



The directors submit their report together with the audited financial statements for the year ended 31 December 2005.

Change of Company Name

At the annual general meeting held on 29 April 2005, a special resolution was passed to change the name of the Company from “The Cross-Harbour (Holdings) Limited” to “The Cross-Harbour (Holdings) Limited 港通控股有限公司”. The change of company name became effective on 7 June 2005.

Principal Activities

The principal activity of the Company is investment holding while the principal activities of its subsidiaries are set out in note 14 to the financial statements on pages 79 and 80.

During the year, more than 90% of the Group’s trading operations in terms of both turnover and operating profit were carried out in Hong Kong. An analysis of the Group’s turnover and operating profit for the year is set out in note 3 to the financial statements on page 67.

Results and Appropriations

The results of the Group and appropriations of profit for the year ended 31 December 2005 are set out in the consolidated profit and loss account on page 34 and note 10 to the financial statements on page 72 respectively.

The first, second and third quarterly interim dividends each of HK\$0.06 per share (2004: HK\$0.05 per share) were paid on 26 July 2005, 14 October 2005 and 16 December 2005 respectively. The directors recommend the payment of a final dividend of HK\$0.10 per share (2004: HK\$0.10 per share) which, together with the interim dividends, make total dividends for the year ended 31 December 2005 of HK\$0.28 per share (2004: HK\$0.25 per share), representing a total distribution of approximately HK\$84.2 million (2004: HK\$66.8 million) for the year.

Subject to the shareholders’ approval of the proposed final dividend at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 13 June 2006 to shareholders registered on 8 June 2006. The member register and transfer books of the Company will be closed on 7 June 2006 and 8 June 2006 in order to determine the proposed dividend entitlements.



Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$141,000 (2004: HK\$205,000).

Fixed Assets

Movements in fixed assets during the year are set out in note 13 to the financial statements on pages 77 and 78.

Borrowings

Details of the Company's convertible notes are set out in note 22 to the financial statements on page 87. No interest was capitalised during the year.

Share Capital

Movements in the share capital of the Company during the year are set out in note 25 to the financial statements on page 89. Shares were issued during the year on conversion of convertible notes.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares in the Company during the year.

Reserves

Movements in reserves during the year are set out in note 26 to the financial statements on pages 90 to 93 .

Major Suppliers and Customers

During the year, less than 30% of the Group's purchases (not being purchases of items of a capital nature) were attributable to the Group's five largest suppliers, whereas less than 30% of the Group's turnover were attributable to the Group's five largest customers (being the five largest customers of The Hong Kong School of Motoring Limited, a 70%-owned subsidiary). None of the directors; their associates; or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in these suppliers and customers.



Directors

The directors serving for the year and up to the date of this report are listed on page 2.

Mr. Wong Yat Fai and Mr. Ng Kwok Fu were both appointed as independent non-executive directors for a term expiring on the annual general meeting in 2006. Accordingly, both of them cease to hold office from close of the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Articles 81 and 82 of the Company's articles of association provide that: (i) at each annual general meeting one third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that the chairman of directors shall not whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year; and (ii) every director (including those appointed for a specific term but excluding the chairman of directors) shall be subject to retirement by rotation at least once every three years. In accordance therewith, Mr. Yuen Wing Shing, Mr. Wong Chi Keung and Mr. Leung Wai Fai retire from the board by rotation this year and, being eligible, offer themselves for re-election.

As referred to in the Corporate Governance Report on page 15, the board proposes to amend the articles of association. Subject to shareholders' approval at the forthcoming annual general meeting, articles 81 and 82 shall provide, in addition to the manner of retirement by rotation of directors prescribed therein, that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years; the director holding office as chairman shall also be taken into account in determining the number of directors to retire each year.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence and considers all of them to be independent.



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 the following interests of a director in the shares and underlying shares of the Company as at 31 December 2005:

(I) Interests in shares

Name	Nature of interest	No. of shares	% of issued share capital
Cheung Chung Kiu (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 (Note 1)	52,647,059 (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 a wholly owned subsidiary of Y. T. Investment Holdings Limited ("Y. T. Investment") which was in turn a wholly owned subsidiary of Y. T. Realty Group Limited ("Y. T. Realty"). Yugang International (B.V.I.) Limited ("Yugang BVI"), through its wholly owned subsidiary, Funrise Limited ("Funrise"), owned 34.14% of the issued share capital of Y. T. Realty. Yugang BVI was a wholly owned subsidiary of Yugang International Limited ("Yugang"). 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 parcel of 52,647,059 underlying shares represents the maximum number of shares issuable on exercise of the remainder of the option granted to Honway pursuant to the share option agreement dated 9 May 2003 made between the Company and Honway, details of which are given 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.

Save as disclosed herein, as at 31 December 2005, there was no interest recorded in the register kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Code for Securities Transactions by Directors adopted by the Company on 1 January 2005.



Share Option Schemes

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) announced its amendments to the requirements for share option schemes under Chapter 17 of the Main Board Listing Rules (the “Listing Rules”). The rule amendments came into effect on 1 September 2001 and as from this date onwards, all schemes must comply with the provisions of Chapter 17. Options that had been granted before 1 September 2001 are, however, not subject to the new rules. Accordingly, each existing scheme which does not comply with the new rules should be amended or replaced by a new scheme.

At the extraordinary general meeting held on 29 April 2005, the Company adopted a new scheme (the “New Scheme”) whose terms are in line with the provisions of Chapter 17, and terminated the scheme it previously adopted on 8 May 2001 (the “Old Scheme”). Details of the adoption of the New Scheme and the termination of the Old Scheme are given in the Company’s circular dated 13 April 2005 (the “Scheme Circular”).

A summary of the New Scheme is set out below.

- (1) Purpose : To provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to, the participants and for such other purposes as the board may approve from time to time
- (2) Participants : Any director (or any person proposed to be appointed as such, whether executive or non-executive), officer and employee (whether full-time or part-time) of each member of the Eligible Group (as defined in the Scheme Circular); any business consultant, professional and other advisers (in the areas of legal, technical, financial or corporate managerial) (including any executive, officer and employee of such business consultant, professional and other advisers) to each member of the Eligible Group (or persons proposed to be appointed as such) who has rendered service or will render service to the Group, as absolutely determined by the board
- (3) Total number of shares available for issue (% of issued share capital as at 7 April 2006) : 28,015,985 shares (9.3%)
- (4) Maximum entitlement of each participant : 1% of the total number of shares in issue in any 12-month period
- (5) Period within which the shares must be taken up under an option : To be determined by the board in its absolute discretion, such period to expire not later than ten years from the date of grant of the option



Share Option Schemes (continued)

- (6) Minimum period for which an option must be held before exercise : To be determined by the board in its absolute discretion
- (7) Amount payable on application or acceptance of the option : HK\$1.00
- (8) Basis of determining the exercise price : The exercise price shall be a price solely determined by the board, such price being no less than the highest of:
- (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date;
 - (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and
 - (c) the nominal value of a share
- (9) Remaining life : Until 28 April 2015

Pursuant to the Old Scheme, options had been granted to eligible participants to subscribe for a total of 19,200,000 shares among which, no option had been exercised or had lapsed, and 19,200,000 shares represented options which remained outstanding throughout the year. Particulars of these outstanding options at the beginning and at the end of the year are set out in the table below.

Type of participant	No. of outstanding options at the beginning and at the end of the year	Date of grant	Vesting period	Exercise period	Exercise price per share
Directors	Nil	N/A	N/A	N/A	N/A
Other employees	19,200,000	30 August 2001	Nil	30 August 2001 to 7 May 2011	HK\$2.492

No option lapsed and no option was granted, exercised or cancelled during the year.

Directors' Rights to Acquire Securities

Save for the New Scheme noted above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements whose objects are, or one of whose objects is, to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



Directors' Interests in Contracts

No contract of significance to which the Company or any of its subsidiaries was a party and/or in which a director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Mr. Lee Ka Sze, Carmelo is a partner in Messrs. Woo, Kwan, Lee & Lo and as such has an interest in the normal remuneration paid by the Company to that firm for the services rendered to the Company in the year.

Interests and Short Positions of Shareholders

The register kept under section 336 of the SFO shows the following interests of the persons, other than directors, in the shares and underlying shares of the Company as at 31 December 2005:

Name (Note 3)	No. of shares (Note 1)	% of issued share capital	No. of underlying shares (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 BVI	90,022,373	29.92%	52,647,059	17.50%
Funrise	90,022,373	29.92%	52,647,059	17.50%
Y. T. Realty	90,022,373	29.92%	52,647,059	17.50%
Y. T. Investment	90,022,373	29.92%	52,647,059	17.50%
Honway	90,022,373	29.92%	52,647,059	17.50%
Deutsche Bank Aktiengesellschaft	24,427,000	8.12%	—	—
PMA Capital Management Limited (Note 4)	24,081,000	8.00%	—	—
PMA Prospect Fund (Note 4)	15,861,000	5.27%	—	—

Notes:

- Each parcel of the 90,022,373 shares set out in this column represents the same shareholding interest of Honway, which is duplicated in Mr. Cheung's interest in shares on page 26. Of these 90,022,373 shares, 20,630,015 shares were acquired by Honway on conversion of a convertible note (the then outstanding principal amount being HK\$80,457,060) at a pre-determined price of HK\$3.90 per share prior to its maturity.
- Each parcel of the 52,647,059 underlying shares set out in this column represents the same underlying shareholding interest of Honway, which is duplicated in Mr. Cheung's interest in options on page 26.
- Each of Palin Holdings Limited, Chongqing Industrial, Yugang, Yugang BVI, Funrise, Y. T. Realty and Y. T. Investment 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.
- The number of 24,081,000 shares held by PMA Capital Management Limited includes the 15,861,000 shares held by PMA Prospect Fund.



Interests and Short Positions of Shareholders *(continued)*

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, who, as at 31 December 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 26.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company maintained throughout the year the prescribed amount of public float under the Listing Rules.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 99 and 100.

Retirement Schemes

The Group operates a defined contribution retirement scheme and two Mandatory Provident Fund schemes (the “MPF Schemes”). Particulars of these schemes are set out below.

(I) Pension Scheme

(i) Nature of the scheme

The principal scheme operated by the Group is a defined contribution retirement scheme for the employees of The Hong Kong School of Motoring Limited.

(ii) Funding of the scheme

The benefits of the scheme were funded in 2005 by a 5% contribution by employees and a 5% contribution by The Hong Kong School of Motoring Limited based on the annual salaries of employees. The contributions excluded the costs of administration and term life assurance.

(iii) Costs of the scheme

Total costs of the scheme, amounting to HK\$2.2 million, were charged to the Group's profit and loss account for the year under review. The required contribution rate was calculated as 5% of the total salaries payable during the year.

(iv) Forfeited contributions of the scheme

The available balance of forfeited contributions that may be used to reduce the existing level of contributions under the scheme as at 31 December 2005 amounted to HK\$3.5 million and there was no utilization during the year.



Retirement Schemes *(continued)*

(II) MPF Schemes

As from 1 December 2000, the Group has operated two MPF Schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement scheme. The MPF Schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF Schemes, the employer and its employees are each required to make contributions to the schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. The total amount of contributions to the MPF Schemes charged to the Group's profit and loss account for the year was HK\$2.2 million.

Disclosure under Rules 13.20 and 13.22 of the Listing Rules

(I) Financial Assistance

In relation to the provision of financial assistance by the Company to Western Harbour Tunnel Company Limited ("WHTCL"), a 37%-owned associate of the Company, as previously disclosed in the Company's interim report for the half-year ended 30 June 2005, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 31 December 2005. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK\$1,053.4 million as at 31 December 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 and Highways Management Company Limited ("HKTHMCL"), a company which is owned as to 37% by the Company, to the extent of approximately HK\$18.9 million, which becomes effective as from 1 September 2002. The Guarantee is given to HSBC in return for it providing a guarantee in favour of the Government of the Hong Kong SAR on behalf of HKTHMCL to secure the performance of an agreement in relation to the operation and management of the Cross-Harbour Tunnel at Hunghom and the operation and maintenance of the tunnel equipment by HKTHMCL.



Disclosure under Rules 13.20 and 13.22 of the Listing Rules *(continued)*

(III) Combined Balance Sheet of Affiliated Companies

Set out below is a combined balance sheet of WHTCL and HKTHMCL as at 31 January 2006 (being the latest practicable date for determining the relevant figures).

	<i>HK\$'000</i>
Total assets	5,794,309
Other liabilities	(2,345,211)
	<u>3,449,098</u>
Share capital and reserves	599,667
Shareholders' loans	2,849,431
	<u>3,449,098</u>

Further Corporate Information

Further information of the Group which is required to be disclosed pursuant to the Listing Rules is set out on pages 11 and 12.

Auditors

The financial statements for the year have been audited by KPMG, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Cheung Chung Kiu
Chairman

Hong Kong, 7 April 2006