

2003-2004  
Annual Report 年報



Hopewell Highway Infrastructure Limited

合和公路基建有限公司

HHI Pearl River Delta  
Highway Network

合和公路基建珠三角公路網絡



Listed on The Stock Exchange of Hong Kong Limited in August 2003, Hopewell Highway Infrastructure Limited (“HHI”) builds and operates strategic expressway infrastructure in the Guangdong Province. With the strong support and well-established experience of its parent company, Hopewell Holdings Limited (“HHL”), HHI is targeted with initiating, promoting and developing new expressway, tunnel and bridge infrastructure projects, particularly in the thriving economy of the Pearl River Delta region.

合和公路基建有限公司（「合和公路基建」）一直在廣東省興建及經營具策略性的高速公路基建項目，於二零零三年八月在香港聯合交易所有限公司上市。憑着其母公司合和實業有限公司（「合和實業」）的強大支持及豐富經驗，合和公路基建將致力於策劃、推動及發展新的高速公路、橋及隧道等基建項目，尤其在經濟發展蓬勃的珠江三角洲地區。

## HHI Projects 合和公路基建項目



### GS Superhighway 廣深高速公路

A 122.8 km closed system asphalt-paved dual three lane expressway running between Huanggang in Shenzhen and Guangdan in Guangzhou where it connects to the ESW Ring Road.

全長 122.8 公里封閉式瀝青路面之雙向三車道高速公路，由深圳市皇崗至廣州市廣氮，連接東南西環高速公路。



### ESW Ring Road 東南西環高速公路

A 38 km closed system concrete-paved dual three lane expressway running along the eastern, southern and western fringes of the Guangzhou urban areas and connecting to the Northern Ring Road to form the Guangzhou Ring Road.

全長 38 公里封閉式混凝土路面之雙向三車道高速公路，沿廣州市區東、南及西面的周邊興建，與北環高速公路連接組成廣州環城高速公路。



### Phase I of the Western Delta Route 珠江三角洲西岸幹道第 I 期

A 14.7 km closed system asphalt-paved dual three lane expressway linking Guangzhou to Shunde. It connects to ESW Ring Road and opened to traffic on 30th April, 2004.

全長 14.7 公里封閉式瀝青路面之雙向三車道高速公路連接廣州市和順德，與東南西環高速公路連接，在二零零四年四月三十日全面通車。



### Phase II of the Western Delta Route (Under planning) 珠江三角洲西岸幹道第 II 期 (籌劃中)

Connected to Phase I, an approximately 46 km expressway running between Shunde and Zhongshan.

緊接第 I 期工程，全長約 46 公里的珠江三角洲西岸幹道第 II 期將連接順德和中山市。



### Phase III of the Western Delta Route (Under planning) 珠江三角洲西岸幹道第 III 期 (籌劃中)

Connected to Phase II, an expressway running between Zhongshan and Zhuhai.

緊接第 II 期工程，珠江三角洲西岸幹道第 III 期將連接中山市和珠海市。



### Hong Kong-Zhuhai-Macau Bridge (Under planning) 港珠澳大橋 (籌劃中)

The proposed 29 km Y-shaped bridge will connect Hong Kong, Zhuhai and Macau.

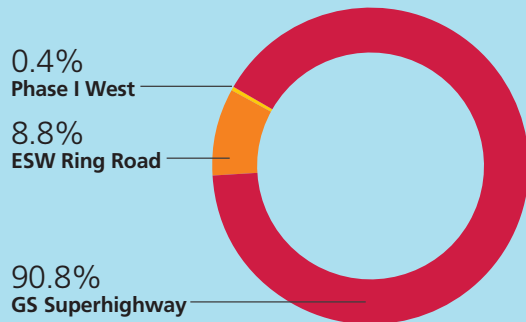
倡議中的 29 公里 Y 型大橋將把香港與珠海及澳門連繫起來。

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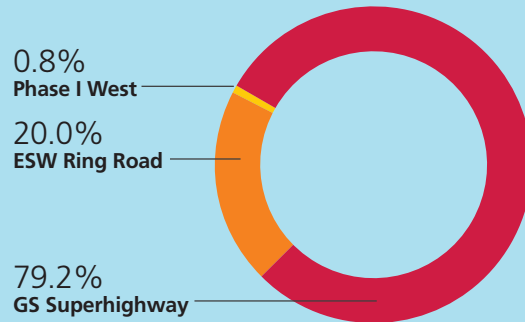
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# Financial Highlights

## Turnover by Expressway

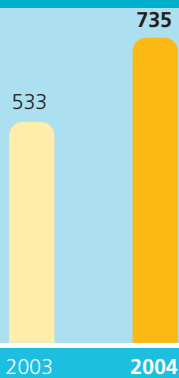


## Total Traffic by Expressway



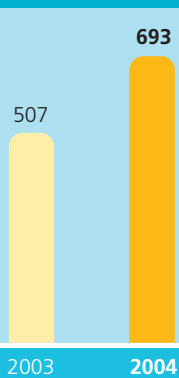
## Net Profit

(HK\$ million)



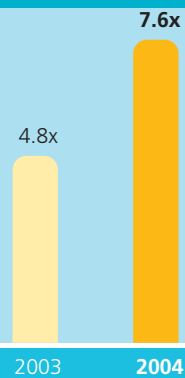
## Core Earnings

(net profit excluding interest income from shareholder's loan and income from debt securities investments) (HK\$ million)

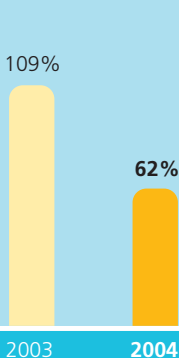


## Interest Coverage

(EBITDA / Interest)



## Total Debt to Equity<sup>#</sup>

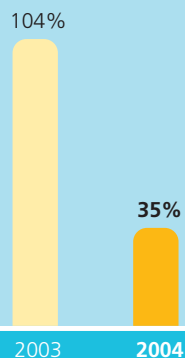


## Total Debt<sup>#</sup>

(HK\$ million)



## Net Debt\* to Total Equity<sup>#</sup>



<sup>#</sup> Assumes HK\$4,500 million of the amount due to holding company was capitalised on 30th June, 2003

\* Total debt less bank balances and cash, pledged bank deposits and debt securities investments

## 5 Year Financial Summary

Consolidated Results					
(in HK\$ million)	Year ended 30th June				2004
	2000	2001	2002	2003	
Turnover	770	860	918	1,030	1,245
Profit from ordinary activities before taxation	548	629	561	569	772
Taxation	(24)	(26)	(20)	(25)	(22)
Profit before minority interests	524	603	541	544	750
Minority interests	(5)	(2)	(9)	(11)	(15)
<b>Profit attributable to shareholders</b>	<b>519</b>	<b>601</b>	<b>532</b>	<b>533</b>	<b>735</b>

Consolidated Assets and Liabilities					
(in HK\$ million)	As at 30th June				2004
	2000	2001	2002	2003	
Property and equipment	9,258	9,271	9,099	9,001	9,678
Additional investment cost in jointly controlled entities	1,981	1,961	1,934	1,900	1,861
Investment in toll road project under development	430	431	431	151	38
Loans to jointly controlled entities	4,891	4,282	1,209	1,014	1,150
Investments in securities - matured over 1 year	-	-	-	-	711
Current assets	839	558	260	421	1,900
<b>Total assets</b>	<b>17,399</b>	<b>16,503</b>	<b>12,933</b>	<b>12,487</b>	<b>15,338</b>
Current liabilities	(2,114)	(957)	(354)	(569)	(440)
Non-current liabilities	(13,389)	(13,046)	(11,739)	(10,542)	(5,686)
<b>Total liabilities</b>	<b>(15,503)</b>	<b>(14,003)</b>	<b>(12,093)</b>	<b>(11,111)</b>	<b>(6,126)</b>
Minority interests	(7)	(10)	(19)	(30)	(32)
<b>Shareholders' equity</b>	<b>1,889</b>	<b>2,490</b>	<b>821</b>	<b>1,346</b>	<b>9,180</b>

Earnings Per Share					
(in HK\$)	2000	2001	2002	2003	2004
Earnings per share – basic	0.24	0.28	0.25	0.25	0.26
Earnings per share – diluted	N/A	N/A	N/A	N/A	0.26

Financial Ratios					
	2000	2001	2002	2003	2004
Net Debt <sup>(1)</sup> to Equity <sup>(2)</sup>	163%	125%	137%	104%	35%
Return on Equity <sup>(2)</sup>	8%	9%	10%	9%	8%

Note: (1) Net debt is defined as total debt (including bank and other loans (both long term and short term portion), loans from joint venture partners and interest-bearing interest payables) less bank balances and cash, pledged bank deposits and debt securities investments.

(2) Assumed HK\$4,500 million of the amount due to holding company was capitalised for the four years ended 30th June, 2003.

(3) The Company was incorporated on 14th January, 2003 in the Cayman Islands and became the holding company of the Group with effect from 30th June, 2003 upon completion of the Corporate Reorganisation as set out in the Company's prospectus dated 28th July, 2003.

(4) The results of the Group for the three years ended 30th June, 2002 and the balance sheets of the Group as at 30th June, 2000, 2001 and 2002 have been prepared using the principles of merger accounting and are extracted from the Company's prospectus dated 28th July, 2003.



**Sir Gordon Ying Sheung WU**  
GBS, KCMG, FICE  
*Chairman*

## Chairman's Statement

I am glad to report to our shareholders that the first financial year of Hopewell Highway Infrastructure Limited ("HHI") as a publicly listed company was a successful one. Driven by the economic growth in the region on which HHI's business is focused, the Pearl River Delta Region ("PRD"), the combined tolled traffic for our Guangzhou-Shenzhen Superhighway ("GS Superhighway"), Guangzhou East-South-West Ring Road ("ESW Ring Road") and Phase I of the Western Delta Route ("Phase I West") grew by 23% and toll revenues increased by 21% compared to the last financial year. This double-digit growth has propelled our Company's net profit 38% from HK\$533 million last financial year to HK\$735 million this year.

We have achieved these results in large part due to our commitment to the PRD. HHI's mission has been, and will continue to be providing a safe and reliable integrated expressway, bridge and tunnel network in the PRD to meet the necessary demands of vehicular traffic.

Over a decade ago, we opened the first, and what is now still, the only expressway connecting Shenzhen to Guangzhou. At the time of opening, GS Superhighway's average daily traffic was a mere 30,000, but today, with the rapid growth in the PRD, this figure has increased over 6-fold to over 200,000 vehicles per day.

Attesting to our continued commitment to a complete expressway network in the PRD, 2004 also saw HHI open a new expressway, Phase I West. This is a 14.7 km stretch of expressway that links our ESW Ring Road in Guangzhou to Shunde, reducing what would normally have been a 40-minute trip to a quick 10-minute drive. I am particularly proud of this project as it was completed 2 months ahead of schedule.

### Financial Status

As a result of the solid growth in our expressways, our net profit for financial year 2004 increased 38% to HK\$735 million from last year, exceeding the forecast profit of HK\$700 million as stated in the Company's initial public offering prospectus dated 28th July, 2003, translating to an increase in basic earnings per share from HK24.7 cents to HK26.2 cents. The Board of Directors has proposed a final dividend of HK12.5 cents per share which, together with the interim dividend of HK10 cents per share, will result in total dividends for the year of HK22.5 cents per share, same as the intended amount to be recommended by the Board of Directors as stated in the prospectus.

“ At the time of opening, GS Superhighway’s average daily traffic was a mere 30,000, but today, with the rapid growth in the PRD, this figure has increased over 6-fold to over 200,000 vehicles per day.”

The Register of members and warrant holders of the Company will be closed from Monday, 11th October, 2004 to Monday, 18th October, 2004, both days inclusive, during which no transfer of shares and no transfer or exercise of warrants of the Company will be effected. Subject to approval of the shareholders at the annual general meeting to be held on 18th October, 2004, the final dividend will be paid on or about 18th October, 2004 to shareholders as registered at the close of business on 18th October, 2004.

The Group’s core earnings, defined as net profit excluding interest income from shareholder’s loan and income from debt securities investments, increased 37% from HK\$507 million to HK\$693 million. This was driven by the continued strong growth in GS Superhighway and ESW Ring Road operations.

Financial year	2003	2004	Growth rate
<b>GS Superhighway</b>			
Average Daily Traffic (No. of vehicles)	155,394	<b>188,768</b>	22%
Average Daily Revenue (RMB)	5,778,931	<b>6,901,461</b>	20%
<b>ESW Ring Road</b>			
Average Daily Traffic (No. of vehicles)	38,930	<b>47,516</b>	22%
Average Daily Revenue (RMB)	590,053	<b>747,909</b>	27%
<b>Phase I West</b>			
Average Daily Traffic (No. of vehicles)	N/A	<b>11,459</b>	N/A
Average Daily Revenue (RMB)	N/A	<b>166,025</b>	N/A

The Group’s balance sheet remains very strong. Net gearing (total debt less bank balances and cash, pledged bank deposits and debt securities investments to total equity) for financial year 2004 stood at 35%, compared to 104% in financial year 2003. Operating cashflow of the Group totaled HK\$1,257 million in financial year 2004, a 24% increase over last year. Combined, our current favourable gearing levels and operating cashflow positions will allow for a strong platform for growth for future projects.

**“ The 79-fold growth in GDP in the PRD from 1980 to 2002, and the expected continued growth in the coming years will undoubtedly benefit HHI’s operations. ”**

## Chairman’s Statement *(continued)*

### **Business Review and Outlook**

HHI’s business strategy continues to be focused on the PRD. As far back as the early 1980’s, HHI had already shown its commitment to the PRD, envisaging the need to provide a transportation backbone to support the future economic growth in the region. Since then, the growth of the PRD has been fuelled by competitive labour and production costs and the rapid development of factories for industries such as electronics, textiles, toys and more recently, automobiles. Through the creation of Closer Economic Partnership Arrangements (“CEPA”), the Pan-PRD programs, China’s World Trade Organisation (“WTO”) membership and the opening of the Guangzhou New Baiyun International Airport, the PRD’s growth will be further enhanced. The 79-fold growth in GDP in the PRD from 1980 to 2002, and the expected continued growth in the coming years will undoubtedly benefit HHI’s operations.

With the Group’s interest in GS Superhighway, ESW Ring Road and Phase I West, HHI is already well into realizing its original plan of creating a Pan-PRD network.

In seeking to complete this network, the Group recently announced in July and August of 2004, the possible co-operation with our Phase I West’s PRC partner for the investment in and the planning, design, construction and operation of Phases II and III of the Western Delta Route. With the completion of these phases, vehicles will be able to travel seamlessly on an expressway from the city centers of Shenzhen to Guangzhou, Shunde, Zhongshan and Zhuhai.

I continue to view the proposed Hong Kong-Zhuhai-Macau Bridge project as a vital step in the economic integration of the major cities of the PRD, and I believe that HHI is well-positioned to participate in this project.

## Investor Relations and Corporate Governance

On the investor relations front, the Company is committed to better transparency of its business by providing the Group's monthly traffic and revenue information for its expressways on the Company's website, [www.hopewellhighway.com](http://www.hopewellhighway.com). Our commitment to keeping investors and analysts abreast of the Company's business and strategy is further evidenced by the numerous conferences, meetings and conference calls we have participated in this year. Further, to expand the Company's investor base, a Level 1 American Depository Receipt program sponsored by the Company in respect of its Hong Kong listed shares was established in the United States and became effective on 26th April, 2004.

## Acknowledgment

I would like to take this opportunity to thank my fellow directors, senior management team, and all staff for their hard work during this past financial year and their commitment to our platform for growth. My gratitude also goes to our shareholders, financiers and business partners for their invaluable support.

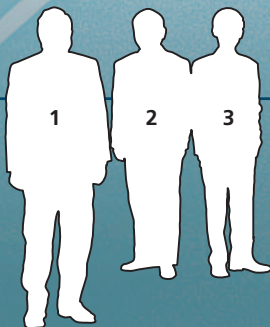
**Sir Gordon Ying Sheung WU** GBS, KCMG, FICE

*Chairman*

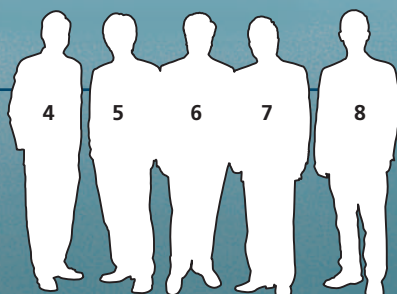
Hong Kong, 6th September, 2004



## Management Team



1. Sir Gordon Ying Sheung WU GBS, KCMG, FICE  
*Chairman*
2. Mr. Eddie Ping Chang HO  
*Vice Chairman*
3. Mr. Thomas Jefferson WU  
*Managing Director*



4. **Mr. Alan Chi Hung CHAN**  
*Deputy Managing Director*
5. **Ir. Leo Kwok Kee LEUNG**  
*Executive Director*
6. **Mr. Li Jia HUANG**  
*Executive Director*

7. **Mr. Cheng Hui JIA**  
*Executive Director*
8. **Mr. Christopher Shih Ming IP**  
*Executive Director*

# Profile of Directors

## Executive Directors

### Sir Gordon Ying Sheung WU GBS, KCMG, FICE

Aged 68, he has been the Chairman of the Board of the Company since July 2003. He graduated from Princeton University with a Bachelor of Science degree in Engineering in 1958. He was responsible for the Group's infrastructure projects in the PRC and has been involved in the design and construction of numerous buildings and development projects of Hopewell Holdings Limited and its subsidiaries in Hong Kong and the PRC. He is also the Chairman of Hopewell Holdings Limited, the ultimate holding company of the Company, a director of various members of the Group, and an Independent Non-Executive Director of i-Cable Communications Limited.

He is very active in civic activities, his civic duties include:

#### *In Hong Kong*

- **Member** Commission on Strategic Development of the Hong Kong SAR
- **Member** Hong Kong Logistics Development Council
- **Member** Urban Renewal Authority
- **Chairman** City University of Hong Kong Council
- **Vice President** Hong Kong Real Estate Developer's Association
- **Member** The Greater Pearl River Delta Business Council

#### *In the PRC*

- **Deputy Director** Chinese People's Political Consultative Conference - Overseas Chinese Affairs Committee
- **Director** United Nations Association of China
- **Advisor** Xiamen Special Economic Zone, Guangxi Zhuang Autonomous Region and Qinhuangdao

Sir Gordon is Fellow of The Institution of Civil Engineers and Honorary Fellow of Australian Society of Certified Practising Accountants. He has been appointed the Honorary Consul of The Republic of Croatia in the Hong Kong SAR. He received Honorary Doctorate Degrees from The Hong Kong Polytechnic University, University of Strathclyde, UK and University of Edinburgh, UK. His other awards include:

#### *Honorary Citizen*

- The City of New Orleans, USA
- The City of Guangzhou, PRC
- The District of Shunde, PRC
- The District of Nanhai, PRC
- The City of Shenzhen, PRC
- The District of Huadu, PRC
- The Province of Quezon, the Republic of the Philippines

*Awards and Honours**Year of Award*

• Gold Bauhinia Star (G.B.S.) by the Hong Kong SAR	2004
• Leader of the Year 2003 (Business/Finance) by Sing Tao Newspaper Group	2004
• Personality of the Year 2003 by the Asian Freight & Supply Chain Awards	2003
• Knight Commander of the Order of St. Michael and St. George for Services to British Exports by the Queen of England	1997
• Industry All-Star by Independent Energy, USA	1996
• International CEO of the Year by George Washington University, USA	1996
• Among "the Best Entrepreneurs" by Business Week	1994
• Man of the Year by the International Road Federation, USA	1994
• Business Man of the Year by the South China Morning Post and DHL	1991
• Asia Corporate Leader by Asia Finance Magazine, Hong Kong	1991
• Chevalier De L'Ordre De La Corona by the King of Belgium	1985

**Mr. Eddie Ping Chang HO**

Aged 71, he has been the Vice Chairman of the Company since July 2003. He has been in charge of negotiating all joint ventures and financing for development projects in the PRC, including hotel, power plant and road infrastructure projects undertaken by the Group and the group of companies of Hopewell Holdings Limited. In addition, he has extensive experience in building and development projects in Hong Kong. He is a Honorary Citizen of Shunde District and the cities of Shenzhen and Guangzhou in the PRC. He is also the Vice Chairman and Managing Director of Hopewell Holdings Limited, the Company's ultimate holding company and a director of various members of the Group.

**Mr. Thomas Jefferson WU**

Aged 32, he has been a Director of the Company since January 2003 and was appointed the Managing Director in July 2003. He holds a Master of Business Administration degree from Stanford University and a Bachelor degree in Mechanical and Aerospace Engineering from Princeton University. He is responsible for strategic planning, corporate policy and overall management of the Group and has upgraded the financial and management accounting systems of the Group. He is a member of the Chinese People's Political Consultative Conference in Huadu District in the PRC. He is also the Deputy Managing Director of Hopewell Holdings Limited, the Company's ultimate holding company and currently a director of various members of the Group. He is a son of Sir Gordon Ying Sheung WU.

**Mr. Alan Chi Hung CHAN**

Aged 45, he has been a Director of the Company since January 2003 and was appointed the Deputy Managing Director in July 2003. He was awarded a Postgraduate Diploma in Management Studies by the City University of Hong Kong in 1989 and a Bachelor of Science degree from The Chinese University of Hong Kong in 1983. He is responsible for overall project coordination, project finance, management and administration of the expressway infrastructure and other projects in the PRC. He was an Executive Director of Hopewell Holdings Limited, the Company's ultimate holding company, for the period from 1st January, 2002 to 25th July, 2003 and is currently a director of various members of the Group.

## Profile of Directors *(continued)*

### **Ir. Leo Kwok Kee LEUNG DIC, ACI Arb, CMILT, FHKIHT, FStructE, FICE**

Aged 45 and an Executive Director of the Company since 3rd July, 2003, he is responsible for the planning, design, engineering and construction of projects within the Group. He graduated from Imperial College of the University of London with a Master of Science degree with Distinction in Earthquake Engineering and Structural Dynamics in 1991 and was awarded a Bachelor of Science degree with First Class Honours from the Council for National Academic Awards in Civil Engineering as well as the Institution of Civil Engineers' Prize for his outstanding undergraduate performance in 1983. He was previously in-charge of the architecture, engineering and construction of all in-house projects for 10 years with the Company's ultimate holding company, Hopewell Holdings Limited from 1993 to 2003. Before joining the Group, he worked in Singapore, Kenya, England and Hong Kong and acquired a wide range of design and construction experiences in highways, bridges, buildings, dam and tunnel structures. He is also an expert in applying slipform and climbform techniques.

### **Mr. Li Jia HUANG**

Aged 62 and an Executive Director of the Company since 3rd July, 2003, he is responsible for overseeing the daily operation and management of GS Superhighway and is also a director of various members of the Group. He joined the ultimate holding company of the Company, Hopewell Holdings Limited, in 1996 and was responsible for the operations and management of the expressways in Guangdong Province. He was previously General Manager of Guangdong Provincial Highway Construction Company. During the years from 1961 to 1979, he held senior positions in various commissions in Zhaoqing Municipality of PRC.

### **Mr. Cheng Hui JIA**

Aged 63 and an Executive Director of the Company since 3rd July, 2003. He is responsible for liaison and project coordination with various PRC government authorities. He was primarily engaged in the development of projects in the PRC during 18 years with the Company's ultimate holding company, Hopewell Holdings Limited. He was an Assistant to Chairman. He previously worked in aerospace research in the PRC for many years. He graduated from Harbin Industry University in 1964 with a Bachelor of Science degree.

### **Mr. Christopher Shih Ming IP**

Aged 35 and an Executive Director of the Company since 3rd July, 2003, he is involved in the Company's corporate financing activities as well as new project development. Before joining the Group, he was the General Manager of Corporate Finance of the Company's ultimate holding company, Hopewell Holdings Limited and a vice president of mergers and acquisitions at Deutsche Bank and Morgan Stanley Dean Witter Asia Limited. He graduated from Brown University in the U.S. with a Bachelor of Arts degree and from The London Business School with a Master of Business Administration degree. He is also a director of various members of the Group.

## Independent Non-Executive Directors

### **Mr. Philip Tsung Cheng FEI**

Aged 62, he was appointed an Independent Non-Executive Director of the Company on 10th July, 2003. He was awarded a Bachelor of Architectural Engineering degree from Cheng-Kung University in Taiwan in 1962; a Bachelor of Architecture degree from North Carolina State University in 1965 and a Master of Science degree in City Planning from Pratt Institute in the U.S. in 1974. He is the managing partner at Fei & Cheng Associates, an architectural and planning firm. He has over 30 years' experience in planning and architectural projects. Prior to establishing Fei & Cheng Associates, he worked for a number of architecture firms in the U.S.

### **Mr. Lee Yick NAM**

Aged 57, he was appointed an Independent Non-Executive Director of the Company on 10th July, 2003 and the chairman of the audit committee of the Company on 16th July, 2003. He holds a certificate in management studies from Carnegie Mellon University of U.S. in 1977. He has over 30 years' experience in the banking, investment and finance industry. He was an Executive Director of Liu Chong Hing Bank from 1990 to 2001. Prior to that, he was a Vice President at Citibank, Mellon Bank and American Express Bank. He was appointed as a member of the Hong Kong Deposit Protection Board on 1st July, 2004 and an Independent Non-Executive Director of Hopewell Holdings Limited, the ultimate holding company of the Company, on 6th September, 2004.

### **Mr. Kojiro NAKAHARA**

Aged 63, he was appointed an Independent Non-Executive Director of the Company on 10th July, 2003. He graduated from Tokyo Mercantile Marine University in 1964 with a Bachelor degree in Marine Engineering. He joined Kanematsu Corporation in 1964 and had held senior positions in Tokyo, Singapore and Hong Kong offices. He was appointed Managing Director of Kanematsu (Hong Kong) Limited in 1996 and retired in 2000.

### **Mr. Gordon YEN**

Aged 34, he was appointed an Independent Non-Executive Director of the Company on 10th July, 2003. He was awarded a Bachelor degree in Manufacturing Engineering from Boston University, U.S. in 1990 and a Master of Business Administration degree from McGill University, Canada in 1992. He is currently an Executive Director of Fountain Set (Holdings) Limited.

For the financial year ended 30th June, 2004, the Group's investment in GS Superhighway and ESW Ring Road achieved strong growth. As compared with the previous year, tolled traffic at the joint venture level for both expressways increased 22%, and toll revenue increased 20% and 27%, respectively. The third toll expressway project, Phase I West, commenced operation on 30th April, 2004 ahead of the original schedule and started contribution to the Group's revenue.

The continued growth in our operations has been a result of a variety of factors, all of which point to the robust economic growth of the PRD. The People's Republic of China's

## Operations Review



("PRC") open-door economic policy has led to initiatives such as its entry in the WTO, the creation of CEPA, the Pan-PRD programs, and the opening of the Guangzhou New Baiyun International Airport and various industrial and economic zones and seaports. These will no doubt collectively further enhance the growth of the PRD.

Today, the PRD has become one of the world's most important manufacturing centers in the world, and is increasingly becoming more competitive on a worldwide basis. As HHI's primary business focus will continue to be in the PRD, HHI aims to grow and expand our business in tandem with the region.

**Earnings before  
interest and tax**

**923** HK\$  
million



The GS Superhighway is a 122.8 km, dual three lane closed system toll expressway. There are 18 toll stations along the route, which is fully lit and installed with computerized toll collection, surveillance, and data communication systems. GS Superhighway is a key arterial expressway in the PRD, connecting airports, ports and major cities and is the only expressway linking up Guangzhou, Dongguan, Shenzhen and Hong Kong. Both traffic flow volume and toll revenue continued to record strong growth since it opened in 1994.

Maintaining a high quality standard of expressways is of paramount importance to HHI. This year, the joint venture company completed repaving the final sections of GS Superhighway, completing a two-year program that eventually saw the repavement

## Guangzhou-Shenzhen Superhighway (GS Superhighway)



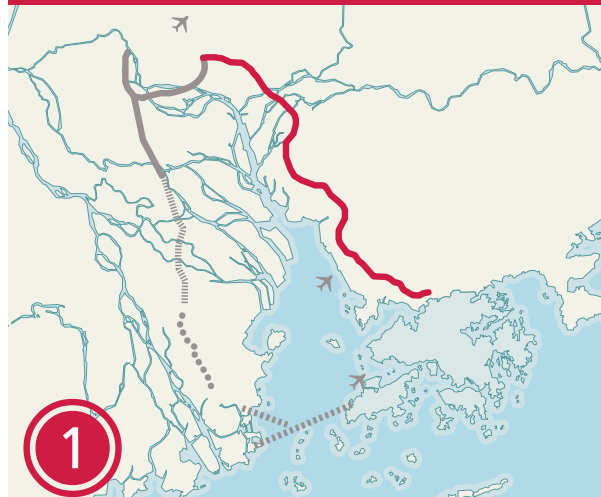
of approximately 100 km of expressway. Additional toll lanes at some stations have also allowed for better throughput of traffic.

Another major program to enhance the flow of traffic completed this year was the widening from three to four lanes (each way) for a 2.7 km stretch of expressway between Hezhou and Fuyong.

Even during the implementation of these improvement works, average daily traffic still increased by 22% from 155,394 to 188,768, and average daily revenues increased by 20% from RMB 5.78 million to RMB 6.90 million, over the last financial year at the joint venture level.



#### PROJECT SUMMARY



Location	Guangzhou to Shenzhen, Guangdong, PRC
Length	122.8 km
Lane	Dual three lane
Class	Expressway
JV Contractual Operation Period	Jul 1997 – Jun 2027
Profit Sharing Ratio	Year 1-10 : 50% Year 11-20 : 48% Year 21-30 : 45%

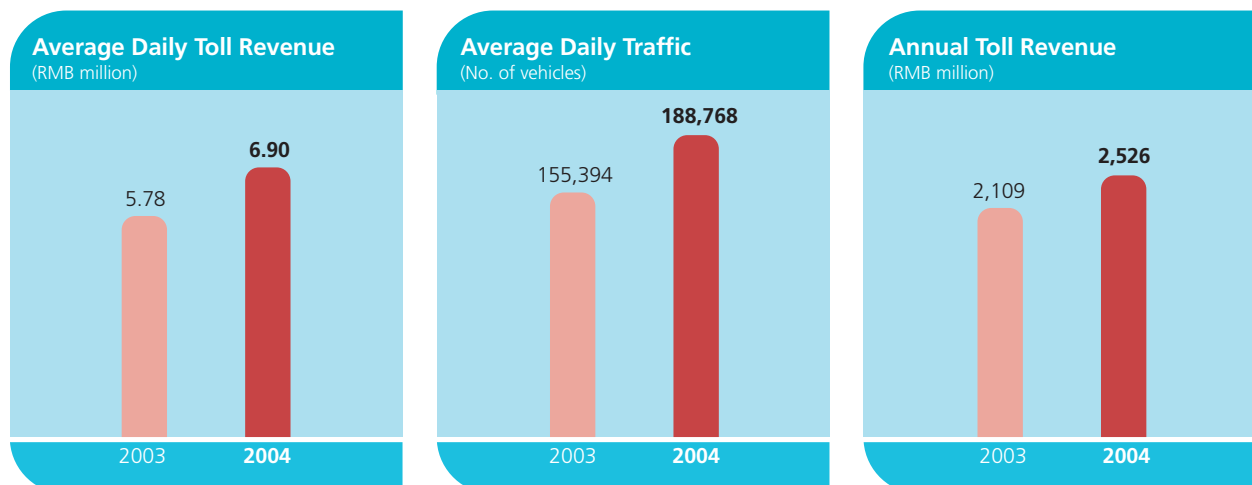
In our efforts to continue to improve the safety for traffic traveling on GS Superhighway, the joint venture company continues to carry out works such as improving road lighting, installing antidazzle boards and better road signs, as well as upgrading traffic monitoring and management systems. Landscaping at interchanges along the expressway and under bridges are also being carried out to improve the aesthetics.

The Group believes that the economic growth in the PRD region, together with the continuous improvement in ancillary traffic facilities and service quality, will continue to drive the traffic and revenue growth of GS Superhighway.

## Guangzhou-Shenzhen Superhighway (GS Superhighway) *(continued)*



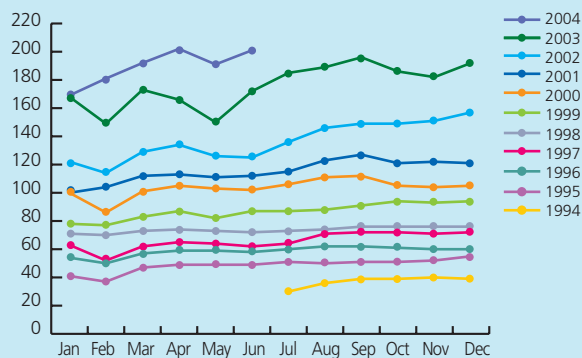
### GS Superhighway Joint Venture



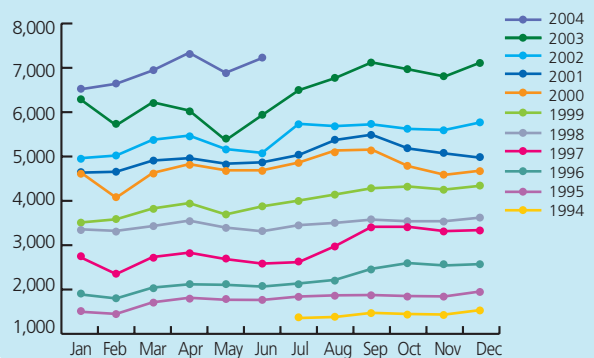


### GS Superhighway Joint Venture

**Average Daily Traffic**  
(No. of vehicles in thousand)



**Average Daily Toll Revenue**  
(RMB thousand)



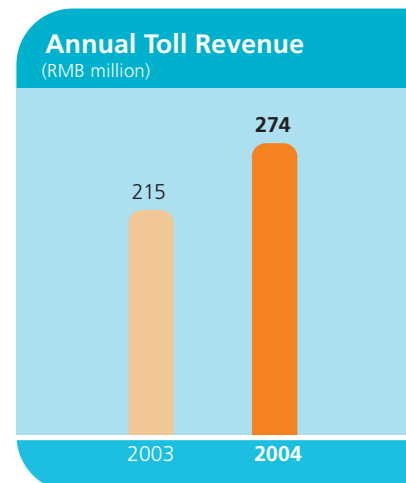
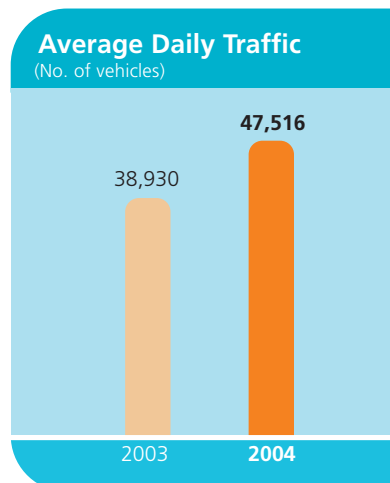
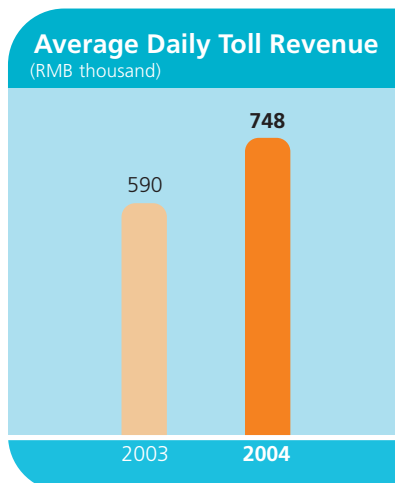
The ESW Ring Road, is a 38 km long closed system expressway with dual three lanes, 11 interchanges and computerized toll collection and surveillance and telecommunication systems. It is connected to the Guangzhou Northern Ring Road to form a ring road around the major commercial and trading centers of Guangzhou. Through the interchanges, ESW Ring Road closely connects to other nearby expressways and many major routes around Guangzhou city.

Over the past year, the ESW Ring Road continued to record robust growth. At the joint venture level, average daily tolled traffic figure was 47,516, 22% higher than last year's figures and annual toll revenue reached RMB 274 million, 27% higher than the previous financial year.

## Guangzhou East-South-West Ring Road (ESW Ring Road)



### ESW Ring Road Joint Venture





**P**hase I West is a 14.7 km closed system dual three lane expressway project. It connects the ESW Ring Road in the north to National Highway 105 and Bigui Road in the south.

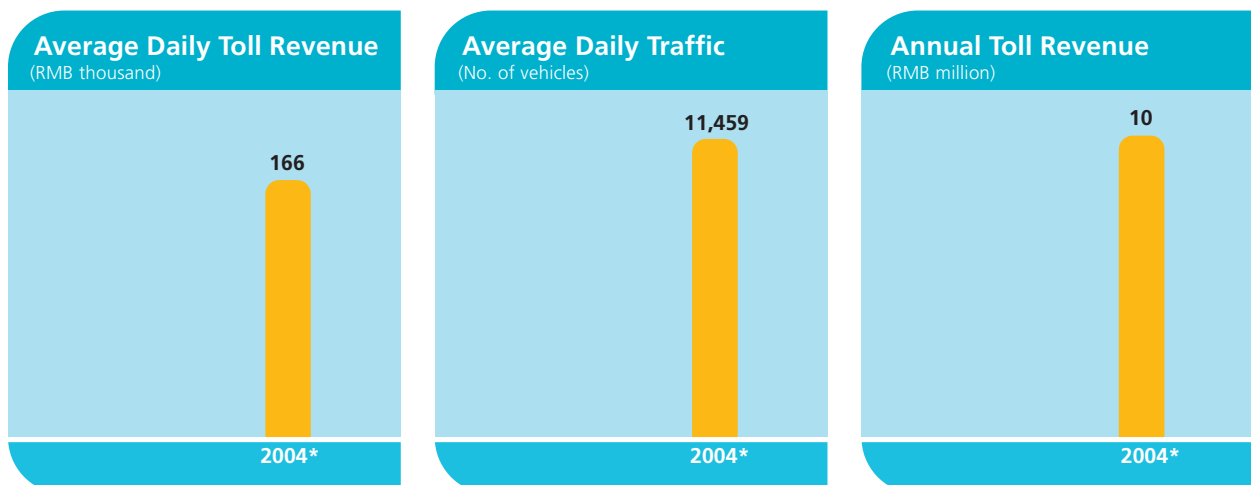
Phase I West was opened to traffic on 30th April, 2004, 2 months ahead of schedule. The relevant authority of the Guangdong provincial government judged the Phase I West works as one of the top quality projects in the province.

Currently, Phase I West is the only expressway linking Guangzhou and Shunde. It provides a speedy transportation link and reduces the traveling time between the two cities from 40 minutes to approximately 10 minutes. Traffic flow and toll revenue have been growing strongly since operations started. Up to the end of June 2004, average daily traffic was 11,459 at the joint venture level.

## Phase I of the Western Delta Route (Phase I West)



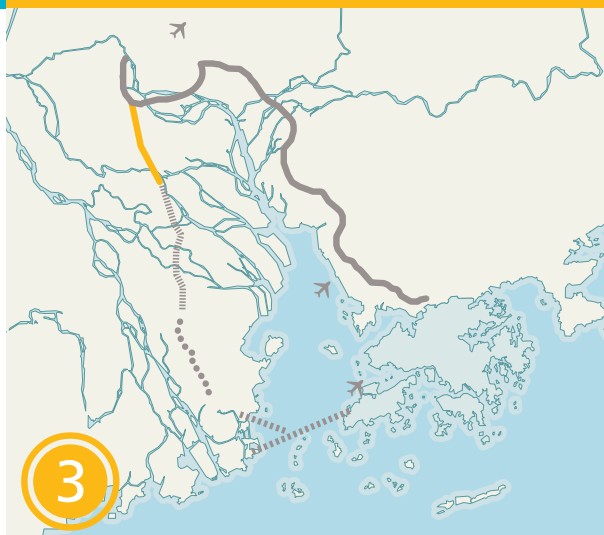
### Phase I West Joint Venture



\* Operation started on 30th April, 2004 and hence the number represents 2 months' results only.



**PROJECT SUMMARY**

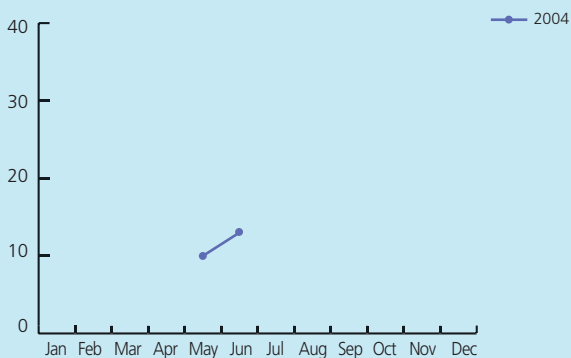


Location	Guangzhou to Shunde, Guangdong, PRC
Length	14.7 km
Lane	Dual three lane
Class	Expressway
JV Contractual Operation Period	Sep 2003 - Sep 2033
Profit Sharing Ratio	50%

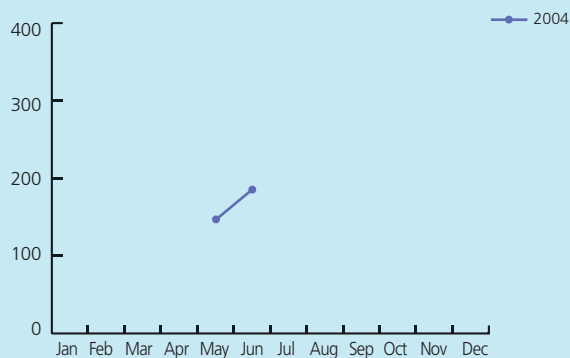


**Phase I West Joint Venture**

**Average Daily Traffic**  
(No. of vehicles in thousand)



**Average Daily Toll Revenue**  
(RMB thousand)

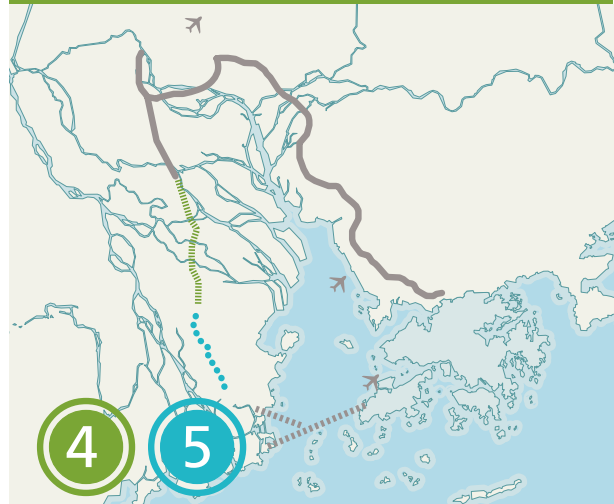


The Western Delta Route comprises Phases I, II (previously referred to as Phases 2 and 3) and III. The 14.7 km Phase I West project was completed and started operations on 30th April, 2004. On 14th July, 2004, the Group conditionally amended their agreements with the PRC partner of Phase I West to invest, construct and operate Phase II of the Western Delta Route ("Phase II West"). Phase II West will be approximately 46 km length of expressway linking Shunde to Zhongshan. In addition, the Group is currently in the process of negotiating the terms of a possible co-operation with the PRC partner of Phase I West and Phase II West to also invest, construct and operate Phase III of the Western Delta Route ("Phase III West"). On completion of the Western Delta Route, an arterial expressway system directly linking Guangzhou, Nanhai, Shunde, Zhongshan and Zhuhai will be formed, creating a strategic route in that area.

## Future Projects — Phases II and III of Western Delta Route



### PROJECT SUMMARY



#### Phase II West

Location	Shunde to Zhongshan, Guangdong, PRC
Length	Approx. 46 km
Lane	Dual three lane
Class	Expressway
JV Contractual Operation Period	Proposed 30 years from date of issue of new business licence
Profit Sharing Ratio	Proposed 50%

#### Phase III West

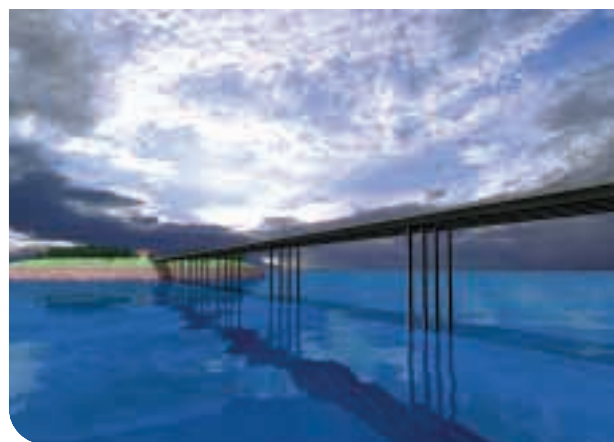
Location	Zhongshan to Zhuhai, Guangdong, PRC
Length	Routing not confirmed yet
Lane	Dual three lane
Class	Expressway
JV Contractual Operation Period	Proposed 30 years from date of issue of new business licence
Profit Sharing Ratio	Proposed 50%

The proposed 29 km Y-shaped bridge will connect Hong Kong, Zhuhai and Macau. In the past 12 months, the Guangdong, Hong Kong SAR and Macau SAR governments formed a joint working committee to push forward and organise the related preliminary works of the project. In early 2004, the Guangdong, Hong Kong SAR and Macau SAR governments appointed the China Highway Planning and Design Institute Consultants, Inc. to undergo a feasibility study of the Hong Kong-Zhuhai-Macau bridge project. The Group believes when the project advances further, it will be in an advantageous position to take up an important role.

## Hong Kong-Zhuhai-Macau Bridge Project



*\*Artistic impression*



*\*Artistic impression*

# Financial Review

## Group Results

### Highlights:

- **Toll revenue increased by 21% to HK\$1,245 million;**
- **Net profit increased by 38% to HK\$735 million;**
- **Net profit excluding interest income from shareholder's loan and income from debt securities investments increased 37% to HK\$693 million;**
- **Finance costs decreased by 25% to HK\$151 million;**
- **Total debt decreased by 10% to HK\$5,719 million.**

For the financial year ended 30th June, 2004, toll revenue increased by 21% to HK\$1,245 million from HK\$1,030 million of the previous financial year, mainly due to the rise in traffic flow of the Group's expressways in the PRC. Of the total toll revenue, GS Superhighway contributed 90.8% or HK\$1,130 million, ESW Ring Road contributed 8.8% or HK\$110 million and Phase I West contributed 0.4% or HK\$5 million since its opening on 30th April, 2004. Of the HK\$215 million increase in toll revenue from the previous year, GS Superhighway contributed HK\$186 million or 87%, ESW Ring Road contributed HK\$24 million or 11% and Phase I West contributed HK\$5 million or 2%. Other operating income was up by 31% from HK\$68 million last financial year to HK\$89 million this financial year, largely due to interest and investment incomes from listing proceeds. Total revenue (including toll revenue and other operating income) increased 21% from HK\$1,098 million last financial year to HK\$1,334 million this financial year.

Net profit increased 38% from HK\$533 million last financial year to HK\$735 million this financial year, mainly due to the robust growth in toll revenue, increase in other operating income and lower finance costs.

Total expenses, including toll operation expenses, depreciation and amortisation charges and general and administrative expenses increased from HK\$329 million in financial year 2003 to HK\$411 million in financial year 2004, mainly due to higher repair and maintenance expenses and administrative expenses, and an increase in depreciation and amortisation charges. Since, under the Group's accounting policies, depreciation and amortisation charges of toll roads and additional investment costs are calculated based on the ratio of actual traffic volume compared to the total expected traffic volume over the remaining period of respective jointly controlled entities, depreciation and amortisation charges were higher by HK\$43 million this financial year due to the stronger than expected growth of traffic flow. Given the lower interest rate environment and repayment of bank loans by the Group from listing proceeds, finance costs decreased 25% from HK\$201 million to HK\$151 million. The Group's effective income tax rate decreased from 4.3% to 2.9%. Income tax expenses decreased by 11% from HK\$25 million to HK\$22 million.

## Liquidity and Financial Resources

During the year, the Group repaid HK\$561 million of bank loans and HK\$543 million of amounts due to the holding companies. As a result of the stable cash flow generated from its assets and the increased shareholders' funds after listing, the Group improved its total debt to total assets ratio, from 51% in financial year 2003 to 37% in financial year 2004. The Group also improved its net debt to total equity ratio from 104% in financial year 2003 to 35% in financial year 2004.

The Group applies prudent treasury policies in financial and funding management. Liquidity and financial resources are reviewed on a regular basis to minimise the cost of funding and enhance the return on financial assets.

The Group's gearing structure is set out as follows:

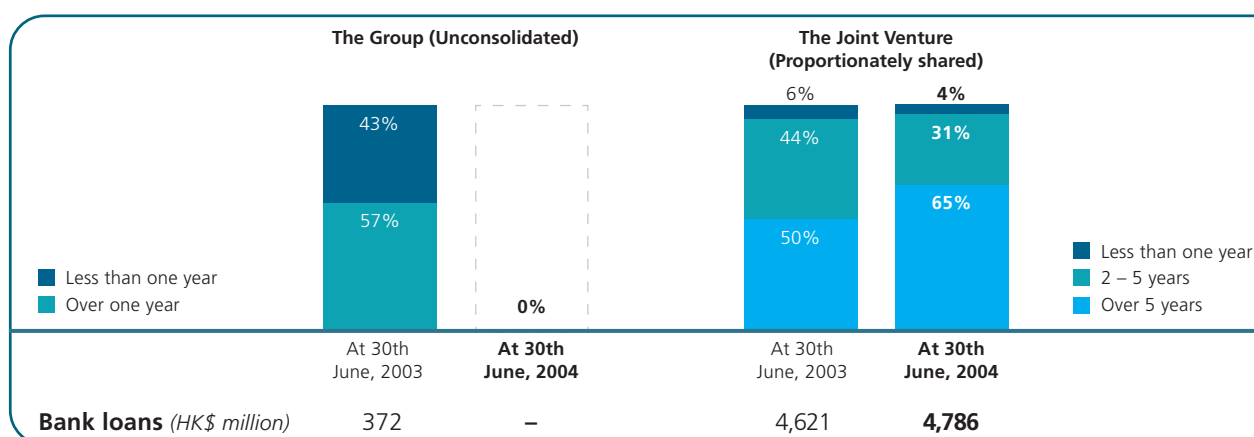
	At 30th June	
	2003 HK\$ million	2004 HK\$ million
Equity	5,846 <sup>(1)</sup>	<b>9,180</b>
Total Debt	6,380 <sup>(1)</sup>	<b>5,719</b>
Total Net Debt <sup>(2)</sup>	6,079	<b>3,255</b>
Total Assets	12,487	<b>15,338</b>
Total Debt / Total Assets	51%	<b>37%</b>
Net Debt / Total Equity	104%	<b>35%</b>

Notes:

(1) Assumes HK\$4,500 million of the amount due to holding company was capitalised as equity on 30th June, 2003;

(2) Net debt is defined as total debt less bank balances and cash, pledged bank deposits and debt securities investments.

The maturity profile of the Group's bank borrowings at 30th June, 2004 as compared with that at 30th June, 2003 is shown as follows:



The Group has no unconsolidated bank borrowings at 30th June, 2004 (30th June, 2003: HK\$372 million). The Joint Venture companies' borrowings are denominated in US dollars and Renminbi and carry floating interest rates.

The Group's average interest rate for proportionately shared bank loans for the financial year 2004 was 2.5% (2003: 2.7%) per annum.

## Charges on Assets

During the year, 65% of the toll fee collection right of West Route JV and certain of its assets were pledged to banks to secure general banking facilities granted to the jointly controlled entity. Details of the charges on assets are set out in note 35 to the financial statements.

## Capital Commitments

Details of capital commitments are set out in note 34 to the financial statements.

## Contingent Liabilities

During the year, there was no material change in contingent liabilities of the Group.

# Report of the Directors

The directors have pleasure in presenting their annual report on the affairs of the Company and the Group together with the audited financial statements for the year ended 30th June, 2004.

## Principal Activities

The principal activity of the Company is to initiate, promote, develop and operate strategically important roads, tunnels, bridges and related infrastructure projects in the People's Republic of China ("PRC") through its jointly controlled entities established in the PRC.

## Results

The results of the Group for the year ended 30th June, 2004 are set out in the consolidated income statement on page 39.

## Dividends

The directors recommended the payment of a final dividend of HK12.5 cents (2003: Nil) per share which, together with the interim dividend of HK10 cents (2003: Nil) per share paid on 25th March, 2004, will result in total dividends for the year of HK22.5 cents per share (2003: Nil) same as the intended amount to be recommended by the Board of Directors as stated in the prospectus dated 28th July, 2003 of the Company. The dividends proposed have been accounted for in the financial statements.

## Major Projects and Events

Details regarding major projects undertaken by the Group and events that have taken place during the year under review are incorporated under the section "Operations Review" as set out on pages 14 to 25.

## Share Capital

Particulars of share capital of the Company during the year are set out in note 21 to the financial statements.

## Reserves

Movements in reserves of the Group during the year are set out in Consolidated Statement of Changes in Equity and note 22 to the financial statements.

## Donations

Donations made by the Group during the year for charitable and other purposes amounted to HK\$1,000,000.

## Fixed Assets

Movements in property and equipment of the Group during the year are set out in note 12 to the financial statements.

## Major Customers and Suppliers

The principal business of the Group is to initiate, promote, develop and operate strategically important roads, tunnels, bridges and related infrastructure projects in the PRC. There are no major customers and suppliers in view of the nature of the Group's business.

## Purchase, Sale or Redemption of Shares

There was no purchase, sale or redemption by the Company or any of its subsidiaries of shares in the Company during the year except pursuant to the corporate reorganisation prior to the listing of the shares of the Company.

## Directors

The Directors of the Company as at the date of the report are listed on page 36 of the annual report. In accordance with the Company's Articles of Association, Sir Gordon Ying Sheung WU, Messrs. Eddie Ping Chang HO, Thomas Jefferson WU and Alan Chi Hung CHAN will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Changes and designation of directors during the year are as follow:

Sir Gordon Ying Sheung WU	(appointed as Executive Director and Chairman on 3rd July, 2003)
Mr. Eddie Ping Chang HO	(appointed as Executive Director and Vice Chairman on 3rd July, 2003)
Mr. Thomas Jefferson WU	(designated Managing Director on 3rd July, 2003)
Mr. Alan Chi Hung CHAN	(designated Deputy Managing Director on 3rd July, 2003)
Ir. Leo Kwok Kee LEUNG	(appointed as Executive Director on 3rd July, 2003)
Mr. Li Jia HUANG	(appointed as Executive Director on 3rd July, 2003)
Mr. Cheng Hui JIA	(appointed as Executive Director on 3rd July, 2003)
Mr. Christopher Shih Ming IP	(appointed as Executive Director on 3rd July, 2003)
Mr. Philip Tsung Cheng FEI	(appointed as Independent Non-Executive Director on 10th July, 2003)
Mr. Lee Yick NAM	(appointed as Independent Non-Executive Director on 10th July, 2003)
Mr. Kojiro NAKAHARA	(appointed as Independent Non-Executive Director on 10th July, 2003)
Mr. Gordon YEN	(appointed as Independent Non-Executive Director on 10th July, 2003)

## Profile of Directors

Profile of Directors of the Company as at the date of the report are set out on pages 10 to 13.

## Senior Management

Ms. Rebecca Kai Ching LEE, aged 34, Qualified Accountant, was appointed as the Project Finance Manager of the Company since January 2004. She is responsible for overseeing the financial management and accounting functions as well as the financial reporting of the Company and its subsidiaries. She is an Associate of Hong Kong Society of Accountants and a Fellow of Association of Chartered Certified Accountants.

Various businesses of the Group are respectively under the direct responsibility of the Executive Directors of the Company who are also regarded as members of the Group's senior management.

## Report of the Directors (continued)

## Directors' Interest in Contracts of Significance

No contracts of significance to which the Company or any of its subsidiaries was a party or were parties 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.

## Directors' Interests in Shares, Underlying Shares and Debentures

As at 30th June, 2004, the interests and short positions of the directors and chief executives of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(A) the Company<sup>(i)</sup>

Directors	Shares	Underlying shares of Equity derivatives <sup>(ii)</sup> (i.e. Warrants)				Total interests	% of issued share capital
		Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests <sup>(iii)</sup> (interests of controlled corporation)	Other interests		
Gordon Ying Sheung WU	300,000 <sup>(iv)</sup>	6,249,403	2,191,000 <sup>(iv)</sup>	11,124,999	3,068,000 <sup>(v)</sup>	22,933,402	0.80%
Eddie Ping Chang HO	–	1,936,000	24,600	205,000	–	2,165,600	0.08%
Thomas Jefferson WU	100,000 <sup>(vi)</sup>	2,435,000	–	82,000	–	2,617,000	0.09%
Leo Kwok Kee LEUNG	–	1,000	–	–	–	1,000	0.00%
Kojiro NAKAHARA	–	1,067	–	–	–	1,067	0.00%

## Notes:

- (i) All interests in the shares and underlying shares of equity derivatives of the Company were long positions. None of the directors or chief executives held any short position in the shares and underlying shares of equity derivatives of the Company.
- (ii) All interests in underlying shares of equity derivatives of the Company were interests in warrants of the Company which conferred rights to subscribe for shares at an initial subscription price per share equivalent to the initial public offer price of the shares of HK\$4.18 (subject to adjustment) exercisable during a period of 3 years commencing on 6th August, 2003.
- (iii) These corporate interests were beneficially owned by a company in which the relevant director was deemed to be entitled under the SFO to exercise or control the exercise of one-third or more of the voting power at its general meeting.
- (iv) The interests in 300,000 shares and 2,191,000 underlying shares of warrants were interests held by Lady Ivy Sau Ping KWOK WU ("Lady Ivy WU"), the wife of Sir Gordon Ying Sheung WU ("Sir Gordon WU").
- (v) The other interests in 3,068,000 underlying shares of warrants represented the interests held jointly by Sir Gordon WU and Lady Ivy WU.
- (vi) The interests in 100,000 shares represented beneficial interests of Mr. Thomas Jefferson WU.

## (B) Associated Corporations

### (a) Hopewell Holdings Limited ("HHL")

Directors	HHL Shares				Underlying shares of Equity derivatives <sup>(ii)</sup> (i.e. Share options)	Total interests	% of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests <sup>(i)</sup> (interests of controlled corporation)	Other interests			
Gordon Ying Sheung WU	63,494,032	21,910,000 <sup>(iii)</sup>	111,250,000	30,680,000	8,000,000	235,334,032	26.62%
Eddie Ping Chang HO	25,360,000	246,000	2,050,000	–	–	27,656,000	3.13%
Thomas Jefferson WU	24,450,000	–	820,000	–	2,400,000	27,670,000	3.13%
Kojiro NAKAHARA	10,671	–	–	–	–	10,671	0.00%
Leo Kwok Kee LEUNG	10,000	–	–	–	–	10,000	0.00%
Lee Yick NAM	90,000	–	–	–	–	90,000	0.01%
Alan Chi Hung CHAN	–	–	–	–	1,000,000	1,000,000	0.11%
Cheng Hui JIA	–	–	–	–	800,000	800,000	0.09%

Notes:

- (i) The corporate interests of HHL shares were beneficially owned by a company in which the relevant director was deemed to be entitled under the SFO to exercise or control the exercise of one-third or more of the voting power at its general meeting.
- (ii) The interests in underlying shares of equity derivatives represented interests in HHL share options granted to directors of the Company under the share option scheme of HHL adopted on 11th October, 1994 (which had been terminated, but all outstanding options granted prior to the termination remain in full force and effect) to subscribe for HHL shares, further details of which are set out below:

Directors	Date of grant	Number of share options outstanding	Exercise price per share HK\$	Period during which share options are exercisable
Gordon Ying Sheung WU	09/09/2003	8,000,000	9.55	09/03/2004 – 09/09/2008
Thomas Jefferson WU	03/04/2002	2,400,000	6.15	03/10/2002 – 02/10/2005
Alan Chi Hung CHAN	02/04/2002	1,000,000	6.15	02/10/2002 – 01/10/2005
Cheng Hui JIA	02/04/2002	800,000	6.15	02/10/2002 – 01/10/2005

- (iii) The family interests in 21,910,000 HHL shares represented the interests of Lady Ivy Sau Ping KWOK WU, the wife of Sir Gordon Ying Sheung WU.

### (b) Guangzhou-Shenzhen Superhighway (Holdings) Ltd. ("GSSH")

- (i) Mr. Thomas Jefferson WU beneficially owned through companies controlled by him the 9<sup>7</sup>/<sub>8</sub>% Notes due 2004 (which matured on 15th August, 2004) for a face amount of US\$4,850,000 issued by GSSH.
- (ii) Mr. Lee Yick NAM beneficially owned the 9<sup>7</sup>/<sub>8</sub>% Notes due 2004 (which matured on 15th August, 2004) for a face amount of US\$400,000 issued by GSSH.

All the above interests in the shares, underlying shares of equity derivatives and debentures of associated corporations were long positions.

Save as aforesaid, as at 30th June, 2004, none of the directors or chief executives had any other interests or short position in shares, underlying shares and debentures of associated corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Report of the Directors *(continued)*

### Retirement and Pension Plan

To comply with the statutory requirements of the Mandatory Provident Fund ("MPF") Scheme Ordinance, the Group has set up the MPF Scheme. Mandatory contributions to this scheme is made by both the employer and employees at 5% of the employees' monthly relevant income capped at HK\$20,000. During the year, the Group made contribution to the MPF Scheme amounted to approximately HK\$331,000.

### Share Options

The share option scheme of the Company was approved by the written resolutions of the then sole shareholder of the Company passed on 16th July, 2003 and approved by shareholders of Hopewell Holdings Limited at an extraordinary general meeting held on 16th July, 2003 (the "Option Scheme"). The purpose of the Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to (i) any executive or non-executive directors including independent non-executive directors or any employees of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group; (iv) any chief executives, or substantial shareholders of the Company; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees of substantial shareholder of the Company or for such other purposes as the Board of Directors may approve from time to time.

Under the Option Scheme, the maximum number of shares in the Company which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option scheme of the Company will not exceed 10% of the total number of shares of the Company in issue immediately following completion of the initial public offering, unless a fresh approval of shareholders of the Company is obtained. The maximum entitlement of each participant under the Option Scheme in any 12-month period must not exceed 1% of the issued share capital of the Company. As at the date of this report, a total of 288,000,000 shares (representing 9.998% of the issued share capital of the Company) are available for issue under the Option Scheme.

The period during which an option may be exercised will be determined by the Board of Directors of the Company in its discretion and shall expire not later than 10 years after the date of grant. An option is open for acceptance for a period of 28 days from the date of offer. The amount payable on acceptance of an option is HK\$1. The full amount of exercise price for the subscription of shares has to be paid upon exercise of an option.

The exercise price for an option shall be such price as the Board of Directors of the Company may in its absolute discretion determine and notified to a participant. The exercise price shall not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, being the date on which the offer is accepted (or, if such date is not a business day, the next following business day ("Grant Date")); (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Grant Date; and (c) the nominal value of a share in the Company.

The Option Scheme will expire on 15th July, 2013. No option was granted by the Company since the adoption of the Option Scheme.

### **Arrangements to Acquire Shares or Debentures**

At no time during the year ended 30th June, 2004 was the Company or any of its subsidiaries a party to any arrangements to enable the 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, and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right, save as the warrants disclosed in the previous section headed "Directors' Interest in Shares, Underlying Shares and Debentures – the Company".

### **Employees and Remuneration Policies**

As at 30th June, 2004, the Group had a total of 42 full-time staff, with 36 in Hong Kong and 6 in the PRC. We provide competitive remuneration packages to our employees based on the market situation and individual performance. Besides, we also provide various fringe benefits including medical and personal accident insurance coverage. To maintain the efficiency of our staff, training programs are conducted on an ongoing basis throughout the Group aiming at improving employee productivity.

### **Service Contracts of Directors**

No directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without the payment of compensation (other than statutory compensation). All the independent non-executive directors of the Company are appointed for a fixed period but subject to retirement by rotation at the annual general meetings of the Company in accordance with the Company's Articles of Association.

### **Management Contracts**

No contracts of significance concerning the management and administration of the whole or any substantial part of any business of the Company were entered into during the year or subsisted at the end of the year.

## Report of the Directors *(continued)*

### Substantial Shareholders

As at 30th June, 2004, to the best knowledge of the directors, the interests of persons (other than directors and chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

<i>Name</i>	<i>Capacity</i>	<i>Number of Shares (corporate interests)</i>	<i>% of issued share capital</i>
Anber Investments Limited	Beneficial owner	2,160,000,000 <sup>(i)</sup>	74.985%
Delta Roads Limited	Interests of controlled corporation	2,160,000,000 <sup>(i)</sup>	74.985%
Dover Hills Investments Limited	Interests of controlled corporation	2,160,000,000 <sup>(i)</sup>	74.985%
Supreme Choice Investments Limited	Interests of controlled corporation	2,160,000,000 <sup>(i)</sup>	74.985%
Hopewell Holdings Limited	Interests of controlled corporation	2,160,000,000 <sup>(i)</sup>	74.985%

Note:

(i) The 2,160,000,000 shares were held by Anber Investments Limited, a wholly-owned subsidiary of Delta Roads Limited which was wholly-owned by Dover Hills Investments Limited. The latter was in turn 100% owned by Supreme Choice Investments Limited, a wholly-owned subsidiary of Hopewell Holdings Limited. The interests of Anber Investments Limited, Delta Roads Limited, Dover Hills Investments Limited, Supreme Choice Investments Limited and Hopewell Holdings Limited were long positions, represented the same block of shares and were deemed under the SFO to have same interests with each other.

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 30th June, 2004.

### Pre-emptive Rights

There are no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

### Code of Best Practice

The Company has complied with The Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") throughout the year ended 30th June, 2004 since its listing on the Stock Exchange on 6th August, 2003.

## Audit Committee

The Company has established an audit committee on 16th July, 2003 with written terms of reference which deal clearly with its authority and duties in compliance with The Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three Independent Non-Executive Directors, namely Mr. Lee Yick NAM, the chairman of the committee, Mr. Kojiro NAKAHARA and Mr. Philip Tsung Cheng FEI. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of unaudited interim financial statements and the audited annual financial statements.

## 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, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

## Post Balance Sheet Events

Details of subsequent events are set out in note 37 to the financial statements.

## Auditors

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Sir Gordon Ying Sheung WU** GBS, KCMG, FICE

*Chairman*

Hong Kong, 6th September, 2004

# Corporate Information

## Board of Directors

Sir Gordon Ying Sheung WU GBS, KCMG, FICE

*Chairman*

Mr. Eddie Ping Chang HO

*Vice Chairman*

Mr. Thomas Jefferson WU

*Managing Director*

Mr. Alan Chi Hung CHAN

*Deputy Managing Director*

Mr. Leo Kwok Kee LEUNG

Mr. Li Jia HUANG

Mr. Cheng Hui JIA

Mr. Christopher Shih Ming IP

Mr. Philip Tsung Cheng FEI<sup>#</sup>

Mr. Lee Yick NAM<sup>#</sup>

Mr. Kojiro NAKAHARA<sup>#</sup>

Mr. Gordon YEN<sup>#</sup>

<sup>#</sup> *Independent Non-Executive Directors*

## Audit Committee

Mr. Lee Yick NAM

*Chairman*

Mr. Kojiro NAKAHARA

Mr. Philip Tsung Cheng FEI

## Company Secretary

Mr. Peter Yip Wah LEE

## Registered Office

P.O. Box 309GT,

Ugland House, South Church Street,

George Town, Grand Cayman,

Cayman Islands

## Principal Place of Business

Room 64-02,

64th Floor, Hopewell Centre,

183 Queen's Road East, Wanchai, Hong Kong

Tel : (852) 2528 4975

Fax : (852) 2861 2068, (852) 2861 0177

## Solicitors

Woo, Kwan, Lee & Lo

## Auditors

Deloitte Touche Tohmatsu

## Principal Bankers<sup>+</sup>

Agricultural Bank of China, Hong Kong Branch

Bank of China (Hong Kong) Limited

Bank of China, Guangdong Branch

China Construction Bank, Guangdong Branch

The Hongkong and Shanghai Banking Corporation Limited

Industrial and Commercial Bank of China (Asia) Limited

<sup>+</sup> *names arranged in alphabetical order*

## Cayman Islands Share and Warrant Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited

P.O. Box 513 G.T., Strathvale House,

North Church Street, George Town,

Grand Cayman, Cayman Islands

## Hong Kong Share and Warrant Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Rooms 1712-1716, 17th Floor, Hopewell Centre,

183 Queen's Road East, Wanchai, Hong Kong

Tel : (852) 2862 8628

Fax : (852) 2529 6087

## Listing Information

The Stock Exchange of Hong Kong Limited

Ordinary Shares (Stock Code : 737)

Warrants (Stock Code : 951)

## American Depositary Receipt

CUSIP No. 439554106

Trading Symbol HHILY

ADR to share ratio 1:10

Depository Bank Citibank, N.A., U.S.A.

## Investor Relations

ir@hopewellhighway.com

## Web Page

www.hopewellhighway.com

## Financial Report

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## Report of the Auditors

# Deloitte. 德勤

### TO THE MEMBERS OF HOPEWELL HIGHWAY INFRASTRUCTURE LIMITED

合和公路基建有限公司

*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 39 to 72 which have been prepared in accordance with International Financial Reporting Standards.

### Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group as at 30th June, 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

6th September, 2004

## Consolidated Income Statement

For the year ended 30th June, 2004

	Notes	2003 HK\$'000	2004 HK\$'000
Turnover	3	1,030,350	<b>1,244,950</b>
Other operating income	4	68,055	<b>89,188</b>
Toll operation expenses		(87,803)	<b>(109,158)</b>
Depreciation and amortisation charges		(186,310)	<b>(229,317)</b>
General and administrative expenses		(54,864)	<b>(72,658)</b>
Profit from operations	5	769,428	<b>923,005</b>
Finance costs	6	(200,628)	<b>(150,797)</b>
Profit before tax		568,800	<b>772,208</b>
Income tax expense	7	(24,740)	<b>(22,071)</b>
Profit after tax		544,060	<b>750,137</b>
Minority interests		(10,981)	<b>(15,362)</b>
Profit for the year		533,079	<b>734,775</b>
Dividends	8	–	<b>648,131</b>
Earnings per share	9	HK cents	<b>HK cents</b>
– Basic		24.68	<b>26.15</b>
– Diluted		N/A	<b>26.11</b>

# Consolidated Balance Sheet

At 30th June, 2004

	Notes	2003 HK\$'000	2004 HK\$'000
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property and equipment	12	9,000,553	<b>9,678,199</b>
Additional investment cost in jointly controlled entities	13	1,900,258	<b>1,860,952</b>
Investment in toll road project under development	15	151,237	<b>37,889</b>
Loans to jointly controlled entities	16	1,014,416	<b>1,149,731</b>
Investments in securities - matured over one year	17	–	<b>711,398</b>
		12,066,464	<b>13,438,169</b>
<b>Current Assets</b>			
Inventories		1,928	<b>2,269</b>
Other receivables, deposits and prepayments		71,406	<b>82,666</b>
Interest receivable from a joint venture partner	18	45,813	<b>63,001</b>
Investments in securities – matured within one year	17	–	<b>1,046,195</b>
Pledged bank deposits	19	117,983	<b>319,211</b>
Bank balances and cash	19	183,310	<b>386,645</b>
		420,440	<b>1,899,987</b>
<b>Total Assets</b>		12,486,904	<b>15,338,156</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share capital	21	312	<b>288,059</b>
Reserves	22	1,346,169	<b>8,891,708</b>
		1,346,481	<b>9,179,767</b>
<b>Minority Interests</b>		29,714	<b>32,239</b>
<b>Non-current Liabilities</b>			
Bank and other loans – due after one year	23	4,662,467	<b>4,710,522</b>
Loans from joint venture partners	24	719,502	<b>837,512</b>
Amounts due to holding companies	25	5,043,452	–
Deferred tax liabilities	26	116,405	<b>138,289</b>
		10,541,826	<b>5,686,323</b>

## Consolidated Balance Sheet (continued)

At 30th June, 2004

	Notes	2003 HK\$'000	2004 HK\$'000
<b>Current Liabilities</b>			
Other payables, accruals and deposits received		53,425	<b>188,673</b>
Bank and other loans – due within one year	23	426,406	<b>170,823</b>
Interest payable to a jointly controlled entity	27	55,599	<b>77,364</b>
Other interests payable – due within one year	28	33,403	<b>2,967</b>
Tax liabilities		50	–
		568,883	<b>439,827</b>
<b>Total Liabilities</b>		11,110,709	<b>6,126,150</b>
<b>Total Equity and Liabilities</b>		12,486,904	<b>15,338,156</b>

**Thomas Jefferson WU**  
DIRECTOR

**Christopher Shih Ming IP**  
DIRECTOR

## Consolidated Statement of Changes in Equity

For the year ended 30th June, 2004

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000 (note 22)	Translation reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st July, 2002	312	–	22,884	22,580	–	775,324	821,100
Exchange loss on operations outside Hong Kong (not recognised in the income statement)	–	–	–	(7,698)	–	–	(7,698)
Profit for the year	–	–	–	–	–	533,079	533,079
Appropriation of retained profits	–	–	33,580	–	–	(33,580)	–
Balance at 30th June, 2003	312	–	56,464	14,882	–	1,274,823	1,346,481
Exchange loss on operations outside Hong Kong (not recognised in the income statement)	–	–	–	(5,794)	–	–	(5,794)
Shares issued at premium on placing and public offer	72,000	2,937,600	–	–	–	–	3,009,600
Shares issued at premium on exercise of warrants	59	2,407	–	–	–	–	2,466
Share issue expenses	–	(119,717)	–	–	–	–	(119,717)
Capitalisation of amount due to immediate holding company	215,688	4,284,312	–	–	–	–	4,500,000
Profit for the year	–	–	–	–	–	734,775	734,775
Interim dividend paid	–	–	–	–	–	(288,044)	(288,044)
Appropriation of retained profits	–	–	20,096	–	–	(20,096)	–
Amount set aside for dividend payments for year ended 30th June, 2004	–	–	–	–	360,087	(360,087)	–
<b>Balance at 30th June, 2004</b>	<b>288,059</b>	<b>7,104,602</b>	<b>76,560</b>	<b>9,088</b>	<b>360,087</b>	<b>1,341,371</b>	<b>9,179,767</b>

# Consolidated Cash Flow Statement

For the year ended 30th June, 2004

	2003 HK\$'000	2004 HK\$'000
<b>Operating Activities</b>		
Profit before tax	568,800	772,208
Adjustments for:		
Interest expenses	199,729	150,760
Interest income	(49,893)	(115,950)
Exchange losses, net	1,236	3,183
Depreciation and amortisation charges	186,310	229,317
Property and equipment written-off	–	7
Amortisation of premium on acquisition of held-to-maturity debt securities	–	48,087
Operating cash flows before movements in working capital	906,182	1,087,612
Decrease (increase) in inventories	3,136	(341)
Decrease in other receivables, deposits and prepayments	92,112	25,654
Increase in other payables, accruals and deposits received	4,036	135,248
Cash generated from operations	1,005,466	1,248,173
Interest received	6,369	8,837
Income taxes paid	(235)	(237)
<b>Net Cash from Operating Activities</b>	1,011,600	1,256,773
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(96,265)	(811,115)
Proceeds on disposal of property and equipment	4,313	–
Additional investment cost in jointly controlled entities	(3,109)	–
Repayment of additional investment cost in jointly controlled entities	5,057	–
Repayment of investment in toll road project under development	270,966	–
Additions of loans to a jointly controlled entity	–	(81,706)
Repayment of loans to jointly controlled entities	220,876	16,001
Acquisition of held-to-maturity debt securities	–	(2,091,378)
Redemption of held-to-maturity debt securities	–	243,828
Interest received from held-to-maturity debt securities	–	72,095
Increase in pledged bank deposits	(56,370)	(201,228)
<b>Net Cash from (used in) Investing Activities</b>	345,468	(2,853,503)
<b>Financing activities</b>		
Net proceeds from issue of shares	–	2,892,349
New bank and other loans raised	240,210	353,250
Additions of loans from joint venture partners	–	138,474
Repayment of bank and other loans	(576,727)	(560,778)
Repayment of loans from joint venture partners	(26,799)	(20,762)
Repayment to holding companies	(667,859)	(543,452)
Interest paid	(178,664)	(158,135)
Interim dividend paid	–	(288,044)
Dividends paid to minority shareholder	–	(12,837)
<b>Net Cash (used in) from Financing Activities</b>	(1,209,839)	1,800,065
<b>Net Increase in Cash and Cash Equivalents</b>	147,229	203,335
<b>Cash and Cash Equivalents at Beginning of the Year</b>	36,206	183,310
<b>Effect of Foreign Exchange Rate Changes</b>	(125)	–
<b>Cash and Cash Equivalents at End of the Year</b>		
Bank balances and cash	183,310	386,645

# Notes to the Financial Statements

*For the year ended 30th June, 2004*

## 1. Corporate Reorganisation and Basis of Preparation of Financial Statements

The Company was incorporated on 14th January, 2003 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's ultimate holding company is Hopewell Holdings Limited, a public limited liability company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries and jointly controlled entities are set out in notes 32 and 14, respectively.

Pursuant to a group reorganisation (the "Corporate Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Listing") on the Stock Exchange, the Company became the holding company of the Group on 30th June, 2003.

On 23rd July, 2003, 2,156,879,750 shares of HK\$0.1 each were allotted and issued, credited as fully paid at par, on capitalisation of the sum of HK\$4,500 million due to the immediate holding company of the Company (the "Capitalisation Issue").

On 5th August, 2003, 720,000,000 new shares of the Company of HK\$0.1 each were issued at HK\$4.18 per share for cash through an initial public offering by way of placing and public offer.

The shares of the Company have been listed on the Stock Exchange with effect from 6th August, 2003.

The Group resulting from the Corporate Reorganisation is regarded as a continuing entity. Accordingly, the consolidated balance sheet at 30th June, 2003 has been prepared using the principles of merger accounting.

The consolidated income statement for the year ended 30th June, 2003 has been prepared on a combined basis as if the current structure had been in existence throughout that year.

The measurement currency of the operations of the Group's jointly controlled entities is Renminbi ("RMB"). However, the financial statements of the Group are presented in Hong Kong dollars as the directors consider this presentation is more useful for its current and potential investors.

## 2. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and jointly controlled entities made up to each balance sheet date.

The results of operation of subsidiaries and share attributable to minority interests are accounted for in the consolidated income statement. The results of operation of jointly controlled entities are accounted for by proportionate consolidation as described below.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

## 2. Significant Accounting Policies (continued)

### Subsidiaries

Subsidiaries are those entities in which the Company has control over the operations. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

### Interests in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation based on the profit-sharing ratios specified in the relevant joint venture agreements. The Group's share of the income, expenses, assets and liabilities, of jointly controlled entities, other than the transactions and balances between the Group and jointly controlled entities, are consolidated with the equivalent items in the consolidated financial statements on a line-by-line basis. Transactions and balances between the Group and the jointly controlled entities are eliminated to the extent of the Group's share of the relevant income, expenses, receivables and payables of the jointly controlled entities. Unrealised profits and losses arising on transactions with the jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

### Additional investment cost in jointly controlled entities

The Group has incurred additional development expenditure for the construction and development of the toll roads operated by the jointly controlled entities ("Additional Development Cost"), which were not accounted for by those entities. On proportionate consolidation, a portion of such costs, calculated based on the Group's interest in the jointly controlled entities, is included in the costs of toll roads. The remainder of such costs is carried as additional investment cost in jointly controlled entities and is amortised on the same basis adopted by the relevant jointly controlled entities in depreciating their toll roads.

On disposal of a jointly controlled entity, the attributable amount of unamortised Additional Development Cost is included in the determination of the profit or loss on disposal.

### Property and equipment

Property and equipment other than construction in progress are stated at cost less accumulated depreciation and impairments losses, where appropriate. Improvements are capitalised while repairs and maintenance are charged to the income statement as incurred.

Construction in progress is not depreciated until the construction of the related assets is completed.

The cost of toll roads includes the Group's proportionate share of (i) the construction costs of the toll roads recorded in the jointly controlled entities' financial statements and (ii) the Additional Development Cost. The balance of the Additional Development Cost not included in the costs of toll roads has been presented separately as additional investment cost in jointly controlled entities.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

## 2. Significant Accounting Policies (continued)

### Property and equipment (continued)

Depreciation of toll roads is calculated to write off their costs, commencing from the date of commencement of commercial operation of the toll roads, based on the ratio of actual traffic volume compared to the total expected traffic volume over the remaining period of respective jointly controlled entities as estimated by management or by reference to traffic projection reports prepared by independent traffic consultants.

Depreciation of other property and equipment is calculated to write off their costs over their estimated useful lives, using the straight-line method, at 20% per annum.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

### Revenue recognition

Toll fee income from the operation of toll roads is recognised at the time of usage and when the tolls are received.

Interest income from capital contributed and loans made to jointly controlled entities is recognised based on the applicable interest rates set out in the joint venture agreements.

Other interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Rental income, which consists primarily of income from lease of spaces underneath the toll road and renting of machinery and equipment to local contractors, is recognised on a straight-line basis over the term of the relevant leases.

### Leasing

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant leases.

### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong and the jointly controlled entities are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

## 2. Significant Accounting Policies (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending for their expenditure on qualifying assets is deducted from the cost of those assets.

All other borrowing costs are recognised in net profit or loss in the period in which they are incurred.

### Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to retirement benefit schemes are dealt with as payments to defined contribution plans where the obligations under the schemes of the Group and the jointly controlled entities are equivalent to those arising in a defined contribution retirement benefit plan.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

## 2. Significant Accounting Policies (continued)

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

### Inventories

Inventories, representing materials, spare parts and other consumable stores, are stated at cost less allowance for obsolescence, if necessary. Cost comprises all costs of purchases and other costs that have been incurred in bringing the inventories to their present location and condition and is calculated using the first in, first out method.

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

### Other receivables, deposits and prepayments

Other receivables, deposits and prepayments are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

### Bank and other loans

Interest-bearing bank and other loans are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

## 2. Significant Accounting Policies (continued)

### Other payables, accruals and deposits received

Other payables, accruals and deposits received are stated at their nominal value.

## 3. Turnover and Segment Information

Turnover represents the Group's proportionate share of the jointly controlled entities' toll fee income received and receivable from the operations of toll roads, net of business tax.

The Group has only one business segment, namely the development, operation and management of toll roads in the People's Republic of China (the "PRC") through its jointly controlled entities established in the PRC.

No geographical segment analysis is presented as management considers that the Group has only one single geographical segment.

## 4. Other Operating Income

	2003 HK\$'000	2004 HK\$'000
Interest income from:		
A jointly controlled entity	25,766	<b>18,688</b>
A joint venture partner	17,758	<b>17,166</b>
Bank deposits	6,369	<b>8,837</b>
Held-to-maturity debt securities (after netting off of amortisation of premium on acquisition of held-to-maturity debt securities of approximately HK\$48,087,000 (2003: nil))	–	<b>23,172</b>
Rental income	5,891	<b>1,875</b>
Reimbursement of operating expenses from jointly controlled entities	3,238	<b>4,400</b>
Other income	9,033	<b>15,050</b>
	68,055	<b>89,188</b>

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 5. Profit from Operations

	2003 HK\$'000	<b>2004 HK\$'000</b>
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
Current year	744	<b>1,009</b>
Underprovision in prior year	–	<b>9</b>
	744	<b>1,018</b>
Directors' emoluments (note 11)	2,682	<b>14,047</b>
Exchange losses, net	1,236	<b>3,183</b>
Other staff costs (excluding directors)	46,001	<b>56,359</b>
Amortisation of additional investment cost in jointly controlled entities	32,102	<b>39,306</b>
Depreciation of:		
Toll roads	150,031	<b>185,336</b>
Other property and equipment	4,177	<b>4,675</b>
Property and equipment written-off	–	<b>7</b>

### 6. Finance Costs

	2003 HK\$'000	<b>2004 HK\$'000</b>
Interest on:		
Bank loans	173,005	<b>125,104</b>
Loan from a jointly controlled entity	21,653	<b>20,681</b>
Loan from a joint venture partner	297	<b>298</b>
Other loan wholly repayable within five years	4,774	<b>4,677</b>
	199,729	<b>150,760</b>
Other financial expenses	899	<b>37</b>
Total borrowing costs	200,628	<b>150,797</b>

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 7. Income Tax Expense

	2003 HK\$'000	<b>2004</b> <b>HK\$'000</b>
PRC income tax	235	<b>237</b>
Overprovision of income tax in prior year	–	<b>(50)</b>
Deferred taxation (note 26)	24,505	<b>21,884</b>
	24,740	<b>22,071</b>

No provision for Hong Kong Profits Tax has been made as there was no assessable profit derived from or arising in Hong Kong.

Pursuant to relevant laws and regulations in the PRC, the Group's jointly controlled entities are entitled to certain exemption and relief from PRC income tax. The normal tax rate applicable to the taxable income of a foreign investment enterprise in the PRC is 33%, comprising the standard national tax rate of 30% and the local tax rate of 3%.

Pursuant to an approval from the Guangdong Tax Bureau, the rate of foreign enterprise income tax payable by 廣深珠高速公路有限公司 Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited ("GS Superhighway JV"), a jointly controlled entity of the Group, in respect of its income arising from the operation of toll roads and related service facilities (excluding hotels and entertainment facilities) is 15% and GS Superhighway JV is entitled to a five year exemption from foreign enterprise income tax for such income commencing from the first profit-making year, as computed under PRC accounting standards and tax regulations. For the following five years, it will enjoy a 50% reduction in the rate of income tax payable in respect of such income. Pursuant to another approval from the Guangdong Tax Bureau, GS Superhighway JV is also exempt from paying a local income tax (currently set at a rate of 3%) in respect of income arising from the operation of toll road and related service facilities for ten years commencing from the first profit-making year. The first year for which GS Superhighway JV recorded profits for PRC tax purposes was the year ended 31st December, 2000.

Pursuant to an approval from the Guangzhou branch of the State Tax Bureau, the rate of foreign enterprise income tax payable by 廣州東南西環高速公路有限公司 Guangzhou E-S-W Ring Road Company Limited ("Ring Road JV"), another jointly controlled entity of the Group, in respect of its income arising from the operation of toll road is 15%. Pursuant to an approval from the Guangzhou Municipal Government, Ring Road JV is entitled to a five year exemption from foreign enterprise income tax for income arising from the operation of toll road commencing from the first profit-making year, as computed under PRC accounting standards and tax regulations. For the following five years, it will enjoy a 50% reduction in the rate of foreign enterprise income tax payable. In respect of income arising from toll operations and related service facilities, Ring Road JV is also exempted from paying a local income tax (currently set at a rate of 3%) for ten years commencing from the first profit-making year. Because Ring Road JV has not yet recorded profits for PRC tax purposes, the exemptions from paying foreign enterprise income tax and local income tax have so far had no effect on Ring Road JV.

廣東廣珠西綫高速公路有限公司 Guangdong Guangzhou-Zhuhai West Superhighway Company Limited ("West Route JV") is in the first year of operation and in the process to apply for certain exemption and relief from the relevant tax authority. No provision for PRC income tax for West Route JV as the jointly controlled entity has no assessable profit.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 7. Income Tax Expense (continued)

The income tax expense for the year can be reconciled to the profit before tax per the income statement as follows:

	2003 HK\$'000	<b>2004 HK\$'000</b>
Profit before tax	568,800	<b>772,208</b>
Tax at normal PRC income tax rate of 33%	187,704	<b>254,829</b>
Tax effect of income not taxable for tax purpose	(3,668)	<b>(17,135)</b>
Tax effect of expenses not deductible for tax purpose	41,764	<b>43,343</b>
Income tax on concessionary rate	(171,654)	<b>(232,655)</b>
Differential tax rate on temporary difference of jointly controlled entities	(29,406)	<b>(26,261)</b>
Overprovision of income tax in prior year	–	<b>(50)</b>
Income tax expense	24,740	<b>22,071</b>

### 8. Dividends

	2003 HK\$'000	<b>2004 HK\$'000</b>
Interim dividend paid of HK\$0.1 (2003: nil) per share	–	<b>288,044</b>
Final dividend proposed of HK\$0.125 (2003: nil) per share	–	<b>360,087</b>
	–	<b>648,131</b>

A final dividend in respect of financial year 2004 of HK12.5 cents per share amounting to a total of approximately HK\$360,087,000 is proposed by the Board. The dividend is subject to approval by shareholders at the forthcoming annual general meeting and has not been included as a liability in these financial statements. The amount has been accounted for as an appropriation of reserve in the year ended 30th June, 2004. The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these financial statements.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 9. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	2003 HK\$'000	<b>2004 HK\$'000</b>
Earnings for the purpose of basic and diluted earnings per share	533,079	<b>734,775</b>

	2003 Number of shares	<b>2004 Number of shares</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,160,000,000	<b>2,809,376,020</b>
Effect of dilutive potential ordinary shares: warrants	–	<b>4,552,670</b>
Weighted average number of ordinary shares for the purposes of diluted earnings per shares	2,160,000,000	<b>2,813,928,690</b>

The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 30th June, 2003 was determined on the basis that shares of the Company issued upon the Corporate Reorganisation and the Capitalisation Issue in total of 2,160,000,000 shares were deemed to be outstanding throughout that year.

No diluted earnings per share was presented for the prior year as there was no warrant of the Company outstanding throughout that year.

### 10. Retirement Benefits Plans

The aggregate numbers of employees of the Group and the jointly controlled entities were 2,208 and 2,448 at 30th June, 2003 and 2004, respectively.

At 30th June, 2004, the employees of the Group joined the Mandatory Provident Fund ("MPF") Scheme operated by its ultimate holding company. Mandatory contributions to the scheme are made by both the employer and employees at 5% of the employees' monthly relevant income capped at HK\$20,000. At 30th June, 2004, there were no forfeited contributions available to reduce future obligations. The contributions made by the Group to the MPF Scheme for the year are approximately HK\$331,000 (2003: HK\$194,000).

The employees of the Group's PRC jointly controlled entities are members of state-managed retirement benefit schemes operated by the PRC Government. These entities are required to contribute 18% of their payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the jointly controlled entities with respect to the retirement benefit schemes is to make the specified contributions. The Group's proportionate share of the contributions made by the jointly controlled entities for the year are approximately HK\$4,113,000 (2003: HK\$3,926,000).

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 11. Directors' and Five Highest Paid Individuals' Emoluments

#### Directors' emoluments

Details of emoluments paid by the Group during the year to the persons who are the directors of the Company at balance sheet date are as follows:

	2003 HK\$'000	<b>2004 HK\$'000</b>
Fees:		
Executive directors	–	<b>960</b>
Independent non-executive directors	–	<b>400</b>
	–	<b>1,360</b>
Other emoluments (executive directors):		
Salaries and other benefits	2,194	<b>12,162</b>
Bonus	464	<b>468</b>
Contributions to retirement benefits plans	24	<b>57</b>
	2,682	<b>12,687</b>
Total emoluments	2,682	<b>14,047</b>

The emoluments of the directors were within the following bands:

	2003 Number of directors	<b>2004 Number of directors</b>
Nil to HK\$1,000,000	11	<b>6</b>
HK\$1,500,001 to HK\$2,000,000	1	<b>4</b>
HK\$2,000,001 to HK\$2,500,000	–	<b>1</b>
HK\$3,000,001 to HK\$3,500,000	–	<b>1</b>

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 11. Directors' and Five Highest Paid Individuals' Emoluments (continued)

#### Five highest paid individuals emoluments

The five highest paid individuals of the Group in financial year 2004 are directors of the Company and details of their emoluments are disclosed above. The five highest paid individuals of the Group in financial year 2003 included two directors of the Company and the emoluments of the remaining three individuals, which were individually below HK\$1,000,000, are as follows:

	2003 HK\$'000	2004 HK\$'000
Salaries and other benefits	1,742	–
Contributions to retirement benefits plans	36	–
Total emoluments	1,778	–

During the two years ended 30th June, 2004, no emoluments were paid by the Group to any of the persons who are directors or the five highest paid individuals of the Company as an inducement to join or upon joining the Group or as compensation for loss of office and none of the persons who are directors of the Company waived any emoluments.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 12. Property and Equipment

	Toll roads HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>					
At 1st July, 2003	9,741,852	20,542	12,265	–	9,774,659
Additions	791,130	2,270	10,335	7,380	811,115
Transfer from investment in toll road project under development	56,549	–	–	–	56,549
Write-offs	–	(101)	(27)	–	(128)
<b>At 30th June, 2004</b>	<b>10,589,531</b>	<b>22,711</b>	<b>22,573</b>	<b>7,380</b>	<b>10,642,195</b>
<b>ACCUMULATED DEPRECIATION</b>					
At 1st July, 2003	752,150	16,207	5,749	–	774,106
Charge for the year	185,336	2,092	2,583	–	190,011
Eliminated on write-offs	–	(101)	(20)	–	(121)
<b>At 30th June, 2004</b>	<b>937,486</b>	<b>18,198</b>	<b>8,312</b>	<b>–</b>	<b>963,996</b>
<b>CARRYING AMOUNT</b>					
At 30th June, 2003	8,989,702	4,335	6,516	–	9,000,553
<b>At 30th June, 2004</b>	<b>9,652,045</b>	<b>4,513</b>	<b>14,261</b>	<b>7,380</b>	<b>9,678,199</b>

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 13. Additional Investment Cost in Jointly Controlled Entities

	HK\$'000
<b>COST</b>	
<b>At 1st July, 2003 and 30th June, 2004</b>	<b>2,073,512</b>
<b>AMORTISATION</b>	
At 1st July, 2003	173,254
Charge for the year	39,306
<b>At 30th June, 2004</b>	<b>212,560</b>
<b>CARRYING AMOUNT</b>	
At 30th June, 2003	1,900,258
<b>At 30th June, 2004</b>	<b>1,860,952</b>

### 14. Investments in Jointly Controlled Entities

Particulars of the Group's jointly controlled entities at 30th June, 2004 are as follows:

Name of company	Place of establishment	Registered capital	Principal activity
廣深珠高速公路有限公司 Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited	The PRC	RMB471,000,000	Development, operation and management of an expressway
廣州東南西環高速公路有限公司 Guangzhou E-S-W Ring Road Company Limited	The PRC	US\$55,000,000	Development, operation and management of an expressway
廣東廣珠西綫高速公路有限公司 Guangdong Guangzhou-Zhuhai West Superhighway Company Limited	The PRC	RMB588,000,000	Development, operation and management of an expressway

GS Superhighway JV, Ring Road JV and West Route JV are Sino-foreign co-operative joint venture enterprises established under the PRC law.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

## 14. Investments in Jointly Controlled Entities (continued)

The principal terms of the joint venture agreements entered into between the relevant subsidiaries and the corresponding joint venture partners under which the jointly controlled entities operate are as follows:

### (i) **GS Superhighway JV**

GS Superhighway JV is established to undertake the construction, operation and management of an expressway in Guangdong Province of the PRC. Phase I of the project comprises of an expressway running between Shenzhen and Guangzhou ("GS Superhighway"). The term of co-operation is thirty years from the official opening date. At the end of the co-operation period, all the immovable assets and facilities of GS Superhighway JV will revert to the PRC joint venture partner without compensation.

The development of phases II and III of the project, comprising a major transportation route in western Pearl River Delta ("Western Delta Route"), is undertaken by West Route JV.

The Group's entitlement to the profit of the toll operations of GS Superhighway JV is 50% for the initial ten years of co-operation period, 48% for the next ten years and 45% for the last ten years of the co-operation period. The Group is also entitled to a share of 80% of the rentals and other income, after deduction of operating and financial expenses, arising from the development of commercial centres and shop spaces along and underneath GS Superhighway for a period of thirty years commencing on the date of completion of the construction of GS Superhighway. GS Superhighway JV has also been granted the contingent rights to develop parcels of land within certain interchanges of GS Superhighway for sale or rental. The detailed terms of such grant have yet to be finalised. GS Superhighway was officially opened in July 1997.

### (ii) **Ring Road JV**

Ring Road JV is established to undertake the construction, operation and management of an expressway running along the eastern, southern and western fringes of the Guangzhou urban areas ("ESW Ring Road"). The co-operation period is thirty years commencing from 1st January, 2002. The Group is entitled to 45% of the net cash flow (that is, gross operating income net of operating expenses, debt service costs and tax) of ESW Ring Road for the initial ten years of operation and thereafter the Group's profit entitlement will be reduced to 37.5% for the subsequent ten years and 32.5% for the remaining years of operation of the entire co-operation period of Ring Road JV. The ESW Ring Road was officially opened in January 2002. At the end of the co-operation period, all the immovable assets and facilities of Ring Road JV will revert to the PRC joint venture partner without compensation.

### (iii) **West Route JV**

West Route JV is established to undertake the construction, operation and management of an expressway linking Guangzhou, Zhongshan and Zhuhai. Phase I of the expressway ("Phase I West") was officially opened on 30th April, 2004 and the co-operation period is thirty years commencing from 17th September, 2003. The Group is entitled to 50% of the distributable profits from operation of West Route JV. At the end of the co-operation period, all the immovable assets and facilities of West Route JV will revert to relevant PRC government department which regulates transportation without compensation.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 14. Investments in Jointly Controlled Entities (continued)

The Group's share of the assets, liabilities, income and expenses of the jointly controlled entities accounted for by the Group using proportionate consolidation are set out below:

In respect of the year ended 30th June, 2003:

	<b>GS</b> <b>Superhighway JV</b> HK\$'000	<b>Ring Road JV</b> HK\$'000	<b>Total</b> HK\$'000
Current assets	182,676	68,375	251,051
Non-current assets	5,334,581	1,880,531	7,215,112
Current liabilities	325,739	10,614	336,353
Non-current liabilities	3,922,125	1,364,249	5,286,374
Income	961,491	105,780	1,067,271
Expenses	356,236	84,756	440,992

In respect of the year ended 30th June, 2004:

	<b>GS</b> <b>Superhighway JV</b> HK\$'000	<b>Ring Road JV</b> HK\$'000	<b>West</b> <b>Route JV</b> HK\$'000	<b>Total</b> HK\$'000
Current assets	<b>346,290</b>	<b>93,706</b>	<b>14,893</b>	<b>454,889</b>
Non-current assets	<b>5,334,820</b>	<b>1,869,020</b>	<b>714,231</b>	<b>7,918,071</b>
Current liabilities	<b>225,377</b>	<b>16,170</b>	<b>99,504</b>	<b>341,051</b>
Non-current liabilities	<b>3,846,850</b>	<b>1,347,747</b>	<b>491,724</b>	<b>5,686,321</b>
Income	<b>1,148,225</b>	<b>129,014</b>	<b>4,649</b>	<b>1,281,888</b>
Expenses	<b>352,298</b>	<b>90,136</b>	<b>5,227</b>	<b>447,661</b>

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 15. Investment in Toll Road Project under Development

The balance at 30th June, 2004 represents the costs incurred by the Group on the development of Phases II and III of Western Delta Route.

The Western Delta Route will be developed in three phases. Phase I of Western Delta Route, Phase I West, was constructed and operated by West Route JV and was opened to traffic on 30th April, 2004. The estimated total investment for Phase II of Western Delta Route is RMB4,900 million, 35% of which is to be funded by an increase in the registered capital of West Route JV by RMB1,715 million in total to be contributed by the Group and West Route JV PRC partner in equal share (i.e. each to contribute RMB857.5 million). The concession period for Phase II of Western Delta Route will, subject to approval of the relevant PRC authorities, be thirty years commencing on the date on which the new business licence of West Route JV in respect of Phase II of Western Delta Route is issued. The Group is entitled to 50% of the distributable profits of West Route JV.

The Group is currently in the process of negotiating the terms of a possible co-operation with the PRC partner of West Route JV for the investment in and the planning, design, construction and operation of Phase III of Western Delta Route through West Route JV. The estimated total investment for Phase III of Western Delta Route is RMB3,600 million, 35% of which is to be funded by an increase in the registered capital of West Route JV by RMB1,260 million in total to be contributed by the Group and West Route JV PRC partner in equal share (i.e. each to contribute RMB630 million). The concession period for Phase III of Western Delta Route will, subject to approval of the relevant PRC authorities, be thirty years commencing on the date of which the new business licence of West Route JV in respect of Phase III of Western Delta Route is issued. The Group is entitled to 50% of the distributable profits of West Route JV.

### 16. Loans to Jointly Controlled Entities

	2003 HK\$'000	2004 HK\$'000
Loans to:		
GS Superhighway JV	387,676	<b>406,134</b>
Ring Road JV	626,740	<b>610,739</b>
West Route JV	–	<b>132,858</b>
	1,014,416	<b>1,149,731</b>

The balances represent the loans to jointly controlled entities made by the Group after elimination of the Group's proportionate share of the corresponding amounts of the jointly controlled entities.

The loans to jointly controlled entities are unsecured, repayable out of the net cash surplus from the operations of the jointly controlled entities and interest free except for the loans to GS Superhighway JV, which carries interest at commercial lending rates.

### 17. Investments in Securities

The balance at 30th June, 2004 represents the overseas listed held-to-maturity debt securities acquired by the Group during the year and their carrying amount at the balance sheet date approximates their fair value.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

## 18. Interest Receivable from a Joint Venture Partner

The balance represents the Group's proportionate share of the interest receivable of Ring Road JV from an other joint venture partner of Ring Road JV. The amount is unsecured, interest free and repayable on demand.

## 19. Pledged Bank Deposits and Bank Balances and Cash

At 30th June, 2004, included in the pledged bank deposits and bank balances and cash are bank deposits of approximately HK\$356,967,000 (2003: HK\$301,276,000), which are held by the Company's PRC subsidiary and the Group's jointly controlled entities in United States dollar, Hong Kong dollar and Renminbi. The remittance of these bank deposits other than the distribution of dividends or reimbursement of operating expenses outside the PRC is subject to approval of the relevant local authorities.

## 20. Other Financial Assets

The directors consider that the carrying amount of other receivables, deposits and prepayments approximates their fair value.

Bank balances and cash comprise cash and short-term deposits held for the treasury function of the Group. The carrying amount of these assets approximates their fair value.

### Credit risk

The Group's credit risk is primarily attributable to its other receivables, deposits and prepayments. The amounts presented in the balance sheet are net of allowances for doubtful receivables, as estimated by the Group's management based on prior experience and the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

### Foreign currency risk

Majority of the revenue of the Group's jointly controlled entities are collected in RMB. Any devaluation of the RMB would adversely affect the value of the jointly controlled entities' revenues and earnings in currencies other than RMB. Devaluation of the RMB relative to the United States dollar and/or Hong Kong dollar could increase the portion of the cash outflow of the jointly controlled entities which is required to satisfy obligations denominated in those currencies.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 21. Share Capital

	Number of shares	Amount HK\$'000
Details of the share capital of the Company are as follows:		
Authorised:		
On incorporation, par value of HK\$1 each	380,000	380
Change of par value from HK\$1 to HK\$0.1	3,420,000	–
Increase during the year	9,996,200,000	999,620
<b>At 30th June, 2003 and 30th June, 2004</b>	<b>10,000,000,000</b>	<b>1,000,000</b>
Issued and fully paid:		
Allotted and issued on incorporation, par value of HK\$1 each	1	–
Subdivision of shares of par value from HK\$1 to HK\$0.1	9	–
Allotted and issued on 30th June, 2003	3,120,240	312
At 30th June, 2003	3,120,250	312
Capitalisation Issue	2,156,879,750	215,688
Issue of shares by way of placing and public offer	720,000,000	72,000
Issue of shares upon exercise of warrants	590,046	59
<b>At 30th June, 2004</b>	<b>2,880,590,046</b>	<b>288,059</b>

The following changes in the share capital of the Company took place during the period from 14th January, 2003 (date of incorporation) to 30th June, 2004:

- (a) The Company was incorporated on 14th January, 2003 with an authorised share capital of HK\$380,000 divided into 380,000 shares of HK\$1 each. At the time of incorporation, one ordinary share of HK\$1 was allotted and issued for cash at par.
- (b) Pursuant to the written resolutions of the sole shareholder of the Company passed on 30th June, 2003:
  - (i) each share of par value of HK\$1 in the unissued and issued share capital of the Company was subdivided into 10 shares of par value of HK\$0.1 each; and
  - (ii) the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000, by the creation of an additional 9,996,200,000 new shares of HK\$0.1 each.

## Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2004

### 21. Share Capital *(continued)*

- (c) On 30th June, 2003:
- (i) the Company allotted and issued 3,120,100 shares of HK\$0.1 each, credited as fully paid in consideration of the transfer of the entire issued share capital of Most Top Limited, Yager International Limited and Wilberforce International Limited.
  - (ii) the Company allotted and issued 140 shares of HK\$0.1 each, credited as fully paid at the direction of Guangzhou-Shenzhen Superhighway (Holdings) Ltd. ("GSSH"), a fellow subsidiary of the Company, in consideration of GSSH (i) procuring the allotment and issue of two new ordinary shares in Hopewell China Development (Superhighway) Limited ("HHI GS Superhighway Co.") to Kingnice Limited ("Kingnice") and its nominee and the conversion of the ordinary shares in HHI GS Superhighway Co beneficially held by it into deferred non-voting shares, and (ii) transferring its one share held in Fan Wai Properties Limited to Kingnice.
- (d) On 23rd July, 2003, the Company allotted and issued 2,156,879,750 shares of HK\$0.1 each, credited as fully paid on capitalisation of an amount of HK\$4,500 million owing by the Company to its immediate holding company.
- (e) On 5th August, 2003, 720,000,000 new shares of the Company of HK\$0.1 each were issued, at a price of HK\$4.18 per share, for cash through an initial public offering by way of placing and public offer.
- (f) Pursuant to the written resolutions of the sole shareholder of the Company passed on 16th July, 2003, the instrument constituting the warrants and the creation of the warrants of the Company (the "Warrants") were approved. The Warrants carrying subscription rights in aggregate of HK\$365,890,598 were created and issued in registered form on 5th August, 2003 which conferred the right to registered holders to subscribe for shares of the Company at an initial subscription price per share equivalent to the initial public offer price of the shares of HK\$4.18 (subject to adjustment) exercisable during a period of 3 years commencing 6th August, 2003 (the "Subscription Rights").

During the year, the Subscription Rights for HK\$2,466,392 were exercised by registered holders to convert into 590,046 shares of the Company.

At 30th June, 2004, the Subscription Rights for HK\$363,424,206 were outstanding, exercise of which in full would result in the issue of 86,943,590 shares of the Company of HK\$0.1 each.

#### Share option scheme

A share option scheme ("Option Scheme") was adopted by the Company during the year pursuant to the written resolutions of the then sole shareholder of the Company passed on 16th July, 2003 and approved by the shareholders of Hopewell Holdings Limited at an extraordinary general meeting held on 16th July, 2003. The Option Scheme shall be valid and effective for a period of ten years and the purpose of which is to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to (i) any executive or non-executive directors including independent non-executive directors or any employees of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group; (iv) and chief executives, or substantial shareholders of the Company; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees of substantial shareholder of the Company or for such other purposes as the Board of Directors may approve from time to time.

Options granted must be taken up within 28 days from the date of the offer letter upon payment of HK\$1, payable as consideration on acceptance, which is recognised in the income statement when received.

No option was granted under the Option Scheme since its adoption.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 22. Reserves

#### The Group

Included in the Group's reserves are the Group's share of post-acquisition reserves of the jointly controlled entities as follows:

	2003 HK\$'000	<b>2004 HK\$'000</b>
Statutory reserves	56,464	<b>76,560</b>
Translation reserve	3,754	<b>9,371</b>
Retained profits	754,754	<b>930,201</b>
	814,972	<b>1,016,132</b>

Pursuant to the relevant PRC regulations applicable to the Group's PRC jointly controlled entities, the jointly controlled entities have to provide for the PRC statutory reserves before declaring dividends to the joint venture partners on the basis determined and approved by the board of directors. The reserves, which include general fund and development fund, are not distributable until the end of the co-operation period, at which time any remaining balance of the reserves can be distributed to joint venture partners upon liquidation of the jointly controlled entities. The distributable profits of the jointly controlled entities are determined based on their retained profits calculated in accordance with the PRC accounting rules and regulations.

#### The Company

The Company's reserves available for distribution represent the share premium and retained profits. Under the Companies Law (2003 Revision) Chapter 22 of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the declaration of distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can only be distributed out of the retained profits and share premium of the Company. At 30th June, 2004, the Company's reserves available for distribution to its shareholders amounted to approximately HK\$7,867,930,000, comprising retained profits and share premium of approximately HK\$763,328,000 (2003: nil) and HK\$7,104,602,000 (2003: nil), respectively.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 23. Bank and Other Loans

	2003 HK\$'000	2004 HK\$'000
Bank loans, secured	4,993,040	<b>4,785,512</b>
Other loans, unsecured	95,833	<b>95,833</b>
	5,088,873	<b>4,881,345</b>
The borrowings are repayable as follows:		
On demand or within one year	426,406	<b>170,823</b>
In the second year	568,022	<b>205,176</b>
In the third to fifth year inclusive	1,666,227	<b>1,356,338</b>
After five years	2,428,218	<b>3,149,008</b>
	5,088,873	<b>4,881,345</b>
Less: Amounts due for settlement within one year (shown under current liabilities)	(426,406)	<b>(170,823)</b>
Amounts due for settlement after one year	4,662,467	<b>4,710,522</b>

Analysis of borrowings by currency:

	At 30th June, 2003		
	US\$ HK\$'000	RMB HK\$'000	HK\$ HK\$'000
Bank loans	3,753,034	868,006	372,000
Other loans	–	95,833	–
	3,753,034	963,839	372,000

	At 30th June, 2004		
	US\$ HK\$'000	RMB HK\$'000	HK\$ HK\$'000
Bank loans	<b>3,578,386</b>	<b>1,207,126</b>	–
Other loans	–	<b>95,833</b>	–
	<b>3,578,386</b>	<b>1,302,959</b>	–

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 23. Bank and Other Loans (continued)

Other than the other loan amounts of approximately HK\$16,406,000 (2003: HK\$16,406,000) which are interest-free, bank and other loans carry interest at commercial lending rates.

The average rates of interest for bank loans and other loans for the year were 2.5% (2003: 2.7%) and 4.8% (2003: 4.8%) per annum, respectively.

The directors consider that the carrying amount of the interest-bearing loans approximates their fair value. In view of the terms of the interest-free loans, the directors consider that it is not practicable to determine their fair value.

### 24. Loans from Joint Venture Partners

	2003 HK\$'000	2004 HK\$'000
Amounts due to joint venture partners of:		
GS Superhighway JV (interest-bearing)	8,254	<b>8,552</b>
Ring Road JV (interest-free)	711,248	<b>690,486</b>
West Route JV (interest-free)	–	<b>138,474</b>
	719,502	<b>837,512</b>

The balances represent the Group's proportionate share of the loans made to jointly controlled entities by the other joint venture partners ("other joint venture partner(s)"). Such loans are unsecured and are repayable out of the net cash surplus from the operations of the jointly controlled entities.

The loan from the other joint venture partner of GS Superhighway JV was charged at commercial lending rates.

In view of the terms of the interest-free loans from the other joint venture partners of Ring Road JV and West Route JV, the directors consider that it is not practicable to determine their fair value.

### 25. Amounts due to Holding Companies

The amounts were unsecured and interest free. On 23rd July, 2003, the amount due to its immediate holding company to the extent of HK\$4,500 million was capitalised, details of which are mentioned in note 21(d). The remaining balance was fully settled during the year.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 26. Deferred Tax Liabilities

The deferred tax liabilities as shown in the consolidated balance sheet represent the Group's proportionate share of such liabilities or assets of the jointly controlled entities.

The major components and movement for the year in the deferred tax liabilities (assets) are as follows:

	<b>Accelerated tax depreciation</b> HK\$'000	<b>Tax losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1st July, 2002	106,600	(14,700)	91,900
Charge (credit) for the year (note 7)	28,005	(3,500)	24,505
At 30th June, 2003	134,605	(18,200)	116,405
Charge (credit) for the year (note 7)	31,184	(9,300)	21,884
<b>At 30th June, 2004</b>	<b>165,789</b>	<b>(27,500)</b>	<b>138,289</b>

### 27. Interest Payable to a Jointly Controlled Entity

The balance represents interest payable due to Ring Road JV by the Group after elimination of the Group's proportionate share of the corresponding amount of the jointly controlled entities. The amount is unsecured, interest free and has no fixed repayment term. In view of the terms of the amount, the directors consider that it is not practicable to determine its fair value.

### 28. Other Interests Payable

Included in the balance at 30th June, 2003 was an amount of approximately HK\$28,565,000 which carried interest on the amount outstanding at commercial lending rates. The other interests payable were non interest-bearing.

The directors consider that the carrying amount of the interest-bearing balance approximates its fair value. In view of the terms of the interest-free balance, the directors consider that it is not practicable to determine its fair value.

### 29. Other Financial Liabilities

Other payables, accruals and deposits received principally comprise amounts outstanding for ongoing costs of operations. The directors consider that the carrying amounts of other payables, accruals and deposits received approximate their fair value.

### 30. Total Assets less Current Liabilities/Net Current Assets or Liabilities

The Group's total assets less current liabilities at 30th June, 2004 amounted to approximately HK\$14,898,329,000 (30th June, 2003: HK\$11,918,021,000). The Group's net current assets at 30th June, 2004 amounted to approximately HK\$1,460,160,000 (30th June, 2003: net current liabilities of HK\$148,443,000).

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 31. Summary of Balance Sheet of the Company

	2003 HK\$'000	2004 HK\$'000
<b>ASSETS</b>		
Non-current assets	468	<b>6,753,320</b>
Current assets	–	<b>1,433,642</b>
Total assets	468	<b>8,186,962</b>
<b>EQUITY AND LIABILITIES</b>		
Capital and reserves		
Share capital	312	<b>288,059</b>
Reserves	–	<b>7,867,930</b>
	312	<b>8,155,989</b>
Non-current liability	156	<b>27,344</b>
Current liability	–	<b>3,629</b>
Total liabilities	156	<b>30,973</b>
Total equity and liabilities	468	<b>8,186,962</b>

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 32. Particulars of Principal Subsidiaries

The following list contains the particulars of the subsidiaries of the Company at 30th June, 2004 which principally affect the results or assets of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length. None of the subsidiaries had any loan capital outstanding during the year or at the end of the year.

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest held by the Company	Principal activity
Kingnice Limited	British Virgin Islands	Ordinary share US\$20,000	97.5%	Investment holding
Fan Wai Properties Limited	British Virgin Islands	Ordinary share US\$1	97.5%	Investment funding
Most Top Limited	British Virgin Islands	Ordinary share US\$1	100%	Investment holding
Hopewell China Development (Superhighway) Limited	Hong Kong	Ordinary shares HK\$2 Non-voting deferred shares HK\$4	97.5% of issued ordinary share capital	Investment in expressway project
Hopewell Guangzhou Ring Road Limited	British Virgin Islands	Ordinary share US\$1	100%	Investment in expressway project
Hopewell Guangzhou-Zhuhai Superhighway Development Limited	Hong Kong	Ordinary shares HK\$2 Non-voting deferred shares HK\$2	100% of issued ordinary share capital	Investment in expressway project

All the above subsidiaries are indirectly held by the Company.

### 33. Major Non-Cash Transaction

During the year, as part of the Corporate Reorganisation as referred to in notes 1 and 21, the Company allotted and issued 2,156,879,750 shares of HK\$0.1 each, credited as fully paid on capitalisation of an amount of HK\$4,500 million owing by the Company to its immediate holding company.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 34. Capital Commitments

At 30th June, 2004, GS Superhighway JV and Ring Road JV had outstanding commitment in respect of system for unification of toll collection and major repairs and maintenance contracted but not provided for amounting to approximately HK\$12 million (2003: nil) and HK\$11 million (2003: nil), respectively.

In addition, at 30th June, 2003, GS Superhighway JV had outstanding commitment in respect of repavement of asphalt for GS Superhighway contracted but not provided for amounting to approximately HK\$70 million.

### 35. Pledge of Assets

At 30th June, 2004, certain assets of the jointly controlled entities of the Group have been pledged to banks with a total net book value of approximately HK\$7,646,701,000 (2003: HK\$7,032,066,000) to secure general banking facilities granted to the jointly controlled entities. The net book value of these assets are analysed as follows:

	2003 HK\$'000	<b>2004 HK\$'000</b>
Toll roads	6,840,403	<b>7,265,626</b>
Bank deposits	117,983	<b>319,211</b>
Other assets	73,680	<b>61,864</b>
	7,032,066	<b>7,646,701</b>

In addition, the toll fee collection rights of GS Superhighway JV and Ring Road JV attributable to the Group have been pledged to banks to secure general banking facilities granted to the respective jointly controlled entities and 65% of the toll fee collection right of West Route JV attributable to the Group has been pledged to banks to secure general banking facilities granted to the jointly controlled entity.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 36. Related Party Transactions

Amounts owed by and from related parties are disclosed in the balance sheet and relevant notes.

During the year, the Group paid office and car parking rentals, air-conditioning and electricity charges to a fellow subsidiary amounting to approximately HK\$932,000 (2003: HK\$525,000).

The Group's jointly controlled entities had the following significant transactions with their joint venture partners other than the Group during the year:

Relationship	Nature of transaction	2003 HK\$'000	2004 HK\$'000
Other joint venture partner of GS Superhighway JV	Interest paid (note a)	595	<b>596</b>
	Reimbursement of operating expenses (note b)	5,795	<b>6,600</b>
	Consultancy fee paid (note b)	1,884	<b>–</b>
	Dividend paid and payable	423,900	<b>619,740</b>
Other PRC joint venture partner of Ring Road JV	Management fee paid (note b)	3,999	<b>4,000</b>
Other foreign joint venture partner of Ring Road JV	Management fee paid (note b)	2,000	<b>2,000</b>
	Interest income (note a)	39,460	<b>38,148</b>
Other PRC joint venture partner of West Route JV	Performance bonus (note b)	–	<b>1,686</b>

Guarantees had been given by the other joint venture partner of GS Superhighway JV for bank loan facilities of RMB510 million granted to GS Superhighway JV at a fee of approximately HK\$283,000 for the year ended 30th June, 2003. In May 2003, a new bank loan was raised by GS Superhighway JV to finance the repayment of the bank loans of RMB510 million and the said guarantees given by the other joint venture partner were released afterwards.

Guarantees had been given by the Company (the ultimate holding company of the Company before the Listing of the Company) and other foreign joint venture partner of Ring Road JV for bank loan facilities of RMB1,481 million granted to Ring Road JV for the years ended 30th June, 2004 and 2003.

Notes:

- (a) The interest was charged on the principal amount of loans outstanding at commercial lending rates.
- (b) In the opinion of directors, these transactions were carried out based on the terms agreed by the parties concerned and in the ordinary course of business.

## Notes to the Financial Statements (continued)

*For the year ended 30th June, 2004*

### **37. Subsequent Events**

The following significant events took place subsequent to the balance sheet date:

On 14th July, 2004, the Group entered into the Amending Agreements with the PRC partner of West Route JV for the investment in and the planning, design, construction and operation of Phase II of Western Delta Route through West Route JV. The details of the Amending Agreements have been set out in the announcement of the Company dated 14th July, 2004.

The Group is currently in the process of negotiating the terms of a possible co-operation with the PRC partner of West Route JV for the investment in and the planning, design, construction and operation of Phase III of Western Delta Route through West Route JV. The details of the terms of the possible co-operation in relation to Phase III of the Western Delta Route have been set out in the announcement of the Company dated 4th August, 2004.

### **38. Approval of Financial Statements**

The financial statements on pages 39 to 72 were approved and authorised for issue by the Board of Directors on 6th September, 2004.



Hopewell Highway Infrastructure Limited

合和公路基建有限公司

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