NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Basis of preparation and changes in accounting policies

(a) Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 20.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA except that comparative figures for the cash flow statement have not been prepared as the Group has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 8 March 2001.

The same accounting polices adopted in the 2000 annual accounts have been applied to the interim financial report except as disclosed in note 1(b) below.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2000 annual accounts.

(b) Changes in accounting policies

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) "Events after the balance sheet date", issued by the HKSA, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

As a result of this new accounting policy, the Group's net assets at 30 June 2001 have been increased by $9.6 million (31 December 2000: $9.6 million). There is no impact on the Group's profit attributable to shareholders for the periods presented. This new accounting policy has been adopted retrospectively such that the opening balance of retained profits and certain comparative information has been restated or adjusted for the amounts relating to prior periods.

2 Segmental information

The analysis of the principal activities of the operations of the company and its subsidiaries during the financial period is as follows:

	Group turnover		Operating profit	
	Six months ended 30 June		Six months ended 30 June	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Principal activities				
Motoring school operations	**127,580**	133,714	**14,582**	19,491
Investment and other activities	**16,015**	17,499	**23,951**	18,936
	143,595	151,213	**38,533**	38,427

During the financial period, more than 90% of the operations of the company and its subsidiaries in terms of both turnover and operating profit were carried out in Hong Kong.

3 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2001	2000
	$'000	*$'000*
Depreciation	**9,393**	7,804
Cost of inventories consumed	**6,226**	5,676
Provision for impairment in value of investments	**–**	40,100
Net profit on sale of fixed assets	**(181)**	(565)
Net realised gain on disposal of investments	**–**	(44,104)

4 Taxation

	Six months ended 30 June	
	2001	2000
	$'000	*$'000*
Hong Kong taxation	3,775	2,582
Share of associates' taxation	–	(44)
	3,775	2,538

The provision for Hong Kong profits tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the six months ended 30 June 2001.

5 Dividends

(a) *Dividends attributable to the interim period*

	Six months ended 30 June	
	2001	2000
	$'000	*$'000*
Interim dividend declared of 5 cents per share (2000: 5 cents per share)	9,582	9,582
Interim dividend declared after the interim period end of 5 cents per share (2000: 5 cents per share)	9,629	9,582
	19,211	19,164

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

(b) *Dividends attributable to the previous financial year, approved and paid during the interim period*

	Six months ended 30 June	
	2001	2000
	$'000	*$'000*
Final dividends in respect of the previous financial year, approved and paid during the interim period, of 5 cents per share (2000: 10 cents per share)	9,582	19,164

6 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $43.3 million (2000: $23.8 million) and 191,638,401 ordinary shares (2000: 191,638,401 shares) in issue during the period.

First quarterly interim scrip dividend scheme

On 15 June 2001, the directors declared a first quarterly interim dividend in respect of the year ending 31 December 2001 of 5 cents per share payable on 17 August 2001 to shareholders registered on 4 July 2001. The shareholders were given the option to elect to receive such interim dividend in the form of new shares in lieu of cash in respect of part or all of such dividend. The existence of this scheme has no dilutive effect on the calculation of basic earnings per share as noted above.

7 Fixed assets

Change in accounting estimate

The directors have reviewed the useful lives of the buildings owned by the Group. Pursuant to this review the directors consider that they intend to, and will be able to, renew the lease for one of these buildings upon its expiry in May 2004 to May 2009. Accordingly, the estimated useful life of this building has been increased from a period of 45 months to 105 months as the directors consider that this extended period better represents the period during which the building will be used in the generation of income.

The effect of this change in accounting estimate, which has been applied effective 1 January 2001, is to increase the Group's profit for the period ended 30 June 2001 and its net assets at that date by $3.9 million.

8 Debtors and prepayments

Included in debtors and prepayments are trade debtors with the following ageing analysis:

	30 June 2001 *$'000*	31 December 2000 *$'000*
Current	**492**	713
1 to 3 months overdue	**82**	264
More than 3 months overdue	**714**	769
	1,288	1,746

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

9 Creditors and accrued charges

Included in creditors and accrued charges are trade creditors with the following ageing analysis:

	30 June 2001 $'000	31 December 2000 $'000
Due within 1 month or on demand	5,854	6,387
Due after 1 month but within 3 months	–	954
	5,854	7,341

10 Share capital

	No. of shares '000	Amount $'000
Issued and fully paid:		
At 1 January 2001 and 30 June 2001	191,638	191,638

11 Reserves

	Share premium *$'000*	Capital reserve *$'000*	Investment revaluation reserve *$'000*	Retained profits *$'000*	Total *$'000*
At 1 January 2001					
– as previously stated	747,029	1,984	2,571	334,590	1,086,174
– prior period adjustment in respect of dividends (note 1(b))	–	–	–	9,582	9,582
– as restated	747,029	1,984	2,571	344,172	1,095,756
Dividends approved in respect of the previous financial year (note 5(b))	–	–	–	(9,582)	(9,582)
Profit for the period	–	–	–	43,284	43,284
Dividends declared in respect of the current interim period (note 5(a))	–	–	–	(9,582)	(9,582)
Revaluation deficit	–	–	(61,040)	–	(61,040)
At 30 June 2001	**747,029**	**1,984**	**(58,469)**	**368,292**	**1,058,836**

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

12 Capital commitments outstanding not provided for in the Group's accounts

	30 June 2001 *$'000*	31 December 2000 *$'000*
Contracted for	**593**	15,239

13 Material related party transactions

During the period, the Group was involved in the following material related party transactions, neither 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 ("WHTCL"). The loan to the associate 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 six months ended 30 June 2001 totalled $4.3 million (2000: $4.1 million).

The balance of the loan and interest receivable at 30 June 2001 was $931.6 million (31 December 2000: $868.1 million).

(b) The Group received consultancy fees from a jointly controlled entity of $1.9 million (2000: $2.1 million).

14 Contingent liabilities

At 30 June 2001, the Group had the following contingent liabilities:

(a) In respect of Western Harbour Tunnel Company Limited ("WHTCL")

A joint and several guarantee given by the Company and the other shareholders of WHTCL, namely, High Fortune Group Limited, as well as by the ultimate shareholders of High Fortune Group Limited, namely, China Merchants Holdings (International) Company Limited and Adwood Company Limited, as well as by the ultimate shareholders of Adwood Company Limited, namely, CITIC Pacific Limited and Kerry Properties Limited (collectively "the guarantors") to the Hong Kong Government to advance to WHTCL by way of share capital injection and/ or subordinated debt an amount equal to any excess of the total costs over the budgeted cost of $7,534 million, incurred by WHTCL in connection with the construction, financing, administration and maintenance of the Western Harbour Crossing ("the Crossing") up to the date the Crossing opened for use by the public ("the operating date") and with the replacement or repair of any of the works after the operating date but prior to the issuance of the maintenance certificate in relation to the Crossing. The maintenance certificate had not been issued at 30 June 2001.

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

The Group has given a guarantee to the extent of $11.1 million (31 December 2000: $11.1 million) to a bank in return for it providing a guarantee in favour of the Hong Kong Government on behalf of HKTHMCL to secure the performance of an agreement in relation to the operation and management of the Cross–Harbour Tunnel and the operation and maintenance of the tunnel equipment by HKTHMCL.

(c) *In respect of The Hong Kong School of Motoring Limited ("HKSM")*

There is arrangement between HKSM and its banker where the bank provides guarantees in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than $2.4 million (31 December 2000: $2.4 million).

15 Comparative information

Comparative information has been restated in respect of the change in accounting policy for dividends as described in note 1(b).