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### BOARD OF DIRECTORS

#### *Executive Directors*

Cheung Chung Kiu (*Chairman*)  
Yeung Hin Chung, John, OBE, JP  
(*Managing Director*)  
Yuen Wing Shing  
Wong Chi Keung  
Leung Wai Fai  
Tung Wai Lan, Iris

#### *Non-executive Director*

\* Lee Ka Sze, Carmelo

#### *Independent Non-executive Directors*

\* Wong Wai Kwong, David  
\* Wong Yat Fai  
\* Ng Kwok Fu

\* Audit committee member

### SECRETARY

Leung Shuk Mun, Phyllis Sylvia

### REGISTERED OFFICE

3301-07, China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2161 1888  
Fax: (852) 2802 2080  
Website: [www.crossharbour.com.hk](http://www.crossharbour.com.hk)

### REGISTRAR & TRANSFER OFFICE

Tengis Limited  
G/F, Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong  
Tel: (852) 2980 1333  
Fax: (852) 2810 8185

### PRINCIPAL BANKER

The Hongkong and Shanghai Banking  
Corporation Limited

### AUDITORS

KPMG  
*Certified Public Accountants*

### SHARE LISTING

The Stock Exchange of Hong Kong Limited  
Stock Code : 32

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 2005 - unaudited  
(Expressed in Hong Kong dollars)

|  | Note | Six months ended 30 June |                              |
|--|------|--------------------------|------------------------------|
|  |      | 2005<br>\$'000           | 2004<br>(restated)<br>\$'000 |
| <b>Turnover</b>  | 3    | 107,585                  | 123,639                      |
| Other revenue  |      | 5,350                    | 5,606                        |
| Other net income                                       |      | 15,123                   | 528                          |
| Direct costs and operating expenses                    |      | (50,679)                 | (56,505)                     |
| Selling and marketing expenses                         |      | (16,061)                 | (14,211)                     |
| Administrative and corporate expenses                  |      | (25,893)                 | (27,677)                     |
| Operating profit before finance costs                  |      | 35,425                   | 31,380                       |
| Finance costs  | 4(a) | (3,012)                  | (1,632)                      |
| <b>Operating profit</b>                                | 3    | 32,413                   | 29,748                       |
| Share of profits less losses of associates             |      | 44,822                   | 32,470                       |
| Share of profit of a jointly controlled entity         |      | 7,672                    | 7,798                        |
| <b>Profit before taxation</b>                          | 4    | 84,907                   | 70,016                       |
| Income tax   | 5    | (5,992)                  | (4,574)                      |
| <b>Profit after taxation</b>                           |      | 78,915                   | 65,442                       |
| <b>Attributable to:</b>                                |      |                          |                              |
| Equity holders of the parent                           |      | 72,931                   | 56,580                       |
| Minority interests                                     |      | 5,984                    | 8,862                        |
| <b>Profit after taxation</b>                           |      | 78,915                   | 65,442                       |
| <b>Dividends attributable to the interim period:</b>   | 6(a) |                          |                              |
| Interim dividend declared during the interim period    |      | 18,050                   | 12,926                       |
| Interim dividend declared after the interim period end |      | 18,050                   | 12,957                       |
|  |      | 36,100                   | 25,883                       |
| <b>Earnings per share</b>                              | 7    |                          |                              |
| Basic  |      | 26 cents                 | 23 cents                     |
| Diluted  |      | 22 cents                 | 19 cents                     |
| <b>Profit for the period is retained by:</b>           |      |                          |                              |
| The Company and its subsidiaries                       |      | 20,437                   | 16,312                       |
| Associates   |      | 44,822                   | 32,470                       |
| Jointly controlled entity                              |      | 7,672                    | 7,798                        |
|  |      | 72,931                   | 56,580                       |

The notes on pages 8 to 24 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET

As at 30 June 2005 - unaudited  
(Expressed in Hong Kong dollars)

|  | Note | 30 June 2005 |                  | 31 December 2004<br>(restated) |                  |
|--|------|--------------|------------------|--------------------------------|------------------|
|  |      | \$'000       | \$'000           | \$'000                         | \$'000           |
| <b>Non-current assets</b>  |      |              |                  |                                |                  |
| Fixed assets   |      |              | 113,316          |                                | 105,192          |
| Interest in associates   |      |              | 1,236,119        |                                | 1,190,188        |
| Interest in a jointly controlled entity                          |      |              | 21,440           |                                | 13,768           |
| Non-trading securities   |      |              | 420,016          |                                | 458,283          |
| Deferred tax assets  |      |              | 470              |                                | 1,000            |
|  |      |              | <u>1,791,361</u> |                                | <u>1,768,431</u> |
| <b>Current assets</b>  |      |              |                  |                                |                  |
| Inventories  |      |              | 772              |                                | 624              |
| Trade and other receivables                                      | 9    |              | 15,812           |                                | 18,033           |
| Cash and cash equivalents  |      |              | 446,708          |                                | 442,266          |
|  |      |              | <u>463,292</u>   |                                | <u>460,923</u>   |
| <b>Current liabilities</b>                                       |      |              |                  |                                |                  |
| Trade and other payables   | 10   |              | (53,428)         |                                | (60,401)         |
| Course fees received in advance                                  |      |              | (65,231)         |                                | (57,550)         |
| Convertible notes  | 11   |              | —                |                                | (82,457)         |
| Interest free loan   | 12   |              | (19,113)         |                                | —                |
| Taxation payable   |      |              | (6,968)          |                                | (2,738)          |
| Dividends payable  |      |              | (18,111)         |                                | (113)            |
|  |      |              | <u>(162,851)</u> |                                | <u>(203,259)</u> |
| <b>Net current assets</b>  |      |              | <u>300,441</u>   |                                | <u>257,664</u>   |
| <b>Total assets less current liabilities</b>                     |      |              | <u>2,091,802</u> |                                | <u>2,026,095</u> |
| <b>Non-current liabilities</b>                                   |      |              |                  |                                |                  |
| Interest free loan   | 12   |              | —                |                                | (20,000)         |
| Deferred tax liabilities   |      |              | (2,070)          |                                | (1,380)          |
|  |      |              | <u>(2,070)</u>   |                                | <u>(21,380)</u>  |
| <b>NET ASSETS</b>  |      |              | <u>2,089,732</u> |                                | <u>2,004,715</u> |
| <b>CAPITAL AND RESERVES</b>                                      |      |              |                  |                                |                  |
| Share capital  | 13   |              | 300,841          |                                | 279,698          |
| Reserves   | 14   |              | 1,743,453        |                                | 1,677,808        |
| <b>Total equity attributable to equity holders of the parent</b> |      |              | <u>2,044,294</u> |                                | <u>1,957,506</u> |
| Minority interests   | 14   |              | 45,438           |                                | 47,209           |
| <b>TOTAL EQUITY</b>  |      |              | <u>2,089,732</u> |                                | <u>2,004,715</u> |

The notes on pages 8 to 24 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2005 - unaudited

(Expressed in Hong Kong dollars)

|  | Share capital<br>\$'000 | Share premium<br>\$'000 | Capital reserve<br>\$'000 | Investment revaluation reserve<br>\$'000 | Share option reserve<br>\$'000 | Other reserves<br>\$'000 | Hedging reserve<br>\$'000 | Revenue reserve<br>\$'000 | Total<br>\$'000  | Minority interest<br>\$'000 | Total equity<br>\$'000 |
|--|-------------------------|-------------------------|---------------------------|--|--------------------------------|--------------------------|---------------------------|---------------------------|------------------|-----------------------------|------------------------|
| At 1 January 2005  |                         |                         |                           |  |                                |                          |                           |                           |                  |                             |                        |
| - As previously reported   | 279,698                 | 994,306                 | 1,984                     | 139,846                                  | 5,000                          | —                        | —                         | 536,672                   | 1,957,506        | 47,209                      | 2,004,715              |
| - Opening balance adjustments arising from changes in accounting policies (note 2(a)(i), 14) | —                       | —                       | —                         | —  | 2,544                          | 7,021                    | (27,734)                  | (7,008)                   | (25,177)         | —                           | (25,177)               |
| - As restated, after opening balance adjustments   | 279,698                 | 994,306                 | 1,984                     | 139,846                                  | 7,544                          | 7,021                    | (27,734)                  | 529,664                   | 1,932,329        | 47,209                      | 1,979,538              |
| Dividends approved in respect of the previous financial year (note 6(b))                     | —                       | —                       | —                         | —  | —                              | —                        | —                         | (28,021)                  | (28,021)         | —                           | (28,021)               |
| Net profit for the interim period  | —                       | —                       | —                         | —  | —                              | —                        | —                         | 72,931                    | 72,931           | 5,984                       | 78,915                 |
| Minority interest's share of dividend  | —                       | —                       | —                         | —  | —                              | —                        | —                         | —                         | —                | (7,740)                     | (7,740)                |
| Dividends declared in respect of the current interim period (note 6(a))                      | —                       | —                       | —                         | —  | —                              | —                        | —                         | (18,050)                  | (18,050)         | —                           | (18,050)               |
| Changes in fair value of non-trading securities  | —                       | —                       | —                         | (2,040)                                  | —                              | —                        | —                         | —                         | (2,040)          | (15)                        | (2,055)                |
| Impairment loss realised   | —                       | —                       | —                         | 6,195                                    | —                              | —                        | —                         | —                         | 6,195            | —                           | 6,195                  |
| Cash flow hedge: effective portion of changes in fair value                                  | —                       | —                       | —                         | —  | —                              | —                        | 23,493                    | —                         | 23,493           | —                           | 23,493                 |
| Shares issued upon conversion of convertible notes   | 21,143                  | 68,335                  | —                         | —  | —                              | (7,021)                  | —                         | —                         | 82,457           | —                           | 82,457                 |
| Realisation upon disposal of non-trading securities  | —                       | —                       | —                         | (25,000)                                 | —                              | —                        | —                         | —                         | (25,000)         | —                           | (25,000)               |
| <b>At 30 June 2005</b>   | <b>300,841</b>          | <b>1,062,641</b>        | <b>1,984</b>              | <b>119,001</b>                           | <b>7,544</b>                   | <b>—</b>                 | <b>(4,241)</b>            | <b>556,524</b>            | <b>2,044,294</b> | <b>45,438</b>               | <b>2,089,732</b>       |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2005 - unaudited

(Expressed in Hong Kong dollars)

|  | Share capital<br>\$'000 | Share premium<br>\$'000 | Capital reserve<br>\$'000 | Investment revaluation reserve<br>\$'000 | Share option reserve<br>\$'000 | Other reserves<br>\$'000 | Hedging reserve<br>\$'000 | Revenue reserve<br>\$'000 | Total<br>\$'000  | Minority interest<br>\$'000 | Total equity<br>\$'000 |
|--|-------------------------|-------------------------|---------------------------|--|--------------------------------|--------------------------|---------------------------|---------------------------|------------------|-----------------------------|------------------------|
| At 1 January 2004  | 250,552                 | 891,850                 | 1,984                     | 33,135                                   | 30,000                         | —                        | —                         | 453,088                   | 1,660,609        | 42,857                      | 1,703,466              |
| Dividends approved in respect of the previous financial year (note 6(b)) | 607                     | 1,894                   | —                         | —  | —                              | —                        | —                         | (12,527)                  | (10,026)         | —                           | (10,026)               |
| Net profit for the interim period  | —                       | —                       | —                         | —  | —                              | —                        | —                         | 56,580                    | 56,580           | 8,862                       | 65,442                 |
| Minority interest's share of dividend                                    | —                       | —                       | —                         | —  | —                              | —                        | —                         | —                         | —                | (9,360)                     | (9,360)                |
| Dividends declared in respect of the current interim period (note 6(a))  | —                       | —                       | —                         | —  | —                              | —                        | —                         | (12,926)                  | (12,926)         | —                           | (12,926)               |
| Changes in fair value of non-trading securities                          | —                       | —                       | —                         | (3,214)                                  | —                              | —                        | —                         | —                         | (3,214)          | 60                          | (3,154)                |
| Exercise of share options  | 7,353                   | 17,647                  | —                         | —  | (25,000)                       | —                        | —                         | —                         | —                | —                           | —                      |
| At 30 June 2004  | <u>258,512</u>          | <u>911,391</u>          | <u>1,984</u>              | <u>29,921</u>                            | <u>5,000</u>                   | <u>—</u>                 | <u>—</u>                  | <u>484,215</u>            | <u>1,691,023</u> | <u>42,419</u>               | <u>1,733,442</u>       |

The notes on pages 8 to 24 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2005 - unaudited

(Expressed in Hong Kong dollars)

|  | Six months ended 30 June |                |
|--|--------------------------|----------------|
|  | 2005<br>\$'000           | 2004<br>\$'000 |
| Cash generated from operations                               | 18,441                   | 64,573         |
| Tax paid   | (542)                    | (3,061)        |
| Net cash from operating activities                           | 17,899                   | 61,512         |
| Net cash from/(used in) investing activities                 | 25,136                   | (108,512)      |
| Net cash used in financing                                   | (38,593)                 | (20,180)       |
| Net increase/(decrease) in cash and cash equivalents         | 4,442                    | (67,180)       |
| Cash and cash equivalents at 1 January                       | 442,266                  | 331,373        |
| <b>Cash and cash equivalents at 30 June</b>                  | <b>446,708</b>           | <b>264,193</b> |
| <b>Analysis of the balances of cash and cash equivalents</b> |                          |                |
| Deposits and cash at banks                                   | 446,708                  | 264,193        |

The notes on pages 8 to 24 form part of this interim financial report.

*(Expressed in Hong Kong dollars)*

## 1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 16 September 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with new and revised Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes HKASs and Interpretations).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 25.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 11 March 2005.



(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies

The HKICPA has issued a number of HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

### (a) Summary of the effect of changes in the accounting policies

- (i) Effect on opening balance of total equity at 1 January 2005 (as adjusted)

The following table sets out the adjustments that have been made to the opening balances at 1 January 2005.

| Effect of new policy<br>(increase/(decrease)) | Note | Revenue<br>reserve<br>\$'000 | Other<br>reserves<br>\$'000 | Total<br>\$'000 | Minority<br>interests<br>\$'000 | Total<br>equity<br>\$'000 |
|---|------|------------------------------|-----------------------------|-----------------|---------------------------------|---------------------------|
| Opening balance adjustments:                  |      |                              |                             |                 |                                 |                           |
| HKAS 39                                       |      |                              |                             |                 |                                 |                           |
| Effect on associates                          |      |                              |                             |                 |                                 |                           |
| — Hedging instruments                         |      | —                            | (27,734)                    | (27,734)        | —                               | (27,734)                  |
| Effect on the company                         |      |                              |                             |                 |                                 |                           |
| — Convertible notes                           |      | (5,774)                      | 7,021                       | 1,247           | —                               | 1,247                     |
| — Interest free loan                          |      | (1,234)                      | 2,544                       | 1,310           | —                               | 1,310                     |
| Total effect at 1 January 2005                | 2(b) | <u>(7,008)</u>               | <u>(18,169)</u>             | <u>(25,177)</u> | <u>—</u>                        | <u>(25,177)</u>           |

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies (Continued)

### (a) Summary of the effect of changes in the accounting policies (Continued)

- (ii) Effect on profit after taxation for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted).

In respect of the six month period ended 30 June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

As retrospective adjustments have not been made for all changes in policies, as explained in note 2(b), the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

| Effect of new policy<br>(increase/(decrease)) | Note | Six months ended<br>30 June 2005             |                                 |                 | Six months ended<br>30 June 2004             |                                 |                 |
|---|------|--|---------------------------------|-----------------|--|---------------------------------|-----------------|
|   |      | Equity<br>holders of<br>the parent<br>\$'000 | Minority<br>interests<br>\$'000 | Total<br>\$'000 | Equity<br>holders of<br>the parent<br>\$'000 | Minority<br>interests<br>\$'000 | Total<br>\$'000 |
| HKAS 39                                       |      |  |                                 |                 |  |                                 |                 |
| — Convertible notes                           |      | (1,247)                                      | —                               | (1,247)         | —  | —                               | —               |
| — Interest free loan                          |      | (423)  | —                               | (423)           | —  | —                               | —               |
| Total effect for the period                   | 2(b) | <u>(1,670)</u>                               | <u>—</u>                        | <u>(1,670)</u>  | <u>—</u>                                     | <u>—</u>                        | <u>—</u>        |
| Effect on earnings per share:                 |      |  |                                 |                 |  |                                 |                 |
| — Basic                                       |      | (0.006)                                      |                                 |                 | —  |                                 |                 |
| — Diluted                                     |      | (0.005)                                      |                                 |                 | —  |                                 |                 |

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies (Continued)

### (a) Summary of the effect of changes in the accounting policies (Continued)

- (iii) Effect on net income recognized directly in equity for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted).

In respect of the six month period ended 30 June 2005, the following table provides estimates of the extent to which the income or expenses recognised directly in equity are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

As retrospective adjustments have not been made for all changes in policies, as explained in note 2(b), the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

| Effect of new policy<br>(increase/(decrease)) | Note | Six months ended<br>30 June 2005             |                                 |                 | Six months ended<br>30 June 2004             |                                 |                 |
|---|------|--|---------------------------------|-----------------|--|---------------------------------|-----------------|
|   |      | Equity<br>holders of<br>the parent<br>\$'000 | Minority<br>interests<br>\$'000 | Total<br>\$'000 | Equity<br>holders of<br>the parent<br>\$'000 | Minority<br>interests<br>\$'000 | Total<br>\$'000 |
| HKAS 39<br>- Hedging instruments              |      | 23,493                                       | —                               | 23,493          | —  | —                               | —               |
| Total effect for the period                   | 2(b) | 23,493                                       | —                               | 23,493          | —  | —                               | —               |

### (b) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

Changes in accounting policies relating to financial instruments are as follows.

In prior years, the accounting policies for certain financial instruments were as follows:

- derivative financial instruments entered into by management to hedge the interest rate risk of a committed future transaction were recognised on a cash basis; and
- convertible notes issued and interest free loan were stated at cost (including transaction costs).

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies (Continued)

### (b) *Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) (Continued)*

With effect from 1 January 2005, and in accordance with HKAS 39, the following new accounting policies are adopted for the financial instruments mentioned above:

- All derivative financial instruments entered into by the associate are stated at fair value. Changes in the fair value of derivatives held as hedging instruments in a cash flow hedge of committed future transactions are recognised in equity to the extent that the hedge is effective. Any ineffective portion of the changes in fair value of the derivatives is recognised in the profit and loss account.

This change was adopted by way of an adjustment to the opening balance of the hedging reserve as at 1 January 2005 of \$27,734,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, net income recognised directly in equity for the six months ended 30 June 2005 has increased by \$23,493,000.

- Convertible notes issued and interest free loan which are convertible into shares are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the other reserves until the note or the loan is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to revenue reserve).

This change was adopted by way of increase and decrease of the opening balance of other reserves as at 1 January 2005 of \$9,565,000 and revenue reserve of \$7,008,000 respectively. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, profit for the six months ended 30 June 2005 has decreased by \$1,670,000.

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies (Continued)

### (c) Presentational changes

The application of the new HKFRSs has also resulted in changes in the presentation of the accounts retrospectively with comparatives restated to conform to the current period's presentation, in particular of below:

- (i) In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 "Presentation of financial statements" and HKAS 27 "Consolidated and separate financial statements" minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the group for the period are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

- (ii) In prior years, share of associates/jointly controlled entities' tax was presented as a component of taxation in the profit and loss account. On adoption of the HKAS 1, share of associates/jointly controlled entities' tax is presented net of the share of associates/jointly controlled entities' profit.

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

### 3 Turnover and operating profit

The analysis of the principal activities of the operations of the Company and its subsidiaries during the financial period is as follows:

|                                 | Turnover<br>Six months ended<br>30 June |                | Operating profit<br>Six months ended<br>30 June |                |
|---------------------------------|---|----------------|---|----------------|
|                                 | 2005<br>\$'000                          | 2004<br>\$'000 | 2005<br>\$'000                                  | 2004<br>\$'000 |
| <i>Principal activities</i>     |   |                |   |                |
| Motoring school operations      | 93,465                                  | 113,949        | 13,158  | 25,298         |
| Investment and other activities | 14,120                                  | 9,690          | 31,930  | 15,141         |
|                                 | <u>107,585</u>                          | <u>123,639</u> | <u>45,088</u>                                   | <u>40,439</u>  |
| Unallocated operating expenses  |   |                | (9,663)   | (9,059)        |
| Finance costs                   |   |                | <u>(3,012)</u>                                  | <u>(1,632)</u> |
|                                 |   |                | <u>32,413</u>                                   | <u>29,748</u>  |

During the interim financial period, more than 90% of the operations of the Company and its subsidiaries in terms of both turnover and operating profit were carried out in Hong Kong.

(Expressed in Hong Kong dollars)

## 4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

|   | Six months ended 30 June |                |
|---|--------------------------|----------------|
|   | 2005<br>\$'000           | 2004<br>\$'000 |
| <b>(a) Finance Costs</b>                                    |                          |                |
| Interest on convertible notes                               | 2,403                    | 1,431          |
| Other borrowing costs                                       | 609                      | 201            |
|   | <u>3,012</u>             | <u>1,632</u>   |
| <b>(b) Other items</b>                                      |                          |                |
| Depreciation  | 9,171                    | 10,292         |
| Cost of inventories consumed                                | 4,453                    | 6,119          |
| Contributions to defined contribution retirement schemes    | 2,343                    | 2,398          |
| Net profit on disposal of fixed assets                      | (1,385)                  | (528)          |
| Net profit on sale of non-trading securities                | (19,932)                 | —              |
| Provision for impairment in value of non-trading securities | 6,195                    | —              |
| Dividend income from listed investments                     | (6,468)                  | (5,401)        |
| Interest income   | (9,150)                  | (6,588)        |
|   | <u>(9,150)</u>           | <u>(6,588)</u> |

The directors reviewed the Group's investment portfolio at 30 June 2005 and pursuant to this review considered that certain of the Group's investments were impaired in value at that date as there was objective evidence of such impairment.

In accordance with the accounting policies adopted by the Group for investments, the deficit in the investment revaluation reserve relating to these investments, which totalled \$6.2 million (2004: \$Nil), was transferred to the consolidated profit and loss account at 30 June 2005.

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 5 Income Tax

|   | Six months ended 30 June |                |
|---|--------------------------|----------------|
|   | 2005<br>\$'000           | 2004<br>\$'000 |
| Current tax – provision for Hong Kong Profits Tax | 4,772                    | 4,574          |
| Deferred taxation                                 | 1,220                    | —              |
|   | <u>5,992</u>             | <u>4,574</u>   |

The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30 June 2005.

Share of taxation of associate for the six months ended 30 June 2005 amounted to \$9.8 million (2004: \$8.2 million) was included in share of profits of associates in the consolidated profit and loss account.

Share of taxation of a jointly controlled entity for the six months ended 30 June 2005 amounted to \$1.6 million (2004: \$2.7 million) was included in share of profit of a jointly controlled entity in the consolidated profit and loss account.

## 6 Dividends

### (a) Dividends attributable to the interim period

|   | Six months ended 30 June |                |
|---|--------------------------|----------------|
|   | 2005<br>\$'000           | 2004<br>\$'000 |
| Interim dividend declared of 6 cents per share<br>(2004: 5 cents per share)                                 | 18,050                   | 12,926         |
| Interim dividend declared after the interim period<br>end of 6 cents per share<br>(2004: 5 cents per share) | 18,050                   | 12,957         |
|   | <u>36,100</u>            | <u>25,883</u>  |

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.



# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 6 Dividends (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

|  | Six months ended 30 June |                |
|--|--------------------------|----------------|
|  | 2005<br>\$'000           | 2004<br>\$'000 |
| Final dividend in respect of the previous financial year, approved and paid during the interim period, of 10 cents per share (2004: 5 cents per share) | <u>28,021</u>            | <u>12,527</u>  |

## 7 Earnings per share

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$72,931,000 (2004: \$56,580,000) and the weighted average of 283,880,628 ordinary shares (2004: 251,240,576 shares) in issue during the period.

(b) Diluted

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$73,885,000 (2004: \$57,761,000) and the weighted average number of ordinary shares of 335,050,009 (2004: 296,778,043 shares) after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

|   | 2005<br>Number<br>of shares | 2004<br>Number<br>of shares |
|---|-----------------------------|-----------------------------|
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 283,880,628                 | 251,240,576                 |
| Deemed issue of ordinary shares for no consideration                                      | 34,093,750                  | 23,251,775                  |
| Deemed issue of ordinary shares from conversion of convertible notes                      | <u>17,075,631</u>           | <u>22,285,692</u>           |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>335,050,009</u>          | <u>296,778,043</u>          |

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 8 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 business segments:

Motoring school operations  
 Tunnel operations  
 Electronic toll operations  
 Treasury  
 Unallocated

|  | Motoring school operations |                | Tunnel Operations |                | Electronic toll Operations |                | Treasury       |                | Unallocated    |                | Consolidated   |                |
|--|----------------------------|----------------|-------------------|----------------|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | 2005<br>\$'000             | 2004<br>\$'000 | 2005<br>\$'000    | 2004<br>\$'000 | 2005<br>\$'000             | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| Turnover                                       | 93,465                     | 113,949        | 1,557             | 1,507          | 1,800                      | 1,800          | 10,268         | 6,383          | 495            | —              | 107,585        | 123,639        |
| Other revenue                                  | —                          | —              | 5,350             | 5,548          | —                          | —              | —              | 58             | —              | —              | 5,350          | 5,606          |
| Total revenue                                  | <u>93,465</u>              | <u>113,949</u> | <u>6,907</u>      | <u>7,055</u>   | <u>1,800</u>               | <u>1,800</u>   | <u>10,268</u>  | <u>6,441</u>   | <u>495</u>     | <u>—</u>       | <u>112,935</u> | <u>129,245</u> |
| Segment result                                 | 13,158                     | 25,298         | 6,907             | 7,055          | 1,689                      | 1,693          | 23,877         | 6,393          | (543)          | —              | 45,088         | 40,439         |
| Unallocated operating expenses                 | —                          | —              | —                 | —              | —                          | —              | —              | —              | —              | —              | (9,663)        | (9,059)        |
| Operating profit before finance costs          | —                          | —              | —                 | —              | —                          | —              | (3,012)        | (1,632)        | —              | —              | 35,425         | 31,380         |
| Finance costs                                  | —                          | —              | —                 | —              | —                          | —              | —              | —              | —              | —              | (3,012)        | (1,632)        |
| Operating profit                               | —                          | —              | —                 | —              | —                          | —              | —              | —              | —              | —              | 32,413         | 29,748         |
| Share of profits less losses of associates     | —                          | —              | 44,822            | 32,470         | —                          | —              | —              | —              | —              | —              | 44,822         | 32,470         |
| Share of profit of a jointly controlled entity | —                          | —              | —                 | —              | 7,672                      | 7,798          | —              | —              | —              | —              | 7,672          | 7,798          |
| Profit before taxation                         | —                          | —              | —                 | —              | —                          | —              | —              | —              | —              | —              | 84,907         | 70,016         |
| Income tax                                     | (2,224)                    | (4,279)        | —                 | —              | (295)                      | (295)          | (3,473)        | —              | —              | —              | (5,992)        | (4,574)        |
| Profit after taxation                          | —                          | —              | —                 | —              | —                          | —              | —              | —              | —              | —              | <u>78,915</u>  | <u>65,442</u>  |
| Depreciation for the interim period            | 6,796                      | 8,132          | —                 | —              | —                          | —              | —              | —              | 2,375          | 2,160          | 9,171          | 10,292         |

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 9 Trade and other receivables

Included in trade and other receivables are trade receivables with an aging analysis as at the interim period end as follows:

|                         | 30 June<br>2005<br>\$'000 | 31 December<br>2004<br>\$'000 |
|-------------------------|---------------------------|-------------------------------|
| Amounts receivable due: |                           |                               |
| 0-30 days               | 2,203                     | 2,470                         |
| 31-60 days              | 65                        | 624                           |
| 61-90 days              | 57                        | 178                           |
| Over 90 days            | 86                        | 1,245                         |
|                         | <u>2,411</u>              | <u>4,517</u>                  |

Debts are normally due within one month from the date of billing, however, further credit may be granted to individual customers when appropriate.

Trade and other receivables include deposits paid amounting to \$3,095,000 (31 December 2004: \$4,072,000) which are expected to be recovered after one year. Apart from the above, all of the balances are expected to be recovered within one year.

## 10 Trade and other payables

Included in trade and other payables are trade payables with an aging analysis as at the interim period end as follows:

|                         | 30 June<br>2005<br>\$'000 | 31 December<br>2004<br>\$'000 |
|-------------------------|---------------------------|-------------------------------|
| Amounts payable within: |                           |                               |
| 0-30 days               | 2,728                     | 1,855                         |
| 31-60 days              | 380                       | 281                           |
| 61-90 days              | 143                       | 160                           |
| Over 90 days            | 695                       | 578                           |
|                         | <u>3,946</u>              | <u>2,874</u>                  |

Trade and other payables include deposits received amounting to \$118,000 (31 December 2004: \$118,000) which are expected to be settled after one year. Apart from the above, all of the balances are expected to be settled within one year.

(Expressed in Hong Kong dollars)

## 11 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, 28 April 2003, 29 April 2003, 2 May 2003, 7 May 2003, 22 April 2005, 25 April 2005 and 3 May 2005, \$35 million, \$35 million, \$28 million, \$24 million, \$9 million, \$1.3 million, \$0.5 million and \$0.2 million CN I were converted into 10,000,000, 10,000,000, 8,000,000, 6,857,142, 2,571,428, 333,333, 128,205 and 51,282 ordinary shares respectively. As at 30 June 2005, all outstanding CN I have been converted.

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).

On 28 April 2003, 29 April 2003, 2 May 2003, 7 May 2003 and 27 May 2005, \$13.3 million, \$10.7 million, \$9.1 million, \$3.4 million and \$80.5 million CN II were converted into 3,800,000, 3,057,142, 2,604,857, 978,840 and 20,630,015 ordinary shares respectively. As at 30 June 2005, all outstanding CN II have been converted.

(Expressed in Hong Kong dollars)

## 12 Share option

On 9 May 2003, the Company entered into a share option agreement with Honway Holdings Limited ("Honway") in relation to the subscription by Honway, a substantial shareholder of the Company, for a maximum of 60,000,000 new shares. In consideration for Honway paying to the Company the sum of \$50 million (\$5 million being the amount for purchasing the option and \$25 million being a non-refundable deposit payable in advance for exercise of the option and \$20 million being a 3-year interest-free term loan advanced by Honway to the Company), the Company has agreed to grant the option to Honway to subscribe for new shares in the Company. The option is exercisable from 24 June 2003 for a period of three years, at an option price of \$3.4 per share in the first year, \$3.7 per share in the second year and \$4.0 per share in the third year, subject to adjustment.

On 18 June 2004, the \$25 million non-refundable deposit was converted into 7,352,941 ordinary shares. As at 30 June 2005, there remains a maximum of 52,647,059 new shares exercisable under the share option agreement.

## 13 Share capital

|  | No. of shares<br>'000 | Amount<br>\$'000 |
|--|-----------------------|------------------|
| <b>Authorised:</b>                               |                       |                  |
| Ordinary shares of \$1 each                      | <u>1,000,000</u>      | <u>1,000,000</u> |
| <b>Issued and fully paid:</b>                    |                       |                  |
| At 1 January 2005                                | 279,698               | 279,698          |
| Shares issued on conversion of convertible notes | <u>21,143</u>         | <u>21,143</u>    |
| At 30 June 2005                                  | <u>300,841</u>        | <u>300,841</u>   |

On 22 April 2005, 25 April 2005, 3 May 2005 and 27 May 2005, \$1.3 million, \$0.5 million, \$0.2 million and \$80.5 million convertible notes were converted into 333,333, 128,205, 51,282 and 20,630,015 ordinary shares respectively at a value \$3.9 per share. An amount of \$68.3 million was credited to the share premium account upon the conversion of the notes and issue of new shares.

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 14 Reserves

|   | Share premium<br>\$'000 | Capital reserve<br>\$'000 | Investment revaluation reserve<br>\$'000 | Share option reserve<br>\$'000 | Other reserves<br>\$'000 | Hedging reserve<br>\$'000 | Revenue reserve<br>\$'000 | Total<br>\$'000  | Minority Interest<br>\$'000 | Total equity<br>\$'000 |
|---|-------------------------|---------------------------|--|--------------------------------|--------------------------|---------------------------|---------------------------|------------------|-----------------------------|------------------------|
| At 1 January 2005   |                         |                           |  |                                |                          |                           |                           |                  |                             |                        |
| - As previously reported  | 994,306                 | 1,984                     | 139,846                                  | 5,000                          | —                        | —                         | 536,672                   | 1,677,808        | 47,209                      | 1,725,017              |
| - Opening balance adjustment arising from changes in accounting policies (note 2(a)(i)) | —                       | —                         | —  | 2,544                          | 7,021                    | (27,734)                  | (7,008)                   | (25,177)         | —                           | (25,177)               |
| - As restated, after opening balance adjustments  | 994,306                 | 1,984                     | 139,846                                  | 7,544                          | 7,021                    | (27,734)                  | 529,664                   | 1,652,631        | 47,209                      | 1,699,840              |
| Dividends approved in respect of the previous financial year (note 6(b))                | —                       | —                         | —  | —                              | —                        | —                         | (28,021)                  | (28,021)         | —                           | (28,021)               |
| Net profit for the interim period   | —                       | —                         | —  | —                              | —                        | —                         | 72,931                    | 72,931           | 5,984                       | 78,915                 |
| Minority interest's share of dividend   | —                       | —                         | —  | —                              | —                        | —                         | —                         | —                | (7,740)                     | (7,740)                |
| Dividends declared in respect of the current interim period (note 6(a))                 | —                       | —                         | —  | —                              | —                        | —                         | (18,050)                  | (18,050)         | —                           | (18,050)               |
| Changes in fair value of non-trading securities   | —                       | —                         | (2,040)                                  | —                              | —                        | —                         | —                         | (2,040)          | (15)                        | (2,055)                |
| Impairment loss realised  | —                       | —                         | 6,195                                    | —                              | —                        | —                         | —                         | 6,195            | —                           | 6,195                  |
| Cash flow hedge: effective portion of changes in fair value                             | —                       | —                         | —  | —                              | —                        | 23,493                    | —                         | 23,493           | —                           | 23,493                 |
| Shares issued on conversion of convertible notes  | 68,335                  | —                         | —  | —                              | (7,021)                  | —                         | —                         | 61,314           | —                           | 61,314                 |
| Realisation upon disposal of non-trading securities                                     | —                       | —                         | (25,000)                                 | —                              | —                        | —                         | —                         | (25,000)         | —                           | (25,000)               |
| <b>At 30 June 2005</b>  | <b>1,062,641</b>        | <b>1,984</b>              | <b>119,001</b>                           | <b>7,544</b>                   | <b>—</b>                 | <b>(4,241)</b>            | <b>556,524</b>            | <b>1,743,453</b> | <b>45,438</b>               | <b>1,788,891</b>       |

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 non-trading securities. The share option reserve which represents amounts received in advance of the exercise of share options will be utilised and transferred to the share capital account and the share premium account once the options are exercised. Should the options not be exercised such amount will be transferred to capital contribution reserves upon expiry of the options. Such reserve will be distributable at the discretion of the directors.

(Expressed in Hong Kong dollars)

## 15 Capital commitments

Capital commitments outstanding at 30 June 2005 and not provided for in the interim financial statement were as follows:

|                                   | 30 June<br>2005<br>\$'000 | 31 December<br>2004<br>\$'000 |
|-----------------------------------|---------------------------|-------------------------------|
| Contracted for                    | <u>6,561</u>              | <u>11,304</u>                 |
| Authorised but not contracted for | <u>—</u>                  | <u>—</u>                      |

## 16 Material related party transactions

During the period, 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.

- (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 30 June 2005 was \$1,088.8 million (31 December 2004: \$1,083.4 million).

The Group received interest income and management fee income from WHTCL of \$5.3 million (2004: \$5.5 million) and \$1.3 million (2004: \$1.4 million) respectively.

- (b) The Group received consultancy fees from a jointly controlled entity of \$1.8 million (2004: \$1.8 million).

## 17 Contingent liabilities

At 30 June 2005, the Group had the following contingent liabilities:

### (a) *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 \$150 million (31 December 2004: \$150 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 30 June 2005, these facilities were not utilised by the Company.

### (b) *In respect of The Hong Kong School of Motoring Limited (“HKSM”)*

There is an arrangement between HKSM and its banker whereby the bank provides guarantees in favour of third parties. Under this arrangement, HKSM has a charge over a time deposit with that bank amounting to not less than \$1.7 million (31 December 2004: \$1.7 million).

(Expressed in Hong Kong dollars)

## 17 Contingent liabilities (Continued)

### (c) *In respect of Hong Kong Tunnels and Highways Management Company Limited ("HKTHMCL")*

The Group has given a guarantee to the extent of \$18.9 million (31 December 2004: \$18.9 million) to a bank in return for it providing a guarantee in favour of the Government of the HKSAR 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.

### (d) *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 its ultimate shareholder, China Merchants Holdings (International) Company, Limited) and Adwood Company Limited (as well as by its ultimate shareholders, CITIC Pacific Limited and Kerry Properties Limited) to the Government of the HKSAR 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 Tunnel ("WHT") up to the date WHT 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 WHT. The maintenance certificate had not been issued at 30 June 2005.

## 18 Post balance sheet event

On 16 September 2005, the Directors declared a second interim dividend. Further details are set out in note 6(a) "Dividends".

## 19 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.



## INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF THE CROSS-HARBOUR (HOLDINGS) LIMITED

*(Incorporated in Hong Kong with limited liability)*

We have been instructed by the Company to review the interim financial report set out on pages 3 to 24.

### **Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

### **Review conclusion**

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

**KPMG**

*Certified Public Accountants*

Hong Kong, 16 September 2005



The board of directors of The Cross-Harbour (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005. The interim results have been reviewed by the Company's audit committee and external auditors, KPMG. KPMG's independent review report is set out on page 25.

The Group's unaudited profit attributable to shareholders for the first half of 2005 amounted to HK\$72.9 million, a 28.9% increase compared with HK\$56.6 million for the first half of 2004. Basic earnings per share were HK\$0.26.

### DIVIDENDS

A first quarterly interim dividend of HK\$0.06 per share absorbing a total amount of HK\$18.1 million was paid on 26 July 2005. Your directors have today declared a second quarterly interim dividend of HK\$0.06 per share payable on 14 October 2005 to shareholders registered on 7 October 2005. The share register of the Company will be closed from 5 October to 7 October 2005, both days inclusive.

### BUSINESS REVIEW AND PROSPECTS

Going into 2005, the gloomy days of deflation and high unemployment are virtually over. The strength of the local economy is well demonstrated by the vibrant performance of the property market despite successive interest rate hikes in the past few months. The Hang Seng Index has rebounded to its record high since early 2001. Speculation on further renminbi appreciation in the near future attracts inflow of hot money supporting investment sentiment in property and stock markets. Unemployment, especially in the low-skilled sector, continues to edge down as a result of the opening of the Hong Kong Disneyland and the AsiaWorld-Expo in the second half of the year. Though the pressure of interest rate hikes and soaring oil prices on stock market performance and slightly over-heated property market continues to exist, the market sentiment remains bullish and the economy should benefit from the improved investment outlook.

*The Autopass Company Limited ("Autopass") – 70% owned*

*Autotoll Limited ("Autotoll") – effectively 35% owned*

The main asset of Autopass is its 50% stake in Autotoll, which 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. The total number of tags in circulation as at 30 June 2005 was about 206,000. The overall usage of auto-toll facilities in all ten toll roads and tunnels maintained at about 50%, with the highest usage at the Western Harbour Tunnel at over 60%. The daily transactions handled by Autotoll were about 320,000 with toll amount of approximately HK\$6.0 million. Since July 2004, Autotoll also introduced the Global Positioning System for fleet management. This system was well received by corporate customers and over 570 units were installed by the end of June.



## BUSINESS REVIEW AND PROSPECTS *(Continued)*

### *The Hong Kong School of Motoring Limited ("HKSM") – 70% owned*

HKSM recorded a significant decrease in the demand for driving lessons and also a further deteriorated demand in motorcycle training courses for the period under review, as compared with the previous corresponding period. The low throughput was the result of the low sales intake and shrinking market size in the last quarter of 2004. Against the keener competition from on-street private driving instructors, various promotion campaigns designed for selected corporate clients were launched to boost enrolments and throughput in the second half of the year. In the long run, HKSM would continue to strive for balances in price and quality through brand rejuvenation programs.

### *Western Harbour Tunnel Company Limited ("WHTCL") – 37% owned*

As a result of toll increase for the Eastern Harbour Tunnel in May, the total cross-harbour traffic in the same month has dropped by approximately 7% as compared with the throughput of previous months, while the market share of the Western Harbour Tunnel increased by nearly 2% to over 18%. The daily throughput of the Western Harbour Tunnel during the first half year under review maintained at about 39,300 vehicle journeys. Given the positive trend of the economy and the strong purchasing power supported by higher visitor flows, the performance of the WHTCL is expected to continue to improve in the second half year, barring acceleration in the pace of interest rate hikes.

### *Hong Kong Tunnels & Highways Management Company Limited ("HKTHMCL") – 37% owned*

HKTHMCL has managed the busiest Cross-Harbour Tunnel at Hunghom under a Management, Operation and Maintenance ("MOM") Contract with the Government for a period of two years commencing 1 September 2002 and extension has been granted by the Government for a further period of twenty-four months to 31 August 2006.

## COMMENTARY ON INTERIM RESULTS

### (I) Review of 2005 Interim Results

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2005 amounted to HK\$72.9 million, an increase of 28.9% compared with HK\$56.6 million for the last corresponding period. Earnings per share were HK\$0.26, an increase of 13.0% compared with HK\$0.23 for the last corresponding period. The improvement in 2005 interim results was the aggregate result of increase in profit contribution from tunnel operations and gain from disposal of marketable securities.

The Group's turnover for the period under review was HK\$107.6 million, a decrease of HK\$16.0 million or 13.0% as compared to the HK\$123.6 million recorded in the same period last year.



## COMMENTARY ON INTERIM RESULTS *(Continued)*

### (I) Review of 2005 Interim Results *(Continued)*

HKSM recorded a substantial reduction in turnover of 18.0% to HK\$93.5 million because of the decrease in tuition fees income resulting from lower demand for both driving and motorcycle lessons despite an increase in the lesson income unit rate as compared with the last corresponding period. The gross profit margin was slightly reduced but the operating profit decreased by 48.0% as compared with the last corresponding period.

The share of net profits of associated companies, primarily contributed by the operations of the Western Harbour Tunnel, has increased by 38.0% to HK\$44.8 million from HK\$32.5 million recorded in the last corresponding period. Improvement in the performance of WHTCL was primarily due to an increase in toll revenue as a result of toll increase effective in July 2004. 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 Hong Kong Accounting Standard ("HKAS") 12 "Income taxes", WHTCL has recognized deferred tax assets in respect of the future benefit of tax losses, as the management of WHTCL considers it 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 period under review.

HKTHMCL, an associate undertaking the management contract for the Hunghom Cross-Harbour Tunnel, maintained stable income for the period.

The Group's share of net profit from a jointly controlled entity, Autotoll Limited, which operates an electronic toll collection system, was HK\$7.7 million for the first half year under review against the HK\$7.8 million recorded in the last corresponding period, representing a slight decrease of 1.6% as a result of increase in operating expenses.

The Group's financial costs for the period under review increased by HK\$1.4 million to HK\$3.0 million against the HK\$1.6 million recorded in the last corresponding period, as a result of the new accounting policy under HKAS 39 with effect from 1 January 2005. Convertible notes issued in 2002 (at an interest rate of 3.5% per annum) and the 3-year interest-free loan advanced by Honway Holdings Limited (a substantial shareholder of the Company) in relation to a share option agreement entered in May 2003, are split into their liability and equity components at initial recognition by recognising the liability components at their fair values and attributing to the equity components the difference between the proceeds from the issue and the fair value of the liability components. The liability components are subsequently carried at amortised cost over the periods using an effective interest method and changes in fair values are charged to the profit and loss account. Further information on the details is provided in note 2(a)(ii) of the interim financial report.

Revaluation deficits arising on certain investment securities, totalling HK\$6.2 million were transferred from the investment revaluation reserve to the consolidated profit and loss account as a result of impairment in value of these securities at 30 June 2005.



## COMMENTARY ON INTERIM RESULTS *(Continued)*

### (II) Investments

As at 30 June 2005, the Group maintained a portfolio of investments, primarily in blue-chip securities, with an aggregate market value of HK\$420.0 million. Dividend income received therefrom in the first six months amounted to HK\$6.5 million.

### (III) Liquidity and Financial Resources

As at 30 June 2005, the Group had bank balances and deposits in the amount of HK\$446.7 million. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities had not been utilized by the Group during the period under review.

Since its sources of income and borrowings are denominated in Hong Kong dollars, the Group is not exposed to foreign exchange rate fluctuations. The Group did not have long-term debts outstanding as at 30 June 2005 (31 December 2004: 1.0%).

### (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 8 of the interim financial report.

### (V) Employees

The Group has 659 employees. Employees are remunerated according to 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 first six months amounted to HK\$55.4 million.



### 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 annual report and financial statements for the year ended 31 December 2004, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 30 June 2005. Total advances provided by the Group to WHTCL including accrued interest thereon amounted to HK\$1,088.8 million as at 30 June 2005.

#### *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.

#### (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 & 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.



**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)*

**(III) Proforma Balance Sheet of Affiliated Companies**

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

|                            | <i>HK\$'000</i>  |
|----------------------------|------------------|
| Total assets               | 5,868,627        |
| Other liabilities          | (2,491,213)      |
|                            | <u>3,377,414</u> |
| Share capital and reserves | 432,350          |
| Shareholders' loans        | 2,945,064        |
|                            | <u>3,377,414</u> |

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The register kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") shows that the directors of the Company held the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2005:

#### (I) Interests in shares

| Name                         | Nature of interest | No. of shares | % of issued share capital |
|------------------------------|--------------------|---------------|---------------------------|
| Cheung Chung Kiu<br>(Note 1) | Corporate interest | 90,022,373    | 29.92%                    |

#### (II) Interests in options

| Name                         | No. of underlying shares | % of issued share capital |
|------------------------------|--------------------------|---------------------------|
| Cheung Chung Kiu<br>(Note 1) | 52,647,059<br>(Note 2)   | 17.50%                    |

Notes:

(1) 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 Holdings Limited ("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 34.14% 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.

(2) The 52,647,059 underlying shares represents the maximum 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, details of which are contained in the Company's circular dated 2 June 2003.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company. None of the directors of the Company held any short position in the shares, underlying shares and debentures of the Company or any of its associated corporations.

Save as disclosed herein, there was no interest recorded in the register kept under section 352 of the SFO as at 30 June 2005.



## SHARE OPTIONS

Particulars of outstanding options at the beginning and at the end of the period under the Company's share option scheme adopted on 8 May 2001 (the "Old Scheme") are as follows:

| Type of participant | No. of outstanding options at the beginning and at the end of the period | 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 Company adopted a new share option scheme (the "New Scheme") and terminated the Old Scheme on 29 April 2005. A summary of the principal terms of the New Scheme is contained in the Company's circular dated 13 April 2005.

During the period, no options lapsed and no options were granted, exercised or cancelled under the Old Scheme and the New Scheme.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

As at 30 June 2005, the interests or short positions of the persons, other than directors of the Company, in the shares and underlying shares of the Company as recorded in the register kept under section 336 of the SFO are as follows:

### (I) Interests of substantial shareholders

| Name                                  | No. of shares<br>(Note 1) | % of issued share capital | No. of underlying shares<br>(Note 2) | % of issued share capital |
|---------------------------------------|---------------------------|---------------------------|--------------------------------------|---------------------------|
| Palin Holdings Limited                | 90,022,373                | 29.92%                    | 52,647,059                           | 17.50%                    |
| Chongqing Industrial                  | 90,022,373                | 29.92%                    | 52,647,059                           | 17.50%                    |
| Yugang                                | 90,022,373                | 29.92%                    | 52,647,059                           | 17.50%                    |
| Yugang International (B.V.I.) Limited | 90,022,373                | 29.92%                    | 52,647,059                           | 17.50%                    |
| Funrise Limited                       | 90,022,373                | 29.92%                    | 52,647,059                           | 17.50%                    |
| Y. T.                                 | 90,022,373                | 29.92%                    | 52,647,059                           | 17.50%                    |
| Y. T. Investment Holdings Limited     | 90,022,373                | 29.92%                    | 52,647,059                           | 17.50%                    |
| Honway                                | 90,022,373                | 29.92%                    | 52,647,059                           | 17.50%                    |



### INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS *(Continued)*

#### (II) Interests of other persons

| Name                           | No. of shares | % of issued share capital |
|--------------------------------|---------------|---------------------------|
| PMA Capital Management Limited | 14,381,000    | 4.78%                     |

Notes:

- (1) Each of the 90,022,373 shares set out in this column represents the same block of shares beneficially owned by Honway and is duplicated in Mr. Cheung's interest in shares as disclosed on page 32. Of these 90,022,373 shares, 20,630,015 shares were acquired by Honway by exercising its conversion rights under a convertible note then held by it (the then outstanding principal amount being HK\$80,457,060) at a pre-determined conversion price of HK\$3.90 per share prior to the maturity of the convertible note.
- (2) Each of the 52,647,059 underlying shares set out in this column represents the same block of underlying shares held by Honway and is duplicated in Mr. Cheung's interest in options as disclosed on page 32.
- (3) 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 held by Honway by virtue of its direct/indirect shareholding interest in Honway.

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 of the Company, who, as at 30 June 2005, 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, other than as disclosed on page 32.



### CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviations hereinbelow mentioned.

Under code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Mr. Cheung Chung Kiu, chairman of the directors, has never been subject to retirement by rotation since his appointment on 21 March 2001, nor has he been taken into account in determining the number of directors to retire in each year in accordance with articles 81 and 82 of the Company's articles of association.

Being committed to the establishment of and maintaining good corporate governance practices, the board considers that all directors should be subject to re-election at regular intervals. Accordingly, the board will propose amendments to articles 81 and 82 for approval by shareholders at the next general meeting.

With respect to code provision B.1.1, the Company established a remuneration committee on 30 June 2005. Specific written terms of reference which deal clearly with the authority and duties of the remuneration committee were also adopted on 30 June 2005. The terms of reference of the remuneration committee are posted on the Company's website.

With respect to code provision C.3.3, the Company adopted new terms of reference of the audit committee to include such duties as are stipulated in the said code provision C.3.3 on 30 June 2005. The terms of reference of the audit committee are posted on the Company's website.

### MODEL CODE FOR SECURITIES TRANSACTIONS

On 1 January 2005, the Company adopted codes of conduct regarding securities transactions by directors and by relevant employees (within the meaning of the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules.

All directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions throughout the accounting period covered by the interim report.



### **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

### **REVIEW BY AUDIT COMMITTEE**

The interim report has been reviewed by the Company's audit committee, which comprises three independent non-executive directors and one non-executive director. The audit committee, together with KPMG, has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements.

On behalf of the Board

**Yeung Hin Chung, John**  
*Managing Director*

Hong Kong, 16 September 2005