

Chairman's Statement

Performance

The Group reported a net profit of HK\$135.0 million for the year ended 31 December 2004, representing an increase of 54.7 per cent as compared with HK\$87.2 million in 2003. The increase was primarily attributable to the profit contribution from the Group's investment in the Western Harbour Tunnel. Earnings per share were HK\$0.53 against HK\$0.37 for 2003.

Final Dividend

A fourth and final dividend of HK\$0.10 per share has been proposed and, if approved by the Shareholders, will result in total dividends of HK\$0.25 per share for the year, representing an increase of 25 per cent when compared with the previous year. Total dividends paid and proposed for the year will be HK\$66.8 million.

Business Review and Outlook

During the year under review, the Hong Kong economy recorded a strong recovery underpinned by the continued buoyancy of the export trade, flourishing inbound tourism, and abundant liquidity resulting from a continued influx of hot money triggered by weak US dollar and speculation on revaluation of Renminbi. As a result of the closer partnership with the Mainland in recent years, the Mainland becomes Hong Kong's largest source of inward Foreign Direct Investment and inbound tourists. Mainland visitors account for almost 60% of the total tourist arrivals, a surge of nearly 45% as compared to 2003 and provide local retail sales and labour market with extra impetus other than a recovering domestic consumption. Real GDP growth for the year is estimated to reach 7.8 per cent. The residential property market, being driven by a bullish outlook and strong investment sentiment also reversed a six-year declining trend, with average price surging by more than 25 per cent. In summary, revived business confidence and surge in private consumption marked the rejuvenation of the local economy.

Looking ahead to 2005, Hong Kong's economic growth is anticipated to be actively fuelled by both the domestic and external factors, although it will likely moderate to some degree after last year's strong surge. Internally, low interest rates, rehabilitating asset prices coupled with easing deflationary and unemployment pressure bode well for domestic consumption. It is hoped that the recovering of the property market will continue to lead the second-wave unemployment rate to recede. Externally, the economic momentum of the Mainland will likely remain robust after years of swift growth, particular in the Pearl River Delta region, but at a reduced pace as a result of the austerity measures. More important, the Mainland factor will continue to exert increasing influence on the economic fortunes of the territory in 2005 and beyond due to its growing dependence on the hinterland as a market for its business and professional services. The opening of the Hong Kong Disney theme park in Lantau in September this year should further bolster inbound tourism and the retail sector.

Nevertheless, uncertainty about the movement of local interest rates as against the US dollar counterpart and oil prices is likely to remain. However, barring any adversity like SARS, none are likely to derail Hong Kong severely from its growth path. The vibrant trade and economic prospects of the Mainland will, no doubt, continue to bring enormous opportunities for Hong Kong and shoulder its growth momentum over the medium-term.

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The Autopass Company Limited ("Autopass") - 70% owned *Autotoll Limited ("Autotoll") - effectively 35% owned*

Autotoll Limited, being 50% owned by Autopass, provides electronic toll clearing facilities in Hong Kong covering ten different toll roads and tunnels. There are forty-eight auto-toll lanes in operation at present. With the support of revived business sentiment and adoption of aggressive marketing strategies by providing more value-added services, the net growth in the number of subscribers during the past year has slightly improved, though at a slow pace. In view of the increasing competition from other electronic payment systems and the growing demand for Intelligent Transport System activities in the territory as well as in the Mainland, Autotoll is preparing to transform from "a single product provider in a single territory" to "a technology service provider in multi-territories" in the long run – a new attempt to extend its scope of services to transport and logistic management and at the same time, to outreach to other mainland markets outside Hong Kong. In order to achieve this long-term goal, resources are allocated to enhance the operation capability and to explore the market potential for the application of new technology. The Global Positioning System ("GPS"), aimed at providing fleet management service to corporate customers, was well received after its pilot launch in July last year.

The Hong Kong School of Motoring Limited ("HKSM") - 70% owned

In the face of a challenging business environment, the demand for driving lessons has slightly decreased as compared with the year before. However, HKSM has again recorded a pleasing result with improved operating margin in the past year as a result of a two-pronged approach – extensive sales strategy and flexible cost structure. Moreover, the new driving courses relating to the Mainland reciprocal driving licences scheme were also well received since its launching in May last year.

Despite the rebound of the economy, the growing market penetration of the non-designated driving school operators and private instructors, coupled with their cutthroat pricing strategies, have severely threatened the competitiveness of HKSM in the past years. To outrun others in a market of stiff competition, and at the same time to maintain its edge and brand image in the driving school business, HKSM will continue to strive for higher productivity and staff competence through a series of quality enhancement programs as well as cost control measures.

Western Harbour Tunnel Company Limited ("WHTCL") - 37% owned

Due to the resilient performance of the total cross harbour traffic, the throughput of the Western Harbour Tunnel ("WHT"), though still fell short of that projected since its opening, has rebounded to the level before the outbreak of SARS. As a measure to increase revenue, WHTCL has implemented its third toll increase with effect from 4 July 2004. Although WHTCL toll charges has increased twice for certain vehicle categories in two consecutive years, most of the vehicle categories are still charged substantially lower than the gazetted toll level. As a result of improved toll revenue and reduction in interest expenses, the performance of WHTCL in the past year was encouraging.

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In 2005, we anticipate a steady return from the franchise, fuelled by the surging tourist arrivals from the Mainland and the opening of the Disney theme park. The WHT is expected to benefit from its strategic location at the West Kowloon reclamation area that provides direct and convenient link between the Chek Lap Kok Airport and the Hong Kong Island. In the long term, the rapid residential development of the West Kowloon Reclamation, despite the recent contentious outcome of the cultural hub project, the economic expansion in the Pan-Pearl River Delta Region and the proposed construction of Hong Kong, Macau & Zhuhai Bridge will no doubt create additional demand for vehicular traffic as well as cross harbour services, yet the threat of the Government's long-term rail development plans for the coming ten years will continue to haunt the prospect of fuller utilisation of the tunnel.

Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL") - 37% owned

HKTHMCL, an associate undertaking the management contract for the Hunghom Cross-Harbour Tunnel, maintained stable income during the year under review. The two-year contract expired on 31 August 2004 and was extended for a further period of 24 months to 31 August 2006.

Looking Forward

New times means incessant new challenges. Only with creativity and enthusiasm to advance with the times can we turn crisis into opportunities and fortune. Given the promising business prospects and the resilient performance of each business segment in the past year, we believe that the Group will continue to create sustainable streams of value for our shareholders in the years to come.

Acknowledgement

I would like to take this opportunity to extend my sincere appreciation to my fellow directors for their guidance and to all the staff for their dedicated hard work and contributions. Last but not the least, I would also like to express my gratitude to our shareholders for their support to the Group in the past years.

Cheung Chung Kiu

Chairman

Hong Kong, 11 March 2005