

Performance

The Group reported a net profit of HK\$172.8 million for the year ended 31 December 2006, representing an increase of 6.7 per cent as compared with HK\$162.0 million in 2005. The increase was primarily attributable to the profit contribution from the Group's investment in the Western Harbour Tunnel and increase in interest income. Earnings per share were HK\$0.52 against HK\$0.55 for 2005 as a result of new shares issued during the year under review.

Final Dividend

A fourth and final dividend of HK\$0.12 per share has been proposed and, if approved by the Shareholders, will result in total dividends of HK\$0.30 per share for the year, representing an increase of 7.1 per cent when compared with the previous year. Total dividends paid and proposed for the year will be HK\$106.0 million.

Business Review and Outlook

The global economic environment remained largely favourable in 2006 despite the dampening effect of the slowing US economy which occurred since the second quarter. Driven by both stellar export performance of the Mainland and improvement in domestic demand, the Hong Kong economy continued to deliver robust real GDP growth of 6.6% and the overall unemployment rate retreated to a five-year low of 4.4%. Spurred by liquidity flooding and local lending rate cuts, the local stock market scaled one height after another. The Hang Seng Index blasted through the 20,000 points barrier, hitting a six-year high. The China factor has become a red-hot concept among global investors. Besides believing in the blissful future of China's economic development, international investors also entertained thoughts on further appreciation of the Renminbi in the future.

Stepping into 2007, global economic growth is expected to moderate but Asia should outperform. Private consumption remains the key growth driver of the Hong Kong economy. On the contrary, exports will slow due to weakening consumption in US market and continued strengthening of the Renminbi. The stronger yuan, however, helps to boost spending of Mainland visitors in Hong Kong.

Interest rate movements still have a critical impact on the economy. Apart from the direction of US interest rates, the liquidity situation of the Hong Kong economy plays a more important role in shaping the local interest rates. With strong interbank liquidity, asset markets are likely to benefit from the benign interest rate environment. Based on the rosy outlook, overall investment spending is projected to grow even faster and developers remain upbeat about the luxury residential market. Bolstered by sustaining job growth and rising wages, the Hong Kong economy is expected to again deliver an above-trend growth of between 5% and 6% in 2007.

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. In order to maintain customer loyalty and add value to the existing ETC services, a membership program (“Autotoll Club”) was introduced and new services such as “AutoPark” (car-park access control and parking fee payment) and “Autotoll-Unitoll Card” were launched during the second half of 2006. In response to the growing demands for efficient logistics and transport services between Hong Kong and Guangdong Province, Autotoll and Guangdong Unitoll jointly launched the “Autotoll-Unitoll Card” in August 2006 to enable Autotoll subscribers to enjoy non-stop ETC services on major highways and toll roads in the Guangdong Province. Apart from providing ETC services, the “Autotoll-Unitoll Card” also aims at extending its functions to other driving-related service transactions such as fuel purchases, auto repairs, car-parking, etc. Moreover, the cross-border road traffic is expected to grow significantly when the Hong Kong-Shenzhen Western Corridor opens in 2007 and the success of the “Autotoll-Unitoll Card” has indeed paved way for Autotoll's future business development in China.

On the Global Positioning System (“GPS”) service, the paramount objectives for the coming years are to maintain its leading edge and increase its market penetration. In view of the increasing demands for fleet management and navigation service in the Mainland, Autotoll will continue to explore new business opportunities in provinces and/or cities which have market potential, through its ever-growing network of business partners in China and its continual strive for technological breakthroughs.

In recognition for its perseverance and unrelenting drive for improvement in the past year, Autotoll was awarded the Prime Award for Brand Excellence 2006 under the category of “Transportation & Logistic Services Provider”, and its GPS System not only won the Silver Award of the Hong Kong Information and Communication Technology (ICT) Awards 2006 but was also nominated to represent Hong Kong to compete for the Asia Pacific ICT Awards 2006.

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

As a result of higher sales intakes, HKSM recorded a significant increase in the demand for driving lessons in the year under review despite a further deteriorated demand in motorcycle training courses due to shrinking market size. Though the economy is expected to continue to display strength, the outlook on the driving training industry, however, does not appear to be ecstatic in the coming year due to obvious changes in the mode of consumers' spending in the past years. Though price-cutting promotions could boost enrolments, there were adverse effects on brand image and lesson income unit rate. In view of this, a brand rejuvenation program was launched to rejuvenate and revitalize the brand of the Motoring School, aiming at achieving a higher lesson income unit rate and spending per customer.

To make way for the Ocean Park Re-development Project, the tenancy for Wong Chuk Hang Centre was terminated in January 2007, and the operation on Hong Kong Island has been relocated to a new site at Apleichau. Nevertheless, there are uncertainties on the performance of this replacement site due to its comparatively remote location and unsatisfactory configuration. In order to maintain its competitive edge and mitigate adverse impacts on future enrolments resulting from this unfavourable operating environment, HKSM prepares to turn its weakness to forte by introducing new training features specifically designed for driving skills improvement.

To achieve revenue maximization and enhance profitability, continuous efforts in market segmentation and penetration, product innovation, service quality improvement and various cost rationalization exercises are indispensable. In the light of keener competition ahead, HKSM will continue to adopt proactive sales strategy to defend its market share.

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

The performance of the WHTCL in 2006 was encouraging. Toll revenue was improved and the throughput of the Western Harbour Tunnel ("WHT") has increased significantly as compared with that of the previous year, in particular during the last quarter of the year. The total cross-harbour traffic has also rebounded to the level before the implementation of the toll increase at the Eastern Harbour Tunnel in May 2005. In December 2006, the WHT not only recorded a market share at a new high of over 20%, but also attained a new record high single daily throughput of almost 62,000 vehicle journeys since operation.

Looking forward to 2007, we anticipate another year of steady return from the franchise fuelled by surging Mainland tourist arrivals and buoyant consumer sentiments alongside gradual wage increase. In view of the positive responses and steady growth in both throughput and revenue after midnight, the Midnight Empty Taxi and Midnight Goods Vehicle promotions are further extended till the end of 2007. In the near future, the throughput of WHT stands to benefit from the flourishing residential and commercial projects on the West Kowloon Reclamation. It is also anticipated that the completion of Route 8 (between Shatin and Cheung Sha Wan) and Deep Bay Link in the coming year would create additional demand for vehicular traffic as well as cross-harbour services. In addition, the management of WHTCL will continue to focus on enhancing the quality of services to the motoring public through various measures to mitigate congestion and to improve accessibility.

Despite improved cashflow in the past two years, maximizing revenue is still the most important task for WHTCL. The Management, in formulating future toll strategy, will continue to strike a careful balance between commercial and public interests.

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

HKTHMCL has managed the busiest Cross-Harbour Tunnel at Hunghom ("CHT") under a Management, Operation and Maintenance ("MOM") Contract with the Government for a period of four years since 1 September 2002 and the contract expired on 31 August 2006.

Hong Kong Transport, Logistics and Management Company Limited ("HKTMCL") – 37% owned

HKTMCL, a newly formed associate, was awarded a new MOM Contract for the operation and management of the CHT. The contract commenced on 1 September 2006 for a period of twenty-six months, with an option for the Government to extend for further periods of up to twenty-four months upon expiry.

Looking Forward

The Group will continue to adopt a proactive, yet prudent approach in exploring more business opportunities. Given the promising business prospects, 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 wise counsel 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, 23 March 2007