

Notes to the Financial Statements

For the year ended 30th June, 2003

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 whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

Pursuant to a group reorganisation (the "Corporate Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Listing") on the Stock Exchange, the Company issued shares in exchange for the entire issued share capital of Jetgold Limited, Yager International Limited and Wilberforce International Limited and thereby 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 holding companies of the Group ("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 public offer.

Details of the above issues of shares are set out in the prospectus dated 28th July, 2003 issued by the Company. The shares of the Company have been listed on the Stock Exchange with effect from 6th August, 2003.

The Group resulting from the Corporate Reorganisation is regarded as a continuing entity. Accordingly, the financial statements have been prepared using the principles of merger accounting.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

Interests in jointly controlled entities

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

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

Additional investment cost in jointly controlled entities

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

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

Property and equipment

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment *(continued)*

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

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

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

Revenue recognition

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

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

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

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

Leasing

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

Foreign currencies

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

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

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

Retirement benefit costs

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

Taxation

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

The tax currently payable is based on the results for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base 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 are related to goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

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

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

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

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

Inventories

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

Financial instruments

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

Accounts receivable, deposits and prepayments

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

Bank and other borrowings

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

Accounts payable and deposits received

Accounts payable and deposits received are stated at their nominal value.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

3. TURNOVER AND SEGMENT INFORMATION

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

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

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

4. OTHER OPERATING INCOME

	2002 HK\$'000	2003 HK\$'000
Interest income from:		
A jointly controlled entity	98,814	25,766
A joint venture partner	16,511	17,758
Bank deposits	5,467	6,369
Rental income	2,225	5,891
Exchange gains, net	1,538	–
Reimbursement of operating expenses from jointly controlled entities	3,006	3,238
Other income	24,078	9,033
	151,639	68,055

5. PROFIT FROM OPERATIONS

	2002 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	725	744
Directors' emoluments (note 11)	3,382	2,682
Exchange losses, net	–	1,236
Other staff costs (excluding directors)	41,260	46,001
Amortisation of additional investment cost in jointly controlled entities	28,249	32,102
Depreciation of:		
Toll roads	128,063	150,031
Other property and equipment	4,593	4,177

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

6. FINANCE COSTS

	2002 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans	176,177	173,005
Loan from a jointly controlled entity	16,511	21,653
Loan from a joint venture partner	669	297
Amount due to ultimate holding company	4,024	–
Other loans	19,209	4,774
	216,590	199,729
Other financial expenses	4,045	899
Total borrowing costs	220,635	200,628

7. INCOME TAX EXPENSE

	2002 HK\$'000	2003 HK\$'000
PRC income tax	398	235
Deferred taxation (note 26)	18,900	24,505
	19,298	24,740

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

7. INCOME TAX EXPENSE (continued)

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

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

	2002 HK\$'000	2003 HK\$'000
Profit before tax	560,778	568,800
Tax calculated at normal income tax rate of 33%	185,057	187,704
Tax effect of:		
Non-taxable income	(182,674)	(175,322)
Non-deductible expenses	39,595	41,764
Differential tax rate on temporary difference of jointly controlled entities	(22,680)	(29,406)
Tax expense	19,298	24,740

8. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. The amount of dividends disclosed for the prior year represents the dividends declared by a subsidiary of the Company to its then shareholders during the year ended 30th June 2002. Those dividends were settled through current accounts with the holding companies.

9. EARNINGS PER SHARE – BASIC

The calculation of the basic earnings per share is based on the profit for the year of HK\$533,079,000 (2002: HK\$532,429,000) and on 2,160,000,000 shares which represent 3,120,250 shares in issue as at 30th June 2003 upon the Corporate Reorganisation and 2,156,879,750 shares, issued pursuant to the Capitalisation Issue, deemed to be outstanding throughout both years.

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

10. RETIREMENT BENEFITS PLANS

The aggregate numbers of employees of the Group and the jointly controlled entities were 2,083 and 2,208 at 30th June, 2002 and 2003 respectively.

At 30th June, 2003, the employees of the Group joined the Mandatory Provident Fund ("MPF") Scheme operated by its ultimate holding company. Mandatory contributions to the scheme are made by both the employer and employees at 5% of the employees' monthly relevant income capped at HK\$20,000. At the balance sheet date, there were no forfeited contributions available to reduce future obligations. The contributions made by the Group to the MPF Schemes for the year are approximately HK\$194,000 (2002: HK\$183,000).

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\$3,926,000 (2002: HK\$3,447,000).

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors

Details of emoluments paid by the Group during the year to the persons who are the directors of the Company after the Listing are as follows:

	<i>2002</i> <i>HK\$'000</i>	<i>2003</i> <i>HK\$'000</i>
Fees	–	–
Salaries and other benefits	2,358	2,194
Performance related bonus	1,000	464
Contributions to retirement benefits plans	24	24
Total emoluments	3,382	2,682

The emoluments of the directors were within the following bands:

	<i>2002</i> <i>Number of</i> <i>directors</i>	<i>2003</i> <i>Number of</i> <i>directors</i>
Nil to HK\$1,000,000	11	11
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	1	–

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Five highest paid employees' emoluments

The five highest paid individuals of the Group include 2 persons who are the directors of the Company after the Listing whose emoluments are included in the above disclosures. The emoluments of the remaining individuals, which are individually below HK\$1,000,000, are as follows:

	2002 HK\$'000	2003 HK\$'000
Salaries and other benefits	2,090	1,742
Contributions to retirement benefits plans	36	36
Total emoluments	2,126	1,778

During the two years ended 30th June, 2003, no emoluments were paid by the Group to any of the persons who are directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and none of the persons who are directors of the Company waived any emoluments.

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

12. PROPERTY AND EQUIPMENT

THE GROUP

	<i>Toll roads</i> HK\$'000	<i>Motor vehicles</i> HK\$'000	<i>Furnitures, fixtures and equipment</i> HK\$'000	<i>Construction in progress</i> HK\$'000	<i>Total</i> HK\$'000
COST					
At 1st July, 2002	9,689,221	20,129	9,824	227	9,719,401
Additions	92,554	798	2,888	25	96,265
Exchange differences	(2,032)	(3)	(2)	–	(2,037)
Transfer	252	445	(445)	(252)	–
Disposals	(38,143)	(827)	–	–	(38,970)
At 30th June, 2003	9,741,852	20,542	12,265	–	9,774,659
ACCUMULATED DEPRECIATION					
At 1st July, 2002	602,267	13,817	4,617	–	620,701
Charge for the year	150,031	3,044	1,133	–	154,208
Exchange differences	(148)	(2)	(1)	–	(151)
Eliminated on disposals	–	(652)	–	–	(652)
At 30th June, 2003	752,150	16,207	5,749	–	774,106
CARRYING AMOUNT					
At 30th June, 2002	9,086,954	6,312	5,207	227	9,098,700
At 30th June, 2003	8,989,702	4,335	6,516	–	9,000,553

Note:

At the balance sheet dates, the toll roads and other assets of the jointly controlled entities have been pledged to secure the bank loan facilities granted to the Group and its jointly controlled entities. The carrying value of the toll roads included above which have been pledged are approximately HK\$8,989,702,000 (2002: HK\$9,086,954,000).

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

13. ADDITIONAL INVESTMENT COST IN JOINTLY CONTROLLED ENTITIES

THE GROUP

HK\$'000

COST

At 1st July, 2002	2,075,460
Additions	3,109
Disposals	(5,057)
At 30th June, 2003	2,073,512

AMORTISATION

At 1st July, 2002	141,152
Charge for the year	32,102
At 30th June, 2003	173,254

CARRYING AMOUNT

At 30th June, 2002	1,934,308
At 30th June, 2003	1,900,258

14. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Particulars of the Group's jointly controlled entities at 30th June, 2003 are as follows:

<i>Name of company</i>	<i>Place of establishment</i>	<i>Registered capital</i>	<i>Principal activity</i>
廣深珠高速公路有限公司 Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited ("GS Superhighway JV")	The PRC	RMB471,000,000	Development, operation and management of an expressway
廣州東南西環高速公路有限公司 Guangzhou E-S-W Ring Road Company Limited ("Ring Road JV")	The PRC	US\$55,000,000	Development, operation and management of an expressway

GS Superhighway JV and Ring Road JV and both sino-foreign co-operative joint venture enterprises established under the PRC law.

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

14. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

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

(i) GS Superhighway JV

GS Superhighway JV is established to undertake the construction, operation and management of an expressway in Guangdong Province of the PRC. Phase I of the project comprises of an expressway running between Shenzhen and Guangzhou ("GS Superhighway"). The term of co-operation is 30 years from the official opening date. At the end of the co-operation period, all the immovable assets and facilities of GS Superhighway JV will revert to the PRC joint venture partner without compensation.

The development of phases II and III of the project, comprising a major transportation route in western Pearl River Delta ("Western Delta Route"), is undertaken by a subsidiary of the Company, 廣東合和廣珠高速公路發展有限公司 Guangdong Hopewell Guangzhou-Zhuhai Superhighway Development Limited ("HHI West Co.") (note 15).

The Group's entitlement to the profit of the toll operations of GS Superhighway JV is 50% for the initial 10 years of co-operation period, 48% for the next ten years and 45% for the last ten years of the co-operation period. The Group is also entitled to a share of 80% of the rentals and other income, after deduction of operating and financial expenses, arising from the development of commercial centres and shop spaces along and underneath GS Superhighway for a period of 30 years commencing on the date of completion of GS Superhighway. GS Superhighway JV has also been granted the contingent rights to develop parcels of land within certain interchanges of GS Superhighway for sale or rental. The detailed terms of such grant have yet to be finalised. GS Superhighway was officially opened in July 1997.

(ii) Ring Road JV

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

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

14. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

In respect of the year ended 30th June, 2002:

	GS		
	Superhighway JV	Ring Road JV	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	192,402	65,112	257,514
Non-current assets	5,375,603	1,896,333	7,271,936
Current liabilities	219,377	8,485	227,862
Non-current liabilities	4,246,797	1,383,143	5,629,940
Income	863,596	92,048	955,644
Expenses	319,254	70,744	389,998

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

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

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

15. TOLL ROAD PROJECT UNDER DEVELOPMENT

The balance represents the costs incurred by the Group on the development of Western Delta Route.

The Western Delta Route will be developed in three phases. The estimated total development cost for phase 1 of the project ("Phase 1 West"), which will be developed through a jointly controlled entity to be established for this purpose, is approximately RMB1,680 million of which RMB294 million will be provided by the Group by way of capital contribution to the jointly controlled entity. Pursuant to the joint venture agreement entered into between the Group and the PRC joint venture partner, the co-operation period of Phase 1 West is 30 years commencing on the date of issue of the business licence for the joint venture. During the co-operation period, the Group is entitled to 50% of the net operating income of the jointly controlled entity arising from Phase 1 West. Detailed terms for development of Phases 2 and 3 of the Western Delta Route have yet to be agreed by the parties concerned.

16. LOANS TO JOINTLY CONTROLLED ENTITIES

	<i>THE GROUP</i>	
	<i>2002</i>	<i>2003</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans to:		
GS Superhighway JV	563,880	387,676
Ring Road JV	645,328	626,740
	1,209,208	1,014,416

The balances represent the loans to jointly controlled entities made by the Group not eliminated on the adoption of proportionate consolidation for the jointly controlled entities.

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

17. INTEREST RECEIVABLE FROM A JOINT VENTURE PARTNER

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

18. BANK BALANCES AND CASH

Included in the bank balances and cash are bank deposits of approximately HK\$301,276,000 (2002: HK\$97,800,000), which are held by the Group's PRC subsidiary and jointly controlled entities in United States dollar, Hong Kong dollar and Renminbi. The remittance of these bank deposits outside of the PRC is subject to approval of the relevant local authorities.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

19. OTHER FINANCIAL ASSETS

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

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

Credit risk

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

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

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

20. SHARE CAPITAL

	<i>Number of shares</i>	<i>Amount HK\$'000</i>
Details of the share capital of the Company are as follows:		
<i>Authorised:</i>		
On incorporation, par value of HK\$1 each	380,000	380
Change of par value from HK\$1 to HK\$0.1	3,420,000	–
Increase during the period	996,200,000	999,620
At 30th June, 2003	1,000,000,000	1,000,000
<i>Issued and fully paid:</i>		
Allotted and issued on incorporation, par value of HK\$1 each	1	–
Subdivision of shares of par value from HK\$1 to HK\$0.1	9	–
Allotted and issued on 30th June, 2003	3,120,240	312
At 30th June, 2003	3,120,250	312

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

20. SHARE CAPITAL *(continued)*

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

- (a) The Company was incorporated on 14th January, 2003 with an authorised share capital of HK\$380,000 divided into 380,000 shares of HK\$1 each. At the time of incorporation, one ordinary share of HK\$1 was allotted and issued for cash at par.
- (b) Pursuant to the written resolutions of the sole shareholder of the Company passed on 30th June, 2003:
 - (i) each share of a par value of HK\$1 in the unissued and issued share capital of the Company was subdivided into 10 shares of a par value of HK\$0.1 each; and
 - (ii) the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000, by the creation of an additional 9,996,200,000 new shares of HK\$0.1 each.
- (c) On 30th June, 2003:
 - (i) the Company allotted and issued 3,120,100 ordinary shares, credited as fully paid in consideration of the transfer of the entire issued share capital of Most Top Limited, Yager International Limited and Wilberforce International Limited.
 - (ii) the Company allotted and issued 140 ordinary shares, credited as fully paid at the direction of Guangzhou-Shenzhen Superhighway (Holdings) Ltd. ("GSSH"), a fellow subsidiary of the Company, in consideration of GSSH (i) procuring the allotment and issue of two new ordinary shares in Hopewell China Development (Superhighway) Limited ("HHI GS Superhighway Co"), a subsidiary of the Company, to Kingnice Limited ("Kingnice") and its nominee and the conversion of the ordinary shares in HHI GS Superhighway Co beneficially held by it into deferred non-voting shares, and (ii) transferring its one share in Fan Wai Properties Limited to Kingnice.

The share capital of 30th June, 2002 as shown in the consolidated balance sheet represents the share capital of the subsidiaries, acquired by the Company pursuant to the Corporate Reorganisation.

Changes in the Company's share capital subsequent to 30th June, 2003 are set out in note 31.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

21. RESERVES

THE GROUP

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

	2002 HK\$'000	2003 HK\$'000
PRC statutory reserves	22,884	56,464
Translation reserve	2,883	3,754
Retained profits	589,931	754,754
	615,698	814,972

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

THE COMPANY

The Company had no distributable reserves at 30th June, 2003.

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

22. BANK AND OTHER LOANS

	2002 HK\$'000	2003 HK\$'000
THE GROUP		
Bank loans		
Secured	5,042,113	4,993,040
Unsecured	240,294	–
Other loans, unsecured	142,983	95,833
	5,425,390	5,088,873
The borrowings are repayable as follows:		
On demand or within one year	253,857	426,406
In the second year	671,137	568,022
In the third to fifth years inclusive	1,534,644	1,666,227
After five years	2,965,752	2,428,218
	5,425,390	5,088,873
Less: Amounts due for settlement within twelve months (shown under current liabilities)	(253,857)	(426,406)
Amounts due for settlement after twelve months	5,171,533	4,662,467

Analysis of borrowings by currency:

	<i>At 30th June, 2002</i>		
	<i>US\$ HK\$'000</i>	<i>RMB HK\$'000</i>	<i>HK\$ HK\$'000</i>
Bank loans	3,947,317	868,090	467,000
Other loans	–	142,983	–
	3,947,317	1,011,073	467,000
	<i>At 30th June, 2003</i>		
	<i>US\$ HK\$'000</i>	<i>RMB HK\$'000</i>	<i>HK\$ HK\$'000</i>
Bank loans	3,753,034	868,006	372,000
Other loans	–	95,833	–
	3,753,034	963,839	372,000

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

22. BANK AND OTHER LOANS (continued)

Other than the other loan amounts of approximately HK\$16,406,000 (2002: HK\$16,412,000), which are interest-free, the bank and other loans carry interest at commercial lending rates.

The average rates of interest for bank loans and other loans for the year were 2.7% (2002: 3.6%) and 4.8% (2002: 5.1%) respectively.

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

23. OTHER INTERESTS PAYABLE

Other interests payable are non interest-bearing except for the following balances which carry interest on the amounts outstanding at commercial lending rates:

	2002 HK\$'000	2003 HK\$'000
Other interests payable	25,531	28,565
Less: Amounts due for settlement within twelve months (shown under current liabilities)	(12,766)	(28,565)
Amounts due for settlement after twelve months	12,765	–

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

24. LOANS FROM JOINT VENTURE PARTNERS

	2002 HK\$'000	2003 HK\$'000
Amount due to joint venture partners of:		
GS Superhighway JV (interest-bearing)	7,960	8,254
Ring Road JV (interest-free)	738,047	711,248
	746,007	719,502

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

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

24. LOANS FROM JOINT VENTURE PARTNERS *(continued)*

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

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

25. AMOUNTS DUE TO HOLDING COMPANIES

The amounts are unsecured, interest free and not repayable within one year from the balance sheet date. In view of the terms of the balances, the directors consider that it is not practicable to determine their fair value.

Subsequent to 30th June, 2003, the amounts due to holding companies to the extent of HK\$4,500 million were capitalised, details of which are mentioned in note 31(a).

26. DEFERRED TAX LIABILITIES

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

	<i>2002</i> <i>HK\$'000</i>	<i>2003</i> <i>HK\$'000</i>
Excess of tax allowances over depreciation	106,600	134,605
Unutilised tax losses	(14,700)	(18,200)
	91,900	116,405

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

	<i>Accelerated tax depreciation</i> <i>HK\$'000</i>	<i>Tax losses</i> <i>HK\$'000</i>	<i>Total</i> <i>HK\$'000</i>
At 1st July, 2001	77,100	(4,100)	73,000
Charge (credit) for the year (note 7)	29,500	(10,600)	18,900
At 30th June, 2002	106,600	(14,700)	91,900
Charge (credit) for the year (note 7)	28,005	(3,500)	24,505
At 30th June, 2003	134,605	(18,200)	116,405

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

27. INTEREST PAYABLE TO A JOINTLY CONTROLLED ENTITY

The balance represents interest payable due to Ring Road JV by the Group not eliminated on the adoption of proportionate consolidation for the jointly controlled entities. The amount is unsecured, interest free and has no fixed repayment term. In view of the terms of the amount, the directors consider that it is not practicable to determine its fair value.

28. OTHER FINANCIAL LIABILITIES

Accounts payable and deposits received principally comprise amounts outstanding for ongoing costs. The directors consider that the carrying amounts of accounts payable and deposits received approximate their fair value.

29. CAPITAL COMMITMENTS

As referred to in note 15, the Phase 1 West will be developed by a jointly controlled entity to be established. The estimated total development expenditure for Phase 1 West amounted to approximately RMB1,680 million, of which RMB294 million will be provided by the Group.

At the balance sheet date, development expenditure in respect of the construction of Phase I West which had been contracted for amounted to approximately HK\$361 million (2002: HK\$566 million).

At the balance sheet date, GS Superhighway JV had outstanding commitment in respect of repavement of asphalt for GS Superhighway contracted but not provided for amounting to approximately HK\$70 million (2002: nil).

30. RELATED PARTY TRANSACTIONS

Apart from the amounts owed by and from the related parties as disclosed in notes 16, 17, 24, 25 and 27, a jointly controlled entity of the Group had paid interest to the ultimate holding company of the Group amounting to approximately HK\$8,049,000 for the year ended 30th June, 2002. The interest was charged on the principal amount of outstanding at a fixed rate of 10.1244% per annum.

In addition, guarantees had been given by the ultimate holding company for certain bank loan facilities granted to the Group and a jointly controlled entity during the two years ended 30th June, 2003 free of any charge. The directors of the Company have confirmed that these guarantees will be replaced by guarantees issued by the Company after the Listing.

The Group also had paid rentals, air-conditioning and electricity charges and government rates to a fellow subsidiary amounting to approximately HK\$525,000 (2002: HK\$554,000).

Notes to the Financial Statements *(continued)*

For the year ended 30th June, 2003

30. RELATED PARTY TRANSACTIONS *(continued)*

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>2002 HK\$'000</i>	<i>2003 HK\$'000</i>
Other joint venture partner of GS Superhighway JV	Interest paid (note a)	1,339	595
	Reimbursement of operating expenses (note b)	5,440	5,795
	Consultancy fee paid (note b)	–	1,884
	Dividend paid and payable	–	423,900
Other PRC joint venture partner of Ring Road JV	Management fee paid (note b)	3,999	3,999
Other foreign joint venture partner of Ring Road JV	Management fee paid (note b)	2,000	2,000
	Interest income (note a)	33,021	39,460

Guarantees had been given by the other joint venture partner of GS Superhighway JV for bank loan facilities of RMB510 million granted to GS Superhighway JV at a fee of approximately HK\$283,000 for the year ended 30th June, 2003 (2002: HK\$565,000). In May 2003, a new bank loan was raised by GS Superhighway JV to finance the repayment of the bank loans of RMB510 million and the said guarantees given by the other joint venture partner were released afterward.

Notes:

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

31. SUBSEQUENT EVENTS

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

- On 23rd July, 2003, the Company allotted and issued 2,156,879,750 shares of HK\$0.1 each, credited as fully paid on capitalisation of an amount of HK\$4,500 million owing by the Company to its holding company.
- On 5th August, 2003, 720,000,000 new shares of the Company of HK\$0.1 each were issued, at a price of HK\$4.18 per share, giving a total cash considerations of approximately HK\$3,009.6 million before expenses.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

32. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30th June, 2003 were as follows:

<i>Name of company</i>	<i>Place of incorporation/ establishment</i>	<i>Issued and fully paid share/ registered capital</i>	<i>Attributable equity interest held</i>	<i>Principal activity</i>
Jetgold Limited	British Virgin Islands	Ordinary share US\$1	100%	Investment holding
Kingnice Limited	British Virgin Islands	Ordinary share US\$20,000	97.5%	Investment holding
Fan Wai Properties Limited	British Virgin Islands	Ordinary share US\$1	97.5%	Investment funding
Most Top Limited	British Virgin Islands	Ordinary share US\$1	100%	Investment holding
廣東合和廣珠高速公路發展有限公司 Guangdong Hopewell Guangzhou-Zhuhai Superhighway Development Limited (Note)	The PRC	Registered capital RMB600,000,000	100%	Investment in expressway project
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
Wilberforce International Limited	British Virgin Islands	Ordinary shares US\$20,000	100%	Investment holding
Yager International Limited	British Virgin Islands	Ordinary shares US\$20,000	100%	Investment holding

All the above subsidiaries are indirectly held by the Company except for Jetgold Limited, Yager International Limited and Wilberforce International Limited which are directly held by the Company.

Note: The subsidiary is a wholly foreign owned enterprise established in the PRC.