

The directors submit their report together with the audited financial statements for the year ended 31 December 2006.

## Principal Activities

The principal activity of the Company is investment holding while the principal activities of its subsidiaries are set out in note 13 to the financial statements on pages 73 and 74.

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 2 to the financial statements on page 61.

## Results and Appropriations

The results of the Group and appropriations of profit for the year ended 31 December 2006 are set out in the consolidated profit and loss account on page 37 and note 9 to the financial statements on page 66 respectively.

The first, second and third quarterly interim dividends each of HK\$0.06 per share (2005: HK\$0.06 per share) were paid on 4 August 2006, 6 October 2006 and 18 December 2006 respectively. The directors recommend the payment of a final dividend of HK\$0.12 per share (2005: HK\$0.10 per share) which, together with the interim dividends, make total dividends for the year ended 31 December 2006 of HK\$0.30 per share (2005: HK\$0.28 per share), representing a total distribution of approximately HK\$106.0 million (2005: HK\$84.2 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 18 May 2007 to shareholders registered on 11 May 2007. The member register and transfer books of the Company will be closed from 9 May 2007 to 11 May 2007, both days inclusive, in order to determine the proposed dividend entitlements.

## Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$30,800 (2005: HK\$141,000).

## Fixed Assets

Movements in fixed assets during the year are set out in note 12 to the financial statements on pages 71 and 72.

## Share Capital

Movement in the share capital of the Company during the year is set out in note 25(c) to the financial statements on page 85. Shares were issued during the year on exercise of share option.

## Reserves

Movements in reserves during the year are set out in note 25 to the financial statements on pages 83 to 86.

## 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 93 and 94.

## 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. Lee Ka Sze, Carmelo and Mr. Wong Wai Kwong, David cease to hold office from close of the forthcoming annual general meeting in accordance with their terms of office and, being eligible, offer themselves for re-election.

In accordance with article 82 of the articles of association of the Company, Mr. Cheung Chung Kiu and Ms. Tung Wai Lan, Iris retire from the board by rotation this year and, being eligible, offer themselves for re-election. With the retirement of Mr. Lee Ka Sze, Carmelo and Mr. Wong Wai Kwong, David taken into account, the requirements under this article are fully satisfied.

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 its independent non-executive directors an annual confirmation of his independence and it still considers 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 interest of a director in the shares of the Company as at 31 December 2006:

Name	Capacity	No. of shares	% of issued share capital
Cheung Chung Kiu	Interest of controlled corporation	148,254,432	41.94%

*Note:*

Mr. Cheung Chung Kiu ("Mr. Cheung") was deemed to be interested in the above shares by virtue of his indirect shareholding interest in Honway Holdings Limited ("Honway") which owned these 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, Timmex Investment Limited (a company wholly owned by Mr. Cheung) and Chongqing Industrial Limited ("Chongqing Industrial") owned 0.59%, 6.22% and 35.44% 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.

Mr. Cheung's interest disclosed above represents a long position in the shares of the Company.

Save as disclosed herein, as at 31 December 2006, 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 Scheme

On 29 April 2005, the Company adopted a share option scheme (the "New Scheme") whose terms are in line with the provisions of Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") as published by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and terminated the one 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

## Share Option Scheme (continued)

- (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 23 March 2007) : 28,015,985 shares (7.9%)
- (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 at its absolute discretion, such period to expire not later than ten years from the date of grant of the option
- (6) Minimum period for which an option must be held before exercise : To be determined by the board at 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

# Report of the Directors

## Share Option Scheme *(continued)*

Pursuant to the Old Scheme, options over 19,200,000 shares had been granted to eligible participants and all such options remained exercisable throughout the year. Particulars of those 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

During the year, no option lapsed and no option was granted, exercised or cancelled under the Old Scheme and the New Scheme.

## 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 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 during the year.

## Interests and Short Positions of Shareholders

As at 31 December 2006, so far as is known to the directors of the Company, the following persons, other than the directors, had, or were deemed to have, interests in the shares of the Company as recorded in the register kept under section 336 of the SFO:

Name	Capacity	No. of shares	% of issued share capital
Palin Holdings Limited	Interest of controlled corporation	145,022,432 ( <i>Note 1</i> )	41.03%
Chongqing Industrial	Interest of controlled corporation	145,022,432 ( <i>Note 1</i> )	41.03%
Yugang	Interest of controlled corporation	145,022,432 ( <i>Note 1</i> )	41.03%
Yugang BVI	Interest of controlled corporation	145,022,432 ( <i>Note 1</i> )	41.03%
Funrise	Interest of controlled corporation	145,022,432 ( <i>Note 1</i> )	41.03%
Y. T. Realty	Interest of controlled corporation	145,022,432 ( <i>Note 1</i> )	41.03%
Y. T. Investment	Interest of controlled corporation	145,022,432 ( <i>Note 1</i> )	41.03%
Honway	Beneficial owner	145,022,432 ( <i>Note 1</i> )	41.03%
PMA Capital Management Limited ( <i>Note 2</i> )	Investment manager	29,030,000	8.21%
PMA Prospect Fund ( <i>Note 2</i> )	Beneficial owner	20,427,000	5.78%
Deutsche Bank Aktiengesellschaft	Investment manager & security interest	28,206,000 ( <i>Note 3</i> )	7.98%
Sheldon Fenton Kasowitz ( <i>Note 4</i> )	Interest of controlled corporation	17,705,000	5.01%
David Nathan Kowitz ( <i>Note 4</i> )	Interest of controlled corporation	17,705,000	5.01%
Indus Capital Partners, LLC ( <i>Note 4</i> )	Investment manager	17,705,000	5.01%

### Notes:

- Each parcel of 145,022,432 shares represents the same shareholding interest of Honway and is duplicated in Mr. Cheung's interest as set out on page 27. Of these 145,022,432 shares, 52,647,059 shares were acquired by Honway on 22 May 2006 by way of exercise of the remainder of the option granted by the Company to Honway pursuant to the share option agreement dated 9 May 2003 at the then prevailing exercise price of HK\$4.00 per share. Each of Palin Holdings Limited, Chongqing Industrial, Yugang, Yugang BVI, Funrise, Y. T. Realty and Y. T. Investment was deemed to be interested in these shares held by Honway by virtue of its direct/indirect shareholding interest in Honway.
- PMA Capital Management Limited owned 100% of PMA Prospect Fund.
- Of these 28,206,000 shares, 912,000 shares were held in the capacity of investment manager and 27,294,000 shares were held in the capacity of person having a security interest in shares.
- Messrs. Sheldon Fenton Kasowitz and David Nathan Kowitz owned 35.3% each of Indus Capital Partners, LLC.

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed herein, there was no person known to the directors of the Company, who, as at 31 December 2006, had, or was deemed to have, any interest or 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 29.

## 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 2006 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\$2.3 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 2006 was amounted to HK\$0.1 million and a total amount of HK\$3.4 million was utilized during the year.

### (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\$2.3 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 annual report and financial statements for the half-year ended 30 June 2006, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 31 December 2006. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK\$1,000.8 million as at 31 December 2006.

#### *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 new guarantee (“Guarantee”) on 6 July 2006 in favour of The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), given for the benefit of Hong Kong Transport, Logistics and Management Company Limited (“HKTMCL”), a company which is owned as to 37% by the Company, to the extent of approximately HK\$28.5 million, which becomes effective as from 1 September 2006 (the commencement date of the new MOM Contract). 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 HKTMCL 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 HKTMCL.

As at 31 December 2006, the Company had given a guarantee of HK\$18.9 million to HSBC for the benefit of Hong Kong Tunnels and Highways Management Company Limited (“HKTHMCL”) in respect of the MOM Contract expired on 31 August 2006. The aforesaid guarantee expired on 28 February 2007.

## 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 unaudited balance sheet of WHTCL and HKTMCL as at 31 January 2007 (being the latest practicable date for determining the relevant figures):

	<i>HK\$'000</i>
Total assets	5,560,746
Other liabilities	(1,960,357)
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	3,600,389
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Share capital and reserves	893,209
Shareholders' loans	2,707,180
	<hr/>
	3,600,389
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### Further Corporate Information

Further information of the Group which is required to be disclosed pursuant to the Listing Rules is set out on pages 13 and 14.

### Sufficiency of Public Float

Based on 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.

### 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.

## 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, 23 March 2007