



Performance

The Group reported a net profit of HK\$162.0 million for the year ended 31 December 2005, representing an increase of 20.0 per cent as compared with HK\$135.0 million in 2004. The increase was primarily attributable to the profit contribution from the Group's investment in the Western Harbour Tunnel. Earnings per share were HK\$0.55 against HK\$0.53 for 2004.

Final Dividend

A fourth and final dividend of HK\$0.10 per share has been proposed and, if approved by the Shareholders, will result in total dividends of HK\$0.28 per share for the year, representing an increase of 12 per cent when compared with the previous year. Total dividends paid and proposed for the year will be HK\$84.2 million.

Business Review and Outlook

The Hong Kong economy recorded another year of stellar growth in 2005, despite successive rate hikes which began in March pushing the Hong Kong prime rate up by a total of 250 to 275 basis points. Soaring oil prices and interest rate hikes, though instilling a sense of cautiousness, have not suppressed the gaining momentum of the economy. Real GDP recorded a growth of 7.3%, following a 8.6% growth in 2004. Propelled by the Individual Visit Scheme and the revival of the property market, many retail, hospitality and property-related jobs have been created in the past two years. The headline unemployment rate dropped to a four-year low of 5.2% since peaking at 8.6 % in July 2003. The adverse impact of rising interest rates on private consumption has so far been modest, with the labor market consistently outperforming market expectations.

After another year of stronger than expected economic growth, the market generally remains upbeat about Hong Kong's economic development in 2006, yet there are downside risks appearing in the external sector. Under the country's 11th Five-Year Plan, the Chinese government will direct growth from export-oriented investment to private consumption starting from 2006, and the performance of Hong Kong's re-exports will unavoidably be undermined. The escalating U.S. interest rates cool the American housing market and force the American consumers to turn frugal, which in turn reduce demand for Hong Kong's exports. Moreover, global markets are under the way of American rate moves, much more so for Hong Kong with its exchange rate pegged to the Dollar. Facing the interest rate uncertainty, the local stock market, which is more sensitive to rates move, will be even more turbulent. Nevertheless, there is a general market consensus that the current interest rate will peak in the first half of 2006, though not before one or two more hikes. The psychological impact of rising interest rates on the local property and stock market will thus gradually subside. On the domestic front, the robustness of consumer spending underpinned by positive consumer confidence and a buoyant labour market, will help compensate for the weakened external inputs. Salaries will be on a growth trend in 2006, one of the key drivers for the retail and residential sectors.

Avian flu remains an emerging risk ahead, however, due to enhanced global awareness and heightened precautionary measures, we believe that the pandemic may be forestalled. Tourist inflow remains sturdy. The economy will continue to exhibit a solid and broad-based upturn in 2006, though at less rapid pace with interest rates at higher levels and the global economy flattening.



The Autopass Company Limited (“Autopass”) – 70% owned Autotoll Limited (“Autotoll”) – effectively 35% owned

Autotoll Limited, 50% owned by Autopass, provides electronic toll clearing (“ETC”) facilities in Hong Kong covering ten different toll roads and tunnels. There are forty-eight auto-toll lanes in operation at present. The number of subscribers has reached a plateau since 2003. In order to boost tag subscription and maintain customer loyalty, a membership program, the “Autotoll Club”, will be launched in 2006. Members of the Club will enjoy fuel and other merchant discounts. In view of increasing competition from other electronic payment systems and the need to maintain its leadership in the market, Autotoll is poised to launch the AutoPark system in the second half of 2006. Subscribers can use their Autotoll tags for car-park access control and parking fee payment at designated carparks.

After a prolonged product development and trials, the Global Positioning System (“GPS”) service was officially launched in March 2005. At present, Autotoll is the leading GPS service provider for cross border tracking in the territory. The system covers both the territory and Guangdong province and is not only well received by many large corporations in logistics and transportation industries, but has also won the “Outstanding Award” in the 1st Hong Kong Wireless Technology Excellence Award organized by the Hong Kong Wireless Technology Industry Association and the Hong Kong Productivity Council in 2005.

The Hong Kong School of Motoring Limited (“HKSM”) – 70% owned

HKSM recorded a decrease in the demand for driving lessons and also a further deteriorated demand in motorcycle training courses in the year under review. The dampening effect of low throughput on the overall performance of the school in the past year was however mitigated by the higher lesson income unit rate. The continuous shrinking of the market, as evidenced by the continual fall in the number of new Learner Driver Licenses, is believed to have been the aggregate result of aging of the population, changes in the mode of consumers' spending and improved public transport system.

Though the outlook on the driving training industry does not appear to be optimistic in the coming year, HKSM will continue to deploy more efforts to defend its market share, to increase its competitive edges and to enhance its brand image and ultimately to enhance profitability. Business strategies such as proactive post-enrolment sales, flexible cost structure, further penetration into different niche markets will be employed. The newly launched product, “One-to-One Plan”, is not only well received but also conducive to brand rejuvenation as a result of increased customer satisfaction. In order to enhance long-term profitability and to diversify risk, HKSM will attempt to outreach to other markets outside Hong Kong.



Western Harbour Tunnel Company Limited (“WHTCL”) – 37% owned

The performance of the WHTCL in 2005 was encouraging. Toll revenue was improved and the throughput of the Western Harbour Tunnel (“WHT”) has increased significantly during the second half of the year despite an overall reduction in the total cross-harbour traffic as compared with that of the previous year. In December, the WHT recorded a market share at new high of over 19% and a historical high single daily throughput of almost 55,000 vehicle journeys since year 2000. It is the aggregate result of diversion of traffic caused by toll increase at the Eastern Harbour Tunnel effective May 1, higher visitor flows after the opening of the much awaited Disneyland in September and bullish market sentiments. The midnight empty taxi and goods vehicle promotions were very well received, and the programs were repeatedly extended generating incremental traffic and revenue for the WHT. As a caring company, WHTCL sponsored the Sixth Ministerial Conference (MC6) of the World Trade Organization (WTO) held in December by offering a toll sponsorship from 13th to 18th. The negative impact on the revenue of WHTCL was only minimal.

In the coming year, WHTCL will continue to look to maximization of revenue as the key task for the Company. The management will continue to identify more business opportunities such as joint promotions with business partners, construction of new outdoor advertising sites, etc, to generate additional revenue. In the near future, we expect the WHT to benefit from additional traffic induced by the opening of the Hong Kong's largest exhibition and events complex — AsiaWorld-Expo, as well as the completion of Deep Bay link, a dual 3-lane carriageway, which will provide a strategic link between the additional vehicular boundary crossing, the Hong Kong - Shenzhen Western Corridor, and Yuen Long Highway, in early 2006.

Hong Kong Tunnels and Highways Management Company Limited (“HKTHMCL”) – 37% owned

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

Looking Forward

The Group will continue to adopt a proactive, yet prudent approach in exploring more business opportunities. Under the current economic climate, we believe that the Group will continue to create sustainable streams of value for our shareholders in the years to come.

Acknowledgement

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

Cheung Chung Kiu

Chairman

Hong Kong, 7 April 2006