



Set out below is information disclosed pursuant to the listing rules of The Stock Exchange of Hong Kong Limited.

Commentary on Annual Results

(I) Review of 2005 Results

The Group reported a profit attributable to shareholders of HK\$162.0 million for the year ended 31 December 2005, an increase of 20.0% compared with HK\$135.0 million in 2004. Earnings per share were HK\$0.55 compared to HK\$0.53 for the previous year. The improvement in 2005 results was mainly attributable to the increase in profit contribution from tunnel operations.

The Group's turnover for the year was HK\$249.7 million, slightly decreased by HK\$4.3 million or 1.7% as compared to HK\$254.0 million recorded in 2004.

The Hong Kong School of Motoring Limited recorded a reduction in turnover of 7.0% to HK\$209.9 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 a result, the operating profit decreased by 10.6% as compared with the previous year.

The Group's share of net profits less losses of associates, primarily contributed by the operations of the Western Harbour Tunnel ("WHT"), has increased by 30.9% to HK\$102.2 million as compared to HK\$78.1 million in 2004. Improvement in the performance of Western Harbour Tunnel Company Limited ("WHTCL") was attributable to an increase of 8.0% in toll revenue, an aggregate result of improved throughput and toll increase effective in July 2004. The daily throughput of the WHT increased by 5% to approximately 41,200 vehicle journeys throughout 2005. The Group's share of taxation of associates was primarily the utilization of deferred tax assets by WHTCL. With effect from 1 January 2003, in order to comply with 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 year.

The Group's share of net profit from a jointly controlled entity, Autotoll Limited, was HK\$9.2 million for the year against HK\$9.6 million recorded in the previous year, representing a decrease of 4.7% as a result of increase in operating expenses.

Out of the Group's financial costs for the year of HK\$3.7 million, HK\$1.2 million was the interest expense on the issues of convertible notes at an interest rate of 3.5% per annum. The balances were primarily the adjustments that have been made in accordance with 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(b)(i) of the financial statements.



Commentary on Annual Results *(continued)*

(II) Investments

At 31 December 2005, the Group maintained a portfolio of investments, primarily in blue-chip securities, with an aggregate market value of HK\$412.4 million. Dividend income received therefrom in 2005 amounted to HK\$10.8 million.

(III) Liquidity and Financial Resources

At 31 December 2005, the Group had bank balances and deposits in the amount of HK\$485.9 million. Banking facilities available are sufficient to meet the foreseeable funding needs for working capital and capital expenditure. These facilities were not utilized by the Group during the year.

Since the Group's sources of income and borrowings are denominated in Hong Kong dollars, the Group is not exposed to foreign exchange rate fluctuations. The Group did not have long-term debts outstanding as at 31 December 2005 (gearing ratio as at 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 12 to the financial statements on pages 74 to 76.

(V) Employees

The Group has 659 employees. Employees are remunerated according to the job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from provident fund schemes and medical insurance, discretionary bonuses and employee share options are awarded to employees of the Group at the discretion of the directors, depending upon the financial performance of the Group. Total staff costs for the year amounted to HK\$114.6 million. Detailed information is set out in note 8 to the financial statements on page 71.

The Company also operates a Share Option Scheme, details of which are set out in the Report of the Directors on pages 27 and 28.