1 Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same way as for investments in securities (see note 1(h)).

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, its investments in subsidiaries are stated at cost less any impairment losses (see note 1(j)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions which significantly impair their ability to transfer funds to the Company, in which case, they are stated at fair value with changes in fair value recognised in the same way as for investments in securities (see note 1(h)). The results of subsidiaries are accounted for by the Company on the basis of dividends declared or approved in the Company's accounting period.

1 Significant Accounting Policies *(continued)*

(d) Associates and jointly controlled entities

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

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the same way as for investments in securities (see note 1(h)). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

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

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(j)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the investor, in which case, they are stated at fair value with changes in fair value recognised in the same way as for investments in securities (see note 1(h)). The results of associates are accounted for by the Company on the basis of dividends declared or approved in the Company's accounting period.

1 Significant Accounting Policies *(continued)*

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, associates and jointly controlled entities:

— for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(j)); and

— for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(j)).

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

— for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

  In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

  — for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a reduction from assets in the same balance sheet classification as positive goodwill; and

1 Significant Accounting Policies *(continued)*

(e) Goodwill *(continued)*

— for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

(i) All fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(g)) and impairment losses (see note 1(j)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(g) Depreciation

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:

— The cost of leasehold land is depreciated over its remaining lease term on a straight line basis.

— The cost of buildings is depreciated over the remaining term or the expected renewable period of the leases up to a maximum of 10 years on a straight line basis.

1 Significant Accounting Policies *(continued)*

(g) Depreciation *(continued)*

— The charge for depreciation on the cost of other fixed assets is calculated on a straight line basis at the following rates per annum:

Furniture, fixtures and equipment	10% to 33-⅓%
Motor vehicles	20%
Leasehold improvements	Remaining term of the lease

(h) Investments in securities

(i) Non-trading securities are classified as non-current assets and are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative loss is transferred from the investment revaluation reserve to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Trading securities are classified as current assets and are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

(iii) Profits or losses on disposal of investments in securities are accounted for in the profit and loss account as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(i) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

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

1 Significant Accounting Policies *(continued)*

(j) Impairment of assets

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

— fixed assets;

— goodwill; and

— investments in subsidiaries, associates and jointly controlled entities (except for those accounted for at fair value under notes 1(c) and (d)).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

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

1 Significant Accounting Policies *(continued)*

(k) Recognition of income

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

(i) The principal source of income from motoring school operations is driving course fee income which is recognised in the profit and loss account upon the completion of the relevant training lessons.

(ii) Interest income from bank deposits is accrued on a time apportioned basis based on the principal amounts outstanding and at the applicable interest rates.

(iii) Dividends from listed investments are recognised when the share price of such investments goes ex-dividend.

(l) Inventories

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

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 Significant Accounting Policies *(continued)*

(m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

(n) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(o) Provisions and contingent liabilities

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

(p) Retirement scheme costs

A defined contribution retirement scheme is operated by a subsidiary. The cost of operating the scheme and contributions in respect of the Group's employees are charged to the consolidated profit and loss account in the period to which they relate.

Contributions to the Mandatory Provident Fund, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred.

1 Significant Accounting Policies *(continued)*

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(r) Borrowing costs

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

(s) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

(t) Segment reporting

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

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

1 Significant Accounting Policies *(continued)*

(t) Segment reporting *(continued)*

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

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

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

2 Turnover and Operating Profit

The principal activity of the Company is investment holding and those of its subsidiaries are set out in note 15 on the financial statements. Given below is an analysis of the turnover and operating profit of the Group:

	Turnover		Operating profit	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Principal activities				
Motoring school operations	**264,100**	275,630	**45,001**	46,152
Investment and other activities	**35,693**	41,810	**9,546**	45,205
	299,793	317,440	**54,547**	91,357

During the financial year, more than 90% of the trading operations of the Company and its subsidiaries in terms of both turnover and operating profit were carried on in Hong Kong.

3 Other Revenue and Net (Loss)/Income

	Group	
	2001	2000
	$'000	$'000
Other revenue		
Interest income from loan to an associate	**9,001**	8,468
Write back of overprovision for tunnel maintenance expenses	**5,243**	—
	14,244	8,468
Other net (loss)/income		
Net gain on sale of fixed assets	**101**	488
Net realised gain on disposal of investments	**—**	49,398
Provision for impairment in value of investments	**(32,767)**	(48,248)
	(32,666)	1,638

The net realised gain on disposal of investments in 2000 included a surplus of $43,693,000 which was previously recognised in the investment revaluation reserve.

The directors reviewed the Group's investment portfolio at 31 December 2001 and pursuant to this review considered that certain of the Group's investments were impaired at that date as there was objective evidence of such impairment.

In accordance with the accounting policies adopted by the Group for investments the entire cumulative deficit in the investment revaluation reserve relating to these securities, which totalled $32.8 million, was transferred to the consolidated profit and loss account at 31 December 2001.

4 Profit from Ordinary Activities before Taxation

Profit from ordinary activities before taxation is arrived at

	Group	
	2001	2000
	$'000	$'000
after charging:		
(a) Finance costs		
Interest on bank overdrafts	**—**	3
(b) Other items		
Depreciation	**19,171**	18,493
Auditors' remuneration	**666**	744
Operating lease charges - land and buildings	**18,974**	20,571
Retirement scheme costs	**4,470**	4,202
Staff costs	**130,024**	129,866
Cost of inventories consumed	**13,404**	12,931
and after crediting:		
Dividend income from listed investments	**10,865**	12,468
Interest income	**17,427**	22,902

5 Directors' Remuneration

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

	Group	
	2001	2000
	$'000	$'000
Fees	**760**	300
Salaries and other emoluments	**921**	75
Pension scheme contributions	**5**	—
Inducement for joining the Group	**500**	—
	2,186	375

For the year under review, total emoluments (including any reimbursement of expenses) of $700,000 (2000: $235,000), of which $700,000 (2000: $160,000) was in the form of directors' fees and $Nil (2000: $75,000) was in respect of other emoluments, were paid and/or payable to independent non-executive directors of the Company.

The remuneration of the Directors is within the following bands:

	Group	
	2001	2000
	Number	Number
Not more than $1,000,000	**16**	9
$1,000,000 - $1,500,000	**1**	—
	17	9

6 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, one (2000: Nil) is a director whose emoluments are disclosed in note 5. The aggregate of the emoluments in respect of the other four (2000: five) individuals are as follows:

(a) Aggregate emoluments

	Group	
	2001	2000
	$'000	$'000
Salaries and other benefits	**2,622**	3,779
Pension scheme contributions	**96**	149
Discretionary bonuses and/or performance-related bonuses	**420**	505
	3,138	4,433

(b) Bandings

	Group	
	2001	2000
	Number	Number
Bands (in HK$)		
Not more than $1,000,000	4	4
$1,000,001 - $1,500,000	—	1
	4	5

7 Taxation

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

	Group	
	2001	2000
	$'000	$'000
Provision for Hong Kong profits tax at 16.0% (2000: 16.0%) of the estimated assessable profits for the year	**10,437**	6,328
Overprovision in respect of prior years	**(107)**	(169)
Deferred taxation (note 8)	**2,100**	1,032
	12,430	7,191
Share of associates' taxation	**—**	(44)
	12,430	7,147

(b) Taxation in the balance sheets represents:

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Provision for Hong Kong profits tax for the year	**10,437**	6,328	**903**	351
Provisional profits tax paid	**(3,075)**	(3,618)	**(252)**	(177)
	7,362	2,710	**651**	174

(c) None of the taxation payable in the balance sheet is expected to be settled after more than twelve months.

8 Deferred Taxation

(a) Movement on deferred taxation comprises:

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Balance at 1 January	**2,300**	1,268	**—**	—
Transferred from the profit and loss account (note 7(a))	**2,100**	1,032	**—**	—
Balance at 31 December	**4,400**	2,300	**—**	—

(b) The amount provided for deferred taxation represents principally capital allowances in excess of the related depreciation.

(c) There is no significant deferred tax liability for which provision has not been made.

9 Profit Attributable to Shareholders for the Year

The consolidated profit attributable to shareholders includes a profit of $33,770,000 (2000 (restated): $31,547,000) 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:

	2001	2000
	$'000	$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	**33,770**	31,547
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**24,500**	21,000
Company's profit for the year (note 23)	**58,270**	52,547

10 Dividends

(a) Dividends attributable to the year:

	2001	2000
	$'000	$'000
Interim dividends declared of $0.15 per share (2000: $0.15 per share)	**28,889**	28,745
Final dividend proposed after the balance sheet date of $0.05 per share (2000: $0.05 per share)	**9,728**	9,582
	38,617	38,327

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

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

	2001	2000
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.05 per share (2000: $0.10 per share)	**9,582**	19,164

11 Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $63,922,000 (2000 (restated): $59,880,000) and the weighted average of 192,161,112 ordinary shares (2000: 191,638,401) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of $63,922,000 and the weighted average number of ordinary shares of 193,550,204 shares after adjusting for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in existence during 2000.

(Expressed in Hong Kong dollars)

11 Earnings Per Share *(continued)*

(c) Reconciliations

	2001 **Number of shares**	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**192,161,112**	191,638,401
Deemed issue of ordinary shares for no consideration	**1,389,092**	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	**193,550,204**	191,638,401

The existence of unexercised options during the year ended 31 December 2001 has no dilutive effect on the calculation of diluted earnings per share for the year ended 31 December 2001.

12 Changes in Accounting Policies

(i) Dividends

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) issued by the Hong Kong Society of Accountants, 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). Consequently, dividend income from subsidiaries, associates and jointly controlled entities is recognised as income in the Company's profit and loss account in the accounting period in which the dividends are declared.

As a result of the new accounting policy, the Group's net assets as at the year end have been increased by $9,728,000 (2000: $9,582,000). There is no impact on the Group's profit attributable to Shareholders for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

12 Changes in Accounting Policies *(continued)*

(ii) Goodwill

In prior years, positive or negative goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities was eliminated against reserves or was credited to a capital reserve respectively. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 30 ("SSAP 30") issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for goodwill as set out in note 1(e).

The Group has taken advantage of the transitional provisions set out in paragraph 88 of SSAP 30 with the effect that the new accounting policy has been adopted prospectively and no adjustments have been made to the opening balances of retained profits and reserves and comparative information.

(iii) Accounting for investments in associates

In 1994, the Company together with the other shareholders of Western Harbour Tunnel Company Limited ("WHTCL") agreed to bear certain capital expenditure relating to the construction of the Western Harbour Crossing in proportion to their equity interest in WHTCL. The Company had previously deferred this expenditure and had amortised it on the same basis as WHTCL amortised its costs of construction of the Western Harbour Crossing from the date of commencement of operations.

In addition, the Group received interest on the loan it advanced to WHTCL prior to the commencement of operations. This interest was previously deferred and amortised on the same basis as referred to above.

The unamortised portion of capital expenditure was treated as part of the Company's cost of investment in WHTCL in prior years.

The unamortised portion of capital expenditure and deferred interest income were both treated as part of the Group's share of net liabilities of WHTCL in prior years.

During the current year the accounting policy for the treatment of deferred capital expenditure and interest income has been changed as a result of the change in management. The effects of this change in accounting policy have been adjusted retrospectively as a prior year adjustment on the basis that they should have been dealt with in the Group's profit and loss account when they were incurred. The comparative figures for the prior years have been amended accordingly.

12 Changes in Accounting Policies *(continued)*

(iii) Accounting for investments in associates *(continued)*

The net effect of these adjustments is to reduce the Group's revenue reserves at 1 January 2000 by $14.3 million. Profit attributable to shareholders for the year ended 31 December 2001 has been increased by $0.2 million (2000: $0.2 million) and net assets at that date have decreased by $13.9 million (2000: $14.1 million) as a result of these adjustments.

The net effect of these adjustments on the Company's own financial statements is to reduce the Company's revenue reserves at 1 January 2000 by $21.3 million and the Company's net assets at 31 December 2000 and 2001 by $20.9 million and $20.5 million respectively.

13 Segment Reporting

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

Business segments

The Group comprises the following main business segments:

Motoring school operations
Tunnel operations
Electronic toll operations
Treasury

Geographical segments

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

13 Segment Reporting *(continued)*

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Unallocated		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Turnover	264,100	275,630	2,463	—	13,932	14,908	19,298	26,902	—	—	299,793	317,440
Other revenue	—	—	5,243	—	—	—	9,001	8,468	—	—	14,244	8,468
Total revenue	264,100	275,630	7,706	—	13,932	14,908	28,299	35,370	—	—	314,037	325,908
Segment result	45,001	46,152	7,706	—	13,669	14,312	(2,519)	36,502	(206)	(38)	63,651	96,928
Unallocated operating expenses											(9,104)	(5,568)
Operating profit before finance costs											54,547	91,360
Finance costs	—	(3)	—	—	—	—	—	—	—	—	—	(3)
Operating profit											54,547	91,357
Share of profits less losses of associates	—	—	31,441	(11,181)	—	—	—	—	—	—	31,441	(11,181)
Share of profit of a jointly controlled entity	—	—	—	—	7,738	6,448	—	—	—	—	7,738	6,448
Profit from ordinary activities before taxation											93,726	86,624
Taxation	(9,047)	(3,828)	(889)	(280)	(2,189)	(2,001)	(305)	(1,038)	—	—	(12,430)	(7,147)
Profit from ordinary activities after taxation											81,296	79,477
Minority interests	(11,328)	(13,392)	—	—	(6,046)	(6,205)	—	—	—	—	(17,374)	(19,597)
Profit attributable to shareholders for the year											63,922	59,880
Depreciation and amortisation for the year	18,866	18,397	—	—	2	96	—	—	303	—	19,171	18,493
Provision for impairment in value of investments	—	—	—	—	—	—	32,767	48,248	—	—	32,767	48,248
Capital expenditure incurred during the year	14,621	56,430	—	—	—	—	—	—	2,023	—	16,644	56,430

13 Segment Reporting *(continued)*

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**118,828**	127,790	**—**	—	**54**	728	**513,769**	614,766	**632,651**	743,284
Interest in associates	**—**	—	**850,704**	717,344	**—**	—	**—**	—	**850,704**	717,344
Interest in a jointly controlled entity	**—**	—	**—**	—	**(10,519)**	1,539	**—**	—	**(10,519)**	1,539
Total assets	**118,828**	127,790	**850,704**	717,344	**(10,465)**	2,267	**513,769**	614,766	**1,472,836**	1,462,167
Segment liabilities	**(87,919)**	(85,500)	**(12,236)**	(16,370)	**(8,924)**	(11,360)	**(31,644)**	(33,972)	**(140,723)**	(147,202)
Unallocated liabilities									**(9,748)**	(9,653)
Total liabilities									**(150,471)**	(156,855)
Minority interests	**(26,772)**	(24,444)	**—**	—	**(3,132)**	(7,562)	**—**	—	**(29,904)**	(32,006)

14 Fixed Assets

	Leasehold land and buildings $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Leasehold improvements $'000	Total $'000
(a) The Group					
Cost:					
At 1 January 2001	129,348	31,094	79,893	—	240,335
Additions	255	1,628	14,197	564	16,644
Disposals	(340)	(11,476)	(5,420)	—	(17,236)
At 31 December 2001	129,263	21,246	88,670	564	239,743
Accumulated depreciation:					
At 1 January 2001	40,414	26,094	64,217	—	130,725
Charge for the year	9,566	1,974	7,488	143	19,171
Written back on disposals	(308)	(11,425)	(5,347)	—	(17,080)
At 31 December 2001	49,672	16,643	66,358	143	132,816
Net book value:					
At 31 December 2001	**79,591**	**4,603**	**22,312**	**421**	**106,927**
At 31 December 2000	88,934	5,000	15,676	—	109,610

14 Fixed Assets *(continued)*

	Furniture, fixtures and equipment $'000	Leasehold improvements $'000	Total $'000
(b) The Company			
Cost:			
At 1 January 2001	—	—	—
Additions	552	564	1,116
At 31 December 2001	552	564	1,116
Accumulated depreciation:			
At 1 January 2001	—	—	—
Charge for the year	54	143	197
At 31 December 2001	54	143	197
Net book value:			
At 31 December 2001	**498**	**421**	**919**
At 31 December 2000	—	—	—

Included within "Leasehold land and buildings" above is leasehold land of the Group, with a net book value of $40.0 million (2000: $43.5 million), held in Hong Kong under a long lease.

15 Investments in Subsidiaries

	Company 2001 $'000	Company 2000 $'000
Unlisted shares at cost	**539,754**	539,753
Amounts due from subsidiaries	**1,123**	4
	540,877	539,757
Amounts due to subsidiaries	**(144,280)**	(114,677)
Loans from subsidiaries	**(11,200)**	(14,700)
	385,397	410,380

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

Details of the principal subsidiaries are as follows:

Name of company	Country/ place of incorporation and operation	Issued and fully paid up share capital (all being ordinary shares except where otherwise stated)	Percentage of equity attributable to the Group: Directly	Percentage of equity attributable to the Group: Indirectly	Principal activities
Beckworth International Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
Centre Court Profits Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
Clear Path Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment

(Expressed in Hong Kong dollars)

15 Investments in Subsidiaries *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name of company	Country/ place of incorporation and operation	Issued and fully paid up share capital (all being ordinary shares except where otherwise stated)	Percentage of equity attributable to the Group		Principal activities
			Directly	Indirectly	
Cumberworth Investments Limited	British Virgin Islands/ International	500 shares of US$1 each	—	70%	Investment
HKSM Yuen Long Driving School Limited	Hong Kong	2 shares of HK$10 each	—	70%	Operation of a driver training centre
Hong Kong Driving School Management Limited	Hong Kong	2 shares of HK$10 each	—	70%	Provision of services for the management of the HKSM group
Kempsford International Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
The Autopass Company Limited	Hong Kong	70,000 "A" shares of HK$10 each	100%	—	Holding company
		30,000 "B" shares of HK$10 each	—	—	
The Hong Kong School of Motoring Limited	Hong Kong	2,000,000 shares of HK$1 each	70%	—	Operation of driver training centres

16 Interest in Associates

	Group		Company	
	2001	2000 restated	**2001**	2000 restated
	$'000	$'000	**$'000**	$'000
Unlisted shares at cost	**—**	—	**148,370**	148,370
Share of net liabilities other than goodwill	**(118,920)**	(150,361)	**—**	—
Amounts due from an associate	**416**	—	**416**	—
Amounts due to an associate	**(368)**	(370)	**(368)**	(370)
Loan to and interest receivable from an associate	**969,576**	868,075	**969,576**	868,075
	850,704	717,344	**1,117,994**	1,016,075

The loan to including interest receivable thereon, and amounts due from/to an associate are non-current as these are not repayable within the next twelve months.

(a) Details of the Group's principal associate at 31 December 2001 are as follows:

Name	**Place of incorporation**	**Percentage of issued ordinary shares held directly by the Company**	**Principal activity**	**Financial year end**
Western Harbour Tunnel Company Limited ("WHTCL")	Hong Kong	37%	Operation of the Western Harbour Crossing	31 July

(b) The Group's interest in WHTCL is accounted for under the equity method based on the financial statements of WHTCL as at 31 December 2001.

(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.

16 Interest in Associates *(continued)*

(d) The loan to an associate ("the Loan") bears interest at a rate of 1% per annum as determined by the shareholders of that associate. Interest earned by the Group from WHTCL for the year ended 31 December 2001 totalled $9.0 million (2000: $8.5 million). The Loan is repayable on demand as may from time to time be agreed among WHTCL's shareholders, subject to a syndicated loan (which will be due for full and final repayment on 31 December 2007) having been fully repaid by WHTCL before any repayment of the Loan.

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

		2001	2000
		$'000	$'000
(i)	Turnover	637,492	585,571
	Finance costs	333,882	410,152
	Depreciation charge	126,151	119,196
	Profit/(loss) before taxation	83,680	(31,789)
(ii)	Fixed assets	6,292,566	6,418,005
	Bank loans	(3,889,000)	(4,346,000)
	Loan from shareholders	(2,620,475)	(2,346,149)

17 Interest in a Jointly Controlled Entity

	Group		Company	
	2001	2000	2001	2000
	$'000	$'000	$'000	$'000
Share of net assets other than goodwill	3,983	3,697	—	—
Amount due from a jointly controlled entity	—	2,927	—	—
Loan from a jointly controlled entity	(14,502)	(5,085)	—	—
	(10,519)	1,539	—	—

17 Interest in a Jointly Controlled Entity *(continued)*

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

Name	Form of business structure	Place of incorporation and operation	Percentage of equity share attributable to the Group	Average percentage of profit attributable to the Group	Principal activity	Financial year end
Autotoll Limited	Corporation	Hong Kong	35%	37.1%	Operation of an electronic toll collection system	30 September

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

(c) The loan from a jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.

(d) The following supplementary financial information is disclosed relating to the interest in a jointly controlled entity, Autotoll Limited:

	2001	2000
	$'000	$'000
Turnover	**75,608**	64,910
Depreciation and amortisation charges	**8,469**	7,050
Profit before taxation	**15,004**	11,897

18 Investments

	Group	
	2001	2000
	$'000	$'000
Shares listed in Hong Kong	**287,476**	326,998
Shares listed outside Hong Kong	**31,101**	36,537
	318,577	363,535
Market value of listed shares	**318,577**	363,535

19 Trade and Other Receivables

Included in trade and other receivables are trade receivables with an aging analysis as at the year end as follows:

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Amounts receivable within:				
0-30 days	**167**	713	**—**	—
31-60 days	**35**	206	**—**	—
61-90 days	**281**	58	**—**	—
Over 90 days	**110**	769	**—**	—
	593	1,746	**—**	—

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

Trade and other receivables includes deposits paid amounting to $5,066,000 (2000: $4,911,000) which are expected to be recovered after one year.

20 Cash and Cash Equivalents

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Deposits with banks and other financial institutions	**189,878**	230,708	**108,633**	166,408
Cash at bank and in hand	**2,486**	1,135	**1,722**	320
	192,364	231,843	**110,355**	166,728

21 Trade and Other Payables

Included in trade and other payables are trade payables with an aging analysis as at the year end as follows:

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Amounts payable within:				
0-30 days	**2,240**	6,387	**—**	40
31-60 days	**—**	954	**—**	67
61-90 days	**—**	—	**—**	—
Over 90 days	**10**	—	**—**	—
	2,250	7,341	**—**	107

Trade and other payables includes deposit received amounting to $100,000 (2000: $100,000) which are expected to be settled after one year.

22 Share Capital

	2001		2000	
	No. of shares '000	Amount $'000	No. of shares '000	Amount $'000
Authorised:				
Ordinary shares of $1 each	1,000,000	1,000,000	236,000	236,000
Issued and fully paid:				
At 1 January 2001	191,638	191,638	191,638	191,638
Share issued in lieu dividends	1,934	1,934	—	—
At 31 December 2001	193,572	193,572	191,638	191,638

By an ordinary resolution passed at the special general meeting held on 8 May 2001, the Company's authorised share capital was increased to $1,000,000,000 by the creation of an additional 764,000,000 ordinary shares of $1 each, ranking pari passu with the existing shares of the Company in all respects.

On 17 August 2001 and 30 October 2001, 932,051 shares and 1,001,563 shares were issued as fully paid new shares in lieu of first interim cash dividends and second interim cash dividends for the year ended 31 December 2001, at a value of $3.17 and $2.96 per share respectively. An amount of $4.0 million standing to the credit of the share premium account was applied in paying up the shares.

Pursuant to a share option scheme established by the Company on 8 May 2001, options to purchase ordinary shares in the Company were granted during the year to eligible employees exercisable at a price of $2.492 per share. The options are exercisable during the period from 30 August 2001 to 7 May 2011. As at 31 December 2001, no options were exercised and there were outstanding options in respect of a total of 19,200,000 ordinary shares of the Company.

23 Reserves

	Group		Company	
	2001	2000 restated	**2001**	2000 restated
	$'000	$'000	**$'000**	$'000
Non-distributable reserves (see note (a) below)	**743,354**	751,584	**751,015**	747,029
Distributable reserves (see note (b) below)	**355,535**	330,084	**648,547**	628,748
	1,098,889	1,081,668	**1,399,562**	1,375,777

(a) **Non-distributable reserves**

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
(i) Share premium				
Balance at 1 January	**747,029**	747,029	**747,029**	747,029
Share issued in lieu dividends	**3,986**	—	**3,986**	—
Balance at 31 December	**751,015**	747,029	**751,015**	747,029
(ii) Capital reserve				
Balance at 1 January and 31 December	**1,984**	1,984	**—**	—
(iii) Investment revaluation reserve				
Balance at 1 January	**2,571**	32,246	**—**	—
Revaluation deficits	**(44,983)**	(34,230)	**—**	—
Realised on disposal of investments	**—**	(43,693)	**—**	—
Transfer to the profit and loss account on impairment	**32,767**	48,248	**—**	—
Balance at 31 December	**(9,645)**	2,571	**—**	—
Total of non-distributable reserves at 31 December	**743,354**	751,584	**751,015**	747,029

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

23 Reserves *(continued)*

(b) Distributable reserves

Revenue reserve

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Balance at 1 January				
- as previously reported	**334,590**	313,298	**664,563**	647,230
- prior period adjustments arising from changes in the accounting treatment relating to investments in associates (note 12)	**(14,088)**	(14,349)	**(20,897)**	(21,284)
- prior period adjustments in respect of dividends proposed (note 12)	**9,582**	19,164	**9,582**	19,164
- prior period adjustments in respect of dividend income (note 12)	**—**	—	**(24,500)**	(21,000)
- as restated	**330,084**	318,113	**628,748**	624,110
Dividends approved in respect of the previous year (note 10(b))	**(9,582)**	(19,164)	**(9,582)**	(19,164)
Profit for the year	**63,922**	59,880	**58,270**	52,547
Dividends declared in respect of the current year (note 10(a))	**(28,889)**	(28,745)	**(28,889)**	(28,745)
Balance at 31 December	**355,535**	330,084	**648,547**	628,748

At 31 December 2001, the aggregate amount of reserves available for distribution to Shareholders of the Company was $648,547,000 (2000 (restated): $628,748,000). After the balance sheet date the Directors proposed a final dividend of $0.05 per share (2000: $0.05 per share), amounting to $9,728,000 (2000: $9,582,000). This dividend has not been recognised as a liability at the balance sheet date.

24 Capital Commitments

Capital commitments outstanding at 31 December 2001 not provided for in the financial statements were as follows:

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Contracted for	**282**	15,239	**—**	—
Authorised but not contracted for	**—**	—	**—**	—

25 Operating Lease Commitments

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Within 1 year	**12,919**	12,884	**—**	—
After 1 year but within 5 years	**13,464**	21,036	**—**	—
After 5 years	**—**	226	**—**	—
	26,383	34,146	**—**	—

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

26 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 received consultancy fees from a jointly controlled entity of $13.5 million (2000: $14.5 million).

(b) The Group received interest income and management fee income from an associate of $9.0 million (2000: $8.5 million) and $1.9 million (2000: $Nil), respectively. The loan to and interest receivable from the associate, and amount due from the associate are set out in note 16.

(c) The Group purchased electronic tags and equipments from a minority shareholder, Amtech Systems (Hong Kong) Limited ("Amtech"), of a non-wholly owned subsidiary of the Group at market rates for a total cost of $5.6 million during the year ended 31 December 2001 (2000: $6.9 million). There were amounts totalling $Nil due to Amtech at the year end (2000: $2.9 million).

(d) The Group supplied equipment and electronic tags assets to its jointly controlled entity as follows:

(i) Equipment at cost plus a mark up averaging approximately 6%, totalling $0.7 million (2000: $0.4 million).

(ii) Electronic tags at cost plus mark up of 5%, totalling $5.3 million (2000: $6.8 million).

The amount due from a jointly controlled entity at 31 December 2001 amounted to $Nil (2000: $2.9 million).

27 Contingent Liabilities

At 31 December 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 Government of the Hong Kong SAR 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 31 December 2001.

27 Contingent Liabilities *(continued)*

(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 (2000: $11.1 million) to a bank in return for it providing a guarantee in favour of the Government of the Hong Kong SAR 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 (2000: $2.4 million).

(d) In respect of the Company

The Company has given two letters of undertaking in relation to the bank facilities of the Group to two banks for general facilities totalling $200 million granted to the Company. The banking facilities granted are also secured by a negative pledge of certain listed investments held by the Group. At 31 December 2001, these facilities were not utilised by the Company.

28 Post Balance Sheet Events

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

29 Comparative Figures

Certain comparative figures have been adjusted as a result of changes in accounting policies for dividends and investment in associates, details of which are set out in note 12.