



Hopewell Highway Infrastructure Limited

合和公路基建有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 737)

FINAL RESULTS FOR THE YEAR ENDED 30TH JUNE, 2004

CHAIRMAN'S STATEMENT

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

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

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

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

Financial Status

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

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

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

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

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

Business Review and Outlook

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

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

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

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

Code of Best Practice

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

Audit Committee

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

Relations with Shareholders and Investors

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

Employees and Remuneration Policies

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

Purchase, Sale or Redemption of Shares

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

Acknowledgment

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

By order of the Board
Sir Gordon Ying Sheung WU *GBS, KCMG, FICE*
Chairman

Hong Kong, 6th September, 2004

FINANCIAL REVIEW

Group Results

Highlights:

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

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

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

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

Liquidity and Financial Resources

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

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

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

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

Notes:

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

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

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

	<u>Less than 1 year</u>	<u>Over 1 year</u>	
The Group (Unconsolidated)			
At 30th June, 2004	–	–	
At 30th June, 2003	43%	57%	
	<u>Within 1 year</u>	<u>2-5 years</u>	<u>Over 5 years</u>
The Joint Venture Companies (Proportionately shared)			
At 30th June, 2004	4%	31%	65%
At 30th June, 2003	6%	44%	50%
		<u>Unconsolidated</u>	<u>Proportionately shared</u>
Bank Loans (HK\$ million)			
At 30th June, 2004		–	4,786
At 30th June, 2003		372	4,621

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

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

CONSOLIDATED INCOME STATEMENT

The audited consolidated income statement of the Group for the year ended 30th June, 2004 is as follows:

	<i>Notes</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	2	1,030,350	1,244,950
Other operating income	3	68,055	89,188
Toll operation expenses		(87,803)	(109,158)
Depreciation and amortisation charges		(186,310)	(229,317)
General and administrative expenses		(54,864)	(72,658)
		<hr/>	<hr/>
Profit from operations	4	769,428	923,005
Finance costs	5	(200,628)	(150,797)
		<hr/>	<hr/>
Profit before tax		568,800	772,208
Income tax expense	6	(24,740)	(22,071)
		<hr/>	<hr/>
Profit after tax		544,060	750,137
Minority interests		(10,981)	(15,362)
		<hr/>	<hr/>
Profit for the year		<u>533,079</u>	<u>734,775</u>
		<hr/>	<hr/>
Dividends	7	–	648,131
		<hr/>	<hr/>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	8		
– Basic		<u>24.68</u>	<u>26.15</u>
– Diluted		<u>N/A</u>	<u>26.11</u>

Notes:

1. CORPORATE REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

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

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

The Group resulting from the Corporate Reorganisation is regarded as a continuing entity. The consolidated income statement for the year ended 30th June, 2003 has been prepared on a combined basis as if the current structure had been in existence throughout that year.

The financial statements have been prepared in accordance with International Financial Reporting Standards. The accounting policies adopted are consistently applied with those followed in the preparation of the Group's annual financial statements for the year ended 30th June, 2003.

2. TURNOVER AND SEGMENT INFORMATION

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

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

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

3. OTHER OPERATING INCOME

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

4. PROFIT FROM OPERATIONS

	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
Current year	744	1,009
Underprovision in prior year	–	9
	<u>744</u>	<u>1,018</u>
Directors' emoluments	2,682	14,047
Exchange losses, net	1,236	3,183
Other staff costs (excluding directors)	46,001	56,359
Amortisation of additional investment cost in jointly controlled entities	32,102	39,306
Depreciation of:		
Toll roads	150,031	185,336
Other property and equipment	4,177	4,675
Property and equipment written-off	–	7
	<u>233,036</u>	<u>303,873</u>

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

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

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

Pursuant to relevant laws and regulations in the PRC, the Group's jointly controlled entities are entitled to certain exemption and relief from PRC income tax.

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

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

7. DIVIDENDS

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

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

8. EARNINGS PER SHARE

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

	2003 HK\$'000	2004 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>533,079</u>	<u>734,775</u>
	2003 Number of shares	2004 Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,160,000,000	2,809,376,020
Effect of dilutive potential ordinary shares: warrants	N/A	<u>4,552,670</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per shares	<u>2,160,000,000</u>	<u>2,813,928,690</u>

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

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

9. CAPITAL COMMITMENTS

At 30th June, 2004, Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited ("GS Superhighway JV") and Guangzhou E-S-W Ring Road Company Limited ("Ring Road JV") had outstanding commitments in respect of systems for unification of toll collection and major repairs and maintenance contracted but not provided for amounting to approximately HK\$12 million (2003: nil) and HK\$11 million (2003: nil), respectively.

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

10. PLEDGE OF ASSETS

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

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

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

11. INTEREST RATE EXPOSURE AND EXCHANGE RATE EXPOSURE

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 as the Hong Kong Dollar is pegged to US Dollar, and the exchange rates between Renminbi and Hong Kong Dollar, and Renminbi and US Dollar are relatively stable. Business operations of the Group and its jointly controlled entities are mainly denominated in these three currencies.

12. CONTINGENT LIABILITIES

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

13. SUBSEQUENT EVENTS

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

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

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

Publication of further information on the Stock Exchange's website

All the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules in force prior to 31st March, 2004 will be published on the Stock Exchange's website in due course.

As at the date of this announcement, the directors of the Company are Sir Gordon Ying Sheung WU, Mr. Eddie Ping Chang HO, Mr. Thomas Jefferson WU, Mr. Alan Chi Hung CHAN, Ir. Leo Kwok Kee LEUNG, Mr. Li Jia HUANG, Mr. Cheng Hui JIA, Mr. Christopher Shih Ming IP, Mr. Kojiro NAKAHARA, Mr. Philip Tsung Cheng FEI, Mr. Lee Yick NAM and Mr. Gordon YEN.

** for identification only*

“Please also refer to the published version of this announcement in South China Morning Post”