

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 2004.

Principal Activities

The principal activity of the Company is investment holding while the principal activities of its subsidiaries are set out in note 13 to the financial statements on pages 55 to 57.

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 2004 are set out in the consolidated profit and loss account on page 27 and in note 9 to the financial statements on page 49 respectively.

The first, second and third quarterly interim dividends each of HK\$0.05 per share were paid on 21 July 2004, 27 October 2004 and 6 December 2004 respectively. The directors recommend the payment of a final dividend of HK\$0.10 per share which, together with the interim dividends, make total dividends for the year ended 31 December 2004 of HK\$0.25 per share, representing a total distribution of approximately HK\$66.8 million for the year.

Subject to shareholders' approval of the proposed final dividend at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 9 May 2005 to shareholders registered on 29 April 2005.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$205,000.

Fixed Assets

Movements in the fixed assets of the Group and of the Company during the year are set out in note 12 to the financial statements on pages 54 and 55.

Share Capital

Movements in the share capital of the Company during the year are set out in note 24 to the financial statements on page 64 and 65.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 25 to the financial statements on pages 66 to 69.

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Financial Summary

Results, assets and liabilities of the Group for the last five financial years are summarized on page 72.

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 serving at the date of this report are listed on page 2. With the exception of Mr. Wong Yat Fai and Mr. Ng Kwok Fu, who joined the Company as independent non-executive directors on 30 September 2004, all directors held office for the whole year. In addition, Mr. Lee Ka Sze, Carmelo was re-designated non-executive director on 30 September 2004.

Mr. Wong Yat Fai and Mr. Ng Kwok Fu retire at the forthcoming annual general meeting in accordance with Article 94 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Under the existing Articles of Association of the Company, apart from the chairman of directors and those directors, if any, in respect of whom the provisions of Article 94 apply, all directors are subject to retirement by rotation at the annual general meeting. In accordance with Article 82, Mr. Yeung Hin Chung, John and Ms. Tung Wai Lan, Iris retire from office this year and, being eligible, offer themselves for re-election.

Subject to shareholders' approval of the relevant amendment to the Company's Articles of Association as set out in the notice of annual general meeting, in addition to the manner of retirement by rotation of directors as prescribed under the existing Articles of Association, all directors (including those appointed for a specific term but excluding the chairman of directors) are subject to retirement by rotation at least once every three years.

Pursuant to two respective letters of appointment dated 1 April 2003, Mr. Lee Ka Sze, Carmelo and Mr. Wong Wai Kwong, David retire at the forthcoming annual general meeting and both of them offer themselves for re-election.

No director proposed for re-election 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.

Report of the Directors

Directors' Interests in Securities

As at 31 December 2004, 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:

Interests in shares

Name	Nature of interest	No. of shares (Note 1)	% of issued share capital
Cheung Chung Kiu	Corporate interest	76,392,358	27.31%

Interests in options

Name	No. of shares issuable upon exercise of options (Note 2)	% of issued share capital
Cheung Chung Kiu	52,647,059	18.82%

Interests in equity derivatives

Name	Type of equity derivatives	No. of shares issuable upon conversion of convertible note (Note 3)	% of issued share capital
Cheung Chung Kiu	Convertible note	20,630,015	7.38%

Notes:

1. This represents the number of shares beneficially owned by Honway Holdings Limited ("Honway").
2. This represents the number of shares issuable upon exercise of the remainder of the options granted to Honway pursuant to the share option agreement dated 9 May 2003 made between the Company and Honway.
3. This represents the number of shares derived from the convertible note held by Honway with the outstanding amount of HK\$80,457,060 at the conversion price of HK\$3.90 per share. The total number of underlying shares in respect of the convertible note changes throughout the life of the convertible note. The conversion price is 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, subject to adjustment. Honway has the right to convert the whole or part of the principal amount of the convertible note into shares during the period from 11 June 2002 to 11 June 2005 in amounts of not less than HK\$1 million on each conversion.

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Directors' Interests in Securities *(continued)*

Interests in equity derivatives *(continued)*

- Mr. Cheung Chung Kiu ("Mr. Cheung") was deemed to be interested in the above shares and underlying shares by virtue of his indirect shareholding interest in Honway which owned these shares and underlying 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 Industrial") owned 0.63% and 37.79% of the issued share capital of Yugang respectively. Chongqing Industrial was owned as to 35% by Mr. Cheung, as to 30% by Prize Winner Limited (a company owned by Mr. Cheung and his associates), as to 30% by Peking Palace Limited ("Peking Palace") and as to 5% by Miraculous Services Limited ("Miraculous Services"). Peking Palace and Miraculous Services were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung and his family.

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 recorded in the register kept under section 352 of the SFO as at 31 December 2004.

Share Option Scheme

The existing share option scheme of the Company was adopted by the Company on 8 May 2001 (the "Scheme"), prior to the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") taking effect on 1 September 2001. According to the Listing Rules 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.

(I) Summary of the Scheme

- | | | |
|--|---|---|
| (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 11 March 2005 | : | 19,200,000 shares (6.86%) |
| (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 |

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Share Option Scheme (continued)

(I) Summary of the Scheme (continued)

- (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:
- (a) 80% of the average closing price of the existing shares of the Company on The Stock Exchange of Hong Kong Limited 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.

(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.

Report of the Directors

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 in 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.

Substantial Shareholders

As at 31 December 2004, 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	No. of shares (Note 1)	% of share capital issued	No. of shares issuable upon exercise of options (Note 2)	% of share capital issued	No. of shares issuable upon conversion of convertible note (Note 3)	% of share capital issued
Palin Holdings Limited	76,392,358	27.31%	52,647,059	18.82%	20,630,015	7.38%
Chongqing Industrial	76,392,358	27.31%	52,647,059	18.82%	20,630,015	7.38%
Yugang	76,392,358	27.31%	52,647,059	18.82%	20,630,015	7.38%
Yugang International (B.V.I.) Limited	76,392,358	27.31%	52,647,059	18.82%	20,630,015	7.38%
Funrise Limited	76,392,358	27.31%	52,647,059	18.82%	20,630,015	7.38%
Y. T.	76,392,358	27.31%	52,647,059	18.82%	20,630,015	7.38%
Y. T. Investment Holdings Limited	76,392,358	27.31%	52,647,059	18.82%	20,630,015	7.38%
Honway	76,392,358	27.31%	52,647,059	18.82%	20,630,015	7.38%

Notes:

- The 76,392,358 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.
- The 52,647,059 underlying shares set out in this column refer to the same block of shares issuable upon exercise of the remainder of the options granted to Honway pursuant to the share option agreement dated 9 May 2003 made between the Company and Honway, and are duplicated in Mr. Cheung's interest in options on page 18.

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Substantial Shareholders *(continued)*

3. The 20,630,015 underlying shares set out in this column refer to the same block of shares convertible under the balance of the principal amount of the convertible note held by Honway (of HK\$80,457,060) at the conversion price of HK\$3.90 per share, and are duplicated in Mr. Cheung's interest in equity derivatives on page 18.
4. Each of Palin Holdings Limited, Chongqing Industrial, 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 by virtue of their direct/indirect shareholding interest in Honway as described in Mr. Cheung's interests in securities on page 18.

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 2004, 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 Rules 13.20 and 13.22 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

(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 2004, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 31 December 2004. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK\$1,083.4 million as at 31 December 2004.

Terms of the Financial Assistance

WHTCL, a consortium, was granted a thirty-year franchise to construct and operate the Western Harbour Tunnel ("WHT") in accordance with the Western Harbour Crossing Ordinance enacted on 22 July 1993. The construction of the WHT was completed in April 1997 at a total cost of HK\$7 billion. In addition to external loan finance, the project was partly financed by the shareholders' fund of the consortium in the form of equity and shareholders' loan in proportion to their shareholdings.

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 certain financial parameters of a syndicated loan being fulfilled. No security is provided to the Group for the loan.

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Disclosure under Rules 13.20 and 13.22 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited *(continued)*

(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.

(III) Proforma Balance Sheet of Affiliated Companies

Set out below is a combined proforma balance sheet of WHTCL and HKTHMCL as at 31 January 2005 (being the latest practicable date for determining the relevant figures):

	HK\$'000
Total assets	5,972,870
Other liabilities	(2,732,840)
	<hr/>
	3,240,030
	<hr/> <hr/>
Share capital and reserves	309,426
Shareholders' loans	2,930,604
	<hr/>
	3,240,030
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Pension Schemes

(I) Nature of the scheme

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 of the scheme

The benefits of the scheme were funded in 2004 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.

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Pension Schemes *(continued)*

(III) Costs of the scheme

Total costs of the scheme, amounting to HK\$2.1 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.

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\$2.1 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 21 to the financial statements on page 63.

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 is set out on pages 11 to 13.

Report of the Directors

Code of Best Practice

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting year covered by the annual report, in compliance with the Code of Best Practice as set out in Appendix 14 to the then Listing Rules.

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, 11 March 2005