Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(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 during the Company's financial year.

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 during the Company's financial year.

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

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

1 Significant Accounting Policies *(continued)*

(e) Goodwill *(continued)*

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 consolidated 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.

— 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 $33^1/_3$%
Motor vehicles	20%
Leasehold improvements	Remaining term of the lease

1 Significant Accounting Policies *(continued)*

(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 consolidated profit and loss account.

Transfers from the investment revaluation reserve to the consolidated 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 consolidated profit and loss account as they arise.

(iii) Profits or losses on disposal of investments in securities are accounted for in the consolidated 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 consolidated 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 consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated 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 consolidated 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 consolidated 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 consolidated 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.

(iv) Interest income from a loan to an associate is accrued on a time apportioned basis based on the principal amounts outstanding and at such rate as may be agreed from time to time among all the shareholders of the associate.

(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 consolidated 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 consolidated 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 consolidated 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 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(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.

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.

1 Significant Accounting Policies *(continued)*

(t) Segment reporting *(continued)*

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 14 to the financial statements. Given below is an analysis of the turnover and operating profit of the Group:

	Turnover		Operating profit	
	2002	2001 restated	**2002**	2001
	$'000	$'000	**$'000**	$'000
Principal activities				
Motoring school operations	**239,759**	255,692	**46,217**	45,001
Investment and other activities	**31,525**	35,693	**(22,193)**	9,546
	271,284	291,385	**24,024**	54,547

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 Other Net Loss

	2002	2001
	$'000	$'000
Other revenue		
Interest income from loan to an associate	10,270	9,001
Write back of overprovision for tunnel maintenance expenses	—	5,243
	10,270	14,244
Other net loss		
Net (loss)/gain on sale of fixed assets	(334)	101
Provision for impairment in value of investments	(39,395)	(32,767)
	(39,729)	(32,666)

The directors reviewed the Group's investment portfolio at 31 December 2002 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 investments, which totalled $39.4 million (2001: $32.8 million), was transferred to the consolidated profit and loss account at 31 December 2002.

4 Profit from Ordinary Activities before Taxation

Profit from ordinary activities before taxation is arrived at

	2002	2001
	$'000	$'000
after charging:		
(a) Finance costs		
Interest on convertible notes	4,555	—
Other borrowing costs	733	206
	5,288	206
(b) Other items		
Depreciation	18,869	19,171
Auditors' remuneration		
- audit services	616	666
- other services	220	140
Operating lease charges - land and buildings	16,045	18,974
Contributions to defined contribution retirement scheme	4,785	4,465
Salaries, wages and other benefits (excluding directors' emoluments)	121,127	128,603
Cost of inventories consumed	12,862	13,404
and after crediting:		
Dividend income from listed investments	10,896	10,865
Interest income	14,927	17,427

5 Directors' Remuneration

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

	2002 $'000	2001 $'000
Fees	700	760
Salaries and other emoluments	2,210	921
Discretionary bonuses	3,100	—
Retirement scheme contributions	16	5
Inducement for joining the Group	—	500
	6,026	2,186

For the year under review, total emoluments (including any reimbursement of expenses) of $700,000 (2001: $700,000), of which $700,000 (2001: $700,000) was in the form of directors' fees and $Nil (2001: $Nil) 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:

Bands (in HK$)	2002 Number	2001 Number
Not more than $1,000,000	7	16
$1,000,001 - $1,500,000	—	1
$3,500,001 - $4,000,000	1	—
	8	17

6 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, one (2001: one) is a director whose emoluments are disclosed in note 5. The aggregate emoluments in respect of the other four (2001: four) individuals are as follows:

(a) Aggregate emoluments

	2002 $'000	2001 $'000
Salaries and other emoluments	3,218	2,622
Discretionary bonuses and/or performance-related bonuses	380	420
Retirement scheme contributions	114	96
	3,712	3,138

(b) Bandings

Bands (in HK$)	2002 Number	2001 Number
Not more than $1,000,000	3	4
$1,000,001-$1,500,000	1	—
	4	4

7 Taxation

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

	2002 $'000	2001 $'000
Provision for Hong Kong profits tax at 16.0% (2001: 16.0%) of the estimated assessable profits for the year	10,963	10,437
Overprovision in respect of prior years	(217)	(107)
Deferred taxation (note 8)	(1,100)	2,100
	9,646	12,430
Share of a jointly controlled entity's taxation	951	—
	10,597	12,430

7 Taxation *(continued)*

(b) Taxation in the balance sheets represents:

	Group		Company	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Provision for Hong Kong profits tax for the year	**10,963**	10,437	—	903
Provisional profits tax paid	**(9,386)**	(3,075)	**(515)**	(252)
	1,577	7,362	**(515)**	651

(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 in deferred taxation comprises:

	Group		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Balance at 1 January	**4,400**	2,300	—	—
Transferred (to)/from the profit and loss account (note 7(a))	**(1,100)**	2,100	—	—
Balance at 31 December	**3,300**	4,400	—	—

8 Deferred Taxation *(continued)*

(b) Major components of deferred taxation of the Group are set out below:

	2002 Provided $'000	2002 Potential liabilities/ (assets) unprovided $'000	2001 Provided $'000	2001 Potential liabilities/ (assets) unprovided $'000
Depreciation allowances in excess of/(less than) the related depreciation	3,300	(706)	4,400	(62)
Future benefit of tax losses	—	(1,139)	—	—
	3,300	(1,845)	4,400	(62)

The unprovided net deferred taxation assets have not been accounted for as their future realisation is uncertain.

(c) Major components of deferred taxation of the Company are set out below:

	2002 Provided $'000	2002 Potential liabilities/ (assets) unprovided $'000	2001 Provided $'000	2001 Potential liabilities/ (assets) unprovided $'000
Depreciation allowances in excess of/(less than) the related depreciation	—	(26)	—	99
Future benefit of tax losses	—	(1,139)	—	—
	—	(1,165)	—	99

The unprovided net deferred taxation assets have not been accounted for as their future realisation is uncertain.

9 Profit Attributable to Shareholders for the Year

The consolidated profit attributable to shareholders includes a profit of $18,880,000 (2001: $33,770,000) 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:

	2002 $'000	2001 $'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	**18,880**	33,770
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**13,930**	24,500
Company's profit for the year (note 23)	**32,810**	58,270

10 Dividends

(a) Dividends attributable to the year:

	2002 $'000	2001 $'000
Interim dividends declared of $0.15 per share (2001: $0.15 per share)	**31,010**	28,889
Final dividend proposed after the balance sheet date of $0.05 per share (2001: $0.05 per share)	**10,460**	9,728
	41,470	38,617

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:

	2002 $'000	2001 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.05 per share (2001: $0.05 per share)	**9,728**	9,582

(Expressed in Hong Kong dollars)

11 Earnings per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $67,438,000 (2001: $63,922,000) and the weighted average of 202,148,734 ordinary shares (2001: 192,161,112) 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 $71,265,000 (2001: $63,922,000) and the weighted average number of ordinary shares of 243,941,327 shares (2001: 193,550,204 shares) after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

	2002 Number of shares	2001 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**202,148,734**	192,161,112
Deemed issue of ordinary shares for no consideration	**4,605,118**	1,389,092
Deemed issue of ordinary shares from conversion of convertible notes	**37,187,475**	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	**243,941,327**	193,550,204

12 Segment Reporting

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

Business segments

The Group comprises the following main business segments:

Motoring school operations
Tunnel operations
Electronic toll operations
Treasury

Geographical segments

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

12 Segment Reporting *(continued)*

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Unallocated		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001 restated
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Turnover	239,759	255,692	3,073	2,463	12,636	13,932	15,553	19,298	263	–	271,284	291,385
Other revenue	–	–	–	5,243	–	–	10,270	9,001	–	–	10,270	14,244
Total revenue	239,759	255,692	3,073	7,706	12,636	13,932	25,823	28,299	263	–	281,554	305,629
Segment result	46,217	45,001	3,073	7,706	12,430	13,669	(13,632)	(2,519)	(303)	(206)	47,785	63,651
Unallocated operating expenses											(18,473)	(8,898)
Operating profit before finance costs											29,312	54,753
Finance costs	–	–	–	–	–	–	(5,288)	(206)	–	–	(5,288)	(206)
Operating profit											24,024	54,547
Share of profits less losses of associates	–	–	61,607	31,441	–	–	–	–	–	–	61,607	31,441
Share of profit of a jointly controlled entity	–	–	–	–	9,234	7,738	–	–	–	–	9,234	7,738
Profit from ordinary activities before taxation											94,865	93,726
Taxation	(7,538)	(9,047)	(122)	(889)	(2,938)	(2,189)	1	(305)	–	–	(10,597)	(12,430)
Profit from ordinary activities after taxation											84,268	81,296
Minority interests	(11,073)	(11,328)	–	–	(5,757)	(6,046)	–	–	–	–	(16,830)	(17,374)
Profit attributable to shareholders for the year											67,438	63,922
Depreciation for the year	18,252	18,866	–	–	–	2	–	–	617	303	18,869	19,171
Provision for impairment in value of investments	–	–	–	–	–	–	39,395	32,767	–	–	39,395	32,767
Capital expenditure incurred during the year	2,742	14,621	–	–	–	–	–	–	966	2,023	3,708	16,644

12 Segment Reporting *(continued)*

	Motoring school operations		Tunnel operations		Electronic toll operations		Treasury		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segment assets	196,648	118,828	–	–	–	54	472,019	513,769	668,667	632,651
Interest in associates	–	–	1,052,079	850,704	–	–	–	–	1,052,079	850,704
Interest in a jointly controlled entity	–	–	–	–	6,714	(10,519)	–	–	6,714	(10,519)
Total assets	196,648	118,828	1,052,079	850,704	6,714	(10,465)	472,019	513,769	1,727,460	1,472,836
Segment liabilities	(84,722)	(87,919)	(17,526)	(12,236)	(7,473)	(8,924)	(246,679)	(31,644)	(356,400)	(140,723)
Unallocated liabilities									(10,458)	(9,748)
Total liabilities									(366,858)	(150,471)
Minority interests	(33,645)	(26,772)	–	–	(5,550)	(3,132)	–	–	(39,195)	(29,904)

13 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 2002	129,263	21,246	88,670	564	239,743
Additions	180	1,377	1,300	851	3,708
Disposals	(191)	(179)	(646)	(558)	(1,574)
At 31 December 2002	129,252	22,444	89,324	857	241,877
Accumulated depreciation:					
At 1 January 2002	49,672	16,643	66,358	143	132,816
Charge for the year	9,179	1,492	7,876	322	18,869
Written back on disposals	(127)	(128)	(589)	(384)	(1,228)
At 31 December 2002	58,724	18,007	73,645	81	150,457
Net book value:					
At 31 December 2002	**70,528**	**4,437**	**15,679**	**776**	**91,420**
At 31 December 2001	79,591	4,603	22,312	421	106,927

Included within "Leasehold land and buildings" above is leasehold land of the Group, with a net book value of $33.9 million (2001: $39.6 million), held in Hong Kong under a long lease.

13 Fixed Assets *(continued)*

	Furniture, fixtures and equipment $'000	Leasehold improvements $'000	Total $'000
(b) The Company			
Cost:			
At 1 January 2002	552	564	1,116
Additions	115	851	966
Disposals	(17)	(558)	(575)
At 31 December 2002	650	857	1,507
Accumulated depreciation:			
At 1 January 2002	54	143	197
Charge for the year	114	322	436
Written back on disposal	(5)	(384)	(389)
At 31 December 2002	163	81	244
Net book value:			
At 31 December 2002	**487**	**776**	**1,263**
At 31 December 2001	498	421	919

14 Investments in Subsidiaries

	2002 $'000	2001 $'000
Unlisted shares at cost	**539,754**	539,754
Amounts due from subsidiaries	**30,006**	1,123
	569,760	540,877
Amounts due to subsidiaries	**(145,806)**	(144,280)
Loans from subsidiaries	—	(11,200)
	423,954	385,397

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.

(Expressed in Hong Kong dollars)

14 Investments in Subsidiaries *(continued)*

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		Principal activities
			directly	indirectly	
Beckworth International Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
Centre Court Profits Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
Clear Path Limited	British Virgin Islands/ International	500 shares of US$1 each	—	100%	Investment
Cumberworth Investments Limited	British Virgin Islands/ International	500 shares of US$1 each	—	70%	Investment
Deep Bowl Limited	British Virgin Islands/ International	1 share of US$1 each	100%	—	Investment holding
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

14 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 directly	Percentage of equity attributable to the Group indirectly	Principal activities
The Autopass Company Limited	Hong Kong	70,000 "A" shares of HK$10 each	100%	—	Investment holding and provision of consultancy services
		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

15 Interest in Associates

	Group 2002 $'000	Group 2001 $'000	Company 2002 $'000	Company 2001 $'000
Unlisted shares at cost	—	—	**148,370**	148,370
Share of net liabilities other than goodwill	**(57,313)**	(118,920)	—	—
Amounts due from an associate	**416**	416	**416**	416
Amounts due to an associate	**(370)**	(368)	**(370)**	(368)
Loan to and interest receivable from an associate	**1,109,346**	969,576	**1,109,346**	969,576
	1,052,079	850,704	**1,257,762**	1,117,994

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.

15 Interest in Associates *(continued)*

(a) Details of the Group's principal associate at 31 December 2002 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 2002.

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

(d) The loan to an associate ("the Loan") bears interest at a rate of 1% per annum as determined by the shareholders of that associate. Interest earned by the Group from WHTCL for the year ended 31 December 2002 totalled $10.3 million (2001: $9.0 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 28 February 2011 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:

		2002	2001
		$'000	$'000
(i)	Turnover	**636,320**	637,492
	Finance costs	**232,973**	333,882
	Depreciation and amortisation	**132,484**	126,151
	Profit before taxation	**168,380**	83,680
(ii)	Fixed assets	**6,161,407**	6,292,566
	Bank loans	**(3,238,000)**	(3,889,000)
	Loan from shareholders	**(2,710,000)**	(2,620,475)

16 Interest in a Jointly Controlled Entity

	Group		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Share of net assets other than goodwill	**6,714**	3,983	**—**	—
Loan from a jointly controlled entity	**—**	(14,502)	**—**	—
	6,714	(10,519)	**—**	—

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

Name of company	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity attributable to the Group	Principal activity	Financial year end
Autotoll Limited	Corporation	Hong Kong	10,000 ordinary shares of HK$1 each	35%	Operation of an electronic toll collection system	30 September

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

(c) As at 31 December 2001, there was a loan from a jointly controlled entity in the amount of $14,502,000. This loan was fully repaid during the year ended 31 December 2002.

17 Investments

	Group	
	2002	2001
	$'000	$'000
Shares listed in Hong Kong	**209,045**	287,476
Shares listed outside Hong Kong	**22,712**	31,101
	231,757	318,577
Market value of listed shares	**231,757**	318,577

18 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	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Amounts receivable within:				
0-30 days	**504**	167	**—**	—
31-60 days	**40**	35	**—**	—
61-90 days	**—**	281	**—**	—
Over 90 days	**322**	110	**—**	—
	866	593	**—**	—

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 $4,456,000 (2001: $5,066,000) which are expected to be recovered after one year.

19 Cash and Cash Equivalents

	Group		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Deposits with banks and other financial institutions	**301,903**	189,878	**193,314**	108,633
Cash at bank and in hand	**378**	2,486	**695**	1,722
	302,281	192,364	**194,009**	110,355

20 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	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Amounts payable within:				
0-30 days	**1,778**	2,240	**—**	—
31-60 days	**—**	—	**—**	—
61-90 days	**—**	—	**—**	—
Over 90 days	**10**	10	**—**	—
	1,788	2,250	**—**	—

Trade and other payables includes deposit received amounting to $100,000 (2001: $100,000) which are expected to be settled after one year.

21 Convertible Notes

On 8 May 2002, the Company issued convertible notes (the "CN I") amounting to $133,000,000 with a maturity date of 8 May 2005 which bear interest at the rate of 3.5% per annum. The CN I confer rights to be converted into new ordinary shares of the Company at a conversion price of $3.50 per share during the period from 8 May 2002 to 8 May 2003, $3.70 per share during the period from 9 May 2003 to 8 May 2004 and $3.90 per share during the period from 9 May 2004 to 8 May 2005 (subject to adjustment).

On 17 May 2002, $35,000,000 CN I were converted into 10,000,000 new ordinary shares of the Company at a conversion price of $3.50 per share.

On 11 June 2002, the Company issued further convertible notes (the "CN II") of $117,000,000 with a maturity date of 11 June 2005 which bear interest at the rate of 3.5% per annum. The CN II confer rights to be converted into new ordinary shares of the Company at a conversion price of $3.50 per share during the period from 11 June 2002 to 11 June 2003, $3.70 per share during the period from 12 June 2003 to 11 June 2004 and $3.90 per share during the period from 12 June 2004 to 11 June 2005 (subject to adjustment).

22 Share Capital

	2002		2001	
	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	**193,572**	**193,572**	191,638	191,638
Shares issued in lieu of cash dividends	**4,382**	**4,382**	1,934	1,934
Shares issued on conversion of convertible notes	**10,000**	**10,000**	—	—
At 31 December	**207,954**	**207,954**	193,572	193,572

Fully paid new shares in lieu of cash dividends were issued as follows. An amount of $9.9 million was credited to the share premium account upon issue of the shares.

Date shares issued	Dividend	No. of shares issued	Value
8 January 2002	Third interim dividend of 2001	979,467	$3.190
30 May 2002	Final dividend of 2001	993,994	$3.390
19 July 2002	First interim dividend of 2002	1,174,210	$3.365
28 October 2002	Second interim dividend of 2002	1,234,333	$3.125

On 17 May 2002, $35 million convertible notes were converted by the holders thereof into 10,000,000 ordinary shares. An amount of $25 million was credited to the share premium account upon issue of the shares.

All shares issued during the year rank pari passu with the existing issued shares of the Company in all respects.

Pursuant to a share option scheme established by the Company on 8 May 2001, options to purchase ordinary shares in the Company were granted on 30 August 2001 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 2002, 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	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Non-distributable reserves (see note (a) below)	**731,218**	743,354	**785,935**	751,015
Distributable reserves (see note (b) below)	**382,235**	355,535	**640,619**	648,547
	1,113,453	1,098,889	**1,426,554**	1,399,562

(a) Non-distributable reserves

	Group		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
(i) Share premium				
Balance at 1 January	**751,015**	747,029	**751,015**	747,029
Shares issued in lieu of cash dividends	**9,920**	3,986	**9,920**	3,986
Shares issued upon conversion of convertible notes	**25,000**	—	**25,000**	—
Balance at 31 December	**785,935**	751,015	**785,935**	751,015
(ii) Capital reserve				
Balance at 1 January and 31 December	**1,984**	1,984	**—**	—
(iii) Investment revaluation reserve				
Balance at 1 January	**(9,645)**	2,571	**—**	—
Revaluation deficits	**(86,451)**	(44,983)	**—**	—
Transfer to the profit and loss account on impairment	**39,395**	32,767	**—**	—
Balance at 31 December	**(56,701)**	(9,645)	**—**	—
Total of non-distributable reserves at 31 December	**731,218**	743,354	**785,935**	751,015

23 Reserves *(continued)*

(a) Non-distributable reserves *(continued)*

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)).

(b) Distributable reserves

Revenue reserve

	Group		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Balance at 1 January	**355,535**	330,084	**648,547**	628,748
Dividends approved in respect of the previous financial year (note 10(b))	**(9,728)**	(9,582)	**(9,728)**	(9,582)
Profit for the year	**67,438**	63,922	**32,810**	58,270
Dividends declared in respect of the current financial year (note 10(a))	**(31,010)**	(28,889)	**(31,010)**	(28,889)
Balance at 31 December	**382,235**	355,535	**640,619**	648,547

At 31 December 2002, the aggregate amount of reserves available for distribution to shareholders of the Company was $640,619,000 (2001: $648,547,000). After the balance sheet date the directors proposed a final dividend of $0.05 per share (2001: $0.05 per share), amounting to $10,460,000 (2001: $9,728,000). This dividend has not been recognised as a liability at the balance sheet date.

	2002	2001
	$'000	$'000
Profit for the year is retained by:		
- The Company and its subsidiaries	**3,919**	32,281
- Associates	**61,607**	31,441
- Jointly controlled entity	**1,912**	200
Total	**67,438**	63,922

Included in the figure for revenue reserve is an amount of $205,683,000 (2001: $267,290,000), being the accumulated losses attributable to associates; and an amount of $4,696,000 (2001: $2,784,000) being the retained profits attributable to a jointly controlled entity.

24 Capital Commitments

Capital commitments outstanding at 31 December 2002 not provided for in the financial statements were as follows:

	Group		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Contracted for	**10,608**	282	**—**	—
Authorised but not contracted for	**—**	—	**—**	—

25 Operating Lease Commitments

At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	Group		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Within 1 year	**6,778**	6,294	**—**	—
After 1 year but within 5 years	**2,544**	3,720	**—**	—
After 5 years	**—**	—	**—**	—
	9,322	10,014	**—**	—

The Group leases a number of properties under operating leases. The leases typically run for an initial period of three months to five years, with an option to renew the leases upon expiry when all terms are renegotiated. 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 except for (c).

(a) The Group extended a loan to and received interest from an associate, Western Harbour Tunnel Company Limited ("WHTCL"). The balance of the loan and interest receivable at 31 December 2002 was $1,109.3 million (2001: $969.6 million).

The Group received interest income and management fee income from WHTCL of $10.3 million (2001: $9.0 million) and $2.5 million (2001: $1.9 million) respectively.

(b) The Group received consultancy fees from a jointly controlled entity of $12.6 million (2001: $13.5 million).

(c) On 11 June 2002, the Company issued convertible notes totalling $117 million to Honway Holdings Limited ("Honway"), a substantial shareholder of the Company. The interest expenses payable in respect of the convertible notes issued to Honway for the year ended 31 December 2002 totalled $2.3 million.

27 Contingent Liabilities

At 31 December 2002, 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 SAR 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 31 December 2002.

27 Contingent Liabilities *(continued)*

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

The Group has given guarantees to the extent of $30.0 million (2001: $11.1 million) to a bank in return for it providing guarantees in favour of the Hong Kong SAR 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. $11.1 million of the total relates to an agreement which expired on 31 August 2002 and is expected to be released on or before 31 August 2003.

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

There is arrangement between HKSM and its banker for the provision of guarantees by the bank in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than $4.1 million (2001: $2.4 million). $2.4 million of the total was released in January 2003.

(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 (2001: $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 2002, these facilities were not utilised by the Company.

28 Post Balance Sheet Events

A subsidiary of the Group paid $15 million on 14 January 2003 to subscribe for convertible notes issued by a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

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

29 Comparative Figures

(a) The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

(b) In the current year's consolidated profit and loss account, turnover is stated net of cash discounts. In prior years, cash discounts were disclosed as a component of selling and marketing expenses. The relevant comparative figures have been reclassified to conform with the current year's presentation which management consider better reflects the revenue derived from operations. This revised presentation has resulted in a reduction in turnover of $12,259,000 (2001: $8,408,000).