



The directors submit their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2002.

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 53 to 55.

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 41.

Results and Appropriations

The results of the Group and appropriations of profit for the year ended 31 December 2002 are set out in the consolidated profit and loss account on page 26 and in note 10 to the financial statements on page 48 respectively.

The first, second and third quarterly interim dividends each of HK\$0.05 per share were paid on 19 July 2002, 28 October 2002 and 13 January 2003 respectively. The directors recommend the payment of a final dividend of HK\$0.05 per share which, together with the interim dividends, make total dividends for the year ended 31 December 2002 of HK\$0.20 per share, representing a total distribution of approximately HK\$41.47 million for the year.

The directors also recommend that such final dividend be satisfied in cash, with an option to receive a scrip dividend of shares. Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around 30 May 2003 to shareholders registered on 24 April 2003.

Fixed Assets

Movements in the fixed assets of the Group and of the Company during the year are set out in note 13 to the financial statements on pages 52 and 53.

Share Capital

Movements in the share capital of the Company are set out in note 22 to the financial statements on page 60.



Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 23 to the financial statements on pages 61 and 62.

Financial Summary

Results, assets and liabilities of the Group for the last five financial years are summarized on page 67.

Major Customers and Suppliers

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).

Directors

The directors who held office during the year and up to the date of this report are listed on page 2.

The Company's Articles of Association provide for all directors of the Company (including independent non-executive directors but excluding the chairman) to retire by rotation. In accordance with Article 82, Messrs. Wong Chi Keung and Leung Wai Fai retire from office this year and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a 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.

Each independent non-executive director was appointed by the Company to hold office from 8 May 2001 until the conclusion of the annual general meeting of the Company in 2005.



Directors' Interests in Shares

As at 31 December 2002, the interests of the directors in the shares of the Company, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register kept by the Company under section 29 of the SDI Ordinance, were as follows:

Name of director	Nature of interest	No. of ordinary shares
Cheung Chung Kiu	Corporate interest	56,812,492

Note: Mr. Cheung Chung Kiu was deemed to be interested in the above shares by virtue of his indirect shareholding in Honway Holdings Limited which owned these shares. Honway Holdings Limited was an indirect wholly owned subsidiary of Y. T. Realty Group Limited. Yugang International Limited, through an indirect wholly owned subsidiary, owned 34.25% of the issued share capital of Y. T. Realty Group Limited. Mr. Cheung Chung Kiu and Chongqing Industrial Limited owned 0.63% and 37.79% of the issued share capital of Yugang International Limited respectively. Chongqing Industrial Limited was owned as to 35% by Mr. Cheung Chung Kiu, as to 30% by Prize Winner Limited which was owned by Mr. Cheung and his associates, and as to 30% and 5% by Peking Palace Limited and Miraculous Services Limited respectively. Peking Palace Limited and Miraculous Services Limited were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung Chung Kiu and his family.

Save as disclosed above and the holding of two nominee shares in the capital of the Company's subsidiaries by Mr. Cheung Chung Kiu in trust for the Company, as at 31 December 2002, there were no interests recorded in the register kept by the Company under section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the listing rules of the Stock Exchange.

Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted on 8 May 2001, prior to amendments to Share Option Schemes (as set out in Chapter 17 of the listing rules of the Stock Exchange) coming into effect on 1 September 2001. According to the listing rules of the Stock Exchange as amended, the Company cannot grant any further options under the Scheme unless it complies with the new requirements of Chapter 17. However, all options granted prior to 1 September 2001 shall remain in full force and effect.



(I) Summary of the Scheme

- | | | |
|--|---|---|
| (1) Purpose of the Scheme | : | To provide incentive or reward to executive management and employees. |
| (2) Participants of the Scheme | : | Eligible full-time employees including executive directors of the Company and its subsidiaries. |
| (3) Total number of shares available for issue under the Scheme and percentage of issued share capital as at 28 March 2003 | : | 19,200,000 shares (9.18%). |
| (4) Maximum entitlement of each participant under the Scheme | : | 25% of the aggregate number of shares issued and issuable under the Scheme. |
| (5) Period within which the shares must be taken up under an option | : | Commencing on the date upon which the option is accepted and expiring on 7 May 2011. |
| (6) Minimum period for which an option must be held before it can be exercised | : | Nil |
| (7) Amount payable on application or acceptance of the option | : | Nominal amount of HK\$1.00 upon acceptance of the option. |
| (8) Basis of determining the exercise price | : | The exercise price is the higher of:

(a) 80% of the average closing price of the existing shares of the Company on the Stock Exchange on the five trading days immediately preceding the date of offer of such option; and

(b) the nominal value thereof. |
| (9) Remaining life of the Scheme | : | The Scheme expires on 7 May 2011. |



(II) Other Information

Particulars of outstanding options at the beginning and at the end of the year were as follows:

Type of participant	No. of outstanding options at the beginning and 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

The directors consider that it is not appropriate to state the value of all the options that have been granted pursuant to the Scheme as any such statement would not be meaningful to shareholders due to the application of a number of speculative assumptions in the estimation of the value of the options.

No options lapsed, and no options were granted, exercised or cancelled during the year.

Directors' Rights to Acquire Securities

Save for the Share Option 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 directors of the Company 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 of Significance

Mr. Lee Ka Sze, Carmelo is a partner of 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.

Apart from the foregoing, no contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



Substantial Shareholders

As at 31 December 2002, the register of substantial shareholders kept by the Company under section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of ten per cent or more in the issued share capital of the Company.

Name of shareholder	No. of ordinary shares
Cheung Chung Kiu	56,812,492
Chongqing Industrial Limited	56,812,492
Yugang International Limited	56,812,492
Yugang International (BVI) Limited	56,812,492
Funrise Limited	56,812,492
Y. T. Realty Group Limited	56,812,492
Y. T. Investment Holdings Limited	56,812,492
Honway Holdings Limited	56,812,492

Notes:

- (1) The above references to 56,812,492 shares in the Company represent the same parcel of shares. Such shares, representing approximately 27.32% of the then issued share capital of the Company, were owned by Honway Holdings Limited.
- (2) This parcel of shares relates to the same corporate interest of Mr. Cheung Chung Kiu as disclosed in the section headed "Directors' Interests in Shares" on page 17.

Save as disclosed above, so far as is known to the directors, there were no interests representing ten per cent or more in the issued share capital of the Company as at 31 December 2002 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance.

Interests in Convertible Note

As at 31 December 2002, Honway Holdings Limited, an indirect wholly owned subsidiary of Y. T. Realty Group Limited, held an interest-bearing convertible note issued by the Company in the principal amount of HK\$117 million. Yugang International Limited, through an indirect wholly owned subsidiary, owned 34.25% of the issued share capital of Y. T. Realty Group Limited. Mr. Cheung Chung Kiu and Chongqing Industrial Limited owned 0.63% and 37.79% of the issued share capital of Yugang International Limited respectively. Chongqing Industrial Limited was owned as to 35% by Mr. Cheung Chung Kiu, as to 30% by Prize Winner Limited which was owned by Mr. Cheung and his associates, and as to 30% and 5% by Peking Palace Limited and Miraculous Services Limited respectively. Peking Palace Limited and Miraculous Services Limited were companies controlled by Palin Discretionary Trust, the objects of which included Mr. Cheung Chung Kiu and his family.



Disclosure under Practice Note 19

(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 period ended 30 June 2002, obligations in relation to the abovementioned financial assistance by the Group continued to exist as at 31 December 2002. Total advances given by the Group to WHTCL including accrued interest thereon amounted to HK\$1,109.3 million as at 31 December 2002.

Terms of the Financial Assistance

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 a syndicated loan having been fully repaid by WHTCL before any repayment of the loan except in certain circumstances. 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 37% owned by the Company, to the extent of approximately HK\$18.9 million, which became effective on 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. As described in note 27(b) to the financial statements on page 65, the Group had given a guarantee of HK\$30.0 million to HSBC in this respect as at 31 December 2002, of which HK\$11.1 million relates to an agreement which expired on 31 August 2002 and is expected to be released on or before 31 August 2003.



(III) Proforma Balance Sheet of Affiliated Companies

Set out below is a combined proforma balance sheet of WHTCL and HKTHMCL as at 31 January 2003 (being the latest practicable date for determining the relevant figures) required to be disclosed under Practice Note 19 to the listing rules of the Stock Exchange:

	HK\$'000
Total assets	6,253,965
Other liabilities	<u>(3,391,209)</u>
	<u>2,862,756</u>
Share capital and reserves	(138,012)
Shareholders' loans	<u>3,000,768</u>
	<u>2,862,756</u>

Connected Transaction

On 11 June 2002, the Company entered into an agreement with Honway Holdings Ltd. ("Honway") in relation to the subscription by Honway, a substantial shareholder of the Company, for an interest-bearing convertible note amounting to HK\$117 million (the "Note"). The Note confers the right on the holder to convert the whole or part of the principal amount of the Note into ordinary shares of the Company at any time from the date of its issue for a period of three years, at a conversion price of HK\$3.5 per share in the first year, HK\$3.7 per share in the second year and HK\$3.9 per share in the third year, subject to adjustment. The Note will mature and will be repayable if not previously converted, on the third anniversary of the date of its issue. Interest on the Note is accrued from the date of issue on a day-to-day basis at 3.5% per annum on the principal amount of the Note outstanding and is payable annually in arrears. The holder of the Note is not entitled to attend or vote at any meeting of the Company by reason of its being the holder of the Note. The net proceeds from the issue of the Note to Honway, which amounted to HK\$117 million, are being used as general working capital of the Group.



Pension Schemes

(i) Nature of the scheme

The principal pension scheme operated by the Group is a defined contribution scheme for the employees of The Hong Kong School of Motoring Limited, a 70%-owned subsidiary of the Company.

(ii) Funding of the scheme

The benefits of the scheme were funded in 2002 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\$2.6 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.

Mandatory Provident Fund Schemes

As from 1 December 2000, the Group has operated two Mandatory Provident Fund Schemes (the "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.

Purchase, Sale or Redemption of Shares

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

Bank Loans and Other Borrowings

Details of the Company's convertible notes are set out in note 21 to the financial statements on page 59.



Interest Capitalised

No interest was capitalised by the Group during the year.

Further Corporate Information

Further information of the Group which is required to be disclosed pursuant to the listing rules of the Stock Exchange is set out on pages 11 and 12.

Code of Best Practice

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the listing rules of the Stock Exchange throughout 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

Yeung Hin Chung, John

Managing Director

Hong Kong, 28 March 2003