addition, the board is satisfied that its composition is appropriate having considered the skills, experience and attributes of the directors. Independent non-executive directors are considered to be of sufficient calibre and experience to bring significant influence to bear on the decision-making process of the Company. To the best of the knowledge of the board, no independent non-executive director has any interests or relationships that could materially interfere with his independent judgment. It is therefore the board's view that all independent non-executive directors are independent.

Board meetings are held regularly four times a year and additionally as needed to discharge the board duties effectively. Regular scheduled meetings are also held by the board committees to discharge their duties effectively. Independent non-executive directors, as equal board members, give the board and the committees on which they serve the benefit of their skills, expertise and diverse backgrounds and qualifications through regular meeting attendance and active participation. They also attend general meetings and develop a balanced understanding of the views of shareholders.

## The Board *(continued)*

### Attendance at board and general meetings

Apart from the annual general meeting, the board met four times during the year at approximately quarterly intervals. All of the above meetings were attended by all directors.

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

*Notes:*

1 The term of office for Mr. Ng Kwok Fu is approximately three years, commencing 18 May 2012 and ending at the close of the annual general meeting in 2015.

2 The term of office for Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven is approximately three years, commencing 17 May 2011 and ending at the close of the forthcoming annual general meeting.

3 Notwithstanding any contractual or other terms of appointment or engagement, non-executive directors are subject to retirement by rotation and eligible for re-election in accordance with the Company's articles of association and all applicable laws.

### The appointment of management

The board, led by the chairman, is accountable to shareholders for the overall management and performance of the Group. This requires continuing attention, the board therefore appoints management, which is made up of executive committee members, with additional members from the second line of management. The managing director in turn delegates aspects of the management and administration functions to senior executives who report directly to him on a regular basis.

## The Board *(continued)*

**Delegations to management and reserving matters for the board**

The board sets the business strategy of the Group and monitors its development. It delegates other matters to management while reserving certain decisions and actions for itself and performing them effectively. There is a written statement of matters reserved for the board and those delegated to management. These arrangements are reviewed on an annual basis to ensure that they remain appropriate to the needs of the Company.

This statement recognises nine broad categories into which reserving matters for the board may fall, namely (1) board and senior management; (2) relations with the members and stakeholders; (3) financial matters; (4) business strategy; (5) capital expenditures; (6) lease or purchase of buildings; (7) major transactions not included in the budget; (8) actions or transactions involving legality or propriety; and (9) internal control and reporting systems.

The board sees to it that management is managing properly and does not exceed its remit. The statement gives clear directions as to the powers of management. These include executing the business strategies and initiatives adopted by the board, approving investments and divestments as well as managing the Group's assets and liabilities in accordance with the policies and directives of the board. The management carries out such specific duties as to prepare interim and annual accounts, and to implement and monitor the systems of financial controls, internal control and risk management. The management typically meets each month to review, inter alia, the operating and financial performance of the Group against agreed budgets and targets.

**Supply of and access to information**

The board and individual directors have separate and independent access to senior management at all times. The management ensures that the board and its committees receive adequate information, board papers and related materials in a timely manner to enable them to make informed decisions. All directors have access to the advice and services of the company secretary, who is responsible to the board to ensure that board procedures are being followed and that applicable rules and regulations are being complied with. Every director or board committee member can seek independent professional advice in appropriate circumstances at the Company's expense.

**Directors' responsibilities**

On appointment to the board, each director receives an induction package covering the latest information about the financial position of the Group as well as guidelines on directors' duties and corporate governance. In addition, all members of the board are provided with monthly updates so that they can have a balanced and understandable assessment of the Group's performance, position and prospects. New directors are welcome to visit the operating divisions to gain a proper understanding of the Group's business operations.

The mini-library maintained for the company secretarial department is open to all directors. Stocked with corporate publications and governance procedures, it also collects applicable rules, ordinances, codes and acts. Directors are welcome to visit the library and borrow those materials.

## The Board *(continued)*

**Directors' responsibilities** *(continued)*

The Company recognises the need to develop and refresh directors' knowledge and skills so that their contribution to the board remains informed and relevant. Sufficient training opportunities are being given to the directors from time to time in answer to such need. As part of the continuous professional development programme, the Company arranged two in-house training sessions as well as arranged and funded seminars elsewhere on topics relevant to the roles, functions and duties of a listed company director during the year.

According to the records provided to the Company, each director received no less than five hours of training through seminars, programmes, and the like, or reading during the year.

**Insurance cover**

The Company has in place appropriate insurance cover in respect of any legal action against its directors and officers. The extent of insurance cover is reviewed on an annual basis.

## Chairman and Managing Director

The positions of chairman and managing director are held by separate individuals with the defined roles of managing the board and managing the affairs of the Company respectively. The board considers that vesting the roles in different individuals is essential in ensuring a balance of power and authority and in upholding independence, accountability and responsibility with respect to the management of the Company. The division of responsibilities between the chairman and managing director has been clearly established and set out in writing.

The chairman provides leadership for the board, ensuring its effectiveness in all aspects of its role. The managing director, supported by the management team, provides planning and implementation.

The chairman ensures that all directors are properly briefed on issues arising at board meetings and that all key and appropriate issues are discussed by the board in a timely manner. Board meetings for each year are scheduled in advance to give all directors an opportunity to attend, and are structured to encourage open discussion. All board members are encouraged to update their knowledge of and familiarity with the Group through active participation at board meetings.

The chairman settles the agenda for each individual board meeting, taking into account any additional items proposed by the managing director and arising from current operating issues, as well as such other matters as may be raised by the other directors with him, who can include them on the agenda. The agenda and accompanying board papers are sent in full to all directors where possible at least three days before the time appointed for the meeting.

It is also the chairman's responsibility to control board meetings, to lead discussions to clear conclusions, and to satisfy himself that the secretary of the meeting has understood each conclusion reached. The company secretary and financial controller attend the meetings to advise on corporate governance and accounting and financial matters, where appropriate.

Minutes of board meetings and meetings of board committees are kept by a duly appointed secretary of the meeting and open for inspection by any director. Draft and final versions of minutes are sent to all directors for their comments and records respectively.

## Accountability and Audit

### Financial reporting

The directors are responsible for preparing the accounts. The board seeks to give a balanced, clear and understandable assessment in annual and interim reports, other price-sensitive announcements and other financial disclosures required by the Listing Rules. It also does so for reports to regulators and information disclosed under statutory requirements.

The directors are also responsible for the integrity of financial information and for ensuring its timely disclosure. Arrangements are made which will allow them to be satisfied that the accounts are true and fair, which accurately disclose the financial position of the Company, and which comply with statutory requirements and applicable accounting standards.

### Internal controls

The board ensures the adequacy of the accounting systems and appropriateness in respect of the human resources for the financial reporting function. It is also the responsibility of the board to see to it that the Company maintains sound and effective internal controls to safeguard shareholders' investment and the Company's assets and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

The board has delegated authority for reviewing the Group's internal controls to its audit committee. The audit committee receives a system review report annually from the management with regard to the operational aspects of internal controls over the areas of key risk identified. The chairman of the committee reports on the review of internal controls and any matters arising to the board at the following board meeting. Using the above process, the duty to review the internal control system is properly discharged.

In line with the requirements of the CG Code, the board scheduled an annual meeting in December 2013 to conduct a review of the effectiveness of the Group's internal controls and an additional meeting in March 2014 for an update. Each such review covered all material controls, including financial, operational and compliance controls and risk management functions and gave due consideration to the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function. Nothing improper was noted on both occasions.

The Company has clearly established written policies and procedures regarding internal controls applicable to operational units. When devising and reviewing such policies and procedures, it is recognised that the Company's system of internal controls is designed to assist the directors in obtaining reasonable assurance that problems are identified on a timely basis and dealt with appropriately. It is further recognised that the purpose of internal controls is to help manage and control, rather than eliminate, risks and that all internal control systems can only provide reasonable, and not absolute, assurance against misstatement or loss.

## Accountability and Audit *(continued)*

**Internal controls** *(continued)*

The Company has also a process for identifying, evaluating, and managing significant risks to the achievement of its operational objectives. This process is subject to continuous improvement and was in place throughout the year up to the date of this report. In formulating the risk management strategy, the board ensures that the risks facing the Company have been assessed, and that the policies for handling them are up to date and being complied with. No significant control failings or weaknesses were reported during the year up to the date of this report.

## Board Committees

The board is supported in its decisions by the four principal committees described below. The terms of reference of all except the executive committee are available on the website of the Company.

**The executive committee**

In directing and supervising the Company's affairs, the board is supported by an executive committee whose membership is exclusive to executive directors. There are six members in office, all of whom served on the committee throughout the year up to the date of this report.

The executive committee is vested with the powers of the directors by the Company's articles of association or otherwise expressly conferred upon them, as defined by its terms of reference.

**The remuneration committee**

The remuneration committee, which is chaired by Mr. Leung Yu Ming, Steven, comprises three members, as shown in the corporate information section on page 1. All members served on the committee throughout the year up to the date of this report.

This committee supports the board in determining the remuneration packages of individual executive directors, who also make up senior management. It further assists the board in making recommendations on the Company's remuneration policy and structure, in reviewing and approving the management's remuneration proposals as well as in making recommendations on the remuneration of non-executive directors.

## Board Committees *(continued)*

**The remuneration committee** *(continued)*

The remuneration committee met once during the year with perfect attendance. No member took part in any discussion or decision concerning his own remuneration at the meeting.

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

The Group's remuneration approach seeks to attract, motivate and retain the executive talent that is essential for the implementation of its business strategy towards sustained and long-term returns for shareholders.

The remuneration package for executives comprises both fixed and variable elements, including salaries, discretionary bonuses (without capping), pension contributions and other incentive arrangements such as share options.

The emoluments received by every executive director and senior executive are determined with reference to individual and company performance, industry specific remuneration benchmarks and prevailing market conditions, subject to annual assessment.

The remuneration committee recommends non-executive director fees annually, based on market practices, time commitment and level of responsibility. These recommendations are then put to a meeting of the board for approval.

During the year, the remuneration committee reviewed and approved the management's remuneration proposals. It also reviewed the directors' fees and remuneration policy and fixed the remuneration packages of individual executive directors, focusing on salary levels in appropriate comparator companies and role, responsibility and performance of the individual executive director so as to align management incentives with shareholders' interests.

The committee is confident that the remuneration policy, which was applied in the year under review and is expected to be applied in future years and beyond, dovetails with overall corporate goals and objectives. In the opinion of the committee, the executive remuneration levels for the year were in line with the market.

Details of the directors' remuneration for the year are set out in note 6 to the financial statements on page 75.

## Board Committees *(continued)*

**The nomination committee**

The nomination committee, which is chaired by Mr. Cheung Chung Kiu, comprises three members, as shown in the corporate information section on page 1. All members served on the committee throughout the year up to the date of this report.

This committee serves as an advisory committee to recruit, screen and recommend board candidates for the board. Its primary role is to ensure that the right mix of talent, skills and experience on the board is retained. To this end, the committee reviews the policy for the nomination of directors, assesses the independence of independent non-executive directors and advises on the management of board succession. During the year, this role has been extended to cover monitoring implementation of the board diversity policy.

The nomination committee met once during the year with perfect attendance.

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

The Company embraces the benefits of having an effective board and directs that the appointment of board members be a collective effort of the board and the nomination committee. The appointment or re-appointment of a director shall first be considered by the nomination committee with reference to the nomination policy. Recommendations of the committee will then be put forth at the next board meeting for consideration and approval, as appropriate.

The nomination policy, which sets out two sets of criteria (one for individual nominees and the second for the board as a whole), allows a more informed and balanced decision to be made by the board ultimately as to suitability for the role. When assessing the suitability of a candidate, factors such as time commitment, expertise and industry experience as well as integrity and skill will be taken into consideration as a whole and the candidate should be able to demonstrate the competency required for a listed company director. In the case of independent non-executive directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Selection of candidates will also be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, or professional experience. These objectives are documented in the board diversity policy, which has been established by the Company to ensure that diversity, in its broadest sense, remains a central feature of the board.

During the year, the nomination committee evaluated the board composition and the independence of independent non-executive directors, and made recommendations to the board on the re-appointment of the directors retiring at the forthcoming annual general meeting. Subsequent to the year end, it reviewed the nomination and board diversity policies as well as discussed the objectives set for implementing the latter policy, and noted that those objectives had been achieved. The committee therefore concluded that the board's composition should continue unchanged.

## Board Committees *(continued)*

**The audit committee**

The audit committee, which is chaired by Mr. Luk Yu King, James, comprises three members, as shown in the corporate information section on page 1. All members served on the committee throughout the year up to the date of this report.

This committee supports the board in considering matters relating to the external auditor's appointment and in the review of the Company's financial information. The committee has also an oversight role over the Company's financial reporting system and internal control procedures and seeks to ensure that arrangements are in place for the staff to whistle-blow on financial reporting or other matters in so far as they may affect the Company.

Meetings of the audit committee are held at least bi-annually with the external auditor and tri-annually with the management.

The committee met three times during the year with perfect attendance.

| | No. of meetings attended/held |
|---|---|
| Luk Yu King, James *(Chairman)* | 3/3 |
| Ng Kwok Fu | 3/3 |
| Leung Yu Ming, Steven | 3/3 |

During the year, the audit committee reviewed the interim and annual reports and accounts, paying attention to any changes in accounting policies and practices, major judgmental areas and significant adjustments resulting from audit, as well as the financial controls, internal control and risk management systems. The work and findings of the committee were reported to the board.

At the December meeting, the audit committee reviewed the systems of accounting and internal financial control and risk management with reference to the 2013 system review report prepared by the management.

In the opinion of management, an adequate internal control system had been established and maintained to facilitate the effectiveness and efficiency of operations; to safeguard assets against unauthorised use and disposition; to ensure the maintenance of proper accounting records and the truth and fairness of the financial statements; to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function; to allow fair and independent investigation of possible improprieties in financial reporting, internal control or other matters and appropriate follow-up action; and to ensure compliance with relevant legislation and regulations. Further, there revealed no significant areas of improvement which were required to be brought to the committee's attention.

## Board Committees *(continued)*

**The audit committee** *(continued)*

The committee acknowledged the findings and concurred with the conclusion described above.

At the meeting last held in March 2014, which was attended by KPMG and senior management, the audit committee considered the scope and effectiveness of KPMG as well as significant matters arising from the 2013 audit. The committee also reviewed internal control procedures and considered matters relating to KPMG's engagement as the Company's external auditor.

The audit committee was satisfied that KPMG had demonstrated the independence and objectivity that were required of them as external auditor and that the audit process had been effective. KPMG also provided non-audit services to the Company during the year. These services related mainly to tax compliance and interim review the provision of which did not, in the opinion of the committee, compromise the independence of KPMG's audit team.

KPMG were remunerated a total of HK$2.40 million for services rendered to the Group during the year, of which HK$2.01 million were audit fees, HK$0.36 million were fees for interim review and HK$0.03 million were fees for tax compliance services.

No material impact of the new and/or revised accounting standards on the 2013 annual accounts was reported, nor were there any significant financial reporting judgments contained in them.

Management confirmed that there had been neither changes in the nature and extent of significant risks nor in the Company's activities, business or operating units and internal control procedures since last review. All systems of internal controls were operated and maintained effectively and there was no major issue regarding such procedures.

At the conclusion of the meeting, the chairman confirmed the adequacy and effectiveness of the Group's internal control system, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function. Recommendations were made on the re-appointment of KPMG as the external auditor of the Company for the ensuing year and on the submission of the 2013 annual accounts for shareholder approval at the forthcoming annual general meeting.

## Communication with Shareholders

The board has established a shareholders' communication policy, which sets out the Company's approach to maintain an on-going dialogue with its shareholders and potential investors. The policy is reviewed annually to ensure its effectiveness.

## Shareholders' Rights

An annual general meeting will be held by the Company in every year. Further, the board of directors may whenever it thinks fit call a general meeting known as extraordinary general meeting.

Shareholders who wish to convene an extraordinary general meeting or put forward proposals at general meetings (including the proposal to nominate a person for election as a director) should follow the procedures described below. The procedures are subject to the articles of association of the Company, the Companies Ordinance (Cap. 622) and applicable legislation and regulations.

**Procedures to convene an extraordinary general meeting**

1. Shareholders representing at least five per cent (5%) of the total voting rights of all the shareholders having a right to vote at general meetings may, by written requisition to the Company, require the directors to call an extraordinary general meeting.

2. The requisition, stating the general nature of the business to be dealt with and including the text of any resolution that may properly be moved and is intended to be moved at the meeting, must be signed and be deposited at the registered office of the Company for the attention of the company secretary. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

3. If the directors do not within twenty-one (21) days after the date on which the requisition is received by the Company proceed duly to call an extraordinary general meeting for a date not more than twenty-eight (28) days after the date of the notice convening the meeting, the shareholders concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves call a meeting for a date not more than three (3) months after the date of receipt of the requisition by the Company.

4. The meeting so requested by shareholders must be called in the same manner, as nearly as possible, as that in which that meeting is required to be called by the directors, and any reasonable expenses incurred by the shareholders must be reimbursed by the Company.

5. Other than an adjourned meeting,

   (1) an extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by at least twenty-one (21) days and not less than ten (10) clear business days written notice. All other extraordinary general meetings may be called by at least fourteen (14) days and not less than ten (10) clear business days written notice.

   (2) any extraordinary general meeting may be called by shorter notice than that specified in subsection (1) if it is so agreed in writing by all the shareholders entitled to attend and vote thereat.

## Shareholders' Rights *(continued)*

**Procedures to put forward proposals at general meetings**

1. Shareholders may, by written requisition to the Company, put forward a resolution that may properly be moved and is intended to be moved at an annual general meeting provided that the requests are made by such shareholders representing at least two point five per cent (2.5%) of the total voting rights of all the shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate or by at least fifty (50) shareholders having that same right.

2. The requisition, identifying the resolution of which notice is to be given, must be signed and be deposited at the registered office of the Company for the attention of the company secretary not later than six (6) weeks before the annual general meeting to which the requests relate; or if later, before the time at which notice of that meeting is given. The Company shall circulate the resolution at its own expense to all shareholders.

3. Other than a retiring director and those persons recommended by the directors for election, a shareholder may deposit a notice in writing of the intention to propose a person for election to the office of director at any general meeting and procure that a notice in writing by that person of his or her willingness to be elected, accompanied by the biographical details as required by Rule 13.51(2) of the Listing Rules, be deposited at the registered office of the Company provided that the minimum length of the period, during which such notices are given, shall be seven (7) days, commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than seven (7) days prior to the date of such meeting.

   *Note:* In order to avoid the need to adjourn the meeting of the election pursuant to the Listing Rules, the notices should be submitted to the Company as early as practicable, preferably no later than fourteen (14) business days before the date of the meeting so that shareholders are given at least ten (10) business days to consider the proposal.

   The Company's website has a dedicated section on the above procedures to propose a person for election as a director which shareholders can visit.

Any request referred to in this section can also be addressed to the Company via investors@crossharbour.com.hk.

Shareholders may send enquiries to the board via 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong or investors@crossharbour.com.hk. Our company secretarial or investor relations personnel will, where appropriate, forward your enquiries to the board or the relevant board committee.

For enquiries concerning your shareholding(s) and related matters, please call or visit our registrar & transfer office via the contact details on page 1.

## Investor Relations

No significant changes to the Company's constitutional documents were made during the year.

## Conclusion

In the opinion of the board, good governance was maintained throughout the accounting period covered by the annual report. The Company shall keep its governance practices under review to ensure that they are in step with the latest developments.

On behalf of the board

**Yeung Hin Chung, John**
*Managing Director*

Hong Kong, 25 March 2014

# Report of the Directors

The directors submit their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013.

## Principal Activities

The principal activity of the Company is investment holding while the principal activities of its subsidiaries are set out in note 12 to the financial statements on pages 81 to 83.

During the year, more than 90% of the Group's operations in terms of both turnover and operating profit were carried out in Hong Kong. An analysis of the Group's turnover for the year is set out in note 2(a) to the financial statements on page 69.

## Results and Appropriations

The results of the Group and appropriations of profit for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss on page 39 and note 21(b) to the financial statements on page 96 respectively.

The first, second and third quarterly interim dividends each of HK$0.06 per share (2012: HK$0.06 per share) were paid on 12 July 2013, 19 September 2013 and 30 December 2013 respectively. The directors recommend the payment of a final dividend of HK$0.12 per share (2012: HK$0.12 per share) which, together with the interim dividends, make total dividends for the year ended 31 December 2013 of HK$0.30 per share (2012: HK$0.30 per share), representing a total distribution of approximately HK$111.8 million (2012: HK$111.8 million) for the year.

Dividend warrants in respect of the proposed final dividend will be despatched on 18 June 2014 to shareholders registered on 11 June 2014 (subject to shareholder approval). The register of members and transfer books of the Company will be closed from 9 June 2014 to 11 June 2014, both days inclusive, in order to determine the proposed dividend entitlements.

## Donations

Donations made by the Group during the year amounted to HK$21,200 (2012: HK$688,000).

## Fixed Assets

Movements in fixed assets during the year are set out in note 11 to the financial statements on pages 79 and 80.

## Number of Issued Shares

Movements in the number of issued shares of the Company during the year are set out in note 21(c) to the financial statements on page 96 and 97.

## Reserves

Movements in reserves during the year are set out in the consolidated statement of changes in equity on page 44.

## Five-year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 109.

## Major Suppliers and Customers

During the year, less than 30% of the Group's purchases (not being purchases of items of a capital nature) were attributable to the Group's five largest suppliers, whereas less than 30% of the Group's turnover were attributable to the Group's five largest customers (being the five largest customers of The Hong Kong School of Motoring Limited, a 70%-owned subsidiary). None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's number of shares in issue) had an interest in those major suppliers and customers.

## Directors

The directors serving for the year and up to the date of this report are listed on page 1.

Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven cease to hold office at the close of the forthcoming annual general meeting according to their terms of office. They, together with Mr. Yeung Hin Chung, John, also retire from office by rotation at the forthcoming annual general meeting in accordance with article 82 of the articles of association of the Company. All of the above retiring directors, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## Confirmation of Independence

The Company has received from each individual independent non-executive director an annual confirmation of his independence and still considers them to be independent.

## Directors' Information / Significant Commitments

The Company has not been advised by its directors of any change in the information required to be disclosed pursuant to rule 13.51(2) of the rules governing the listing of securities (the "Listing Rules") made by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since its last update to shareholders nor in any of their significant commitments for the purpose of A.6.6 of the Corporate Governance Code set out within Appendix 14 to the Listing Rules.

## Directors' Interests in Contracts

No contract of significance to which the Company or any of its subsidiaries was a party in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

The register kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") shows the following interest of a director in the shares of the Company as at 31 December 2013:

| Name | Capacity | No. of shares | % of number of shares in issue |
|---|---|---|---|
| Cheung Chung Kiu | Interest of controlled corporation | 155,254,432 | 41.66% |

*Note:* The above interest of Mr. Cheung Chung Kiu ("Mr. C.K. Cheung") represents a long position. Mr. C.K. Cheung was deemed to be interested in the shares by virtue of his indirect interest in Honway Holdings Limited ("Honway") which owned those shares. Honway was a wholly owned subsidiary of Y. T. Investment Holdings Limited ("Y. T. Investment") which in turn was a wholly owned subsidiary of Y. T. Realty Group Limited ("Y. T. Realty"). Yugang International (B.V.I.) Limited ("Yugang BVI"), through its wholly owned subsidiary, Funrise Limited ("Funrise"), owned 34.14% of the number of shares of Y. T. Realty in issue. Yugang BVI was a wholly owned subsidiary of Yugang International Limited ("Yugang International"). Mr. C.K. Cheung, Timmex Investment Limited (a company wholly owned by Mr. C.K. Cheung) and Chongqing Industrial Limited ("Chongqing Industrial") owned 0.57%, 9.16% and 34.33% of the number of shares of Yugang International in issue respectively. Chongqing Industrial was owned as to 35% by Mr. C.K. Cheung, as to 30% by Prize Winner Limited (a company owned by Mr. C.K. Cheung and his associates), as to 30% by Peking Palace Limited ("Peking Palace") and as to 5% by Miraculous Services Limited ("Miraculous Services"). Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the trustee of which was Palin Holdings Limited ("Palin Holdings") and the objects of which included Mr. C.K. Cheung and his family.

Save as disclosed herein, as at 31 December 2013, there was no interest recorded in the register kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Code for Securities Transactions by Directors of the Company.

## Share Option Scheme

The Company's existing share option scheme was adopted on 29 April 2005, the details of which are given in the circular dated 13 April 2005 (the "Scheme Circular").

The following is a summary of the scheme.

| | | | |
|---|---|---|---|
| (1) | Purpose | : | To provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to, the participants and for such other purposes as the board may approve from time to time |
| (2) | Participants | : | Any director (or any person proposed to be appointed as such, whether executive or non-executive), officer and employee (whether full-time or part-time) of each member of the Eligible Group (as defined in the Scheme Circular); any business consultant, professional and other advisers (in the areas of legal, technical, financial or corporate managerial) (including any executive, officer and employee of such business consultant, professional and other advisers) to each member of the Eligible Group (or persons proposed to be appointed as such) who has rendered service or will render service to the Group, as absolutely determined by the board |
| (3) | Total number of shares available for issue (% of number of shares in issue as at 25 March 2014) | : | 37,268,820 shares (10%) |
| (4) | Maximum entitlement of each participant | : | 1% of the total number of shares in issue in any 12-month period |
| (5) | Period within which the shares must be taken up under an option | : | To be determined by the board at its absolute discretion, such period to expire not later than ten years from the date of grant of the option |
| (6) | Minimum period for which an option must be held before exercise | : | To be determined by the board at its absolute discretion |
| (7) | Amount payable on application or acceptance of the option | : | HK$1.00 |

## Share Option Scheme *(continued)*

| | | | |
|---|---|---|---|
| (8) | Basis of determining the exercise price | : | The exercise price shall be a price solely determined by the board, such price being no less than the highest of:<br>(a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date;<br>(b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and<br>(c) the nominal value of a share |
| (9) | Remaining life | : | Until 28 April 2015 |

No option lapsed and no option was granted, exercised or cancelled during the year. Nor were there any outstanding options at the beginning and at the end of the year.

## Directors' Rights to Acquire Securities

Apart from the scheme noted above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements whose objects are, or one of whose objects is, to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Interests and Short Positions of Shareholders

As at 31 December 2013, so far as is known to the directors of the Company, the following persons, other than the directors, had, or were deemed to have, interests in the shares of the Company as recorded in the register kept under section 336 of the SFO:

| Name | Capacity | No. of shares | % of number of shares in issue |
|---|---|---|---|
| Palin Holdings | Interest of controlled corporation | 155,254,432 | 41.66% |
| Chongqing Industrial | Interest of controlled corporation | 155,254,432 | 41.66% |
| Yugang International | Interest of controlled corporation | 155,254,432 | 41.66% |
| Yugang BVI | Interest of controlled corporation | 155,254,432 | 41.66% |
| Funrise | Interest of controlled corporation | 155,254,432 | 41.66% |
| Y. T. Realty | Interest of controlled corporation | 155,254,432 | 41.66% |
| Y. T. Investment | Interest of controlled corporation | 155,254,432 | 41.66% |
| Honway | Beneficial owner | 155,254,432 | 41.66% |

*Note:* Each parcel of 155,254,432 shares represents a long position and Honway's interest in the Company (which is also duplicated in Mr. C.K. Cheung's interest in the Company's shares). Palin Holdings, Chongqing Industrial, Yugang International, Yugang BVI, Funrise, Y. T. Realty and Y. T. Investment were deemed to be interested in those shares by virtue of their direct/indirect interest in Honway.

Save as disclosed herein, there was no person known to the directors of the Company, who, as at 31 December 2013, had, or was deemed to have, any interest or short position in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO, other than as disclosed on page 31.

## Retirement Schemes

The Group operates a defined contribution retirement scheme, and two Mandatory Provident Fund schemes (the "MPF Schemes"). Particulars of those schemes are set out below.

### (I) Pension Scheme

*(i) Nature of the scheme*

The principal scheme operated by the Group is a defined contribution retirement scheme for the employees of The Hong Kong School of Motoring Limited.

*(ii) Funding of the scheme*

The benefits of the scheme were funded in 2013 by a 5% contribution by employees and a 5% contribution by The Hong Kong School of Motoring Limited based on the annual salaries of employees. The contributions excluded the costs of administration and term life assurance.

*(iii) Costs of the scheme*

Total costs of the scheme, amounting to HK$2.0 million, were charged to the Group's statement of profit or loss for the year under review. The required contribution rate was calculated as 5% of the total salaries payable during the year.

*(iv) Forfeited contributions of the scheme*

There is HK$0.84 of forfeited contributions that may be used to reduce the existing level of contributions under the scheme as at 31 December 2013 and a total amount of HK$15.46 was utilised during the year.

### (II) MPF Schemes

As from 1 December 2000, the Group has operated two MPF Schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement scheme. The MPF Schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF Schemes, the employer and its employees are each required to make contributions to the schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000. The total amount of contributions to the MPF Schemes charged to the Group's statement of profit or loss for the year was HK$2.4 million.

## Management Discussion and Analysis

Further information of the Group which is required to be disclosed pursuant to the Listing Rules is set out on pages 11 and 12.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company maintained throughout the year the prescribed amount of public float under the Listing Rules.

## Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company during the year.

## External Auditor

The financial statements for the year have been audited by KPMG, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as the Company's external auditor will be proposed at the forthcoming annual general meeting.

On behalf of the board

**Cheung Chung Kiu**
*Chairman*

Hong Kong, 25 March 2014

# Independent Auditor's Report

## Independent auditor's report to the shareholders of The Cross-Harbour (Holdings) Limited

*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of The Cross-Harbour (Holdings) Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 39 to 108, which comprise the consolidated and Company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2014

# Consolidated Statement of Profit or Loss

*For the year ended 31 December 2013*

*(Expressed in Hong Kong dollars)*

| | *Note* | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Turnover** | 2 | **290,480** | 283,941 |
| Other revenue | 3 | **384** | 765 |
| Other net losses | 3 | **(41,025)** | (10,865) |
| Direct costs and operating expenses | | **(116,228)** | (115,779) |
| Selling and marketing expenses | | **(14,153)** | (19,347) |
| Administrative and corporate expenses | | **(78,253)** | (76,215) |
| **Profit from operations** | | **41,205** | 62,500 |
| Finance costs | 4(a) | **(123)** | (1,517) |
| Share of profits less losses of associates | 13 | **433,782** | 395,138 |
| Share of profits of a joint venture | 14 | **14,711** | 12,371 |
| **Profit before taxation** | 4 | **489,575** | 468,492 |
| Income tax | 5(a) | **(13,389)** | (23,981) |
| **Profit for the year** | | **476,186** | 444,511 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **440,178** | 403,825 |
| Non-controlling interests | | **36,008** | 40,686 |
| **Profit for the year** | | **476,186** | 444,511 |
| **Earnings per share** | 10 | | |
| Basic and diluted | | **$1.18** | $1.08 |

The notes on pages 48 to 108 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 21(b).

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2013*

*(Expressed in Hong Kong dollars)*

| | *Note* | **2013** | 2012 |
|---|---|---|---|
| | | **$'000** | $'000 |
| **Profit for the year** | | **476,186** | 444,511 |
| **Other comprehensive income for the year (after tax and reclassification adjustments)** | 9 | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| – Available-for-sale securities: net movement in the investment revaluation reserve | 9(a) | **(6,851)** | 116,093 |
| – Share of other comprehensive income of an associate and a joint venture: | | | |
| – Cash flow hedge: net movement in the hedging reserve | 9(a) | **—** | 1,706 |
| – Exchange differences on translation of financial statements of overseas subsidiary and joint venture | 9(a) | **26** | — |
| | | **(6,825)** | 117,799 |
| **Total comprehensive income for the year** | | **469,361** | 562,310 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **433,345** | 521,624 |
| Non-controlling interests | | **36,016** | 40,686 |
| **Total comprehensive income for the year** | | **469,361** | 562,310 |

The notes on pages 48 to 108 form part of these financial statements.

# Consolidated Statement of Financial Position

*At 31 December 2013*

*(Expressed in Hong Kong dollars)*

| | | 2013 | | 2012 | |
|---|---|---|---|---|---|
| | *Note* | $'000 | $'000 | $'000 | $'000 |
| **Non-current assets** | | | | | |
| Fixed assets | 11(a) | | | | |
| – Property, plant and equipment | | | 126,734 | | 143,525 |
| – Interest in leasehold land held for own use | | | 24,432 | | 25,161 |
| | | | 151,166 | | 168,686 |
| Interest in associates | 13 | | 2,227,405 | | 2,282,586 |
| Interest in a joint venture | 14 | | 56,434 | | 46,697 |
| Available-for-sale securities | 15 | | 459,867 | | 508,284 |
| Deferred tax assets | 20(b) | | 2,750 | | 2,830 |
| | | | 2,897,622 | | 3,009,083 |
| **Current assets** | | | | | |
| Trading securities | 16 | 180,098 | | 172,258 | |
| Inventories | | 1,026 | | 1,179 | |
| Trade and other receivables | 17 | 21,940 | | 16,363 | |
| Taxation recoverable | 20(a) | 2,108 | | — | |
| Bank deposits and cash | 18 | 1,174,732 | | 707,067 | |
| | | 1,379,904 | | 896,867 | |
| **Current liabilities** | | | | | |
| Trade and other payables | 19 | 53,374 | | 62,215 | |
| Course fees received in advance | | 156,014 | | 116,987 | |
| Taxation payable | 20(a) | 13,515 | | 18,038 | |
| Interim dividends payable | | 2,240 | | 2,240 | |
| | | 225,143 | | 199,480 | |
| **Net current assets** | | | 1,154,761 | | 697,387 |

# Consolidated Statement of Financial Position

*At 31 December 2013*

*(Expressed in Hong Kong dollars)*

| | | 2013 | | 2012 | |
|---|---|---|---|---|---|
| | *Note* | $'000 | $'000 | $'000 | $'000 |
| **Total assets less current liabilities** | | | 4,052,383 | | 3,706,470 |
| **Non-current liabilities** | | | | | |
| Loan from an associate | 13 | | 205,518 | | 184,228 |
| Deferred tax liabilities | 20(b) | | 332 | | 279 |
| | | | 205,850 | | 184,507 |
| **NET ASSETS** | | | 3,846,533 | | 3,521,963 |
| **CAPITAL AND RESERVES** | | | | | |
| Share capital | 21(c) | | 372,688 | | 372,688 |
| Reserves | | | 3,370,527 | | 3,048,988 |
| **Total equity attributable to equity shareholders of the Company** | | | 3,743,215 | | 3,421,676 |
| **Non-controlling interests** | | | 103,318 | | 100,287 |
| **TOTAL EQUITY** | | | 3,846,533 | | 3,521,963 |

Approved and authorised for issue by the board of directors on 25 March 2014.

**Yeung Hin Chung, John**
*Director*

**Yuen Wing Shing**
*Director*

The notes on pages 48 to 108 form part of these financial statements.

# Company Statement of Financial Position

*At 31 December 2013*

*(Expressed in Hong Kong dollars)*

| | Note | 2013 $'000 | 2013 $'000 | 2012 $'000 | 2012 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | | | | | |
| – Property, plant and equipment | 11(b) | | 70 | | 62 |
| Interest in subsidiaries | 12 | | 2,305,662 | | 2,378,734 |
| Interest in associates | 13 | | 150,246 | | 205,461 |
| | | | 2,455,978 | | 2,584,257 |
| **Current assets** | | | | | |
| Trade and other receivables | 17 | 684 | | 337 | |
| Cash and cash equivalents | 18 | 634,944 | | 208,000 | |
| | | 635,628 | | 208,337 | |
| **Current liabilities** | | | | | |
| Trade and other payables | 19 | 26,963 | | 32,631 | |
| Interim dividends payable | | 2,240 | | 2,240 | |
| | | 29,203 | | 34,871 | |
| **Net current assets** | | | 606,425 | | 173,466 |
| **Total assets less current liabilities** | | | 3,062,403 | | 2,757,723 |
| **Non-current liability** | | | | | |
| Amounts due to subsidiaries | 12 | | 505,580 | | 536,533 |
| **NET ASSETS** | | | 2,556,823 | | 2,221,190 |
| **CAPITAL AND RESERVES** | 21(a) | | | | |
| Share capital | | | 372,688 | | 372,688 |
| Reserves | | | 2,184,135 | | 1,848,502 |
| **TOTAL EQUITY** | | | 2,556,823 | | 2,221,190 |

Approved and authorised for issue by the board of directors on 25 March 2014.

**Yeung Hin Chung, John**
*Director*

**Yuen Wing Shing**
*Director*

The notes on pages 48 to 108 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2013*

*(Expressed in Hong Kong dollars)*

| | | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Investment revaluation reserve $'000 | Hedging reserve $'000 | Exchange reserve $'000 | Retained profits $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
| Balance at 1 January 2012 | | 372,688 | 1,256,773 | 1,984 | (55,962) | (1,706) | 236 | 1,437,845 | 3,011,858 | 78,846 | 3,090,704 |
| Changes in equity for 2012: | | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | 403,825 | 403,825 | 40,686 | 444,511 |
| Other comprehensive income | 9 | – | – | – | 116,093 | 1,706 | – | – | 117,799 | – | 117,799 |
| Total comprehensive income | | – | – | – | 116,093 | 1,706 | – | 403,825 | 521,624 | 40,686 | 562,310 |
| Dividends approved in respect of the previous year | 21(b) | – | – | – | – | – | – | (44,722) | (44,722) | – | (44,722) |
| Non-controlling interest's share of dividends | | – | – | – | – | – | – | – | – | (19,245) | (19,245) |
| Dividends declared in respect of the current year | 21(b) | – | – | – | – | – | – | (67,084) | (67,084) | – | (67,084) |
| Balance at 31 December 2012 | | 372,688 | 1,256,773 | 1,984 | 60,131 | – | 236 | 1,729,864 | 3,421,676 | 100,287 | 3,521,963 |
| **Balance at 1 January 2013** | | **372,688** | **1,256,773** | **1,984** | **60,131** | **–** | **236** | **1,729,864** | **3,421,676** | **100,287** | **3,521,963** |
| **Changes in equity for 2013:** | | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | 440,178 | 440,178 | 36,008 | 476,186 |
| Other comprehensive income | 9 | – | – | – | (6,851) | – | 18 | – | (6,833) | 8 | (6,825) |
| Total comprehensive income | | – | – | – | (6,851) | – | 18 | 440,178 | 433,345 | 36,016 | 469,361 |
| Dividends approved in respect of the previous year | 21(b) | – | – | – | – | – | – | (44,722) | (44,722) | – | (44,722) |
| Non-controlling interest's share of dividends | | – | – | – | – | – | – | – | – | (32,985) | (32,985) |
| Dividends declared in respect of the current year | 21(b) | – | – | – | – | – | – | (67,084) | (67,084) | – | (67,084) |
| **Balance at 31 December 2013** | | **372,688** | **1,256,773** | **1,984** | **53,280** | **–** | **254** | **2,058,236** | **3,743,215** | **103,318** | **3,846,533** |

The notes on pages 48 to 108 form part of these financial statements.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2013*

*(Expressed in Hong Kong dollars)*

| | Note | 2013 $'000 | 2013 $'000 | 2012 $'000 | 2012 $'000 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Profit before taxation | | 489,575 | | 468,492 | |
| Adjustments for: | | | | | |
| Dividend income from listed investments | 4(b) | (2,377) | | (2,356) | |
| Depreciation | 4(b) | 20,581 | | 18,400 | |
| Finance costs | 4(a) | 123 | | 1,517 | |
| Interest income | | (24,003) | | (28,102) | |
| Share of profits less losses of associates | | (433,782) | | (395,138) | |
| Share of profits of a joint venture | | (14,711) | | (12,371) | |
| Net gains on sale of fixed assets | 3 | (703) | | (38,171) | |
| Net realised and unrealised gains on trading securities | 3 | (9,391) | | (21,866) | |
| Reclassification from equity on disposal of available-for-sale securities | 3 | — | | (1,411) | |
| Reclassification from equity on impairment of available-for-sale securities | 3 | 51,119 | | 72,313 | |
| **Operating profit before changes in working capital** | | 76,431 | | 61,307 | |
| Decrease/(increase) in inventories | | 153 | | (156) | |
| (Increase)/decrease in trade and other receivables | | (5,562) | | 614 | |
| (Decrease)/increase in trade and other payables | | (8,812) | | 18,752 | |
| Increase in course fees received in advance | | 39,027 | | 13,167 | |
| **Cash generated from operations** | | 101,237 | | 93,684 | |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2013*

*(Expressed in Hong Kong dollars)*

| | | 2013 | | 2012 | |
|---|---|---|---|---|---|
| | *Note* | $'000 | $'000 | $'000 | $'000 |
| Tax paid | | | | | |
| – Hong Kong Profits Tax paid | | (19,887) | | (16,227) | |
| **Net cash generated from operating activities** | | | 81,350 | | 77,457 |
| **Investing activities** | | | | | |
| (Increase)/decrease in deposits with banks with maturity over three months | | (81,089) | | 203,382 | |
| Payments for purchase of fixed assets | | (3,105) | | (126,539) | |
| Proceeds from sale of fixed assets | | 718 | | 134,591 | |
| Payments for purchase of available-for-sale securities | | (9,553) | | (175,289) | |
| Proceeds from sale of available-for-sale securities | | — | | 38,758 | |
| Proceeds from sale of trading securities | | 1,551 | | 85,021 | |
| Repayment of loan by an associate | | 75,000 | | — | |
| Repayment of loan by a joint venture | | — | | 10,000 | |
| Proceeds from liquidation of an associate | | — | | 5,625 | |
| Additional loans from an associate | | 21,290 | | 22,158 | |
| Dividends received from listed investments | | 2,810 | | 1,923 | |
| Dividends received from associates | | 414,347 | | 83,861 | |
| Dividends received from a joint venture | | 5,000 | | 5,000 | |
| Interest received | | 23,171 | | 27,197 | |
| **Net cash generated from investing activities** | | | 450,140 | | 315,688 |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2013*

*(Expressed in Hong Kong dollars)*

| | | 2013 | | 2012 | |
|---|---|---|---|---|---|
| | *Note* | $'000 | $'000 | $'000 | $'000 |
| **Financing activities** | | | | | |
| Repayment of bank loans | | — | | (156,250) | |
| Other borrowing costs | | (123) | | (1,694) | |
| Dividends paid | | (111,806) | | (111,862) | |
| Dividends paid to non-controlling interests | | (32,985) | | (19,245) | |
| **Net cash used in financing activities** | | | (144,914) | | (289,051) |
| **Net increase in cash and cash equivalents** | | | 386,576 | | 104,094 |
| **Cash and cash equivalents at 1 January** | | | 676,461 | | 572,367 |
| **Cash and cash equivalents at 31 December** | 18 | | 1,063,037 | | 676,461 |

The notes on pages 48 to 108 form part of these financial statements.

## 1 Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as 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. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

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

The consolidated financial statements for the year ended 31 December 2013 comprise the Group and its interest in associates and a joint venture.

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 fair value as explained in the accounting policies set out below:

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

— derivative financial instruments (see note 1(h)).

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

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

## 1 Significant accounting policies *(continued)*

### (c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

— HKFRS 10, *Consolidated financial statements*

— HKFRS 11, *Joint arrangements*

— HKFRS 12, *Disclosure of interests in other entities*

— HKFRS 13, *Fair value measurement*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 27).

Impacts of the adoption of new or amended HKFRSs are discussed below:

**Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income***

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly.

**HKFRS 10, *Consolidated financial statements***

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

## 1 Significant accounting policies *(continued)*

### (c) Changes in accounting policies *(continued)*

**HKFRS 11, *Joint arrangements***

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of HKFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

**HKFRS 12*, Disclosure of interests in other entities***

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 12, 13 and 14.

**HKFRS 13, *Fair value measurement***

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 22. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

## 1 Significant accounting policies *(continued)*

### (d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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, transactions and cash flows 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 1(o).

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

## 1 Significant accounting policies *(continued)*

### (d) Subsidiaries and non-controlling interests *(continued)*

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (e) Associates and joint ventures

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 joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

## 1 Significant accounting policies *(continued)*

### (e) Associates and joint ventures *(continued)*

When the Group's share of losses exceeds its interest in the associate or the joint venture, 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 investee. For this purpose, the Group's interest 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 joint venture.

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

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 1(l)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

The significant accounting policies adopted by the associates and the joint venture are consistent with those of the Group.

In accordance with HK(IFRIC)-12, *Service concession arrangements*, the franchises of the associates, Western Harbour Tunnel Company Limited and Tate's Cairn Tunnel Company Limited, with the government constitute service concession arrangements and the infrastructure costs are classified as intangible assets and stated at cost less accumulated amortisation and impairment losses in the financial statements of the associates.

## 1 Significant accounting policies *(continued)*

### (f) Goodwill

Goodwill in relation to the Group's interest in associates represents the excess of

*(i)* the aggregate of the fair value of the consideration transferred and the fair value of the Group's previously held equity interest in the acquiree; over

*(ii)* the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

The carrying amount of goodwill is included in the carrying amount of the interest in associates and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 1(l)).

On disposal of an associate, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

### (g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses 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 are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 1(t)(iii), (iv) and (v).

Dated debt securities that the Group and/or the Company has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(l)).

## 1 Significant accounting policies *(continued)*

### (g) Other investments in debt and equity securities *(continued)*

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(l)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(t)(iii) and (iv), and note 1(t)(v) respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

### (h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in 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(i)).

## 1 Significant accounting policies *(continued)*

### (i) 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 gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. 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 reclassified from equity to be 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 reclassified from equity to 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 reclassified from equity to 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 until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

## 1 Significant accounting policies *(continued)*

### (j) Fixed assets

The following items of fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 1(l)):

— Land classified as being held under finance leases and buildings thereon (see note 1(k));

— Buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 1(k)); and

— other items of plant and equipment.

The cost of self-constructed items of fixed assets 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 fixed assets 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 fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

| | |
|---|---|
| — 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 fixed assets 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)*

### (k) 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*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(j)); and

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

#### *(ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

## 1 Significant accounting policies *(continued)*

### (k) Leased assets *(continued)*

*(iii) 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.

### (l) Impairment of assets

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

## 1 Significant accounting policies *(continued)*

### (l) Impairment of assets *(continued)*

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(l)(ii).

— 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 carried at cost are not reversed.

— For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

## 1 Significant accounting policies *(continued)*

### (l) Impairment of assets *(continued)*

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

If any such evidence exists, any impairment loss is determined and recognised as follows: *(continued)*

— For available-for-sale securities, the cumulative loss that has been recognised in the investment revaluation reserve is reclassified to 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 in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 1 Significant accounting policies *(continued)*

### (l) Impairment of assets *(continued)*

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

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets; and

— investments in subsidiaries and associates in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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 the 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 if 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 to reduce the carrying amount of the 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 of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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)*

### (l) 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(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of 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. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

### (m) Inventories

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

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

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

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

## 1 Significant accounting policies *(continued)*

### (n) Trade and other receivables

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

### (o) Trade and other payables

Trade and other payables are initially recognised at fair value and 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.

### (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.

*(ii)* The Group 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 $25,000. Contributions to the scheme vest immediately.

## 1 Significant accounting policies *(continued)*

### (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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, 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.

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.

## 1 Significant accounting policies *(continued)*

### (r) Income tax *(continued)*

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

### (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.

## 1 Significant accounting policies *(continued)*

### (t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 profit or loss 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 use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

*(iii)* Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

*(iv)* Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

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

### (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 end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

## 1 Significant accounting policies *(continued)*

### (v) Borrowing costs

Borrowing costs that are 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

### (w) Related parties

*(i)* A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

*(ii)* An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

## 1 Significant accounting policies *(continued)*

### (x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 2 Turnover and segment reporting

### (a) Turnover

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 12. Given below is an analysis of the turnover of the Group:

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| **Principal activities** | | |
| Motoring school operations | **245,991** | 236,185 |
| Investment and other activities | **44,489** | 47,756 |
| | **290,480** | 283,941 |

## 2 Turnover and segment reporting *(continued)*

### (b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Motoring school operations: this segment invests in subsidiaries which operate three driver training centres.

— Tunnel operations: this segment invests in associates which operate the Western Harbour Tunnel and Tate's Cairn Tunnel franchises.

— Electronic toll operations: this segment invests in a joint venture which operates an electronic toll collection system and provision of telematics services.

— Treasury: this segment operates investing and financing activities and receives dividend income and interest income.

— Others: this segment mainly operates leasing of fixed assets.

*(i) Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current and non-current assets with the exception of other corporate assets. Segment liabilities include trade creditors attributable to the sales activities and the accruals of the individual segments and dividend payable and taxation payable managed directly by the segments with the exception of other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

## 2 Turnover and segment reporting *(continued)*

### (b) Segment reporting *(continued)*

#### *(i) Segment results, assets and liabilities (continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

| | Motoring school operations | | Tunnel operations | | Electronic toll operations | | Treasury | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Revenue from external customers | 245,991 | 236,185 | 2,500 | 2,500 | 13,800 | 13,800 | 2,570 | 2,843 | 2,000 | 1,276 | 266,861 | 256,604 |
| Interest revenue | 3,284 | 3,486 | – | – | 1 | 1 | 20,334 | 23,850 | – | – | 23,619 | 27,337 |
| Inter-segment revenue | – | – | – | – | – | – | – | – | 12,867 | 11,155 | 12,867 | 11,155 |
| **Reportable segment revenue** | 249,275 | 239,671 | 2,500 | 2,500 | 13,801 | 13,801 | 22,904 | 26,693 | 14,867 | 12,431 | 303,347 | 295,096 |
| **Reportable segment profit before tax** | 113,156 | 134,841 | 436,282 | 397,638 | 28,287 | 25,959 | (17,868) | (23,801) | (9,878) | (7,759) | 549,979 | 526,878 |
| Interest income from bank deposits | 3,284 | 3,486 | – | – | 1 | 1 | 4,825 | 4,855 | – | – | 8,110 | 8,342 |
| Finance costs | – | – | – | – | – | – | (123) | (1,517) | – | – | (123) | (1,517) |
| Depreciation | (3,671) | (4,409) | – | – | – | – | – | – | (16,910) | (13,991) | (20,581) | (18,400) |
| Share of profits less losses of associates | – | – | 433,782 | 395,138 | – | – | – | – | – | – | 433,782 | 395,138 |
| Share of profits of a joint venture | – | – | – | – | 14,711 | 12,371 | – | – | – | – | 14,711 | 12,371 |
| Income tax | (18,183) | (21,946) | – | – | (2,031) | (2,035) | 6,824 | – | 1 | – | (13,389) | (23,981) |
| **Reportable segment assets** | 468,339 | 419,471 | 2,227,405 | 2,282,586 | 71,772 | 72,044 | 1,397,709 | 1,004,041 | 111,875 | 127,404 | 4,277,100 | 3,905,546 |
| Interest in a joint venture | – | – | – | – | 56,434 | 46,697 | – | – | – | – | 56,434 | 46,697 |
| Interest in associates | – | – | 2,227,405 | 2,282,586 | – | – | – | – | – | – | 2,227,405 | 2,282,586 |
| Additions to non-current segment assets | 1,695 | 2,197 | – | – | – | – | – | – | 1,381 | 124,405 | 3,076 | 126,602 |
| **Reportable segment liabilities** | 194,517 | 156,022 | 205,518 | 184,228 | 1,193 | 1,204 | 2,240 | 9,054 | 215 | 397 | 403,683 | 350,905 |

## 2 Turnover and segment reporting *(continued)*

### (b) Segment reporting *(continued)*

*(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities*

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | 303,347 | 295,096 |
| Elimination of inter-segment revenue | (12,867) | (11,155) |
| Consolidated turnover | 290,480 | 283,941 |
| **Profit** | | |
| Reportable segment profit derived from Group's external customers | 549,979 | 526,878 |
| Other revenue | 384 | 765 |
| Unallocated head office and corporate income and expenses | (60,788) | (59,151) |
| Consolidated profit before taxation | 489,575 | 468,492 |
| **Assets** | | |
| Reportable segment assets | 4,277,100 | 3,905,546 |
| Unallocated head office and corporate assets | 426 | 404 |
| Consolidated total assets | 4,277,526 | 3,905,950 |
| **Liabilities** | | |
| Reportable segment liabilities | 403,683 | 350,905 |
| Unallocated head office and corporate liabilities | 27,310 | 33,082 |
| Consolidated total liabilities | 430,993 | 383,987 |

*(iii) Geographical information*

No additional information has been disclosed in respect of the Group's geographical information as the Group operates substantially in one geographical location which is Hong Kong.

## 3 Other revenue and other net losses

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| **Other revenue** | | |
| Interest income from loan to an associate | 384 | 765 |
| **Other net losses** | | |
| Net realised and unrealised gains on trading securities | 9,391 | 21,866 |
| Available-for-sale securities: reclassified from equity (note 9(b)) | | |
| – On disposal | — | 1,411 |
| – On impairment | (51,119) | (72,313) |
| Net gains on sale of fixed assets | 703 | 38,171 |
| | (41,025) | (10,865) |

## 4 Profit before taxation

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| **Profit before taxation is arrived at after charging:** | | |
| (a) Finance costs | | |
| Interest on bank loans wholly repayable within five years | — | 997 |
| Other borrowing costs | 123 | 520 |
| | 123 | 1,517 |
| (b) Other items | | |
| Depreciation | 20,581 | 18,400 |
| Auditor's remuneration | | |
| – statutory audit services | 2,012 | 1,939 |
| – other services | 358 | 565 |
| Operating lease charges - land and buildings | 8,810 | 14,292 |
| Contributions to defined contribution retirement scheme | 4,489 | 4,350 |
| Salaries, wages and other benefits (excluding directors' emoluments) | 105,587 | 105,747 |
| Cost of inventories consumed | 7,538 | 7,228 |

## 4 Profit before taxation *(continued)*

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| **and after crediting:** | | |
| Dividend income from listed investments | **2,377** | 2,356 |
| Interest income from listed investments | **15,509** | 18,995 |
| Other interest income | **8,110** | 8,342 |
| Net foreign exchange gains | **1,250** | 750 |

## 5 Income tax in the consolidated statement of profit or loss

### (a) Taxation in the consolidated statement of profit or loss represents:

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| **Current tax - Hong Kong Profits Tax** | | |
| Provision for the year | **20,200** | 24,065 |
| Over-provision in respect of prior years | **(6,944)** | (62) |
| | **13,256** | 24,003 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **133** | (22) |
| | **13,389** | 23,981 |

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year, taking into account a one-off reduction of 75% of the tax payable for the year of assessment 2012-13 subject to a ceiling of $10,000 allowed by the Hong Kong SAR Government for each business.

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

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| Profit before taxation | **489,575** | 468,492 |
| Notional tax on profit before tax calculated at 16.5% (2012: 16.5%) | **80,780** | 77,301 |
| Tax effect of non-deductible expenses | **18,951** | 22,036 |
| Tax effect on non-taxable income | **(83,065)** | (78,313) |
| Tax effect of unused tax losses not recognised | **3,667** | 3,019 |
| Over-provision in prior years | **(6,944)** | (62) |
| Actual tax expense | **13,389** | 23,981 |

## 6 Directors' remuneration

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

| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
|---|---|---|---|---|---|
| **2013** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Executive directors** | | | | | |
| Cheung Chung Kiu | — | — | 8,500 | 1 | 8,501 |
| Yeung Hin Chung, John | — | 4,140 | 4,000 | 15 | 8,155 |
| Yuen Wing Shing | — | — | 2,000 | 1 | 2,001 |
| Wong Chi Keung | — | — | 1,000 | 1 | 1,001 |
| Leung Wai Fai | — | — | 1,900 | 1 | 1,901 |
| Tung Wai Lan, Iris | — | — | 1,500 | 1 | 1,501 |
| **Independent non-executive directors** | | | | | |
| Luk Yu King, James | 350 | — | — | — | 350 |
| Ng Kwok Fu | 250 | — | — | — | 250 |
| Leung Yu Ming, Steven | 250 | — | — | — | 250 |
| | 850 | 4,140 | 18,900 | 20 | 23,910 |
| 2012 | | | | | |
| **Executive directors** | | | | | |
| Cheung Chung Kiu | — | — | 6,500 | 1 | 6,501 |
| Yeung Hin Chung, John | — | 3,875 | 3,800 | 14 | 7,689 |
| Yuen Wing Shing | — | — | 1,550 | 1 | 1,551 |
| Wong Chi Keung | — | — | 800 | 1 | 801 |
| Leung Wai Fai | — | — | 1,500 | 1 | 1,501 |
| Tung Wai Lan, Iris | — | — | 900 | 1 | 901 |
| **Non-executive directors** | | | | | |
| Lee Ka Sze, Carmelo (resigned on 31 December 2012) | 550 | — | — | — | 550 |
| Wong Yat Fai (resigned on 31 December 2012) | 250 | — | — | — | 250 |
| **Independent non-executive directors** | | | | | |
| Luk Yu King, James | 350 | — | — | — | 350 |
| Ng Kwok Fu | 250 | — | — | — | 250 |
| Leung Yu Ming, Steven | 250 | — | — | — | 250 |
| | 1,650 | 3,875 | 15,050 | 19 | 20,594 |

## 7 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2012: three) are directors whose emoluments are disclosed in note 6. The emolument in respect of the other one (2012: two) individual is as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Salaries and other emoluments | 1,440 | 2,766 |
| Discretionary bonuses and/or performance-related bonuses | 450 | 840 |
| Retirement scheme contributions | 101 | 84 |
| | 1,991 | 3,690 |

The emolument of the one (2012: two) individual with the highest emolument is within the following bands:

| | 2013 Number of individuals | 2012 Number of individuals |
|---|---|---|
| **Bands (in HK$)** | | |
| $1,500,001 - $2,000,000 | 1 | 1 |
| $2,000,001 - $2,500,000 | — | 1 |
| | 1 | 2 |

## 8 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of $429,694,000 (2012: $56,915,000) 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:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements | 429,694 | 56,915 |
| Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year | 17,745 | 10,745 |
| Company's profit for the year (note 21(a)) | 447,439 | 67,660 |

Details of dividends paid and payable to equity shareholders of the Company are set out in note 21(b).

## 9 Other comprehensive income

### (a) Tax effects relating to each component of other comprehensive income

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Before-tax amount $'000 | Tax expense $'000 | Net-of-tax amount $'000 | Before-tax amount $'000 | Tax expense $'000 | Net-of-tax amount $'000 |
| **Available-for-sale securities:** | | | | | | |
| net movement in the investment revaluation reserve | (6,851) | — | (6,851) | 116,093 | — | 116,093 |
| **Share of other comprehensive income of an associate and a joint venture:** | | | | | | |
| Cash flow hedge: net movement in the hedging reserve | — | — | — | 2,043 | (337) | 1,706 |
| Exchange differences on translation of financial statements of overseas subsidiary and joint venture | 26 | — | 26 | — | — | — |
| Other comprehensive income | (6,825) | — | (6,825) | 118,136 | (337) | 117,799 |

## 9 Other comprehensive income *(continued)*

### (b) Components of other comprehensive income, including reclassification adjustments

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Available-for-sale securities:** | | |
| Changes in fair value recognised during the year | (57,970) | 45,191 |
| Reclassification adjustments for amounts transferred to profit or loss: | | |
| – gains on disposal (note 3) | — | (1,411) |
| – impairment loss (note 3) | 51,119 | 72,313 |
| Net movement in the investment revaluation reserve during the year recognised in other comprehensive income | (6,851) | 116,093 |
| **Share of other comprehensive income of an associate and a joint venture** | | |
| Cash flow hedges: | | |
| Effective portion of changes in fair value of hedging instruments recognised during the year | — | (1,615) |
| Reclassification adjustments for amounts transferred to profit or loss: | | |
| – finance costs | — | 3,658 |
| Net deferred tax charged to other comprehensive income | — | (337) |
| Net movement in the hedging reserve during the year recognised in other comprehensive income | — | 1,706 |

## 10 Earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $440,178,000 (2012: $403,825,000) and the weighted average of 372,688,000 ordinary shares (2012: 372,688,000) in issue during the year.

## 11 Fixed assets

### (a) 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 $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| At 1 January 2012 | 150,046 | 30,451 | 94,870 | 87,109 | 1,186 | 363,662 | 38,286 | 401,948 |
| Additions | 285 | 1,251 | 3,255 | 121,811 | — | 126,602 | — | 126,602 |
| Disposals | (26,990) | (5,230) | (1,004) | (87,109) | — | (120,333) | — | (120,333) |
| At 31 December 2012 | 123,341 | 26,472 | 97,121 | 121,811 | 1,186 | 369,931 | 38,286 | 408,217 |
| At 1 January 2013 | **123,341** | **26,472** | **97,121** | **121,811** | **1,186** | **369,931** | **38,286** | **408,217** |
| Additions | **339** | **702** | **2,035** | **—** | **—** | **3,076** | **—** | **3,076** |
| Disposals | **—** | **(624)** | **(2,041)** | **—** | **—** | **(2,665)** | **—** | **(2,665)** |
| At 31 December 2013 | **123,680** | **26,550** | **97,115** | **121,811** | **1,186** | **370,342** | **38,286** | **408,628** |
| Accumulated depreciation: | | | | | | | | |
| At 1 January 2012 | 100,059 | 25,423 | 89,685 | 16,295 | 1,186 | 232,648 | 12,396 | 245,044 |
| Charge for the year | 1,226 | 981 | 2,848 | 12,616 | — | 17,671 | 729 | 18,400 |
| Written back on disposals | (1,643) | (1,267) | (1,004) | (19,999) | — | (23,913) | — | (23,913) |
| At 31 December 2012 | 99,642 | 25,137 | 91,529 | 8,912 | 1,186 | 226,406 | 13,125 | 239,531 |
| At 1 January 2013 | **99,642** | **25,137** | **91,529** | **8,912** | **1,186** | **226,406** | **13,125** | **239,531** |
| Charge for the year | **1,106** | **787** | **2,519** | **15,440** | **—** | **19,852** | **729** | **20,581** |
| Written back on disposals | **—** | **(622)** | **(2,028)** | **—** | **—** | **(2,650)** | **—** | **(2,650)** |
| At 31 December 2013 | **100,748** | **25,302** | **92,020** | **24,352** | **1,186** | **243,608** | **13,854** | **257,462** |
| Net book value: | | | | | | | | |
| At 31 December 2013 | **22,932** | **1,248** | **5,095** | **97,459** | **—** | **126,734** | **24,432** | **151,166** |
| At 31 December 2012 | 23,699 | 1,335 | 5,592 | 112,899 | — | 143,525 | 25,161 | 168,686 |

(i) The leasehold land of the Group at 31 December 2013 is held in Hong Kong under a medium-term lease.

(ii) At 31 December 2012, the Group leased out a portion of buildings held for own use under an operating lease. The lease ran for an initial period of one year. The lease included contingent rentals. Rental income recognised during the year ended 31 December 2012 was $136,000.

## 11 Fixed assets *(continued)*

### (b) Company

| | Furniture, fixtures and equipment $'000 | Leasehold improvements $'000 | Total $'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2012 | 713 | 857 | 1,570 |
| Additions | 55 | — | 55 |
| Disposals | (30) | — | (30) |
| At 31 December 2012 | 738 | 857 | 1,595 |
| At 1 January 2013 | **738** | **857** | **1,595** |
| Additions | **29** | — | **29** |
| Disposals | **(12)** | — | **(12)** |
| At 31 December 2013 | **755** | **857** | **1,612** |
| **Accumulated depreciation:** | | | |
| At 1 January 2012 | 687 | 857 | 1,544 |
| Charge for the year | 19 | — | 19 |
| Written back on disposals | (30) | — | (30) |
| At 31 December 2012 | 676 | 857 | 1,533 |
| At 1 January 2013 | **676** | **857** | **1,533** |
| Charge for the year | **20** | — | **20** |
| Written back on disposals | **(11)** | — | **(11)** |
| At 31 December 2013 | **685** | **857** | **1,542** |
| **Net book value:** | | | |
| At 31 December 2013 | **70** | — | **70** |
| At 31 December 2012 | 62 | — | 62 |

## 12 Interest in subsidiaries

| | Company 2013 $'000 | 2012 $'000 |
|---|---|---|
| Unlisted shares, at cost | **851,050** | 851,050 |
| Amounts due from subsidiaries | **1,454,612** | 1,527,684 |
| | **2,305,662** | 2,378,734 |
| Amounts due to subsidiaries | **505,580** | 536,533 |

The amounts due from subsidiaries are not expected to be repaid within the next twelve months. The amounts due to subsidiaries are classified as non-current liabilities as they are not 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.

| Name of company | Place of incorporation and business | Particulars of issued and fully paid up share capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|
| Alpha Hero Limited | British Virgin Islands/ International | 50,000 shares of US$1 each | 70% | — | 70% | Investment holding |
| Clear Path Limited | British Virgin Islands/ International | 500 shares of US$1 each | 100% | — | 100% | Securities investment |
| Gold Harbour Investment Limited | Hong Kong | 1 share of $1 | 100% | — | 100% | Investment holding |
| Gold Faith Investments Limited | British Virgin Islands/ International | 1 share of US$1 | 100% | — | 100% | Securities investment |
| High Fortune Group Limited | British Virgin Islands/ International | 1 share of US$1 | 100% | 100% | — | Investment holding |

(Expressed in Hong Kong dollars)

## 12 Interest in subsidiaries *(continued)*

| Name of company | Place of incorporation and business | Particulars of issued and fully paid up share capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|
| HKSM Yuen Long Driving School Limited | Hong Kong | 2 shares of $10 each | 70% | — | 70% | Designated driving school |
| Join Harbour Limited | British Virgin Islands/ International | 1 share of US$1 | 100% | — | 100% | Property holding |
| MEG (HK) Limited | Hong Kong | 1 share of $1 | 70% | — | 70% | Property holding |
| Motoring Excellence Group Limited | Hong Kong | 1 share of $1 | 70% | — | 70% | Investment holding |
| New Horizon School of Motoring Limited | Hong Kong | 1 share of $1 | 70% | — | 70% | Designated driving school |
| Newcheer Limited | British Virgin Islands/ International | 1 share of US$1 | 100% | — | 100% | Securities investment |
| Power Right Investments Limited | British Virgin Islands/ International | 1 share of US$1 | 100% | — | 100% | Investment holding |
| Smart Chance Global Limited | British Virgin Islands/ International | 1 share of US$1 | 100% | — | 100% | Holding of a yacht |
| Super Legend Investments Limited | British Virgin Islands/ International | 1 share of US$1 | 100% | — | 100% | Investment |
| The Autopass Company Limited | Hong Kong | 70,000 "A" shares of $10 each | 100% | 100% | — | Investment holding and provision of consultancy services |
| | | 30,000 "B" shares of $10 each | — | — | — | |
| The Hong Kong School of Motoring Limited | Hong Kong | 2,000,000 shares of $1 each | 70% | — | 70% | Designated driving school |

## 12 Interest in subsidiaries *(continued)*

The following table lists out the information relating to Alpha Hero Limited and its subsidiaries ("AHL group"), the only group of subsidiaries of the Group which have material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

| | AHL group | |
|---|---|---|
| | **2013** | 2012 |
| | **$'000** | $'000 |
| **Gross amounts of AHL group's** | | |
| Current assets | **425,062** | 374,124 |
| Non-current assets | **43,277** | 45,347 |
| Current liabilities | **(194,185)** | (155,743) |
| Non-current liabilities | **(332)** | (279) |
| Net assets | **273,822** | 263,449 |
| NCI percentage | **30%** | 30% |
| Carrying amount of NCI | **82,147** | 79,035 |
| Revenue | **249,275** | 239,671 |
| Profit for the year | **94,973** | 112,895 |
| Total comprehensive income | **94,973** | 112,895 |
| NCI percentage | **30%** | 30% |
| Profit allocated to NCI | **28,492** | 33,868 |
| Dividend paid to NCI | **25,380** | 14,640 |
| Cash flows from operating activities | **126,487** | 105,979 |
| Cash flows from investing activities | **(99,599)** | 213,592 |
| Cash flows from financing activities | **(84,600)** | (48,800) |

## 13 Interest in associates

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Unlisted shares, at cost | **—** | — | **148,000** | 148,000 |
| Share of net assets | **2,188,117** | 2,160,682 | **—** | — |
| Goodwill | **36,400** | 44,400 | **—** | — |
| Amount due from an associate | **417** | 417 | **417** | 417 |
| Loan to and interest receivable from an associate | **2,471** | 77,087 | **1,829** | 57,044 |
| | **2,227,405** | 2,282,586 | **150,246** | 205,461 |
| Loan from an associate | **205,518** | 184,228 | **—** | — |

(a) The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available:

| Name of associate | Form of business structure | Place of incorporation and business | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity | Financial year end |
|---|---|---|---|---|---|---|---|
| Western Harbour Tunnel Company Limited ("WHTCL") | Incorporated | Hong Kong | 50% | 37% | 13% | Operation of the Western Harbour Crossing | 31 July |
| Tate's Cairn Tunnel Company Limited ("TCTCL") | Incorporated | Hong Kong | 39.5% | — | 39.5% | Operation of the Tate's Cairn Tunnel | 30 June |

(b) All of the above associates are accounted for using the equity method in the consolidated financial statements based on the financial statements of WHTCL and TCTCL for the year ended 31 December 2013 respectively.

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

(e) The amount due from an associate is unsecured, interest free and repayable on demand. The amount is classified as non-current as the directors do not intend to demand repayment within the next twelve months.

(f) The loan to an associate is unsecured and bears interest at a rate of 1% per annum as determined by the shareholders of that associate. Interest earned by the Group from the associate for the year ended 31 December 2013 amounted to $0.4 million (2012: $0.8 million). The loan is repayable on demand as may from time to time be agreed among the associate shareholders. The loan is classified as non-current as the directors do not intend to demand repayment within the next twelve months.

## 13 Interest in associates *(continued)*

(g) The loan from an associate is unsecured and interest free. The loan is classified as non-current as it is not repayable within the next twelve months.

(h) Summarised financial information of the material associate, WHTCL, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

| | *Note* | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|---|
| **Gross amounts of the associate's** | | | |
| Revenue | | | |
| Toll revenue | | 1,350,092 | 1,202,135 |
| Other revenue | (i) | 37,763 | 42,331 |
| | | 1,387,855 | 1,244,466 |
| Other income | | 583 | 42 |
| Expenditure | | | |
| Operating and administrative expenses | | (94,793) | (90,807) |
| Rates and government rent | | (51,129) | (43,106) |
| Amortisation and depreciation | (ii) | (296,997) | (292,129) |
| Operating profit before finance charges | | 945,519 | 818,466 |
| Interest on shareholders' loans | | (769) | (1,530) |
| Other finance costs | (iii) | (698) | (13,723) |
| Profit before taxation | | 944,052 | 803,213 |
| Income tax | (iv) | (157,669) | (98,526) |
| Profit for the year | | 786,383 | 704,687 |
| Other comprehensive income | | — | 6,331 |
| Total comprehensive income | | 786,383 | 711,018 |
| Group's effective interest | | 50% | 50% |
| Group's share of total comprehensive income | | 393,192 | 355,509 |
| Fair value adjustments | | | |
| Profit for the year | | (9,359) | (7,894) |
| Other comprehensive income | | — | (1,460) |
| | | 383,833 | 346,155 |
| Dividend received from the associate | | 327,500 | — |

## 13 Interest in associates *(continued)*

(h) Summarised financial information of the material associate, WHTCL, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below: *(continued)*

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Gross amounts of the associate's** | | | |
| Current assets | | 315,244 | 105,171 |
| Non-current assets | | 3,727,249 | 4,023,456 |
| Current liabilities | (v) | (160,795) | (207,623) |
| Non-current liabilities | | | |
| Deferred tax liabilities | | (508,777) | (530,235) |
| Shareholders' loans | | (4,943) | (154,174) |
| Equity | | 3,367,978 | 3,236,595 |
| **Reconciled to the Group's interest in associates** | | | |
| Gross amounts of net assets of the associate | | 3,367,978 | 3,236,595 |
| Group's effective interest | | 50% | 50% |
| Group's share of net assets of the associate | | 1,683,989 | 1,618,297 |
| Fair value adjustments | | 89,525 | 98,884 |
| Amount due from the associate | | 417 | 417 |
| Loan to and interest receivable from the associate | | 2,471 | 77,087 |
| Carrying amount in the consolidated financial statements | | 1,776,402 | 1,794,685 |

*Note:*

(i) Other revenue includes income from telecommunications network providers and outdoor advertising site rental. For the year ended 31 December 2012, non-recurring income amounted to $5.5 million.

(ii) Amortisation of the cost of tunnel is calculated to write off the cost over the franchise period on a units-of-usage basis whereby amortisation is provided based on the share of traffic volume for a particular period over the projected total traffic volume for the remainder of the franchise period of the tunnel.

(iii) Outstanding bank loans were fully repaid in December 2012.

(iv) Taxation includes the current and deferred income tax for the year. The provision for Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for 2013. WHTCL began to pay provisional profits tax for the financial year ended 31 July 2012.

(v) Current liabilities include current tax liabilities of $98.6 million (2012: $149.5 million).

## 13 Interest in associates *(continued)*

(i) Summarised financial information of the material associate, TCTCL, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| **Gross amounts of the associate's** | | |
| Revenue | 433,244 | 417,216 |
| Profit and total comprehensive income | 222,413 | 213,920 |
| Group's effective interest | 39.5% | 39.5% |
| Group's share of total comprehensive income | 87,853 | 84,498 |
| Fair value adjustments | (29,889) | (29,890) |
| | 57,964 | 54,608 |
| Dividend received from the associate | 85,597 | 83,861 |
| **Gross amounts of the associate's** | | |
| Current assets | 30,963 | 29,498 |
| Non-current assets | 801,314 | 809,445 |
| Current liabilities | (77,356) | (79,645) |
| Non-current liabilities | (45,827) | (55,917) |
| Equity | 709,094 | 703,381 |
| **Reconciled to the Group's interest in associates** | | |
| Gross amount of net assets of the associate | 709,094 | 703,381 |
| Group's effective interest | 39.5% | 39.5% |
| Group's share of net assets of the associate | 280,092 | 277,836 |
| Fair value adjustments | 134,420 | 164,309 |
| Goodwill | 36,400 | 44,400 |
| Carrying amount in the consolidated financial statements | 450,912 | 486,545 |

## 13 Interest in associates *(continued)*

(j) Aggregate information of associates that are not individually material:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | 91 | 1,356 |
| Aggregate amounts of the Group's share of those associates' | | |
| – (Loss)/profit from continuing operations | (15) | 81 |
| – Post-tax profit or loss from discontinued operations | — | — |
| – Other comprehensive income | — | — |
| – Total comprehensive income | (15) | 81 |

## 14 Interest in a joint venture

| | Group 2013 $'000 | Group 2012 $'000 | Company 2013 $'000 | Company 2012 $'000 |
|---|---|---|---|---|
| Share of net assets | 46,304 | 36,567 | — | — |
| Loan to a joint venture | 10,130 | 10,130 | — | — |
| | 56,434 | 46,697 | — | — |

(a) Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

| Name of joint venture | Form of business structure | Place of incorporation and business | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity | Financial year end |
|---|---|---|---|---|---|---|---|---|
| Autotoll Limited | Incorporated | Hong Kong | 16,000,000 ordinary shares of $1 each | 50% | — | 50% | Operation of an electronic toll collection system | 30 September |

Autotoll Limited, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

(b) The Autopass Company Limited and Electronic Toll Systems Limited formed the above equal equity joint venture to operate an electronic toll collection system in Hong Kong on 1 October 1998.

(c) The loan to a joint venture is unsecured, interest free and has no fixed repayment terms. The loan is non-current as it is not expected to be recoverable within the next twelve months.

## 14 Interest in a joint venture *(continued)*

(d) Summarised financial information of Autotoll Limited:

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| Carrying amount in the consolidated financial statements | 56,434 | 46,697 |
| Amounts of the Group's share of the joint venture's | | |
| – Profit from continuing operations | 14,711 | 12,371 |
| – Post-tax profit or loss from discontinued operations | — | — |
| – Other comprehensive income | 26 | — |
| – Total comprehensive income | 14,737 | 12,371 |

## 15 Available-for-sale securities

| | Group | |
|---|---|---|
| | 2013 | 2012 |
| | $'000 | $'000 |
| Listed securities | | |
| – in Hong Kong | 303,338 | 323,997 |
| – outside Hong Kong | 96,240 | 100,342 |
| | 399,578 | 424,339 |
| Unlisted securities | 60,289 | 83,945 |
| | 459,867 | 508,284 |
| Market value of listed securities | 399,578 | 424,339 |
| Fair value of individually impaired available-for-sale securities | 75,718 | 174,650 |

At 31 December 2012, available-for-sale securities of $86,133,000 held by subsidiaries were negatively pledged to a bank for banking facilities granted to the Group. The banking facilities expired during the year.

Certain of the Group's available-for-sale securities were individually determined to be impaired on the basis of a material decline in their fair value below cost which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments were recognised in profit or loss in accordance with the policy set out in note 1(l)(i) (see note 3).

## 16 Trading securities

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **$'000** | $'000 |
| Listed securities (at market value) | | |
| – in Hong Kong | **20,173** | 32,117 |
| – outside Hong Kong | **68,657** | 54,926 |
| | **88,830** | 87,043 |
| Unlisted securities | **91,268** | 85,215 |
| | **180,098** | 172,258 |

At 31 December 2013, trading securities of $2,325,000 (2012: $4,406,000) were pledged to a financial institution as security against treasury facilities granted to the Group.

## 17 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade receivables | **5,246** | 4,727 | **—** | — |
| Other receivables | **2,874** | 2,369 | **437** | 128 |
| | **8,120** | 7,096 | **437** | 128 |
| Deposits and prepayments | **13,820** | 9,267 | **247** | 209 |
| | **21,940** | 16,363 | **684** | 337 |

The amount of the Group's and the Company's deposits and prepayments expected to be recovered or recognised as expense after more than one year is $2,026,000 (2012: $1,245,000) and $1,000 (2012: $2,000) respectively. Apart from these, all of the trade and other receivables are expected to be recovered or recognised as expense within one year.

## 17 Trade and other receivables *(continued)*

### (a) Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis, based on the invoice date, as of the end of the reporting period:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **$'000** | $'000 |
| Current | **4,113** | 1,657 |
| Less than 1 month past due | **625** | 1,191 |
| 1 to 3 months past due | **453** | 1,494 |
| More than 3 months but less than 12 months past due | **55** | 385 |
| Amounts past due | **1,133** | 3,070 |
| | **5,246** | 4,727 |

The Group's credit policy is set out in note 22(a).

### (b) Trade receivables that are not impaired

None of the above trade receivables are either individually or collectively considered to be impaired.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 18 Bank deposits and cash

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| Deposits with banks and other financial institutions | 846,085 | 553,705 | 372,560 | 195,820 |
| Cash at bank and in hand | 328,647 | 153,362 | 262,384 | 12,180 |
| Bank deposits and cash in the statement of financial position | 1,174,732 | 707,067 | 634,944 | 208,000 |
| Less: Deposits with maturity over three months | (111,695) | (30,606) | | |
| Cash and cash equivalents in the consolidated statement of cash flows | 1,063,037 | 676,461 | | |

At 31 December 2013, bank deposits and cash of $19,565,000 (2012: $18,889,000) were pledged to a financial institution as security against treasury facilities granted to the Group.

Included in bank deposits and cash in the statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| United States Dollars | USD 1,247 | USD 1,441 | USD 43 | USD 450 |
| Australian Dollars | AUD 1,171 | AUD 1,145 | AUD — | AUD — |
| Renminbi | RMB 75,577 | RMB 73,252 | RMB — | RMB — |

## 19 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade payables | **2,049** | 2,634 | **—** | — |
| Other payables and accruals | **51,325** | 59,581 | **26,963** | 32,631 |
| | **53,374** | 62,215 | **26,963** | 32,631 |

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Included in trade and other payables are trade payables with the following ageing analysis, based on the invoice date, as of the end of the reporting period:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **$'000** | $'000 |
| Within 1 month | **406** | 1,109 |
| 1 month to 3 months | **373** | 295 |
| Over 3 months but within 6 months | **1,270** | 1,230 |
| | **2,049** | 2,634 |

## 20 Income tax in the statement of financial position

### (a) Current taxation in the statement of financial position represents:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Provision for Hong Kong Profits Tax for the year | **20,200** | 24,065 | **—** | — |
| Provisional Profits Tax paid | **(15,535)** | (12,906) | **—** | — |
| | **4,665** | 11,159 | **—** | — |
| Balance of Profits Tax provision relating to prior years | **6,742** | 6,879 | **—** | — |
| | **11,407** | 18,038 | **—** | — |
| Taxation recoverable recognised in the statement of financial position | **(2,108)** | — | **—** | — |
| Taxation payable recognised in the statement of financial position | **13,515** | 18,038 | **—** | — |
| | **11,407** | 18,038 | **—** | — |

## 20 Income tax in the statement of financial position *(continued)*

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

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

| | Group |
|---|---|
| | $'000 |
| Deferred tax arising from depreciation in excess of related depreciation allowances | |
| At 1 January 2012 | (2,529) |
| Credited to profit or loss | (22) |
| At 31 December 2012 | (2,551) |
| At 1 January 2013 | (2,551) |
| Charged to profit or loss | 133 |
| **At 31 December 2013** | **(2,418)** |

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| Net deferred tax assets recognised in the consolidated statement of financial position | **(2,750)** | (2,830) |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **332** | 279 |
| | **(2,418)** | (2,551) |

### (c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(r), the Group and the Company have not recognised deferred tax assets in respect of cumulative tax losses of $299,680,000 (2012: $277,736,000) and $137,788,000 (2012: $137,788,000) respectively 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.

## 21 Capital, reserves and dividends

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

**Company**

| | Share capital $'000 | Share premium $'000 | Retained profits $'000 | Total $'000 |
|---|---|---|---|---|
| Balance at 1 January 2012 | 372,688 | 1,256,773 | 635,875 | 2,265,336 |
| Changes in equity for 2012: | | | | |
| Dividends approved in respect of the previous year (note 21(b)) | — | — | (44,722) | (44,722) |
| Total comprehensive income for the year (note 8) | — | — | 67,660 | 67,660 |
| Dividends declared in respect of the current year (note 21(b)) | — | — | (67,084) | (67,084) |
| Balance at 31 December 2012 | 372,688 | 1,256,773 | 591,729 | 2,221,190 |
| **Balance at 1 January 2013** | **372,688** | **1,256,773** | **591,729** | **2,221,190** |
| **Changes in equity for 2013:** | | | | |
| Dividends approved in respect of the previous year (note 21(b)) | **—** | **—** | **(44,722)** | **(44,722)** |
| Total comprehensive income for the year (note 8) | **—** | **—** | **447,439** | **447,439** |
| Dividends declared in respect of the current year (note 21(b)) | **—** | **—** | **(67,084)** | **(67,084)** |
| **Balance at 31 December 2013** | **372,688** | **1,256,773** | **927,362** | **2,556,823** |

## 21 Capital, reserves and dividends *(continued)*

### (b) Dividends

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

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| Interim dividends declared of $0.18 per share (2012: $0.18 per share) | 67,084 | 67,084 |
| Final dividend proposed after the end of the reporting period $0.12 per share (2012: $0.12 per share) | 44,722 | 44,722 |
| | 111,806 | 111,806 |

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of $0.12 per share (2012: $0.12 per share) | 44,722 | 44,722 |

### (c) Share capital

*Authorised and issued share capital*

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | No. of shares | Amount | No. of shares | Amount |
| | '000 | $'000 | '000 | $'000 |
| ***Authorised:*** | | | | |
| Ordinary shares of $1 each | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| ***Issued and fully paid:*** | | | | |
| At 1 January and 31 December | 372,688 | 372,688 | 372,688 | 372,688 |

## 21 Capital, reserves and dividends *(continued)*

### (c) Share capital *(continued)*

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.

### (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 subsidiaries in note 1(d) and the cumulative net change in the fair value of available-for-sale securities in note 1(g).

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.

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

### (e) Distributability of reserves

At 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of section 79B of the Hong Kong Companies Ordinance was $927,362,000 (2012: $591,729,000). After the end of the reporting period the directors proposed a final dividend of $0.12 per share (2012: $0.12 per share), amounting to $44,722,000 (2012: $44,722,000) (note 21(b)). This dividend has not been recognised as a liability at the end of the reporting period.

## 21 Capital, reserves and dividends *(continued)*

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

At 31 December 2013, the Group did not have external borrowings. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

In order to monitor its capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders or raise new debt financing.

The adjusted capital at 31 December 2013 and 2012 was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Total equity | **3,846,533** | 3,521,963 | **2,556,823** | 2,221,190 |
| Less: Proposed dividends (note 21(b)) | **(44,722)** | (44,722) | **(44,722)** | (44,722) |
| | **3,801,811** | 3,477,241 | **2,512,101** | 2,176,468 |

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

## 22 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

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

### (a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, investments in debt securities, loans to associates and a joint venture 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 securities investments are in liquid securities quoted on recognised stock exchanges and with counterparties that have good credit standing. Given their high credit standing, management does not expect any of these financial institutions and investment counterparties will fail to meet its obligations.

With respect to loans to associates and a joint venture, management reviews the credit standing of the borrowers and also monitors on an ongoing basis to control and mitigate the credit risk. In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within one month from the date of billing while further credit may be granted to individual customers when appropriate. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. The Group has no concentrations of credit risk in view of its variety of investments with different counterparties or large number of customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

## 22 Financial risk management and fair values of 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.

The remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay, are within one year or on demand, except for the loan from an associate which is not repayable within the next twelve months.

### (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 details their interest rate profile at the end of the reporting period.

| | | 2013 | | 2012 | |
|---|---|---|---|---|---|
| | | **Effective** | | Effective | |
| | Fixed/ floating | **interest rate** | **$'000** | interest rate | $'000 |
| Group | | | | | |
| Cash and cash equivalents | Floating | **0.001% - 2.00%** | **314,796** | 0.001% - 2.39% | 141,884 |
| Cash and cash equivalents | Fixed | **0.01% - 2.70%** | **734,390** | 0.01% - 2.30% | 523,099 |
| Bank deposits | Fixed | **0.50% - 1.36%** | **111,695** | 0.76% - 1.17% | 30,606 |
| Company | | | | | |
| Cash and cash equivalents | Floating | **0.001% - 0.50%** | **259,982** | 0.001% - 0.80% | 9,780 |
| Cash and cash equivalents | Fixed | **1.06% - 1.70%** | **372,560** | 0.01% - 0.40% | 195,820 |

## 22 Financial risk management and fair values of financial instruments *(continued)*

### (c) Interest rate risk *(continued)*

*Sensitivity analysis*

At 31 December 2013, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately $787,000 (2012: $355,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest income of such a change in interest rates. The analysis is performed on the same basis for 2012.

### (d) Currency risk

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

The Group is exposed to currency risk primarily through its investments in securities and cash balances denominated in currencies other than its functional currency. The currencies giving rise to this risk are primarily Australian dollars, Renminbi and Singapore dollars.

In respect of the Group's assets denominated in United States dollars, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

Management of the Group continuously monitors the Group's exposure to such foreign currency risks to ensure they are at manageable levels.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in currencies other than the functional currency of the entity to which they relate and the United States dollars. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date.

## 22 Financial risk management and fair values of financial instruments *(continued)*

### (d) Currency risk *(continued)*

**Group**

| | Exposure to foreign currencies (expressed in Hong Kong dollars) | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Australian dollars $'000 | Renminbi $'000 | Singapore dollars $'000 | Australian dollars $'000 | Renminbi $'000 | Singapore dollars $'000 |
| Bank deposits and cash | 8,107 | 96,283 | — | 9,224 | 90,906 | — |
| Trading securities | — | — | 68,656 | — | — | 53,305 |
| Available-for-sale securities | — | 36,260 | — | — | 35,374 | — |

*Sensitivity analysis*

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

**Group**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits $'000 | Effect on other components of equity $'000 | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits $'000 | Effect on other components of equity $'000 |
| Australian dollars | 5% | 405 | — | 5% | 461 | — |
| | (5)% | (405) | — | (5)% | (461) | — |
| Renminbi | 5% | 4,814 | 1,813 | 5% | 4,545 | 1,769 |
| | (5)% | (4,814) | (1,813) | (5)% | (4,545) | (1,769) |
| Singapore Dollars | 5% | 3,433 | — | 5% | 2,665 | — |
| | (5)% | (3,433) | — | (5)% | (2,665) | — |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2012.

## 22 Financial risk management and fair values of financial instruments *(continued)*

### (e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 16) and available-for-sale securities (see note 15).

The Group's listed investments are listed in Hong Kong and Singapore. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

Given that the volatility of the stock markets may not have a direct correlation with the Group's investment portfolio, it is impractical to determine the impact that the changes in stock market indices would have on the Group's portfolio of equity investments.

At 31 December 2013, it is estimated that an increase/decrease of 5% (2012: 5%) in the market value of the Group's listed available-for-sale securities and trading securities, with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

**Group**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | | Effect on profit after tax and retained profits $'000 | Effect on other components of equity $'000 | | Effect on profit after tax and retained profits $'000 | Effect on other components of equity $'000 |
| *Change in the relevant equity price risk variable:* | | | | | | |
| Increase | 5% | 4,442 | 13,354 | 5% | 4,352 | 14,431 |
| Decrease | (5)% | (4,442) | (13,354) | (5)% | (4,352) | (14,431) |

## 22 Financial risk management and fair values of financial instruments *(continued)*

### (e) Equity price risk *(continued)*

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in market value had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the market value, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in market value, and that all other variables remain constant. The analysis is performed on the same basis for 2012.

### (f) Fair value measurement

#### *(i) Financial assets and liabilities measured at fair value*

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

— Level 3 valuations: Fair value measured using significant unobservable inputs

For financial instruments traded in inactive markets, their fair value measurements are based on net asset values provided by the relevant investment fund manager.

## 22 Financial risk management and fair values of financial instruments *(continued)*

### (f) Fair value measurement *(continued)*

#### *(i) Financial assets and liabilities measured at fair value (continued)*

Fair value hierarchy *(continued)*

**Group**

| | Fair value at 31 December 2013 | Fair value measurements as at 31 December 2013 categorised into | | | Fair value at 31 December 2012 | Fair value measurements as at 31 December 2012 categorised into | | |
|---|---|---|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Recurring fair value measurements | | | | | | | | |
| Assets | | | | | | | | |
| Available-for-sale securities: | | | | | | | | |
| – Listed | 399,578 | 399,578 | — | — | 424,339 | 424,339 | — | — |
| – Unlisted | 60,289 | 37,023 | 23,266 | — | 83,945 | 63,336 | 20,609 | — |
| Trading securities: | | | | | | | | |
| – Listed | 88,830 | 88,830 | — | — | 87,043 | 87,043 | — | — |
| – Unlisted | 91,268 | — | 56,289 | 34,979 | 85,215 | — | 85,215 | — |
| | 639,965 | 525,431 | 79,555 | 34,979 | 680,542 | 574,718 | 105,824 | — |

During the years ended 31 December 2012 and 2013, there were no transfers between Level 1 and Level 2. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

**Valuation techniques and inputs used in Level 2 fair value measurements**

The fair value of the financial assets is determined based on executable quotes provided by investment fund managers.

**Information about Level 3 fair value measurements**

| | Valuation techniques | Significant unobservable inputs |
|---|---|---|
| Unlisted trading securities | Net asset value | N/A |

The Group's unlisted trading securities categorised in Level 3 comprise an unlisted investment fund, the fair value of which is based on its net asset value. The fair values of the fund's underlying investments are determined by the investment fund manager based on a forward price/earnings multiple arrived at by comparison with publicly-traded competitors and after applying a liquidity discount.

## 22 Financial risk management and fair values of financial instruments *(continued)*

### (f) Fair value measurement *(continued)*

#### *(i) Financial assets and liabilities measured at fair value (continued)*

**Information about Level 3 fair value measurements** *(continued)*

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **$'000** | $'000 |
| Unlisted trading securities: | | |
| At 1 January | — | — |
| Transfers in | **34,979** | — |
| At 31 December | **34,979** | — |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period | — | — |

Certain unlisted trading securities held by the Group with fair value amounting to $34,979,000 at 31 December 2013 were transferred out of Level 2 into Level 3 of the fair value hierarchy due to a reclassification of part of investment fund to a private equity investment.

#### *(ii) Fair values of financial instruments carried at other than fair value*

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2012 except as follows:

| | **2013 Carrying amount $'000** | 2012 Carrying amount $'000 |
|---|---|---|
| **Group:** | | |
| Loan to an associate * | **2,471** | 77,087 |
| Loan from an associate * | **(205,518)** | (184,228) |
| Loan to a joint venture * | **10,130** | 10,130 |
| **Company:** | | |
| Loan to an associate * | **1,829** | 57,044 |
| Amounts due from subsidiaries * | **1,454,612** | 1,527,684 |
| Amounts due to subsidiaries * | **(505,580)** | (536,533) |

* Given the amounts are unsecured and have no fixed repayment terms, it is not meaningful to disclose their fair values. The Group has no intention of disposing of these loans and intercompany balances.

## 23 Operating lease commitments

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **6,530** | 4,629 | **—** | — |
| After 1 year but within 5 years | **6,446** | 2,364 | **—** | — |
| | **12,976** | 6,993 | **—** | — |

Significant leasing arrangements in respect of land held under finance leases are described in note 11.

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 three 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.

## 24 Material related party transactions

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

(a) The Group extended a loan to and received interest from an associate, Western Harbour Tunnel Company Limited. The balance of the loan and interest receivable at 31 December 2013 was $2.5 million (2012: $77.1 million).

The Group received interest income and management fee income from Western Harbour Tunnel Company Limited of $0.4 million (2012: $0.8 million) and $2.5 million (2012: $2.5 million) respectively.

(b) The Group received a loan from an associate, Tate's Cairn Tunnel Company Limited. The balance of the loan at 31 December 2013 was $205.5 million (2012: $184.2 million).

(c) The Group received consultancy fees and management fee income from a joint venture of $12.6 million (2012: $12.6 million) and $1.2 million (2012: $1.2 million) respectively.

## 24 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 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Short-term employee benefits | **25,780** | 22,515 |
| Post-employment benefits | **121** | 91 |

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

## 25 Contingent liabilities

At 31 December 2012, the Company gave a letter of undertaking to a bank for general banking facilities totalling $50 million granted to the Company. The banking facilities granted were also secured by a negative pledge of certain listed investments and shareholding in certain subsidiaries held by the Group. These facilities were not utilised by the Company and expired during the year.

## 26 Non-adjusting event after the reporting period

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 21(b).

## 27 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2013 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 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 consolidated financial statements.

# Five-year Summary

*(Expressed in Hong Kong dollars)*

| | 2009 | 2010 | 2011 | 2012 | **2013** |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | **$'000** |
| **Consolidated statement of profit or loss** | | | | | |
| Turnover | 217,518 | 227,099 | 247,406 | 283,941 | **290,480** |
| Profit attributable to equity shareholders of the Company for the year | 291,343 | 358,753 | 238,515 | 403,825 | **440,178** |
| Dividends payable to equity shareholders of the Company attributable to the year | 106,047 | 106,047 | 111,806 | 111,806 | **111,806** |
| **Consolidated statement of financial position** | | | | | |
| Fixed assets | 73,879 | 152,566 | 156,904 | 168,686 | **151,166** |
| Interest in associates | 1,946,741 | 1,969,844 | 1,974,833 | 2,282,586 | **2,227,405** |
| Interest in a joint venture | 39,197 | 42,579 | 49,326 | 46,697 | **56,434** |
| Available-for-sale securities | 161,066 | 430,525 | 326,562 | 508,284 | **459,867** |
| Deferred tax assets | 2,240 | 3,060 | 3,060 | 2,830 | **2,750** |
| Current assets | 1,211,386 | 1,063,109 | 1,059,195 | 896,867 | **1,379,904** |
| | 3,434,509 | 3,661,683 | 3,569,880 | 3,905,950 | **4,277,526** |
| Current liabilities | 626,756 | 351,156 | 316,575 | 199,480 | **225,143** |
| Deferred tax liabilities | 150 | 200 | 531 | 279 | **332** |
| Loan from an associate | 97,328 | 134,694 | 162,070 | 184,228 | **205,518** |
| Bank loans (long term portion) | — | 156,250 | — | — | **—** |
| **NET ASSETS** | 2,710,275 | 3,019,383 | 3,090,704 | 3,521,963 | **3,846,533** |
| **Capital and reserves** | | | | | |
| Share capital | 353,488 | 353,488 | 372,688 | 372,688 | **372,688** |
| Reserves | 2,292,436 | 2,597,891 | 2,639,170 | 3,048,988 | **3,370,527** |
| Total equity attributable to equity shareholders of the Company | 2,645,924 | 2,951,379 | 3,011,858 | 3,421,676 | **3,743,215** |
| Non-controlling interests | 64,351 | 68,004 | 78,846 | 100,287 | **103,318** |
| **TOTAL EQUITY** | 2,710,275 | 3,019,383 | 3,090,704 | 3,521,963 | **3,846,533** |