

Disclosure of Further Corporate Information

Set out below is information disclosed pursuant to the listing rules of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”):

Commentary on Annual Results

(I) Review of 2004 Results

The Group reported a profit attributable to shareholders of HK\$135.0 million for the year ended 31 December 2004, an increase of 54.7% compared with HK\$87.2 million in 2003. Earnings per share were HK\$0.53 compared to HK\$0.37 for the previous year. The improvement in 2004 results was mainly attributable to the increase in profit contribution from both motoring school operations and tunnel operations, which were adversely affected by the SARS crisis last year.

The Group’s turnover for the year was HK\$254.0 million, slightly decreased by HK\$1.2 million or 0.5% as compared to HK\$255.2 million recorded in 2003.

The Hong Kong School of Motoring Limited recorded a reduction in turnover of 1.3% to HK\$225.6 million as a result of a decrease in income from motorcycle lessons, which was, however, largely offset by an increase in tuition fees income due to increase in the lesson income unit rate. Moreover, the continuing efforts in controlling costs were reflected in the improved operating profit.

The Group’s share of profits of associates, primarily contributed by the operation of the Western Harbour Tunnel (“WHT”), has increased by 58.7% to HK\$95.9 million as compared to HK\$60.4 million in 2003. Improvement in the performance of Western Harbour Tunnel Company Limited (“WHTCL”) was attributable to an increase in toll revenue and a substantial reduction in interest expenses due to prevailing lower interest rates. The daily throughput of the WHT rebounded by 5% to approximately 39,200 vehicle journeys throughout 2004. As an aggregate result of improved throughput and toll increase effective in July 2004, an increase of 11.7% in toll revenue was recorded.

The Group’s share of profit before tax from a jointly controlled entity, Autotoll Limited, was HK\$11.6 million for the year against HK\$10.5 million recorded in the previous year, representing an increase of 11.0% as a result of moderate growth in the number of subscribers and cost rationalization which offset the decrease in project income.

The Group’s financial costs for the year amounted to HK\$3.3 million and were primarily due to the issues of convertible notes in 2002 at an interest rate of 3.5% per annum.

Revaluation deficits arising on certain investment securities, totalling HK\$1.3 million, as compared to HK\$6.7 million in 2003, were transferred from the investment revaluation reserve to the consolidated profit and loss account as a result of impairment in value of certain securities at 31 December 2004.

Disclosure of Further Corporate Information

Commentary on Annual Results *(continued)*

(I) Review of 2004 Results *(continued)*

The Group's share of taxation of associates was primarily due to the utilization of deferred tax assets by WHTCL. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) "Income taxes", WHTCL has recognized deferred tax assets in respect of the future benefit of tax losses, as the management of WHTCL considers it is probable that future taxable profits will be available against which the tax losses can be utilized. As a result, WHTCL recorded a taxation charge for the year.

(II) Investments

At 31 December 2004, the Group maintained a portfolio of investments, primarily in blue-chip securities, with an aggregate market value of HK\$458.3 million. Dividend income received therefrom in 2004 amounted to HK\$9.4 million.

(III) Liquidity and Financial Resources

At 31 December 2004, the Group had bank balances and deposits in the amount of HK\$442.3 million. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities were not utilized by the Group during the year.

At 31 December 2004, the Group had outstanding convertible notes of HK\$82.5 million which are unsecured, bear interest at 3.5% per annum payable annually in arrears and are due for redemption in 2005. Since the Group's sources of income and borrowings are denominated in Hong Kong dollars, the Group is not exposed to foreign exchange rate fluctuations. The gearing ratio, defined as long-term debts to shareholders' funds, was 1.0% as at 31 December 2004 (31 December 2003 – 6.2%).

(IV) Comments on Segmental Information

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries, associates and a jointly controlled entity are the operation of motoring schools, tunnels and an electronic toll collection system, and investment. Further information on the segmental details is provided in note 11 to the financial statements on pages 51 to 53.

Disclosure of Further Corporate Information

(V) Employees

The Group has approximately 672 employees. Employees are remunerated according to the job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from provident fund schemes and medical insurance, discretionary bonuses and employee share options are awarded to employees of the Group at the discretion of the directors, depending upon the financial performance of the Group. Total staff costs for the year amounted to HK\$114.6 million. Detailed information is set out in note 6 to the financial statements on page 47.

The Company also operates a Share Option Scheme, details of which are set out in the Report of the Directors on pages 19 to 20.