

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, 2005.

Principal Activities

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

Results

The results of the Group for the year ended 30th June, 2005 are set out in the Consolidated Income Statement on page 39.

Dividends

The Directors recommend the payment of a final dividend of HK12.75 cents (2004: HK12.5 cents) per share which, together with the interim dividend of HK10.25 cents (2004: HK10 cents) per share paid on 30th March, 2005, will result in total dividends for the year of HK23 cents per share (2004: HK22.5 cents).

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 12 to 24.

Share Capital

Particulars of share capital of the Company during the year are set out in note 23 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 24 to the financial statements.

Fixed Assets

Movements in property and equipment of the Group during the year are set out in note 13 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.

Directors

The Directors of the Company as at the date of this report are listed on pages 8 to 11 of the annual report. Changes of directors during the year are as follows:

Mr. Christopher Shih Ming IP	(resigned on 5th January, 2005)
Mr. Barry Chung Tat MOK	(appointed on 15th August, 2005)

In accordance with the Company's Articles of Association, Ir. Leo Kwok Kee LEUNG, Mr. Li Jia HUANG, Mr. Cheng Hui JIA, Mr. Kojiro NAKAHARA and Mr. Barry Chung Tat MOK will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Profile of Directors

Profile of the Directors of the Company as at the date of the report are set out on pages 8 to 11.

Senior Management

Mr. Kenneth Kwok Keung LEUNG, aged 42, Qualified Accountant, joined the Company as Financial Controller in September 2004. He is responsible for overseeing the financial management and accounting functions of the Group. He holds a Bachelor degree in Accountancy from the City University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the 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.

Directors' Interest in Contracts of Significance

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party or were parties and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Shares, Underlying Shares and Debentures

As at 30th June, 2005, 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				Share options (held as beneficial owner) ^(iv)	Total interests	% of issued share capital
		Warrants ⁽ⁱⁱ⁾						
		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 ^(v)	6,249,403	2,191,000 ^(vi)	11,124,999	3,068,000 ^(vi)	–	22,933,402	0.80%
Eddie Ping Chang HO	2,165,600 ^(vii)	–	–	–	–	–	2,165,600	0.07%
Thomas Jefferson WU	450,000 ^(viii)	4,084,000	–	82,000	–	–	4,616,000	0.16%
Leo Kwok Kee LEUNG	–	1,000	–	–	–	2,000,000	2,001,000	0.07%
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) The warrants of the Company 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 share options granted were under the Share Option Scheme to subscribe for shares of the Company, further details of which are set out in the section headed "Share Options".
- (v) 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").
- (vi) The other interests in 3,068,000 underlying shares of warrants represented the interests held jointly by Sir Gordon WU and Lady Ivy WU.
- (vii) The interests in 2,165,600 shares held by Mr. Eddie Ping Chang HO included personal interests of 1,936,000 shares, family interests of 24,600 shares and corporate interests of 205,000 shares.
- (viii) The interests in 450,000 shares represented beneficial interests of Mr. Thomas Jefferson WU.

(B) Associated Corporation

Hopewell Holdings Limited ("HHL")

Directors	HHL Shares				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	71,744,032	21,910,000 ⁽ⁱⁱ⁾	111,250,000	30,680,000	235,584,032	26.24%
Eddie Ping Chang HO	25,360,000	246,000	2,050,000	–	27,656,000	3.08%
Thomas Jefferson WU	27,120,000	–	820,000	–	27,940,000	3.11%
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	585,000	–	–	–	585,000	0.07%
Cheng Hui JIA	441,000	–	–	–	441,000	0.05%

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 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.

All the above interests in the shares of associated corporation were long positions.

Save as aforesaid, as at 30th June, 2005, none of the Directors or chief executives had any other interests or short position in shares, underlying shares and debentures of associated corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Retirement and Pension Plan

To comply with the statutory requirements of the Mandatory Provident Fund (“MPF”) Schemes Ordinance, the Group has set up the MPF Scheme. Mandatory contributions to this scheme is made by both the employer and employees at 5% of the employees’ monthly relevant income capped at HK\$20,000. During the year, the Group made contribution to the MPF Scheme amounted to approximately HK\$359,000.

Share Options

- (a) The share option scheme of the Company was approved by the written resolutions of the then sole shareholder of the Company passed on 16th July, 2003 and approved by shareholders of Hopewell Holdings Limited at an extraordinary general meeting held on 16th July, 2003 (the “Option Scheme”). The Option Scheme will expire on 15th July, 2013. A summary of some of the principal terms of the Option Scheme is set out in (b) below.
- (b) The purpose of the Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to (i) any executive or non-executive directors including independent non-executive directors or any employees of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group; (iv) any chief executives, or substantial shareholders of the Company; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees of substantial shareholder of the Company or for such other purposes as the Board of Directors may approve from time to time.

Under the Option Scheme, the maximum number of shares in the Company which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option scheme of the Company will not exceed 10% of the total number of shares of the Company in issue immediately following completion of the initial public offering, unless a fresh approval of shareholders of the Company is obtained. The maximum entitlement of each participant under the Option Scheme in any 12-month period must not exceed 1% of the issued share capital of the Company. As at the date of this report, a total of 283,200,000 shares (representing 9.8% of the issued share capital of the Company) are available for issue under the Option Scheme.

The period during which an option may be exercised will be determined by the Board of Directors of the Company at its absolute discretion and shall expire not later than 10 years after the date of grant. Unless otherwise determined by the Board of Directors of the Company and specified in the offer letter at the time of the offer, there is no minimum period for which an option must be held before the option can be exercised. An option is open for acceptance for a period of 28 days from the date of offer. The amount payable on acceptance of an option is HK\$1. The full amount of exercise price for the subscription of shares has to be paid upon exercise of an option.

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

- (c) Details of the movement of share options under the Option Scheme during the year ended 30th June, 2005, were as follows:

	Date of grant	Exercise Price HK\$	Balance of outstanding options at 01/07/2004	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year	Balance of outstanding options at 30/06/2005	Exercise period	Closing price immediately before date of grant falling within year HK\$
Directors									
Leo Kwok Kee LEUNG	08/09/2004	4.875	–	2,000,000	–	–	2,000,000	08/09/2004 – 07/09/2007	4.875
Christopher Shih Ming IP ^(Note)	13/09/2004	4.880	–	2,000,000	2,000,000	–	–	13/09/2004 – 12/09/2007	4.850
Employee									
	08/09/2004	4.875	–	800,000	400,000	–	400,000	08/09/2004 – 07/09/2007	4.875
Total			–	4,800,000	2,400,000	–	2,400,000		

Note: Mr. Christopher Shih Ming IP resigned as Director of the Company with effect from 5th January, 2005.

The weighted average closing prices of the shares on the dates immediately before the dates on which the options were exercised by Mr. Christopher Shih Ming IP and the employee during the year were HK\$5.02 and HK\$6.00 respectively.

All options granted are exercisable from the date of grant.

The fair values of the share options granted during the year with the exercise price per share of HK\$4.875 and HK\$4.88 are estimated at HK\$0.27 and HK\$0.28 respectively using the Black-Scholes option pricing model at the dates of grant. The values are estimated based on the risk-free rate of 2.325% per annum with reference to the rate on the 3-year Exchange Fund Notes, an estimated one-year historical volatility of 1.47% of the closing price of the shares of the Company, and assuming an expected option life of 3 years and same level of annual dividends as the last year's dividends of HK22.5 cents per share over the option life.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the characteristics of the options granted during the year are significantly different from those of publicly traded options and changes in the subjective inputs may materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Number of Ordinary Shares

As of 30th June, 2005, the number of ordinary shares was 2,888,382,761 and if all outstanding warrants and share options, totalling 83,950,875 shares, were to be exercised, the number of ordinary shares would increase to 2,972,333,636 shares.

Arrangements to Acquire Shares or Debentures

Save as the warrants and share options disclosed in the previous section headed "Directors' Interest in Shares, Underlying Shares and Debentures – the Company", at no time during the year ended 30th June, 2005 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Directors' Remuneration

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

Service Contracts of Directors

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

Management Contracts

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

Substantial Shareholders

As at 30th June, 2005 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:

Name	Capacity	Number of Shares (corporate interests)	% of issued share capital
Anber Investments Limited	Beneficial owner	2,160,000,000 ^(Note)	74.78%
Delta Roads Limited	Interests of controlled corporation	2,160,000,000 ^(Note)	74.78%
Dover Hills Investments Limited	Interests of controlled corporation	2,160,000,000 ^(Note)	74.78%
Supreme Choice Investments Limited	Interests of controlled corporation	2,160,000,000 ^(Note)	74.78%
Hopewell Holdings Limited	Interests of controlled corporation	2,160,000,000 ^(Note)	74.78%

Note:

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, 2005.

Pre-emptive Rights

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

Code of Best Practice and Model Code

The Company has complied with the Code of Best Practice set out in the then Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") throughout the year ended 30th June, 2005. The Code of Best Practice was replaced by the Code on Corporate Governance Practices (the "Code of CG Practices") which is applicable to the Company for the financial year commencing 1st July, 2005. The Company has proceeded to take measures to comply with the Code of CG Practices.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Code"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Code for the year under review.

Confirmation on Independence

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

Connected Transaction

During the year, the Group has entered into the following transaction as described below with the person who is a “connected person” of the Company for the purposes of the Listing Rules:

On 14th July, 2004, two conditional amending agreements (“Amending Agreements”) were entered into between Hopewell Guangzhou-Zhuhai Superhighway Development Limited (“HHI West HK Co”), a wholly owned subsidiary of the Company, and Guangdong Provincial Highway Construction Company Limited (“West Route PRC Partner”) in connection with the investment in and the planning, design, construction and operation of Phase II of the Western Delta Route (“Phase II West”) through Guangdong Guangzhou-Zhuhai West Superhighway Company Limited (“West Route JV”). The Amending Agreements were to amend the Sino-foreign co-operative joint venture contract dated 5th January, 2004 made between HHI West HK Co and West Route PRC Partner and to amend the articles of association of West Route JV dated 5th January, 2004.

The major terms of the Amending Agreements were to expand the areas of co-operation to include Phase II West and related facilities in addition to Phase I of the Western Delta Route (“Phase I West”) with an estimated total amount of investment in Phase II West of RMB 4,900 million. The registered capital of West Route JV will be increased by RMB1,715 million (from RMB588 million to RMB2,303 million) which will be contributed in cash by HHI West HK Co and West Route PRC Partner in equal share.

Subject to the approval of the relevant PRC authorities, the co-operation period will be 30 years commencing on the date on which new business licence of West Route JV is issued. The co-operation period may be extended by unanimous approval by the board of directors of West Route JV and the relevant regulatory authorities within six months before the expiry of the co-operation period. Upon expiry of the respective co-operation period of Phase I West and Phase II West, all fixed assets will be transferred to the government department which regulates transportation at nil consideration and West Route JV will be dissolved with any assets remaining after satisfaction of outstanding liabilities to be distributed to West Route PRC Partner and HHI West HK Co in equal share.

Pursuant to Clause 46 of the Listing Agreement made between the Company and the Stock Exchange and the letter dated 7th August, 2003 from the Company’s ultimate holding company, Hopewell Holdings Limited (“HHL”) to the Stock Exchange, West Route JV, being a Sino-foreign co-operative joint venture enterprise jointly controlled by the Group and the West Route PRC Partner, which operates a toll road project, is deemed to be a subsidiary of the Company for the purposes of the then Chapter 14 of the Listing Rules. West Route PRC Partner currently has a 50% interest in each of West Route JV and Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited (which is a Sino-foreign co-operative joint venture between West Route PRC Partner and a subsidiary of the Company) and is accordingly deemed to be a connected person of the Company for the purpose of Chapter 14A of the Listing Rules.

The connected transaction, which details were contained in the joint press announcements by the Company and HHL dated 14th July, 2004 and 4th August, 2004 and the joint circular issued on 21st August, 2004, has been duly approved by Anber Investments Limited, the independent shareholder holding more than 50% in nominal value of the securities having the right to attend and vote at a general meeting, in lieu of holding a general meeting, pursuant to Rule 14A.43 of the Listing Rules.

Audit Committee

The Company has established an audit committee on 16th July, 2003. 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. Its duties include review and supervision of the financial reporting process and internal control system of the Group. 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. It has also reviewed the audited financial statements of the Group for the year ended 30th June, 2005.

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.

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, 1st September, 2005