



# Hopewell Highway Infrastructure Limited 合和公路基建有限公司



2006-2007 Annual Report 年報



1993



2007

Our expressways have developed to be the major artery in the Pearl River Delta (“PRD”) highway network and have helped to boost the thriving economy of the PRD region. 我們的高速公路已發展為珠江三角洲(「珠三角」)公路網絡的主要動脈，並幫助促進珠三角地區的蓬勃經濟。



# HHI PROJECTS 合和公路基建項目

## 1 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.

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



## 2 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。



## 3 Phase I West 西綫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.

與東南西環高速公路連接，全長14.7公里由廣州市至順德封閉式瀝青路面之雙向三車道高速公路，已於二零零四年四月三十日通車。



## 4 Phase II West (Under construction) 西綫II期 (建設中)

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

緊接西綫I期，將連接順德和中山市全長約46公里的高速公路。



## 5 Phase III West (Under planning) 西綫III期 (籌劃中)

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

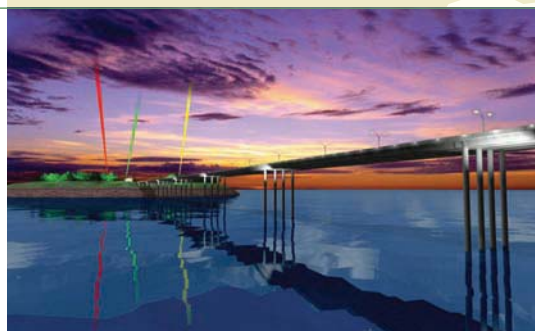
緊接西綫II期，將連接中山市和珠海市之高速公路。



## 6 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。



**Transportation Infrastructure 交通基建：**

- Guangzhou-Shenzhen Superhighway 廣深高速公路
- Guangzhou ESW Ring Road 廣州東南西環高速公路
- Phase I of the Western Delta Route 珠江三角洲西岸幹道I期
- Phase II of the Western Delta Route (under construction) 珠江三角洲西岸幹道II期 (興建中)
- Phase III of the Western Delta Route (under planning) 珠江三角洲西岸幹道III期 (計劃中)

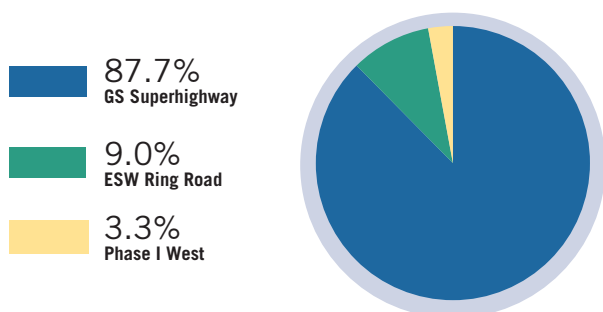
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**H**opewell Highway Infrastructure Limited (“HHI”) (stock code: 737), listed on The Stock Exchange of Hong Kong Limited since August 2003, builds and operates strategic expressway infrastructure in Guangdong Province. With the strong support and well-established experience of its listed parent, Hopewell Holdings Limited (stock code: 54), HHI focuses on the initiation, promotion, development, investment and operation of toll expressways and bridges.

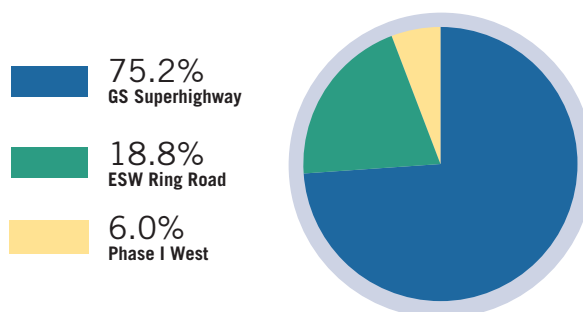
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# FINANCIAL HIGHLIGHTS

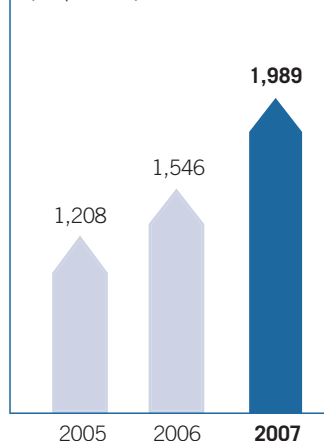
## Turnover by Expressway



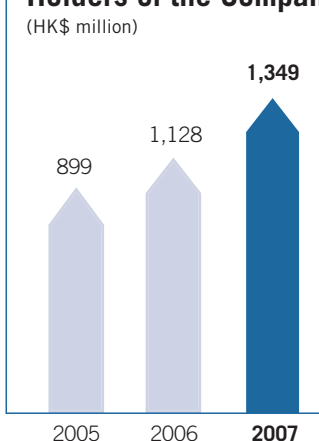
## Total Traffic by Expressway



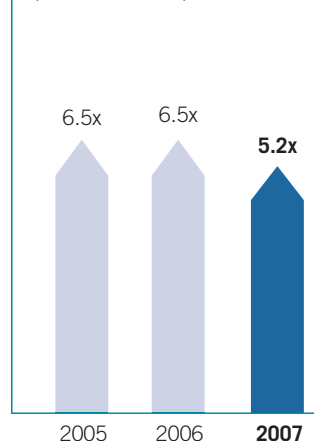
## Earnings before Interest and Tax (HK\$ million)



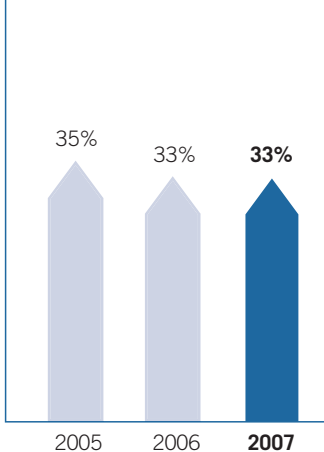
## Profit Attributable to Equity Holders of the Company (HK\$ million)



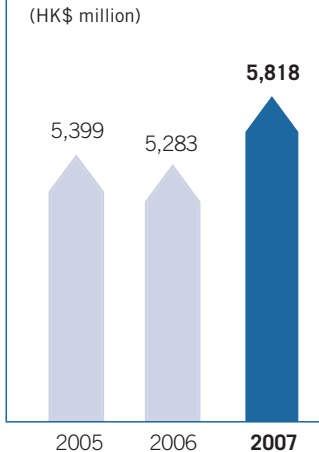
## Interest Coverage (EBITDA / Interest)



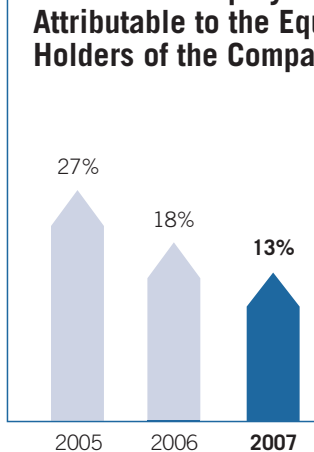
## Total Debt to Total Assets



## Total Debt (HK\$ million)



## Net Debt\* to Equity Attributable to the Equity Holders of the Company



\* Total debt less bank balances and cash, pledged bank balances and deposits and held-to-maturity debt securities

# 5-YEAR FINANCIAL SUMMARY

## Consolidated Results

(in HK\$ million)	Year ended 30th June				2007
	2003	2004	2005	2006	
Turnover	1,030	1,245	1,514	1,735	2,026
Profit before tax	567	770	980	1,260	1,529
Income tax expenses	(25)	(22)	(63)	(111)	(155)
Profit for the year	542	748	917	1,149	1,374
Attributable to:					
<b>Equity holders of the Company</b>	<b>531</b>	<b>733</b>	<b>899</b>	<b>1,128</b>	<b>1,349</b>
Minority interests	11	15	18	21	25
<b>Profit for the year</b>	<b>542</b>	<b>748</b>	<b>917</b>	<b>1,149</b>	<b>1,374</b>

## Consolidated Assets and Liabilities

(in HK\$ million)	As at 30th June				2007
	2003	2004	2005	2006	
Property and equipment	9,001	9,545	9,360	9,381	10,203
Additional investment cost in jointly controlled entities	1,900	1,861	1,815	1,763	1,706
Investment in toll expressway project under development	151	38	46	47	49
Prepaid lease payments	–	129	124	124	126
Balances with jointly controlled entities	859	1,088	1,095	1,167	806
Held-to-maturity debt securities	–	711	–	–	–
Current assets	421	1,905	2,954	3,594	4,534
<b>Total assets</b>	<b>12,332</b>	<b>15,277</b>	<b>15,394</b>	<b>16,076</b>	<b>17,424</b>
Current liabilities	(569)	(440)	(456)	(529)	(632)
Non-current liabilities	(10,301)	(5,541)	(5,370)	(5,211)	(5,853)
<b>Total liabilities</b>	<b>(10,870)</b>	<b>(5,981)</b>	<b>(5,826)</b>	<b>(5,740)</b>	<b>(6,485)</b>
Minority interests	(30)	(32)	(33)	(36)	(44)
<b>Equity attributable to equity holders of the Company</b>	<b>1,432</b>	<b>9,264</b>	<b>9,535</b>	<b>10,300</b>	<b>10,895</b>

## Earnings Per Share

(in HK cents)	2003	2004	2005	2006	2007
Basic	24.58	26.09	31.18	38.85	45.45
Diluted	N/A	26.05	30.98	38.63	45.43

## Financial Ratios

	2003	2004	2005	2006	2007
Net debt <sup>(1)</sup> to equity attributable to the equity holders of the Company <sup>(2)</sup>	98%	34%	27%	18%	13%
Return on equity attributable to the equity holders of the Company <sup>(2)</sup>	9%	8%	9%	11%	12%

Note: (1) Net debt is defined as total debt (including bank and other loans and balances with outside joint venture partners) less bank balances and cash, pledged bank balances and deposits and held-to-maturity debt securities.

(2) Assumed HK\$4,500 million of the amount due to holding company was capitalised for the year 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.



# CHAIRMAN'S STATEMENT

I am pleased to report that Hopewell Highway Infrastructure Limited continued to deliver impressive performance for the year ended 30th June, 2007, with profit attributable to equity holders of the Company rising to HK\$1,349 million, a 20% increase over the last financial year's HK\$1,128 million. Basic earnings per share increased to HK45.45 cents, a 17% rise over the last year's HK38.85 cents per share.

The satisfactory results were driven by the continued robust economic growth in the Pearl River Delta ("PRD") region which resulted in a 14% growth in the aggregate average daily traffic flow of the Group's expressways, the Guangzhou-Shenzhen Superhighway ("GS Superhighway") and the Phase I of the Western Delta Route ("Phase I West"), and also a 17% increase in the total toll revenue as compared to that of the last financial year. The average daily toll revenue of the Guangzhou East-South-West Ring Road ("ESW Ring Road") was about the same as last financial year.

The Board of Directors has recommended a final dividend of HK20 cents per share. Together with the interim dividend of HK15 cents per share, the dividend for the full year will be HK35 cents per share, a 23% increase as compared to HK28.5 cents for the last financial year. Subject to approval of the shareholders at the forthcoming annual general meeting to be held on 4th October, 2007, the proposed final dividend will be paid on or about 5th October, 2007 to shareholders as registered at the close of business on 4th October, 2007.

More emphasis to enhance the traffic management in order to improve service quality, efficiency and safety of the Group's expressways.



The Register of Members of the Company will be closed from Friday, 28th September, 2007 to Thursday, 4th October, 2007, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 27th September, 2007.

## Financial Status

The Group's financial position has been sound and solid during the financial year ended 30th June, 2007. Due to the continuing steady growth in traffic flow and toll revenue on the expressways, the Group's net toll revenue for the year ended 30th June, 2007 increased from HK\$1,735 million to HK\$2,026 million, up 17%.

Financial year	2006	2007	Growth Rate
<b>GS Superhighway</b>			
Average Daily Traffic (No. of vehicles '000)	270	<b>324</b>	20%
Average Daily Toll Revenue (RMB'000)	8,800	<b>10,035</b>	14%
<b>ESW Ring Road</b>			
Average Daily Traffic (No. of vehicles '000)	84	<b>81</b>	-4%
Average Daily Toll Revenue (RMB'000)	1,150	<b>1,149</b>	0%
<b>Phase I West</b>			
Average Daily Traffic (No. of vehicles '000)	23	<b>26</b>	13%
Average Daily Toll Revenue (RMB'000)	340	<b>376</b>	11%

In addition, the Group also benefited from the appreciation of the Renminbi given that 61% of the loans of the joint venture companies are in US Dollar. As a result, the Group recorded an exchange gain of HK\$236 million during the year.

The Group's balance sheet remained very strong. Net current assets reached HK\$3,902 million as at 30th June, 2007, a 27% increase over the HK\$3,065 million as at the last financial year end. Benefiting from the strong cash flow generated by its expressway projects, net gearing (total debt less bank balances and cash, pledged bank balances and deposits to total equity) for the financial year 2007 reduced to 13%, as compared to last financial year's 18%. Net cash from operating activities increased to HK\$1,758 million, a 20% rise over last year. As at 30th June, 2007, the Group had HK\$3.9 billion cash on hand and unutilized syndicated bank loan facility of HK\$3.6 billion. Such a solid financial position will definitely strengthen the Group's capabilities in capturing future investing opportunities.



# CHAIRMAN'S STATEMENT

GS Superhighway Changan Interchange





## Business Review and Outlook

The persistent and robust economic development of the Guangdong Province and the PRD region has generated both passenger and cargo flow, which resulted in large travelling demand. In addition, the continuous expansion of the PRD expressway network, improved standard of living of people in the region, substantial increase in car ownership, rapid growth in passenger and freight transportation and logistics industry also generate tremendous traffic demand in the region. The Group expects the stable growth in traffic flow and toll revenue and the increasing importance of the GS Superhighway and Phase I West will continue. At the same time, the growing economies will provide the Group with more commercial opportunities.

GS Superhighway has demonstrated consistent steady growth in traffic and toll revenue since its opening to traffic in 1994. Since mid-September 2006, Shenzhen authorities have restricted heavy trucks to run on some of its local roads which helped boost traffic of the GS Superhighway. With the continuous economic development of Guangdong Province and the rapid increase in car ownership, the Group believes that the traffic flow and toll revenue of GS Superhighway will maintain stable growth. To cater for the increasing traffic demand, the GS Superhighway joint venture company has been actively refining the feasibility of widening GS Superhighway to dual five-lane.

During the year under review, two local toll-free roads were opened which had diverted traffic from the ESW Ring Road.

On 9th August, 2007, a wholly-owned subsidiary of the Company entered into an agreement with one of the joint venture partners of the Guangzhou East-South-West Ring Road joint venture for the sale of its entire interest, including rights, duties and obligations in the Guangzhou East-South-West Ring Road joint venture, for a consideration of RMB1,712.55 million. Completion of the agreement is subject to approval of the transaction by the respective shareholders of the Company and Hopewell Holdings Limited (“HHL”), parent company of the Company, and the approval of the relevant PRC authorities within 180 days of the date of the agreement (or such other date as the parties may be mutually agreed).

In November 2006, a local toll-free road in Foshan, parallel to Phase I West, was opened. This has resulted in traffic diversion and slowed down the growth of Phase I West. The joint venture company has been taking measures to attract more traffic.

While the Central Government has implemented country-wide stricter control and approval policy on land use which make land acquisition and demolition more difficult and also prolong the time of land handover, the construction of Phase II of the Western Delta Route (“Phase II West”) has been proceeding and is currently planned to be completed by end of 2009.



# CHAIRMAN'S STATEMENT

GS Superhighway Taiping Interchange





The Group reached consensus with its PRC partner (also the PRC partner of the Phase I West and Phase II West) on the terms of investment, construction and operation of Phase III of the Western Delta Route (“Phase III West”). The preparation work for project approval’s application of Phase III West is underway. Upon the completion of the Western Delta Route, it will be a strategic expressway directly linking up Guangzhou and Zhuhai along the western bank of the PRD. According to the Outline Plan of the Eleventh Five-Year Plan on National Economic and Social Development, the Guangdong Government will accelerate the development in the western flank of the PRD. The Group believes that the Western Delta Route will benefit from the Plan.

During the year under review, the Group has put more emphasis to enhance the traffic management in order to improve service quality, efficiency and safety of its expressways. Manpower and equipment have been increased in road patrol, rescue and traffic control to enhance traffic safety and improve the efficiency and effectiveness in handling traffic accidents and meeting emergencies. As a result, the number of fatal in the accidents had been substantially reduced.

As reported in the media, feasibility studies on the Hong Kong-Zhuhai-Macau Bridge project have been substantially completed and the Central Government is highly supportive of the project. The Group is confident that it will be in an advantageous position to assume an important role in this project once it proceeds to the tendering stage.

### **Change of Director**

The Board welcomes Mr. Yuk Keung IP joining the Company as an Independent Non-Executive Director and a member of the Audit Committee with effect from 13th August, 2007. Mr. IP also serves as an Independent Non-Executive Director and a member of the Audit Committee of HHL with effect from the same date.

### **Appreciation**

I would like to take this opportunity to thank my fellow directors, senior management team, and all staff for their hard work, dedication and commitment in the past year. I would also like to thank all our shareholders, financiers and business partners for their continuous support and confidence in the Group which have contributed towards the Group’s success last year.

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

*Chairman*

Hong Kong, 21st August, 2007



# MANAGEMENT TEAM



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



**Mr. Eddie Ping Chang HO**  
Vice Chairman



**Mr. Thomas Jefferson WU**  
Managing Director

## PROFILE OF DIRECTORS

### Executive Directors

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

Aged 71, he has been the Chairman of the Board of the Company since July 2003. He is also the Chairman of Hopewell Holdings Limited (“Hopewell Holdings”), 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 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 and its subsidiaries in Hong Kong, the PRC and overseas, including the Shajiao B power plant which received the British Construction Industry Award and setting a world record of completion within 22 months. He is father of Mr. Thomas Jefferson WU, Managing Director of the Company.

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

#### **In Hong Kong**

- Member Commission on Strategic Development
- Member Hong Kong Logistics Development Council
- Vice President The Real Estate Developers Association of Hong Kong
- Member The Greater Pearl River Delta Business Council
- Patron Hong Kong Logistic Association
- Honorary Vice President Hong Kong Football Association Limited

#### **In the PRC**

- Deputy Director Chinese People’s Political Consultative Conference – Overseas Chinese Affairs Committee
- Director United Nations Association of China
- Invited Expert China Development Bank



**Mr. Alan Chi Hung CHAN**  
Deputy Managing Director



**Ir. Leo Kwok Kee LEUNG**  
Executive Director



**Mr. Lijia HUANG**  
Executive Director



**Mr. Cheng Hui JIA**  
Executive Director



**Mr. Barry Chung Tat MOK**  
Executive Director

Sir Gordon WU received Honorary Doctorate Degrees from Hong Kong Polytechnic University, University of Strathclyde, UK and University of Edinburgh, UK. He is a Fellow of The Institution of Civil Engineers, UK, The Chartered Institute of Logistics and Transport in Hong Kong and Hong Kong Academy of Engineering Sciences. He is also a 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. His other awards include:

#### Honorary Citizen

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

#### Awards and Honours

	Year of Award
• Officer de L'Ordre de la Couronne by HM Albert II, the King of Belgium	2007
• The Order of Croatian Danica with figure of Blaz Lorkovic by the Republic of Croatia	2007
• 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 Couronne by the King of Belgium	1985



# PROFILE OF DIRECTORS

## **Mr. Eddie Ping Chang HO**

Aged 74, he has been the Vice Chairman of the Company since July 2003 and is a director of various members of the Group. He is also the Vice Chairman and Managing Director of Hopewell Holdings and the Chairman of the Remuneration Committees of both the Company and Hopewell Holdings. He is responsible for the overall management of Hopewell Group. He has extensive experience in implementation of property development and major infrastructure strategic development projects and 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. He is an Honorary Citizen of the cities of Guangzhou, Foshan and Shenzhen, and the Shunde District in the PRC.

## **Mr. Thomas Jefferson WU**

Aged 34, an Executive Director of the Company since January 2003, he was appointed the Managing Director in July 2003. He is also the Co-Managing Director of Hopewell Holdings and a director of various members of the Group. 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 holds a Master of Business Administration degree from Stanford University and a Bachelor of Science degree in Mechanical and Aerospace Engineering from Princeton University. In 2006, the World Economic Forum selected Mr. WU as a "Young Global Leader". He is a member of the Huadu District Committee of The Chinese People's Political Consultative Conference and an Honorary Citizen of the City of Guangzhou in the People's Republic of China. Mr. WU is also a member of the Advisory Committee of the Securities and Futures Commission and acts as the Honorary Consultant of the Institute of Accountants Exchange, Honorary President of the Association of Property Agents and Realty Developers of Macau, Honorary President of the Association of Huadu in Macau, Honorary President of the Macau Ice Sports Federation, Chairman of Hong Kong Amateur Hockey Club Limited and Hong Kong Academy of Ice Hockey Limited, Vice Chairman of The Chamber of Hong Kong Listed Companies and an independent director of Melco PBL Entertainment (Macau) Limited. He is a son of Sir Gordon Ying Sheung WU, Chairman of the Board.

## **Mr. Alan Chi Hung CHAN**

Aged 48, he has been an Executive Director of the Company since January 2003 and was appointed the

Deputy Managing Director in July 2003. He is also a director of various members of the Group. He was awarded a Bachelor of Science degree from the Chinese University of Hong Kong in 1983 and a Postgraduate Diploma in Management Studies from the City University of Hong Kong in 1989. He is responsible for project coordination, project finance, management and administration of the expressway infrastructure and other projects of the Group in the PRC. He was an Executive Director of Hopewell Holdings during the period from 1st January, 2002 to 25th July, 2003.

## **Ir. Leo Kwok Kee LEUNG**

BSc, MSc, DIC, ACI Arb, CMLT, FHKIE, FStructE, FICE

Aged 48 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 is also a director of certain members of 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. In 1983, he was also 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. He was previously in-charge of the architecture, engineering and construction of all in-house projects for 10 years with Hopewell Holdings 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. In 2004, he was further awarded the PRC National Class 1 Registered Structural Engineers qualification. He serves as committee members to a number of Professional Institutions and he was the Chairman of the Hong Kong Branch of the Institution of Highways and Transportation (2006-2007).

## **Mr. Lijia HUANG**

Aged 65 and an Executive Director of the Company since 3rd July, 2003, he is responsible for overseeing the daily operation and management of Guangzhou-Shenzhen Superhighway and is also a director of various members of the Group. He joined Hopewell Holdings in 1996 and was responsible for the operations and management of the expressways in Guangdong Province. He was previously

the 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 66 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 the 18 years with Hopewell Holdings. 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. Barry Chung Tat MOK**

Aged 48, he was appointed an Executive Director of both the Company and Hopewell Holdings on 15th August, 2005. He has a Bachelor Degree in Economics/Accounting from the University of Reading, United Kingdom. He has extensive knowledge in corporate finance and project finance. He was previously the Chief Executive of BOCI Capital Limited.

## **Independent Non-Executive Directors**

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

Aged 65, he was appointed an Independent Non-Executive Director of the Company on 10th July, 2003 and is also a member of the Audit Committee of the Company. 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 currently 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 60, he was appointed an Independent Non-Executive Director of the Company on 10th July, 2003 and is also an Independent Non-Executive Director of Hopewell Holdings. He is the Chairman of the Audit Committees and a member of the Remuneration Committees of both the Company and Hopewell Holdings. He holds a certificate in management studies from Carnegie Mellon University of the United States

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 Chairman of its Investment Committee since July 2006.

### **Mr. Kojiro NAKAHARA**

Aged 66, he was appointed an Independent Non-Executive Director of the Company on 10th July, 2003 and is also a member of the Audit Committee of the Company. 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 various 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.

### **Dr. Gordon YEN**

Aged 37, he was appointed an Independent Non-Executive Director of the Company on 10th July, 2003 and is also a member of the Remuneration Committee of the Company. He was awarded a Bachelor of Manufacturing Engineering degree from Boston University, U.S. in 1990, a Master of Business Administration degree from McGill University, Canada in 1992 and a Doctorate degree in Business Administration from The Hong Kong Polytechnic University, Hong Kong in 2005. He is currently an Executive Director of Fountain Set (Holdings) Limited.

### **Mr. Yuk Keung IP**

Aged 55, he was appointed an Independent Non-Executive Director and a member of the Audit Committees of both the Company and Hopewell Holdings on 13th August, 2007. He holds a Master of Science Degree in Accounting and Finance from Carnegie-Mellon University, Master of Science Degree in Applied Mathematics from Cornell University and Bachelor of Science Degree (Summa Cum Laude) in Applied Mathematics and Computer Science in Washington University, St. Louis. He has 29 years of banking experience in New York, San Francisco and Hong Kong, mostly with Citigroup. Mr. IP retired from Citigroup in June 2007 after holding various senior positions in wealth management, transaction services, corporate banking, financial institutions, global relationship banking and real estate finance.



# MANAGEMENT DISCUSSION AND ANALYSIS

GS Superhighway Dongguan Section





An aerial photograph of a complex highway interchange with multiple overpasses and ramps. The surrounding area includes green fields, a river, and some industrial or commercial buildings. The sky is clear and blue.

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The persistent and robust economic development of the Guangdong Province and the Pearl River Delta region (the “PRD”) has generated both passenger and cargo flow, which resulted in large travelling demand. The expressway projects invested by the Group, namely, Guangzhou-Shenzhen Superhighway (“GS Superhighway”) and Phase I of the Western Delta Route (“Phase I West”) have recorded continued steady growth in both traffic flow and toll revenue during the year under review. The average daily toll revenue of the Guangzhou East-South-West Ring Road (“ESW Ring Road”) was about the same as last financial year. Compared to the last financial year, aggregate average daily traffic and aggregate average daily toll revenue of the expressways recorded increases of 14% and 12% to 431,000 vehicles and RMB11,560,000 respectively. Total toll revenue for the year reached RMB4,219 million. Benefiting from Shenzhen’s traffic restrictions on heavy trucks on certain of its local roads since mid-September 2006, GS Superhighway’s average daily toll revenue has exceeded RMB10 million.



**GS Superhighway Shenzhen Section**

While the Central Government has implemented country-wide stricter control and approval policy on land use which make land acquisition and demolition more difficult and also prolong the time of land handover, the construction of Phase II of the Western Delta Route (“Phase II West”) has been proceeding. The preparation work for project approval’s application of Phase III of the Western Delta Route (“Phase III West”) is underway. According to the Outline Plan of the Eleventh Five-Year Plan on National Economic and Social Development, the Guangdong Provincial Government will accelerate the development in the western flank of the PRD. The Group believes that the Western Delta Route will benefit from the Plan.

In addition, the continuing expansion of the PRD expressway network, improved standard of living of people in the region, substantial increase in car ownership, rapid growth in passenger and freight transportation and logistics industry also generate tremendous traffic demand in the region. The Group expects the stable growth in traffic flow and toll



revenue and the increasing importance of the GS Superhighway and Phase I West will continue. At the same time, these growing economies will provide the Group with more commercial opportunities.

Benefiting from the continuing Renminbi appreciation, the GS Superhighway joint venture company has recorded exchange gains on retranslation of the United States dollar bank loans. As at 30th June, 2007, the Group had HK\$3.9 billion cash on hand and unutilised syndicated bank loan facility of HK\$3.6 billion. Such a solid financial position will definitely strengthen the Group's capabilities in capturing future investment opportunities.

On 9th August, 2007, a wholly-owned subsidiary of the Company entered into an agreement with one of the joint venture partners of the Guangzhou East-South-West Ring Road joint venture for the sale of its entire interest, including rights, duties and obligations in the Guangzhou East-South-West Ring Road joint venture, for a consideration of RMB1,712.55 million. Completion of the agreement is subject to approval



**GS Superhighway Traffic Control Centre**

of the transaction by the respective shareholders of the Company and Hopewell Holdings Limited ("HHL"), parent company of the Company, and the approval of the relevant PRC authorities within 180 days of the date of the agreement (or such other date as the parties may mutually agree). The transaction is presently planned to be completed before the end of 2007.



# Guangzhou-Shenzhen Superhighway

## 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%



**G**S Superhighway is a 122.8 km long, closed system, fully lit dual three-lane expressway. It is currently the only expressway connecting Guangzhou, Shenzhen and Hong Kong. It is also the major artery

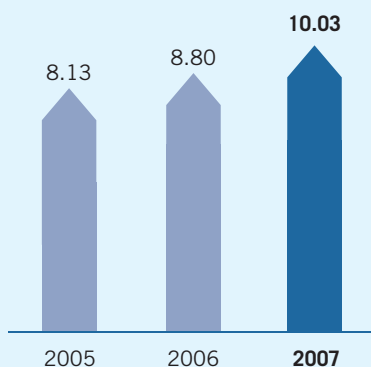
in the PRD highway network with connections to the Guangzhou Ring Road, Guangzhou Second Ring Road (northern section), Humen Bridge, Dongguan Changhu Expressway, Shenzhen Jihe Expressway, Shenzhen Nanping Expressway and also other major cities, ports and airports in the region. It has demonstrated consistent steady growth in traffic and toll revenue since its opening to traffic in 1994. Over the past financial year, GS Superhighway's average daily traffic rose 20% to 324,000 vehicles while its average daily toll revenue rose 14% to RMB10,035,000. The annual toll revenue increased to RMB3,663 million, representing an increase of 14% over the last year.

Since mid-September 2006, Shenzhen authorities have restricted heavy trucks to run on some of its local roads, requiring heavy trucks entering into the Huanggang Border Crossing to travel directly to GS Superhighway en route to other destinations. This arrangement helped boost traffic of the GS Superhighway.

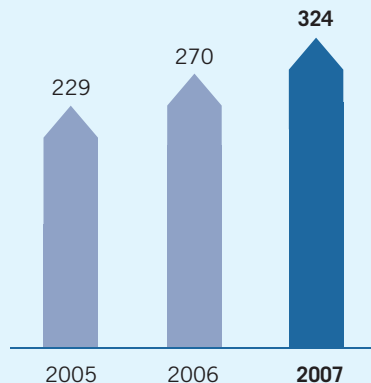
The joint venture company has persisted in upgrading its service standard and improving its ancillary facilities. Within the reporting year, the joint venture company has completed the expansion of its Huanggang, Futian, Nantou, Fuyong and Xinqiao toll stations. It has also completed the construction of its Nanping toll station. Moreover, to increase its traffic management capability,

## GS Superhighway Joint Venture

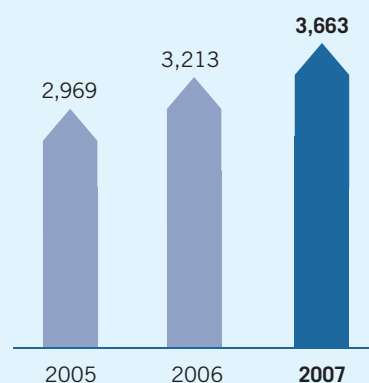
**Average Daily Toll Revenue**  
(RMB million)



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



**Annual Toll Revenue**  
(RMB million)



additional surveillance CCTVs were installed. Resources have also been deployed to enhance the safety facilities, strengthen the patrol and rescue services aiming to improve emergency handling efficiency and minimize traffic congestion caused by traffic accidents. As a result, the number of fatal in accidents had been substantially reduced. The joint venture company will continue to enhance the road patrol, rescue and traffic management in order to improve the traffic accident handling efficiency.

Starting from mid-July 2007, a section of the main alignment at the Machong interchange (southern direction) has temporarily been closed to effect repair and maintenance. As traffic management has been well organized to minimize inconvenience to road users, no significant impact on toll revenue of the GS Superhighway was observed.

As reported in the Interim Report, the joint venture company has agreed, subject to the approval of the Guangdong Provincial Government, to take up RMB725.14 million, a part of the additional investment of the Group incurred during the construction of the GS Superhighways, and such approval has now been obtained. The above will not have a material impact on the results of the operation of the Group.



Also, as reported in the Interim Report, due to difficulties in changing the original land use to utilize land parcels already acquired within the interchanges and along the GS Superhighway for property development, and that the operation of space under elevated sections for shops has primarily ceased for some time due to various constraints, the above two projects will not be further proceeded with by the joint venture company.

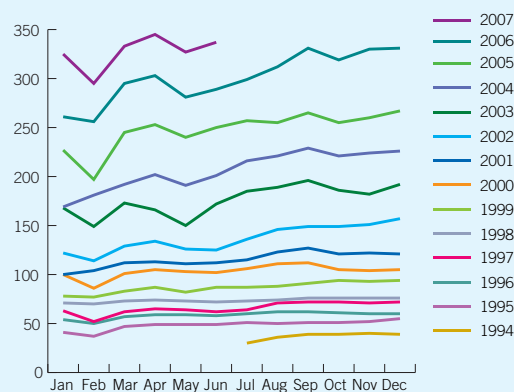
With the continuous economic development of Guangdong Province and the rapid increase in car ownership, the Group believes that the traffic flow and toll revenue of GS Superhighway will maintain stable growth. To cater for the increasing traffic demand, the joint venture company has been actively refining the feasibility of widening GS Superhighway to dual five-lane.

According to the joint venture contract, the Group's profit sharing ratio has been adjusted from 50% to 48% since 1st July, 2007.

## GS Superhighway Joint Venture

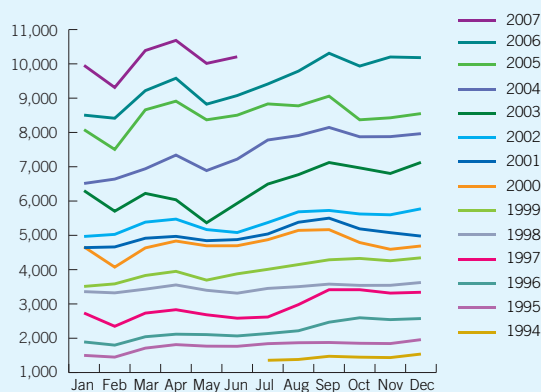
### Average Daily Traffic

(No. of vehicles in thousand)



### Average Daily Toll Revenue

(RMB thousand)





# Guangzhou East-South-West Ring Road

## PROJECT SUMMARY

Location	Guangzhou, Guangdong, PRC
Length	38 km
Lane	Dual three lane
Class	Expressway
JV Contractual Operation Period	Jan 2002 – Dec 2031
Net Cash Flow Sharing Ratio	Year 1-10 : 45.0% Year 11-20 : 37.5% Year 21-30 : 32.5%



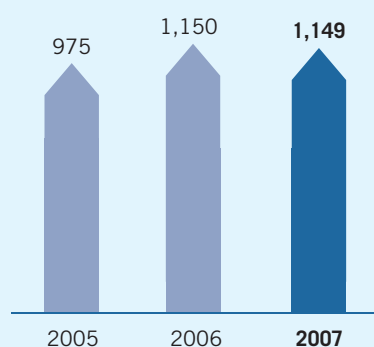
The ESW Ring Road is a 38 km long expressway, with connections to the GS Superhighway, Nansha Port Expressway, Phase I West, Guangfo Expressway, Guangzhou North Ring Road and the other major feeder roads of Guangzhou, creating a circular transportation artery surrounding the central part of Guangzhou. It serves an important function of relieving the inner city traffic pressure of Guangzhou and providing a speedy route for traffic to pass through Guangzhou en route to other destinations.

During the year under review, two local toll-free roads running parallel to a portion of the ESW Ring Road were opened which had diverted traffic from the ESW Ring Road.

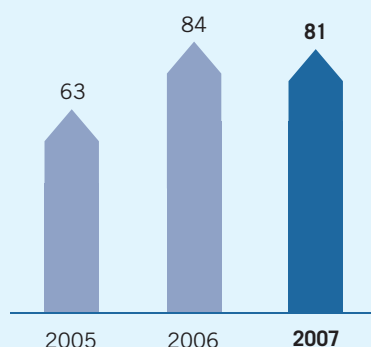
Over the past financial year, the average toll revenue was RMB1,149,000, maintaining at about the same level as the preceding financial year, whilst the average daily toll traffic decreased by 4% to 81,000 vehicles. The annual toll revenue was RMB419 million.

## ESW Ring Road Joint Venture

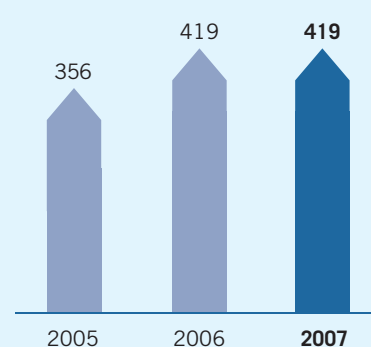
**Average Daily Toll Revenue**  
(RMB thousand)



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



**Annual Toll Revenue**  
(RMB million)





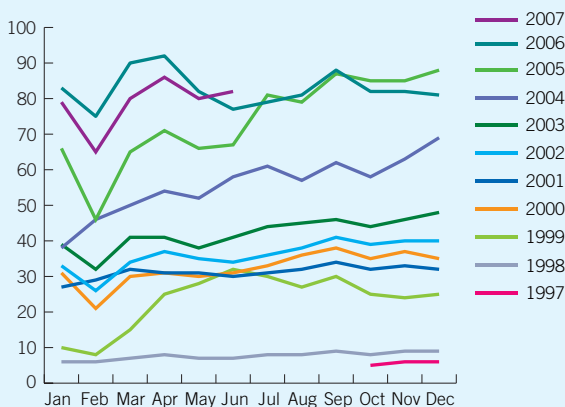
**ESW Ring Road Yajisha Bridge**

On 9th August, 2007, a wholly-owned subsidiary of the Company entered into an agreement with one of the joint venture partners of the Guangzhou East-South-West Ring Road joint venture for the sale of its entire interest, including rights, duties and obligations in the Guangzhou East-South-West Ring Road joint venture, for a consideration of RMB1,712.55 million.

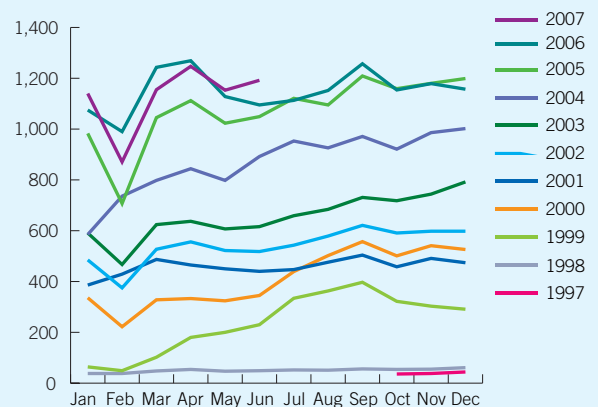
Completion of the agreement is subject to approval of the transaction by the respective shareholders of the Company and HHL, and the approval of the relevant PRC authorities within 180 days of the date of the agreement (or such other date as the parties may mutually agree). The transaction is presently planned to be completed before the end of 2007.

**ESW Ring Road Joint Venture**

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



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





# Phase I of the Western Delta Route

## PROJECT SUMMARY

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



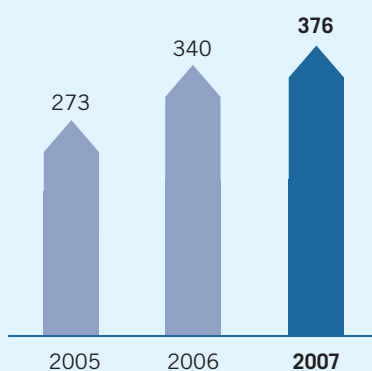
Phase I West is a 14.7 km closed system dual three-lane expressway. It has connections to the ESW Ring Road in the north and the National Highway 105 and Bigui Road of Shunde in the south. Currently, Phase I West is the only expressway linking Guangzhou and the Shunde District of Foshan.

In November 2006, a local toll-free road in Foshan, parallel to Phase I West was opened. This has resulted in traffic diversion and slowed down the growth of Phase I West. The joint venture company has taking measures to attract more traffic.

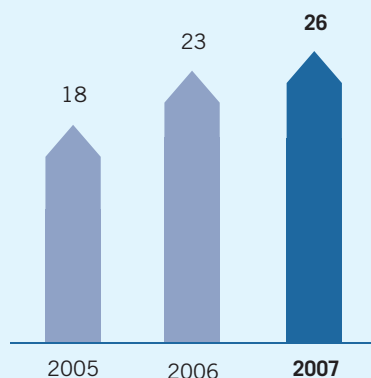
Over the past financial year, the average daily toll revenue of Phase I West grew 11% to RMB376,000, while the average daily traffic grew 13% to 26,000 vehicles. The annual toll revenue reached RMB137 million.

## Phase I West Joint Venture

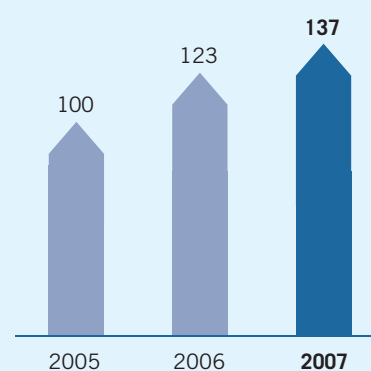
**Average Daily Toll Revenue**  
(RMB thousand)



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



**Annual Toll Revenue**  
(RMB million)



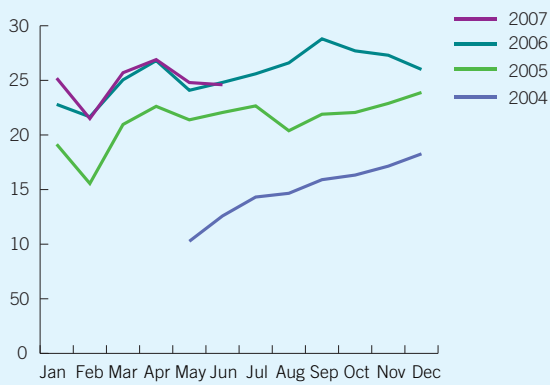


Phase I West

### Phase I West Joint Venture

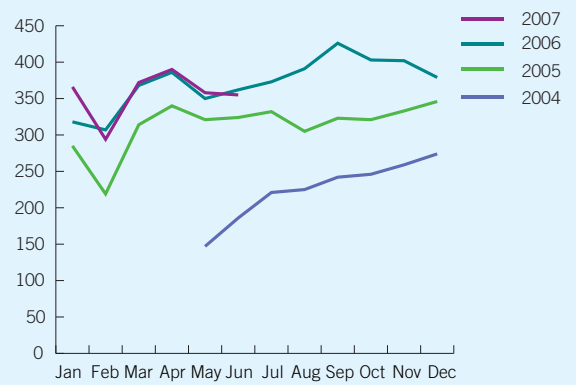
#### Average Daily Traffic

(No. of vehicles in thousand)



#### Average Daily Toll Revenue

(RMB thousand)





## Phase II and III of the 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 Co-operation Period	Apr 2007 – Sep 2038
Profit Sharing Ratio	50%

Phase III West	
Location	Zhongshan to Zhuhai, Guangdong, PRC
Length	Approx. 38 km
Lane	Dual three lane
Class	Expressway
JV Contractual Co-operation Period	Subject to the approval of the relevant PRC authorities
Profit Sharing Ratio	Proposed 50%



The Western Delta Route is to be constructed in three phases. Phase I West was completed and started operations in April 2004.

Phase II West will be a 46 km closed system dual three-lane expressway starting in the north from the Shunde end of Phase I West and extending southward to National Highway 105 and the proposed western expressway of Zhongshan. Upon completion, it will



be the only presently planned expressway linking Guangzhou to the central part of Zhongshan. While the Central Government has implemented country-wide stricter control and approval policy on land use which make land acquisition and demolition more difficult and also prolong the time of land handover, the construction of Phase II West has been proceeding and is currently planned to be completed by end of 2009.

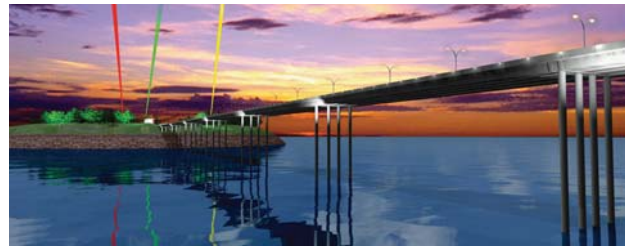
Phase III West will be a 38 km expressway starting in the north from the Zhongshan end of Phase II West and extending southward to Zhuhai. The total investment cost (excluding interest during construction period) is planned to be RMB3.6 billion. The Group reached consensus with its PRC partner (also the PRC partner of the Phase I West and Phase II West) on the terms of investment, construction and operation of the Phase III West. The preparation work for project approval's application of Phase III West is underway.

Upon the completion of the Western Delta Route, it will be a strategic expressway directly linking up Guangzhou and Zhuhai along the western bank of the PRD. According to the Outline Plan of the Eleventh Five-Year Plan on National Economic and Social Development, the Guangdong Government will accelerate the development in the western flank of the PRD. The Group believes that the Western Delta Route will benefit from the Plan.

# Hong Kong-Zhuhai-Macau Bridge Project



As reported in the media, feasibility studies on the Hong Kong-Zhuhai-Macau Bridge project have been substantially completed and the Central Government is highly supportive of the project. The Group is confident that it will be in an advantageous position to assume an important role in this project once it proceeds to the tendering stage.



## Others

### Employees and Remuneration Policies

As at 30th June, 2007, the Group employed 34 employees while the joint venture companies employed approximately 3,100 employees. We offer competitive remuneration packages to employees based on the prevailing market practices and individual performance. The Group also adopted share option scheme and share award scheme for the purposes of recognizing contributions by, and giving incentives to, the employees. Details of the schemes are set out in the Report of the Directors. The Group also provides medical and personal accident insurance coverage to all staff members. During the year, various staff events, such as Annual Dinner, Staff Appreciation Lunch, Bowling Night and

staff recreation and sports events, were organized to build closer relationship.

Training programs for improving employee productivity were conducted in the past year on an ongoing basis. They included elementary and intermediate Putonghua Courses which aimed at enhancing the communication skills with the Mainland staff and Red Cross First Aid Course which aimed at increasing safety awareness and accident prevention in the Group.

### Community Relations

During the year, the Group continued to support various community services and events such as Dress Casual Day, Walk for Millions, CHKLC Football Competition, Olympic Day Run, MTR Race Walking etc.



# FINANCIAL REVIEW

## Group Results

For the financial year ended 30th June, 2007, the net toll revenue of the Group increased 17% to HK\$2,026 million from HK\$1,735 million of the last corresponding year, mainly due to the rise in traffic flow of the Group's expressways in the People's Republic of China (the "PRC"). Of the total toll revenue, Guangzhou-Shenzhen Superhighway ("GS Superhighway") contributed 88% or HK\$1,777 million, whereas Guangzhou East-South-West Ring Road ("ESW Ring Road") and Phase I of the Western Delta Route ("Phase I West") contributed 9% or HK\$183 million and 3% or HK\$66 million respectively. The toll revenue increased HK\$291 million, of which GS Superhighway shared HK\$276 million, ESW Ring Road and Phase I West shared HK\$7 million and HK\$8 million respectively.

The Group's proportionately shared net toll revenue is set out as follows:

	Year ended 30th June	
	2006 HK\$ million	2007 HK\$ million
GS Superhighway	1,501	1,777
ESW Ring Road	176	183
Phase I West	58	66
	1,735	2,026

Total expenses for the financial year ended 30th June, 2007, including toll operation expenses, depreciation and amortisation charges, and general and administrative expenses increased 18% from HK\$525 million of the last corresponding year to HK\$622 million, mainly due to the increase in depreciation and amortisation charges. Under the Group's accounting policies, depreciation and amortisation charges of toll expressways and additional investment costs are calculated based on the ratio of actual traffic volume in the year compared to the total expected traffic volume over the remaining concession period of the respective jointly controlled entity, depreciation and amortisation charges increased HK\$61 million in the current financial year as a result of the strong growth of traffic flow.

Other income included a one-off adjustment on imputed interest income amounting to approximately HK\$66 million arising from repayment of interest-free shareholder's loan by Guangzhou E-S-W Ring Road Company Limited ("Ring Road JV"), a jointly controlled entity of the Group, in accordance with the applicable International Financial Reporting Standards ("IFRS"). Correspondingly, finance costs included a one-off adjustment on imputed interest expenses amounting to approximately HK\$139 million as a consequence of repayment of interest-free shareholders' loans by Ring Road JV to the joint venture partners of Ring Road JV, in accordance with applicable IFRS. The net financial impact arising on the above IFRS adjustments is to reduce the profit for the year amounting to approximately HK\$73 million.

Despite the IFRS adjustments on imputed interest income and expenses, the profit attributable to equity holders of the Company increased 20% to HK\$1,349 million from HK\$1,128 million of the last corresponding year, mainly due to robust growth in toll revenue, improvements in the yields on the Group's bank balances and benefits from Renminbi appreciation, including an exchange gain on retranslation of the United States dollar bank loans borrowed by a PRC jointly controlled entity.

## Liquidity and Financial Resources

The Group's total debt to total assets ratio and gearing ratio (net debt to equity attributable to the equity holders of the Company) were 33% (2006: 33%) and 13% (2006: 18%) respectively. The gearing structure is set out below:

	At 30th June	
	2006 HK\$ million	2007 HK\$ million
Total debt	5,283	<b>5,818</b>
Net debt <i>(Note)</i>	1,875	<b>1,470</b>
Total assets	16,076	<b>17,425</b>
Equity attributable to the equity holders of the Company	10,300	<b>10,895</b>
Total debt/Total assets	33%	<b>33%</b>
Net debt/Equity attributable to the equity holders of the Company	18%	<b>13%</b>

*Note: Net debt is defined as total debt less bank balances and cash together with pledged bank balances and deposits.*

At 30th June, 2007, the bank and other borrowings of the jointly controlled entities proportionately shared by the Group amounted to approximately HK\$5,215 million (2006: HK\$4,642 million) with the following profile:

- (a) 99.9% (2006: 98%) was bank loans and 0.1% (2006: 2%) was other loans; and
- (b) 61% (2006: 71%) was denominated in United States dollars, 29% (2006: 29%) was denominated in Renminbi and 10% (2006: Nil) was denominated in Hong Kong dollars.

The net current assets of the Group increased 27% from approximately HK\$3,065 million at 30th June, 2006 to approximately HK\$3,902 million at 30th June, 2007.

In October 2005, the Group obtained a 5-year unsecured syndicated bank revolving credit and term loan facility of HK\$3.6 billion and the facility was undrawn at 30th June 2006 and 2007.

In June 2007, Ring Road JV entered into agreements with PRC banks to obtain additional loans to finance repayment of substantially all of the outstanding shareholders' loans to the joint venture partners and the Group had received the repayment amounting to approximately HK\$673 million up to 30th June, 2007.

At 30th June, 2007, the Group has bank balances and cash of approximately HK\$3,904 million (2006: HK\$3,014 million), together with undrawn facility of HK\$3,600 million (2006: HK\$3,600 million), the Group's funding capabilities have been further strengthened for the planned and potential investment opportunities, including and in particular the Hong Kong-Zhuhai-Macau Bridge project.

## Warrants

The warrants of the Company carrying subscriptions 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 of HK\$4.18 per shares exercisable during the period from 6th August, 2003 to 5th August, 2006 ("Subscription Rights"). By the date of expiry, the Subscription Rights of HK\$357,499,863 (representing 98% of the aggregate Subscription Rights) were exercised by registered holders to convert into 85,526,283 shares of the Company.



## FINANCIAL REVIEW

### Debt Maturity Profile

The maturity profile of bank and other borrowings of the jointly controlled entities proportionately shared by the Group as at 30th June, 2007 as compared to that at 30th June, 2006 is shown as follows:

	At 30th June	
	2006	2007
Repayable within 1 year	6%	4%
Repayable between 1 to 5 years	22%	25%
Repayable beyond 5 years	72%	71%

Other than the above, the Group has no other bank borrowings both at 30th June, 2006 and 2007. Bank borrowings of the jointly controlled entities carry floating interest rates.

### Interest Rate and Exchange Rate Exposures

There have been no significant changes in the Group's policy in terms of interest rate and exchange rate exposures. Neither the Group nor the jointly controlled entities have any financial derivative instruments to hedge the interest rate or foreign currency exchange rate exposures. The cash dividends received from the Group's jointly controlled entities are settled in Hong Kong dollars whereas the Group's expenses are mainly in Hong Kong dollars. In addition, substantial portion of bank borrowings of a jointly controlled entity is denominated in United States dollars which generated an exchange gain upon retranslation of such United States dollars bank borrowings.

### Treasury Policies

The Group continues to adopt conservative treasury policies in financial and funding management. Its liquidity and financial resources are reviewed on a regular basis to minimise the cost of funding and enhance the return on financial assets. Cash is generally placed in short-term deposits denominated in United States dollars and Hong Kong dollars.

### Capital Commitments

During the year ended 30th June, 2007, the Group had made capital contribution to Guangdong Guangzhou-Zhuhai West Superhighway Company Limited ("West Route JV"), a jointly controlled entity of the Group, for development of the Phase II of the Western Delta Route amounting to approximately HK\$179 million. At 30th June, 2007, the Group had outstanding commitments to make capital contribution to West Route JV totalling approximately HK\$700 million (2006: HK\$833 million).

At 30th June, 2007, the Group had agreed, subject to the approval of the relevant authorities, to make capital contribution to West Route JV for development of the Phase III of the Western Delta Route totalling approximately HK\$585 million (2006: HK\$555 million).

At 30th June, 2007, GS Superhighway JV, Ring Road JV and West Route JV had outstanding commitments proportionately shared by the Group in respect of acquisition of property and equipment, and construction of the Phase II of the Western Delta Route contracted but not provided for totalling approximately HK\$1,426 million (2006: HK\$19 million).

## Charges on Assets

At 30th June, 2007, certain assets of the jointly controlled entities of the Group were pledged to banks to secure general banking facilities granted to the jointly controlled entities. The carrying amounts of these assets are analysed as follows:

	At 30th June	
	2006 HK\$ million	2007 HK\$ million
Toll expressways	6,942	6,973
Prepaid lease payments	84	85
Bank balances and deposits	358	393
Other assets	176	231
	7,560	7,682

At 30th June, 2006 and 2007, the toll collection right of GS Superhighway JV was pledged to banks to secure general banking facilities granted to the jointly controlled entity. In addition, 90% (2006: 90%) and 65% (2006: 65%) of the toll collection rights of Ring Road JV and West Route JV respectively were pledged to banks to secure general banking facilities granted to the respective jointly controlled entities.

## Contingent Liabilities

At 30th June, 2007, there was no material contingent liabilities for the Group since 30th June, 2006.

## Material Acquisition or Disposal

During the year ended 30th June 2007, there was no material acquisition or disposal of the Company's subsidiaries or associated companies.

## Post Balance Sheet Event

On 9th August, 2007, the Group entered into an agreement with the PRC joint venture partner of Ring Road JV pursuant to which the Group agreed to sell, and the PRC partner of Ring Road JV agreed to purchase, the entire 45% interest of the Group in Ring Road JV and other rights, duties and obligations in the ESW Ring Road project for a consideration of RMB1,712.55 million. The completion of the agreement is subject to the approval by the shareholders of the Company and Hopewell Holdings Limited, the ultimate holding company, and relevant PRC authorities within 180 days of the date of the agreement (or such other date as may be mutually agreed).

Such disposal transaction constituted a disclosable and connected transaction of the Group. Details of the disposal can be referred to the announcement of the Company and Hopewell Holdings Limited dated 9th August, 2007.



# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

The Company is committed to the principles of corporate governance and corporate responsibility consistent with prudent management. It is the belief of the Board of Directors (the “Board”) that such commitment will in the long term serve to enhance shareholders’ value. The Board has set up procedures on corporate governance that comply with the requirements of the Code on Corporate Governance Practices (the “CG-Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Throughout the year ended 30th June, 2007, the Company has complied with all code provisions set out in the CG-Code.

## Board of Directors

The Company is managed through the Board which currently comprises of eight Executive Directors (including the Chairman) and five Independent Non-Executive Directors. The names and biographical details of the Directors, and the relationship amongst them, if any, are set out on pages 10 to 13 of this Annual Report.

The Board is responsible for setting the strategic direction and policies of the Group and supervising the management. Some functions including, inter alia, the monitoring and approval of material transactions, matters involving a conflict of interest for a substantial shareholder or Director of the Company, the approval of the interim and final results, other disclosures to the public or regulators and the internal control system are reserved by the Board and the decisions relating to such matter shall be subject to the decision of the Board. Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the respective Directors and the leadership of the Managing Director.

There are agreed procedures for the Directors, upon reasonable request, to seek independent professional advice at the Company’s expense in appropriate circumstances.

Sir Gordon Ying Sheung WU served as Chairman of the Board throughout the year and is responsible for providing leadership and management of the Board. The role of the Chairman is separated from that of the Managing Director. Mr. Thomas Jefferson WU (son of Sir Gordon Ying Sheung WU), Managing Director, is responsible for the day-to-day management of the business of the Company. The division of the responsibilities between the Chairman and the Managing Director has been established and clearly set out in writing.

Independent Non-Executive Directors are selected with the necessary skills and experience to provide strong independent element on the Board and to exercise independent judgement. At least one of the Independent Non-Executive Directors has appropriate professional qualifications or accounting or related financial management expertise as provided under Rule 3.10 of the Listing Rules. The Board has received from each Independent Non-Executive Director a written annual confirmation of independence. All the Independent Non-Executive Directors meet the independence criteria set out in Rule 3.13 of the Listing Rules.

In accordance with the Company's Articles of Association, all newly appointed Directors shall hold office until the next following general meeting of the Company after their appointment and shall then be eligible for re-election. Every Director shall retire at the conclusion of the annual general meeting of the Company held in the third year following the year of his last appointment by the Board, election or re-election, and shall be eligible for re-election subject to the provisions of the Articles of Association. All Independent Non-Executive Directors are appointed for a specific term of three years and are subject to retirement from office and re-election at least once every three years.

The Board regularly reviews the plans for orderly succession for appointments to the Board and its structure, size and composition. If the Board considers that it is necessary to appoint new Director(s), it will set down the relevant appointment criteria which may include, where applicable, the background, experience, professional skills, personal qualities, availability to commit to the affairs of the Company and, in case of Independent Non-Executive Director, the independence requirements set out in the Listing Rules from time to time. Nomination of new Director will normally be made by the Chairman and/or Managing Director and subject to the Board's approval. External consultants may be engaged, if necessary, to access a wider range of potential candidate(s). On 13th August, 2007, Mr. Yuk Keung IP was appointed as an Independent Non-Executive Director of the Company.

The Company has arranged appropriate insurance cover in respect of legal action against the Directors and officers.

### **Board Committees**

The Board has established a Committee of Executive Directors in September 2004 with delegated authority for reviewing and approving the day to day business operations and ordinary and usual course of business of the Company. This committee comprises all the Executive Directors of the Company.



# CORPORATE GOVERNANCE REPORT

The Company has also established the Audit Committee and the Remuneration Committee to deal with the following specific matters in the interest of all shareholders in an objective manner. Members of these 2 Board Committees comprise, except for the Chairman of the Remuneration Committee, entirely of Independent Non-Executive Directors.

	<b>Audit Committee</b>	<b>Remuneration Committee</b>
<i>Committee members</i>	Mr. Lee Yick NAM* (Chairman) Mr. Philip Tsung Cheng FEI* Mr. Kojiro NAKAHARA* Mr. Yuk Keung IP* (Appointed on 13th August, 2007)	Mr. Eddie Ping Chang HO# (Chairman) Mr. Lee Yick NAM* Dr. Gordon YEN*
<i>Major responsibilities and functions</i>	<ul style="list-style-type: none"> <li>Consider the appointment and independence of external auditors.</li> <li>Review and supervise the Group's financial reporting process, internal control and compliance.</li> <li>Review and monitor the interim and annual financial statements before submission to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>Assist the Board for development and administration of the policy and procedure on the remuneration of the Directors and senior management of the Company.</li> </ul>
<i>Work performed during the year</i>	<ul style="list-style-type: none"> <li>Considered and approved the terms of engagement of the external auditors including audit fee.</li> <li>Reviewed the annual financial statements for the year ended 30th June, 2006 and the interim financial statements for the six months ended 31st December, 2006.</li> <li>Reviewed the work performed by the Internal Audit Department and the Group's internal control system.</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed and make recommendations to the Board on bonus.</li> <li>Reviewed the level of Directors' fees for the year.</li> <li>Reviewed and approved the grant of share awards to the directors under the Share Award Scheme.</li> </ul>

# Executive Director

\* Independent Non-Executive Director

## Attendance at Meetings

The attendance records of the Directors at Board Meetings, Audit Committee Meetings, Remuneration Committee Meetings and Annual General Meeting are as follows:

	<i>Number of meetings attended / held</i>			
	<i>Board Meetings</i>	<i>Audit Committee Meetings</i>	<i>Remuneration Committee Meetings</i>	<i>Annual General Meeting</i>
<i>Number of meetings held</i>	5	2	2	1
<b>Executive Directors</b>				
Sir Gordon Ying Sheung WU GBS, KCMG, FICE <i>(Chairman)</i>	3 out of 5	N/A	N/A	1 out of 1
Mr. Eddie Ping Chang HO <i>(Remuneration Committee Chairman)</i>	4 out of 5	N/A	2 out of 2	1 out of 1
Mr. Thomas Jefferson WU	4 out of 5	N/A	N/A	1 out of 1
Mr. Alan Chi Hung CHAN	4 out of 5	N/A	N/A	1 out of 1
Mr. Leo Kwok Kee LEUNG	5 out of 5	N/A	N/A	1 out of 1
Mr. Lijia HUANG	4 out of 5	N/A	N/A	0 out of 1
Mr. Cheng Hui JIA	4 out of 5	N/A	N/A	1 out of 1
Mr. Barry Chung Tat MOK	5 out of 5	N/A	N/A	1 out of 1
<b>Independent Non-Executive Directors</b>				
Mr. Philip Tsung Cheng FEI	5 out of 5	2 out of 2	N/A	1 out of 1
Mr. Kojiro NAKAHARA	4 out of 5	2 out of 2	N/A	1 out of 1
Mr. Lee Yick NAM <i>(Audit Committee Chairman)</i>	5 out of 5	2 out of 2	2 out of 2	1 out of 1
Dr. Gordon YEN	5 out of 5	N/A	2 out of 2	1 out of 1
Mr. Yuk Keung IP <i>(Appointed on 13th August, 2007)</i>	N/A	N/A	N/A	N/A

## Remuneration Policy

The Company recognizes the need to implement a competitive remuneration policy in order to attract, retain and motivate the Directors and senior management to achieve the corporate targets. The remuneration package of the Executive Directors comprises of some fixed elements: basic salary, provident fund contribution and other benefits including insurance cover, as well as bonus, share options and share awards which are performance related elements. No Director is allowed to approve his own remuneration.

The fixed elements of the Executive Directors' remuneration are reviewed annually and will take into account the job nature, responsibilities, experience and performance of the individual as well as prevailing market salary practices. Directors' fees for the current financial year had been approved by the shareholders at the last Annual General Meeting of the Company held on 19th October, 2006.



# CORPORATE GOVERNANCE REPORT

## Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by the Company’s Directors and relevant employees who are or may be in possession of unpublished price sensitive information. Based on the specific enquiry made, all Directors have confirmed that they have complied fully with the Model Code throughout the year.

## Financial Reporting

The Directors recognize their responsibility for preparing the financial statements of the Group. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company’s ability to continue as a going concern.

The responsibilities of the auditors with respect to the financial reporting are set out in the Independent Auditor’s Report on page 50 of this Annual Report.

## External Auditors

The Company’s external auditors are Deloitte Touche Tohmatsu. They are responsible for auditing and forming an independent opinion on the annual financial statements. The independence of the external auditors is monitored by the Audit Committee which is also responsible for making recommendations to the Board on the appointment of the external auditors as well as approving their terms of engagement including their fees. Apart from the statutory audit of the annual financial statements, Deloitte Touche Tohmatsu was also engaged to perform a review on the interim financial statements of the Company for the six months ended 31st December, 2006 as well as advising on tax compliance and related matters. During the year ended 30th June, 2007, the fees payable by the Group to the external auditors in respect of audit and non-audit services (including the amount payable by the jointly controlled entities proportionately shared by the Group) were as follows:

	HK\$'000
Audit services	1,664
Non-audit services:	
Tax compliance services	99
Others	688
	2,451

## Internal Controls

The Board is of the opinion that a sound internal control system will contribute to the effectiveness and efficiency of operations, the reliability of financial reporting and the Group’s compliance with applicable laws and regulations and will assist the Board in the management of any failure to achieve business objective.

The Group's internal control procedures include a comprehensive system for reporting information to the division head of each business unit and the Executive Directors.

Business plans and budgets are prepared annually by the management of each business unit and are subject to review and approval by the Executive Directors. Plans and budgets are reviewed on a quarterly basis to measure actual performance against the budget. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. Different guidelines and procedures have been established for the approval and control of operating expenditures, capital expenditures and the unbudgeted expenditures and acquisitions.

The Executive Directors review monthly management reports on the financial results and key operating statistics of each unit and hold periodical meetings with the senior management of each business unit and the finance team to review these reports, discuss business performance against budgets, forecasts and market conditions, and to address accounting and finance related matters.

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. Evaluation of the Group's internal control is independently conducted by the Internal Audit Department on an on-going basis. Internal Audit Department reports to the Audit Committee at least twice every year on significant findings on internal controls.

For the year under review, the Board has through the Audit Committee reviewed the effectiveness of the Group's internal control system.

## **Investor Relations**

The Company places great emphasis on the effective communication with investors. It has disclosed information accurately and swiftly, and in strict compliance with relevant requirements. During the year under review, the Company has further strengthened its relationship with investors through active participation in various investment conferences, regular meetings with analyst and investors, teleconferences and press conferences. Through these activities, shareholders and investors can gain a better understanding of the Company's existing operations and strategic developments.

In order to enhance the effectiveness of communication with investors, updated information is available on the Company's website [www.hopewellhighway.com](http://www.hopewellhighway.com). These include traffic and toll revenue statistics and other data of the Company's toll road projects, company announcement, press release as well as interim and annual reports, which are posted on the website promptly.

The Company will continue to devote effort in upholding a close relationship with investors and shareholders. With the dynamic investor relations program in place, the Company aims at maintaining effective communications with the market and thus maximizing the shareholder value.



# 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, 2007.

## Principal Activities

The principal activity of the Group 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. The principal activity of the Company is investment holding.

## Results

The results of the Group for the year ended 30th June, 2007 are set out in the Consolidated Income Statement on page 51.

## Dividends

The Directors recommend the payment of a final dividend of HK20 cents (2006: HK17 cents) per share which, together with the interim dividend of HK15 cents (2006: HK11.5 cents) per share paid on 23rd March, 2007, will result in total dividends for the year of HK35 cents (2006: HK28.5 cents) per share.

## 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 16 to 25.

## Share Capital

Particulars of share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

## Warrants

Particulars of warrants of the Company during the year are set out in note 23 to the consolidated financial statements.

## Reserves

Movements in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity and note 24 to the consolidated financial statements.

## **Fixed Assets**

Movements in property and equipment of the Group during the year are set out in note 15 to the consolidated 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 Securities**

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the securities of the Company during the year.

## **Directors and Senior Management**

The Directors of the Company and their profiles as at the date of this report are listed on pages 10 to 13 of the annual report. Mr. Yuk Keung IP was appointed as an Independent Non-Executive Director of the Company on 13th August, 2007.

In accordance with the Company's Articles of Association, Sir Gordon Ying Sheung WU, Mr. Eddie Ping Chang HO, Mr. Thomas Jefferson WU, Mr. Alan Chi Hung CHAN and Mr. Yuk Keung IP will retire at the forthcoming annual general meeting and, being eligible, offered themselves for re-election.

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

## **Qualified Accountant**

Mr. Kenneth Kwok Keung LEUNG, aged 44, Qualified Accountant, joined the Company as Financial Controller in September 2004. He is responsible for overseeing the financial management and accounting functions of the Group. He obtained a bachelor degree in accountancy from the City University of Hong Kong and a degree in Bachelor of Laws from Tsinghua University. He is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate of the Institute of Chartered Accountants in England and Wales.



# REPORT OF THE DIRECTORS

## Directors' Interest in Contracts of Significance

No contract of significance in relation to the Group's business 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, 2007, 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 of Hong Kong Limited (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				Awarded shares <sup>(iv)</sup>	Total interests	% of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests <sup>(ii)</sup> (interests of controlled corporation)	Other interests			
Gordon Ying Sheung WU	6,249,402	2,491,000	10,124,999	3,068,000 <sup>(iii)</sup>	–	21,933,401	0.74%
Eddie Ping Chang HO	1,824,046	136,554	205,000	–	–	2,165,600	0.07%
Thomas Jef rson WU	5,657,000	–	82,000	–	–	5,739,000	0.19%
Alan Chi Hung CHAN	140,000	–	–	–	280,000	420,000	0.01%
Leo Kwok Kee LEUNG	100,000	–	–	–	200,000	300,000	0.01%
Kojiro NAKAHARA	1,067	–	–	–	–	1,067	0.00%
Cheng Hui JIA	100,000	–	–	–	200,000	300,000	0.01%

Notes:

- (i) All interests in the shares of the Company were long positions. None of the Directors or chief executives held any short position in the shares of the Company.
- (ii) The 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.
- (iii) The other interests in 3,068,000 shares represented the interests held jointly by Sir Gordon Ying Sheung WU ("Sir Gordon WU") and his wife Lady Ivy Sau Ping KWOK WU ("Lady Ivy WU").
- (iv) The interests in awarded shares represented interests of awarded shares granted to Directors under the Employees' Share Award Scheme of the Company adopted on 25th January, 2007 but not yet vested, details of which are set out below :

Directors	Date of award	Number of awarded shares	Vesting date
Alan Chi Hung CHAN	25/01/2007	140,000 140,000	25/01/2008 25/01/2009
Leo Kwok Kee LEUNG	25/01/2007	100,000 100,000	25/01/2008 25/01/2009
Cheng Hui JIA	25/01/2007	100,000 100,000	25/01/2008 25/01/2009

## (B) Associated Corporation

Hopewell Holdings Limited (“HHL”)

Directors	HHL Shares				HHL share options <sup>(iii)</sup>	Awarded shares <sup>(iv)</sup>	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	74,683,032	21,910,000	111,250,000	30,680,000 <sup>(ii)</sup>	–	–	238,523,032	26.52%
Eddie Ping Chang HO	25,023,462	1,365,538	2,050,000	–	–	–	28,439,000	3.16%
Thomas Jefferson WU	27,840,000	–	820,000	–	–	–	28,660,000	3.19%
Kojiro NAKAHARA	10,671	–	–	–	–	–	10,671	0.00%
Lee Yick NAM	90,000	–	–	–	–	–	90,000	0.01%
Alan Chi Hung CHAN	585,000	–	–	–	–	–	585,000	0.07%
Cheng Hui JIA	241,000	–	–	–	–	–	241,000	0.03%
Barry Chung Tat MOK	200,000	–	–	–	2,000,000	100,000	2,300,000	0.26%

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 other interests in 30,680,000 HHL Shares represented the interest held by Sir Gordon WU jointly with Lady Ivy WU.
- (iii) The interests in HHL share options represented HHL share options granted under the share option scheme of HHL adopted on 1st November, 2003 to subscribe for HHL Shares, details of which are set out below:

Director	Date of grant	Exercise price per share HK\$	Number of outstanding options	Exercise period
Barry Chung Tat MOK	02/09/2005	19.94	2,000,000	02/03/2006 – 01/03/2009

- (iv) The interests in awarded shares represented interests of awarded shares granted to Directors under the HHL Employees' Share Award Scheme adopted on 25th January, 2007 but not yet vested, details of which are set out below:

Director	Date of award	Number of awarded shares	Vesting date
Barry Chung Tat MOK	25/01/2007	50,000	25/01/2008
		50,000	25/01/2009

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



# REPORT OF THE DIRECTORS

Save as aforesaid, as at 30th June, 2007, 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.

## Retirement and Pension Plan

To comply with the statutory requirements of the Mandatory Provident Fund (“MPF”) Schemes 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\$325,000.

## Share Options

- (A) 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 Option Scheme will expire on 15th July, 2013. A summary of some of the principal terms of the Option Scheme is set out in (B) below.
- (B) 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 277,000,000 shares (representing 9.3% 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 at its absolute discretion and shall expire not later than 10 years after the date of grant. Unless otherwise determined by the Board of Directors of the Company and specified in the offer letter at the time of the offer, there is no minimum period for which an option must be held before the option can be exercised. 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.

# REPORT OF THE DIRECTORS

(C) Details of the movement of share options under the Option Scheme during the year ended 30th June, 2007 were as follows:

	Date of grant	Number of share options					Exercise period	Closing price before date of grant falling within the year HK\$
		Exercise price HK\$	Outstanding at 01/07/2006	Granted during the year	Exercised during the year	Outstanding at 30/06/2007		
<b>Director</b>								
Leo Kwok Kee LEUNG	08/09/2004	4.875	2,000,000	–	2,000,000	–	08/09/2004 - 07/09/2007	N/A
<b>Employee</b>								
	08/09/2004	4.875	400,000	–	400,000	–	08/09/2004 - 07/09/2007	N/A
<b>Employees</b>								
	17/10/2006	5.858	–	6,200,000	–	6,200,000	01/12/2007 - 30/11/2013	5.71
<b>Total</b>			<b>2,400,000</b>	<b>6,200,000</b>	<b>2,400,000</b>	<b>6,200,000</b>		

No options were cancelled or lapsed during the year.

The weighted average closing prices of the shares on the dates immediately before the dates on which the options were exercised by Mr. Leo Kwok Kee LEUNG and the employee of the Company during the year were HK\$7.36 and HK\$6.61 respectively.

The options granted on 8th September, 2004 are exercisable from the date of grant while the options granted on 17th October, 2006 are exercisable in the following manner:

Maximum options exercisable	Exercisable period
20% of options granted	01/12/2007 - 30/11/2008
40% of options granted*	01/12/2008 - 30/11/2009
60% of options granted*	01/12/2009 - 30/11/2010
80% of options granted*	01/12/2010 - 30/11/2011
100% of options granted*	01/12/2011 - 30/11/2013

\* Including those not previously exercised.

The fair value of the share options granted during the year with the exercise price per share of HK\$5.858 is estimated at approximately HK\$5,814,000 at the date of grant using the Binomial option pricing model. The value is estimated based on the share price of HK\$5.700 per share at the grant date, the historical volatility of share price of the Company of 23% which is based on rolling two-year volatility of the Company's share price over last three years, expected life of options of 6.4 – 6.9 years, expected dividend yield of 4.75%, and the risk-free rate of 3.969% with reference to the rate on the 7-year Exchange Fund Notes.



The Binomial option pricing model was developed for use in estimating the fair value of traded option. Such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the characteristics of the options granted during the year are significantly different from those of publicly traded options and changes in the subjective inputs may materially affect the fair value estimate, the Binomial option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

## Share Awards of the Company

- (A) The Share Award Scheme (the “Award Scheme”) was adopted by the Board on 25th January, 2007 (“Adoption Date”). Unless terminated earlier by the Board, the Award Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date, provided that no new award shall be granted on or after the 10th anniversary of the Adoption Date. A summary of some of the principal terms of the Award Scheme is set out in (B) below.
- (B) The purpose of the Award Scheme is to recognize the contributions by certain employees (including without limitation employees who are also directors) of the Group and to give incentive in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

Under the Award Scheme, the Board (or where the relevant selected employee is a director of the Company, the Remuneration Committee) may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit select an employee for participation in the Scheme and determine the number of shares to be awarded. The Board shall not grant any award of shares which would result in the total number of shares which are the subject of awards granted by the Board under the Scheme (but not counting any which have lapsed or have been forfeited) representing in aggregate over 10% of the issued share capital of the Company as at the date of such grant.

- (C) A total of 1,940,000 shares have been awarded to the following 5 employees during the year ended 30th June, 2007 subject to the terms of the Award Scheme and the condition that such selected employees shall not dispose of awarded shares in the 12-month period commencing on the vesting date thereof. No awarded shares lapsed during the year ended 30th June, 2007.

<i>Name of selected employee</i>	<i>Date of award</i>	<i>Number of awarded shares</i>	<i>Vesting date</i>
Thomas Jefferson WU	25/01/2007	800,000	25/01/2007
Alan Chi Hung CHAN	25/01/2007	140,000	25/01/2007
		140,000	25/01/2008
		140,000	25/01/2009
Leo Kwok Kee LEUNG	25/01/2007	100,000	25/01/2007
		100,000	25/01/2008
		100,000	25/01/2009
Cheng Hui JIA	25/01/2007	100,000	25/01/2007
		100,000	25/01/2008
		100,000	25/01/2009
Employee of the Group	25/01/2007	40,000	25/01/2007
		40,000	25/01/2008
		40,000	25/01/2009

# REPORT OF THE DIRECTORS

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

Save as disclosed in the previous sections headed “Share Options” and “Share Awards of the Company”, at no time during the year ended 30th June, 2007 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.

## **Directors’ Remuneration**

The Directors’ fees are determined by shareholders at the annual general meeting and the other emoluments payable to Directors are determined by the Board of Directors with reference to the prevailing market practice, the Company’s remuneration policy, the Directors’ duties and responsibilities within the Group and contribution to the Group.

## **Service Contracts of Directors**

No director 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 from office and re-election at the annual general meetings of the Company in accordance with the Company’s Articles of Association.

## **Management Contracts**

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

## Substantial Shareholders

As at 30th June, 2007, 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:

<b>Name</b>	<b>Capacity</b>	<b>Number of shares (corporate interests)</b>	<b>% of issued share capital</b>
Anber Investments Limited	Beneficial owner	2,160,000,000 <sup>(A)</sup>	72.72%
Delta Roads Limited	Interests of controlled corporation	2,160,000,000 <sup>(A)</sup>	72.72%
Dover Hills Investments Limited	Interests of controlled corporation	2,160,000,000 <sup>(A)</sup>	72.72%
Supreme Choice Investments Limited	Interests of controlled corporation	2,160,000,000 <sup>(A)</sup>	72.72%
Hopewell Holdings Limited	Interests of controlled corporation and Beneficial owner <sup>(B)</sup>	2,161,391,000 <sup>(B)</sup>	72.77%

*Notes:*

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

(B) 1,391,000 shares were held as beneficial owner and the remaining 2,160,000,000 shares were held through interests of controlled corporations referred to in Note (A).

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, 2007.

## Pre-emptive Rights

There is 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.

## Confirmation on Independence

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and still considers such Directors to be independent.



# REPORT OF THE DIRECTORS

## Connected Transactions

### (A) Management Agreement with Nan Yue

On 1st June, 2007, Guangdong Guangzhou-Zhuhai West Superhighway Company Limited (“West Route JV”) entered into a management agreement with Guangdong Nan Yue Logistics Company Limited (“Nan Yue”), a subsidiary of its PRC partner.

Pursuant to such management agreement, Nan Yue would provide to West Route JV the material logistics services, consisting of the planning, procurement and logistics management of the main construction materials for the Phase II West Project. The appointment is effective from the date of execution of such agreement and continues for three years or until the completion of the supply of the materials, payment of all material fees and after audit by the relevant departments of West Route JV, whichever is earlier. The appointment may be extended by mutual agreement. The management agreement will terminate after the end of the term of appointment of Nan Yue and the expiry of the warranty period (which is 24 months after the completion of the Phase II West Project). The service fee is 2.5% of the fee for the materials supplied for the Phase II West Project and shall be paid on a quarterly basis after deduction of the 5% assurance fee that shall be repayable without interest to Nan Yue upon completion of the term of the Management Agreement. The material shall be purchased by Nan Yue from the relevant material suppliers and supplied to the contractors appointed by West Route JV for the construction of the Phase II West Project (“Construction Contractors”). The material fee shall be payable by the Construction Contractors to Nan Yue. In the event that the relevant material supplier shall fail to supply the materials on time, upon approval by West Route JV, Nan Yue shall take such actions as may be required (including using its own material stock or making purchase separately) to resume the supply of materials for the Phase II West Project.

Pursuant to the Listing Agreement between the Company and the Stock Exchange and the letter dated 7th August, 2003 from HHL to the Stock Exchange, West Route JV, being a Sino-foreign co-operative joint venture enterprise jointly controlled by the Group which operates a toll road project, is deemed to be a subsidiary of the Company and HHL for the purposes of the then Chapter 14 of the Listing Rules (which has been subdivided into Chapters 14 and 14A since revisions of the Listing Rules came into effect on 31st March, 2004). The relevant PRC partner of West Route JV currently has a 50% interest in each of West Route JV and Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited (which is a Sino-foreign co-operative joint venture between West Route PRC Partner and a subsidiary of the Company) and is accordingly deemed to be a connected person of the Company and HHL for the purposes of Chapter 14A of the Listing Rules.

This connected transaction, which details were contained in the joint press announcements by the Company and HHL dated 1st June, 2007, was exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rule.

**(B) Sale of HHI Ring Road Co**

Subsequent to the balance sheet date, on 9th August, 2007, a wholly-owned subsidiary of the Company entered into an agreement with one of the joint venture partners of the Guangzhou East-South West Ring Road joint venture for the sale of its entire interest, including rights, duties and obligations in the Guangzhou East-South West Ring Road joint venture, for a consideration of RMB1,712.55 million. Completion of the agreement is subject to approval of the transaction by the respective shareholders of the Company and HHL and the approval of the relevant PRC authorities within 180 days of the date of the Agreement (or such other date as the parties may be mutually agreed). The approval of the relevant PRC authorities and the approval of the major shareholder of the Company have been obtained and HHL will convene an extraordinary general meeting for approval of the same. The details of this transaction were contained in the joint announcement by the Company and HHL dated 9th August, 2007. Pursuant to the above-mentioned Listing Agreement between the Company and the Stock Exchange and the letter dated 7th August, 2003 from HHL to the Stock Exchange, the Guangzhou East-South West Ring Road joint venture is also deemed to be a subsidiary of the Company and HHL for the purposes of the current Chapters 14 and 14A of the Listing Rules and as the purchaser currently has a 10% interest in this joint venture, it is accordingly deemed to be a connected person of the Company and HHL for the purposes of Chapter 14A of the Listing Rules.

**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.

# REPORT OF THE DIRECTORS

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## **Disclosure under Chapter 13.18 of the Listing Rules**

Pursuant to a loan agreement entered into by a wholly-owned subsidiary of the Company for a facility in the aggregate amount of HK\$3,600,000,000 with a tenor of 5 years from 13th October, 2005, it will be an event of default if the Company ceases at any time to be a subsidiary of Hopewell Holdings Limited.

## **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, 21st August, 2007



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# INDEPENDENT AUDITOR'S REPORT

## 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 consolidated financial statements of Hopewell Highway Infrastructure Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 83, which comprise the consolidated balance sheet as at 30th June, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30th June, 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards 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  
21st August, 2007

# CONSOLIDATED INCOME STATEMENT

For the year ended 30th June, 2007

	NOTES	2006 HK\$'000	2007 HK\$'000
Turnover	6	1,734,763	<b>2,026,215</b>
Other income	7	336,721	<b>584,627</b>
Toll operation expenses		(113,376)	<b>(134,876)</b>
Depreciation and amortisation charges		(320,226)	<b>(381,324)</b>
General and administrative expenses		(91,459)	<b>(105,895)</b>
Finance costs	8	(286,208)	<b>(459,724)</b>
Profit before tax	9	1,260,215	<b>1,529,023</b>
Income tax expenses	10	(111,297)	<b>(155,019)</b>
Profit for the year		1,148,918	<b>1,374,004</b>
Attributable to:			
Equity holders of the Company		1,128,490	<b>1,348,531</b>
Minority interests		20,428	<b>25,473</b>
Profit for the year		1,148,918	<b>1,374,004</b>
Dividends paid	11	706,017	<b>950,022</b>
Earnings per share	12	<i>HK cents</i>	<b><i>HK cents</i></b>
Basic		38.85	<b>45.45</b>
Diluted		38.63	<b>45.43</b>



# CONSOLIDATED BALANCE SHEET

At 30th June, 2007

	NOTES	2006 HK\$'000	2007 HK\$'000
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property and equipment	15	9,380,957	<b>10,203,577</b>
Additional investment cost in jointly controlled entities	16	1,763,351	<b>1,705,738</b>
Investment in toll expressway project under development	18	47,157	<b>49,631</b>
Prepaid lease payments	19	123,901	<b>125,714</b>
Balances with jointly controlled entities	20	1,166,667	<b>806,231</b>
		12,482,033	<b>12,890,891</b>
<b>Current Assets</b>			
Inventories		2,251	<b>2,845</b>
Other receivables, deposits and prepayments		96,421	<b>90,882</b>
Other receivable from an outside joint venture partner	21	82,455	<b>87,036</b>
Prepaid lease payments	19	4,591	<b>4,846</b>
Pledged bank balances and deposits of jointly controlled entities	22	357,620	<b>392,854</b>
Bank balances and cash	22		
— The Group		3,013,899	<b>3,904,064</b>
— Jointly controlled entities		36,970	<b>51,121</b>
		3,594,207	<b>4,533,648</b>
<b>Total Assets</b>		16,076,240	<b>17,424,539</b>

# CONSOLIDATED BALANCE SHEET (continued)

At 30th June, 2007

	NOTES	2006 HK\$'000	2007 HK\$'000
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share capital	23	294,962	<b>297,033</b>
Reserves	24	10,005,217	<b>10,598,062</b>
Equity attributable to equity holders of the Company		10,300,179	<b>10,895,095</b>
Minority interests		35,656	<b>44,383</b>
<b>Total Equity</b>		<b>10,335,835</b>	<b>10,939,478</b>
<b>Non-current Liabilities</b>			
Bank and other loans	25	4,376,578	<b>4,995,287</b>
Balances with outside joint venture partners	26	640,917	<b>602,564</b>
Deferred tax liabilities	27	193,449	<b>255,308</b>
		5,210,944	<b>5,853,159</b>
<b>Current Liabilities</b>			
Other payables, accruals and deposits received		135,905	<b>257,449</b>
Bank and other loans	25	264,987	<b>219,776</b>
Other payable to a jointly controlled entity	28	99,618	<b>118,213</b>
Other interest payable		7,984	<b>7,530</b>
Tax liabilities		20,967	<b>28,934</b>
		529,461	<b>631,902</b>
<b>Total Liabilities</b>		<b>5,740,405</b>	<b>6,485,061</b>
<b>Total Equity and Liabilities</b>		<b>16,076,240</b>	<b>17,424,539</b>

**Thomas Jefferson WU**  
Managing Director

**Alan Chi Hung CHAN**  
Deputy Managing Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June, 2007

## Attributable to equity holders of the Company

	Share capital HK\$'000	Share premium HK\$'000	PRC statutory reserves HK\$'000	Translation reserve HK\$'000	Shares held for Share Award Scheme HK\$'000	Share option reserve HK\$'000	Share award reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st July, 2005	288,838	7,138,075	84,989	3,131	—	—	—	2,020,005	9,535,038	33,109	9,568,147
Exchange gain on translation of financial statements of operations outside Hong Kong (recognised directly in equity)	—	—	—	86,703	—	—	—	—	86,703	—	86,703
Profit for the year	—	—	—	—	—	—	—	1,128,490	1,128,490	20,428	1,148,918
<b>Total recognised income</b>	—	—	—	86,703	—	—	—	1,128,490	1,215,193	20,428	1,235,621
Shares issued at premium on exercise of warrants	6,124	249,841	—	—	—	—	—	—	255,965	—	255,965
Transfer between reserves	—	—	9,727	—	—	—	—	(9,727)	—	—	—
Final dividend paid for year ended 30th June, 2005	—	—	—	—	—	—	—	(368,310)	(368,310)	—	(368,310)
Interim dividend paid	—	—	—	—	—	—	—	(337,707)	(337,707)	—	(337,707)
Dividend paid to a minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	(17,881)	(17,881)
At 30th June, 2006	294,962	7,387,916	94,716	89,834	—	—	—	2,432,751	10,300,179	35,656	10,335,835
Exchange gain on translation of financial statements of operations outside Hong Kong (recognised directly in equity)	—	—	—	111,281	—	—	—	—	111,281	—	111,281
Profit for the year	—	—	—	—	—	—	—	1,348,531	1,348,531	25,473	1,374,004
<b>Total recognised income</b>	—	—	—	111,281	—	—	—	1,348,531	1,459,812	25,473	1,485,285
Shares issued at premium on exercise of warrants	1,831	74,697	—	—	—	—	—	—	76,528	—	76,528
Share issued at premium on exercise of share options	240	11,460	—	—	—	—	—	—	11,700	—	11,700
Recognition of equity-settled share-based payments	—	—	—	—	—	1,743	9,284	—	11,027	—	11,027
Shares vested for Share Award Scheme	—	—	—	—	—	—	(7,851)	(743)	(8,594)	—	(8,594)
Purchase of shares for unvested shares under Share Award Scheme	—	—	—	—	(5,535)	—	—	—	(5,535)	—	(5,535)
Transfer between reserves	—	—	11,637	—	—	—	—	(11,637)	—	—	—
Final dividend paid for year ended 30th June, 2006	—	—	—	—	—	—	—	(504,564)	(504,564)	—	(504,564)
Interim dividend paid	—	—	—	—	—	—	—	(445,458)	(445,458)	—	(445,458)
Dividend paid to a minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	(16,746)	(16,746)
At 30th June, 2007	297,033	7,474,073	106,353	201,115	(5,535)	1,743	1,433	2,818,880	10,895,095	44,383	10,939,478



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June, 2007

	2006 HK\$'000	2007 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before tax	1,260,215	<b>1,529,023</b>
Adjustments for:		
Interest expense and acceleration of imputed interest	277,266	<b>447,322</b>
Interest income and acceleration of imputed interest	(170,227)	<b>(300,391)</b>
Net exchange gain	(146,272)	<b>(236,339)</b>
Depreciation and amortisation charges	320,226	<b>381,324</b>
Amortisation of premium on acquisition of held-to-maturity debt securities	3,914	—
Share-based payment expense	—	<b>11,027</b>
Loss on disposal of property and equipment	11,059	<b>381</b>
Gain on waiver of loan from a joint venture partner	—	<b>(7,638)</b>
Recovery of impairment loss of receivable	—	<b>(10,983)</b>
Operating cash flows before movements in working capital	1,556,181	<b>1,813,726</b>
Increase in inventories	(489)	<b>(594)</b>
(Increase) decrease in other receivables, deposits and prepayments	(7,552)	<b>16,522</b>
(Decrease) increase in other payables, accruals and deposits received	(4,587)	<b>42,722</b>
Cash generated from operations	1,543,553	<b>1,872,376</b>
Income taxes paid	(82,794)	<b>(100,093)</b>
Payment for purchase of shares under Share Award Scheme	—	<b>(14,129)</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1,460,759</b>	<b>1,758,154</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(42,927)	<b>(618,454)</b>
Proceeds on disposals of property and equipment	4,746	<b>211</b>
Repayment of loans made to jointly controlled entities	39,627	<b>416,402</b>
Advance of loans made to jointly controlled entities	—	<b>(89,288)</b>
Redemption and disposal of held-to-maturity debt securities	733,677	—
Interest received	115,923	<b>177,394</b>
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>851,046</b>	<b>(113,735)</b>

# CONSOLIDATED CASH FLOW STATEMENT(continued)

For the year ended 30th June, 2007

	2006 HK\$'000	2007 HK\$'000
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	255,965	<b>88,228</b>
New bank and other loans raised	22,356	<b>751,627</b>
Repayment of bank and other loans	(213,461)	<b>(275,148)</b>
Repayment of loans made from joint venture partners	(60,115)	<b>(574,102)</b>
Registered capital contribution and loans made from joint venture partners	—	<b>530,295</b>
Interest paid	(256,501)	<b>(300,518)</b>
Dividends paid to:		
— shareholders	(706,017)	<b>(950,022)</b>
— a minority shareholder of a subsidiary	(17,881)	<b>(16,746)</b>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(975,654)</b>	<b>(746,386)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,336,151</b>	<b>898,033</b>
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	<b>2,035,520</b>	<b>3,384,189</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>12,518</b>	<b>40,167</b>
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<b>3,384,189</b>	<b>4,322,389</b>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS:</b>		
Bank balances and cash	3,050,869	<b>3,955,185</b>
Pledged bank balances and deposits	333,320	<b>367,204</b>
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<b>3,384,189</b>	<b>4,322,389</b>

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30th June, 2007

## 1. GENERAL INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's immediate holding company is Anber Investments Limited, a limited company incorporated in the British Virgin Islands. The Company's ultimate holding company is Hopewell Holdings Limited, a public limited liability company incorporated in Hong Kong whose shares are listed on 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 31 and 17 respectively.

The address of the registered office and principal place of business of the Company are disclosed in the section of corporate information in the annual report.

The functional currency of the operations of the Group's jointly controlled entities and a subsidiary is Renminbi ("RMB"). The functional currency of the Company is Hong Kong dollars ("HKD").

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new IFRSs") issued by International Accounting Standards Board ("IASB") that have become effective for the Group's financial year ended 30th June, 2007. The adoption of the new IFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

### Financial guarantee

In the current year, the Group has applied IAS 39 and IFRS 4 (Amendments) "Financial Guarantee Contracts" which is effective for accounting periods beginning on or after 1st January, 2006. A financial guarantee contract is defined by IAS 39 "Financial Instruments: Recognition and Measurement" as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

Prior to 1st July, 2006, financial guarantee contracts were not accounted for in accordance with IFRS 4 "Insurance Contract" and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit and loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

The Company had entered into an agreement to provide a financial guarantee granted in favour of a bank in the People's Republic of China (the "PRC") for a loan granted to 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"), a jointly controlled entity of the Group. The Group had recognised such loan in the consolidated balance sheet. Besides, the financial guarantee was released during the year. Accordingly, the directors determine that there is no material impact on the results and the financial position of the Group upon application of IAS 39 and IFRS 4 (Amendments).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective.

IAS 1 (Amendment)	Capital disclosures <sup>1</sup>
IAS 23 (Revised)	Borrowing costs <sup>2</sup>
IFRS 7	Financial instruments: disclosures <sup>1</sup>
IFRS 8	Operating segments <sup>2</sup>
IFRIC 10	Interim financial reporting and impairment <sup>3</sup>
IFRIC 11	IFRS 2 — Group and treasury share transactions <sup>4</sup>
IFRIC 12	Service concession arrangements <sup>5</sup>
IFRIC 13	Customer loyalty programmes <sup>6</sup>
IFRIC 14	IAS 19 — The limit on defined benefit asset, minimum funding requirements and their interaction <sup>5</sup>

- 1 Effective for annual periods beginning on or after 1st January, 2007.
- 2 Effective for annual periods beginning on or after 1st January, 2009.
- 3 Effective for annual periods beginning on or after 1st November, 2006.
- 4 Effective for annual periods beginning on or after 1st March, 2007.
- 5 Effective for annual periods beginning on or after 1st January, 2008.
- 6 Effective for annual periods beginning on or after 1st July, 2008.

Except for IFRIC 12, the directors anticipate that the application of these new or revised standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

IFRIC 12 “Service Concession Arrangements” applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. Infrastructure within the scope of this interpretation shall not be recognised as property and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The Group’s jointly controlled entities, as the operator, have access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract. The operator shall recognise an intangible asset to the extent that it received a right to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. This interpretation requires the operator to account for its intangible asset in accordance with IAS 38 “Intangible Assets”. IAS 38 requires an intangible asset with a finite economic life to be amortised over that life and the amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. The directors of the Company anticipate that the application of this interpretation will change the balance sheet presentation and disclosure of the service concession arrangements but are still in the process of assessing the impact on the results and the financial position of the Group. This interpretation is applicable to the Group and the Group will apply it for the annual periods beginning 1st July, 2008 retrospectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are as follows:

### Basis of consolidation

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

The results of operation of subsidiaries acquired or disposed of during the year and the share attributable to minority interests are accounted for in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The results of operation of jointly controlled entities are accounted for by proportionate consolidation as described below.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group’s equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Subsidiaries

Subsidiaries are those entities (including special purpose 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 entity 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, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing 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 the proportionate consolidation method based on the profit-sharing ratios or net cash flow sharing ratio (as the case may be) 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 information 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.

### Additional investment cost in jointly controlled entities

The Group has incurred additional development expenditure for the construction and development of the toll expressways 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 expressways. The balance 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 expressways.

On disposal of a jointly controlled entity, the attributable amount of the 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 impairment losses, if any.

Construction in progress is stated at cost less accumulated impairment losses, if any. Cost includes professional fee and, for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are available for use.

The cost of toll expressways includes the Group's proportionate share of (i) the construction costs of the toll expressways 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 expressways has been presented separately as additional investment cost in jointly controlled entities.

Depreciation of toll expressways is calculated to write off their costs, commencing from the date of commencement of commercial operation of the toll expressways. The annual depreciation of the main structure of the toll expressway is calculated by applying the ratio of actual traffic volume compared to the total expected traffic volume over the remaining period of the respective jointly controlled entities to the net carrying value of the assets. The expected traffic volume is estimated by management or determined by reference to traffic projection reports prepared by independent traffic consultants. Depreciation of repavement costs capitalised is calculated based on a similar basis over an estimated useful life of eight years.

Depreciation of other property and equipment is calculated to write off their costs over their estimated useful lives after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Ancillary traffic facilities, furniture, fixtures and equipment	3.45%–20%
Motor vehicles	10%–20%

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 consolidated income statement.

### Investment in toll expressway project under development

Investment in toll expressway project under development, which represents the development expenditure incurred for the toll expressway project prior to the commencement of physical construction, is stated at cost less impairment losses, if any.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and related business taxes.

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

Interest income from balances with jointly controlled entities and other interest income are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of those financial assets to those assets' net carrying amounts.

Rental income, which consists primarily of income from renting of machinery and equipment to local contractors and leasing of spaces along the toll expressway for oil stations, is recognised on a straight-line basis over the term of the relevant leases.

### Leasing

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

### Foreign currencies

The individual financial statements of each entity of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, the presentation currency.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated income statement for the year.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's operations outside Hong Kong are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rate fluctuate significantly during the year, in which case, the exchange rate prevailing at the dates of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the consolidated income statement in the year in which the foreign operation is disposed of.

### 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 such 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 their expenditure on qualifying assets is deducted from the cost of those assets.

All other borrowing costs are recognised as expenses in the consolidated income statement in the year in which they are incurred.

### Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered services entitling them to the contribution. 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

Income tax expenses represent 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 profit as reported in the consolidated 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. The Group's liabilities for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated 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 differences arises from 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.

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 such 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 consolidated 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.

### Equity-settled share-based payment transactions

*Share options/awarded shares granted to employees after 1st July, 2005*

The fair value of services received, determined by reference to the fair value of share options and awarded shares granted at the grant date, is expensed as staff costs on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve and share award reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options have not been exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

At the time when the awarded shares are vested, the amount previously recognised in share award reserve and the amount of the relevant treasury shares will be transferred to retained profits. When the awarded shares are not vested or are forfeited during the vesting period, the amount previously recognised in share award reserve will be recognised as income immediately in the consolidated income statement.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that such assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the 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.

The recoverable amount is the higher of fair value less costs to sell 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 asset.

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 in the consolidated income statement.

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 if no impairment loss had been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

Inventories, representing materials, spare parts and other consumable stores, are stated at the lower of cost and net realisable value. 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.

#### *Balances with jointly controlled entities, other receivables, other receivable from an outside joint venture partner and bank balances and deposits*

Balances with jointly controlled entities, other receivables, other receivable from an outside joint venture partner and bank balances and deposits are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Any difference arising on initial recognition between the fair value and the consideration given is recognised as fair value losses to the extent that this difference does not represent a capital contribution by the equity participant. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the assets are impaired. The allowances recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

#### *Held-to-maturity debt securities*

Held-to-maturity debt securities are recognised on a trade-date basis and are initially measured at fair value, plus directly attributable transaction costs.

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 using the effective interest method, 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.

#### *Bank and other loans*

Interest-bearing bank and other loans are initially measured at fair value, net of direct issue costs, and are subsequently measured at amortised cost, using the effective interest method.

#### *Other payables, other interest payable, other payable to a jointly controlled entity and balances with outside joint venture partners*

Other payables, other interest payable, other payable to a jointly controlled entity and balances with outside joint venture partners are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method. Any difference arising on initial recognition between the fair value and the consideration received is recognised as fair value gains to the extent that this difference does not represent a capital contribution by the equity participant.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs. The cost of the Company's shares repurchased by the Company (or its subsidiaries) for the Shares Award Scheme is recognised as a deduction from equity in a separate reserve (shares held for Shares Award Scheme). No gain or loss shall be recognised in the consolidated income statement on the purchase, sale, issue or cancellation of such shares.

## 4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at 30th June, 2007, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

### (a) Depreciation of toll expressways and amortisation of additional investment cost in jointly controlled entities

Depreciation of toll expressways and amortisation of additional investment cost in jointly controlled entities of the Group are calculated and determined based on ratio of actual traffic volume compared to the total expected traffic volume throughout the remaining operation period of the respective jointly controlled entities. Adjustments may need to be made to the carrying amounts of toll expressways and additional investment cost in jointly controlled entities should there be a material difference between the total expected traffic volume and the actual results.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 4. KEY SOURCE OF ESTIMATION UNCERTAINTY (continued)

### (a) Depreciation of toll expressways and amortisation of additional investment cost in jointly controlled entities (continued)

As at 30th June, 2007, as part of the established policy of the Group, the Company's management has reviewed the total expected traffic volume. Independent traffic studies are performed in order to ascertain whether any appropriate adjustments should be made to the assumptions. The total expected traffic volume applied by the Group for the determination of depreciation of toll expressways and amortisation of additional investment cost in jointly controlled entities for the year ended 30th June, 2007 was based on latest independent traffic studies. In the current year, the Group reported depreciation of toll expressways and amortisation of additional investment costs amounting to approximately HK\$300,884,000 and HK\$57,613,000 respectively. The Company's management considers that these are calculated by reference to the best estimates on the total expected traffic volume and there should not be materially different from the actual traffic volume. The current year depreciation and amortisation includes approximately HK\$9,662,000 and HK\$2,246,000 respectively attributable to the effect of using the actual traffic volume instead of the expected traffic volume for the year in the computation of depreciation and amortisation.

### (b) Recognition of deferred tax assets for unused tax losses

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences and the periods in which estimated tax losses can be utilised.

## 5. FINANCIAL INSTRUMENTS

### (a) Financial risk management objectives and policies

The Group's operating and financial activities are exposed to three main types of financial risks, namely credit risk, foreign currency risk and interest rate risk.

#### *Credit risk*

The Group's exposure to credit risk is primarily attributable to its balances with jointly controlled entities, other receivable from an outside joint venture partner, pledged bank balances and deposits of jointly controlled entities, and bank balances.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 30th June, 2007 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet.

The Group has significant concentration of credit risk in its balances with jointly controlled entities and other receivable from an outside joint venture partner.

In order to minimise the credit risk, the management of the respective jointly controlled entities have delegated a team responsible for determination of monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company's management reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk on pledged bank balances and deposits of jointly controlled entities, and bank balances is limited because the counterparties are entities with high credit-ratings assigned by international credit-rating agencies or regulated banks.

#### *Foreign currency risk*

The Group's jointly controlled entities operate in the PRC and collect their toll revenue in RMB. A substantial portion of the monetary assets are denominated in RMB. Two of the jointly controlled entities had bank borrowings raised in United States dollars ("USD") and HKD respectively. In addition to the repayment of bank borrowings, the jointly controlled entities have to convert their revenue into other currencies for payment of profit distributions to foreign joint venture partners as and when such profit distributions are, or may be, resolved to be made, repatriation of capital contribution to foreign joint venture partners of co-operative joint ventures; and payment of return on investment contribution by foreign joint venture partners. Devaluation of RMB relative to USD and/or HKD could increase the portion of the cash outflow of the jointly controlled entities. During the year, the jointly controlled entities benefited from the appreciation of RMB and reported exchange gains for these foreign currency obligations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### (a) Financial risk management objectives and policies (continued)

For the Group's PRC jointly controlled entities, which consist of non-HKD and non-USD assets, the jointly controlled entities generally endeavour to establish a natural hedge with the appropriate level of borrowings in RMB. Where borrowings in RMB are not attractive, the jointly controlled entities may not borrow in RMB and instead need to monitor the operation's cashflow and the PRC debt market and, when appropriate, would expect to refinance these operations with HKD and/or USD borrowings.

The Group's cash is mainly maintained in either USD or HKD to minimise the foreign exchange risk as HKD is pegged to USD in Hong Kong and therefore the foreign exchange exposure between USD and HKD is limited.

#### Interest rate risk

The Group is exposed to cashflow interest rate risk on balances with jointly controlled entities, bank balances, bank loans and balances with outside joint venture partners through the impact of rate changes on these floating rate financial assets and liabilities.

The Group is exposed to fair value interest rate risk on fixed interest rate bank deposits. The management of the Company is of the view that such risk is not significant as most of these bank deposits have short maturity periods.

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. Management continues to monitor the cash flow of the operations and the debt markets, when considered appropriate, the Group would expect to refinance these borrowings with instruments with a lower cost.

### (b) Fair value

The fair values of financial assets and financial liabilities are determined based on the present value of the estimated future cash flows discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating at that date.

## 6. 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 expressways, net of business tax.

The Group has only one business segment, namely the development, operation and management of toll expressways in 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.

## 7. OTHER INCOME

	2006 HK\$'000	2007 HK\$'000
Interest income from:		
A jointly controlled entity	31,060	35,046
Bank deposits	108,187	177,394
Held-to-maturity debt securities, net of premium amortised of nil (2006: HK\$3,914,000)	3,822	—
Imputed interest income on interest-free loan made to a jointly controlled entity	23,244	22,211
Acceleration of imputed interest on early repayment of interest-free loan made by the Group to a jointly controlled entity	—	65,740
Net exchange gain	146,272	236,339
Rental income	7,897	6,024
Recovery of impairment loss on receivable	—	10,983
Management fee income from jointly controlled entities	3,962	2,916
Gain on waiver of loan from a joint venture partner	—	7,638
Others	12,277	20,336
	336,721	584,627



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 8. FINANCE COSTS

	2006 HK\$'000	2007 HK\$'000
Interest on:		
Bank loans	246,161	<b>282,056</b>
Loans made by outside joint venture partners	295	<b>25,880</b>
Other loan wholly repayable within five years	5,078	<b>131</b>
Imputed interest on:		
Interest-free loans made by outside joint venture partners	25,463	<b>25,693</b>
Other interest-free loan	269	<b>298</b>
Acceleration of imputed interest on early repayment of interest-free loans made by outside joint venture partners to a jointly controlled entity	—	<b>138,945</b>
	277,266	<b>473,003</b>
Other financial expenses (note a)	8,942	<b>12,402</b>
	286,208	<b>485,405</b>
Less: Amounts capitalised (note b)	—	<b>(25,681)</b>
	286,208	<b>459,724</b>

Notes:

- (a) Other financial expenses mainly represents the amortisation of the up-front fees and related charges in connection with the revolving credit and term loan facilities in the aggregate amount of HK\$3,600,000,000 offered to the Group by a syndicate of banks which is available for a period of 5 years commencing from 13th October, 2005. At 30th June, 2006 and 2007, the Group had not utilised any part of such facilities.
- (b) Borrowing cost capitalised during the year arose on a loan made by an outside joint venture partner by applying a capitalisation rate of 4.76% per annum to expenditure on qualifying assets.

## 9. PROFIT BEFORE TAX

	2006 HK\$'000	2007 HK\$'000
Profit before tax has been arrived at after charging:		
Auditors' remuneration	1,417	<b>2,050</b>
Staff costs (excluding directors' remuneration)	73,171	<b>96,529</b>
Amortisation of:		
Additional investment cost in jointly controlled entities	51,772	<b>57,613</b>
Prepaid lease payments	4,620	<b>4,942</b>
Depreciation of:		
Toll expressways	252,829	<b>300,884</b>
Other property and equipment	11,005	<b>17,885</b>
Loss on disposal of property and equipment	11,059	<b>381</b>

## 10. INCOME TAX EXPENSES

	2006 HK\$'000	2007 HK\$'000
The tax charge comprises:		
PRC income tax	84,738	<b>104,266</b>
Deferred taxation (note 27)	26,559	<b>50,753</b>
	111,297	<b>155,019</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 10. INCOME TAX EXPENSES (continued)

The PRC income tax charge represents the Group's proportionate share of the provision for PRC foreign enterprise income tax of 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, amounting to approximately HK\$103,698,000 (2006: HK\$84,530,000) which is calculated at 7.5% (2006: 7.5%) of the estimated assessable profit for the year after the 5-year exemption from PRC foreign enterprise income tax expired on 31st December, 2004 and the provision of PRC withholding tax on the income received and receivable from the Group's jointly controlled entities amounting to approximately HK\$568,000 (2006: HK\$208,000) which is calculated at the rates prevailing in the PRC.

Pursuant to relevant laws and regulations in the PRC, the Group's jointly controlled entities are entitled to certain exemptions and reliefs from PRC foreign enterprise 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 Provincial Tax Bureau, the rate of foreign enterprise income tax payable by GS Superhighway JV in respect of its income arising from the operation of toll expressway and related service facilities (excluding hotels and entertainment facilities) is 15% and GS Superhighway JV is entitled to a 5-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. The first year for which GS Superhighway JV recorded profits for PRC tax purposes was the year ended 31st December, 2000 and the 5-year exemption from foreign enterprise income tax expired in December, 2004. For the next 5 years, it will enjoy a 50% reduction in the rate of foreign enterprise income tax payable in respect of such income. Pursuant to another approval from the Guangdong Provincial 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 expressway and related service facilities for 10 years commencing from the first profit-making year.

Pursuant to an approval from the Guangzhou branch of the State Tax Bureau, the rate of foreign enterprise income tax payable by Ring Road JV, another jointly controlled entity of the Group, in respect of its income arising from the operation of the toll expressway is 15%. Pursuant to an approval from the Guangzhou Municipal Government, Ring Road JV is entitled to a 5-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 next 5 years, it will enjoy a 50% reduction in the rate of foreign enterprise income tax payable. In respect of income arising from the toll expressway 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 10 years commencing from the first profit-making year. As Ring Road JV has not yet commenced its first profit-making year 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"), another jointly controlled entity of the Group, commenced its operation in April 2004. West Route JV is entitled to a 2-year exemption from foreign enterprise income tax for income commencing from the first profit-making year, as computed under PRC accounting standards and tax regulations. For the next 3 years, it will enjoy a 50% reduction in the rate of foreign enterprise income tax payable. Pursuant to an approval from the State Tax Bureau, the rate of foreign enterprise income tax payable by West Route JV, in respect of its income arising from the operation of the toll expressway is 15%. No provision for PRC income tax for West Route JV has been made as it has just commenced its first-profit-making year in the year ended 31st December, 2006 for PRC tax purposes.

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

	2006 HK\$'000	2007 HK\$'000
Profit before tax	1,260,215	<b>1,529,023</b>
Tax at normal PRC income tax rate of 33%	415,871	<b>504,578</b>
Effect of concessionary rate on income tax expenses	(309,602)	<b>(365,237)</b>
Tax effect of income not taxable for tax purposes	(62,717)	<b>(114,760)</b>
Tax effect of expenses not deductible for tax purposes	60,153	<b>95,413</b>
Differential tax rate on temporary difference of jointly controlled entities	3,705	<b>626</b>
Reduction of deferred tax assets for unused tax losses	—	<b>34,927</b>
Others	3,887	<b>(528)</b>
Income tax expenses	111,297	<b>155,019</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 10. INCOME TAX EXPENSES (continued)

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16th March, 2007, the new income tax rates for PRC enterprises are unified at 25% and will be effective from 1st January, 2008. It is stated that further detailed measures and regulations on tax benefits will be issued by the State Council.

The management of the Company is of the view that the Group's PRC jointly controlled entities, namely GS Superhighway JV, Ring Road JV and West Route JV will qualify under the requirements for infrastructure projects supported by the State as stipulated in the new income tax law. In such circumstance, they will enjoy the tax benefits subject to the detailed measures and regulations to be announced by the State Council.

For the Group's PRC jointly controlled entities which currently applied for preferential income tax rate, deferred tax is recognised based on the current tax rate. As and when the State Council announces the detailed measures and regulations, the Group will assess their impact, if any, and the change in accounting estimate will be accounted for prospectively.

## 11. DIVIDENDS

	2006 HK\$'000	2007 HK\$'000
Dividends paid and recognised as a distribution		
Interim dividend paid of HK15.00 cents (2006: HK11.50 cents) per share	337,707	445,458
Final dividend for year ended 30th June, 2006 paid of HK17.00 cents (2006: year ended 30th June, 2005 paid of HK12.75 cents) per share	368,310	504,564
	706,017	950,022
Final dividend proposed of HK20.00 cents (2006: HK17.00 cents) per share	504,547	594,065

A final dividend in respect of the financial year 2007 of HK20.00 cents per share amounting to a total of approximately HK\$594,065,000 is proposed by the Board. The dividend is subject to approval by shareholders of the Company at the forthcoming annual general meeting and has not been included as a liability in these financial statements. The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these financial statements.

## 12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2006 HK\$'000	2007 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	1,128,490	1,348,531
	2006 Number of shares	2007 Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,905,096,514	2,967,084,973
Effect of dilutive potential ordinary shares:		
Warrants	15,766,115	442,152
Share options	281,586	722,393
Unvested share awarded	—	151,860
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,921,144,215	2,968,401,378

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by HHI Employees' Share Award Scheme Trust.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 13. RETIREMENT BENEFITS PLANS

The employees of the Group participate in 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 per employee. At 30th June, 2007, 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\$325,000 (2006: HK\$363,000).

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\$7,367,000 (2006: HK\$6,196,000).

## 14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

### Directors' emoluments

The emoluments paid or payable to each of the 12 (2006: 12) directors were as follows:

	2006					2007						
	Salaries and other benefits		Bonus	Contributions to retirement benefits		Directors' fees	Salaries and other benefits		Contributions to retirement benefits		Share award	Total
	Directors' fees	benefits		plans	Total		fees	benefits	Bonus	plans		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Gordon Ying Sheung WU	300	3,000	—	—	3,300	300	3,000	—	—	—	—	3,300
Eddie Ping Chang HO	250	2,400	—	—	2,650	250	2,400	—	—	—	—	2,650
Thomas Jefferson WU	200	1,656	138	12	2,006	200	1,656	138	12	5,323	—	7,329
Alan Chi Hung CHAN	200	1,701	138	12	2,051	200	1,693	138	12	1,460	—	3,503
Leo Kwok Kee LEUNG	200	1,500	125	12	1,837	200	1,500	125	12	1,042	—	2,879
Lijia HUANG (note a)	200	520	88	—	808	200	447	590	—	—	—	1,237
Cheng Hui JIA	200	838	70	—	1,108	200	831	69	—	1,042	—	2,142
Philip Tsung Cheng FEI	200	—	—	—	200	200	—	—	—	—	—	200
Lee Yick NAM	200	—	—	—	200	200	—	—	—	—	—	200
Kojiro NAKAHARA	200	—	—	—	200	200	—	—	—	—	—	200
Gordon YEN	200	—	—	—	200	200	—	—	—	—	—	200
Barry Chung Tat MOK	175	—	—	—	175	200	—	—	—	—	—	200
	2,525	11,615	559	36	14,735	2,550	11,527	1,060	36	8,867	—	24,040

Note:

- (a) The directors' emoluments paid or payable to Mr. Lijia HUANG included approximately HK\$147,000 (2006: HK\$58,000) paid by GS Superhighway JV proportionately shared by the Group.

### Five highest paid individuals emoluments

The five highest paid individuals of the Group in 2006 and 2007 were all directors of the Company and details of their emoluments are disclosed above.

During the two years ended 30th June, 2007, 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 CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 15. PROPERTY AND EQUIPMENT

	<i>Toll expressways HK\$'000</i>	<i>Motor vehicles HK\$'000</i>	<i>Ancillary traffic facilities, furniture, fixtures and equipment HK\$'000</i>	<i>Construction in progress HK\$'000</i>	<i>Total HK\$'000</i>
<b>COST</b>					
At 1st July, 2005	10,446,057	28,327	33,301	34,832	10,542,517
Exchange adjustments	298,319	1,029	1,187	1,226	301,761
Additions	—	1,116	14,858	26,953	42,927
Transfer	—	—	54,346	(54,346)	—
Disposals	(27,921)	(701)	(627)	—	(29,249)
At 30th June, 2006	10,716,455	29,771	103,065	8,665	10,857,956
Exchange adjustments	486,323	1,745	5,739	481	494,288
Additions	—	9,912	8,638	704,407	722,957
Transfer	(10,938)	—	56,139	(45,201)	—
Disposals	—	(6,379)	(2,939)	—	(9,318)
<b>At 30th June, 2007</b>	<b>11,191,840</b>	<b>35,049</b>	<b>170,642</b>	<b>668,352</b>	<b>12,065,883</b>
<b>DEPRECIATION</b>					
At 1st July, 2005	1,150,735	20,299	11,398	—	1,182,432
Exchange adjustments	33,507	847	746	—	35,100
Charge for the year	252,829	2,234	8,771	—	263,834
Eliminated on disposals	(3,559)	(695)	(113)	—	(4,367)
At 30th June, 2006	1,433,512	22,685	20,802	—	1,476,999
Exchange adjustments	72,278	1,429	1,557	—	75,264
Charge for the year	300,884	3,233	14,652	—	318,769
Transfer	(1,354)	—	1,354	—	—
Eliminated on disposals	—	(5,965)	(2,761)	—	(8,726)
<b>At 30th June, 2007</b>	<b>1,805,320</b>	<b>21,382</b>	<b>35,604</b>	<b>—</b>	<b>1,862,306</b>
<b>CARRYING AMOUNTS</b>					
At 30th June, 2006	9,282,943	7,086	82,263	8,665	9,380,957
<b>At 30th June, 2007</b>	<b>9,386,520</b>	<b>13,667</b>	<b>135,038</b>	<b>668,352</b>	<b>10,203,577</b>

The toll expressways are situated on land under medium term land use right in the PRC.

## 16. ADDITIONAL INVESTMENT COST IN JOINTLY CONTROLLED ENTITIES

	<i>HK\$'000</i>
<b>COST</b>	
At 1st July, 2005, 30th June, 2006 and 30th June, 2007	2,073,512
<b>AMORTISATION</b>	
At 1st July, 2005	258,389
Charge for the year	51,772
At 30th June, 2006	310,161
Charge for the year	57,613
<b>At 30th June, 2007</b>	<b>367,774</b>
<b>CARRYING AMOUNTS</b>	
At 30th June, 2006	1,763,351
<b>At 30th June, 2007</b>	<b>1,705,738</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 17. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Particulars of the Group's jointly controlled entities at 30th June, 2007 are as follows:

<i>Name of company</i>	<i>Place of establishment</i>	<i>Registered capital</i>	<i>Principal activity</i>	<i>Proportion of registered capital contribution</i>
廣深珠高速公路有限公司 Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited	The PRC	RMB471,000,000 (equivalent to HK\$702,000,000)	Development, operation and management of an expressway	100%
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	50%
廣東廣珠西綫高速公路有限公司 Guangdong Guangzhou-Zhuhai West Superhighway Company Limited	The PRC	RMB2,303,000,000	Development, operation and management of an expressway	50%

All the above jointly controlled entities are Sino-foreign co-operative joint venture enterprises established under the PRC laws.

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 an expressway running between Shenzhen and Guangzhou ("GS Superhighway"). The operation period is 30 years from the official opening date. At the end of the 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, 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 10 years of operation period, 48% for the next 10 years and 45% for the last 10 years of the operation period. In addition to its entitlement to share in profit distributions, the Group is entitled to the repayment of HK\$702,000,000 registered capital contribution out of GS Superhighway JV's net cash flow after the payment of various items such as operating expenses, tax and debt service obligations, all as stated in the joint venture agreement of GS Superhighway JV. However, this is also subject to the terms of the bank loan facilities of GS Superhighway JV which restrict repayment of registered capital contributed by the Group prior to full repayment of bank loans and applicable PRC rules and regulations. 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 certain portion of GS Superhighway for a period of 30 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 operation period is 30 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 and tax) of ESW Ring Road for the initial 10 years of operation and thereafter the Group's net cash flow entitlement will be reduced to 37.5% for the subsequent 10 years and 32.5% for the remaining years of operation of the entire operation period of Ring Road JV. ESW Ring Road was officially opened in January 2002. At the end of the operation period, all the immovable assets and facilities of Ring Road JV will revert to the PRC joint venture partner without compensation. As stated in the joint venture agreement of Ring Road JV, the joint venture partners are entitled to the repayment of registered capital contribution with no specific repayment term. Such repayment of registered capital contribution is also subject to the applicable PRC rules and regulations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 17. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

### (iii) West Route JV

West Route JV is established to undertake the construction, operation and management of an expressway linking Guangzhou, Zhongshan and Zhuhai ("Western Delta Routes"). Phase I of Western Delta Route ("Phase I West") was officially opened on 30th April, 2004 and the operation period for Phase I West is 30 years commencing from 17th September, 2003.

The estimated total investment for the Phase II of Western Delta Route ("Phase II West") is RMB4,900,000,000, 35% of which is to be funded by an increase in the registered capital of West Route JV by RMB1,715,000,000 in total to be contributed by the Group and the West Route JV PRC partner in equal share (i.e. each to contribute RMB857,500,000). The expiration date of joint venture co-operation period for the West Route JV has been extended from 16th September, 2033 to 16th September, 2038. At 30th June, 2007, the Group and the West Route JV PRC partner had made capital contribution amounting to approximately RMB174,930,000 and RMB171,500,000 respectively.

The Group is entitled to 50% of the distributable profits from operation of West Route JV. At the end of the joint venture 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. As stated in the joint venture agreement of West Route JV, the joint venture partners are entitled to the repayment of registered capital contribution with no specific repayment term. Such repayment of registered capital contribution is also subject to the applicable PRC rules and regulations.

In September 2005, the Group conditionally amended the agreements with the PRC partner of West Route JV for the investment in and the planning, design, construction and operation of the Phase III of Western Delta Route ("Phase III West") through West Route JV. Subject to approval of the relevant PRC authorities, the estimated total investment for Phase III West is RMB3,260,000,000, 35% of which is to be funded by an increase in the registered capital of the West Route JV by RMB1,141,000,000 in total to be contributed by the Group and West Route JV PRC partner in equal share (i.e. each to contribute RMB570,500,000). The operation period for Phase III West will be subject to approval of the relevant PRC authorities, and will be commencing on the date on which the new business licence of West Route JV is issued.

The Group's share of the assets, liabilities, income and expenses of the jointly controlled entities accounted for by the Group using proportionate consolidation (before elimination of transactions, balances, income and expenses with group companies) are set out below:

In respect of the year ended 30th June, 2006:

	<i>GS</i> <i>Superhighway JV</i> <i>HK\$'000</i>	<i>Ring Road JV</i> <i>HK\$'000</i>	<i>West Route JV</i> <i>HK\$'000</i>	<i>Total</i> <i>HK\$'000</i>
Current assets	438,831	213,307	14,458	666,596
Non-current assets	5,236,300	1,998,898	721,260	7,956,458
Current liabilities	671,146	6,066	57,842	735,054
Non-current liabilities	3,552,795	1,439,071	366,833	5,358,699
Income	1,646,649	212,523	59,595	1,918,767
Expenses	(523,692)	(145,556)	(43,419)	(712,667)
Profit before tax	1,122,957	66,967	16,176	1,206,100
Income tax expenses	(90,884)	(18,167)	(2,037)	(111,088)
Profit after tax	1,032,073	48,800	14,139	1,095,012

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 17. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

In respect of the year ended 30th June, 2007:

	<i>GS</i> <i>Superhighway JV</i> <i>HK\$'000</i>	<i>Ring Road JV</i> <i>HK\$'000</i>	<i>West Route JV</i> <i>HK\$'000</i>	<i>Total</i> <i>HK\$'000</i>
Current assets	458,761	273,876	18,928	751,565
Non-current assets	5,364,612	1,945,243	1,400,727	8,710,582
Current liabilities	649,766	44,709	192,199	886,674
Non-current liabilities	3,470,250	1,526,468	715,244	5,711,962
Income	2,018,154	221,796	68,420	2,308,370
Expenses	(618,703)	(343,318)	(46,255)	(1,008,276)
Profit (loss) before tax	1,399,451	(121,522)	22,165	1,300,094
Income tax expenses	(113,289)	(40,456)	(705)	(154,450)
Profit (loss) after tax	1,286,162	(161,978)	21,460	1,145,644

## 18. INVESTMENT IN TOLL EXPRESSWAY PROJECT UNDER DEVELOPMENT

The amount represents the costs incurred by the Group on the development of Phase II West and Phase III West.

## 19. PREPAID LEASE PAYMENTS

The amount represents the Group's proportionate share of the medium term land use rights in the PRC of West Route JV which is charged to the consolidated income statement on a straight-line basis over the joint venture period of West Route JV.

Analysis of the carrying amounts:

	<i>2006</i> <i>HK\$'000</i>	<i>2007</i> <i>HK\$'000</i>
Prepaid lease prepayments	128,492	130,560
Less: Portion to be charged to the consolidated income statement in next year included under current assets	(4,591)	(4,846)
	123,901	125,714



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 20. BALANCES WITH JOINTLY CONTROLLED ENTITIES

	2006 HK\$'000	2007 HK\$'000
Registered capital contribution made by the Group to the following jointly controlled entities:		
GS Superhighway JV	351,000	<b>351,000</b>
Ring Road JV	116,891	<b>116,891</b>
West Route JV	132,858	<b>189,832</b>
	600,749	<b>657,723</b>
Loans made by the Group to the following jointly controlled entities:		
GS Superhighway JV	106,172	<b>141,453</b>
Ring Road JV	459,746	<b>7,055</b>
	565,918	<b>148,508</b>
	1,166,667	<b>806,231</b>

The balances represent registered capital contributed and 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 registered capital contributed by the Group to jointly controlled entities does not have a specific repayment term. Registered capital contribution made by the Group to GS Superhighway JV of approximately HK\$330,020,000 (2006: HK\$330,020,000) carries interest at the Hong Kong prime rate, the remaining registered capital contribution made by the Group to the jointly controlled entities are interest-free. The effective interest rates adopted for measurement at fair value at initial recognition of the registered capital contribution made by the Group to Ring Road JV and West Route JV range from 5.65% to 6.48% (2006: 5.28% to 5.51%). At the balance sheet dates, the fair values of the registered capital contributed by the Group to jointly controlled entities approximate its carrying amounts.

The loans made by the Group to jointly controlled entities are unsecured and repayable out of the net cash surplus from the operations of the jointly controlled entities.

The loan made by the Group to GS Superhighway JV carries interest at the Hong Kong prime rate. At the balance sheet dates, the fair values approximate their carrying amounts.

The loan made by the Group to Ring Road JV is interest-free. The effective interest rate adopted for measurement at fair value at initial recognition of the loan made to Ring Road JV is 6.66%. At the balance sheet date, its fair value is estimated to approximate its carrying amount (2006: HK\$471,808,000).

## 21. OTHER RECEIVABLE FROM AN OUTSIDE JOINT VENTURE PARTNER

The balance represents the Group's proportionate share of the other receivable of Ring Road JV from outside joint venture partner of Ring Road JV. The amount is unsecured, interest-free and repayable on demand. At the balance sheet date, the carrying amount approximates its fair value.

## 22. PLEDGED BANK BALANCES AND DEPOSITS OF JOINTLY CONTROLLED ENTITIES, AND BANK BALANCES AND CASH

Pledged bank balances and deposits of jointly controlled entities, and bank balances and cash include time deposits of HK\$4,128,116,000 (2006: HK\$3,248,048,000) with original maturities range from 7 days to 6 months that carry interest at prevailing interest rates range from 1.62% to 5.30% (2006: 1.62% to 5.33%). Remaining bank balances and cash carried interest at market rates which range from 0.72% to 5.30%.

At 30th June, 2007, included in the pledged bank balances and deposits of jointly controlled entities, and bank balances and cash are bank deposits of approximately HK\$447,197,000 (2006: HK\$397,546,000), which are held by the Company's PRC subsidiary and jointly controlled entities. The pledged bank balances and deposits of jointly controlled entities were for the purpose of securing general banking facilities granted to respective jointly controlled entities of the Group. Other than the amount of approximately HK\$25,650,000 (2006: HK\$24,300,000), the remaining amount of approximately HK\$367,204,000 (2006: HK\$333,320,000) was available for use by the jointly controlled entities by serving notices to relevant banks providing the general banking facilities.

At the balance sheet date, the carrying amount of pledged bank balances and deposits of jointly controlled entities, and bank balances and cash approximates their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 23. SHARE CAPITAL

	<i>Number of shares</i>	<i>Nominal amount HK\$'000</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
<b>At 1st July, 2005, 30th June, 2006 and 30th June, 2007</b>	<b>10,000,000,000</b>	<b>1,000,000</b>
Issued and fully paid:		
At 1st July, 2005	2,888,382,761	288,838
Issue of shares upon exercise of warrants	61,235,525	6,124
At 30th June, 2006	2,949,618,286	294,962
Issue of shares upon exercise of warrants	18,307,997	1,831
Issue of shares upon exercise of share options	2,400,000	240
<b>At 30th June, 2007</b>	<b>2,970,326,283</b>	<b>297,033</b>

### Warrants

Pursuant to the written resolutions of the then 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 87,533,636 ordinary shares of the Company at an initial subscription price per share of HK\$4.18 (subject to adjustment) exercisable during a period of three years commencing 6th August, 2003 (the "Subscription Rights").

During the period from 1st July, 2006 up to the expiry of the Warrants on 5th August, 2006, the Subscription Rights of HK\$76,527,427 (2006: HK\$255,964,495) were exercised by registered holders resulting in the issuance of 18,307,997 (2006: 61,235,525) ordinary shares of the Company.

### Share option scheme

A share option scheme (the "Option Scheme") was adopted by the Company 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, the ultimate holding company of the Company, at an extraordinary general meeting held on 16th July, 2003. The Option Scheme shall be valid and effective for a period of 10 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, professionals 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 executives, or substantial shareholders of the Company; and (vi) any employees of substantial shareholders of the Company or for such other purposes as the Board of Directors may approve from time to time.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 23. SHARE CAPITAL (continued)

### Share option scheme (continued)

Share 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 consolidated income statement when received.

In September, 2004, the Company granted share options to certain employees to subscribe for ordinary shares in the Company.

Details of the movements of share options of the Company during the year ended 30th June, 2006 are as follows:

	<i>Date of grant</i>	<i>Exercise price</i>	<i>Balance of outstanding options at 1st July, 2005</i>	<i>Options granted during the year</i>	<i>Options exercised during the year</i>	<i>Options cancelled/lapsed during the year</i>	<i>Balance of outstanding options at 30th June, 2006</i>	<i>Exercise period</i>
		<b>HK\$</b>						
Director:								
Leo Kwok Kee LEUNG	8th September, 2004	4.875	2,000,000	—	—	—	2,000,000	8th September, 2004 to 7th September, 2007
An employee	8th September, 2004	4.875	400,000	—	—	—	400,000	8th September, 2004 to 7th September, 2007
Total			2,400,000	—	—	—	2,400,000	

Details of the movements of share options of the Company during the year ended 30th June, 2007 are as follows:

	<i>Date of grant</i>	<i>Exercise price</i>	<i>Balance of outstanding options at 1st July, 2006</i>	<i>Options granted during the year</i>	<i>Options exercised during the year</i>	<i>Options cancelled/lapsed during the year</i>	<i>Balance of outstanding options at 30th June, 2007</i>	<i>Exercise period</i>
		<b>HK\$</b>						
Director:								
Leo Kwok Kee LEUNG	8th September, 2004	4.875	2,000,000	—	(2,000,000)	—	—	8th September, 2004 to 7th September, 2007
An employee	8th September, 2004	4.875	400,000	—	(400,000)	—	—	8th September, 2004 to 7th September, 2007
Total			2,400,000	—	(2,400,000)	—	—	

The weighted average closing price of the shares on the dates immediately before the options were exercised by Mr. Leo Kwok Kee LEUNG and the employee during the year ended 30th June, 2007 were HK\$7.36 and HK\$6.61 respectively.

The financial impact of these share options granted is not recorded in the Group's consolidated balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in prior years as the Group has taken advantages of the transitional provisions set out in IFRS 2 and all these options were granted and vested before 1st July, 2005. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Share options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 23. SHARE CAPITAL (continued)

### Share option scheme (continued)

On 17th October, 2006, share options to subscribe for ordinary shares in the Company were granted to certain employees of the Company. The details of the share options granted are as follows:

<i>Exercise price</i>	<i>Balance of outstanding options at 1st July, 2006</i>	<i>Options granted during the year</i>	<i>Options exercised during the year</i>	<i>Options cancelled/lapsed during the year</i>	<i>Balance of outstanding options at 30th June, 2007</i>	<i>Vesting date</i>	<i>Exercise period</i>
<b>HK\$</b>							
5.858	—	1,240,000	—	—	1,240,000	1st December, 2007	1st December, 2007 to 30th November, 2013
5.858	—	1,240,000	—	—	1,240,000	1st December, 2008	1st December, 2008 to 30th November, 2013
5.858	—	1,240,000	—	—	1,240,000	1st December, 2009	1st December, 2009 to 30th November, 2013
5.858	—	1,240,000	—	—	1,240,000	1st December, 2010	1st December, 2010 to 30th November, 2013
5.858	—	1,240,000	—	—	1,240,000	1st December, 2011	1st December, 2011 to 30th November, 2013
Total	—	6,200,000	—	—	6,200,000		

The total fair values of the options determined at the date of grant using the Binomial option pricing model were HK\$5,814,000 of which HK\$1,743,000 was recorded as expense in the current year.

The following assumptions were used to calculate the fair values of share options:

Closing share price at date of grant	HK\$5.700
Weighted average exercise price	HK\$5.858
Expected life of options	6.4–6.9 years
Expected volatility	23%
Expected dividend yield	4.75%
Risk-free rate	3.969%

The Binomial option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimates. The value of an option varies with different variables of certain subjective assumptions.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 23. SHARE CAPITAL (continued)

### Share award scheme

On 25th January, 2007, an employees' share award scheme ("Share Award Scheme") was adopted by the Company. The Share Award Scheme shall be valid and effective for a period of 15 years commencing from 25th January, 2007. Pursuant to the rules of the Share Award Scheme, the Company has set up a trust, HHI Employees' Share Award Scheme Trust, for the purpose of administering the Share Award Scheme and holding the awarded shares before they vest.

During the year, a total of 1,940,000 shares in the Company had been awarded to certain directors and an employee of the Company at nil consideration. The awardees shall not dispose of, nor enter into any agreement to dispose of the relevant awarded shares in the 12-month period commencing on the vesting date thereof. Details of the movement of the awarded shares of the Company during the year ended 30th June, 2007 are as follows:

	<i>Vesting date</i>	<i>Balance of outstanding awarded shares at 1st July, 2006</i>	<i>Shares awarded during the year</i>	<i>Shares vested during the year</i>	<i>Balance of outstanding awarded shares at 30th June, 2007</i>
Directors	25th January, 2007	—	1,140,000	(1,140,000)	—
	25th January, 2008	—	340,000	—	<b>340,000</b>
	25th January, 2009	—	340,000	—	<b>340,000</b>
An employee	25th January, 2007	—	40,000	(40,000)	—
	25th January, 2008	—	40,000	—	<b>40,000</b>
	25th January, 2009	—	40,000	—	<b>40,000</b>
<b>Total</b>		<b>—</b>	<b>1,940,000</b>	<b>(1,180,000)</b>	<b>760,000</b>

During the year ended 30th June, 2007, 1,940,000 shares of the Company were acquired at a total cost of HK\$14,129,000 of which 1,180,000 shares have been vested and transferred to the relevant directors and an employee, such vested shares are held in escrow on behalf of directors and an employee until the 12-month lock-up period has expired.

At 30th June, 2007, the outstanding awarded shares of 760,000 shares (2006: nil) with an aggregate nominal value of HK\$76,000 were held by HHI Employees' Share Award Scheme Trust. In accordance with the trust deed of HHI Employees' Share Award Scheme Trust, the relevant trustee shall not exercise the voting rights attached to such shares.

The total fair value of the awarded shares determined at the date of grant based on the value of the shares of the Company at the date of the award adjusted for the effect of 12-month lock-up period, estimated using the Black-Scholes option pricing model, and the present value of the dividend received during the vesting period was HK\$12,369,000, of which HK\$9,284,000 was recorded as expense in the current year.

The following assumptions were used to calculate the fair value of implied put option of the awarded shares (arising as a result of the 12-month lock-up period) with the Black-Scholes option pricing model:

Closing share price at date of grant	HK\$7.38
Expected life of options	1–3 years
Expected volatility	
— First year	25.18 %
— Second year	21.80 %
— Third year	23.47 %
Expected dividend yield	4.36 %
Risk-free rate	
— First year	3.89 %
— Second year	3.92 %
— Third year	3.93 %

The variables and assumptions used in computing the fair value of the implied put option of the awarded shares and the fair value of the awarded shares as a whole are based on the directors' best estimates. The value of awarded share varies with different variables of certain subjective assumptions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 24. RESERVES

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

	2006 HK\$'000	2007 HK\$'000
PRC statutory reserves	94,716	<b>106,353</b>
Translation reserve	89,901	<b>200,221</b>
Retained profits	1,531,075	<b>1,630,830</b>
	1,715,692	<b>1,937,404</b>

Pursuant to the relevant PRC regulations applicable to the Group's 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 their respective board of directors. The reserves, which include a general fund and development fund, are not distributable until the end of the operation period, at which time any remaining balance of the reserves can be distributed to the joint venture partners upon dissolution 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 Chapter 22 of the Cayman Islands, the 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 distribution of a dividend, the Company is able to pay its debt 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, 2007, the Company's reserves available for distribution to its shareholders amounted to approximately HK\$9,102,571,000 (2006: HK\$8,535,023,000), comprising retained profits and share premium of approximately HK\$1,628,498,000 (2006: HK\$1,147,107,000) and HK\$7,474,073,000 (2006: HK\$7,387,916,000) respectively.

## 25. BANK AND OTHER LOANS

	2006 HK\$'000	2007 HK\$'000
Bank loans, secured	4,555,315	<b>5,210,224</b>
Other loans, unsecured	86,250	<b>4,839</b>
	4,641,565	<b>5,215,063</b>

The borrowings are repayable as follows:

On demand or within one year	264,987	<b>219,776</b>
In the second year	209,841	<b>250,057</b>
In the third to fifth years inclusive	817,009	<b>1,028,363</b>
After five years	3,349,728	<b>3,716,867</b>
	4,641,565	<b>5,215,063</b>
Less: Amounts due for settlement within one year (shown under current liabilities)	(264,987)	<b>(219,776)</b>
Amounts due for settlement after one year	4,376,578	<b>4,995,287</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 25. BANK AND OTHER LOANS (continued)

Analysis of the Group's borrowings by currency:

	At 30th June, 2006			Total HK\$'000
	US\$ loans HK\$'000	HK\$ loans HK\$'000	RMB loans HK\$'000	
Bank loans	3,293,659	—	1,261,656	4,555,315
Other loans	—	—	86,250	86,250
	3,293,659	—	1,347,906	4,641,565

	At 30th June, 2007			Total HK\$'000
	US\$ loans HK\$'000	HK\$ loans HK\$'000	RMB loans HK\$'000	
Bank loans	3,195,488	499,847	1,514,889	5,210,224
Other loan	—	—	4,839	4,839
	3,195,488	499,847	1,519,728	5,215,063

At 30th June, 2007, bank loans of approximately US\$408,970,000 equivalent to HK\$3,195,488,000 (2006: US\$423,970,000 equivalent to HK\$3,293,659,000) are denominated in currencies other than the functional currency of GS Superhighway JV, the relevant borrower of the Group.

At 30th June, 2007, bank loans of approximately HK\$499,847,000 (2006: Nil) are denominated in currencies other than the functional currency of Ring Road JV, the relevant borrower of the Group.

The bank loans at 30th June, 2007 included bank loans of approximately RMB889,500,000 equivalent to approximately HK\$912,627,000 (2006: RMB735,500,000 equivalent to approximately HK\$714,906,000) and HK\$499,847,000 (2006: Nil) borrowed by the Ring Road JV to which, pursuant to relevant agreements entered into among the joint venture partners of the Ring Road JV, the Group is responsible for servicing.

At 30th June, 2007, the Group had available HK\$3,600,000,000 (2006: HK\$3,600,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Other than the amount of the other loans of approximately HK\$4,839,000 (2006: HK\$4,295,000) at 30th June 2007, which is interest-free and repayable at the end of the operation period of the GS Superhighway JV (i.e. June 2027) ("GS interest-free loan"), bank and other loans carry interest at commercial lending rates. The effective interest rate adopted for measurement at fair value at initial recognition of the GS interest-free loan is 6.75%. At the balance sheet dates, the fair values approximate their carrying amounts.

The average effective interest rates for bank and other loans for the year were 6.0% (2006: 5.2%) and 6.4% (2006: 5.9%) respectively. At the balance sheet dates, the carrying amounts of the bank loans approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 26. BALANCES WITH OUTSIDE JOINT VENTURE PARTNERS

	2006 HK\$'000	2007 HK\$'000
Registered capital contribution made by outside joint venture partners of:		
Ring Road JV	95,638	<b>95,638</b>
West Route JV	138,474	<b>192,696</b>
	234,112	<b>288,334</b>
Loans made by outside joint venture partners of:		
GS Superhighway JV	7,503	—
Ring Road JV	399,302	<b>32,080</b>
West Route JV	—	<b>282,150</b>
	406,805	<b>314,230</b>
	640,917	<b>602,564</b>

The balances represent the Group's proportionate share of registered capital contribution and loans made to jointly controlled entities by the outside joint venture partners.

The registered capital contribution from outside joint venture partners to jointly controlled entities are interest-free and do not have a specific repayment term. The effective interest rate adopted for measurement at fair value at initial recognition of the registered capital contribution made by outside joint venture partners to Ring Road JV and West Route JV ranged from 5.65% to 6.48% (2006: 5.28% to 5.51%). At the balance sheet date, the fair values of the registered capital contribution from outside joint venture partners approximate their carrying amounts.

Loans made by outside joint venture partners to jointly controlled entities are unsecured and are repayable out of the net cash surplus from the operations of the jointly controlled entities.

The loan made by the outside joint venture partner of GS Superhighway JV carried interest at the Hong Kong prime rate. At 30th June, 2006, its fair value approximates its carrying amount.

The loan made by outside joint venture partner of Ring Road JV is interest-free. The effective interest rate adopted for measurement at fair value at initial recognition of the loan to Ring Road JV is 6.66%. At the balance sheet date, its fair value is estimated to approximate its carrying amount (2006: HK\$414,086,000).

The loan made by outside joint venture partner of West Route JV carries interest at commercial lending rates. At the balance sheet dates, the fair values approximate their carrying amounts.

## 27. DEFERRED TAX LIABILITIES

The deferred tax liabilities represent the Group's proportionate share of such liabilities of the jointly controlled entities. The major components and movements in the deferred tax liabilities (assets) are as follows:

	<i>Accelerated tax depreciation HK\$'000</i>	<i>Tax losses HK\$'000</i>	<i>Total HK\$'000</i>
At 1st July, 2005	206,890	(40,000)	166,890
Charge to the consolidated income statement for the year (note 10)	20,559	6,000	26,559
At 30th June, 2006	227,449	(34,000)	193,449
Exchange adjustments	13,000	(1,894)	11,106
Charge to the consolidated income statement for the year (note 10)	14,859	35,894	50,753
<b>At 30th June, 2007</b>	<b>255,308</b>	—	<b>255,308</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 27. DEFERRED TAX LIABILITIES (continued)

At 30th June 2007, one of the jointly controlled entities has unused tax losses of approximately RMB416,863,000 or equivalent to HK\$427,702,000 (2006: RMB432,993,000 or equivalent to HK\$420,869,000) available for offset against its future profits as analysed as follows:

	2006 HK\$'000	2007 HK\$'000
Carried forward to		
December 2007	183,442	<b>176,811</b>
December 2008	147,293	<b>155,475</b>
December 2009	79,736	<b>84,167</b>
December 2010	10,398	<b>11,249</b>
	420,869	<b>427,702</b>

No deferred tax asset has been recognised in respect of the unused tax losses as at 30th June 2007 as it is uncertain whether sufficient taxable profits will be available prior to the expiry date to allow utilisation of the carrying forward tax losses. A deferred tax asset had been recognised as at 30th June, 2006 of such losses of the jointly controlled entity and the Group's proportionate share of such deferred tax asset amounted to approximately HK\$34,000,000.

## 28. OTHER PAYABLE TO A JOINTLY CONTROLLED ENTITY

The balance represents other payable to Ring Road JV by the Group not eliminated on the adoption of proportionate consolidation for the jointly controlled entity. The amount is unsecured, interest-free and has no fixed repayment term. At the balance sheet date, the carrying amount approximates its fair value.

## 29. TOTAL ASSETS LESS CURRENT LIABILITIES/NET CURRENT ASSETS

The Group's total assets less current liabilities at 30th June, 2007 amounted to approximately HK\$16,792,637,000 (2006: HK\$15,546,779,000). The Group's net current assets at 30th June, 2007 amounted to approximately HK\$3,901,746,000 (2006: HK\$3,064,746,000).

## 30. SUMMARY OF BALANCE SHEET OF THE COMPANY

	2006 HK\$'000	2007 HK\$'000
<b>ASSETS</b>		
Non-current assets	3,617,089	<b>3,290,594</b>
Current assets	5,279,420	<b>6,158,701</b>
Total assets	8,896,509	<b>9,449,295</b>
<b>EQUITY AND LIABILITIES</b>		
Capital and reserves		
Share capital	294,962	<b>297,033</b>
Reserves	8,535,023	<b>9,100,212</b>
Total equity	8,829,985	<b>9,397,245</b>
Current liabilities	66,524	<b>52,050</b>
Total liabilities	66,524	<b>52,050</b>
Total equity and liabilities	8,896,509	<b>9,449,295</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following list contains the particulars of the subsidiaries of the Company at 30th June, 2007 which principally affect the results, assets or liabilities 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.

<i>Name of subsidiary</i>	<i>Place of incorporation</i>	<i>Issued and fully paid share</i>	<i>Attributable equity interest held by the Company</i>	<i>Principal activity</i>
Kingnice Limited	British Virgin Islands	Ordinary share US\$20,000	97.5%	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
HHI Finance Limited	Hong Kong	Ordinary share HK\$1	100%	Loan finance

All the above subsidiaries are indirectly held by the Company.

## 32. MAJOR NON-CASH TRANSACTION

During the year ended 30th June, 2006, a jointly controlled entity of the Group disposed of certain property and equipment with carrying amounts proportionately shared by the Group of approximately HK\$24,362,000 at the consideration proportionately shared by the Group amounting to approximately HK\$12,165,000 with deferred payment terms, in which the Group's proportionate share of approximately HK\$3,088,000 was received in the year ended 30th June, 2006.

During the year ended 30th June, 2007, development costs of HK\$78,822,000 included by the Group in the proportionate share were unpaid and accrued in other payables, accruals and deposits received as at year end.

## 33. CAPITAL COMMITMENTS

At 30th June, 2007, the Group had outstanding commitments to make capital contribution to West Route JV for development of the Phase II West totalling approximately HK\$700,000,000 (2006: HK\$833,000,000).

At 30th June, 2007, the Group had agreed, subject to approval of relevant authorities, to make capital contribution to West Route JV for development of the Phase III West totalling approximately HK\$585,000,000 (2006: HK\$555,000,000).

At 30th June, 2007, GS Superhighway JV, Ring Road JV and West Route JV had outstanding commitments proportionately shared by the Group in respect of the acquisition of property and equipment, and construction of the Phase II West contracted but not provided for amounting to approximately HK\$1,426,000,000 (2006: HK\$19,000,000).

## 34. PLEDGE OF ASSETS

At 30th June, 2007, certain assets of the jointly controlled entities of the Group were pledged to banks to secure general banking facilities granted to the jointly controlled entities. The carrying amounts of these assets are analysed as follows:

	<i>2006 HK\$'000</i>	<i>2007 HK\$'000</i>
Toll expressways	6,942,133	<b>6,972,866</b>
Prepaid lease payments	83,520	<b>84,864</b>
Bank balances and deposits	357,620	<b>392,854</b>
Other assets	176,779	<b>231,238</b>
	7,506,052	<b>7,681,822</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2007

## 34. PLEDGE OF ASSETS (continued)

At 30th June, 2006 and 2007, the toll collection right of GS Superhighway JV was pledged to banks to secure general banking facilities granted to the jointly controlled entity. In addition, 90% (2006: 90%) and 65% (2006: 65%) of the toll collection rights of Ring Road JV and West Route JV respectively were pledged to banks to secure general banking facilities granted to the respective jointly controlled entities.

## 35. RELATED PARTY TRANSACTIONS

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

During the year, the Group paid rentals, air-conditioning and electricity charges and government rates to a fellow subsidiary amounting to approximately HK\$1,580,000 (2006: HK\$1,059,500).

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

<i>Relationship</i>	<i>Nature of transaction</i>	<i>2006 HK\$'000</i>	<i>2007 HK\$'000</i>
Outside joint venture partner of the GS Superhighway JV	Interest paid	591	<b>398</b>
	Reimbursement of operating expenses	3,300	<b>523</b>
	Dividend paid and payable	929,295	<b>1,415,915</b>
Outside PRC joint venture partner of the Ring Road JV	Management fee paid and payable	4,000	<b>4,000</b>
Outside foreign joint venture partner of the Ring Road JV	Management fee paid and payable	2,000	<b>2,000</b>
	Interest income	39,642	<b>34,832</b>
Outside PRC joint venture partner of the West Route JV	Management fee	1,930	—
	Dividend paid and payable	—	<b>15,640</b>

At 30th June, 2006, the Company and the holding company of the outside foreign joint venture partner of the Ring Road JV had separately given guarantees to a PRC bank for bank loan facilities of RMB735,500,000 and RMB617,430,000 respectively granted to Ring Road JV. The guarantees were released in June 2007.

On 1st June, 2007, West Route JV entered into a material-supply management agreement ("Management Agreement") for the provision of material logistics services, consisting of the planning, procurement and logistics management of the main construction materials for the Phase II West project, by Guangdong Nan Yue Logistics Company Limited ("Nam Yue") to West Route JV. Nam Yue is a subsidiary of the ultimate holding company of the PRC joint venture partner of West Route JV. The appointment of Nam Yue under the Management Agreement is for a period of 3 years or until the completion of the supply of the materials, payment of all material fees and after audit by the relevant departments of the West Route JV, whichever is earlier. The service fee is calculated based on 2.5% of the fee for the material supplied for the Phase II West project.

Such provision of material logistics services constituted a continuing connected transaction of the Group. Details of the transaction are contained in the announcement of the Company and Hopewell Holdings Limited dated 1st June, 2007.

### Compensation of key management personnel

The remuneration of key management personnel who are all directors of the Company is disclosed in note 14.

## 36. POST BALANCE SHEET EVENT

On 9th August, 2007, the Group entered into an agreement with the PRC joint venture partner of Ring Road JV pursuant to which the Group agreed to sell, and the PRC partner of Ring Road JV agreed to purchase, the entire 45% interest of the Group in Ring Road JV and other rights, duties and obligations in the ESW Ring Road project for a consideration of RMB1,712,550,000. The completion of the agreement is subject to the approval by the shareholders of the Company and Hopewell Holdings Limited, the ultimate holding company, and relevant PRC authorities within 180 days of the date of the agreement (or such other date as may be mutually agreed).

Such disposal transaction constituted a disclosable and connected transaction of the Group. Details of the disposal are contained in the announcement of the Company and Hopewell Holdings Limited dated 9th August, 2007.

## 37. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements on page 51 to 83 were approved and authorised for issue by the Board of Directors on 21st August, 2007.

# 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. Lijia HUANG

Mr. Cheng Hui JIA

Mr. Barry Chung Tat MOK

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

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

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

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

Mr. Yuk Keung IP<sup>#</sup>

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

## Audit Committee

Mr. Lee Yick NAM *Chairman*

Mr. Kojiro NAKAHARA

Mr. Philip Tsung Cheng FEI

Mr. Yuk Keung IP

## Remuneration Committee

Mr. Eddie Ping Chang HO *Chairman*

Mr. Lee Yick NAM

Dr. Gordon YEN

## 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>

Bank of China Limited

Bank of China (Hong Kong) Limited

Bank of Communications Co., Limited

Bank of East Asia, Limited

The Bank of Tokyo-Mitsubishi UFJ, Limited

BNP Paribas

Calyon

China Construction Bank Corporation

China Development Bank

China CITIC Bank Corporation Limited

Chong Hing Bank Limited

Citibank, N.A.

Industrial and Commercial Bank of China Limited

Industrial and Commercial Bank of China (Asia) Limited

Mizuho Corporate Bank, Limited

Nanyang Commercial Bank Limited

Shanghai Commercial Bank Limited

Shenzhen Development Bank

Sumitomo Mitsui Banking Corporation

Tai Fung Bank Limited

Wing Lung Bank Limited

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

## Cayman Islands Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited

P.O. Box 513, Strathvale House

North Church Street, George Town

Grand Cayman, Cayman Islands KY1-1106

## Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East, Wanchai, Hong Kong

Tel : (852) 2862 8555

Fax : (852) 2529 6087

## Listing Information

The Stock Exchange of Hong Kong Limited

Ordinary Shares (Stock Code : 737)

## 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

Investor Relations Manager

Tel : (852) 2862 5683

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Email : ir@hopewellhighway.com

## Web Page

www.hopewellhighway.com

In the case of any inconsistency between the Chinese translation and the English text of this Annual Report, the English text shall prevail.



## **Financial Calendar**

Interim results announcement	1st March, 2007
Closure of Register	19th March, 2007 to 22nd March, 2007 <i>(both days inclusive)</i>
Interim dividend paid <i>(HK15 cents per ordinary share)</i>	23rd March, 2007
Final results announcement	21st August, 2007
Closure of Register	28th September, 2007 to 4th October, 2007 <i>(both days inclusive)</i>
Annual General Meeting	4th October, 2007
Proposed final dividend payable <i>(HK20 cents per ordinary share)</i>	5th October, 2007

## **財務日誌**

公佈中期業績	二零零七年三月一日
暫停辦理股份過戶登記	二零零七年三月十九日至二零零七年三月二十二日 <i>(包括首尾兩天在內)</i>
派付中期股息 <i>(每普通股港幣 15 仙)</i>	二零零七年三月二十三日
公佈全年業績	二零零七年八月二十一日
暫停辦理股份過戶登記	二零零七年九月二十八日至二零零七年十月四日 <i>(包括首尾兩天在內)</i>
股東週年大會	二零零七年十月四日
派付建議末期股息 <i>(每普通股港幣 20 仙)</i>	二零零七年十月五日



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