

Report of the Directors

The directors submit their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2003.

Principal Activities

The principal activity of the Company is investment holding while the principal activities of its subsidiaries are set out in note 14 to the financial statements on pages 57 to 59.

During the year, more than 90% of the Group's trading operations in terms of both turnover and operating profit were carried out in Hong Kong. An analysis of the Group's turnover and operating profit for the year is set out in note 2 to the financial statements on page 44.

Results and Appropriations

The results of the Group and appropriations of profit for the year ended 31 December 2003 are set out in the consolidated profit and loss account on page 27 and in note 10 to the financial statements on pages 51 and 52 respectively.

The first, second and third quarterly interim dividends each of HK\$0.05 per share were paid on 21 July 2003, 15 October 2003 and 29 December 2003 respectively. The directors recommend the payment of a final dividend of HK\$0.05 per share which, together with the interim dividends, make total dividends for the year ended 31 December 2003 of HK\$0.20 per share, representing a total distribution of approximately HK\$49.9 million for the year.

The directors also recommend that such final dividend be satisfied in cash, with a scrip option to receive shares in lieu of cash. Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around 13 May 2004 to shareholders registered on 8 April 2004.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$250,000.

Fixed Assets

Movements in the fixed assets of the Group and of the Company during the year are set out in note 13 to the financial statements on pages 56 and 57.

Share Capital

Movements in the share capital of the Company are set out in note 25 to the financial statements on page 68.

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Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 26 to the financial statements on pages 69 to 72.

Financial Summary

Results, assets and liabilities of the Group for the last five financial years are summarised on page 76.

Major Customers and Suppliers

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

Directors

The directors who held office during the year and up to the date of this report are listed on page 2.

The Company's Articles of Association provide for all directors of the Company (including independent non-executive directors but excluding the chairman) to retire by rotation. In accordance with Article 82, Messrs. Yuen Wing Shing and Lee Ka Sze, Carmelo retire from office this year and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

Each independent non-executive director was appointed by the Company to hold office from 8 May 2001 until the conclusion of the annual general meeting of the Company in 2005, subject to any applicable rules and regulations of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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Directors' Interests in Securities

As at 31 December 2003, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company as recorded in the register kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") were as follows :-

(I) Interests in shares

Name	Nature of interest	No. of ordinary shares
Cheung Chung Kiu (<i>Note 1</i>)	Corporate interest	69,039,417

Note 1: Mr. Cheung Chung Kiu ("Mr. Cheung") was deemed to be interested in the above shares by virtue of his indirect shareholding interest in Honway Holdings Limited ("Honway") which owned these shares. Honway was an indirect wholly owned subsidiary of Y. T. Realty Group Limited ("Y. T."). Yugang International Limited ("Yugang"), through an indirect wholly owned subsidiary, owned 34.25% of the issued share capital of Y. T. Mr. Cheung and Chongqing Industrial Limited ("Chongqing") owned 0.63% and 37.79% of the issued share capital of Yugang respectively. Chongqing was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited which was owned by Mr. Cheung and his associates, and as to 30% and 5% by Peking Palace Limited ("Peking Palace") and Miraculous Services Limited ("Miraculous Services") respectively. Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.

(II) Interests in share options

Name	No. of underlying shares
Cheung Chung Kiu	60,000,000 (<i>Note 2</i>)

Note 2: This represents the maximum number of shares issuable upon exercise of the entire option granted on 24 June 2003 (the "Option") pursuant to the share option agreement dated 9 May 2003 made between the Company and Honway, details of which are set out in the Company's circular dated 2 June 2003. Mr. Cheung was deemed to be interested in these underlying shares by virtue of his indirect shareholding interest in Honway as described in Note 1 above.

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(III) Interests in debentures

Name	Type of debenture	Balance of the principal amount of the debenture and no. of underlying shares
Cheung Chung Kiu	Convertible note (<i>Note 3</i>)	HK\$80,457,060 convertible into 21,745,151 new shares at a conversion price of HK\$3.70 per share (<i>Note 4</i>)

Note 3: Honway held the convertible note. Honway has a right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time, from the date of issue of the convertible note up to the third anniversary of the issue of the convertible note in amounts of not less than HK\$1 million on each conversion. Mr. Cheung was deemed to be interested in the underlying shares in respect of the convertible note by virtue of his indirect shareholding interest in Honway as described in Note 1 above.

Note 4: This represents the interest in the underlying shares derived from the convertible note with the outstanding amount of HK\$80,457,060. The conversion price is HK\$3.50 per share for the period from the date of issue of the convertible note up to the first anniversary of the date of issue of the convertible note ("First Year"), HK\$3.70 per share for the period from the date immediately following the first anniversary of the date of issue of the convertible note up to the second anniversary of the date of issue of the convertible note, and HK\$3.90 per share for the period from the date immediately following the second anniversary of the date of issue of the convertible note up to the third anniversary of the date of issue of the convertible note ("Third Year"), subject to adjustment. The total number of the underlying shares in respect of the convertible note changes from the First Year to the Third Year.

All the interests disclosed above represent long positions in the shares, underlying shares and debentures of the Company.

Save as disclosed herein, there was no interest or short position recorded in the register kept under section 352 of the SFO as at 31 December 2003.

Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted on 8 May 2001, prior to amendments to Share Option Schemes (as set out in Chapter 17 of the listing rules of the Stock Exchange) coming into effect on 1 September 2001. According to the listing rules of the Stock Exchange as amended, the Company cannot grant any further options under the Scheme unless it complies with the new requirements of Chapter 17. However, all options granted prior to 1 September 2001 shall remain in full force and effect.

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(I) Summary of the Scheme

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| (1) Purpose of the Scheme | : | To provide incentive or reward to executive management and employees. |
| (2) Participants of the Scheme | : | Eligible full-time employees including executive directors of the Company and its subsidiaries. |
| (3) Total number of shares available for issue under the Scheme and percentage of issued share capital as at 19 March 2004 | : | 19,200,000 shares (7.66%) |
| (4) Maximum entitlement of each participant under the Scheme | : | 25% of the aggregate number of shares issued and issuable under the Scheme. |
| (5) Period within which the shares must be taken up under an option | : | Commencing on the date upon which the option is accepted and expiring on 7 May 2011. |
| (6) Minimum period for which an option must be held before it can be exercised | : | Nil |
| (7) Amount payable on application or acceptance of the option | : | Nominal amount of HK\$1.00 upon acceptance of the option. |
| (8) Basis of determining the exercise price | : | The exercise price is the higher of:
<ul style="list-style-type: none">(a) 80% of the average closing price of the existing shares of the Company on the Stock Exchange on the five trading days immediately preceding the date of offer of such option; and(b) the nominal value thereof. |
| (9) Remaining life of the Scheme | : | The Scheme expires on 7 May 2011. |

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(II) Other Information

Particulars of outstanding options at the beginning and at the end of the year were as follows :

Type of participant	No. of outstanding options at the beginning and at the end of the year	Date of grant	Vesting period	Exercise period	Exercise price per share
Directors	Nil	N/A	N/A	N/A	N/A
Other employees	19,200,000	30 August 2001	Nil	30 August 2001 to 7 May 2011	HK\$2.492

The directors consider that it is not appropriate to state the value of all the options that have been granted pursuant to the Scheme as any such statement would not be meaningful to shareholders due to the application of a number of speculative assumptions in the estimation of the value of the options.

No options lapsed and no options were granted, exercised or cancelled during the year.

Directors' Rights to Acquire Securities

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

Directors' Interests in Contracts

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

Mr. Lee Ka Sze, Carmelo is a partner of Messrs. Woo, Kwan, Lee & Lo and as such has an interest in the normal remuneration paid by the Company to that firm for the services rendered to the Company.

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Substantial Shareholders

As at 31 December 2003, the interests or short positions of the persons, other than directors, in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO were as follows:

Name	Interests in shares <i>(Note 1)</i>	Interests in share options <i>(Note 2)</i>	Interests in equity derivatives <i>(Note 3)</i>
Palin Holdings Limited	69,039,417	60,000,000	HK\$80,457,060
Chongqing	69,039,417	60,000,000	HK\$80,457,060
Yugang	69,039,417	60,000,000	HK\$80,457,060
Yugang International (B.V.I.) Limited	69,039,417	60,000,000	HK\$80,457,060
Funrise Limited	69,039,417	60,000,000	HK\$80,457,060
Y. T.	69,039,417	60,000,000	HK\$80,457,060
Y. T. Investment Holdings Limited	69,039,417	60,000,000	HK\$80,457,060
Honway	69,039,417	60,000,000	HK\$80,457,060

Note 1: The 69,039,417 shares set out in this column refer to the same block of shares beneficially owned by Honway and are duplicated in Mr. Cheung's interest in shares on page 18 of this report.

Note 2: The 60,000,000 underlying shares set out in this column refer to the same block of shares issuable upon exercise of the entire Option and are duplicated in Mr. Cheung's interest in share options on page 18 of this report.

Note 3: The amount of HK\$80,457,060 set out in this column refers to the balance of the principal amount of the convertible note held by Honway, the same convertible note as described under the sub-section headed "Interests in debentures" on page 19 of this report.

Note 4: Each of Palin Holdings Limited, Chongqing, Yugang, Yugang International (B.V.I.) Limited, Funrise Limited, Y. T. and Y. T. Investment Holdings Limited was deemed to be interested in the above shares and underlying shares of the Company by virtue of their direct/indirect shareholding interest in Honway as described in Note 1 of the section headed "Directors' Interests in Securities" on page 18 of this report.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed herein, there was no person known to the directors, other than a director, who, as at 31 December 2003, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

Disclosure under Practice Note 19

(I) Financial Assistance

In relation to the provision of financial assistance by the Company to Western Harbour Tunnel Company Limited (“WHTCL”), a 37%-owned associate of the Company, as previously disclosed in the Company’s interim report for the half-year period ended 30 June 2003, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 31 December 2003. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK\$1,120.4 million as at 31 December 2003.

Terms of the Financial Assistance

The loan to WHTCL bears interest at such rate as may be agreed from time to time among all the shareholders of WHTCL, currently being fixed at 1% per annum. The loan is repayable on demand as may from time to time be agreed among WHTCL’s shareholders, subject to a syndicated loan having been fully repaid by WHTCL before any repayment of the loan except in certain circumstances. No security is provided to the Group for the loan.

(II) Guarantee

The Company entered into a guarantee (“Guarantee”) on 25 June 2002 in favour of The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), given for the benefit of Hong Kong Tunnels and Highways Management Company Limited (“HKTHMCL”), a company which is owned as to 37% by the Company, to the extent of approximately HK\$18.9 million, which becomes effective as from 1 September 2002. The Guarantee is given to HSBC 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 at Hunghom and the operation and maintenance of the tunnel equipment by HKTHMCL.

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(III) Proforma Balance Sheet of Affiliated Companies

Set out below is a combined proforma balance sheet of WHTCL and HKTHMCL as at 31 January 2004 (being the latest practicable date for determining the relevant figures) required to be disclosed under Practice Note 19 of the Listing Rules:

	HK\$'000
Total assets	6,191,589
Other liabilities	<u>(3,070,076)</u>
	<u>3,121,513</u>
Share capital and reserves	90,737
Shareholders' loans	<u>3,030,776</u>
	<u>3,121,513</u>

Pension Schemes

(I) Nature

The principal pension scheme operated by the Group is a defined contribution scheme for the employees of The Hong Kong School of Motoring Limited, a 70%-owned subsidiary of the Company.

(II) Funding

The benefits of the pension scheme were funded in 2003 by a 5% contribution by employees and a 5% contribution by The Hong Kong School of Motoring Limited based on the annual salaries of employees. The contributions excluded the costs of administration and term life assurance.

(III) Costs

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

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Mandatory Provident Fund Schemes

As from 1 December 2000, the Group has operated two Mandatory Provident Fund Schemes (the “MPF Schemes”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement scheme. The MPF Schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF Schemes, the employer and its employees are each required to make contributions to the schemes at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000. The total amount of contributions to the MPF Schemes charged to the Group’s profit and loss account for the year was HK\$2.2 million.

Purchase, Sale or Redemption of Shares

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

Bank Loans and Other Borrowings

Details of the Company’s convertible notes are set out in note 22 to the financial statements on page 66.

Interest Capitalised

No interest was capitalised by the Group during the year.

Further Corporate Information

Further information of the Group which is required to be disclosed pursuant to the listing rules of the Stock Exchange is set out on pages 11 to 13.

Code of Best Practice

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the listing rules of the Stock Exchange throughout the year.

Auditors

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

On behalf of the Board

Cheung Chung Kiu
Chairman

Hong Kong, 19 March 2004