

Report of the Directors

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

Principal Activities

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

Results

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

Dividends

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

Major Projects and Events

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

Share Capital

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

Reserves

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

Donations

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

Fixed Assets

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

Major Customers and Suppliers

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

Purchase, Sale or Redemption of Shares

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

Directors

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

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

Profile of Directors

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

Senior Management

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

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

Report of the Directors (continued)

Directors' Interest in Contracts of Significance

No contracts of significance to which the Company or any of its subsidiaries was a party or were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Shares, Underlying Shares and Debentures

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

(A) the Company⁽ⁱ⁾

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

Notes:

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

(B) Associated Corporations

(a) Hopewell Holdings Limited ("HHL")

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

Notes:

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

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

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

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

- (i) Mr. Thomas Jefferson WU beneficially owned through companies controlled by him the 9⁷/₈% Notes due 2004 (which matured on 15th August, 2004) for a face amount of US\$4,850,000 issued by GSSH.
- (ii) Mr. Lee Yick NAM beneficially owned the 9⁷/₈% Notes due 2004 (which matured on 15th August, 2004) for a face amount of US\$400,000 issued by GSSH.

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

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

Report of the Directors *(continued)*

Retirement and Pension Plan

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

Share Options

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

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

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

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

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

Arrangements to Acquire Shares or Debentures

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

Employees and Remuneration Policies

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

Service Contracts of Directors

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

Management Contracts

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

Report of the Directors *(continued)*

Substantial Shareholders

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

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

Note:

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

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

Pre-emptive Rights

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

Code of Best Practice

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

Audit Committee

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

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Post Balance Sheet Events

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

Auditors

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

On behalf of the Board

Sir Gordon Ying Sheung WU GBS, KCMG, FICE

Chairman

Hong Kong, 6th September, 2004